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GUINEA

January 2019

SECOND REVIEW OF THE ARRANGEMENT UNDER THE THREE-YEAR EXTENDED CREDIT FACILITY, FINANCING ASSURANCES REVIEW, AND REQUEST FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GUINEA

In the context of the Second Review of the Arrangement under the Three-Year Extended Credit Facility, financing Assurances Review, and Request for a Waiver of Nonobservance of Performance Criterion, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 21, 2018, following discussions that ended on November 14, 2018, with the officials of Guinea on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on December 10, 2018.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association.
- A **Staff Statement** updating information on recent developments.
- 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 IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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December 21, 2018

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IMF Executive Board Completes Second Review of the Extended Credit Facility with Guinea

On December 21, 2018, the Executive Board of the International Monetary Fund (IMF) completed the second review of Guinea's economic performance under the Extended Credit Facility (ECF)[1] arrangement. Completion of this review enables the immediate disbursement of SDR 17.213 million (about US$23.9 million), bringing total disbursements under the arrangement to SDR 51.636 million (about US$71.6 million). The Board also approved the authorities' request for modification and a waiver of non-observance of a performance criterion.

Guinea's three-year ECF arrangement was approved by the Executive Board of the IMF on December 11, 2017 (see Press Release No. 17/484) for SDR 120.488 million (about US$167.2 million at the time of the arrangement's approval, or 56.25 percent of Guinea's quota). The ECF arrangement aims at strengthening resilience, scaling-up public investment in infrastructure while preserving stability, strengthening social safety nets, and promoting private sector development.

Following the Executive Board's discussion on Guinea, Mr. Mitsuhiro Furusawa, Acting Chair and Deputy Managing Director, issued the following statement:

"Guinea is implementing a program of macroeconomic policies and reforms to achieve high and broad-based growth and reduce poverty while preserving macroeconomic stability. Performance under the ECF-supported program against end-June targets was satisfactory and program-supported reforms advanced well. In view of revenue shortfalls, the authorities have undertaken additional measures to achieve the end-2018 fiscal target. The strong growth momentum continues, and the medium-term outlook is favorable.

"Achieving a basic fiscal surplus will support preserving macroeconomic stability. Mobilizing additional tax revenues will allow scaling-up growth-supporting infrastructure investment. The authorities also aim to reduce untargeted electricity subsidies and have an automatic adjustment mechanism for petroleum prices. Attention to the social impact of these

[1] The ECF is a lending arrangement that provides sustained program engagement over the medium to long term in case of protracted balance of payments problems.

planned reforms will be important, including by strengthening social safety nets.

“Prudent debt management will be crucial to maintaining debt sustainability. Limiting non-concessional borrowing and enhancing public finance and investment management will help preserve debt sustainability and support efficiency and transparency.

“A more active strategy to accumulate reserves will help build external buffers and strengthen Guinea’s resilience to shocks. Increasing competition in the foreign exchange market and moving to a rule-based intervention strategy will also support greater exchange rate flexibility.

“Monetary policy will remain prudent to preserve moderate inflation. The authorities will continue to limit government budgetary borrowing from the central bank and move toward a more active liquidity management. Strengthening banking supervision and the regulatory framework will support financial sector stability.

“The authorities are committed to advancing growth-supporting structural reforms. Strengthening the anti-corruption framework and the business climate will enhance governance and support private sector development.”

INTERNATIONAL MONETARY FUND

GUINEA

December 10, 2018

SECOND REVIEW OF THE ARRANGEMENT UNDER THE THREE-YEAR EXTENDED CREDIT FACILITY, FINANCING ASSURANCES REVIEW, AND REQUEST FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION

EXECUTIVE SUMMARY

Context. Guinea's strong growth momentum continues. Real growth reached about 10 percent in 2017 and is expected at about 6 percent in 2018 and 2019. However, the social context remains fragile. Risks of political and social instability are heightened by upcoming legislative elections in March 2019 and presidential elections in 2020.

Program performance. Performance against end-June 2018 targets was satisfactory. The performance criteria on the basic fiscal balance, net government budgetary borrowing from the central bank, net domestic assets of the central bank, and net international reserves were met. However, indicative targets on tax revenues and domestically-financed social safety nets were not met. Program performance was mixed at end-September 2018, as lower-than-expected tax revenues weighed on fiscal performance. In response, the authorities have taken additional measures to achieve the end-2018 fiscal target. Program-supported reforms advanced well and most structural benchmarks (SBs) were met.

Program strategy. Achieving high and broad-based growth while preserving macroeconomic stability is key. In view of lower-than-anticipated tax revenues, containing non-priority spending is needed to achieve the end-2018 fiscal target. Moving forward, mobilizing additional tax revenues is pivotal to scale-up growth-supporting public investments in infrastructure and domestically-financed social safety nets. Strengthening public financial and investment management will support the fiscal strategy. A more active strategy to accumulate reserves will support further building external buffers. Maintaining a prudent monetary policy will preserve moderate inflation. Keeping external non-concessional borrowing within programmed amounts and strengthening debt management will support debt sustainability. Strengthening governance and the business climate will foster private sector development.

Staff views. In view of satisfactory program performance, staff supports the authorities' request for completion of the second review under the ECF arrangement. This would result in the disbursement of SDR 17.213 million and catalyze donor support. The program is subject to significant risks and strong ownership is key to foster program success.

Approved By
Dominique Desruelle (AFR) and Kevin Fletcher (SPR)

An IMF team consisting of Ms. Albertin (Head), Mr. Maino, Ms. Sian, Ms. Cooray (all AFR), Ms. Khalid (FAD), Mr. Yang (SPR), and Mr. Sulemane (Resident Representative) held discussions with the authorities in Conakry, Guinea during September 18–October 1, 2018 and during October 9-November 14, 2018 from Washington DC. Mr. Bah (Senior Advisor to the ED) joined the discussions. The team met with President of the Republic Alpha Condé, Prime Minister Ibrahima Kassory, President of the National Assembly Claude Kory Kondiano and the Economic and Finance Commission of the National Assembly, Minister of Economy and Finance Mamadi Camara, Central Bank Governor Lounceny Nabé, Minister of Budget Ismael Dioubate, Minister of Plan and Economic Development Kanny Diallo and other members of the government, the Ministers Counselors to the President and other senior government officials. The IMF team also met with representatives of the donor community, private sector and banks. Mr. Magno provided assistance for the preparation of this report.

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CONTEXT AND BACKGROUND

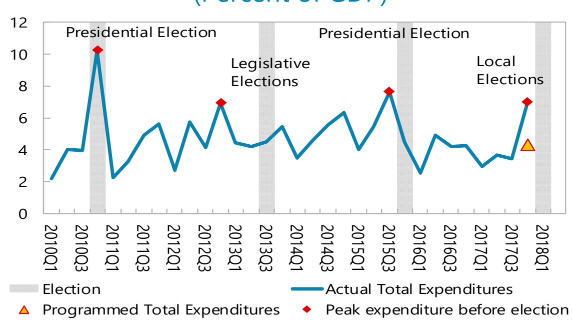
1. **Guinea is a fragile country with heightened risks of social and political instability, weak institutional capacity, and pervasive poverty**. Social unrest, protests, and widespread strikes have marred 2018. Political tensions and episodes of violence with casualties marked local elections in February. Following the increase in petroleum product prices on July 1, trade-union-led strikes and violent demonstrations paralyzed the capital for several weeks. Episodes of unrest in the mining region against the lack of jobs and public services, strikes in the public sector for higher wages, and opposition-led protests are frequent. Upcoming legislative elections in March 2019 and presidential elections in 2020 heighten the risks of political and social instability. Weak institutional capacity weighs on the implementation of economic policies and reforms. Poverty incidence affects 60 percent of the population, and education and health outcomes are weak (Figure 3).[1]

2. **The three-year ECF arrangement aims at fostering high and broad-based growth and reducing poverty while preserving macroeconomic stability**. The ECF arrangement supports Guinea's 2016-20 National Social and Economic Development Plan (PNDES) and aims at strengthening macroeconomic resilience; scaling-up growth-supporting public investments in infrastructure while preserving debt sustainability; strengthening social safety nets; and promoting private sector development. Guinea is a pilot country under the IMF's Capacity Building Framework for fragile states, and targeted IMF technical assistance is supporting program objectives (Annex I).

3. **The program is subject to significant risks**. Electoral cycle pressures, political and social instability, commodity price volatility, and capacity and implementation constraints could weaken policies and reform implementation. Program ownership strengthened in 2018, with fiscal policy being re-oriented towards macroeconomic stability and key reforms advancing, including increasing petroleum product prices. Continued program ownership remains essential to mitigate risks and foster program success.

Figure 1. Guinea: Electoral Cycle and Public Expenditures

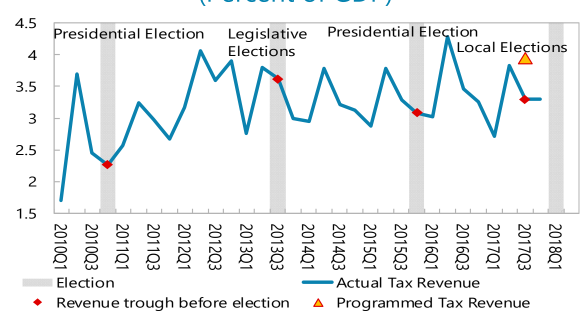
(Percent of GDP)



Sources: Guinean authorities; and IMF staff estimates.

Figure 2. Guinea: Electoral Cycle and Tax Revenue Mobilization

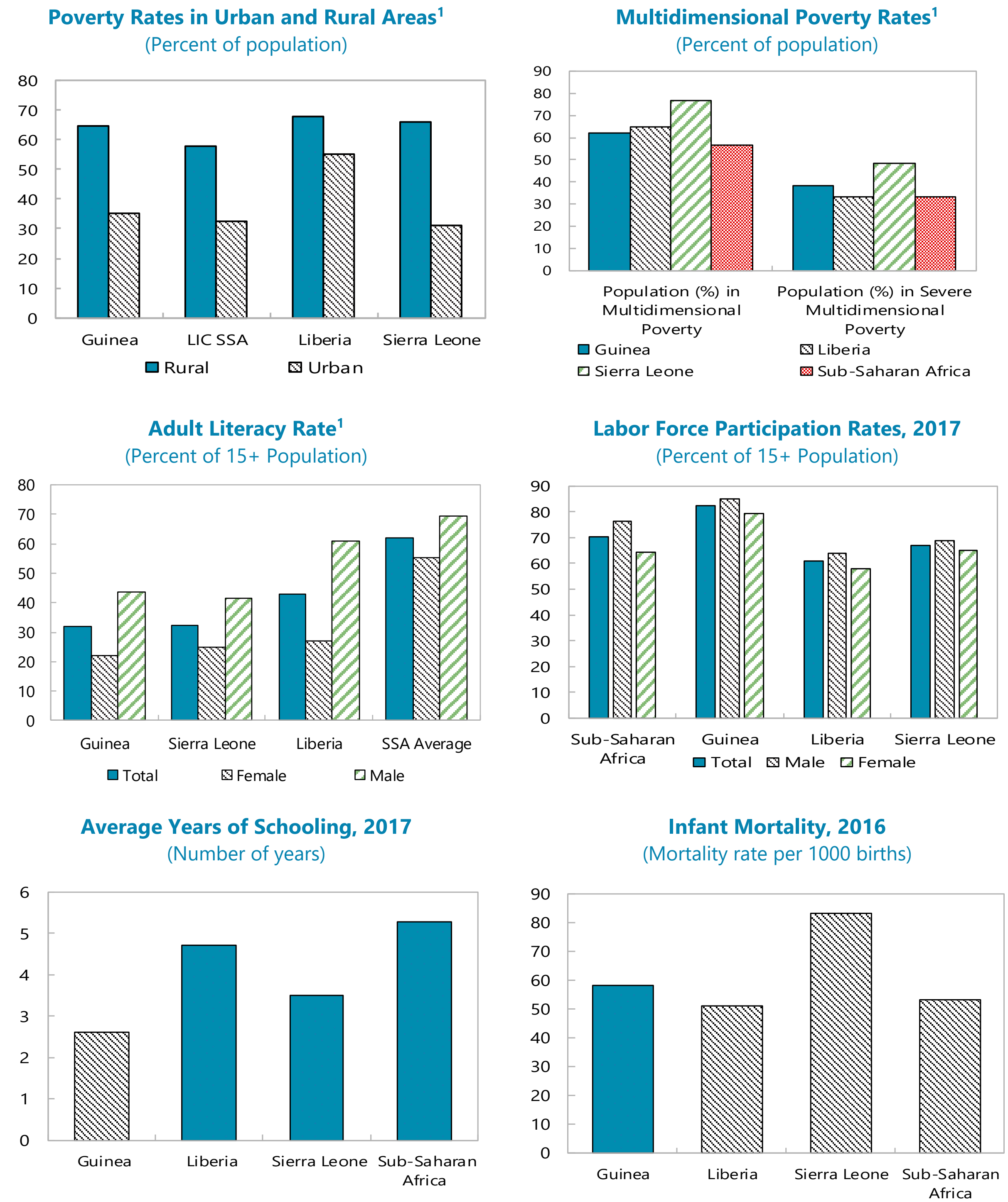
(Percent of GDP)



Sources: Guinean authorities; and IMF staff estimates.

[1]Socioeconomic Impact of Ebola using Mobile Phone Survey (World Bank, 2016).

Figure 3. Guinea: Pervasive Poverty, Weak Social Outcomes, and Gender Inequality

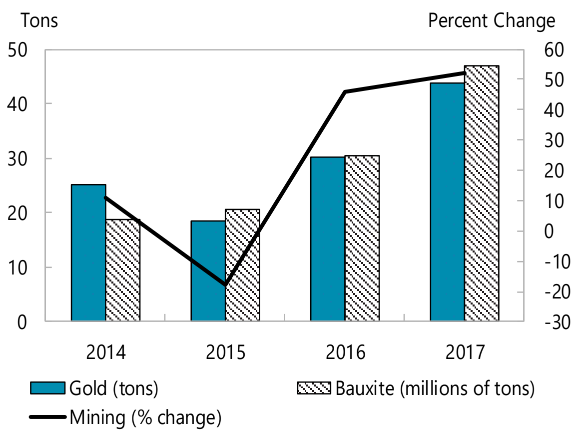


Sources: World Development Indicators; UN Development Program; and the International Labor Organization.
[1]Most recent year of data used for each country. SSA average is the mean of most recent years of data for Sub-Saharan African countries.

RECENT ECONOMIC AND FINANCIAL DEVELOPMENTS

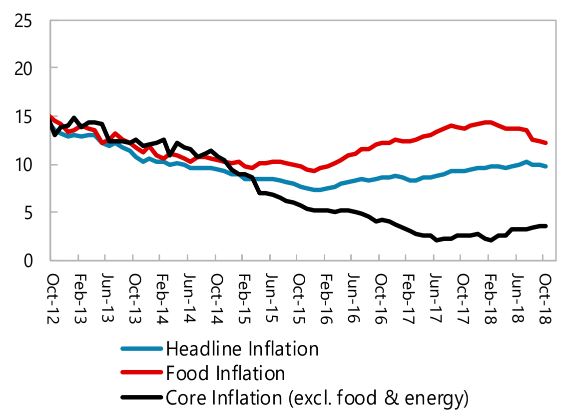
4. **The strong growth momentum of the Guinean economy continues**. Real growth reached about 10 percent in 2017 owing to buoyant mining production, strong construction activity, and good agricultural performance. Preliminary data point to mining production increasing by a further 15 percent (y-o-y) in the first half of 2018. Headline inflation was at 9.8 percent (y-o-y) in October 2018, reflecting sustained food inflation. Core inflation, excluding energy and food, increased to 3.6 percent (y-o-y).

Figure 4. Guinea: Mining Growth and Production
(Tons; Millions of tons; Percent change)



Sources: Guinean authorities; and IMF staff estimates.

Figure 5. Guinea: Headline and Core Inflation
(Percent, YOY)



Sources: Guinean authorities; and IMF staff estimates.

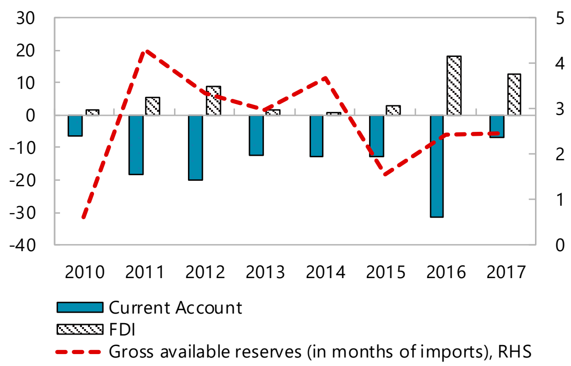
5. **The current account deficit narrowed to about 7 percent in 2017 reflecting a surge in mining exports**. Mining exports increased by about 70 percent (y-o-y) in 2017 while investment-related imports slightly declined. FDI continued to be strong at 12 ½ percent of GDP. Mining exports increased by about 4 percent (y-o-y) in the first half of 2018 while imports picked-up by 62 percent, reflecting mining and infrastructure investments and higher international oil prices. Gross international reserves increased to about US$1 billion at end-September 2018 (3.5 months of import cover), reflecting the disbursement of the US$60 million World Bank budget support and larger-than-expected public project loans. The real effective exchange rate appreciated by 10 percent in the first nine months of 2018, also reflecting the pick-up in inflation.

6. **The basic fiscal balance recorded a larger-than-programmed surplus of 1.6 percent of GDP at end-June.** However, the basic fiscal surplus narrowed to 0.9 percent of GDP at end-September 2018 (below the indicative target) because tax revenues were 0.6 percent of GDP lower-than-programmed (¶8). This was due to: i) larger-than-expected revenue losses in the first half of 2018, due to ad-hoc downward adjustments of taxes on petroleum products to keep constant retail prices, which were mitigated by the price increase in July (¶19); ii) the repercussions of social tensions and strikes on economic activity; and iii) delays in some revenue mobilization measures. Spending on goods and services was lower-than-programmed while electricity subsidies and the

wage bill were in line with objectives. Capital expenditures picked-up in the third quarter, after a slow execution in the first half of 2018. A net repayment to the central bank was recorded and net borrowing from commercial banks was contained. However, domestic arrears of 0.4 percent of GDP were accumulated at end-September (on a net basis).

Figure 6. Guinea: Current Account, FDI, and Reserves

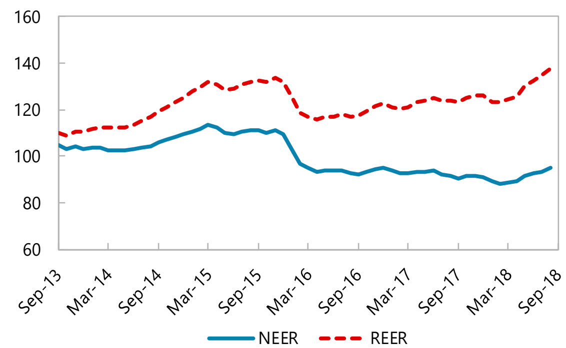
(Percent of GDP; in months of imports)



Sources: Guinean authorities; and IMF staff estimates.

Figure 7. Guinea: Real Effective Exchange Rate

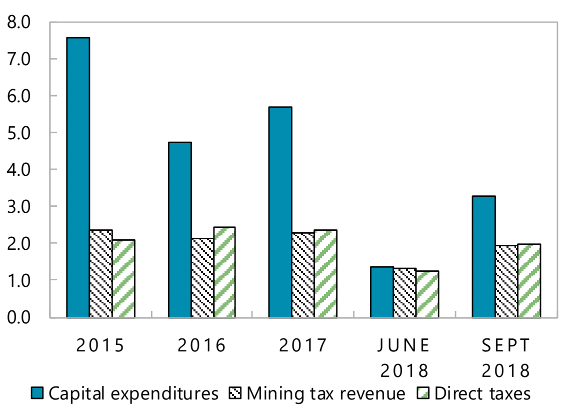
(Index 2015=100)



Sources: Guinean authorities; and IMF staff estimates.

Figure 8. Guinea: Revenue and Expenditure Performance

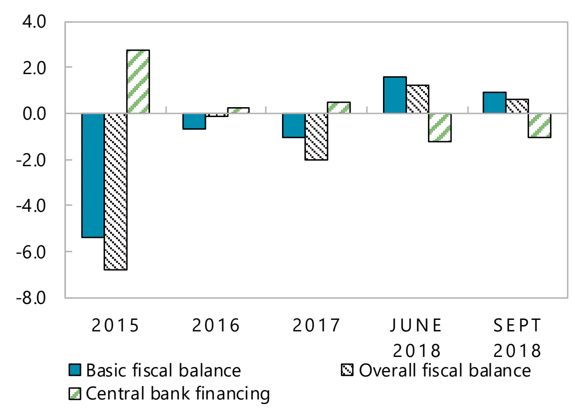
(Percent of GDP)



Sources: Guinean authorities; and IMF staff estimates.

Figure 9. Guinea: Fiscal Imbalances and Central Bank Financing

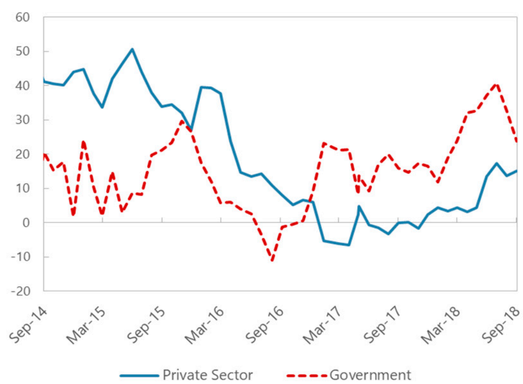
(Percent of GDP)



Sources: Guinean authorities; and IMF staff estimates.

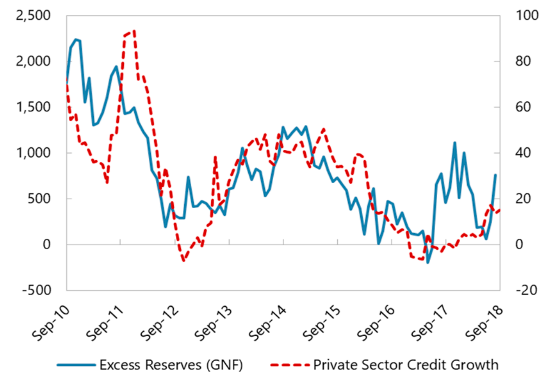
7. **The banking sector is broadly stable and credit to the private sector has resumed**. Private sector credit growth strengthened to 8.8 percent in September (average, y-o-y), supported by banks' improved liquidity conditions. Commercial banks' lending to government increased by 28 percent (average, y-o-y) as government borrowing from the central bank (BCRG) was contained following the 2018 Memorandum of Understanding (MoU) between the BCRG and the Ministry of Economy and Finance. Deposits growth reached 14 percent (average, y-o-y), supporting banks' liquidity. Non-performing loans declined to 8.7 percent at end-June 2018. One small bank remains in breach of capital adequacy requirements by a minimal amount.

Figure 10. Guinea: Commercial Banks—Credit to the Government and Private Sector
(Percent, YOY)



Sources: Guinean authorities; and IMF staff estimates.

Figure 11. Guinea: Excess Reserves and Credit Growth
(Percent, YOY)



Sources: Guinean authorities; and IMF staff estimates.

PERFORMANCE UNDER THE PROGRAM

8. **Performance against end-June 2018 program targets was satisfactory as fiscal policy was re-oriented towards supporting stability**. The performance criteria (PC) on the basic fiscal balance, net government budgetary borrowing from the central bank, net domestic assets of the central bank, and net international reserves were met. However, the indicative target (IT) on tax revenue was missed (¶6). The IT on domestically-financed social safety nets programs was also not met by a sizable margin, reflecting: i) lower-than-programmed budgetary allocations and ii) delays in releasing budgeted resources to contain expenditures in view of lower-than-anticipated tax revenues.

9. **Program-supported reforms advanced well and most structural benchmarks (SBs) were met**. Petroleum products prices were increased as a key step to protect tax revenues. Reforms to support building external buffers, reducing untargeted electricity subsidies, mobilizing additional mining tax revenues, strengthening public financial management and central bank accountability, and foster private sector development and governance progressed well (MEFP, Table 2).

10. **Program performance at end-September 2018 was mixed, as lower-than-programmed tax revenues weighed on fiscal performance**. Due to a tax revenue shortfall of about 0.6 percent of GDP compared to programmed amounts, the IT on the basic fiscal balance was missed, despite the authorities' efforts to contain expenditures to lower-than-programmed amounts. The indicative targets (ITs) on net government budgetary borrowing from the central bank, and net domestic assets of the central bank were met by large margins. The IT on net international reserves was missed by a small margin. The IT on new domestic arrears was missed by a sizable margin, with an accumulation of domestic arrears against a programmed net reduction of 0.4 percent of GDP (on a net basis). This reflected difficulties in containing expenditures fully in line with lower-than-

anticipated revenues and weaknesses in cash management. While the IT on domestically-financed social safety nets programs was missed at end-September as delays in releasing budgeted resources (¶8) continued, budgeted resources for social safety nets were fully released in the last quarter of 2018. The continuous PC on contracting or guaranteeing of non-concessional external debt was missed by a small margin (US$8 million) at end-November as a US$60 million non-concessional loan was signed, which the authorities aimed to earmark to key infrastructure projects. The authorities decided not to submit the loan for ratification to the National Assembly and instead re-opened negotiations to achieve concessional financing terms (LOI ¶5 and MEFP ¶32).

11. The authorities have taken additional measures to compensate for weaker-than-anticipated tax revenues and achieve the end-2018 fiscal target. The implementation of the programmed fiscal adjustment measures agreed at the first review has moved ahead (¶16). The 2018 Supplementary Budget Law (SBL) approved in August 2018 was in line with the program fiscal target but the adjustment relied on larger-than-programmed tax revenues and spending in goods and services (unmet SB). In view of lower-than-anticipated tax revenues, the Council of Ministers adopted in November a revised budgetary framework for 2018 (prior action) to achieve the end-year fiscal target (¶17). An expenditure commitment plan was adopted in October in line with the revised budgetary framework (prior action).[2]

OUTLOOK AND RISKS

12. Guinea's growth outlook is favorable under the program scenario. Real growth is expected at about 6 percent in 2018 and 2019. Large FDI in the mining sector is expected to increase production capacity, and the scaling-up of infrastructure investments will boost construction. Over the medium term, strengthening the business climate and governance and improved electricity provision would support private sector development. Inflation is expected to remain moderate assuming a prudent monetary policy and reduced central bank financing of the government.

13. The current account deficit is expected to widen to 16 percent of GDP in 2018 and 20 percent of GDP in 2019, financed by large FDI inflows and project loans. Mining exports would increase by about 6 percent (y-o-y) in 2018-19. Imports would pick-up by about 15 percent (y-o-y), reflecting mining and infrastructure investment and higher international oil prices.[3] International reserves are expected to increase to 3.2 months of import coverage at end-2018 and 3.5 months of import coverage at end-2019. Over the medium term, external imbalances would narrow, supported by mining exports growth. International reserves would reach 3.8 months of import coverage by 2020.

14. Risks to the outlook are tilted to the downside. Continued social tensions and political instability in the run-up to the legislative elections could weaken near-term growth prospects, policy

[2]The expenditure commitment plan aligns public expenditures with anticipated revenues in the last quarter of 2018.

[3]Current projections are based on oil price assumptions from the October 2018 World Economic Outlook.

discipline, and reform implementation. Delays in mining projects, a decline in commodity prices, weaker demand of bauxite due to tariffs on trading partners' aluminum exports, capacity and execution constraints in infrastructure development, or a weakening governance would undermine medium-term growth (Table 11).

PRESERVING MACROECONOMIC STABILITY

A. Fiscal Policy

15. The implementation of the 2018 programmed fiscal adjustment measures has moved ahead. A package of adjustment measures was agreed at the first review to achieve a basic fiscal surplus of 0.8 percent of GDP in 2018. In line with this, retail prices of petroleum products were increased (¶19) in July 2018 and measures to mobilize additional tax revenues have progressed (¶18). Exceptional non-tax revenues were mobilized. Non-priority spending in goods and services (MEFP ¶17) was contained, and electricity tariffs were increased to reduce untargeted subsidies (¶21). Measures to compensate for the larger-than-programmed public wage increase were implemented, and non-priority investment projects were re-phased (MEFP ¶19).

Text Table 1. Adjustment Measures, 2018 First ECF Review
(Percent of 2018 GDP)

Tax revenue mobilization	**0.77**
Tax policy measures	
Rationalize ad-hoc exonerations	0.04
Broadening the base for the insurance tax	0.02
Tax administration measures	
Tax recovery from general audits of large enterprises	0.17
Tax recovery from desk audits of the enterprises	0.03
Collection of recoverable tax arrears	0.09
Tax recovery from matching of customs and tax databases	0.02
Strengthen collection of Single Land Contribution	0.03
Increase in petroleum products retail prices	0.38
Non Tax revenues mobilization	
Exceptional recovery from the Regulatory Agency for Post and Telecommunications	0.38
Containing public expenditures	**1.69**
Measures to offset the impact on the wage bill of the public administration wage increase	0.31
Containing current expenditures in goods and services	0.68
Reduction in electrity subsidies (from tariff increase, efficiency measures, and change in production mix)	0.38
Eliminating university subsidies for fictitious students	0.04
Rephasing non-priority domestically-financed public investments	0.28
Total	**2.8**

16. In view of lower-than-programmed tax revenues, additional adjustment measures are needed to achieve the end-2018 fiscal target. Tax revenues are expected to be about 0.6 percent of GDP lower than programmed in 2018, due to larger-than-expected revenues losses from higher international oil prices, the impact of social tensions and strikes on economic activity, and some delays in revenue mobilization. The revised 2018 budgetary framework adopted by the Council of Ministers in November entails further

Text Table 2. Fiscal Targets
(Percent of GDP)

	2018	
	1st Rev.	2nd Rev.
Revenue		
Tax revenues	13.5	12.8
Mining sector	2.5	2.7
Non-mining sector	11.0	10.2
Expenditure		
Goods and services	3.3	3.0
Domestically-financed capital expenditure	2.4	2.2

Sources: Guinean authorities; and IMF staff estimates.

containing non-priority spending to compensate for lower-than-programmed revenues. Notably, non-priority spending in goods and services will be contained by an additional 0.3 percent of GDP and non-priority public investments re-phased by an additional 0.2 percent (on an annual basis).

17. The 2019 Budget Law targets a basic fiscal surplus and scaling-up of public investment (MEFP ¶13). The 2019 Budget Law submitted to the national assembly in October 2018 targets a basic fiscal surplus of 0.9 percent of GDP, in line with program objectives. Key elements of the fiscal strategy are mobilizing additional non-mining tax revenues, containing spending in goods and services, and further reducing untargeted electricity subsidies. This will create the fiscal space to step up domestically-financed public investments and social safety nets, including to mitigate the impact of higher petroleum product prices on the most vulnerable (¶37).

Creating Fiscal Space to Scale-Up Priority Spending

18. Further rationalizing ad-hoc tax exonerations and strengthening tax administration is needed to mobilize additional revenues (MEFP ¶16). The implementation of the programmed package of tax policy and administration measures mobilized about 0.2 percent of GDP additional revenues at end-October 2018.[4] Ad-hoc-tax exonerations started to be rationalized in 2018, overperforming the program target. However, most tax administration measures were slower-than-anticipated. The authorities have stepped up audits, tax controls and arrears recovery in the last quarter of 2018 to support revenue mobilization. The implementation of the 2018 package of tax revenue mobilization measures will continue in 2019 and it is expected to mobilize 0.4 percent of GDP of additional revenues over the full-year. The rationalization of ad-hoc tax exonerations will continue, building on a new action plan adopted in November 2018. Over the medium term, simplifying the tax code, reviewing international tax rules and provisions, cleansing tax payers' files, setting-up a new organizational structure and modernizing management practices of the Tax Directorate will support revenue mobilization.

Text Table 3. Tax Policy and Administration Measures, 2018–19
(Percent of GDP)

	Programmed Revenue Mobilization (1st review)		Execution (End Oct 2018)			Additional Revenue Mobilization in 2019	
	% of GDP	GNF billions	% of GDP	GNF billions	% of Annual Target	% of GDP	GNF billions
Tax revenue mobilization	**0.38**	**421**	**0.18**	**199.00**	**47.27**	**0.41**	**521.80**
Tax policy measures	**0.06**	**61**	**0.07**	**71.96**	**117.97**	**0.07**	**84.20**
Rationalize ad-hoc exonerations	0.04	40	0.07	71.96	179.91	0.05	69.20
Broadening the base for the insurance tax	0.02	21	0.00	0.00	0.00	0.01	15.00
Tax administration measures	**0.33**	**360**	**0.12**	**127.04**	**35.29**	**0.35**	**437.60**
Tax recovery from general audits of large enterprises	0.16	180	0.05	54.42	30.23	0.12	155.00
Tax recovery from desk audits of the enterprises	0.03	33	0.01	15.58	47.21	0.03	35.60
Collection of recoverable tax arrears	0.09	95	0.01	10.33	10.87	0.10	122.00
Tax recovery from matching of customs and tax databases	0.02	20	0.00	4.42	22.09	0.05	60.00
Strengthen collection of Single Land Contribution	0.03	32	0.04	42.30	132.19	0.05	65.00

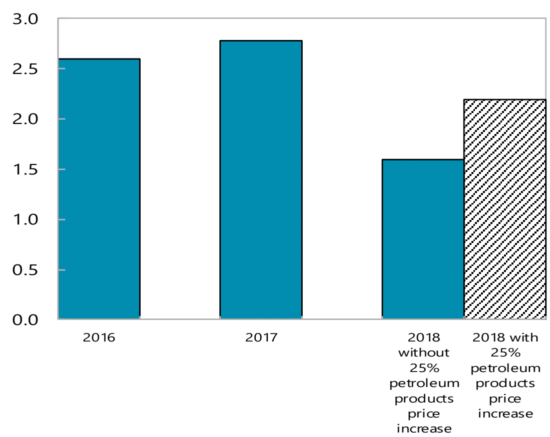
Sources: Guinean authorities; and IMF staff estimates.

[4]Most programmed tax policy and administration adjustment measures started to be implemented in April/May 2018 so outcomes on revenue mobilization at end-October reflect efforts over about 6 months.

19. Staff supports the increase in petroleum product prices and the move toward an automatic price adjustment mechanism, while setting up mitigating measures to protect the most vulnerable. Retail prices of petroleum products were increased by 25 percent on July 1, the first time since 2015.[5] With rising international oil prices, customs duties on petroleum products had been reduced in the first half of 2018 to keep prices unchanged, leading to revenue losses of 0.6 percent of GDP. The price increase supported the mobilization of additional revenues (Figure 12) and mitigated the revenues losses accumulated in the first half of the year. An automatic price adjustment mechanism for petroleum products will be implemented in early 2019 to support revenue mobilization (MEFP ¶18). To this end, the authorities have started to engage with key stakeholders to build consensus and will conduct a communication campaign. In addition, mitigating measures will be put in place to protect the most vulnerable from the impact from the reform, ahead of the implementation of the automatic adjustment mechanism (¶36).

Figure 12. Guinea: Taxes on International Trade

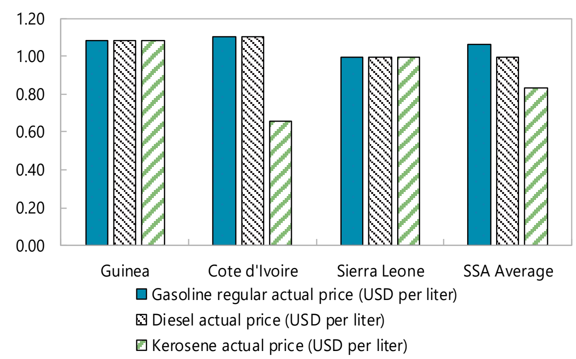
(Percent of GDP)



Sources: Guinean authorities; and IMF Staff estimates.

Figure 13. Guinea: Petroleum Products Prices: Guinea versus Comparators

(USD per Liter)

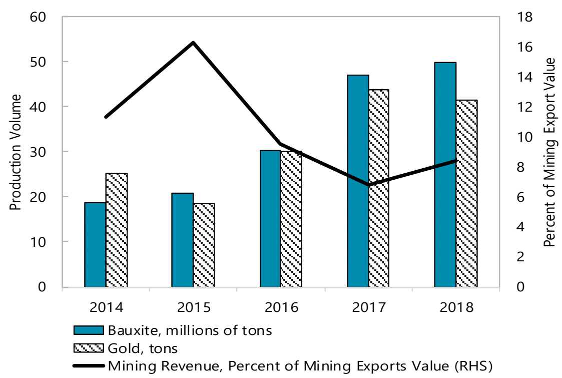


Sources: Guinean authorities; and IMF Staff estimates.
Note: Guinea and Sierra Leone prices reflect the July 2018 increases across petroleum products prices. All other SSA petroleum products prices are as of May 2018.

20. Maintaining the reform momentum in the mining sector is key to support revenue mobilization, transparency and governance. Staff welcomes progress in applying the tax provisions of the mining code to new mining contracts to support revenue mobilization. Since June 2018, a new agreement for bauxite extraction was signed and put fully in line with the tax provisions of the mining code. Furthermore, a new bauxite agreement entailing new investments in infrastructure was submitted to the National Assembly with an assessment of tax expenditures. In parallel, ad-hoc tax exonerations provided to mining companies have started to be removed. To address risks of profit shifting from transfer pricing, key international taxation provisions are being introduced in the legal framework, including provisions to support the arm's length principle, with the support of IMF TA (MEFP ¶23).

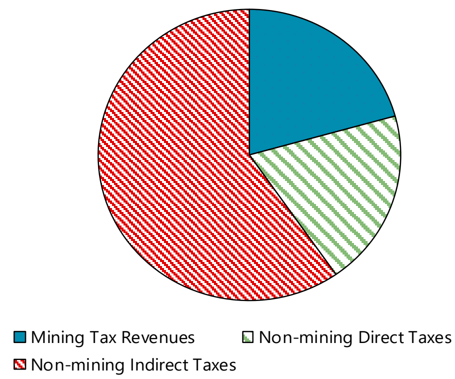
[5]The retail price of fuel, gasoil and kerosene was increased from 8,000 to 10,000 Guinean francs per liter.

Figure 14. Guinea: Total Revenues from Mining Sector



Sources: Guinean authorities; and IMF staff estimates.

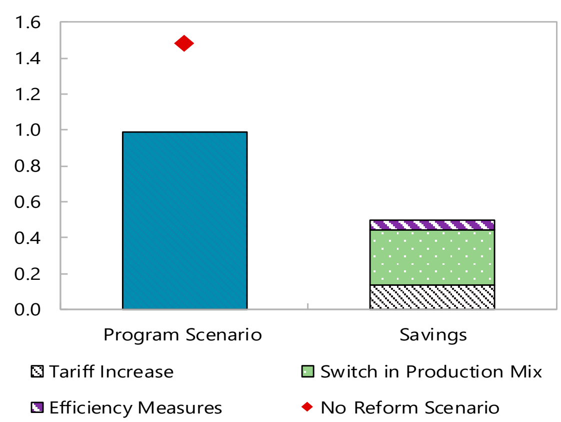
Figure 15. Guinea: Mining and Non-Mining Tax Revenues, 2018
(Percent of Tax Revenue)



Sources: Guinean authorities; and IMF staff estimates.

21. Staff welcomes progress in advancing the electricity subsidy reform. Untargeted electricity subsidies will be reduced to 1 percent of GDP in 2018 and to 0.7 percent to GDP in 2019. Electricity tariffs for households and industrial professional users were increased by 10 and 25 percent, respectively, in May 2018, while the social tariff was maintained. This should reduce subsidies by 0.1 percent of GDP in 2018. Furthermore, a multi-year electricity tariff reform to bring tariffs to cost-recovery levels will be prepared by end-2018, based on the findings of the electricity tariff study finalized in July. Substituting thermal with hydroelectric production is advancing and will continue in 2019. This will reduce electricity production costs and reduce electricity subsidies by 0.3 percent of GDP in 2018. The electricity public utility's efficiency is being strengthened by improving revenue collection and measures to curb commercial fraud. Notably, the installation of consumption meters in public administration is progressing well and will be finalized by end-February 2019 (SB).

Figure 16. Guinea: Electricity Subsidies, 2018
(Percent of GDP)



Source: IMF staff calculations.

Fiscal Structural Reforms

22. Strengthening public financial management is key to support the fiscal strategy. An updated 2019-22 action plan to reform public finances was prepared in September, based on the 2018 Public Expenditure and Financial Accountability (PEFA) assessment and Public Investment Management Assessment (PIMA) (MEFP ¶24). Key elements include strengthening budget preparation and execution, internal and external audits, cash management and monitoring of budgetary risks. Thus, budget execution procedural manuals will be operationalized by end-2019 (MEFP ¶25). The use of exceptional execution procedures will continue to be limited to sovereign expenditures and special funds and linked to budgetary allocations. Expenditure commitment plans will be aligned with cash flow, the Treasury Single Account will be operational by May 2019 (MEFP ¶26), and cash management will be strengthened (MEFP ¶27).

23. Strengthening evaluation, selection and monitoring of public investments is pivotal to improve transparency and maximize returns. A manual will be adopted for the preparation, appraisal and selection of public investment projects (MEFP ¶29), also requiring feasibility studies and a cost-benefit analysis. The decrees regulating public investment management will be adopted by end-September 2019. A stock-taking exercise will be conducted for all projects ongoing for at least 10 years before financing them in the 2020 Budget Law. An integrated investment management platform will be finalized by end-2018 to support better execution and monitoring of projects.

24. Staff welcomes progress in the reform of state-owned enterprises (SOEs) to strengthen governance and limit fiscal risks. The implementation decree of the new SOEs' law on governance was approved in September 2018 (MEFP ¶31). SOEs' internal regulations are being brought in line with the new law, and the 2017 SOEs' financial report was submitted to the National Assembly. A medium-term strategy to improve the financial conditions of loss-making SOEs is being developed to reduce fiscal risks.

B. Monetary and Exchange Rate Policies

25. Moving towards a more active strategy to accumulate reserves will help build external buffers against shocks.[6] Staff welcomes the strengthening of BCRG's foreign exchange reserves. Furthermore, a new foreign exchange purchase program through unilateral competitive auctions was set up, which will enable the BCRG to conduct small and regular purchases of foreign exchange, in line with market absorption capacity (MEFP ¶36). This will help build external buffers to reach the ARA-CC reserve adequacy metric of 3.8 months of import cover by 2020 (Annex 2). In parallel, BCRG interventions in the bilateral foreign exchange market (MEBD) will be limited to maintaining liquidity and preventing disorderly market conditions.

26. Foreign exchange market operations are being further strengthened to support greater exchange rate flexibility. Greater exchange rate flexibility will help reduce the real effective exchange rate overvaluation (between 13–28 percent at end-2017) (Annex II). In order to strengthen market competition and support greater exchange rate flexibility, the limit on auction allocations to a single participant was increased to 40 percent in September 2018 and will be gradually phased out by June 2019. The BCRG will also develop a rule-based intervention strategy in the MEBD to limit discretion by May 2019 (SB). The rules for banks' participation in the MEBD were

[6]The BCRG intervenes to close imbalances between supply and demand and is the largest provider of foreign exchange.

clarified, market reporting and analysis is being strengthened (MEFP ¶37), and an electronic platform will be established by June 2019.

27. In view of the pick-up in inflation, monetary policy will need to be prudent. The BCRG will target base money in line with program objectives to preserve moderate inflation. To this end, central banks' lending to the government will continue to be contained (MEFP ¶39). Reserve money growth slowed to 6 percent at end-September, as central bank advances to the government were reduced within statutory limits, in line with the 2018 MoU. Furthermore, the monitoring and reporting system of central bank financing to the government was strengthened, including by providing regular reports to the BCRG's Board.

28. A more active liquidity management will support reserve money targeting and banks' provision of credit to the economy. The active use of the new liquidity forecasting framework and liquidity instruments will support reserve money targeting and the provision of appropriate liquidity to the banking system. As an important step, a liquidity committee was established in August 2018 which takes decisions on calibrating liquidity operations (MEFP ¶40). An electronic platform for interbank transactions will be set up by end-2018, strengthening market activity and competition. An emergency liquidity framework for illiquid, but solvent banks will be finalized by February 2019 (SB).

29. Staff welcomes the recapitalization of the BCRG, which restored its operational and financial autonomy. A MoU between the BCRG and the Ministry of Economy and Finance was signed in May 2018 and established the modalities and timeline for the BCRG's recapitalization (about U$300 million). In line with this, non-marketable government securities were issued in October 2018 to recapitalize the BCRG.

30. The BCRG implemented some important recommendations of the 2018 safeguard assessment, but a number of other areas need further work. Financial reporting transparency and accountability were strengthened through the preparation and publication of IFRS-compliant financial statements for 2017 (MEFP ¶42). Furthermore, internal compliance processes and semi-annual reports to the Board were established to strengthen governance and internal controls. Key remaining recommendations include finalizing external audits of the monetary program data for end-December 2017 and end-June 2018, a peer-review of currency operations, reviews of the BCRG investment policy, and strengthening IT audit capacity in the internal audit department, with support of IMF technical assistance.

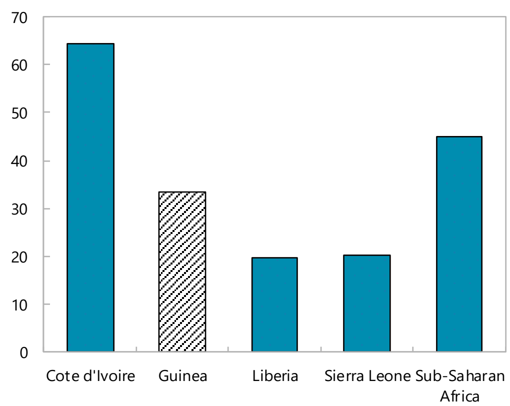
C. Financial Sector

31. Banking supervision and the regulatory framework are being strengthened to support financial stability and foster resilience. Banks' accounting framework and reporting system were updated and will be gradually implemented by end-2019, and a new rating methodology of banks was adopted (MEFP ¶43). Human resources devoted to banking supervision will be strengthened to increase off-site auditing. A deposit guarantee scheme and a banking resolution framework are being prepared. The BCRG will ensure that all banks comply with reserve and capital requirements.

SCALING-UP INFRASTRUCTURE INVESTMENT WHILE PRESERVING DEBT SUSTAINABILITY

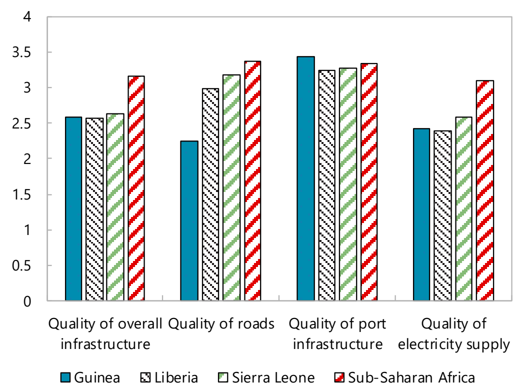
32. **Scaling-up infrastructure investment is necessary to support growth and needs to be balanced with preserving debt sustainability**. The program supports a significant scaling-up of public investments in infrastructure. Overall capital expenditures are expected to increase to 6.5 percent of GDP in 2018 and 7 percent of GDP in 2019-20. Prudent external borrowing, strengthening debt management, and containing risks from PPPs are key to support this scaling-up while preserving debt sustainability.

Figure 17. Guinea: Electrification Rate: Guinea vs. Comparators, 2016
(Percent of Total Population)



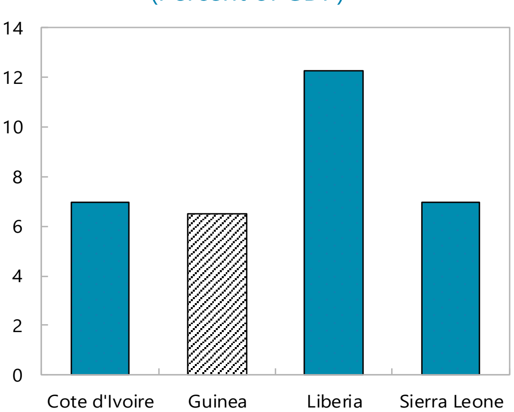
Sources: Guinean authorities; and IMF staff estimates.

Figure 18. Guinea: Infrastructure Quality: Guinea vs. Comparators
(Values from 1 to 7; 7 is highest score)



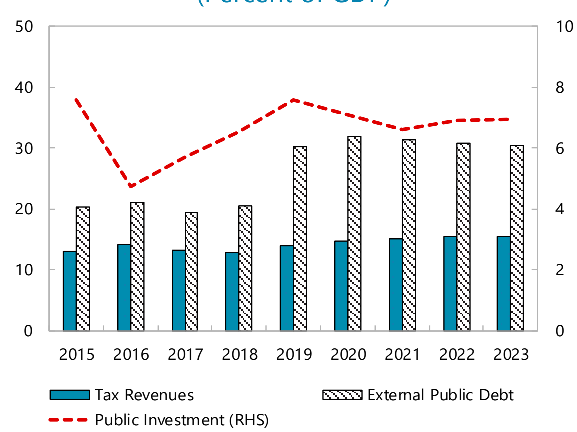
Source: World Economic Forum Global Competitiveness Indicators, 2018.

Figure 19. Guinea: Capital Expenditure: Guinea vs. Comparators, 2018
(Percent of GDP)



Sources: Guinean authorities; and IMF staff estimates.

Figure 20. Guinea: Public Investment, Tax Revenues, and External Public Debt
(Percent of GDP)



Sources: Guinean authorities; and IMF staff estimates.

33. Containing non-concessional borrowing to programmed amounts is essential. Guinea has started mobilizing non-concessional loans (NCLs) to finance priority infrastructure projects. A US$1.2 billion NCL was signed in September 2018 for the construction of the Souapiti dam. In addition, two NCLs were also contracted to finance the rehabilitation of a national road and the road system in Conakry, for a total of US$598 million (6 percent of GDP), out of the US$650 million allowed under the ECF arrangement.[7] Those two NCLs had a lower-than-anticipated grant element and were collateralized by future stream of mining tax revenues. Staff expressed concerns regarding collateralized borrowing and flagged that earmarking revenues weakens budget flexibility and may complicate debt restructuring in the unexpected event of debt distress. Nonetheless, under the program scenario, Guinea's debt dynamics is sustainable with a moderate risk of external debt distress. The overall risk of public debt distress is also assessed to be moderate, although space for additional borrowing is very limited (2018 Debt Sustainability Analysis, EBS/18/121, Sup. 1). The authorities will continue to engage with creditors to resolve long-standing arrears (US$150.1 million at end-2017).[8]

34. Strengthening debt management would help reduce vulnerabilities. A time-bound action plan to strengthen debt management, in line with the findings of the 2018 Debt Management Performance Assessment (DeMPA), will be finalized by end-2018 (MEFP ¶35). Notably, the medium-term debt management strategy will be updated by March 2019, with the support of IMF technical assistance. A working group on public debt management will be operational by end-2018 and regularly conduct debt sustainability analysis while the national debt committee will be operationalized in 2019. Furthermore, a full-fledged statistical bulletin will be published by early 2019. A modern debt recording system to enhance debt monitoring will be acquired by end-2019.

35. Finalizing the new public-private partnerships (PPP) framework in line with best practices is important to monitor and manage risks stemming from PPPs. The authorities plan to scale-up the use of PPPs for infrastructure development. Establishing an appropriate PPP framework and strengthening PPPs management and external audit is key. To this end, the 2017 PPP law will be published by end-November and the implementation decrees will be adopted by February 2019, in line with best practices. Applying rigorous selection and appraisal processes to PPPs, capping explicit commitments and guarantees to contain risks, opening unsolicited offers to competition, and assessing and monitoring fiscal risks stemming from PPPs will be important. In view of associated risks, staff underscored that prudence in the use of PPPs is needed.

[7]Due to the advanced status of negotiations of the Souapiti loan at the time of the ECF arrangement request, this loan was excluded from the programmed limit on new non-concessional loans.

[8]Guinea owes long-standing arrears that predate the HIPC completion point to non-Paris Club countries (Libya, Morocco, Thailand, Bulgaria, Romania, and Iraq). These arrears continue to be deemed away under the IMF Policy on Arrears to official bilateral creditors as the underlying Paris Club Agreement is adequately representative and the authorities are making best efforts to resolve the arrears. Guinea also owes long-standing arrears to private creditors. the authorities continue to make good faith efforts to engage with commercial creditors and reach a collaborative agreement.

STRENGTHENING SOCIAL SAFETY NETS

36. **Stepping up domestically-financed social safety nets is needed to reduce poverty and mitigate the impact of the energy subsidy reform on the most vulnerable**. In response to underperformance of domestically-financed social safety nets spending at end-September 2018, the execution of socio-economic programs for vulnerable groups has been stepped up in the last quarter of 2018. Furthermore, part of the savings from the electricity tariff reform will be used to scale-up social safety nets programs in 2019 and mitigate the impact of the increase in petroleum products prices (MEFP ¶20). Notably, targeted cash transfers will start to be provided to poor households in urban and peri-urban areas, the most affected by the increase in petroleum product prices. In addition, labor-intensive public works in those areas will also be stepped up. A new Agency for Inclusion will be set up in 2019 to advance the strategy to foster inclusion.

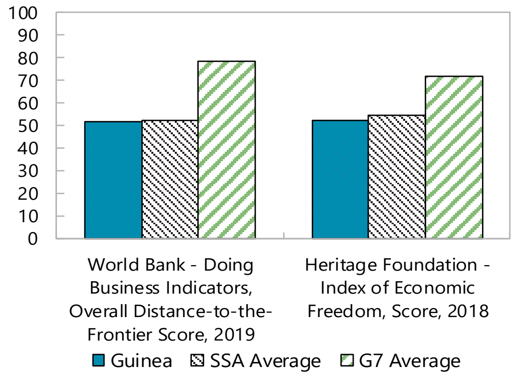
37. **Improving the targeting of social safety nets will help protect the most vulnerable**. A roadmap to set up a unified registry of vulnerable populations, with the support of the World Bank, will be developed by March 2019. A prototype of the unified registry will be established by end-July 2019 (re-phased SB, in line with the expected timeline of the World Bank financial support) and a full registry by September 2020.

ADVANCING GROWTH-SUPPORTING STRUCTURAL REFORMS

38. **Improving the business climate is needed to support private sector development**. The implementation of the action plan to improve the business climate is advancing. A specialized Commerce Court was set up in Conakry, procedures to create a business were streamlined, and an on-line business creation platform was launched (MEFP ¶43). Moving ahead, finalizing the one-stop-shop for cross-border trade, setting up an online tax declaration and payment system, finalizing the business identification numbering, and strengthening the private-public dialogue are important.

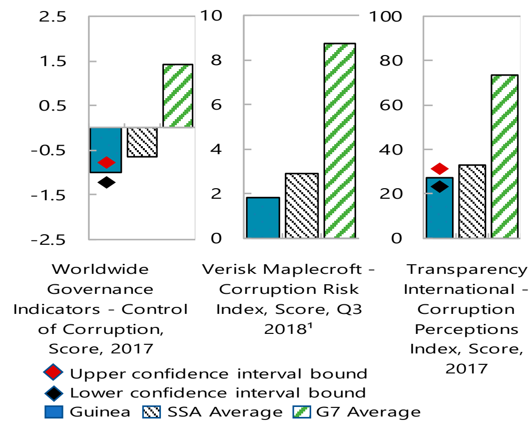
39. **Strengthening the anti-corruption framework is pivotal to enhancing governance**. The implementation decree for the organization and operation of the National Agency for the Fight Against Corruption (NAFC) was adopted in October 2018 (MEFP ¶46). The implementation decrees for whistle blowers and victims' protection and for the asset declaration regime will be adopted, in line with best practices, by end-September 2019 (re-phased SB to align it with the timing of IMF technical assistance). A High Court of Justice will be established by end-September 2019. The AML/CFT regime is being strengthened, with the support of IMF technical assistance, contributing to anti-corruption efforts. Notably, a new AML/CFT law is being prepared, internal controls for the activities of the BCRG were established, and risk-based AML/CFT supervision tools for the banking sector are being put in place (MEFP ¶46). Reforms discussed elsewhere in this report—including in mining taxation (¶20), SOEs (¶24), public financial management (¶22), and the central bank (¶30)—should further strengthen governance and reduce vulnerabilities to corruption.

Figure 21. Guinea: Business Climate
(0 indicates poor business climate)



Sources: World Bank's Doing Business Indicators, 2019; and Heritage Foundation's Index of Economic Freedom, 2018.

Figure 22. Guinea: Governance
(Lower scores indicate poor governance)

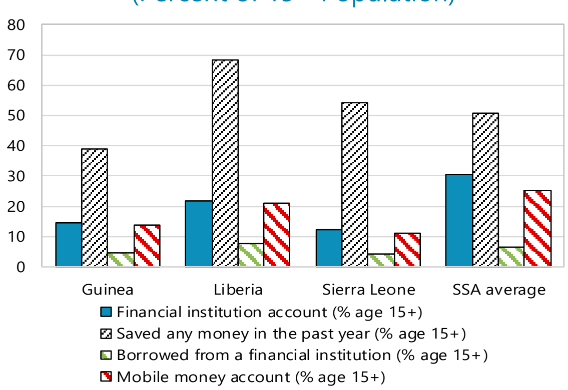


Sources: Worldwide Governance Indicators, D. Kaufman (Natural Resources Governance Institute and Brookings Institutions, and A. Kraay (World Bank), 2017; Verisk Maplecroft's Corruption Risk Index, 2017; Transparency International's Corruption Perceptions Index, 2017.

Note: The use of these indicators should be considered carefully as they are derived from perceptions-based data. Confidence intervals are not available for the Verisk Maplecroft's Corruption Risk Index.

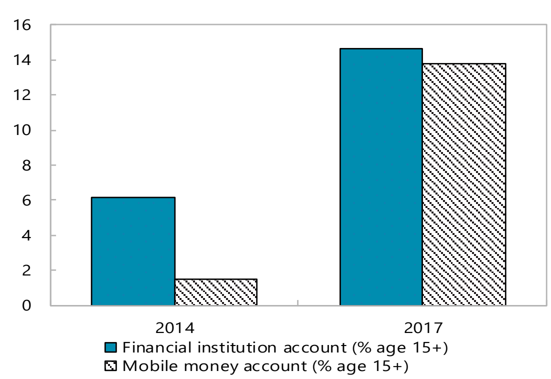
40. **Strengthening access to finance will support private sector development and foster inclusion**. The implementation decrees of the Financial Inclusion Law were adopted in June 2018 and operationalized the framework for microfinance and electronic money institutions. Finalizing the national strategy on financial inclusion is key to foster access to finance, notably for SMEs, women, and the youth.

Figure 23. Guinea: Financial Inclusion, 2017
(Percent of 15+ Population)



Source: World Bank, Global Findex Database.

Figure 24. Guinea: Access to Financing
(Percent of 15+ Population)



Source: World Bank, Global Findex Database.

PROGRAM MODALITIES

41. Capacity to repay the Fund and financing assurances. Guinea's credit outstanding to the IMF is at SDR 214 million (about 99.9 percent of quota) in 2018. Given the good track record in meeting obligations to the Fund, the program strength, the favorable medium-term growth outlook, and a sustainable debt position, staff considers that Guinea has adequate capacity to repay the Fund (Table 7). Firm financing assurances are in place for the next 12 months, with good prospects thereafter, in view of external financing to be further catalyzed by the program—budget support from the World Bank (US$40 million in 2019 and US$40 million in 2020) and the European Union (Euros 20 million in 2019 and in 2020)—and IMF disbursements (Table 8). A safeguard assessment update was completed in 2018.

42. Modifications to the program and monitoring. The following modifications are proposed: (i) introduce a new continuous SB to support mobilizing mining revenues and foster good governance; (ii) re-phase and re-formulate the SB to strengthen social safety nets targeting, in line with the expected timeline of the World Bank's financial support; (iii) re-phase the SB on the implementation decrees for the asset declaration regime and whistle blowers to align it with the timing of IMF technical assistance; (iv) re-phase and re-formulate the SB on strengthening the central bank intervention strategy in the foreign exchange market to clarify that it will be rule-based and allow time for IMF technical assistance; (v) modify the continuous PC on new non-concessional external debt to exclude debt that is non-concessional upon signature but later cancelled or renegotiated to make it concessional (LOI ¶5 and TMU ¶16); (vi) modify the end-December 2018 IT on domestically-financed social safety nets to account for a lower-than-programmed budgetary allocation in the 2018 Supplementary Budget Law and delays in releasing budgeted resources (¶8 and ¶9); and (vii) modify the end-December 2018 IT on new domestic arrears to account for higher repayment of domestic debt to the non-banking sector, part of which related to past domestic arrears. Program performance will continue to be monitored through semi-annual program reviews based on quantitative performance criteria and structural benchmarks (Tables 1 and 2 in the MEFP).

STAFF APPRAISAL

43. Guinea's strong growth momentum continues, on the back of buoyant mining activity. Real growth reached about 10 percent in 2017 and is expected at about 6 percent in 2018 and in 2019, supported by large FDI in mining and the scaling-up of infrastructure investments. Over the medium term, strengthening the business climate and governance and improved electricity provision will support private sector development. Risks to the outlook are tilted to the downside, reflecting heightened risks of social and political tensions in the run-up to the legislative elections.

44. Fiscal policy will continue to support stability while scaling-up growth-supporting public investment. Achieving a basic fiscal surplus will support preserving moderate inflation and debt sustainability, repaying the central bank and domestic arrears, and containing borrowing from commercial banks. In view of lower-than-anticipated tax revenues, moving ahead with the implementation of additional measures to contain non-priority spending is needed to achieve the end-2018 fiscal objective. The underperformance of domestic resources allocated to social safety nets is regrettable and bolstering of social safety nets is needed. Mobilizing additional tax revenues and reducing untargeted electricity subsidies are pivotal to creating fiscal space to scale-up public investments and strengthening social safety nets in 2019. Maintaining the reform momentum in the mining sector and strengthening public financial and investment management are key to supporting the fiscal strategy. Keeping non-concessional loans for infrastructure developments within programmed amounts and strengthening debt management will help preserve debt sustainability.

45. Further building external buffers will strengthen Guinea's resilience against shocks. Continued efforts are needed to strengthen the external position, which remains substantially weaker than the level consistent with economic fundamentals and desirable policies. Toward this end, staff welcomes the BCRG's gradual accumulation of foreign exchange reserves and the setting-up of a new unilateral auction for foreign exchange purchases. A more active strategy to accumulate reserves and limiting the BCRG's interventions to providing liquidity and preventing disorderly market conditions will support the build-up of buffers. Measures to strengthen foreign exchange market operations is advancing. Phasing-out the limit on auction allocation and adopting a rule-based intervention strategy for the BCRG will strengthen competition and support greater exchange rate flexibility.

46. Monetary policy needs to be prudent to preserve moderate inflation, supported by more active liquidity management. Maintaining reserve money in line with program objectives is important to contain inflationary pressures. To this end, continuing to limit central banks' lending to the government within statutory limits is key. A more active use of the new liquidity forecasting framework and liquidity instruments will support reserve money targeting and the provision of appropriate liquidity to the banking system. To this end, the newly-created liquidity committee will support liquidity management. Staff welcomes the recapitalization of the BCRG and strengthening of the BCRG's financial reporting transparency, accountability, and internal audit.

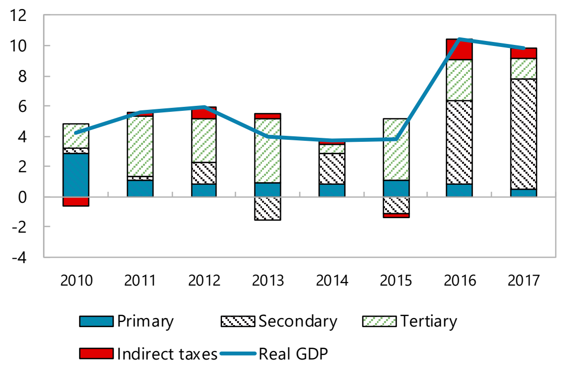
47. Strengthening banking supervision and the regulatory framework will support financial stability. Implementing the new banks' chart of accounts and reporting framework, increasing human resources for banking supervision, establishing a deposit guarantee scheme and a banking resolution framework will support stability. The BCRG should continue to ensure that all banks comply with reserve requirements and capital adequacy.

48. Strengthening the anti-corruption framework and the business climate will enhance governance and private sector development. The implementation decree of the National Agency for the Fight against Corruption was adopted. Moving forward, establishing and implementing an asset declaration regime in line with best practices is key. Improving the business climate and financial inclusion will support private sector development and more broad-based growth.

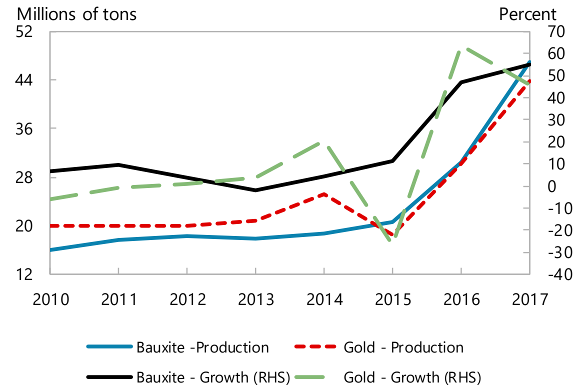
49. In view of the satisfactory program performance and progress in reforms, staff supports the authorities' request for completion of the second review under the ECF arrangement, for a waiver of nonobservance and modification of the continuous PC on new non-concessional external debt contracted or guaranteed by the central government or the central bank, and the completion of the financing assurances review.

Figure 25. Guinea: Recent Economic Developments

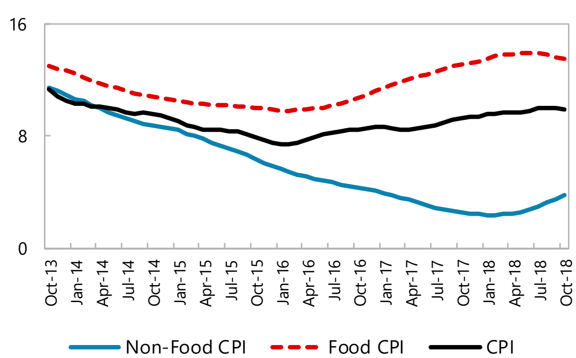
Real GDP Growth at Factor Price and Contributions by Sector
(Percent)



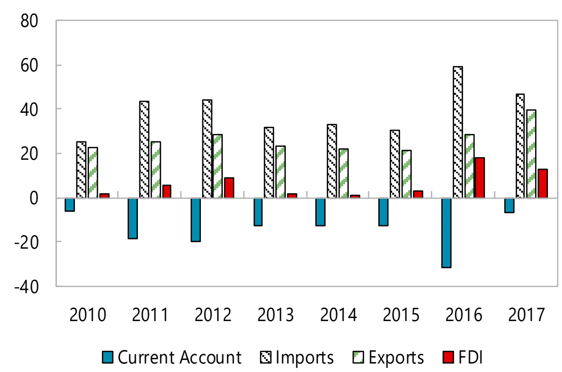
Production and Growth in the Mining Sectors
(Millions of tons; percent)



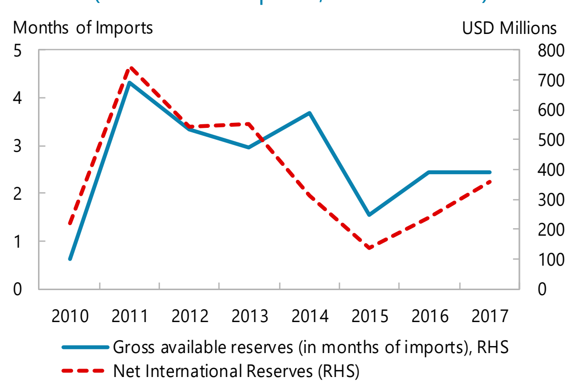
Inflation
(Average year-on-year growth, percent)



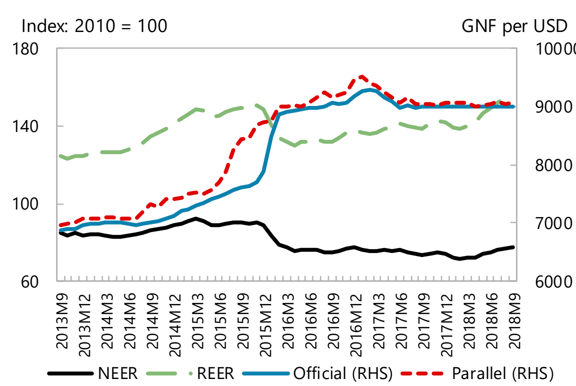
Current Account, Exports, Imports, and FDI
(Percent of GDP)



Gross Available Reserves and Net International Reserves
(Months of imports, USD millions)

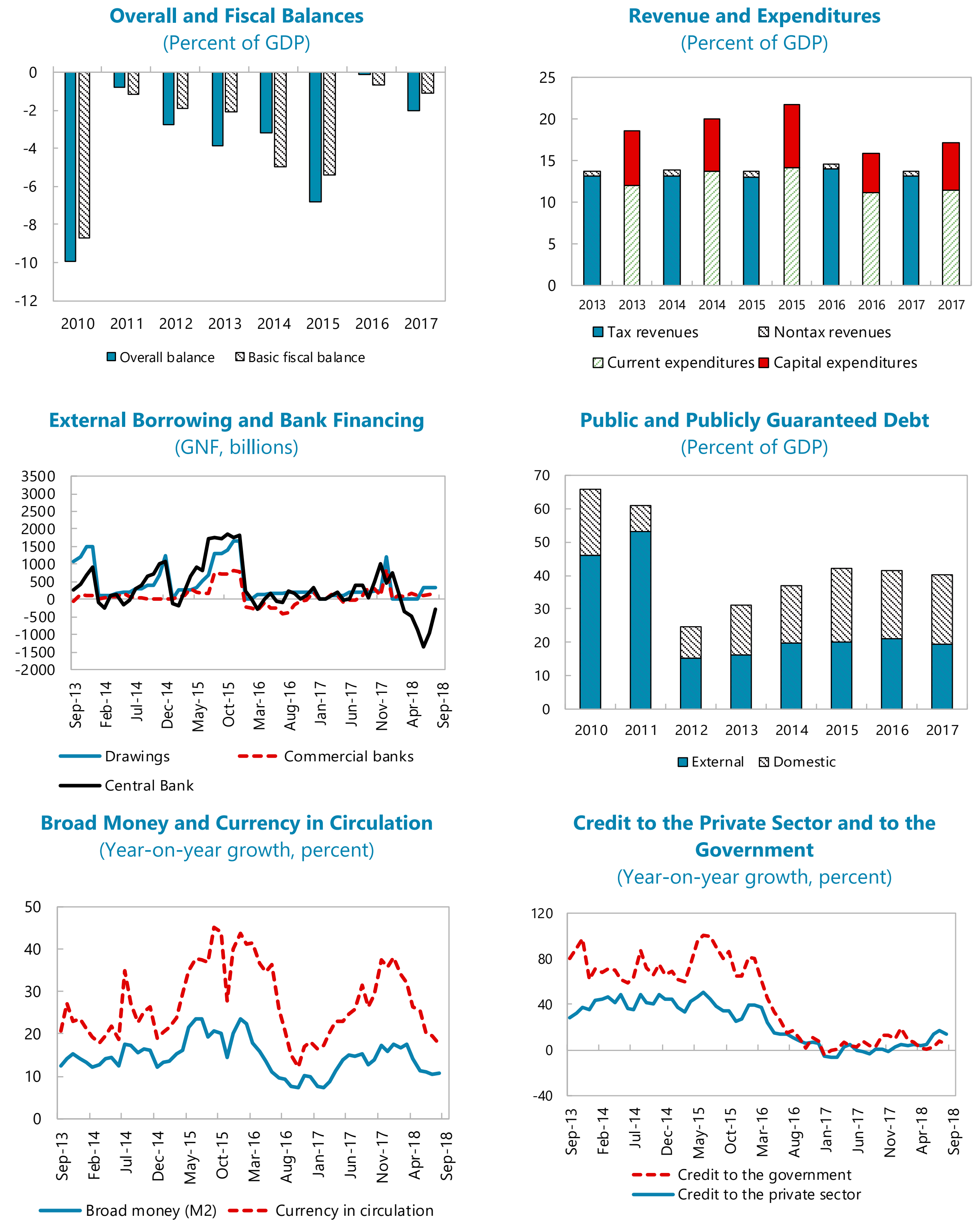


Exchange Rates
(Averages)



Sources: Guinean authorities; and IMF staff estimates.

Figure 26. Guinea: Fiscal and Monetary Indicators



Sources: Guinean authorities; and IMF staff estimates.

Table 1. Guinea: Key Economic and Financial Indicators, 2015–23

	2015	2016		2017			2018			2019		2020	2021	2022	2023
		Prog. Req.	Act.	Prog. Req.	1st Rev.	2nd Rev.	Prog. Req.	1st Rev.	2nd Rev.	1st Rev.	2nd Rev.	Proj.	Proj.	Proj.	Proj.
	Annual percentage change, unless otherwise indicated														
National accounts and prices															
GDP at constant prices	3.8	6.6	10.5	6.7	8.2	9.9	5.8	5.8	5.8	5.9	5.9	6.0	6.0	5.3	5.0
Mining	-18.0	33.5	46.1	13.7	52.3	52.3	7.5	6.7	6.7	8.5	8.5	8.3	10.0	6.7	5.3
Non-mining	6.6	3.4	6.9	5.6	2.2	4.1	5.5	5.6	5.6	5.4	5.4	5.6	5.2	5.0	4.9
GDP deflator	2.8	8.5	7.1	7.8	10.5	10.4	7.7	8.1	9.7	8.1	8.8	8.1	8.0	7.9	7.8
GDP at market prices	6.8	15.7	18.3	15.0	19.6	21.3	14.0	14.4	16.0	14.5	15.2	14.6	14.5	13.6	13.2
Consumer prices (average)															
Average	8.2	8.2	8.2	8.5	8.9	8.9	8.2	8.2	9.7	8.0	8.9	8.3	8.0	7.9	7.8
End of period	7.3	8.7	8.7	8.2	9.5	9.5	8.0	8.0	9.6	8.0	8.6	8.1	8.0	7.9	7.8
External sector															
Exports, f.o.b. (US$ terms)	-6.8	55.0	35.6	30.0	67.1	67.1	19.3	0.8	7.3	10.2	3.5	11.8	7.3	3.9	4.3
Imports, f.o.b. (US$ terms)	-6.7	102.1	102.1	2.5	-7.3	-7.3	3.2	24.8	19.8	-5.3	9.5	5.0	0.1	2.3	0.9
Average effective exchange rate (depreciation -)															
Nominal index	6.0	-14.6	-14.6	...	-2.5	-2.5	...	...	...	...	...	...	...	...	...
Real index	12.6	-9.2	-9.3	...	4.1	4.1	...	...	...	...	...	...	...	...	...
Terms of trade	0.1	7.1	42.4	-3.2	-9.9	-9.8	6.0	2.0	-6.1	-1.1	-4.1	2.0	1.5	3.0	2.9
Money and credit															
Net foreign assets[1]	-11.0	7.6	7.3	6.8	9.6	9.6	8.0	5.7	5.8	6.4	6.3	6.7	6.4	6.5	5.3
Net domestic assets[1]	31.2	2.4	2.7	3.7	6.2	6.2	5.9	4.8	6.3	7.2	6.1	6.3	6.1	5.3	5.3
Net claims on government[1]	17.2	1.9	1.9	1.5	5.0	5.0	-0.3	-0.4	-0.3	-0.4	-0.3	-0.7	-0.5	-0.4	-0.3
Credit to non-government sector[1]	10.8	2.9	2.4	2.0	0.9	0.9	6.2	5.2	6.5	7.7	6.4	7.0	6.6	5.7	5.6
Reserve money	2.6	15.5	15.5	1.7	10.3	10.3	13.9	14.3	14.5	9.6	9.9	10.9	10.8	8.8	8.3
Broad money (M2)	20.3	9.9	9.9	10.5	15.8	15.8	14.0	10.4	12.0	14.4	12.4	13.0	12.5	11.7	10.6
Interest rate (short-term T-bill)	11.5	...	...	...	...	...	...	...	...	...	...	...	...	...	...
	Percent of GDP, unless otherwise indicated														
Central government finances															
Total revenue and grants	14.8	16.2	15.8	17.0	15.4	15.2	18.4	15.8	15.4	16.6	15.6	16.4	16.9	17.2	17.2
Revenue	13.7	15.0	14.6	15.4	13.8	13.6	16.2	14.5	13.7	15.4	14.5	15.3	15.7	16.1	16.1
Of which: Non-mining revenue	11.3	12.8	12.5	12.6	11.5	11.4	13.3	12.0	11.0	12.9	11.7	12.6	12.9	13.3	13.3
Grants	1.2	1.2	1.2	1.6	1.5	1.5	2.2	1.3	1.7	1.3	1.1	1.1	1.2	1.1	1.1
Total expenditure and net lending	21.7	16.4	16.0	17.4	17.5	17.2	20.8	18.0	17.5	18.8	17.9	18.1	17.8	18.1	18.2
Current expenditure	14.1	11.5	11.2	12.5	11.6	11.4	13.0	11.5	10.8	11.3	10.2	10.9	11.1	11.2	11.2
Of which: Interest payments	0.8	1.1	1.1	1.3	0.9	0.9	1.3	1.1	1.0	1.0	0.8	0.7	1.0	1.0	1.0
Capital expenditure and net lending	7.6	4.8	4.7	4.9	5.8	5.7	7.8	6.5	6.5	7.5	7.6	7.1	6.6	6.9	6.9
Overall budget balance															
Including grants	-6.8	-0.1	-0.1	-0.4	-2.1	-2.0	-2.5	-2.2	-2.0	-2.2	-2.3	-1.7	-0.9	-1.0	-1.0
Excluding grants	-8.0	-1.4	-1.3	-2.0	-3.6	-3.6	-4.6	-3.5	-3.8	-3.4	-3.4	-2.7	-2.1	-2.1	-2.0
Basic fiscal balance	-5.4	-0.7	-0.7	0.6	-1.1	-1.1	0.6	0.8	0.8	1.0	0.9	1.0	1.0	0.9	0.9
Current account balance															
Including official transfers	-12.9	-31.9	-31.6	-24.4	-6.9	-6.8	-21.3	-21.0	-16.1	-15.9	-20.2	-17.1	-12.9	-12.0	-10.2
Excluding official transfers	-13.1	-32.9	-32.5	-25.2	-7.4	-7.2	-22.4	-21.4	-16.6	-16.4	-20.6	-17.4	-13.3	-12.4	-10.7
Overall balance of payments	-4.0	1.3	0.8	0.7	0.7	0.7	1.9	1.6	1.6	1.3	1.4	1.2	1.6	1.3	1.1
Memorandum items:															
Exports, goods and services (US$ millions)	1,859.1	2,471.3	2,471.2	3,201.2	4,086.1	4,086.1	3,810.9	4,119.7	4,382.7	4,537.6	4,535.7	5,065.4	5,433.2	5,642.5	5,885.5
Imports, goods and services (US$ millions)	2,694.6	5,142.3	5,142.3	5,389.6	4,863.0	4,862.8	5,560.0	5,998.1	5,751.4	5,659.4	6,248.4	6,558.1	6,537.8	6,641.1	6,702.5
Overall balance of payments (US$ millions)	-347.3	111.3	73.3	62.6	72.0	72.0	186.5	189.3	187.3	166.7	177.7	162.8	233.4	208.3	191.0
Net foreign assets of the central bank (US$ millions)	161.2	274.3	268.9	331.5	314.5	314.5	517.1	522.4	524.8	692.1	695.4	901.3	1,123.4	1,321.5	1,525.8
Gross available reserves (months of imports)[2]	1.5	2.3	2.4	2.5	2.4	2.4	3.2	3.2	3.2	3.5	3.5	3.8	4.0	4.1	4.1
External public debt, incl. IMF (percent of GDP)	21.6	21.5	21.6	23.0	19.6	19.2	30.8	26.9	21.3	31.7	31.1	32.4	31.7	30.9	30.5
Total public debt, incl. IMF (percent of GDP)	39.3	40.9	40.1	40.4	37.2	39.6	45.1	40.3	38.4	43.0	45.6	45.0	42.4	40.5	39.0
Nominal GDP (GNF billions)	65,829	75,943	77,899	87,355	93,160	94,524	99,558	106,561	109,691	122,055	126,356	144,860	165,893	188,527	213,367

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

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

[2] In months of the following year's imports excluding imports for large foreign-financed mining projects.

Table 2. Guinea: Balance of Payments, 2015–23

(Millions of U.S. Dollars, unless otherwise indicated)

	2015	2016	2017			2018			2019		2020	2021	2022	2023
		Prel.	Prog. Req.	1st Rev.	Est.	Prog. Req.	1st Rev.	2nd Rev.	1st Rev.	2nd Rev.	Proj.	Proj.	Proj.	Proj.
Exports, f.o.b.	1,781	2,414	3,140	4,034	4,034	3,745	4,066	4,329	4,482	4,480	5,008	5,374	5,582	5,823
Mining products	1,327	2,016	2,638	3,606	3,606	3,182	3,632	3,895	3,950	3,950	4,413	4,557	4,680	4,829
Other	454	398	502	428	428	563	434	434	532	531	595	817	901	994
Imports, f.o.b.	-2,192	-4,429	-4,539	-4,107	-4,107	-4,683	-5,126	-4,918	-4,854	-5,386	-5,653	-5,661	-5,789	-5,842
Food products	-276	-617	-668	-425	-425	-717	-698	-701	-755	-755	-815	-881	-945	-1,011
Other consumption goods	-290	-305	-330	-359	-359	-354	-403	-405	-435	-437	-471	-509	-546	-584
Petroleum products	-498	-402	-563	-548	-548	-741	-793	-803	-842	-855	-912	-930	-974	-1,026
Intermediate and capital goods	-1,128	-3,106	-2,978	-2,774	-2,774	-2,870	-3,233	-3,009	-2,822	-3,339	-3,455	-3,341	-3,323	-3,220
Services trade balance	-425	-656	-789	-704	-704	-811	-818	-779	-750	-807	-848	-817	-792	-798
Services exports	78	57	62	52	52	66	53	54	55	55	58	60	61	62
Services imports	-503	-713	-851	-756	-756	-877	-872	-833	-805	-863	-905	-877	-852	-860
Income balance	-261	-155	-204	-51	-51	-586	-623	-617	-975	-967	-982	-950	-1,083	-1,129
Of which: Interest on public debt	-15	-26	-37	-21	-21	-33	-28	-31	-29	-28	-35	-40	-43	-48
Transfers	-41	81	147	123	123	236	94	90	124	129	143	157	190	214
Of which:														
Net private transfers	-53	-2	76	74	74	123	41	40	61	79	94	91	118	135
Official transfers	12	83	71	49	49	113	53	50	64	50	49	65	72	78
Current account														
Including official transfers	-1,138	-2,745	-2,245	-705	-704	-2,099	-2,407	-1,896	-1,973	-2,550	-2,331	-1,898	-1,892	-1,732
Excluding official transfers	-1,150	-2,828	-2,316	-754	-754	-2,212	-2,460	-1,946	-2,037	-2,600	-2,380	-1,964	-1,964	-1,810
Capital account	79	26	88	146	146	116	95	158	96	96	105	113	107	105
Public transfers	33	10	72	143	143	99	92	155	92	93	101	109	103	102
Financial account	649	2,548	2,219	1,502	1,502	2,169	2,501	1,925	2,044	2,632	2,389	2,019	1,994	1,817
Public (medium and long-term)	172	-29	679	106	106	855	915	332	827	1,372	488	284	246	256
Project-related loans	187	22	701	132	132	922	921	356	884	1,406	535	354	332	356
Program financing	36	0	20	20	20	10	71	60	10	40	40	11	9	9
Public (short-term)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Amortization due	-52	-51	-42	-46	-46	-77	-77	-84	-67	-74	-86	-81	-95	-109
Direct and other private investment (net)	263	1,595	1,489	1,306	1,306	1,248	1,546	1,546	1,197	1,197	1,851	1,666	1,651	1,463
Private short-term	214	982	51	90	89	66	40	47	19	62	51	69	97	99
Errors and omissions	63	244	0	-871	-871	0	0	0	0	0	0	0	0	0
Overall balance	-347	73	63	72	72	187	189	187	167	178	163	233	208	191
Financing	347	-73	-63	-72	-72	-187	-189	-187	-167	-178	-163	-233	-208	-191
Use of Fund resources (net)	33	50	24	24	24	48	47	49	45	34	29	-57	-62	-47
Of which														
Disbursements	63	22	24	24	24	48	49	49	50	48	49	0	0	0
Change in gross official reserves (- = increase)	291	-123	-86	-102	-102	-235	-236	-236	-212	-212	-192	-176	-147	-144
Of which: SDR Allocation														
Change in arrears (- = reduction)	11	-1	-82	0	0	0	0	0	0	0	0	0	0	0
Debt relief	13	0	82	6	6	0	0	0	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Memorandum items:														
Current account balance (percent of GDP)														
Including official transfers	-12.9	-31.6	-24.4	-6.9	-6.8	-21.3	-21.0	-16.1	-15.9	-20.2	-17.1	-12.9	-12.0	-10.2
Excluding official transfers	-13.1	-32.5	-25.2	-7.4	-7.2	-22.4	-21.4	-16.6	-16.4	-20.6	-17.4	-13.3	-12.4	-10.7
Overall balance (percent of GDP)	-4.0	0.8	0.7	0.7	0.7	1.9	1.6	1.6	1.3	1.4	1.2	1.6	1.3	1.1
Exports-GDP ratio (percent)	21.1	28.4	34.9	39.9	39.3	38.7	35.9	37.3	36.5	35.9	37.1	36.8	35.7	34.8
Imports-GDP ratio (percent)	-30.7	-59.1	-58.7	-47.4	-46.8	-56.4	-52.2	-49.0	-45.6	-49.4	-48.0	-44.3	-42.0	-39.6
FDI-GDP ratio (percent)	3.0	18.3	16.2	12.7	12.6	12.7	13.5	13.2	9.6	9.5	13.6	11.3	10.4	8.6
Gross available reserves (US$ millions)	461	584	680	686	686	915	922	922	1,134	1,134	1,326	1,503	1,649	1,794
Gross available reserves (months of imports)	1.5	2.4	2.5	2.4	2.4	3.2	3.2	3.2	3.5	3.5	3.8	4.0	4.1	4.1
Nominal GDP (US$ millions)	8,790	8,695	9,183	10,251	10,401	9,855	11,486	11,743	12,423	12,650	13,651	14,748	15,825	16,931
National currency per US dollar (avg.)	7,489	8,959	...	9,088	9,088	...	...	...	...	...	...	...	...	...

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

Table 3a. Guinea: Fiscal Operations of the Central Government, 2015–23[1]

(Billions of Guinean Francs, unless otherwise indicated)

	2015	2016	2017	2018					2019			2020		2021	2022	2023
			Prel.	Prog. 1st Review	Prog. 2nd Review	June Cum. Prel.	Sept. Cum. Prel.	Suppl. Budget [4]	Prog. 1st Review	Prog. 2nd Review	Proposed LFI [3]	Prog. Req.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	**9,749**	**12,325**	**14,342**	**16,806**	**16,933**	**7,971**	**12,608**	**17,101**	**20,314**	**19,709**	**19,709**	**24,720**	**23,780**	**27,996**	**32,364**	**36,724**
Revenue	8,988	11,391	12,902	15,459	15,014	7,507	11,128	15,754	18,779	18,283	18,283	23,037	22,190	26,034	30,282	34,456
Tax revenue	8,579	10,930	12,443	14,394	14,072	6,849	10,383	14,796	18,018	17,612	17,612	22,174	21,288	24,951	28,997	32,965
Mining sector	1,558	1,671	2,153	2,664	2,912	1,439	2,134	3,209	3,085	3,452	3,452	3,886	3,958	4,591	5,283	6,040
Local Development Fund			...	...	...	...	...	...	...	518	518	...	594	689	793	906
Non-mining sector	7,021	9,259	10,290	11,731	11,160	5,410	8,250	11,587	14,934	14,160	14,160	18,288	17,330	20,360	23,714	26,925
Direct taxes	1,376	1,890	2,226	2,931	2,762	1,376	2,164	2,321	4,073	3,296	3,295	4,483	4,059	4,928	5,923	6,704
Indirect taxes	5,645	7,369	8,064	8,799	8,398	4,034	6,086	9,266	10,861	10,865	10,863	13,805	13,271	15,432	17,790	20,221
Taxes on goods and services	3,824	5,342	5,434	6,058	5,993	2,804	4,237	7,112	7,177	7,680	7,679	8,992	9,231	10,643	12,152	13,839
Taxes on international trade	1,821	2,027	2,630	2,742	2,406	1,230	1,849	2,154	3,684	3,184	3,184	4,813	4,040	4,790	5,639	6,382
Non-tax revenue	409	462	459	1,064	941	658	745	958	761	671	671	862	902	1,083	1,285	1,491
Grants	761	934	1,440	1,347	1,919	464	1,481	1,347	1,535	1,426	1,426	1,683	1,590	1,961	2,082	2,268
Project grants	249	92	960	852	1,449	439	1,449	852	909	928	928	1,036	1,074	1,226	1,225	1,280
Budget support	89	742	449	495	470	0	0	495	626	498	498	647	516	735	856	988
Other earmarked grants	423	101	32	...	0	25	31	...	...	...	...	...	...	...	...	...
Expenditures and net lending	**14,286**	**12,439**	**16,276**	**19,171**	**19,167**	**6,650**	**12,596**	**19,467**	**22,966**	**22,584**	**22,585**	**27,340**	**26,172**	**29,570**	**34,214**	**38,823**
Current expenditures	9,283	8,708	10,809	12,215	11,886	5,174	8,849	12,605	13,789	12,901	12,900	15,933	15,764	18,489	21,086	23,894
Primary current expenditures	8,741	7,863	9,955	11,029	10,740	4,812	8,208	11,419	12,594	11,897	11,897	14,617	14,698	16,880	19,246	21,793
Wages and salaries	2,721	2,937	3,400	4,126	4,051	1,973	3,015	4,031	4,760	4,478	4,478	5,442	5,305	6,076	6,904	7,814
Goods and services	3,313	2,714	3,393	3,500	3,245	1,143	2,186	3,945	4,007	4,138	4,138	4,731	4,777	5,471	6,217	7,069
Subsides and transfers	2,707	2,212	3,114	3,402	3,444	1,696	3,006	3,444	3,827	3,280	3,280	4,444	4,616	5,333	6,125	6,909
of which EDG		421	1,168	1,050	1,050	587	687	...	880	880	880	877	877	861	800	700
other subsidies and transfers		1,791	1,946	2,352	2,394	1,109	2,319	...	2,947	2,400	2,400	3,567	3,739	4,472	5,325	6,209
Interest on debt	542	845	854	1,186	1,146	362	641	1,186	1,194	1,004	1,004	1,316	1,065	1,610	1,840	2,101
Domestic debt	433	609	665	923	859	238	368	923	912	716	716	894	691	1,161	1,320	1,494
External debt	109	236	190	263	287	124	273	263	282	288	288	422	375	449	520	608
Capital expenditure	4,990	3,682	5,395	6,882	7,157	1,477	3,698	6,739	9,156	9,567	9,569	11,384	10,282	10,943	12,980	14,770
Domestically financed	3,337	3,389	3,240	2,529	2,387	709	1,553	2,386	3,969	4,383	4,383	6,079	5,177	6,190	7,799	9,009
Investment (central budget exec.)	3,290	3,327	3,172	2,493	2,351	709	1,553	2,350	3,934	4,329	4,329	6,044	5,044	6,154	7,799	9,009
Local Development Fund			...	...	...	...	...	...	...	518	518	...	594	689	793	906
Capital transfers	47	63	68	36	36	0	0	36	36	54	54	36	134	36	0	0
Externally financed	1,653	293	2,155	4,353	4,770	767	2,145	4,353	5,186	5,185	5,186	5,305	5,105	4,754	5,181	5,761
Net lending and restructuring expenditures	13	49	72	74	124	0	0	124	22	115	115	23	126	137	148	159
Adjustment measures		...	...	-0	-0	...	...	...	0	0	0	...	0	0	0	0
Basic fiscal balance[2]	**-3,535**	**-520**	**-1,030**	**904**	**904**	**1,749**	**999**	**903**	**1,281**	**1,172**	**1,172**	**1,423**	**1,498**	**1,667**	**1,770**	**2,002**
Overall balance																
Excluding grants	-5,298	-1,048	-3,374	-3,712	-4,153	857	-1,468	-3,713	-4,187	-4,300	-4,301	-4,303	-3,982	-3,535	-3,931	-4,367
Including grants	-4,537	-114	-1,935	-2,365	-2,234	1,321	13	-2,366	-2,652	-2,875	-2,876	-2,620	-2,392	-1,574	-1,850	-2,099
Float						431	-589									
Financing	**4,474**	**55**	**1,935**	**2,365**	**2,234**	**-1,751**	**-601**	**2,366**	**2,652**	**2,875**	**2,875**	**2,620**	**2,392**	**1,574**	**1,849**	**2,099**
Domestic financing	**3,013**	**318**	**1,100**	**-1,080**	**-866**	**-1,721**	**-1,365**	**-1,080**	**-1,065**	**-1,042**	**-1,042**	**-879**	**-1,147**	**-1,162**	**-1,081**	**-1,124**
Bank financing	2,580	505	1,300	-90	-57	-1,241	-1,588	-90	-87	-64	-64	-31	-185	-164	-131	-137
Net position at central bank	1,806	294	452	-327	-327	-1,335	-1,760	-327	-327	-294	-294	-284	-374	-364	-321	-333
Commercial banks	774	210	847	237	270	94	172	237	240	230	230	253	190	200	189	196
Nonbank financing	433	-345	-1,140	-511	-727	-71	-255	-511	-672	-537	-537	-848	-542	-609	-552	-658
Privatization revenue	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Borrowing/Amortization of domestic deb	-150	-350	-1,189	-511	-727	-83	-267	-511	-672	-588	-588	-731	-542	-609	-552	-658
Other / Exceptional revenue	287	5	50	0	0	12	12	0	0	51	51	0	0	0	0	0
Change in arrears	296	158	940	-479	-82	-409	478	-479	-306	-440	-440	-117	-421	-389	-398	-329
External financing (net)	**1,461**	**-263**	**835**	**3,445**	**3,100**	**-30**	**764**	**3,446**	**3,717**	**3,916**	**3,916**	**3,499**	**3,539**	**2,736**	**2,931**	**3,223**
Drawings	1,674	201	1,196	4,158	3,882	328	1,226	4,158	4,377	4,657	4,657	4,388	4,455	3,647	4,067	4,594
Project	1,404	201	1,196	3,501	3,321	328	696	4,058	4,277	4,257	4,257	4,268	4,031	3,527	3,956	4,481
Program	270	0	0	657	560	0	530	100	100	400	400	120	424	120	111	114
Amortization due	-388	-456	-414	-712	-782	-356	-458	-712	-660	-740	-740	-889	-916	-912	-1,136	-1,372
Debt relief	96	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Change in cap. arrears (- = reduction)	73	-6	-2	0	0	-3	-4	0	0	0	0	0	0	0	0	0
Change in int. arrears (- = reduction)	6	-2	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Non Paris Clus bilateral rescheduling	0	0	55	0	0	0	0	0	0	0	0	0	0	0	0	0
HIPC-related financing	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Errors and omissions	0	46	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Financing gap	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Memorandum items:																
Primary fiscal balance	-3,995	731	-1,080	-1,179	-1,088	1,683	653	-1,180	-1,458	-1,871	-1,872	-1,304	-1,326	36	-10	3
Nominal GDP (GNF billion)	65,829	77,899	94,524	106,561	109,691	109,691	109,691	109,691	122,055	126,356	126,356	129,548	144,860	165,893	188,527	213,367

Sources: Guinean authorities; Fund staff estimates and projections.

[1] Based on GFSM 1986 due to data availability limitations.

[2] Total revenue excluding grants minus expenditures excluding interest on external debt and foreign-financed capital expenditures.

[3] 2019 budget law presented to the Parliament.

[4] Supplementary budget law 2018 approved in August.

Table 3b. Guinea: Fiscal Operations of the Central Government, 2015–23[1]

(Percent of GDP, unless otherwise indicated)

	2015	2016	2017	2018					2019			2020		2021	2022	2023
			Prel.	Prog. 1st Review	Prog. 2nd Review	June Cum. Prel.	Sept. Cum. Prel.	Suppl. Budget [4]	Prog. 1st Review	Prog. 2nd Review	Proposed LFI [3]	Prog. Req.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	**14.8**	**15.8**	**15.2**	**15.8**	**15.4**	**7.3**	**11.5**	**15.6**	**16.6**	**15.6**	**15.6**	**19.1**	**16.4**	**16.9**	**17.2**	**17.2**
Revenue	13.7	14.6	13.6	14.5	13.7	6.8	10.1	14.4	15.4	14.5	14.5	17.8	15.3	15.7	16.1	16.1
Tax revenue	13.0	14.0	13.2	13.5	12.8	6.2	9.5	13.5	14.8	13.9	13.9	17.1	14.7	15.0	15.4	15.4
Mining sector	2.4	2.1	2.3	2.5	2.7	1.3	1.9	2.9	2.5	2.7	2.7	3.0	2.7	2.8	2.8	2.8
Local Development Fund			...	...	...	...	...	...	...	0.4	0.4	3.0	0.4	0.4	0.4	0.4
Non-mining sector	10.7	11.9	10.9	11.0	10.2	4.9	7.5	10.6	12.2	11.2	11.2	14.1	12.0	12.3	12.6	12.6
Direct taxes	2.1	2.4	2.4	2.8	2.5	1.3	2.0	2.1	3.3	2.6	2.6	3.5	2.8	3.0	3.1	3.1
Indirect taxes	8.6	9.5	8.5	8.3	7.7	3.7	5.5	8.4	8.9	8.6	8.6	10.7	9.2	9.3	9.4	9.5
Taxes on goods and services	5.8	6.9	5.7	5.7	5.5	2.6	3.9	6.5	5.9	6.1	6.1	6.9	6.4	6.4	6.4	6.5
Taxes on international trade	2.8	2.6	2.8	2.6	2.2	1.1	1.7	2.0	3.0	2.5	2.5	3.7	2.8	2.9	3.0	3.0
Non-tax revenue	0.6	0.6	0.5	1.0	0.9	0.6	0.7	0.9	0.6	0.5	0.5	0.7	0.6	0.7	0.7	0.7
Grants	1.2	1.2	1.5	1.3	1.7	0.4	1.3	1.2	1.3	1.1	1.1	1.3	1.1	1.2	1.1	1.1
Project grants	0.4	0.1	1.0	0.8	1.3	0.4	1.3	0.8	0.7	0.7	0.7	0.8	0.7	0.7	0.6	0.6
Budget support	0.1	1.0	0.5	0.5	0.4	0.0	0.0	0.5	0.5	0.4	0.4	0.5	0.4	0.4	0.5	0.5
Other earmarked grants	0.6	0.1	0.0	...	0.0	...	...	...	...	...	...	...	...	...	...	...
Expenditures and net lending	**21.7**	**16.0**	**17.2**	**18.0**	**17.5**	**6.1**	**11.5**	**17.7**	**18.8**	**17.9**	**17.9**	**21.1**	**18.1**	**17.8**	**18.1**	**18.2**
Current expenditures	14.1	11.2	11.4	11.5	10.8	4.7	8.1	11.5	11.3	10.2	10.2	12.3	10.9	11.1	11.2	11.2
Primary current expenditures	13.3	10.1	10.5	10.3	9.8	4.4	7.5	10.4	10.3	9.4	9.4	11.3	10.1	10.2	10.2	10.2
Wages and salaries	4.1	3.8	3.6	3.9	3.7	1.8	2.7	3.7	3.9	3.5	3.5	4.2	3.7	3.7	3.7	3.7
Goods and services	5.0	3.5	3.6	3.3	3.0	1.0	2.0	3.6	3.3	3.3	3.3	3.7	3.3	3.3	3.3	3.3
Subsides and transfers	4.1	2.8	3.3	3.2	3.1	1.5	2.7	3.1	3.1	2.6	2.6	3.4	3.2	3.2	3.2	3.2
of which EDG		0.5	1.2	1.0	1.0	0.5	0.6	...	0.7	0.7	0.7	0.7	0.6	0.5	0.4	0.3
other subsidies and transfers		2.3	2.1	2.2	2.2	1.0	2.1	...	2.4	1.9	1.9	2.8	2.6	2.7	2.8	2.9
Interest on debt	0.8	1.1	0.9	1.1	1.0	0.3	0.6	1.1	1.0	0.8	0.8	1.0	0.7	1.0	1.0	1.0
Domestic debt	0.7	0.8	0.7	0.9	0.8	0.2	0.3	0.8	0.7	0.6	0.6	0.7	0.5	0.7	0.7	0.7
External debt	0.2	0.3	0.2	0.2	0.3	0.1	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Capital expenditure	7.6	4.7	5.7	6.5	6.5	1.3	3.4	6.1	7.5	7.6	7.6	8.8	7.1	6.6	6.9	6.9
Domestically financed	5.1	4.4	3.4	2.4	2.2	0.6	1.4	2.2	3.3	3.5	3.5	4.7	3.6	3.7	4.1	4.2
Investment (central budget exec.)	5.0	4.3	3.4	2.3	2.1	0.6	1.4	2.1	3.2	3.4	3.4	4.7	3.5	3.7	4.1	4.2
Local Development Fund			...	...	...	...	...	...	...	0.4	0.4	...	0.4	0.4	0.4	0.4
Capital transfers	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Externally financed	2.5	0.4	2.3	4.1	4.3	0.7	2.0	4.0	4.2	4.1	4.1	4.1	3.5	2.9	2.7	2.7
Net lending and restructuring expenditures	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.1	0.0	0.1	0.1	0.0	0.1	0.1	0.1	0.1
Adjustment measures	...	...	...		-0.0	...	...	...		0.0	0.0	...	0.0	0.0	0.0	0.0
Basic fiscal balance[2]	**-5.4**	**-0.7**	**-1.1**	**0.8**	**0.8**	**1.6**	**0.9**	**0.8**	**1.0**	**0.9**	**0.9**	**1.1**	**1.0**	**1.0**	**0.9**	**0.9**
Overall balance																
Excluding grants	-8.0	-1.3	-3.6	-3.5	-3.8	0.8	-1.3	-3.4	-3.4	-3.4	-3.4	-3.3	-2.7	-2.1	-2.1	-2.0
Including grants	-6.9	-0.1	-2.0	-2.2	-2.0	1.2	0.0	-2.2	-2.2	-2.3	-2.3	-2.0	-1.7	-0.9	-1.0	-1.0
Float						0.4	-0.5									
Financing	**6.8**	**0.1**	**2.0**	**2.2**	**2.0**	**-1.6**	**-0.5**	**2.2**	**2.2**	**2.3**	**2.3**	**2.0**	**1.7**	**0.9**	**1.0**	**1.0**
Domestic financing	**4.6**	**0.4**	**1.2**	**-1.0**	**-0.8**	**-1.6**	**-1.2**	**-1.0**	**-0.9**	**-0.8**	**-0.8**	**-0.7**	**-0.8**	**-0.7**	**-0.6**	**-0.5**
Bank financing	3.9	0.6	1.4	-0.1	-0.1	-1.1	-1.4	-0.1	-0.1	-0.1	-0.1	-0.0	-0.1	-0.1	-0.1	-0.1
Net position at central bank	2.7	0.4	0.5	-0.3	-0.3	-1.2	-1.6	-0.3	-0.3	-0.2	-0.2	-0.2	-0.3	-0.2	-0.2	-0.2
Commercial banks	1.2	0.3	0.9	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Nonbank financing	0.7	-0.4	-1.2	-0.5	-0.7	-0.1	-0.2	-0.5	-0.6	-0.4	-0.4	-0.7	-0.4	-0.4	-0.3	-0.3
Privatization revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Borrowing/Amortization of domestic debt (net)	-0.2	-0.4	-1.3	-0.5	-0.7	-0.1	-0.2	-0.5	-0.6	-0.5	-0.5	-0.6	-0.4	-0.4	-0.3	-0.3
Other / Exceptional revenue	0.4	0.0	0.1	0.0	0.0	0.0	0.0	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	0.5	0.2	1.0	-0.4	-0.1	-0.4	0.4	-0.4	-0.3	-0.3	-0.3	-0.1	-0.3	-0.2	-0.2	-0.2
External financing (net)	**2.2**	**-0.3**	**0.9**	**3.2**	**2.8**	**-0.0**	**0.7**	**3.1**	**3.0**	**3.1**	**3.1**	**2.7**	**2.4**	**1.6**	**1.6**	**1.5**
Drawings	2.5	0.3	1.3	3.9	3.5	0.3	1.1	3.8	3.6	3.7	3.7	3.4	3.1	2.2	2.2	2.2
Project	2.1	0.3	1.3	3.3	3.0	0.3	0.6	3.7	3.5	3.4	3.4	3.3	2.8	2.1	2.1	2.1
Program	0.4	0.0	0.0	0.6	0.5	0.0	0.5	0.1	0.1	0.3	0.3	0.1	0.3	0.1	0.1	0.1
Amortization due	-0.6	-0.6	-0.4	-0.7	-0.7	-0.3	-0.4	-0.6	-0.5	-0.6	-0.6	-0.7	-0.6	-0.5	-0.6	-0.6
Debt relief	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in cap. arrears (- = reduction)	0.1	-0.0	-0.0	0.0	0.0	-0.0	-0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in int. arrears (- = reduction)	0.0	-0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non Paris Clus bilateral rescheduling	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:																
Primary fiscal balance	-6.1	0.9	-1.1	-1.1	-1.0	1.5	0.6	-1.1	-1.2	-1.5	-1.5	-1.0	-0.9	0.0	-0.0	0.0
Nominal GDP (GNF billion)	65,829	77,899	94,524	106,561	109,691	109,691	109,691	109,691	122,055	126,356	126,356	129,548	144,860	165,893	188,527	213,367

Sources: Guinean authorities; Fund staff estimates and projections.

[1] Based on GFSM 1986 due to data availability limitations.

[2] Total revenue excluding grants minus expenditures excluding interest on external debt and foreign-financed capital expenditures.

[3] 2019 budget law presented to the Parliament.

[4] Supplementary budget law 2018 approved in August.

Table 4. Guinea: Central Bank and Deposit Money Accounts, 2015–23[1]

(Billions of Guinean Frances, unless otherwise indicated)

	2015	2016	2017		2018					2019			2020	2021	2022	2023
			Prog. Req.	Prel.	Prog. Req.	1st Rev.	2nd Rev.	June Prel.	Sept Prel.	Prog. Req.	1st Rev.	2nd Rev.	Proj.	Proj.	Proj.	Proj.
Central bank																
Net foreign assets	1,290	2,480	3,058	2,901	4,771	4,819	4,842	3,861	4,390	6,371	6,385	6,416	8,315	10,364	12,191	14,076
Net domestic assets	7,449	7,616	7,208	8,236	6,924	7,909	7,909	7,460	7,068	6,640	7,560	7,592	7,218	6,854	6,533	6,201
Domestic credit	7,469	7,487	7,199	8,014	6,915	7,686	7,686	6,775	6,424	6,631	7,360	7,392	7,018	6,654	6,333	6,001
Claims on central government (net)	7,353	7,462	7,179	7,983	6,895	7,656	7,656	6,648	6,257	6,611	7,329	7,362	6,988	6,624	6,303	5,970
Of which: to the Treasury (PNT1)	7,507	7,640	7,356	8,088	7,072	7,762	7,762	6,827	6,491	6,789	7,435	7,468	7,093	6,729	6,409	6,076
Claims on private sector	115	24	20	31	20	30	30	127	167	20	30	30	30	30	30	30
Liabilities to deposit money banks (-)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Claims on other public sector	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other items, net (assets +)	-21	130	9	222	9	222	222	685	644	9	200	200	200	200	200	200
Reserve money	8,739	10,097	10,266	11,138	11,695	12,728	12,751	11,321	11,458	13,012	13,945	14,008	15,533	17,218	18,725	20,277
Currency outside banks	5,178	5,608	6,000	6,732	6,838	6,945	7,675	7,258	6,719	7,797	7,947	8,726	10,168	11,441	12,704	13,755
Bank reserves	3,096	3,802	3,580	3,621	4,170	4,998	4,291	3,616	4,242	4,529	5,213	4,497	4,581	4,993	5,236	5,737
Deposits	2,392	2,751	2,580	3,004	3,170	4,381	3,416	2,824	3,266	3,529	4,596	3,697	3,881	4,293	4,736	5,237
Required reserves	2,160	2,358	2,359	2,391	2,704	2,732	2,673	2,515	2,547	3,098	3,111	3,004	3,363	3,800	4,274	4,787
Required reserves on GNF deposits	....	1,734	1,454	1,670	1,660	1,899	1,859	1,760	1,819	1,895	2,154	2,082	2,323	2,616	2,934	3,278
Required reserves on FX deposits	....	625	904	720	1,044	833	813	755	728	1,203	958	922	1,041	1,184	1,340	1,509
Excess reserves	231	393	221	613	467	1,649	744	309	719	430	1,484	693	517	492	461	451
Excess reserves on GNF deposits	....	195	71	508	417	1,499	544	62	413	380	1,384	508	467	442	411	401
Excess reserves on FX deposits	....	198	150	105	50	150	200	247	306	50	100	185	50	50	50	50
Cash in vaults of deposit banks	704	1,051	1,000	618	1,000	618	875	792	976	1,000	618	800	700	700	500	500
Private sector deposits	465	686	686	785	686	785	785	447	497	686	785	785	785	785	785	785
Deposit money banks																
Net foreign assets	502	595	1,384	2,034	1,393	1,393	1,393	2,349	2,003	1,411	1,411	1,411	1,416	1,411	1,905	2,157
Bank reserves	3,096	3,802	3,580	3,621	4,170	4,998	4,291	3,616	4,242	4,529	5,213	4,497	4,581	4,993	5,236	5,737
Deposits at the central bank	2,392	2,751	2,580	3,004	3,170	4,381	3,416	2,824	3,266	3,529	4,596	3,697	3,881	4,293	4,736	5,237
Cash in vaults of deposits banks	704	1,051	1,000	618	1,000	640	875	792	976	1,000	640	800	700	700	500	500
Claims on central bank	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Domestic credit	9,966	10,702	11,776	11,319	13,332	12,716	13,052	11,647	12,063	15,421	14,854	14,899	17,058	19,381	21,607	24,056
Credit to the government (net)	2,457	2,683	3,266	3,127	3,488	3,364	3,396	3,233	3,277	3,735	3,603	3,626	3,816	4,016	4,205	4,401
Claims on public enterprises	40	10	13	3	15	4	4	5	5	17	5	5	5	6	7	8
Claims on the private sector	7,469	8,009	8,497	8,189	9,829	9,348	9,652	8,408	8,780	11,669	11,246	11,268	13,236	15,359	17,395	19,647
Other items, net (assets +)	-1,563	-1,998	-1,998	-2,033	-1,998	-2,033	-2,033	-1,893	-2,390	-1,998	-2,033	-2,033	-2,033	-2,033	-2,033	-2,033
Liabilities to the private sector (deposits)	12,001	13,100	14,742	14,942	16,897	17,074	16,704	15,719	15,918	19,363	19,446	18,775	21,022	23,752	26,715	29,918
Memorandum items:																
Net foreign assets of the central bank (US$ million)[3]	161	269	332	314	517	522	525	418	476	691	692	695	901	1,123	1,322	1,526
Net international reserves (GNF billion)[3]	1,102	2,197	3,185	3,298	4,858	5,017	5,010	4,029	4,560	6,300	6,508	6,490	8,406	10,311	11,982	13,699
Net international reserves (US$ million)[2,3]	138	238	345	357	527	544	543	437	494	683	705	703	911	1,118	1,299	1,058

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

[1] End of period.

[2] Excludes amounts in transit and Central Bank guarantees.

[3] Using Program exchange rate from 2017 onwards.

Table 5. Guinea: Monetary Survey, 2015–23[1]

(Billions of Guinean Francs; unless otherwise indicated)

	2015	2016	2017		2018					2019		2020	2021	2022	2023
			Prog. Req.	2nd Rev.	Prog. Req.	1st Rev.	2nd Rev.	June Prel.	Sept Prel.	1st Rev.	2nd Rev.	Proj.	Proj.	Proj.	Proj.
Net foreign assets	1,793	3,075	4,442	4,936	6,164	6,212	6,235	6,210	6,393	7,797	7,827	9,731	11,775	14,096	16,233
Net domestic assets	15,852	16,320	16,986	17,523	18,258	18,592	18,928	17,214	16,742	20,381	20,458	22,243	24,201	26,108	28,224
Domestic credit	17,435	18,188	18,975	19,333	20,247	20,402	20,739	18,421	18,487	22,213	22,291	24,076	26,034	27,941	30,057
Claims on central government	9,811	10,145	10,445	11,110	10,383	11,020	11,052	9,881	9,534	10,933	10,988	10,804	10,639	10,508	10,371
Claims on public enterprises	41	10	14	4	15	4	4	5	5	5	5	5	6	7	8
Claims on private sector	7,583	8,033	8,517	8,220	9,849	9,378	9,682	8,535	8,948	11,276	11,298	13,266	15,389	17,425	19,677
Other items, net (assets +)	-1,584	-1,868	-1,989	-1,810	-1,989	-1,810	-1,810	-1,208	-1,745	-1,833	-1,833	-1,833	-1,833	-1,833	-1,833
Broad money (M2)	17,644	19,395	21,428	22,458	24,422	24,804	25,163	23,424	23,134	28,381	28,285	31,974	35,977	40,204	44,457
Currency	5,178	5,608	6,000	6,732	6,838	6,945	7,675	7,258	6,719	7,947	8,726	10,168	11,441	12,704	13,755
Deposits	12,466	13,787	15,428	15,727	17,584	17,859	17,488	16,166	16,415	20,230	19,559	21,806	24,536	27,500	30,702
					(Year-on-year percent change of beginning-of-period M2, unless otherwise indicated)										
Memorandum items:															
Net foreign assets	-11.0	7.3	6.8	9.6	8.0	5.7	5.8	4.4	6.8	6.4	6.3	6.7	6.4	6.5	5.3
Of which: central bank	-13.5	6.7	2.7	2.2	8.0	8.5	8.6	4.7	6.8	6.3	6.3	6.7	6.4	5.1	4.7
Net domestic assets	31.2	2.7	3.7	6.2	5.9	4.8	6.3	6.6	3.4	7.2	6.1	6.3	6.1	5.3	5.3
Of which: central bank	15.0	1.0	-1.8	3.2	-1.3	-1.5	-1.5	-1.1	-3.8	-1.4	-1.3	-1.3	-1.1	-0.9	-0.8
Domestic credit	28.0	4.3	3.6	5.9	5.9	4.8	6.3	5.0	2.5	7.3	6.2	6.3	6.1	5.3	5.3
Net claims on government	17.2	1.9	1.5	5.0	-0.3	-0.4	-0.3	0.2	-3.1	-0.4	-0.3	-0.7	-0.5	-0.4	-0.3
Credit to the private sector	10.8	2.4	2.0	0.9	6.2	5.2	6.5	4.8	5.6	7.7	6.4	7.0	6.6	5.7	5.6
Broad money (M2)	20.3	9.9	10.5	15.8	14.0	10.4	12.0	11.0	10.2	14.4	12.4	13.0	12.5	11.7	10.6
Reserve money (Annual percentage change)	2.6	15.5	1.7	10.3	13.9	14.3	14.5	7.1	5.9	9.6	9.9	10.9	10.8	8.8	8.3
Commercial bank credit to the private sector															
(Annual percentage change)	26.1	7.2	6.1	2.3	15.7	14.2	17.9	12.2	13.4	20.3	16.7	17.5	16.0	13.3	12.9
Money multiplier (M2/reserve money)	2.0	1.9	2.1	2.0	2.1	1.9	2.0	2.1	2.0	2.0	2.0	2.1	2.1	2.1	2.2
Velocity (GDP/average M2)	4.1	4.2	4.2	4.5	4.2	4.2	4.2	4.9	5.0	4.2	4.2	4.2	4.2	4.2	4.2
Velocity (GDP/M2, EOP)	3.7	4.0	4.1	4.2	4.1	4.3	4.4	4.7	4.7	4.3	4.5	4.5	4.6	4.7	4.8
Consumer prices (Annual percentage change, EOP)	7.3	8.7	8.2	9.5	8.0	8.0	9.6	0.8	1.0	8.0	8.6	8.1	8.0	7.9	7.8
Real GDP (Annual percentage change)	3.8	10.5	6.7	9.9	5.8	5.8	5.8	...	...	5.9	5.9	6.0	6.0	5.3	5.0
Nominal GDP (Annual percentage change)	6.8	18.3	15.0	21.3	14.0	14.4	16.0	...	...	14.5	15.2	14.6	14.5	13.6	13.2

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

[1] End of period.

Table 6. Guinea: Financial Soundness Indicators, 2015–18

(End of period, except otherwise indicated)

	2015	2015Q1	2015Q2	2015Q3	2015Q4	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1	2017Q2	2017Q3	2017Q4	2018Q1	2018Q2
Regulatory Capital to Risk-Weighted Assets	16.45	18.51	18.59	16.98	16.45	16.95	17.49	17.92	17.89	18.65	17.91	18.38	16.83	16.07	16.97
Regulatory Tier 1 Capital to Risk-Weighted Assets	16.87	18.26	18.73	17.43	16.87	15.77	16.84	17.99	18.00	19.07	18.21	18.77	17.43	16.43	17.65
Non-performing Loans Net of Provisions to Capital	6.82	7.42	6.98	9.18	6.82	9.09	23.08	14.05	14.66	12.91	14.43	13.06	11.30	12.34	13.52
Non-performing Loans to Total Gross Loans	6.07	6.34	5.91	6.19	6.07	6.66	10.08	9.36	9.44	10.00	11.42	11.14	10.68	11.05	8.66
Sectoral Distribution of Total Loans: Residents	99.71	99.55	99.58	99.44	99.71	99.61	99.64	99.96	99.97	99.42	99.95	99.69	99.70	99.97	99.93
Return on Assets	2.39	1.72	1.84	2.21	2.39	2.60	2.20	2.19	2.15	2.35	2.23	2.06	2.05	2.13	2.05
Return on Equity	21.74	15.31	16.40	19.89	21.74	24.25	21.50	18.30	18.81	19.38	17.09	16.14	16.74	18.49	17.30
Interest Margin to Gross Income	20.10	17.62	18.46	18.52	20.10	33.45	37.40	37.75	38.93	40.68	40.82	41.27	41.76	37.84	38.38
Non-interest Expenses to Gross Income	86.58	90.62	89.76	89.02	86.58	80.92	80.05	79.27	79.22	76.50	76.41	78.45	78.13	78.21	79.02
Liquid Assets to Total Assets (Liquid Asset Ratio)	25.56	32.38	32.27	28.10	25.56	24.35	26.56	28.18	28.89	26.23	30.39	28.91	26.83	29.57	30.63
Liquid Assets to Short Term Liabilities	42.15	53.32	52.03	45.20	42.15	40.45	43.41	45.62	45.80	42.74	48.62	46.25	43.11	48.54	50.11
Net Open Position in Foreign Exchange to Capital	-56.35	17.67	30.87	-26.34	-56.35	-49.74	-34.10	26.03	25.11	56.89	68.26	51.13	79.16	109.54	115.34

Source: Guinean authorities.

Table 7. Guinea: Indicators of Capacity to Repay the IMF, 2018–26[1]

(As of end-June 2018; SDR millions, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	2024	2025	2026
Fund obligations based on existing credit									
(In millions of SDRs)									
Principal	0.0	3.0	28.2	34.6	38.3	34.4	34.1	18.7	12.4
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit									
(In millions of SDRs)									
Principal	-	3.0	28.2	34.6	38.3	34.4	39.3	30.8	29.6
Charges and interest	-	-	-	-	-	-	-	-	-
Total obligations based on existing and prospective credit 1/									
In millions of SDRs	-	3.0	28.2	34.6	38.3	34.4	39.3	30.8	29.6
In percent of exports of goods and services	-	0.1	0.8	0.9	1.0	0.8	0.9	0.7	0.6
In percent of debt service 2/ 3/	-	3.4	20.5	20.1	19.5	16.4	14.8	9.8	8.9
In percent of GDP	-	0.0	0.3	0.3	0.3	0.3	0.3	0.2	0.2
In percent of Gross International Reserves	-	0.4	3.0	3.3	3.3	2.7	2.9	2.2	1.9
In percent of quota	-	1.4	13.2	16.1	17.9	16.0	18.3	14.4	13.8
Outstanding Fund credit									
In millions of SDRs	231.2	262.6	268.8	234.2	196.0	161.7	122.4	91.6	62.0
In percent of exports of goods and services	7.5	8.1	7.5	6.1	5.0	3.9	2.8	2.0	1.3
In percent of debt service	286.7	299.5	195.4	136.0	99.8	77.1	46.2	29.2	18.6
In percent of GDP	2.8	2.9	2.8	2.3	1.8	1.4	1.0	0.7	0.4
In percent of Gross International Reserves	35.6	32.5	28.7	22.1	16.9	12.9	9.2	6.4	4.1
In percent of quota	107.9	122.6	125.5	109.4	91.5	75.5	57.1	42.7	28.9
Net use of Fund credit (millions of SDRs)	34.4	31.5	6.2	-34.6	-38.3	-34.4	-39.3	-30.8	-29.6
Disbursements	34.4	34.4	34.4	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	0.0	3.0	28.2	34.6	38.3	34.4	39.3	30.8	29.6
Memorandum items:									
Exports of goods and services (millions of US$)	4,383	4,536	5,065	5,433	5,643	5,885	6,346	6,647	6,981
External Debt service (millions of US$)	114	123	195	244	280	300	379	448	477
Nominal GDP (millions of US$)	11,743	12,650	13,651	14,748	15,825	16,931	18,134	19,411	20,775
Gross International Reserves (millions of US$)	922	1,134	1,326	1,503	1,649	1,794	1,910	2,038	2,188
Quota (millions of SDR)	214	214	214	214	214	214	214	214	214

Source: IMF staff estimates and projections.

1/ Including the proposed disbursements under the current ECF.

2/ On October 3, 2016 the IMF Executive Board approved a modified interest rate setting mechanism which effectively sets interest rates to zero on ECF and SCF through December 31, 2018 and possibly longer. The Board also decided to extend zero interest rate on ESF until end 2018 while interest rate on RCF was set to zero in July 2015. Based on these decisions and current projections of SDR rate, the following interest rates are assumed beyond 2018: projected interest charges between 2019 and 2020 are based on 0/0/0/0.25 percent per annum for the ECF, SCF, RCF and ESF, respectively, and beyond 2020 0/0.25/0/0.25 percent per annum. The Executive Board will review the interest rates on concessional lending by end-2018 and every two years thereafter. See: http://www.imf.org/external/np/fin/tad/extfor1.aspx

3/ External debt service includes IMF repurchases and repayments.

Table 8. Guinea: Schedule of Disbursements and Timing of Reviews Under the ECF Arrangement, 2017–20

Percent of quota	Millions of SDRs	Date of Availability	Condition for Disbursement
8.035	17.210	December 11, 2017	Executive Board approval of the three-year arrangement under the ECF arrangement.
8.036	17.213	June 11, 2018	Observance of all relevant performance criteria, including the performance criteria for December 2017 and completion of the first review under the ECF arrangement.
8.036	17.213	December 11, 2018	Observance of all relevant performance criteria, including the performance criteria for June 2018 and completion of the second review under the ECF arrangement.
8.036	17.213	June 11, 2019	Observance of all relevant performance criteria, including the performance criteria for December 2018 and completion of the third review under the ECF arrangement.
8.036	17.213	December 11, 2019	Observance of all relevant performance criteria, including the performance criteria for June 2019 and completion of the fourth review under the ECF arrangement.
8.036	17.213	June 11, 2020	Observance of all relevant performance criteria, including the performance criteria for December 2019 and completion of the fifth review under the ECF arrangement.
8.036	17.213	November 26, 2020	Observance of all relevant performance criteria, including the performance criteria for June 2020 and completion of the sixth review under the ECF arrangement.
56.250	120.488	Total	

Source: IMF staff.

Note: All quota percentages are presented to reflect the new Guinea's quota under the 14th General Quota Review.

Table 9. Guinea: External Financing Requirements and Sources, 2015–23

(Millions of U.S. Dollars)

	2015	2016	2017		2018			2019			2020	2021	2022	2023
		Est.	Prog. Req.	Est.	Prog. Req.	1st Rev.	2nd Rev.	Prog. Req.	1st Rev.	2nd Rev.	Proj.	Proj.	Proj.	Proj.
1. Gross financing requirements	914	2,986	2,509	898	2,507	2,770	2,263	1,540	2,317	2,887	2,695	2,267	2,257	2,104
External current account deficit	1,150	2,828	2,316	754	2,212	2,460	1,946	1,268	2,037	2,600	2,380	1,964	1,964	1,810
Capital account balance [1]	-16	-16	-17	-3	-17	-3	-3	-18	-3	-3	-3	-4	-4	-4
Debt amortization	52	51	42	46	77	77	84	67	67	74	86	81	95	109
Change in arrears, net [2]	-11	1	82	0	0	0	0	0	0	0	0	0	0	0
Gross reserves accumulation	-291	123	86	102	235	236	236	218	212	212	192	176	147	144
IMF Repayments [3]	30	0	0	0	0	0	0	4	4	4	40	49	55	44
2. Available financing	851	2,964	2,469	858	2,396	2,641	2,136	1,469	2,193	2,774	2,581	2,267	2,257	2,104
Foreign direct investment, net [4]	477	2,577	1,540	1,395	1,314	1,586	1,593	934	1,216	1,259	1,901	1,735	1,748	1,562
Identified disbursements	269	115	847	327	1,082	1,057	543	800	977	1,484	660	539	516	545
Grants	45	93	126	175	150	125	188	140	132	118	125	174	175	180
Project	33	10	72	143	99	92	155	85	92	93	101	109	103	102
Program	12	83	54	33	51	33	32	55	40	25	24	65	72	78
Loans	223	22	721	152	932	932	356	660	845	1,366	535	365	341	365
Project	187	22	701	132	922	921	356	650	834	1,366	535	354	332	356
Program	36	0	20	20	10	11	0	9	10	0	0	11	9	9
Other flows	63	272	0	-871	0	-3	0	-265	0	30	21	-8	-7	-3
Debt relief [1,2]	43	0	82	6	0	0	0	0	0	0	0	0	0	0
3. Residual financing	-63	-22	-40	-40	-111	-129	-127	-71	-124	-113	-114	0	0	0
ECF and RCF disbursement	63	22	24	24	48	49	49	49	50	48	49	0	0	0
World Bank budget support	...	...	...	...	40	60	60	...	50	40	40	...	...	...
EU budget support	...	...	16	16	22	20	18	22	24	25	25	...	...	...

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

[1] Excludes public transfers and capital grant from IMF CCR Trust for debt cancellation.

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

[3] In 2015 includes debt cancellation (under IMF repayments) and debt relief provided under the IMF's CCR Trust.

[4] Includes private short-term capital flows.

Table 10. Guinea: Projected External Borrowing

January 1, 2018–December 31, 2019

PPG external debt	Volume of new debt in 2018		PV of new debt in 2018 (program purposes)			Volume of new debt in 2019		PV of new debt in 2019 (program purposes)	
	USD million	Percent	USD million	Percent		USD million	Percent	USD million	Percent
By sources of debt financing	**1871**	**100**	**1317**	**100**		**92**	**100**	**57**	**100**
Concessional debt, of which	**98**	**5**	**38**	**3**		**40**	**43**	**18**	**32**
Multilateral debt	95	5	37	3		40	43	18	32
Bilateral debt	4	0	1	0		0	0	0	0
Other	0	0	0	0		0	0	0	0
Non-concessional debt, of which	**1772**	**95**	**1278**	**97**		**52**	**57**	**39**	**68**
Semi-concessional	1772	95	1278	97		52	57	39	68
Commercial terms	0	0	0	0		0	0	0	0
By Creditor Type	**1871**	**100**	**1317**	**100**		**92**	**100**	**57**	**100**
Multilateral	95	5	37	3		40	43	18	32
Bilateral - Paris Club	4	0	1	0		0	0	0	0
Bilateral - Non-Paris Club	1772	95	1278	97		52	57	39	68
Other	0	0	0	0		0	0	0	0
Uses of debt financing	**1871**	**100**	**1317**	**100**		**92**	**100**	**57**	**100**
Infrastructure	1811	97	1289	98		52	57	39	68
Social Spending	0	0	0	0		0	0	0	0
Budget Financing	60	3	28	2		40	43	18	32
Other	0	0	0	0		0	0	0	0
Memo Items									
Indicative projections									
Year 2 (2019)	**92**		**57**		Year 2 (2020)	**90**		**41**	
Year 3 (2020)	**90**		**41**		Year 3 (2021)	**90**		**41**	

Sources: Guinean authorities; and IMF staff estimates.

Table 11. Guinea: Risk Assessment Matrix[1]

Sources of Risks	Relative Likelihood	Impact if Realized	Policy Response if Materialized
External risks			
Rising protectionism and retreat from multilateralism	**High**	**High** Export market access for Guinea mining exports could be reduced.	Advance structural reforms to support economic diversification and private sector development.
Unsustainable macroeconomic policies in systematically important countries that could affect global growth	**Medium**	**High** FDI in large-scale mining projects could be delayed, weakening medium-term growth prospects.	
Sharp tightening of global financial conditions	**High**	**Medium** Reduction in capital inflows. Funding and debt service costs may increase.	Build external buffers, prudent public investment plans and allow greater exchange rate flexibility.
Weaker-than-expected growth in the U.S. and Euro area	**Medium**	**High** Demand for Guinea's minerals could reduce and tax revenue from the mining sector could weaken.	Strengthen non-mining tax revenue mobilization and move ahead with structural reforms to improve the business climate and diversify the economy.
Weaker-than-expected growth in China	**Low/Medium**		
Intensification of the risks of fragmentation/security dislocation in parts of the Middle East, Africa, Asia, and Europe, leading to socio-economic disruptions	**High**	**Medium** Large-scale investment projects would likely be postponed. Progress out of fragility would be in doubt.	Intensify structural reform to remove bottlenecks to growth and protect buffers. Fiscal policy to focus on revenue mobilization, and delivery of public services.
Sizable deviations up or down from baseline energy prices	**Medium**	**Medium** Higher (lower) energy prices could reduce (increase) tax revenue and widen (reduce) external imbalances.	Implement the automatic price adjustment mechanism for petroleum products to allow full pass-through to domestic prices
Domestic risks			
Deterioration of the domestic socio-political and security situation	**Medium**	**High** Investment and growth could be affected; program implementation could weaken; macroeconomic stability could deteriorate.	Refocus reform on areas less sensitive to socio-political environment. Maintaining fiscal control and promote inclusive growth through diversification.

[1]The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 1d 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term (ST)" and "medium term (MT) are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Annex I. Capacity Building Strategy Note: Update

A. Brief Assessment of the Capacity Building in FY19

1. **Guinea is a pilot country under the IMF Capacity Building Framework for fragile countries and intense user of Fund technical assistance (TA)**. During January–December 2018 Guinea received 34 missions (16 from AFRITAC West and 18 missions from HQ, and two long-term experts (LTX)). In FY19, up to December 2018, a total of 27 missions (13 from AFW and 14 from HQ) were delivered. The intensity of TA reflects the need to strengthen economic institutions and help the country exit out of fragility.

2. **IMF TA was well-aligned with the program objectives**. Targeted IMF technical assistance supported the authorities towards achieving program objectives and capacity building. IMF TA focused in the following areas: tax policy and administration, public expenditures and investment management, national accounts, treasury single account and cash management, government finance statistics, banking supervision, strengthening the monetary policy framework and the AML/CFT regime.[1] The capacity building program was delivered through TA missions from headquarters and AFRITAC West, resident long-term experts at the Ministry of Economy and Finance and the Ministry of Budget, a regional advisor for fragile countries, training workshops, and participation in ICD training courses.

3. **The authorities expressed their satisfaction with IMF TA which has been targeted to priority needs**. Domestic capacity continues to be a challenge for implementation of TA recommendations. In view of capacity constraints, staff has been closely engaged with the authorities to ensure

Guinea: Technical Assistance, 2018

Provider	Main Topic	Date
Fiscal Affairs		
FAD	LTX (Ministry of Budget)	
FAD	LTX (Ministry of Finance)	
AFW	Tax ADM	Feb 5-16, 2018
FAD	PEFA Assessment	Mar 1-21, 2018
FAD	TSA	Apr 23-May 3, 2018
FAD	Tax policy	Apr 25-May 15, 2018
FAD	Cash flow management	May 3-15, 2018
FAD	PIMA	May 3-17, 2018
AFW	Customs ADM	Jun 4-15, 2018
FAD	Expenditure assessment	Jun 5-14, 2018
AFW	PFM-Multi year commitment authorizations for investment expenditure	Jun 11-22, 2018
AFW	Public Expenditure Management	Jun 25-Jul 16, 2018
AFW	Tax Administration	Jul 2-20, 2018
FAD	Tax Adm & Customs (revenue Administration)	Jul 9-20, 2018
FAD	PEFA Assessment (Final Report Presentation)	Jul 11-19, 2018
AFW	Tax Administration	Sep 17-28, 2018
FAD	Improving Income Tax (Code, Internaional taxation, Non-tax)	Sep 27-Oct 11, 2018
AFW	Tax Administration	Nov 5-16, 2018
AFW	Pub Exp Maanagement-Accounting Procedures	Nov 19-30, 2018
FAD	TSA	Nov 19-30, 2018
AFW	Customs ADM	Dec 3-14, 2018
Finance		
Legal		
LEG	AML/CFT	Apr 16-20, 2018
LEG	AML/CFT	Oct 8-12, 2018
LEG	AML/CFT	Nov 26-30, 2018
Monetary and Capital Markets		
AFW	Bank Supervision	May 14-25, 2018
MCM	Monetary Policy (Central Bank operations)	June 18-29, 2018
AFW	Bank Supervision	Sep 25- Oct 4, 2018
MCM	MTDS	Nov 5-16, 2018
MCM	Strengthening Internal Audit Function	Nov 26-Dec 7, 2018
Statistics		
AFW	National Accounts	Feb 19-Mar 2, 2018
AFW	GFS	April 9-20, 2018
STA	National Accounts	May 7-18, 2018
AFW	GFS	Jun 5-15, 2018
AFW	Real Sector Statistics (National Accounts)	Jun 18-29, 2018
STA	Statistics External Sector	Jul 9-20, 2018
AFW	National Accounts	Oct 1-12, 2018

[1] More than half of the missions were focused on tax administration and customs, public expenditures and investment management, and national accounts.

that TA is demand-driven and it is prioritized to key areas. In addition, staff has worked closely with functional departments (MCM, FAD and STA) and the regional technical assistance center (Afritac West) to ensure that technical assistance is targeted to priority needs and delivered in a phased manner.

B. Main TA Priorities in the Period Ahead

4. IMF TA will continue to support the authorities in achieving program objectives. Guinea's 2017–20 ECF supports the authorities' program of economic policies and reforms to: (i) preserve macroeconomic stability; (ii) scale-up public investments in infrastructure to put the economy on a higher growth path and support economic diversification while preserving macroeconomic stability and debt sustainability; (iii) strengthen social safety net programs; and (iv) advance key structural reforms to support higher and more inclusive growth. To this end planned TA focuses on advancing the tax policy and administration reform; strengthening public financial and investment management; improving cash management and setting-up the treasury single account; improving debt management; strengthening the monetary policy framework; banking supervision; strengthening the anti-corruption framework and AML/CFT regime; strengthening statistics, including on inflation, national accounts,[2] and the balance of payments. Staff will continue to closely engage with the authorities to ensure that TA is demand-driven and it is prioritized to key areas.

C. Main Risks and Mitigating Measures

5. Capacity and absorption constraints might weight on IMF TA implementation. Presenting the results of TA missions to a larger audience of technical staff directly involved and organizing workshops would increase traction and ownership. Furthermore, prioritizing TA recommendations, would facilitate absorption and implementation of TA recommendations. Better management and continuity of local staff and more training on the job would foster continuity and help mitigate capacity and absorption constraints.

6. Conducting outreach is helping to mitigate risks. Outreach activities will continue to facilitate the coordination and consultation among the government, Fund staff, and other stakeholders. In this regard, the Fund Resident Representative will continue to engage with all stakeholders, including those with vested interests and help develop a strategy to allay their concerns and showcase the merits of the reforms.

7. The IMF will continue to collaborate closely with donors in the provision of TA. Some donors are already involved in the provision of TA in debt management (European Union, and US Treasury), revenue administration (France, and EU), Treasury management (EU), and monetary operations (Central Bank of Morocco). The IMF Resident Representative and the EU Office started to organize periodic meetings, including at the time of IMF TA missions in the country, to brief donors on the outcome of the mission, and enhance the coordination of their activities with the authorities.

[2]The authorities plan to update the national accounts base year to 2015, scheduled to begin in 2019, under the STA technical assistance program conducted by AFRITAC West. The rebasing is expected to be completed in mid-2020.

In some cases, donors are also invited (e.g., the EU) to participate in the concluding meetings of IMF TA missions with the authorities. Going forward, the units in government in charge of monitoring the economic program in collaboration with the IMF Resident Representative could play a leading role to enhance this coordination activity. This would also improve the absorption capacity of TA/CD recommendations.

D. Authorities' Commitments

8. The authorities continue to advance in the implementation of TA recommendations to achieve the goals of the capacity building program. The authorities are moving ahead in implementing program-supported reforms, with the support of IMF TA. Notably the PEFA, PIMA, and DemPA exercises were conducted in mid-2018, with strong authorities' support and cooperation, and their recommendations led to the approval of the action plan for the reform of the public finances for the period 2019-2022. Furthermore, TA recommendations towards strengthening the monetary policy framework and support the accumulation of foreign exchange reserves were swiftly implemented by the Central Bank. Furthermore, TA missions on tax administration and tax policy led to the preparation of a document for a new organic framework of the National Tax Directorate, at the request of the Minister of Budget. The authorities are also working on strengthening the units (CTA and CTSP) tasked with monitoring the implementation of program-supported reforms.

9. The CTSP is preparing a first report to assess the status of the implementation of TA recommendations and related constraints. Producing such a report and submitting it to the government for discussion and validation would support the implementation of reforms and increase ownership of CD activities. This would also promote an inclusive discussion with different stakeholders and units responsible for the implementation of the recommendations for capacity building.

Annex II. External Sector Assessment for Guinea

The external position of Guinea in 2017 remained substantially weaker than the level consistent with economic fundamentals and desirable policies. Recent REER appreciation and current account widening suggest that this assessment is also likely to apply for 2018. Reserve coverage has improved in 2017–18, but further accumulation is needed to strengthen buffers against shocks, given Guinea's narrow export base. Continued efforts to enhance exchange rate flexibility, strengthen the fiscal position, and adopt a more active reserve accumulation strategy should help strengthen the external position.

A. Balance of Payments and Exchange Rate Developments

1. The current account (CA) deficit improved to -6.8 percent of GDP in 2017 from -31.6 percent in 2016 (Figure A7.1, top left). Mining exports expanded by about 70 percent in 2017 on the back of buoyant production. Imports declined by 7 percent (y-o-y) in 2017, due to the high base effect in 2016 (Figure A7.1, top right). The export base remained narrow, with 78 percent of exports related to mining products. The CA deficit was financed mostly by FDI, which reached 12.6 percent of GDP in 2017. Mining exports further increased by 3.6 percent (y-o-y) in the first half of 2018 while imports picked-up by 62 percent, reflecting sustained investments and higher oil prices. The CA deficit is projected to widen to 16.1 percent of GDP in 2018 and to 20.2 percent of GDP in 2019, driven by imports for mining and infrastructure investment. The CA deficit is projected to then narrow to 13 percent of GDP by 2021 as mining exports continue to increase and growth of investment-related imports moderates. FDI is expected to remain high during 2019–22, averaging 11.6 percent of GDP.

2. Guinea's real effective exchange rate (REER) appreciated by 4 percent in 2017, as inflation gained momentum (Figure A7.1, bottom right). The establishment of the bilateral foreign exchange auction market in early 2016 allowed greater flexibility, which has led to a depreciation of 13 percent of the nominal effective exchange rate (NEER) since 2016 and gradually reduced the premium between the official and foreign exchange bureaus rates (0.8 percent at end-2017 and in 2018 compared to 14 percent in November 2015). The REER has further appreciated by 10 percent in the first nine months of 2018, reflecting rising inflation to 9.9 percent in September while the nominal effective exchange rate appreciated by 4 percent.

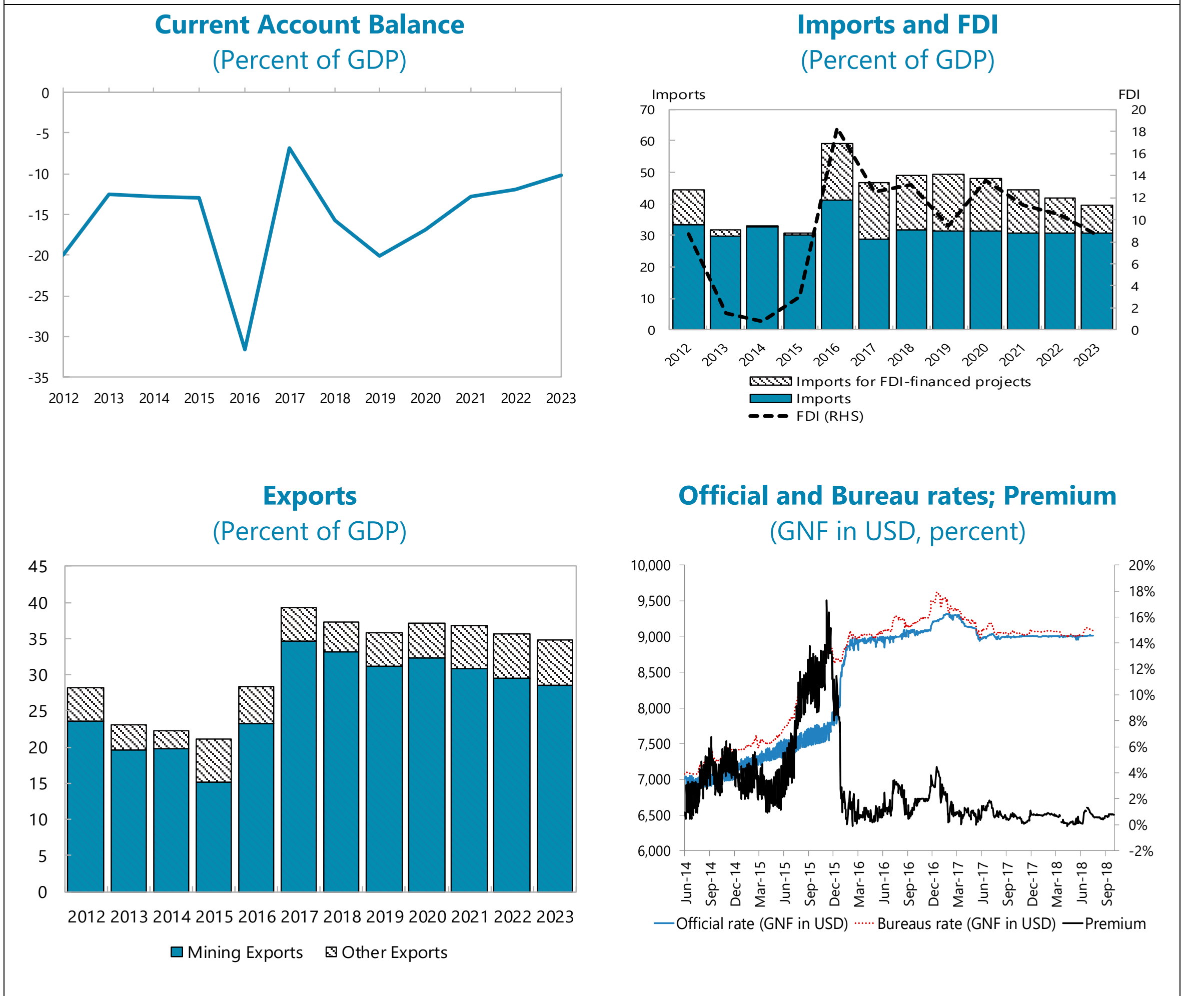
B. Model-Based Assessments

3. Model-based assessments are based on the IMF's External Balance Assessment (EBA)-Lite Methodology using the CA model and the REER model.[1] The CA model estimates a current account norm, or value consistent with fundamentals and desirable policies and determines the exchange rate adjustment needed to eliminate the gap between the current account norm and

[1]See Methodological Note on EBA-Lite (IMF, 2016). https://www.imf.org/external/np/pp/eng/2016/020516.pdf.

the actual current account. The REER model estimates the equilibrium real exchange rate based on the product of economic fundamentals and coefficients of a cross-country panel regression. In addition to fundamentals, the CA and REER norms of both models are determined based on desirable policy settings based on program targets.

Figure AII.1. Guinea: External Sector Developments



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

4. Both models point to the external position being substantially weaker than implied by fundamentals and a misalignment of the REER:

- The **CA model** suggests the real exchange rate was overvalued by between 6–20 percent,[2] compared to an estimated overvaluation of 12-26 percent in 2016, reflecting the strong improvement in the current account in 2017. The model estimates the cyclically-adjusted CA-norm at -2.8 percent of GDP based on 1996–2016 historical data on fundamentals and policy factors, against an actual CA balance at 6.8 percent of GDP in 2017. The current

[2] A range is provided to underscore that there is uncertainty around the point estimate of CA and REER gaps.

account is expected to be -16.1 percent of GDP in 2018, implying that the CA and REER gaps will likely widen again.

- The **REER model** indicates an overvaluation 21–35 percent in 2017, compared to an overvaluation of 16–29 percent in 2016. The appreciation of the REER in 2017 is mainly due to a pick-up in inflation widening the REER gap. Since then, the REER has further appreciated by 10 percent in 2018, also implying a larger overvaluation in 2018. Although the gap is still large, the authorities' policies aimed at containing inflation and greater exchange rate flexibility should help bring the exchange rate closer to fundamentals over time.

Summary of EBA-lite Findings

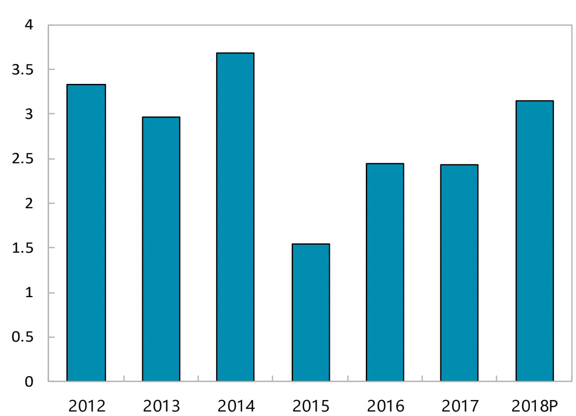
	CA Norm*	Actual CA*	CA Gap	REER Gap
	(percent of GDP)			(percent)
CA Approach	-2.8	-6.8	-4.0	12.6
REER Approach	n.a	n.a	n.a	28.1

Note: Values are cyclically adjusted.

C. Reserve Adequacy

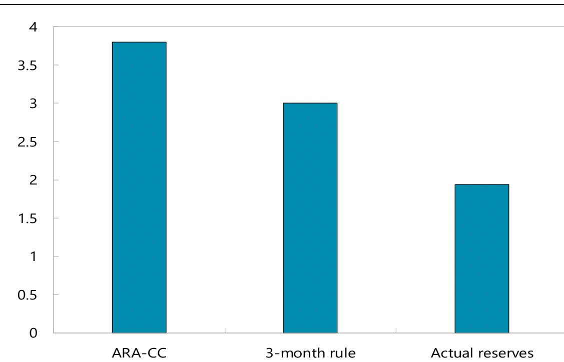
5. International reserves increased in 2017 as the authorities rebuilt buffers following the commodity price and Ebola shocks in 2015 (Figure A7.2). Guinea's gross international reserves rose from 2.4 months in 2016 to 2.5 months of import coverage at end-2017 (excluding imports related to large FDI-financed projects) or US$686 million. Gross international reserves further accumulated to about US$1 billion at end-September 2018 (3.5 months of import cover), reflecting the disbursement of US$60 million budget support from the World Bank and larger-than-expected public project loans.

Figure AII.2. Guinea: Gross International Reserves, 2012–16
(Months of imports)



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

Figure AII.3. Guinea: Reserve Adequacy, 2017



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

6. However, reserves remain low relative to reserve adequacy metrics (Figure A7.3). The 2017 reserve level is below the 3-month rule of thumb. At around 28 percent of broad money, it is slightly above the 20 percent of broad money rule of thumb. However, these metrics may not account for the full range of benefits and costs of holding reserves in Guinea. Guinea's status as an undiversified commodity exporter and fragile state suggests the benefits to holding reserves as a buffer against shocks may be higher. In addition, while the authorities are moving toward a more flexible exchange rate regime, there may still be a need to intervene to provide market liquidity or to avoid large exchange rate fluctuations, which would also require holding more reserves. Without access to the international capital market, however, Guinea may face higher opportunity costs to holding reserves. A cost-benefit analysis approach considering these factors using the IMF's reserve adequacy assessment framework for credit constrained LICs (ARA-CC) estimates that the optimal level of reserves for Guinea is in the range of 0.9-5.1 months of imports (see text table). Given the limited export diversification and high dependency of the mining sector, staff considers that the range of adequate reserves is between the levels for a resource rich country with a flexible or fixed regime of 2.5 to 5.1 months of import coverage, respectively, or an average of 3.8 months.[3] The authorities remain committed to strengthening foreign exchange reserves and are targeting an import reserve coverage of 3.8 months under the program, in line with the average optimal level of reserves for Guinea.

Summary of ARA-CC Results

(Adequate Reserve Coverage in Months of Imports)

Economic Classification	Exchange Rate Regime	
	Flexible	Fixed
Resource Rich	2.5	5.1
Fragile	0.9	1.7

Note: Assumes cost of holding reserves of 6.2 percent.

D. Staff Assessment and Policy Implications

7. Overall staff assesses that Guinea's external position of Guinea remained substantially weaker than the level consistent with economic fundamentals and desirable policies. Recent REER appreciation and current account widening suggest that the external position is likely to remain substantially weaker than the level consistent with economic fundamentals and desirable policies in 2018. That said, economic volatility and related issues with data quality also create a significant degree of uncertainty regarding external assessments in fragile countries as Guinea.

8. Policies under the program will help strengthen the external position and address exchange rate misalignment. The authorities are committed to finalizing the reform of the foreign exchange market with the support of IMF technical assistance to strengthen market forces and develop a rule-based intervention strategy for the central bank. Strengthening the fiscal position through revenue mobilization and containing non-priority current expenditure can also contribute to improving the current account balance. The BCRG is also taking more active strategy to accumulate reserves to build external buffers against shocks.

[3]This considers the range of outcomes for resource rich countries for flexible and fixed exchange rate regimes. The opportunity cost of holding reserves is assumed to be 6.2 percent based on the LIC average for the marginal productivity of capital.

MINISTRY OF ECONOMY AND FINANCE (MOEF)	CENTRAL BANK OF GUINEA (BCRG)

Appendix I. Letter of Intent

Conakry, December 6, 2018

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Ms. Lagarde:

1. **We are committed to generate high and more inclusive growth to reduce poverty and improve the living standards of our population while preserving macroeconomic stability**. We aim to place our country on a path of sustained and broad-based growth and foster economic diversification, generate employment opportunities for all and improve the living standard of the population. We have started implementing our new National Social and Economic Development Plan (PNDES) for 2016–20 to foster higher and more inclusive growth and reduce poverty. The PNDES is focused on: i) a structural transformation and diversification of the economy supported by infrastructure investments in energy, transport and agricultural modernization to increase productivity and foster market access and commercialization of agricultural products; ii) promoting good governance; iii) human capital development; and iv) the effective management of natural resources. Our development program was endorsed by the international community at the Consultative Group held in Paris in November 2017 and we received pledges for US$22 billion from donors and private sector investors.

2. **Guinea's social context remains fragile and episodes of unrest and widespread strikes intensified in 2018 with significant repercussions on economic activities**. Following the increase in petroleum prices of 25 percent on July 1, trade union-led strikes and violent demonstrations paralyzed our capital in July and early August, impacting economic activities and commerce. This added to the episodes of social unrest that arose in the context of our local election, held in February 2018, that we held for the first time since 2005. Notably, the electoral period was marked by heightened tensions and episodes of violence with casualties. Violent demonstrations in the mining region against the lack of jobs and public services became recurrent. Furthermore, despite our efforts to increase the supply of electricity to the economy, protests due to electricity shortages remain frequent.

3. In spite of these difficult circumstances, thanks to our efforts to implement sound macroeconomic policies and advancing reforms, the performance of our economy against end-June 2018 program targets was satisfactory. We met all the quantitative performance criteria (PC) for the second review. We me the PCs on the basic fiscal balance, net government budgetary borrowing from the central bank, net domestic assets, and net international reserves of the central bank. The continuous PC new non-concessional external debt contracted or guaranteed by the government and the non-accumulation of external arrears were met. Our indicative target on new domestic arrears accumulated by the central government was also met. However, our indicative target (IT) on mobilizing tax revenues was not met due to the impact of social tensions on economic activity, higher-than-anticipated revenue losses stemming from rising international oil prices, as well as some delays in the implementation of our planned revenue-mobilization measures. Furthermore, the IT on strengthening domestically-financed social safety nets was not met, owing to capacity and execution constraints. We made significant progress in advancing program-supported reforms and most structural benchmarks (SBs) were met and the others were completed with some minor delays (Table 2). Notably, we have advanced our reforms to strengthen macroeconomic resilience, reduce energy subsidies, strengthen public financial including public investments, improve the central bank's autonomy, foster governance, and the business climate to support the development of the private sector.

4. We are strongly committed to continue implementing sound economic policies to ensure macroeconomic stability and advance our reform agenda to generate higher and more broad-based growth. In view of the improved performance against program targets, we are committed to continue orienting macroeconomic policy towards supporting stability. The ECF arrangement will continue to provide the appropriate framework for continuing the implementation of sound macroeconomic policies and achieve our goal to foster higher and more inclusive growth. To this end, our economic policies and reform program will aim at: i) preserving macroeconomic stability; ii) scaling-up much needed investments in infrastructure to support higher growth and economic diversification while preserving macroeconomic stability; iii) strengthening our social safety nets programs to reduce poverty and foster inclusiveness; and iv) advancing key growth-supporting structural reforms to strengthen governance and foster the development of private sector.

5. In view of the appropriate policies taken to achieve our program targets and progress in implementing our reform agenda, we request the completion of the second review of the program supported by an Extended Credit Facility and the disbursement of SDR 17.213 million. The authorities request a waiver of non-observance of the continuous performance criterion (PC) on new non-concessional debt contracted or guaranteed by the central government or the central bank, on the basis of a minor deviation. The continuous PC on contracting or guaranteeing of non-concessional external debt was missed by a small margin at end-November as Guinea signed a US$60 million non-concessional loan for budget support. We aimed at earmarking this loan to finance key infrastructure projects. We decided not to submit the loan for ratification to the National Assembly and instead re-opened negotiations to achieve concessional financing terms. We also request to modify the PC on new non-concessional external debt to exclude debt that is non-concessional upon signature but later cancelled or renegotiated to make it concessional (TMU, ¶16). We also propose new end-December indicative targets on tax revenues and accumulation of new domestic arrears (on a net basis) (Annex I, Table 1) and revised definition for the indicative target on domestically-financed social safety nets (Annex II).

6. The attached Memorandum of Economic and Financial Policies (MEFP) builds on the MEFP at the ECF arrangement request and lays out the medium-term economic policies and reform program of the government of Guinea and the policies of the Central Bank of the Republic of Guinea that we plan to implement during 2018–20. It also describes the performance targets and structural benchmarks for the first and second year of the ECF arrangement, setting forth the underpinning economic policies and structural reforms needed to achieve these objectives.

7. Our program will continue to be monitored through semi-annual reviews with quantitative performance criteria, indicative targets and structural benchmarks, as described in the attached MEFP and Technical Memorandum of Understanding. There will be six reviews to monitor progress in program implementation and to agree on eventual additional corrective measures to achieve the program objectives. We request that the disbursements be made in equal installments. The third review of Guinea's performance under the ECF arrangement will be completed on or after June 11, 2019, based on performance criteria at end-December 2018. Given our objective of generating higher and inclusive growth through a significant increase in public investment in infrastructure, the effectiveness of public investment and progress in strengthening the management of public investment will be a key element in the evaluation of program performance.

8. We are confident the policies outlined in the attached MEFP are adequate to achieve the objectives of our economic program, but we will take any further measures that may become appropriate to attain these objectives. The government of Guinea will consult with IMF staff on the adoption of these measures, and in advance of revisions to the macroeconomic policies contained in the MEFP, in accordance with the IMF's policies on such consultations. We will provide to IMF staff with all information necessary for monitoring the implementation and achievement of our program objectives.

9. In line with our commitment to transparency and accountability, we authorize the IMF to publish this letter, its attachments (MEFP, TMU, Tables 1 and 2), and related staff report, including publication of these on the IMF website in accordance with Fund procedures, following the IMF Executive Board's approval of the request.

Please accept, Madam Managing Director, the assurance of our highest consideration.

____________/s/____________	____________/s/____________
Mamadi Camara	Lounceny Nabé
Minister of Economy and Finance	Governor of the Central Bank of Guinea

Attachments: Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

November 28, 2018

A. Recent Economic and Financial Developments

1. **The strong growth momentum of the Guinean economy continues, on the back of buoyant mining activity**. After slowing-down during 2014–15 due to the Ebola crisis, real growth rebounded to 10.5 percent in 2016 (against 3.8 percent in 2015) supported by a significant pick-up in mining production, higher energy production, as well as by strengthening in manufacturing and commerce activities. Real GDP growth reached close to 10 percent in 2017 on the back of buoyant mining activity, strong construction activity, and good agricultural performance. Mining production strengthened further in 2018 increasing by around 20 percent (year-on-year) in the first half of 2018. Headline inflation increased to 9.9 percent (year-on-year) in August 2018, reflecting a 13.3 percent pick-up in food prices, also reflecting disruptions in the transport of local products to the main markets, a 25 percent increase in petroleum products prices, and an increase in electricity tariffs. Core inflation, excluding food and energy, also increased to 4.3 percent, from 2.6 percent at end-December 2017.

2. **The current account deficit is estimated to have narrowed to about 7 percent of GDP in 2017 owing to strong export growth while large FDI in the mining sector continued**. Mining exports increased by 70 percent (y-o-y) in 2017 reflecting the surge in bauxite and artisanal gold production, the latter also due to the impact of the elimination of export taxes on gold which reduced gold smuggling to neighboring countries. Investment-related imports remained buoyant, while slightly declining by 7 percent (y-o-y) due to the high base effect in 2016. FDI in the mining sector continued to be strong and is estimated at 13 percent of GDP in 2017. Gross international reserves increased to US$781 million (equivalent to 2.7 months of import coverage) at end-June 2018, and further increased to US$790 at end-August. After appreciating by 4 percent in 2017, the real effective exchange rate further appreciated by 9 percent in the first eight months of 2018, with the nominal effective exchange rate appreciating by 4 percent. The premium between the official and foreign exchange bureaus rates was at 0.74 percent at end-2017, and further declined to 0.46 percent at end-August 2018 (14 percent in November 2015).

3. **Fiscal performance was stronger-than-programmed in the first half of 2018**. We achieved a basic fiscal balance surplus of 1.6 percent of GDP at end-June 2018, significantly larger than our program objective of a basic fiscal surplus of 0.9 percent of GDP. Mining revenues increased by 48 percent (y-o-y) at end-June owing to buoyant mining activity. However, non-mining tax revenues were weaker-than-anticipated. Direct taxes declined by 4.2 percent (y-o-y), reflecting a decline in corporate income taxes revenues, as well as reflecting the impact of social unrest in the last months of 2017 on companies' activities. Indirect taxes increased by 6 percent (y-o-y) but remained below our program objectives. Notably, revenues from the special tax on petroleum products (TSPP) declined by 34 percent (y-o-y) in the first half of 2018 due to ad-hoc downward adjustments of the TSPP to maintain retail petroleum product prices constant, in a context of rising international oil prices. Furthermore, customs duties on petroleum products were also reduced to keep retail price constant, which led to revenue losses on international trade taxes of about

GNF 650 billion (0.6 percent of GDP) in the first half of the year. Non-tax revenues were reached 0.6 percent of GDP owing to a GNF 400 billion (0.4 percent of GDP) exceptional transfer of past collected revenues from the National Agency for the Regulation of the Post and Telecommunication. On the expenditures side, we contained non-priority goods and services spending and phased domestically-financed investments to 1 percent of GDP and 0.2 percent of GDP, respectively, more-than-programmed. Thanks to the implementation of measures to compensate for the higher-than-programmed increase in wages for the public administration, we maintained our wage bill contained at 1.8 percent of GDP, in line with program objectives. Furthermore, electricity subsidies remained in line with our program objectives at 0.2 percent of GDP. Our efforts to contain budgetary financing needs allowed us to realize a larger-than-programmed net repayment to the central bank of 1.2 percent of GDP and reduce our domestic arrears (on a net basis) by 0.4 percent of GDP, including repaying about 106 GNF billion longstanding arrears to the private sector. We also maintained government borrowing from commercial banks in line with program objectives.

4. **Fiscal performance continued to be strong in the second half of 2018**. The basic fiscal balance reached a surplus of 0.8 percent of GDP in the first eight months of 2018. Mining revenues increased by 33 percent (y-o-y), on the back of strong mining activity, reaching 1.8 percent of GDP. Non-mining tax revenues increased moderately by 6.5 percent (y-o-y), constrained by the impact of the social unrest which paralyzed our capital for several weeks in July and early August. Direct taxes revenues increased by 13.3 percent (y-o-y). Indirect taxes increased by 4.7 percent (y-o-y) in the first eight months of 2018. Notably, the increase in petroleum products prices on July 1, 2018 allowed us to increase the rate of the special tax on petroleum products rate and restore customs duties on petroleum products to their standard rates, which supported international taxes at 1.5 percent of GDP. Spending on goods and services have been maintained at 1.7 percent of GDP, reflecting a 2 percent (y-o-y) increase and domestically-financed expenditures were at 1.0 percent of GDP. The wage bill increased by 20 percent (y-o-y) to reach 2.4 percent of GDP, reflecting the increase in salaries for the public administration adopted in March 2018. Electricity subsidies remained contained at [0.2] percent of GDP, in line with program objectives. A net repayment to the central bank (BCRG) of 0.6 percent of GDP was recorded and government borrowing from commercial banks was maintained in line with program objectives. However, our net domestic arrears increased by 0.1 percent of GDP at end-August 2018.

5. **Our banking system remains stable and private sector credit is resuming**. Private sector credit growth strengthened to [8.0] percent (average, y-o-y) in August 2018, from 2.3 percent at end-December 2017. Commercial banks' lending to the government also increased by 28.8 percent (average, y-o-y) in August 2018 as government borrowing from the BCRG was contained. Deposit growth was sustained at 14.1 percent (average, y-o-y) at end-August 2018, with deposits in GNF increasing by 17.6 percent (average, y-o-y) and deposits in foreign currency increased by 8.9 percent (average, y-o-y). Banks' liquidity eased with excess reserves declining to 957 billion GNF at end-August from 821 billion GNF at end March 2018. Interbank market activity improved, with 37 transactions so far in 2018 compared to 26 transactions in 2017. Two banks were in non-compliance of reserve requirements at end-July 2018 and only one bank remained non-compliant with the capital adequacy requirement (six banks were not-compliant at end-2016 and two banks at end-2017). Non-performing loans (NPLs) declined to 8.7 percent in June 2018 (9.4 percent in 2016). However, provisioning for NPLs deteriorated slightly with NPLs net of provision to capital increasing to 13.5 percent at end-June 2018 (11.3 percent at end-2017).

Net interest margin-to-income declined to 38 percent at end-June 2018 (39 percent at end-2017) and return on equity increased to 17.3 percent (16.7 percent at end-2017).

B. Program Objectives and Key Elements

6. Generating higher and more broad-based growth and reducing poverty while preserving macroeconomic stability and debt sustainability is our key objective. To this end, we are committed to implementing a comprehensive program of sound macroeconomic policies and economic reforms which aims at:

- **Preserving Guinea's macroeconomic stability**. We will continue to build our external buffers against shocks, in view of Guinea's vulnerability to terms-of-trade shocks, and we will preserve moderate inflation. In view of fiscal slippages in 2017, we have strengthened our program fiscal targets for 2018-19 and aim at achieving a basic fiscal surplus to: i) preserve medium-term debt sustainability; ii) gradually repay government borrowing from the Central Bank above programmed levels in 2017 and limit the Central Bank's advances to the central government to short-term cash management and within the statutory limits indicated in the Central Bank Law; iii) limit borrowing from the banking sector to a level which is consistent with ensuring the provision of credit to the private sector; and iv) gradually repay all new domestic arrears accumulated in 2017, as well as arrears to the private sector accumulated in previous fiscal years. To this end, we have added the decumulation of the stock of domestic arrears (on a net basis) as an indicative target to the ECF arrangement. We will avoid accumulating domestic and external arrears. We will maintain the stability of the financial sector.

- **Scaling-up public investments in infrastructure to put our economy on a higher growth path and support economic diversification while preserving stability and medium-term debt sustainability**. We are committed to creating budgetary space to step up the implementation of infrastructure projects—notably in energy production, transport and agriculture—so as to support achieving higher growth and diversifying our economy. To this end, we are committed to mobilize additional domestic revenues on the back of our tax policy and administration reform and contain non-priority spending. Notably, we will gradually phase out untargeted energy subsidies while putting in place appropriate mitigating measures to protect the most vulnerable. In parallel, we will mobilize the necessary external financing to support our ambitious investment program, notably in infrastructure, while preserving medium-term debt sustainability and ensuring that the risk of external debt distress does not exceed a moderate level. To this end, we are committed to maximize the concessionality of our external borrowing and to limit non-concessional borrowing that will be contracted or guaranteed during the three-year ECF arrangement to a maximum of US$650 million to maintain medium-term debt sustainability and contain debt vulnerabilities. In addition, we will implement a domestic debt policy which will support debt sustainability and gradually clearing government arrears to the private sector, toward which we remain indebted with a considerable debt stock. Gradually clearing domestic arrears will support the recovery of the private sector, which has been severely affected by the recent health crisis, economic growth and job creation. At the same time, it will support private companies to pay their debt owed to the banking system.

- **Mobilizing additional domestic resources to strengthen our social safety nets programs to reduce poverty and foster inclusion**. We are moving ahead with the implementation of our recently adopted social protection strategy. In this vein, we will increase the envelope of domestic budgetary resources that we devote to social safety nets programs aimed at reducing poverty, fostering inclusion and generate employment opportunities for the most vulnerable. This will be key to start building the basis to reduce over-reliance on donors' external financing over time and ensure the medium-term sustainability of our social safety net programs.

- **Advancing our reforms to support sound macroeconomic policies and good governance and key structural reforms to achieve higher and more inclusive growth.** We will continue to strengthen our public finances and public investment management to ensure the appropriate selection and monitoring, transparency, and efficiency of our ambitious public investment program. We will continue to strengthen our monetary policy framework and finalize our reform of the exchange market. Furthermore, we will advance our key growth-supporting reforms to strengthen governance, the business climate, and financial inclusion which will support private sector development.

C. Economic Policies and Reforms Program

Macroeconomic Outlook

7. Guinea's near and medium-term growth outlook is expected to be strong, thus contributing to improving the living standards of the population. Real growth is expected at 5.8 percent in 2018 on the back of buoyant mining activity, good agricultural performance, and continued strength in construction activity owing to the implementation of infrastructure projects. Medium-term growth is projected to be 6 percent supported by a scaling-up of investments in mining and infrastructure, strengthening exports, a stable macroeconomic environment and the implementation of growth-supporting structural reforms. A stronger than assumed pace of investments and of new mining capacity production would support higher medium-term growth. We will contain inflation to single digits through our prudent monetary policy.

8. The current account deficit would widen in 2018-19, financed by FDI inflows, and gradually narrow over the medium term. The current account deficit is expected at 16 percent of GDP in 2018. Mining exports would further increase by about 3 percent from the buoyant 2017 levels. Imports would increase by 26 percent (y-o-y) on the back of large FDI (about 13 percent of GDP) and infrastructure development. International reserves would increase to 3.2 months of import coverage. External imbalances would narrow over the medium term, reflecting an improvement in the trade balance. Export growth would average at 7 percent over the medium term, reflecting higher mining production capacity. Import growth would average at 5 percent over the medium term, continuing to be financed by large FDI, notably in the mining sector (11 percent of GDP, on average over 2019-2023). International reserves would gradually increase to 3.8 months of import coverage by 2020.

Fiscal Policy

9. We are committed to orient our fiscal policy towards preserving macroeconomic stability and achieve our program fiscal targets over 2018–20. We have achieved a basic fiscal surplus of 1.6 percent of GDP at end-June, larger-than our program target of 0.9 percent of GDP, and we are committed to achieving a basic fiscal surplus of 0.8 percent of GDP in 2018, of 0.9 percent of GDP in 2019 and 1.0 percent of GDP in 2020. This will allow us to gradually recoup part of the fiscal slippages which took place in 2017 and further contain budgetary financing needs so as to gradually repay government borrowing from the central bank above programmed levels in 2017, limit commercial banks' financing to a level consistent with healthy provision of credit to the private sector and gradually repaying domestic arrears accumulated in 2017 and in previous fiscal years. We are committed to continuing to avoid the occurrence of extrabudgetary expenditures and the accumulation of new domestic arrears, and better align cash flows and expenditures commitment plans.

10. Creating needed fiscal space to scale-up growth-supporting public investments, notably in infrastructure, and priority social spending is our key objective. As outlined in our PNDES, we are committed to implement an ambitious scaling-up of public investments, notably in infrastructure, by about 3,5 percent of GDP during 2017–20, which will be crucial to realize the growth potential of our economy and support the development of the private sector. Furthermore, we aim at stepping up social safety nets as a critical element of our strategy to reduce poverty. To this end, we will mobilize additional tax revenues and contain current non-priority spending to generate the needed fiscal space for increasing growth-supporting priority spending while preserving macroeconomic stability. In parallel, we will mobilize additional external financing to finance our national public investment plan while maximizing reliance on concessional external borrowing to preserve medium-term debt sustainability. To this end, we are committed to limit non-concessional external borrowing that will be signed during the three-years of the ECF arrangement period to a maximum of US$650 million. These loans will be used to finance priority infrastructure projects, including the rehabilitation of the RN1 road, the rehabilitation of the Conakry urban road network, the construction of an electrical interconnection line and the rehabilitation of a university. In order to ensure transparency, efficiency and maximize the impact on growth, we have conducted and finalized the related feasibility studies in March 2018. In case external program loans and grants will be higher than budgeted, we will direct any additional public expenditure towards priority sectors, including strengthening social spending and social safety nets, in consultation with IMF staff, to support higher and more inclusive growth and reduce poverty.

Fiscal Strategy for 2018–19

11. We are committed to achieve our program fiscal target of a basic fiscal surplus of 0.8 percent of GDP in 2018 to support macroeconomic stability. In August 2018, we adopted a Supplementary Budget Law (SBL) which targets a basic fiscal balance of GNF 904 billion (0.8 percent of GDP). However, due to the impact of social unrest and protracted strikes in July and early August, tax revenues are expected to be about 0.6 percent of GDP lower than anticipated in the SBL. In view of this, the Council of Ministers will adopt by November 15, 2018 a revised budgetary framework for 2018 to ensure to achieve the end-year program fiscal target (prior action). This revised budgetary framework will reflect lower-than-anticipated revenues and contain non-priority spending in goods and services, with respect to the amounts approved in the 2018 SBL, so that to achieve the targeted basic fiscal balance. To this end, the Minister of Budget will adopt by end-October 2018 an expenditure commitment plan for the last quarter of 2018 which will support the implementation of revised budgetary framework for 2018 (prior action).

12. **In view of lower-than-anticipated tax revenues, we will contain non-priority spending, more-than-initially-programmed, to achieve our 2018 fiscal target**. Overall tax revenues are expected to decline to 12.9 percent of GDP in 2018 (from 13.1 percent of GDP in 2017). Mining tax revenues would strengthen to 2.7 percent of GDP on the back of buoyant production of incumbent bauxite companies and the start of production of new companies. However, non-mining tax revenues would decline to 10.2 percent of GDP (from 10.9 percent of GDP in 2017), reflecting the impact of social unrest and strikes on economic activity, downward adjustment of petroleum products taxes in the first half of 2018 to keep retail petroleum constant in a context of higher international oil prices, as well as delays in the implementation of some of our programmed measures to mobilize tax revenues. Notably, non-mining direct taxes revenues would be at 2.5 percent of GDP, reflecting the impact of social unrest in 2017 on companies' activities (144 out of 581 companies declared losses for 2017). Non-mining indirect taxes would decline to 7.7 percent of GDP, reflecting the loss in international trade tax revenues due to the reduction in custom duties to keep retail fuel prices constant as well as the impact of social unrest and strikes in July and early August on economic activity. In view of this, we will contain expenditures in goods and services to 3.0 percent of GDP, more than initially programmed. As programmed, we will reduce untargeted electricity subsidies to 1.0 percent of GDP while strengthening social safety nets. Owing to the implementation of measures to compensate the higher-than-programmed increase in salaries for the public administration, the wage bill will be contained at 3.9 percent of GDP. We will increase overall capital expenditure to 6.5 percent of GDP to support growth, while containing domestically financed capital expenditures to 2.3 percent of GDP by re-phasing investment projects. We will repay on a net basis the BCRG for an amount equivalent to 0.3 percent of GDP, thus repaying a share of the government borrowing from the BCRG above programmed levels in 2017 and the 2015 government borrowing from the BCRG falling due. We will contain government borrowing from commercial banks to 0.2 percent of GDP, to ensure banks' provision of credit to the private sector. We will continue our efforts to repay government arrears to the private sector, which will be reduced by 0.2 percent (on a net basis).

13. **Our budget strategy in 2019 will aim at preserving macroeconomic stability, scaling-up growth-supporting infrastructure investments and strengthening social safety nets to foster inclusion**. The 2019 Budget Law submitted to the Parliament in October 2018 targets a basic fiscal surplus of 0.9 percent of GDP to support preserving macroeconomic stability and debt sustainability. On the back of buoyant activity in the mining sector, we expect mining tax revenues at 2.7 percent of GDP in 2019. Furthermore, the implementation of measures to mobilize additional revenues and strengthened economic activity and exchanges would support an increase in non-mining tax revenues to 11.2 percent of GDP. Direct taxes are expected to increase to 2.6 percent of GDP and indirect taxes to 8.6 percent. Notably, taxes on goods and services will increase to 6.1 percent of GDP, mainly supported by strengthening TSPP revenues. On the expenditure side, we will continue to keep our wage bill contained to 3.5 percent of GDP. We will also contain spending in goods and services to 3.3 percent of GDP in 2019 such as to create fiscal space to scale-up public investments and social safety nets program. We will further reduce untargeted electricity subsidies

to 0.7 percent of GDP. We are committed to step up capital expenditures to 7.6 percent of GDP. Notably, we will increase domestically-financed public investment to 3.4 percent of GDP, within which we will devote 0.4 percent of GDP (15 percent of expected mining revenues) to the Local Development Fund to undertake priority projects in mining communities to foster development and reduce poverty. Foreign-financed capital expenditure will increase to 4.1 percent of GDP. We will repay on a net basis the BCRG for an amount equivalent to 0.3 percent of GDP and contain government borrowing from commercial banks to a level consistent with banks' provision of credit to the private sector. We will continue to reduce domestic arrears (on a net basis) by 0.3 percent of GDP.

Mobilizing Revenues

14. We are committed to implement key tax policy measures adopted in the 2018 Budget Law that simplified our tax system and supported by efforts to broaden the tax base. We have adopted a time-bound action plan for a targeted tax policy and administration reform in November 2017. In line with our action plan, we introduced key tax policy measures in the 2018 Budget Law which simplified our tax system, made it more equitable, and contributed to broadening the tax base. Thus, we reduced the corporate income tax from 35 percent to 25 percent (excluding banks, mining and telecom companies), and the rate of the minimum tax on turnovers from 3 to 1.5 percent while removing its ceiling thus allowing broader application, and we introduced a higher tax bracket at 20 percent for withholding on personal income from wages. We had expected these measures to mobilize an additional 0.1 percent of GDP in 2018. However, the revenue mobilization impact is now expected to be neutral in 2018 as the actual implementation of the new 20 percent bracket was delayed and the minimum tax on turnovers experienced low compliance from local firms. Moving forward, we are committed to continue to apply the changes we introduced to the minimum tax on turnovers, notably the removal of the ceiling, and implement the additional 20 percent tax bracket by phasing the targeted increase over 2019–20.

15. We are committed to move ahead with the implementation of tax policy and administration measures to mobilizing additional tax revenues of about 0.36 percent of GDP in 2018 and 0.4 percent of GDP in 2019. We have started to implement a package of tax policy and administration measures to mobilize additional revenues in 2018 and we are committed to continue to move ahead with these measures in 2019. To this end, we will update our tax policy and administration reform plan by end-2018 to incorporate the package of our new programmed measures. Notably:

- **We will continue our efforts to eliminate ad-hoc tax exonerations which expected to mobilize additional revenues of 0.06 percent of GDP in 2018 and 0.05 percent of GDP in 2019**. A Prime Minister's circular established in April 2018 the creation of an inter-ministerial committee and the requirement of the authorization of the Minister of Budget for the issuance of any new exonerations. This has strengthened our institutional framework to provide tax exonerations and allowed us to: i) streamline the provision of new exonerations; and ii) start eliminating tax exonerations which were provided on an ad-hoc basis (overall ad-hoc tax exonerations are estimated at GNF 500 billion). We prepared a time-bound action plan to rationalize ad-hoc tax exonerations in June 2018 and mobilize GNF 40 billion additional tax revenues (0.04 percent of GDP) in 2018. As of mid-August 2018, we have exceeded our 2018 target, with additional 51.5 billion GNF having been mobilized through the elimination of ad-hoc exonerations and we expect to reach a higher than programmed amount of GNF 60 billion in 2018 (0.06 percent of GDP) by end-2018. We will continue our efforts to rationalize ad-hoc tax expenditures in 2019 and we aim at mobilizing about additional revenues of about GNF 69 billion (0.05 percent of GDP). We will update by end-November 2018 our action plan to rationalize ad-hoc tax exonerations to include envisaged measures for 2019 and the findings of the review of tax expenditures in the Guinean economy that was finalized in July 2018 with the support of the EU. Due to the delays in the signature of the decree to make mandatory the purchase of insurance policies on imported goods from local insurance companies, the broadening of the tax base on insurance contracts is expected to generate only GNF 9 billion additional tax revenues in 2018, against the expected GNF 21 billion, and we expect to mobilize GNF 15 billion in 2019. We are conducting a tax payer census of small and medium-sized businesses which will be the basis for the establishment of the Unique Professionals Tax (TPU) by end-2018, which will improve tax compliance for businesses in the informal sector through tax recovery via electronic and secured payment available in banks.

- **We are moving ahead with a number of tax administration measures which are expected to mobilize about 0.3 percent of GDP in 2018 and 0.35 percent of GDP in 2019**. We made progress in: (i) stepping-up general and desk audits for large enterprises, which were expected to mobilize GNF180 billion (0.17 percent of GDP) and GNF 33 billion (0.03 percent of GDP) in 2018, supported by improved audit procedures and introducing performance contracts for auditors in 2018; (ii) conducting the audits of 32 companies on the basis of cross-checking companies' import data in 2018 with declared turnover, which was supposed to mobilize additional GNF 20 billion (0.02 percent of GDP); (iii) stepping-up the recovery of tax arrears, which was expected to mobilize additional GFN 95 billion (0.09 percent of GDP), out of an identified stock of recoverable arrears of GNF 622 billion; However, some delays in the implementation of those measures occurred and, while we are committed to continue our efforts in those areas, we expected that revenue mobilization to be lower than programmed. Due to delays in the conduct of audits, additional revenue mobilization at mid-August was limited to GNF 40 billion (0.1 percent of GDP) from the general audits of large enterprises and to GNF 13 billion (0.03 percent of GDP) from desk audits. In view of this, we have renewed our efforts to step-up audits and collection and we expect to mobilize GNF140 billion from general audits and our full target of GNF 33 billion from desk audits. In order to enhance performance from general audits, our inspectors have concentrated their efforts on a few large mining firms for whom tax control measures have yielded large tax revenue returns in previous years. Additionally, we have identified and notified a sufficient number of tax payers through desk audits to assure that we will meet the target for desk audits by end year. We are committed to step-up general and desk audits of large enterprises in order to mobilize, respectively, additional GNF 155 billion (0.1 percent of GDP) and GNF 35 billion (0.03 percent of GDP) in 2019. Due to administrative delays in conducting the cross-checking companies' import data in 2018 with declared turnover cross-matching, at mid-august we mobilized about GNF 4 billion and we expect to collect GNF 6 billion by end-2018. We are committed to continue to conduct this exercise in 2019 and we expect to mobilize GNF 60 billion next year. In addition, we have initiated negotiations with ten companies with outstanding arrears and requested advance payment on a minimum portion of these arrears as a precondition for developing a long-term strategy for their arrears clearance, which will allow us to achieve our end-year target of GNF 95 billion (0.09 percent of GDP) and we expect to mobilize additional GNF 122 billion in 2019. We have strengthened controls and collection of the Single Land Contribution (CFU) through the use of geo-localization, which was expected to mobilize additional 32 billion GNF (0.05 percent of GDP) in 2018. As of mid-August, we have already exceeded our yearly target and mobilized GNF 36 billion (0.05 percent of GDP) and we expect to mobilize about GNF 50 billion by end-2018 and additional GNF 65 billion in 2019. Furthermore, we have operationalized an intersectional committee between the National Directorate for Taxes and the Directorate for Customs that will allow closer integration and better exchange of information between the two organizations for fiscal control activities. We have also completed the infrastructure for the physical interconnection between the DNI and DGD and will initiate work on the software platform that will allow real-time exchange of information. In order to improve the collection of taxes on car licenses, we have collaborated with banks to create a special window for collection which has allowed us to mobilize 30 percent of our annual target of GNF 18 billion in the month of August.

16. We are committed to implement the automatic adjustment price mechanism for petroleum products and conduct a communication campaign to the public and putting in place mitigating measures to protect the most vulnerable, ahead of its implementation. In a context of rising international oil retail prices, we had reduced taxes on petroleum products in order to keep retail prices of petroleum products unchanged, which lead to significant revenues losses. Notably, we had started in mid-2017 and continued in 2018 to implement ad-hoc downward adjustments of the TSSP rate, which led to substantial revenue losses. In addition, since January 2018, we had started introducing ad-hoc downward adjustments of custom duties on petroleum products, which led to revenue losses of about 0.6 percent of GDP in the first half of 2018. To support revenue mobilization, we increased retail prices of petroleum products on July 1, 2018, for the first time since early 2015. Notably, we increased retail prices for petroleum products by 25 percent, from 8,000 to 10,000 Guinean francs per liter, more than twice the programmed increase of 12 percent, in view of higher-than-anticipated international oil prices. In parallel, we started implementing mitigating measures to protect the most vulnerable from the price increase. Thus, we are strengthening our public transportation system and we increased the number of available public buses. Owing to the increase in petroleum products prices, we expect the need to adjust downwards custom duties to maintain the retail price unchanged to substantially reduce and allow us to mobilize additional custom duties revenues of about 0.9 percent of GDP (compared to a baseline scenario with unchanged petroleum products prices) in the second half of 2018. This will allow to contain the overall revenue losses on international trade taxes, due higher international oil price to about 0.6 percent of GDP. As the recent price increase allowed us to significantly narrow the gap between import and domestic retail prices, we are committed to move ahead and implement an automatic price adjustment mechanism for petroleum products in early 2019. To this end, we have started engaging with key stakeholders to build consensus for our reform and we will conduct a communication campaign, including on the media, that will focuses on the budgetary costs of the subsidies on petroleum products, how they disproportionally benefit more the wealthiest and their elimination will increase fiscal revenue and create fiscal space to support the stepping-up of priority spending. In parallel, ahead of the implementation of the mechanism, we will put in place targeted mitigating measures, including strengthening social safety nets and expanding high intensity public works schemes in urban and peri-urban areas, to protect the most vulnerable. In the event the implementation of the automatic adjustment price system is delayed, we will undertake additional tax revenue measures to achieve our program revenue target.

Containing Current Spending

17. We are committed to continue containing non-priority spending in goods and services to achieve our 2018 fiscal target and create fiscal space for scaling-up priority spending in infrastructure investments and social safety nets. Thanks to our efforts we have already contained spending in goods and services to about 1.8 percent of GDP at end-September 2018. We will continue to rationalize orderings of electronic material, vehicles, furniture, and office material to contain our spending in goods and services in 2018 to 3.1 percent of GDP. To this end, we are committed to generate additional savings of GNF 245 billion (0.3 percent GDP) in spending in goods and services compared to the amounts agreed at the first ECF review, which already reflected an adjustment measure of 0.68 percent of GDP. We are committed to continue our strategy in 2019, and we will contain spending in goods and services to 3.3 percent of GDP in 2019.

18. We will reduce untargeted electricity subsidies on the back of our electricity tariff reform, improving EDG's efficiency, and changing the composition our electricity production mix to reduce production costs. We aim to gradually reduce electricity subsidies to 0.6 percent of GDP by 2020 on the back of our three-pronged strategy which aims at (i) increasing electricity tariffs to bring them closer to cost recovery; ii) improving EDG's efficiency by strengthening payments collection rate and reducing commercial and technical losses; and iii) substituting costly thermal electricity production with cheaper hydro production. Thus, we are committed to reduce electricity subsidies to 1.0 percent of GDP in 2018 and to 0.7 percent of GDP in 2019 (1.3 percent of GDP in 2017). To this end, we increased electricity tariffs by 42 percent for industrial and large consumers in November 2017. Due to protests, we suspended the 42 percent tariff increase for industrial and large consumers in March 2018 and we decided to move ahead with a more comprehensive review of electricity tariffs. We signed a ministerial order in April 2018 which established electricity tariff increases for all consumers categories while preserving the social tariff. Thus, a 25 percent increase in the electricity tariff for the tranche of industrial and professional users and a 10 percent tariff increase for households started to be applied in May 2018. Together with the 42 percent increase in tariff for industrial and professional users that was applied during January-February 2018, this tariff reform is expected to generate savings on electricity subsidies of GNF 143 billion in 2018 (0.13 percent of GDP), which will be carried over in 2019. We are committed to continue to move ahead with our tariff reform to bring electricity tariffs to cost-recovery levels over the medium-term. To this end, we will define a multi-year tariff reform strategy by end-2018, based on the findings of the electricity tariff study that we completed in July 2018. In addition, we aim at improving the composition mix of our electricity production to reduce production costs for EDG. Notably, we will substitute 121,089 MHW of thermal production in 2018 with hydro production, which will reduce the EDG production costs by GNF 328 billion and will continue our strategy to improve the composition mix in 2019. Furthermore, we have signed a new contract with fuel suppliers to reduce purchasing costs which is expected to generate savings of about 30 GNF billion in 2018. On the operational side, we aim at strengthening the collection rate of EDG and we have made significant progress in the installation of electricity consumption meters in the public administration and for private consumers. Notably, EDG installed electricity consumption meters in the Prime Minister's Office and of fifteen ministries at end-June 2018 (end-June SB) and about 46,000 domestic consumers by end-July. We aim at installing meters in the premises of all Ministries by end-February 2018 (SB). In addition, we have installed meters for over 108,000 domestic consumers by end-July and 80 percent of private consumers by the end-February 2019 (SB). We are continuing to strengthen controls to curb fraud and reduce commercial losses. Notably, EDG is conducting a survey and partnering with domestic consumers to identify and eliminate illegal connection to the distribution system. This is expected to regularize 80,000 industrial and domestic clients and lead to additional savings of GNF 47 billion in 2018. So far, 15,000 consumers in Conakry were regularized and we aim at conducting the census on the all country by end-2019. We have also begun infrastructure investments in the distribution network which are expected to reduce technical losses.

19. We moved ahead in taking measures to contain the impact of the larger-than-programmed salary increase to maintain the wage bill in line with the 2018 programmed level. The higher-than-programmed increase in public wages of 20 percent adopted in March 2018 is expected to add GNF 326 billion (0.3 percent of GDP) to the wage bill in 2018. To counterbalance the impact of the increase in wages, we took the following measures to maintain the wage bill within the budgeted envelope which are expected to generate savings of GNF 326 billion: (i) freeze planned recruitment to generate savings of GNF 169 billion (0.2 percent of GDP), while ensuring to expand access to social services in rural areas with a minimum of 16540 teachers and 8025 health workers; (ii) delay the implementation of the status on a number of paramilitary corps which is expected to generate savings of GNF 60 billion (0.05 percent of GDP); and (iii) freeze automatic advancements in the public administration to generate savings of GNF 94 billion (0.09 percent of GDP). We are committed to maintain our wage bill contained in 2019. We will continue to move ahead with our administration and civil service reform. Notably, we have conducted a biometric census covering already 91,095 individuals—pensioners (56,074), civil servants (24,327), and contractual employees (10,694). During this process, we have discovered discrepancies with our civil servants' database (reflecting ghost and deceased workers that still appear in the database), and we have started to clean our registries. We will conduct a new census to further clean up irregular cases starting from November 2018. We are moving ahead in establishing a permanent system to monitor staff and ensure the enforcement of organizational laws and regulations. With the support of the World Bank, we have put in public work places 120 machines to monitor the work data of civil servants to discourage fraud. Thanks to this, we have already exposed about 2800 ghost workers. We are moving forward in installing new machines to achieve our objective to have 150 additional machines installed by end-2018. We are also working to introduce biometric cards and we will start a pilot exercise by end-2018, aiming at covering all civil servants by end-2019. In the medium term we also aim to establish a new electronic platform that can monitor and consolidate data on civil servant work activity and salaries.

20. We are committed to step-up domestically-financed social safety net programs to protect the most vulnerable from the impact of the recent increase in petroleum products prices, reduce poverty and foster inclusion. We have finalized our first National Social Protection Policy in November 2016, which supports our objective to reduce poverty by: i) strengthening social protection; ii) providing access to employment opportunities; iii) improving the living conditions of the poorest and most vulnerable; iv) improving access to health and education services; v) improving access to food and nutrition security; vi) preventing and managing crises and disasters and building resilience; and vii) improving access to social housing. We will create in 2019, a new

Agency for Inclusion, which will play a key role in implementing our strategy to foster inclusion. We are committed to use a share the budgetary savings from the electricity tariff increase implemented in 2018, to reinforce non-contributory social safety nets programs under the Social Development Fund and the Program Filets Social Productive (PFSP) to GNF 75 billion in 2018 and to GNF 130 billion in 2019. This would allow us to strengthen the coverage of these programs and start reducing over-reliance on donor financing. We have conducted an analysis which shows that the increase in petroleum prices has affected much more the populations living in urban and peri-urban areas. Thus, to off-set the impact of the increase in petroleum product prices on the real incomes of vulnerable populations, we will expand the social safety nets programs under the PFSP to urban and peri-urban areas. Notably, we have allocated an amount equivalent of GNF 37 billion (US$4 million in 2019) in the 2019 budget to expand targeted cash transfer programs under the PFSP, currently being delivered only in rural areas, to key urban and peri-urban areas and step-up labor-intensive public works projects in urban areas (HYMO), notably for women and the youth. We will also continue to finance social projects aimed at reducing gender inequality and fostering women's integration in the labor force; social assistance to the most vulnerable, including the elderly and the disabled, and those impacted by HIV/AIDS and Ebola. We will establish a prototype of unified social register of vulnerable populations by end-July 2019 (modified SB) to strengthen the targeting of social safety nets programs, which will be supported by the World Bank, and finalize the unified social register of vulnerable populations by unified social register by March 2019. the end-July 2020. To this end, we have started to strengthen capacity building, and we have held in March 2018 a workshop with donors and key stakeholders, with the support of the World Bank, to define a roadmap for the setting-up of the unified social registry by March 2019.

Medium-Term Revenue Mobilization Strategy

21. We are committed to mobilize additional tax revenues of about 1.5 percent of GDP during the program period to create fiscal space for priority expenditures. Our strategy to mobilize additional tax revenues will focus on fostering mining and non-mining tax revenues, notably direct taxes, through broadening the tax base and strengthen controls and payments.

22. We will implement tax policy and administration measures to support revenue mobilization, which is key to create needed fiscal space to scale-up growth-support priority public expenditures. Specifically, in addition to the measures discussed, we will adopt the following measures:

- **Tax policy measures**: we will focus on the implementation of measures that would allow mobilizing additional revenues while making our tax system more equitable and transparent. Notably, we will: (i) continue to rationalize tax exemptions based on our ongoing review of tax expenditures (estimated at about 4 percent of GDP) which will support broadening the tax basis; (ii) streamlining excises and reviewing rates; (iii) reviewing the property tax regime; (iv) eliminating the global income tax while broadening the coverage increasing the coherence of the withholding system; (v) proceed to reviewing international tax rules and provisions; and (vi) developing a strategy to reduce the outstanding stock of VAT credit arrears. Notably, we are revising the General Tax Code (CGI), with the support of IMF technical assistance, to eliminate the global income tax and increase the coherence of the withholding system and reviewing international taxation provisions. We will finalize the new CGI by April 2019.

- **Tax administration measures**: we will focus on measures that will strengthen tax payment and collection. To this end, we will: (i) finalize the development of online tax declaration and payment modalities by June 2019; (ii) further advance computerization, with alternatives and replacement of projects RAND and MERCURY allowing to connect TVA payments from businesses to the network of the National Directorate of Taxes (DNI) by June 2019, and enable real-time processing of tax obligations and consolidate information and data from various tax units into a centralized network (SFIG); (iii) setting-up a new organizational structure and modernizing management practices of the DNI, to support revenue mobilization. To this end, we are developing the new organizational structure, with the support of IMF technical assistance, which will separate strategic operation management functions from control functions, and we aim at operationalizing it by end-March 2019. We have also completed a draft of a procedural manual for the DNI in line with the new organizational structure and operationalized a reform committee within the DNI to support the reform; (iii) finalize the development of a procedural manual and an internal audit protocol for the DNI, with the support of the EU; (iv) continuing to expand the cross-checking of import data with declared turnover to reduce under-declaration and increase tax control by improving tax-payer identification, with the support of the interagency committee established between Customs and the DNI; (v) continuing to collect tax arrears from large companies (estimated at 0.7 percent of GDP); (vi) introducing a permanent tax-payers' identification number by end-2018; (vii) strengthening the capacity of the Directorate for Taxes and the recovery at the service level of the Department of Large Enterprises; (viii) improving compliance of large and medium tax-payers; (ix) continuing the cleansing and transferring of taxpayers files to responsible tax offices; and (x) moving ahead with the digitalization of customs.

23. We are committed to apply the tax provisions of the new mining code to mobilize additional mining revenues on the back of buoyant mining activity. We have made significant progress towards strengthening governance and transparency in the mining sector. Guinea joined the Extractive Industries Transparency (EIT) initiative in 2014, and we implemented the amended Mining Code (adopted in 2011) in 2013, which introduced taxation provisions which are in line with international standards. In addition, we have conducted a review of mining agreements and titles and set-up a more transparent system for issuance, renewing and transfers of permits. We have made significant progress in bringing expiring agreements closer to the provisions of the new mining code. In view of new large investments in the mining sector, we aim at taking advantage of the buoyancy in the sector to mobilize additional revenues to finance our programmed scaling-up of investments in infrastructure and priority social spending. To this end, will continue to ensure that all new and renewed expiring mining agreements, excluding those with new investments in infrastructure for multiple users and/or transformation in Guinea in higher value-added products, will be put in line with the tax provisions of the 2013 mining code and that all new agreements with new investment in infrastructure and/or transformation will be presented to the National Assembly with an assessment of tax expenditures (end-November SB). Since June 2018, we signed a new mining contract which is fully in line with the tax provisions of the mining code. We will also move ahead in removing any ad-hoc tax exonerations which was provided in the mining sector beyond the scope of the mining contracts. In order to reduce risks of profit shifting from transfer pricing in the mining sector, we will introduce key international taxation provisions in our legal framework, including provisions to support the 'arm's length principle', by April 2019 with the support of IMF technical assistance. We have also started modeling mining revenues, with the support of IMF technical assistance, which will support strengthening our revenues projections and better assess the potential for revenue mobilization.

Fiscal Structural Reforms

24. We will strengthen our public financial management to support our fiscal strategy and the envisaged scaling-up of investments and we have a prepared a comprehensive strategy over 2019-22. We made important progress in strengthening public financial management, and we are committed to advancing reforms. To this end, we have conducted the PEFA exercise in April 2018, with the support of IMF TA, which provided an in-depth evaluation of Guinea's public financial management framework. On this basis, we have prepared an updated action plan for the reform of public finances (PREFIP) over 2019-2022 based on key recommendations from the 2018 PEFA and PIMA exercises (end-September 2018 SB). The PREFIP 2019-22 provides the road map and identifies time-bound measures strengthen our public financial management. This plan was validated by a committee chaired by the Minister of Economy and Finance and the Minister of Budget in September 2018 and will be adopted by the Council of Ministers by end-October 2018. We are committed to implement our overarching strategy developed in the PREFIP 2019-2022, which is articulated on ten pillars and aims at strengthening: i) domestic revenue mobilization; ii) budget preparation and presentation, including planning and allocation of resources to public investments; iii) budget execution, notably of public investments, and internal controls; iv) strengthening cash management and debt management; v) accounting and reporting of central government operations, vi) evaluation and monitoring of budgetary risks from government-owned public enterprises, local authorities, public enterprises and public-private partnerships; vii) improvement of audits and external audits of public finances; viii) capacity building, (ix) improvement of the computerized management system of public finances; x) improved steering and monitoring of reforms.

25. We will continue our efforts towards improving budget transparency and control by modernizing the budget preparation process and producing periodical reports of budget execution. For the first time, we presented a medium-term budget (MTB) with the 2017 budget law. We have adopted the new budget nomenclature in line with the GFSM 2001 manual for public finance statistics for the 2018 Budget Law, implemented the new budget nomenclature for the 2018 budget execution and modernized the information system for the preparation and execution of the budget. We have established a top-down budgetary approach by setting targets for medium-term budgeting in line with the ECF-arrangement fiscal targets. In addition, we have enhanced our budget preparation calendar and have made considerable progress in adhering to the calendar for the 2018 Supplementary Budget Law and the 2019 budget preparation and we will continue to publish the quarterly reports of the budgetary execution. We have adopted in December 2017 the new law on the financial governance of public enterprises and institutions in accordance with the new legislative and regulatory framework of public finances. We will adopt and operationalize the budget execution procedural manuals to strengthen the quality of budgetary execution and the quality of the reports of budgetary execution by end-2018 and we will operationalize it on the chain of expenditures by the end of 2019. In order to avoid the recurrence of extrabudgetary expenditures and the accumulation of new domestic arrears, and to better align cash flows and expenditure commitment plans, we have limited the use of Payment Authorizations (PAs) during January-September 2018 to sovereign expenditures and special funds, and we have linked the execution of all authorized PA expenditure to the budget lines, in accordance with the Budget Management and Public Accountancy Decree (RGGBCP) regarding the use of these exceptional procedures for the execution of public expenditure. We will put an end to the use of payment authorization (PA) terminology, which is not provided for in the regulations and has been used instead of exceptional procedure as an exception to the normal execution procedure of public expenditure, in order to comply with the RGGBPC. Like the PA procedure, the use of these exceptional procedures will be limited, in accordance with the RGGBPC, to the execution of the expenses of special funds and the sovereign expenses inscribed in the budget for the benefit of the President of the Republic, as well as expenditures of constitutional institutions, and will be linked to the appropriations available on budget lines to avoid extrabudgetary expenditure. We will provide a quarterly report to IMF staff on the use of exceptional procedures for expenditures of special funds and the sovereignty expenses of the President of the Republic and other constitutional institutions, and all other expenditures submitted to these procedures, excluding the payment of debt interest.

26. We are committed to establish a Treasury Single Account (TSA) to strengthen transparency, budget monitoring and our cash management. To this end, we closed all accounts of EPA held at commercial banks and opened a centralizing account with the Central Bank aiming at consolidating all accounts in the perimeter of the TSA. In this context, we have finalized a census of EPA accounts in Conakry and in the rest of the country. We will consolidate the accounts of all ministries and the majority of EPA, with the exception of accounts opened for public projects and development programs financed by donors, to make it operational by end-May 2019. We will elaborate a list of the concerned EPA by end-March 2019. The process of consolidation of the public treasury will continue by the extension of the CUT to the accounts of donors-financed public development projects and programs, most of which are opened in commercial banks.

27. We will move ahead with improving our cash management, which would also be important to support containing budgetary financing from the BCRG. We will continue to align expenditures commitment plans with cash flows. We started conducting this exercise on a monthly basis since January 2018 which was a key reform to strengthen expenditure control. In addition, we will continue holding on a weekly basis a technical inter-ministerial meeting to support the committee for cash management, including the Central Bank, to support the Treasury Committee which is held on a monthly basis. In addition, we are working towards strengthening cash management forecasting, in line with recent IMF TA recommendations, which will enable us to improve our assessment of budgetary needs.

28. We will strengthen our public investment management to improve transparency and efficiency public investment management to improve transparency and efficiency and maximize returns of our public investment plan. We are committed to prioritizing public investments projects with higher growth and poverty reduction impact, conduct a full cost-benefit analysis of projects (cost-advantages for social projects). We have conducted the PIMA (Public Investment Management Assessment) with the support of IMF TA in May 2018. In line with the recommendations of the Public Investment Management (PIMA) exercise, we will finalize a draft of the decrees regulating the mechanisms, mandates, procedures and standards of public investment management by end-June 2019 and adopt them by September 2019. We will develop and adopt a manual for the preparation, appraisal and selection of priority investment projects, including conducting a cost-benefit analysis. This manual will require that all public investment projects be accompanied by feasibility studies and will formalize a process for producing reports on project execution and completion. In addition, we will initiate a stock-taking exercise of all projects in progress for at least 10 years before continuing to finance them in the 2020 Budget Law. We will finalize the implementation of a platform for integrated investment management by end-2018, which will allow us to have a better knowledge of the investment portfolio and improve the ability of all stakeholders to track the financing and evolution of public investments, and strengthen their coordination and monitoring.

29. We will enforce the provisions of the new procurement code and conduct competitive bidding for public investment projects. In 2014, we adopted a new procurement code, which established competitive bidding for public investment projects (above a certain threshold). In 2016, we conducted and published an audit of public contracts. We reduced turnaround times in procurement by streamlining processes and we have finalized our survey of providers' prices by May 2018 to ensure the transparency of contracts and we are implementing a system of sanctions as specified in the public procurement code. Furthermore, we have prepared the first report on public contracts, we have published it on the Ministry of Finance website and we will continue to publish it on a six-month basis. We are working to amend the procurement code by end-2018 to simplify and streamline procedures, reduce delays, and improve the transparency and monitoring of contracts, including the application of sanctions, which we expect will reduce costs and improve the quality of spending. In line with this reform, we will adopt a manual for procurement procedures by March 2019, and we will develop a platform to support internal management and monitoring of the execution of public contracts, for which we have elaborated the terms of reference.

30. We will finalize our public-private partnership (PPP) framework in line with best practices to strengthen monitoring and managing risks from PPPs. To support our objective of scaling-up investments, a new PPP law was adopted by the Parliament in July 2017. We will publish the new law in the Official Gazette by end-November 2018. We will finalize the related implementation decrees by February 2019 and ensure that the new PPP framework is in line with best practices, geared toward supporting projects envisaged in the PNDES, and consistent with the organic law on public finance (LORF). Notably, the implementation decree will underscore that we will apply PPPs to the same rigorous preparation, selection and appraisal processes as to public investment projects; we will cap explicit commitments and guarantees of PPPs; we will open unsolicited PPP offers to competition, and we will also conduct an analysis of the fiscal risk emerging from existing PPP commitments. Given the risks and contingent liabilities associated with PPP- financed projects, we will exercise prudence in the use of PPPs and we will ensure that those guarantees are well monitored, evaluated, and contained. To this end, a PPP unit will be established at the Ministry of Economy and Finance by end-March 2019.

31. We will move ahead with our reform of public entities (SOEs) aiming at strengthening their governance and limit fiscal risks. We completed a survey of the legal and financial status of all SOEs in 2017 and the 2016 SOEs' annual financial report was submitted for the first time to the Parliament in 2017. A revised law on the governance of SOEs was approved by the Parliament in December 2017, which ensured consistency with the law of public finance (LORF) and the decree on budget management and public accounting. The new SOEs' law strengthens governance and monitoring of SOEs by: i) applying the tax provisions of the common law; ii) strengthening the obligation to pay dividends; iii) clarifying the eventual granting of subsidies; and iv) strengthening control of fiscal risks stemming from SOEs. The draft implementation decree of the new SOEs' law on governance was discussed at an inter-ministerial meeting and submitted to the Council of Ministers and was approved in September (end-September SB). We will conduct workshops to foster a better understanding and ownership of the new SOEs' governance law and the related implementation decree. We will bring the texts of the SOEs in line with the requirements of the new legislation by mid-2019, and we are working to mobilize technical assistance in this area. So far, we have reviewed the regulations of a pilot of seven SOEs and brought them in line with the new legislation and we have started working on three additional SOEs. In line with the new law, we have prepared the annual financial report for SOEs for 2017 and we have submitted it to the Parliament as an Annex of the 2019 budget law. We are committed to continue to prepare the financial report for SOEs on a yearly basis and submit it to the National Assembly. We are working to develop a medium-term strategy to improve the financial conditions of loss-making SOEs to reduce fiscal costs and the build-up of contingent liabilities. To this end, we aim at improving the management and performance of SOEs, including by consolidating their financial position and establish their Board of Directors.

Debt Policy and Management

32. We are committed to preserving medium-term debt sustainability and ensure that Guinea does not exceed a moderate level of risk of external debt distress. We will continue to carefully manage our external borrowing to finance the planned increase in public investments to preserve the sustainability of our debt and contain debt vulnerabilities. In view of Guinea's moderate risk of external debt distress and the US$1.2 billion non-concessional loan we signed in September, 2018 to finance the construction of the Souapiti dam project (about 11 percent of GDP), which is critical to improve our electricity capacity production, we are committed to maximize the concessional element of our new external borrowing and limit any additional non-concessional debt, contracted or guaranteed, to our program ceiling to preserve medium-term debt sustainability. Notably, we are committed to limiting non-concessional debt that will be contracted or guaranteed during the three years of the ECF arrangement to a maximum of US$650 million to finance key growth-supporting infrastructure projects so that Guinea's risk of debt stress does not exceed a moderate level. Within this envelope, we have already signed two loans for financing the rehabilitation of the RN1 road and Conakry urban road network, respectively, in September 2018 for an overall amount of US$598. While we signed at end-November a US$60 million non-concessional loan for budget support, we will not to submit this loan for ratification to the National Assembly and we will re-open negotiations to achieve concessional financing terms. In the event the above-mentioned budget support loan had to be disbursed before reaching concessional terms, we are committed to earmark it to the key infrastructure projects as specified in this MEFP (¶10) and in the TMU (¶15).

33. We are committed to gradually repaying the domestic arrears that have been accumulated in previous fiscal years. We started in 2015 an audit of domestic arrears over the period 1982-2013 and the overall stock of domestic arrears is estimated at end-2017 at GNF 3090 billion (3.3 percent of GDP). We have adopted in December 2017 a strategy for the clearance of our longstanding domestic arrears which aims at clearing small creditors first which have already been cleared (which represent 80 percent of the number of creditors and 20 percent of the nominal value of the audited and validated arrears). To this end, we have already repaid GNF 43 billion in 2017 and GNF 59 billion in 2018 out of the longstanding 1982-2013 arrears to the private sector (2.9 percent of GDP in 2017). Furthermore, we are planning to repay the remainder amounts over a seven-year period, through issuance of securities and direct payments. We will start in October 2018 the second phase of the external audit for the purpose of continuing negotiations with creditors and finalizing memoranda of understanding for audited and validated amounts. We are in the process of negotiating with the same external auditor to conduct a review of domestic arrears contracted during 2014–17. We are committed to avoid the accumulation of new domestic arrears, which will help support the private sector.

34. We will continue our efforts to resolve our long-standing external arrears. We have initiated negotiations to liquidate external arrears to Non-Paris Club and commercial creditors, and we will continue communications to the creditors to this end. Our objective is to gradually normalize these arrears as soon as we receive a response from the creditors. To this end, we will continue discussions with creditors. We will ensure not to accumulate new external arrears, including through improving debt management.

35. We are committed to strengthen our debt management framework to reduce vulnerabilities. We elaborated on the operational procedures manual and the National Debt Policy statement, and we started an audit of domestic arrears in 2015. We have strengthened our debt management capacities and we will continue to build on these efforts, with the support of technical assistance from the IMF, U.S. Treasury, AFD and other development partners. We set up a National Debt Committee in 2014 and a National Debt Working Group on debt management in 2015. We have published a calendar of bond issuance on the Ministry of Economy and Finance website in April 2018, which will support transparency and improve cash management. We set up in 2018 a computerized tracking system for live monitoring of the auction of the Treasury Bills. We conducted the DEMPA exercise (Debt Management Performance Assessment) in May 2018, with the support of the World Bank, to identify key areas to reinforce the management of our debt and we will finalize a time-bound action plan to strengthen debt management on the basis of the DEMPA findings by end-2018. Notably, we will update the medium-term debt management strategy (MDTS) by end-February 2019, with the support of IMF technical assistance. We have published, for the first time, a report on public debt in June 2018, and we will continue to publish it on a quarterly basis. We aim at publishing a fully-fledged statistical bulletin by January-2019. We will start updating the T-bills calendar on a weekly basis according to forecast needs by end-2018. We will also operationalize the single treasury account by end-May 2019. We will operationalize the National Debt Committee in 2019 and the National Working Group on the Management of Public Debt by the end of 2018, which will be responsible for conducting the analysis of the sustainability of the debt and we will regularly conduct a debt sustainability analysis and update the medium-term debt strategy. We will also strengthen our public debt recording system by end-2019 by acquiring the new version of the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) or adopting the Debt Management and Financial Analysis System (DMFAS) funded by UNCTAD.

D. Monetary and Exchange Rate Policies

36. We will continue to strengthen our foreign exchange reserves to build additional external buffers against shocks. We have strengthened our foreign exchange reserves and we aim at reaching the ARA-CC metric reserve adequacy estimate of 3.8 months of imports by 2020. To support building buffers, the BCRG has started implementing a more active strategy to reserves accumulation. Notably, the BCRG has set up unilateral and competitive auctions to conduct purchases of foreign exchange in September 2018 (SB) and conducted a communication campaign to banks to limit market risks. The BCRG will start conducting such auctions by end-2018, which will be open to all Guinean banks and foreign non-bank entities operating in the MEBD, will target small and regular purchases to preserve the MEBD's stability, and the auction will be conducted all days of the week, excluding the days the MEBD. We will limit our interventions in the MEBD to provide appropriate liquidity and prevent disorderly market conditions to support reserves accumulation and greater exchange rate flexibility. In this respect, we will finalize a weekly foreign exchange liquidity forecast by December 2018 to improve the predictability of market supply and demand conditions.

37. We are committed to finalize our foreign exchange market reform to strengthen the role of market forces and support greater exchange rate flexibility. The BCRG made significant progress in reforming the exchange rate mechanism by replacing the foreign exchange allocation system with a bilateral foreign exchange market (MEBD) in early 2016. This allowed greater exchange rate flexibility and reduced the differential between the official rate and the rate of the foreign exchange bureaus. We have made MEBD operations more regular and predictable by issuing an instruction in early 2016 that details how the MEBD and auctions are organized. Auctions are currently held twice a week (on Tuesday and Friday) and are preceded by a communiqué the day before. We discontinued the practice of fixing the official ER one day after receiving banks' foreign exchange transactions reports and the reference rate is now published before 9 a.m. on a daily basis. We are committed to finalizing our reform of the foreign exchange market. To this end, the BCRG has signed an instruction in May 2018 that clarifies the methodology used for the calculation of the daily reference exchange rate which was communicated to banks. The BCRG issued an instruction in June 2018 which clarifies the rules for banks' participation in the MEBD and will strengthen the reporting and analysis of the MEBD operations by preparing a quarterly report to support discussions with participants in the market by end-2018. In order to make the MEBD more competitive and support greater exchange rate flexibility, we have started to gradually eliminate the limit on auction allocations to a single participant. Thus, the BCRG has increased this limit to 40 percent in September 2018 (from 20 percent) and will increase it to 60 percent by December 2018, aiming to fully eliminate it by June 2019. We will also establish an electronic platform to make MEBD operations more fluid by June 2019, and we have strengthened foreign exchange liquidity forecasting by better sharing of information and regular meetings between the BCRG and the Ministry of Finance. We will develop a rule-based intervention strategy for BCRG by May 2019 (SB) to limit discretion and we will implement this strategy as soon as it is approved. We will ensure that the premium between the official exchange rate (which is the reference rate for all market participants) and the commercial banks' purchase and sales rate does not exceed 2 percent on a given day.

38. Our monetary policy will need to be prudent to preserve moderate inflation. The BCRG will aim at maintaining inflation within single digits by targeting base money in line with program objectives. Reserve money growth slowed to 10.3 percent at end-June 2018, as central bank advances to the government were contained and maintained within statutory limits. In view of rising inflation and the build-up in inflationary pressures in the economy, also due the recent increase in wages in the public administration, the BCRG will maintain a prudent monetary policy and stand ready to tighten to maintain a positive real interest rate. For 2018, the BCRG will target the monetary base to expand at about 10.5 percent (y-o-y), which is consistent with an inflation rate at about 9.7 percent and growth of credit to the private sector at about 5 percent (in percent of broad money).

39. We are committed to continue to contain government borrowing from the BCRG to short-term cash management and in respect of the provisions of the Central Bank Law. To this end, we signed a Memorandum of Understanding (MoU) between the BCRG and the Ministry of Economy and Finance in May 2018 that limits the BCRG advances to the government to the statutory limits indicated in the Central Bank Law (prior action; first ECF review): no more than 5 percent of the average fiscal revenues of the last three years to be repaid within a period of 92 days. The BCRG started and will continue holding on a weekly basis its Executive Committee to strengthen monitoring of the provision of credit to the government. Furthermore, we have been preparing since May 2018 and we will continue to prepare monthly regular reports to the BCRG's Board on the level of credit to the government and whether it complies to the BCRG law.

40. We will continue to strengthen our monetary policy framework by improving liquidity management. We are convinced that a more active liquidity management will support strengthen reserve money targeting and ensure banks' provision of credit to the economy. The BCRG re- introduced monetary regulation instruments (short-term securities) to absorb excess liquidity and injections operations (refinancing windows) to meet liquidity needs, creating an interest rate corridor. Furthermore, the BCRG has improved its capacity to monitor liquidity by preparing a daily monitoring liquidity table and a weekly liquidity report and established a new liquidity forecasting BCRG operationalized the new liquidity framework in May 2018 and will start implementing a more active management to ensure that banks' liquidity needs are met and support banks' provision of credit to the private sector. We established in August 2018 a liquidity committee that meets on a weekly basis to manage liquidity and determine calibration of liquidity operations. A unit that assesses autonomous factors affecting liquidity conditions was also set up in August 2018. We have also made further enhancements including by aligning the forecasting period with monetary policy operations and the reserve maintenance period and have started publishing the results of monetary policy operations shortly after their execution. We will set up an electronic platform for interbank transactions in domestic and foreign currencies by end-2018, which will strengthen interbank market activity and support a more competitive market. Furthermore, we will establish an emergency liquidity framework for illiquid, but solvent banks, supported by IMF technical assistance, by February 2019 (SB). To this end, we will sign an instruction for emergency liquidity injections by February 2019.

41. We are committed to continuing to strengthen the autonomy of the BCRG. We amended in 2017 the published version of the new BCRG Law to strengthen its autonomy, which was approved by the Parliament in November 2016, to include all key amendments. Notably, the law prohibits the issuance of guarantees by the BCRG to the private sector. In order to ensure the financial and operational autonomy of the BCRG, we have signed in May 2018 a Memorandum of Understanding between the BCRG and the Ministry of Economy and Finance which specifies the modalities and a timeline for the recapitalization of the BCRG (about U$300 million). We will sign by end-October 2018 the letter between the BCRG and the Ministry of Economy and Finance to kick-start the implementation phase and we are committed to recapitalize the BCRG by end-2018.

42. We will continue to move forward in addressing remaining recommendations of the 2018 Safeguards Assessment Update to strengthen the BCRG's financial reporting transparency, accountability and internal audit. We made significant progress towards enhancing the transparency of BCRG's financial reporting, strengthening its internal audit capacity and controls in currency operations. In line with the recommendations of the 2018 Safeguard Assessment Update, the BCRG has adopted and started implementing the International Financing Reporting Standards (IFRS) and will published, for the first time, IFRS-compliant financial statements for 2017 in by end-November 2018 (September 2018, SB). We are committed to continue to publish the BCRG's financial statements in line with IFRS moving forward. We will move ahead in strengthening the internal audit processes and capacity of the BCRG by ensuring adequate legal and institutional frameworks are in place and that the approach is in line with international standards of a risk-based assessment. Notably, we have started producing periodic reports for the Audit Committee focusing on high-risk areas, and we have set up a capacity building program, including by reinforcing the number of personnel in digital audit, with support from IMF TA. We set up internal compliance processes at the BCRG to review adherence with legislation and provide semi-annual reporting to the Board in September 2018 (SB). We will review internal audit practices and assess measures needed to implement the International Professional Practices Framework (IPPF), with the support of IMF technical assistance. We will conduct a peer-review of currency operations by December 2018, following the lessons we will garner from planned exchanges with other central banks in this area.

43. We are committed to maintaining the stability of the banking sector and continue to strengthen banking supervision. In order to strengthen banking supervision, the BCRG has updated the accounting framework and financial reporting for banks; revising and drafting new regulations; and adopted a new rating methodology of banks. We have fully implemented the banking law by putting place remaining texts and procedures, including instructions on banks' internal controls and corporate governance. We will adopt additional instructions on use of external auditors, conditions of appointment of a second auditor, supervision of the activity of business introducers, and the right to the bank account-customer protection, and the modalities of close supervision by BCRG by March 2019. We will start the gradual implementation of the new bank chart of accounts and the revised banking reporting framework by July 2019 and we will fully implement it by January 2020. We will also enhance cross-border supervision by amending existing conventions by June 2019. We will further strengthen banking supervision by ensuring that all banks are compliant with IFRS standards starting from the 2020 financial statements and are moving towards implementing Basel II and III. In addition, the BCRG will strengthened human resources devoted to banking supervision and will take steps to increase the number of supervisors and increase off-site auditing. In view of high non-performing loans and to support banks' provision of credit to the private sector, we have set up a new credit information system, with the support of the World Bank, to provide better information on the creditworthiness of banks' customers which has been fully operational since end-2017. An Insurance Code to improve sector supervision and meet international standards was developed and adopted in July 2017. We aim at establishing a banking resolution framework by end-2018 and discussions are underway with TA providers. We are in the process of setting up a deposit guarantee scheme on the basis of the existing legal framework, and we expect to finalize it by end-2018. A Professional Association of Banks (APB) and BCRG commission has been set up for this purpose, and a draft decision has been prepared as well as an action plan to implement the deposit guarantee fund. One bank remains in breach of capital adequacy requirements by a minimal amount and is expected to be in compliance following no payments of dividends, in line with the banking law that prevents dividend payments if there are breaches of prudential regulations. Furthermore, the BCRG will ensure that all banks are in compliance with the reserve requirement. Four banks, however, do not comply with the net equity capital requirement and are currently being sanctioned with closer surveillance procedures in line with regulatory procedures.

Structural Reforms

44. We are committed to move ahead with the implementation of key structural reforms to support higher and more inclusive growth. We will aim at ensuring the development of the private sector to generate higher and more inclusive growth and generate needed job-creation to reduce poverty. Our reforms will be targeted at improving the business climate and governance and strengthening financial inclusion over the program period.

45. Improving the business climate is needed to support private sector development and achieve higher and more inclusive growth. Guinea significantly improved its ranking in the World Business Indicators in the last five years and gained 27 places between 2013 and 2018 (153 out of 190 countries). We are committed to continue strengthening the business climate to foster private sector development. To this end, we developed an action plan to improve the business climate in March 2018 which defines short, medium and long-term actions. Notably, we aim at: i) easing procedures to start a business; ii) easing paying taxes, including by introducing a business identification number and online tax declarations; iii) improving access to credit, notably for small and medium-sized enterprises; (iv) strengthening contract enforcement; (vi) easing cross border trade; and vii) developing a framework for the public-private dialogue. We are committed to move ahead swiftly in the implementation of our new action plan and we made significant progress. We have streamlined procedures and reduced the number of days needed to create a business by computerizing the one-stop-shop and, in this context, we have launched an online business creation platform, SyNERGUI. We have also operationalized the electronic signature for the business registry. We will finalize the interconnection between the Agency to promote private investment, APIP, with the National Tax Directorate by end November 2018. We have set up the online tool for the unique name verification and we will finalize the setting-up of a business identification number by June 2019. Notably, we will establish a system to declare and pay taxes on-line by end-2018 to enhance transparency and governance. We will finalize the setting-up of a specialized Commerce Court in Conakry in October 2018 (SB) to improve contracts execution (SB). To this end, a decree was signed on August 2018 nominating the President of the Commerce Court and a judge and we are moving ahead with training staff and equipping offices. We are committed to making the Commercial Court operational by the end-March 2019. We have made significant progress towards establishing a one-stop shop for foreign trade to facilitate cross border trade. Notably, we have selected the operator and we are moving ahead with its operationalization by end-March 2019. In order to facilitate credit provision, we have established a credit Information system at the Central Bank to which banks and microfinance institutions and 8 out of 16 banks are currently interconnected and the 30 largest debtors of each bank declared on the platform. We are committed to strengthen the public-private dialogue and we will reinforce the public-private consultative platform and establish a consultative platform between the private sector and the public administration by end-March 2019.

46. We are committed to strengthening governance, a central pillar of our growth-enhancing strategy. We are moving ahead towards strengthening our anti-corruption framework, which we consider key to improve governance, by:

- **Strengthening our legislative anti-corruption framework**. The Parliament adopted in July 2017 the anti-corruption law, which represents an important step towards improving governance. The law was published in the Official Gazette on August 2017 and we have prepared draft implementation decrees on: i) the role and organization of the National Agency to Fight Corruption (NAFC); ii) the declaration of assets, and iii) whistle blower and victims' protection. The draft decrees have been submitted to the Presidency for approval. We will adopt the implementation decrees on the asset declaration regime by end-September 2019 (SB) in line with IMF TA recommendations, ensuring that declaration obligations cover high-level officials, their family members and close associates, requiring the declaration of all assets held domestically and abroad, directly and beneficially, establishing dissuasive sanctions for non-compliance, and requiring the publication of the declaration. We adopted a decree on the organization and operation of the National Agency for the Fight Against Corruption in October 2018 (SB) and will also adopt a whistle blowers and victims' protection decree by end-September 2019 (SB). With the support of IMF TA, we are reviewing the consistency of our laws on the criminalization of acts of corruption to ensure it is in line with the United Nations Convention Against Corruption (UNCAC).

- **Improving our institutional framework**. We have organized three workshops to ensure the coherence between the new anti-corruption law and our national strategy and plan of action to fight against corruption and promote good governance, with the support of the EU. The anti-corruption strategy will be adopted by end-October 2018., We are strengthening the NAFC by improving its human, technical, and logistic capabilities and by strengthening its independence and financial autonomy with a proper budget allocation and we are creating a pool of specialized magistrates on the issues of corruption and a judicial police brigade within the NAFC. We are moving ahead with the reorganization of the Executive Secretariat of the NAFC and the restructuring of seven ANLC regional branches. We have started the consultations to establish a judicial police brigade and training of personnel. We will strengthen the enforcement of the rule of law and the judiciary system and we will set up a High Court of Justice by end-September 2019.

- **Strengthening our AML/CFT regime**. We are committed to continue to strengthen our AML/CFT regime to support anti-corruption efforts notably by revising our legislation in line with the 2012 Financial Action Task Force standard, with a new AML/CFT law to be presented to parliament in April 2019, and developing tools for the implementation of a risk-based approach to AML/CFT supervision by October 2019, with the support of IMF TA. We are also working on strengthening the Financial Intelligence Unit (CENTIF) with support of IMF TA by improving its institutional framework, strengthening the capacity of its personnel and developing operational processes and strategies. We have set up an inter-ministerial AML/CFT committee to steer our national AML/CFT strategy and oversee the conduct of the ongoing ML/TF National Risk Assessment. We are also in the process of developing internal risk-based AML/CFT controls and procedures for the BCRG to ensure the integrity of its operations and establishing risk-based supervision tools for the banking sector. The internal controls procedures will be rolled out in April 2019, following training of the BCRG staff.

47. We will strengthen financial inclusion to support the development of the private sector. To this end, we have adopted in July 2017 a new Financial Inclusion Law which will provide a framework for the activity of microfinance institutions and will be key to support increasing credit access of SMEs, women and the youth. Notably, the law introduces new regulations governing the activity and control of microfinance institutions as well as of the electronic money institutions and the financial services of the Guinean Post. We have adopted the law's implementation decrees in 2018. To this end, we have adopted fourteen draft instructions, with the support of the World Bank, we have transmitted them to key stakeholders (micro-finance institutions, e-money operators, postal financial services, etc.) and we held a workshop in April 2018 to discuss their observations and comments. We will develop a National Strategy on Financial Inclusion with the support of TA providers by end-2018. As a member of the Alliance for Financial Inclusion (AFI), we are actively engaged in the regional initiative African Regional Policy Initiative (AfPI) for which Governor of the BCRG has been elected the new Chair.

E. Program Monitoring

48. The program will continue to be monitored on a semi-annual basis, through quantitative performance criteria and indicative targets (Table 1) and structural benchmarks (Table 2). Quantitative targets set for end-December 2018 and end-June 2019 are performance criteria, while those for end-March 2019 and end-December 2019 are indicative targets. The third review should be completed on or after June 11, 2018, and the fourth review on or after December 11, 2019. We will continue to evaluate the implementation of our macroeconomic policies and reforms through the government's program coordination and monitoring bodies, the Economic Coordination and Reform Council (CCER) and Technical Unit for Program Monitoring (CTSP).

49. We will continue our efforts to strengthen our statistical system to ensure the appropriate assessment and monitoring of our macroeconomic policies and reforms. We have strengthened in March 2017 our methodology for the compilation of the national accounts and adopted the 1993 SNA, with support of IMF technical assistance. We will continue our ongoing work to further strengthen our methodology by migrating from SNA 1993 to SNA 2008 with the support of IMF TA. We put in place the steering bodies of the national statistical system, and we will ensure the operationalization of the macroeconomic framework committee to facilitate the harmonization of the data. To this end, we started a new household survey to update our assessment of the living conditions of the population, which will be completed by end-2018.

Table 1. Guinea: Quantitative Performance Criteria and Indicative Targets, ECF Arrangement, 2017–19

(Billions of Guinean Francs; unless otherwise indicated)

	2017				2018															2019			
	Dec				March				June			Sept.				Dec		March	June	Sept.	Dec
	PC	Adj. PC	Act.	Status	IT	Adj. IT	Prel.	Status	PC	Prel.	Status	IT	Adj. IT	Prel.	Status	PC	Rev. PC	IT	PC	IT	IT
Quantitative performance criteria																					
Basic fiscal balance (floor; cumulative change for the year)	519	614	-1,030	Not Met	346	503	1,196	Met	1,022	1,749	Met	1,387	1,417	999	Not Met	904	904	499	903	1,137	1,172
Net domestic assets of the central bank (ceiling; stock)	7,208	7,350	8,236	Not Met	7,137	7,369	8,070	Not Met	8,358	7,460	Met	8,112	8,156	7,068	Met	7,909	7,909	7,780	7,652	7,522	7,592
Net government budgetary borrowing from the central bank (ceiling; stock)	7,179	7,321	7,983	Not Met	7,108	7,340	7,651	Not Met	7,939	6,648	Met	7,693	7,737	6,257	Met	7,656	7,656	7,533	7,410	7,287	7,362
Net international reserves of the central bank (floor; stock); US$ million[1]	345	330	357	Met	420	395	390	Not Met	422	437	Met	506	501	494	Not Met	544	544	583	622	662	703
Continuous performance criteria																					
New non-concessional external debt contracted or guaranteed by the central government or central bank (cumulative ceiling); US$ [2,6]	650	650	0	Met	650	650	0	Met	650	0	Met	650	650	598	Met	650	650	650	650	650	650
New external arrears of the central government and central bank (ceiling)[3]	0	0	0	Met	0	0	0	Met	0	0	Met	0	0	0	Met	0	0	0	0	0	0
Indicative targets																					
Tax revenues collected (floor)	12,893	12,893	12,443	Not Met	3,115	3,115	2,995	Not Met	7,524	6,849	Not Met	11,089	11,089	10,383	Not Met	14,394	14,072	3,995	8,489	13,197	17,612
Domestically financed social safety programs to reduce poverty (cumulative floor)[4]	138	138	47	Not Met	76	76	6	Not Met	99	16	Not Met	148	148	51	Not Met	197	75	33	65	98	130
New domestic arrears accumulated by the central government (net)[4]	...	...	...	...	...	...	...	...	-340	-409	Met	-390	-390	478	Not Met	-479	-82	-95	-152	-386	-440
Memorandum items:																					
New concessional external debt contracted or guaranteed by the central government or central bank (cumulative); US$ million[4,5]	315	315	315	Met	365	365	339	Met	339	343	Met	399	399	345	Met	399	399	415	455	455	455

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

[1] It will be calculated using program exchange rates.

[2] External debt contracted or guaranteed other than with a grant element equivalent to 35 percent or more,

calculated using a discount rate of 5 percent, excluding the $1.2 billion loan for the Souapiti dam. Excludes borrowing from the IMF. Continuous performance criterion.

[3] Continuous performance criterion.

[4] Cumulative from the beginning of each year.

[5] To be monitored continuously, reflects projected disbursements.

[6] The continuous performance criterion was breached in November 2018 by a total amount of US$8 million.

Table 2. Guinea: Prior Actions and Structural Benchmarks Under the ECF Arrangement, 2017–20

Measures	Date	Status	Objectives
Prior Actions			
First Review			
Limit the use of authorization letters (ALs), in line with the budget management and public accounting decree, to sovereign expenditures and special funds and link the execution of expenditures authorized through ALs to budgetary lines. Provide a report on the use of ALs in line with these principles during January-May 2018 to IMF staff.		Not met. A minor deviation was recorded with ALs used for expenditures other than sovereign expenditures and special funds for a marginal amount (0.001 percent of GDP).	Ensure the execution of public expenditures in line with legal procedures as defined in the law and regulations and avoid extra-budgetary expenditures, and better align cash flows and commitment plans.
Adopt a time-bound action plan to rationalize ad-hoc tax expenditures.		Met	Support mobilization of additional tax revenues
The Council of Ministers to approve a budgetary framework for 2018 in line with agreed corrective measures and revised program fiscal targets to be used as the basis for the 2018 Supplementary Budget Law and submit it to the Financial Commission of the National Assembly.		Met	Strengthen macroeconomic stability
Signing a Memorandum of Understanding between the BCRG and the Ministry of Economy and Finance limiting the BCRG's lending to the government to the statutory limits indicated in the BCRG Law.		Met	Limit government borrowing from the Central Bank
Signing a Memorandum of Understanding between the BCRG and the Ministry of Economy and Finance with modalities and timeline for the recapitalization of the BCRG.		Met	Ensure the operational autonomy of the BCRG
Implementation of a 25 percent increase in the electricity tariff for industrial and professional users and a 10 percent increase for households as detailed in the circular 2018/3334.		Met	Reduce electricity subsidies
Sign a ministerial order to increase the price of petroleum products by at least 12 percent starting from July 1, 2018.		Met	Protect budget revenues
Second Review			
The Council of Ministers will adopt a revised budgetary framework for 2018 consistent with achieving the end-2018 fiscal program target.		Met	Strengthen macroeconomic stability
Minister of Budget will adopt an expenditure commitment plan for the last quarter of 2018 in line with the revised budgetary framework.		Met	Strengthen macroeconomic stability

Table 2. Guinea: Prior Actions and Structural Benchmarks Under the ECF Arrangement, 2017–20 (continued)

Measures	Date	Status	Objectives
Structural Benchmarks			
First Review			
I. Fiscal Policy			
Adoption of an action plan for a targeted tax policy and administration reform by the Ministry of Budget.	End Dec-17	Met	Mobilize and safeguard tax revenues
Adoption of the Government's strategy for the clearance of domestic arrears by the Ministry of Finance.	End-Dec-17	Met	Improving fiscal management and transparency and strengthening the private sector
Implementation of the 25% increase in electricity tariffs for industrial consumers and large consumers adopted in October 2016 by the Government.	End Dec-17	Met. Electricity tariffs for industrial and large consumers were increased by 42 percent in November 2017. The increase was suspended in March 2018 and re-instated at 25 percent in May 2018 as a prior action.	Reduce electricity subsidies
Completion of the electricity tariff study, including the impact analysis by the Ministry of Energy and Hydraulics.	End Feb-18	Not met. The electricity tariff study was completed with a delay in July 2018.	Establish tariffs that cover medium-term electricity costs and accompanying measures to protect the most vulnerable populations
Implementation of the existing automatic price adjustment mechanism for petroleum products by the Government.	End Mar-18	Not met. Retail prices of petroleum products were increased by 25 percent on July 1, 2018. The automatic price adjustment mechanism is expected to be implemented in early 2019.	Protect budget revenues
Finalization of feasibility studies for public investment projects financed by non-concessional borrowing.	End Mar-18	Met	Ensuring efficiency and good management of public investments

Table 2. Guinea: Prior Actions and Structural Benchmarks Under the ECF Arrangement, 2017–20 (continued)

Measures	Date	Status	Objectives
II. Monetary and foreign exchange policy			
Signing a Memorandum of Understanding between the BCRG and the Ministry of Economy and Finance with modalities and timeline for the recapitalization of the BCRG.	End Feb-18	Not met. The Memorandum of Understanding was signed with a delay in May 2018 as a prior action.	Ensure the operational autonomy of the BCRG
BCRG to establish a liquidity forecasting framework.	End Mar-18	Met	Strengthen monetary policy framework and improve liquidity management
III. Structural reforms			
Adoption of an action plan to improve the business climate by the Government.	End Mar-18	Met	Foster the development of the private sector
Submission to the Parliament the 2016 SOEs annual financial reports by the Ministry of Finance.	End Dec-17	Met	Improve transparency and governance
Second Review			
I. Fiscal Policy			
EDG to install electricity consumption meters in the premises of the Prime Minister and fifteen Ministries and provide a complete report on the installation of meters for the rest of the consumers.	End Jun-18	Met. Electricity consumption meters were installed at the premises of the Prime Minister and fifteen Ministries and the largest consumers in the public administration. A report on the installation of meters for the rest of consumers was provided.	Increase the revenues of the public electricity utility to reduce budgetary transfers to the company
Integrate the PEFA recommendations in the action plan to reform public finances.	End Sep-18	Met. A new 2019-22 action plan to reform public finances, incorporating the PEFA and PIMA recommendations, was prepared and validated by a Committee chaired by the Minister of Economy and Finance.	Strengthen public financial management

Table 2. Guinea: Prior Actions and Structural Benchmarks Under the ECF Arrangement, 2017–20 (continued)

Measures	Date	Status	Objectives
Submit to the National Assembly a Supplementary Budget Law for 2018 in line with agreed corrective measures and revised program fiscal target.	End Sep-18	Not met. A Supplementary Budget Law in line with program fiscal target was submitted to the National Assembly in August 2018. However, the composition of the adjustment had to be revised to ensure reaching the end-year target. To this end, a revised budgetary framework for 2018 was adopted by the Council of Ministers as a prior action.	Strengthen macroeconomic stability
All new and renewed expiring mining agreements, excluding those with new investments in infrastructure for multiple users and/or transformation in Guinea in higher value-added products, will be in line with the tax provisions of the mining code. All new agreements with new investments in infrastructure for multiple users and/or transformation in Guinea in higher value-added products will be submitted to the National Assembly with an assessment of tax expenditures.	End Nov-18	On track to be met. Since June 2018, a new bauxite extraction contract was ratified and put fully in line with the tax provisions of the mining code. In addition, a new contract, with an infrastructure component, was submitted to the National Assembly with an assessment of tax expenditures.	Mobilize additional mining revenues and foster governance and transparency
II. Monetary and foreign exchange policy			
BCRG to publish IFRS-compliant financial statements for 2017.	End Sep-18	Not met. This was completed with a delay. The 2017 financial statements were published on November 28, 2018.	Strengthening the BCRG financial accountability

Table 2. Guinea: Prior Actions and Structural Benchmarks Under the ECF Arrangement, 2017–20 (continued)

Measures	Date	Status	Objectives
II. Monetary and foreign exchange policy			
BCRG to establish internal compliance processes to review adherence with legislation and provide semi-annual reporting to the Board.	End Sep-18	Met. A compliance committee has been set up which covers internal compliance and AML/CFT issues and a compliance officer has been appointed. The BCRG's legal department is a member of the internal compliance mechanism to foster coordination.	Strengthening internal audits and control functions
BCRG to establish unilateral and competitive auctions to conduct regular and small purchases of foreign exchange.	End Sep-18	Met. An instruction formalizing the setting-up of the unilateral and competitive auctions has been signed by the Governor of the BCRG.	Conduct an active strategy to accumulate international reserves
III. Structural reforms			
Adoption of the implementation decree of the 2017 law on governance of public entities.[1]	End Sep-18	Met. The implementing decree was signed in September 2018.	Improve transparency and governance and reduce fiscal risks
Establish a specialized Commerce Court in Conakry.	End Oct-18	Met. A presidential decree has nominated the President and the judges of the Commerce Court and the administrative buildings have been identified. The process to acquire equipment and training staff is ongoing.	Improve the business climate
Adoption of the implementation decree on the organization and operation of the National Agency for the Fight Against Corruption.	End Oct-18	Met. The implementation decree was signed by the President of the Republic.	Strengthen governance

[1]While this structural benchmark had been previously indicated for end-June 2018 in Table 2 of the Memorandum of Economic and Financial Policies (MEFP) in the Staff Report for the First Review of the ECF arrangement with Guinea (EBS/18/234), its timing was in fact end-September 2018 as per ¶24 of the MEFP in the same report.

Table 2. Guinea: Prior Actions and Structural Benchmarks Under the ECF Arrangement, 2017–20 (continued)

Measures	Date	Status	Objectives
Third Review			
I. Fiscal Policy			
EDG to complete the installation of electricity meters in all buildings of all Ministries and complete the installation of meters for 80 percent of the rest of the consumers.	End Feb-19	In progress.	Increase the revenues of the public electricity utility to reduce budgetary transfers to the company
All new and renewed expiring mining agreements, excluding those with new investments in infrastructure for multiple users and/or transformation in Guinea in higher value-added products, will be in line with the tax provisions of the mining code. All new agreements with new investments in infrastructure for multiple users and/or transformation in Guinea in higher value-added products will be submitted to the National Assembly with an assessment of tax expenditures. *(Newly proposed)*	Continuous		Mobilize additional mining revenues and foster governance and transparency
II. Monetary and foreign exchange policy			
BCRG to establish an emergency liquidity assistance framework for illiquid but solvent banks.	End Feb-19	In progress. An instruction for liquidity injections has been signed which allows for injections of one month to a year. Establishing the regulatory framework remains to be completed. The BCRG recently provided emergency liquidity to a bank as a test of framework, with positive results.	Strengthening the monetary framework
Elaborate a rule-based intervention strategy for the BCRG in the foreign exchange market.	End May-19	In progress.	Limit discretion in interventions and increase foreign exchange market transparency

Table 2. Guinea: Prior Actions and Structural Benchmarks Under the ECF Arrangement, 2017–20 (concluded)

Measures	Date	Status	Objectives
Fourth Review			
I. Fiscal Policy			
Establish a prototype for the unified social register of vulnerable populations by the Ministry of Social Affairs. *(Newly proposed)*	End July-19		Improve the targeting of social protection programs.
Structural reforms			
Adoption of implementation decrees of the 2017 corruption law on the asset declaration regime and whistle blowers and victims' protection.	End Sept-19	In progress. A draft of the decrees was prepared and shared with IMF staff. The Presidency is reviewing the draft decree.	Strengthen governance

Attachment II. Technical Memorandum of Understanding

November 28, 2018

1. **This memorandum sets out the understandings between the Guinean authorities and IMF staff regarding the definitions of the quantitative performance criteria and indicative targets for the ECF arrangement**. It also sets out the content and frequency of data reporting to IMF staff for program monitoring purposes.

2. **The quantitative performance criteria, indicative targets, and test dates are detailed in Table 1 of the Memorandum of Economic and Financial Policies (MEFP), attached to the Letter of Intent dated 8 June, 2018**. For data reporting purposes, the Guinean authorities will follow the rules and the format considered appropriate for data reporting as covered by this technical memorandum of understanding, unless otherwise agreed with IMF staff.

3. **For program purposes, all assets, liabilities, and flows denominated in foreign currency at the Central Bank will be valued at the "program exchange rate" as defined below, with the exception of items affecting the government's budgetary accounts, which will be measured at current exchange rates**. For program purposes, the exchange rate corresponds to the accounting exchange rate of the GNF prevailing on December 31, 2016, as shown in the table below. The SDR to US$ exchange rate will be based on World Economic Outlook (WEO) projections. Gold holdings of the BCRG will be valued at the gold price in effect on December 30, 2016 US$1159.10 per oz.

Program Exchange Rates, Guinean Franc per Foreign Currency and Gold Price[1]	
Gold bullion LBM US$/troy ounce[2]	1159.10
Euro to US$ exchange rate	0.95
Yen to US$ exchange rate	116.80
Sterling UK to US$ exchange rate	0.81
Yuan to US$ exchange rate	6.95
Guinean Franc to US$ exchange rate	9225.31
Guinean Franc to SDR exchange rate	12362.72

Source: IMF (International Financial Statistics).

[1]Rates and prices as of end-December 2016.

[2] LBM connotes London Bullion Market.

DEFINITIONS OF PERFORMANCE CRITERIA, INDICATIVE TARGETS, AND MEMORANDUM ITEM

A. Performance Criteria and Indicative Benchmarks

4. The quantitative performance criteria and indicative benchmarks specified in Table 1 of the MEFP are:

Performance Criteria

- Floor on the basic fiscal balance of the central government.
- Ceiling on net domestic assets of the central bank.
- Ceiling on net central government budgetary borrowing from the central bank.
- Floor on the net international reserves of the central bank.

Continuous Performance Criteria

- Ceiling on new non-concessional external debt contracted or guaranteed by the central government or the central bank.
- Zero ceiling on new external arrears of the central government and the central bank.

Indicative Targets

- Floor on tax revenues collected.
- Floor on domestically-financed social safety nets program.
- Ceiling on new domestic arrears accumulated by the central government (net)

Memorandum Item

- Ceiling on new concessional external debt contracted or guaranteed by the central government or central bank.

B. Central Government Definition

5. The central government of the Republic of Guinea (the government) is defined as all ministries and agencies subject to central budgetary administration in accordance with the organic law on public finances. Unless otherwise indicated, the central government 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*).

C. Floor on the Basic Fiscal Balance of the Central Government

6. The basic fiscal balance is defined as the difference between the government's total tax and nontax revenue (excluding grants and proceeds of privatizations, the latter recorded as financing) and total expenditure (including expenditure corresponding to earmarked revenues) plus net lending, excluding interest payments on external debt and externally financed capital expenditures. Government expenditures are defined as expenditures for which payment orders have been issued and which have been approved by the accountants, regardless of the execution procedure followed.

D. Ceiling on Net Domestic Assets of the Central Bank

7. 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 (defined below), both calculated at the program exchange rate as indicated above. 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.

8. Reserve money comprises of (i) local banks' deposits and other private sector deposits with the BCRG (including bank reserve requirements) denominated both in Guinean francs and in foreign currencies; and (ii) 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 paragraph 3).

9. Net Foreign Assets (NFA) of the BCRG are defined as its gross foreign assets (GFA) minus its gross foreign liabilities as follow:

- Gross foreign liabilities are equal to gross foreign exchange liabilities as defined in paragraph 13, including SDR allocations, plus any other foreign liabilities not listed in that paragraph.

- Gross foreign assets (GFA) of the BCRG are defined as gross reserves assets as defined in paragraph 12, plus (i) any foreign currency claims on residents; (ii) capital subscriptions in international institutions; (iii) foreign assets in nonconvertible currencies; (iv) transfers of foreign currency claims to BCRG by other institutional units in Guinea just prior to reporting dates with accompanying reversals of such transfers soon after those dates; (v) assets obtained through currency swaps of less than three months duration; and (vi) gross reserves that are in any way encumbered or pledged, including, but not limited to: (a) assets blocked when used as collateral for third party loans and third-party payments, or pledged to investors as a condition for investing in domestic securities; (b) assets lent by BCRG to third parties that are not available before maturity, and are not marketable; and (c) foreign reserves blocked for letters of credit.

E. Ceiling on Net Government Budgetary Borrowing from the Central Bank

10. Net borrowing of the central government from the Central Bank is defined as BCRG claims on the central government minus the total of all government deposits at the BCRG. Central government borrowing from the BCRG is defined as loans, advances, arrears, and purchases of government securities and treasury bills. The monitoring of this indicator will be based on the central government's net position at the BCRG.

F. Floor on the Net International Reserves of the Central Bank

11. Net international reserves (NIR) of the BCRG are, by definition, equal to the difference between the gross reserve assets of the BCRG and the gross foreign exchange liabilities of the BCRG.

12. Gross reserve assets of the BCRG include the following: (i) monetary gold holdings of the BCRG; (ii) holdings of SDRs; (iii) the reserve position in the IMF; (iv) foreign convertible currency holdings; (v) foreign currency denominated deposits held in foreign central banks, the Bank for International Settlements, and other banks; (vi) loans to foreign banks redeemable upon demand; (vii) foreign securities; and (viii) other unpledged convertible liquid claims on nonresidents. It excludes the following: (i) any foreign currency claims on residents; (ii) capital subscriptions in international institutions; (iii) foreign assets in nonconvertible currencies; (iv) transfers of foreign currency claims to BCRG by other institutional units in Guinea just prior to reporting dates with accompanying reversals of such transfers soon after those dates; (v) assets obtained through currency swaps of less than three months duration; and (vi) gross reserves that are in any way encumbered or pledged, including, but not limited to: (a) assets blocked when used as collateral for third party loans and third-party payments, or pledged to investors as a condition for investing in domestic securities; (b) assets lent by BCRG to third parties that are not available before maturity, and are not marketable; and (c) foreign reserves blocked for letters of credit.

13. Gross foreign exchange liabilities are defined as the sum of the following: (i) outstanding medium and short-term liabilities of the BCRG to the IMF; (ii) all short-term foreign currency liabilities of the BCRG to nonresidents with an original maturity of up to, and including, one year; (iii) all foreign currency denominated liabilities to residents, including foreign currency denominated deposits of domestic banks and other residents with the BCRG; and (iv) any outstanding central bank guarantees in foreign currency. SDR allocations are excluded from gross foreign exchange liabilities of the BCRG.

G. Ceiling on New Non-Concessional External Debt Contracted or Guaranteed by the Central Government or the Central Bank

14. Definition of concessional external debt. The definition of debt, for program purposes, is set out in paragraph 8a of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to IMF Executive Board Decision No. 15688-(14/107), adopted on December 5, 2014.[1] For

[1]The definition of debt set forth in the IMF Debt Limit Policy (2014) reads as the outstanding amount of those actual current, and not contingent, liabilities, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which require payment(s) of principal and/or interest by the debtor at some point(s) in the future and that are owed to nonresidents by residents of an economy. Debts owed to nonresidents can take a number of forms, the primary ones being as follows: (i) loans, that is, advances of money to obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' 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 and official swap

(continued)

program purposes a debt is considered to be concessional if it includes a grant element of at least 35 percent. The grant element is the difference between the nominal value of the loan and its present value, expressed as a percentage of its nominal value. The present value of the debt is calculated on the date on which it is contracted by discounting the future stream of payments of debt service due on this debt. The grant element is calculated using a discount rate of 5 percent.[2] The ceiling on concessional external debt applies to the contracting and the guaranteeing of debt with nonresidents by the central government and the BCRG. For program monitoring purposes, concessional external debt is deemed to be contracted or guaranteed at the date of its signature.

15. Definition of non-concessional external debt: For program purposes, debt is non-concessional if it includes a grant element of less than 35 percent (paragraph 14 for definition of grant element), as indicated in the IMF Executive Board Decision No. 11248–(96/38), April 15, 1996. The total amount of non-concessional debt allowed to be contracted or guaranteed during the arrangement is limited to a ceiling of US$650 million on a cumulative basis from the start of the arrangement, to be used to finance priority infrastructure projects: the Rehabilitation of the RN1 national road; the rehabilitation of the road system in Conakry; the construction of the Lisan-Fomi-Kankan electricity transmission line; and university rehabilitation. The ceiling on non-concessional debt applies to the contracting and guaranteeing of debt with nonresidents by the central government and the BCRG. This performance criterion is monitored on a continuous basis. The ceiling is measured from the start of the arrangement. For program monitoring purposes, non-concessional external debt is deemed to be contracted or guaranteed at the date of its signature.

16. Excluded from the limit on non-concessional external debt is the following: (i) the use of IMF resources; (ii) debts classified as international reserve liabilities of the BCRG; and (iii) the non-concessional loan that the government is contracting to finance the Souapiti dam project; and (iv) debt that is non-concessional upon signature but later cancelled or renegotiated to be made concessional, once such cancellation or renegotiation becomes effective in accordance with the terms of the relevant contract and as determined by the law applicable to such contract.

H. Ceiling on New External Arrears of the Central Government and Central Bank

17. New external arrears: The definition of debt for the purposes of the program is provided in paragraph 14 of the TMU, and such debt is considered to be external when it is contracted with a non-resident. For purposes of the PC on the non-accumulation of new external payment arrears, arrears are defined as external debt obligations contracted or guaranteed by the central government or the BCRG that have not been paid when due in accordance with the relevant contractual terms

arrangements); (ii) suppliers' credits, that is, 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 (iii) leases, that is, arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property.

[2]As approved by the IMF executive Board on October 11, 2013. A more detailed discussion of the concessionality concept and a calculator to estimate the grant element of a financing package are available on the IMF website at http://www.imf.org/external/np/spr/2015/conc/index.htm.

(taking into account any contractual grace periods). This PC excludes arrears on external financial obligations of the government subject to rescheduling.

I. Floor on Tax Revenues Collected

18. The floor on total domestic central government tax revenue is defined as total central government revenue, as presented in the central government financial operations table (TOFE), excluding external grants and non-tax revenue, defined as such in the TOFE.

J. Domestically-financed Social Safety Nets Programs

19. Domestically-financed social safety nets programs are defined as the domestically-financed spending, which is disbursed to support the implementation of: i) all non-contributory social programs under the *Programmes Filets Sociaux Productifs* (PFSP); ii) the activities of the Ministry of Social Action and Women Promotion and Infancy, including all non-contributory social programs under the Social Development Fund; iii) transfers to public administrative entities conducting activities aimed at protecting the most vulnerable, including the activities of National Fund for Youth Placement (FONIJ, of the Center for Women Autonomy, and schooling of children with handicaps; iv) targeted health activities, notably medical coverage for the poor, free medical procedures, support to individuals with infectious diseases; v) targeted activities in education, notably provision of school meals and health support; vi) scholarship to students to improve living conditions.

K. New Domestic Arrears Accumulated by the Central Government (Net)

20. **Domestic arrears are defined as spending** that have been recorded by the public accountants of the Treasury as due by the central government and which have not been paid, including checks that were issued but not yet cashed.

ADJUSTMENT FACTORS FOR THE PROGRAM PERFORMANCE CRITERIA

A. Adjustor for Basic Fiscal Balance

21. The floor for the basic fiscal balance of the central government will be adjusted:

- upward by an amount equal to 40 percent of the shortfall of external program loans and external program grants compared to programmed amounts, as specified in Table 1 (requiring a fiscal adjustment equivalent of 40 percent of the shortfall in program loans and program grants);

- downward by an amount equal to 40 percent of the surplus of external program loans and external program grants compared to programmed amounts, as specified in Table 1 (allowing 40 percent of the surplus in program loans and program grants to be used for supplementary expenditures.

Table 1. Guinea: External Financing Assumptions (Non-cumulative)
(Millions of U.S. Dollars)

	2017							2018								2019				
	Q1A	Q2A	Q3A	Q4P	Q4A	Total P.	Total A.	Q1P	Q1A	Q2P	Q2A	Q3P	Q3A	Q4P	Total P.	Q1P	Q2P	Q3P	Q4P	Total P.
Loans	**13**	**10**	**1**	**61**	**107**	**85**	**132**	**35**	**0**	**66**	**35**	**224**	**96**	**284**	**416**	**8**	**76**	**148**	**234**	**466**
Project	13	10	1	41	107	65	132	33	0	66	35	156	39	281	356	8	76	108	234	426
Of which																				
World Bank	0	0	0	0	0	0	0	3	0	6	0	3	3	7	10	3	3	3	0	9
BID	7	7	0	7	13	20	26	24	0	48	0	24	24	74	98	21	21	21	37	100
Program	0	0	0	20	0	20	0	2	0	0	0	68	57	3	60	0	0	40	0	40
Of which																				
World Bank	0	0	0	20	0	20	0	0	0	0	0	60	60	0	60	0	0	0	0	0
Budget grants	**25**	**34**	**40**	**40**	**60**	**139**	**158**	**62**	**1**	**40**	**49**	**26**	**109**	**47**	**205**	**0**	**9**	**64**	**70**	**143**
Project grants	16	21	24	19	44	80	106	22	0	40	47	26	108	0	155	0	9	33	51	93
Budget support	7	12	15	21	15	55	49	40	0	0	0	0	0	50	50	0	0	25	25	50
Of which,																				
EU	0	0	10	16	10	26	21	0	0	0	0	0	0	18	18	0	0	0	25	25
AFD	0	0	0	0	0	0	0	0	0	0	0	0	0	6	6	0	0	0	0	0

B. Adjustor for Net International Reserves

22. The floor on net international reserves will be adjusted:

- downward by an amount equal to 60 percent of the U.S. dollar equivalent of the cumulative shortfall of external program loans and external program grants of the central government as specified in Table 1;

- upward by an amount equal to 60 percent of the U.S. dollar equivalent of the cumulative surplus of external program loans and external program grants of the central government as specified in Table 1.

C. Adjustor for Net Domestic Assets of the Central Bank

23. The ceiling on net domestic assets will be adjusted:

- upward by an amount equal to 60 percent of the Guinean Franc equivalent (calculated at the program exchange rate) of the cumulative shortfall in external program loans and external program grants compared to programmed amounts as specified in Table 1;

- downward by an amount equal to 60 percent of the Guinean Franc equivalent (calculated at the program exchange rate) of the cumulative surplus of external program loans and program grants compared to programmed amounts as specified in Table 1.

D. Adjustor for Net Government Budgetary Borrowing from the Central Bank

24. The ceiling on net government budgetary borrowing from the Central Bank will be adjusted:

- upward by an amount equal to 60 percent of the Guinean Franc equivalent (calculated at the program exchange rate) of the cumulative shortfall in external program loans and external program grants compared to programmed amounts as specified in Table 1;

- downward by an amount equal to 60 percent of the Guinean Franc equivalent (calculated at the program exchange rate) of the cumulative surplus of external program loans and program grants compared to programmed amounts as specified in Table 1.

MONITORING AND REPORTING REQUIREMENTS

25. Performance under the program will be monitored from data supplied to the IMF by the Guinean authorities as outlined in the table below, consistent with the program definition above. The authorities will transmit promptly to IMF staff any data revisions, as well as other information necessary to monitor the arrangement with the IMF.

Table 2. Guinea: Data Reporting to IMF Staff 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	30th of the month for the previous month.
	Interest rates and stock of government and central bank securities (*BDT* and *TRM*).	Monthly	30th 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	30th of the month for the previous month.
	Central Bank net advances to the Treasury above the statutory limit and advance amounts not paid within 92 days.	Monthly	30th of the month for the previous month.
Fiscal data	Status report, including a detailed statement of revenue, expenditure, and cash-flow operations	Monthly	30th of the month for the previous month.
	Status report on the use of exceptional procedures, specifying nature of the public expenditures and link to budgetary lines.	Quarterly	One month after the end of each quarter
	General Treasury balances (TOFE).	Monthly	30th of the month for the previous month.
	Cash-flow plan.	Monthly	30th of the month for the previous month.
	Government fiscal reporting table (TOFE).	Monthly	30th of the month for the previous month.
	New mining contracts and revised expiring contracts, including annexes with tax provisions	Quarterly	One month after the end of each quarter
	Stock of VAT credits to be refunded, and domestic debt arrears.	Monthly	30th of the month for the previous month.

Table 2. Guinea: Data Reporting to IMF Staff for Program Monitoring (concluded)			
Category of Data	**Table/Report**	**Frequency**	**Deadline**
Real sector data and prices	Consumer price index, Conakry.	Monthly	30th of the month for previous month's data.
	National accounts.	Annual	Summary estimates: nine months after the end of the year Balance.
Balance of payments data	Imports by use and exports by major products, trade balance.	Quarterly	Three months after the end of the quarter.
	Price and volume indices of imports and exports.	Quarterly	Three months after the end of the quarter.
	Consolidated balance of payments estimates	Annual	Summary estimates: six months after the end of the year.
External debt	Debt service due before and after debt relief.	Monthly	30th of the month for previous month's data.
	Debt service paid.	Monthly	30th of the month for previous month's data.
	Debt service reconciliation table.	Monthly	30th of the month for previous month's data.
	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 previous month's data.
	Drawings on new loans.	Monthly	30th of the month for previous month's data.
External grants and loans	Disbursements.	Quarterly	Quarterly. 30th of the last month of the quarter for previous quarter's data.

INTERNATIONAL MONETARY FUND

GUINEA

SECOND REVIEW OF THE ARRANGEMENT UNDER THE THREE-YEAR EXTENDED CREDIT FACILITY, FINANCING ASSURANCES REVIEW, AND REQUEST FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION—DEBT SUSTAINABILITY ANALYSIS

December 10, 2018

Approved By
Abebe Aemro Selassie (IMF) and Paloma Anos-Casero (IDA)

Prepared by staff of the International Monetary Fund (IMF) and the International Development Association (IDA)

Guinea: Joint Bank-Fund Debt Sustainability Analysis[1]		
Risk of external debt distress	*Moderate*	
Overall risk of debt distress	*Moderate*	
Granularity in the risk rating	*Some space to absorb shocks*	
Application of judgment	Yes:	The overall risk of debt distress is assessed to be moderate against a mechanical rating of high risk of debt distress.

Guinea is at moderate risk of external debt distress with some space to absorb shocks. All external debt burden indicators under the baseline scenario lie below their policy-dependent thresholds and debt dynamics have improved compared to the June 2018 DSA update, owing to higher-than-anticipated growth in 2017. Stress tests suggest that debt vulnerabilities will increase if adverse shocks materialize. Under the most extreme stress tests, all solvency and liquidity indicators breach their thresholds for prolonged periods. The overall risk of public debt distress is also assessed to be moderate, with the application of judgement regarding a brief and marginal breach for the PV of overall debt to GDP ratio, importantly reflecting the one-off impact of the recapitalization of the central bank. A prudent external borrowing strategy aimed at maximizing the concessionality of new debt and limiting non-concessional loans to programmed amounts and strengthening debt management will be key to preserving medium-term debt sustainability.

[1]The Debt Sustainability Analysis (DSA) was prepared jointly with the World Bank and in collaboration with the Guinean authorities. This DSA has been approved by the World Bank. This DSA updates the DSA analysis in the staff report, No. 18/234 and has been prepared following the revised Debt Sustainability Framework (DSF) for LICs and Guidance Note (2017) in effect as of July 1, 2018. Guinea's debt carrying capacity is classified as weak based on the Composite Indicator (CI) under the revised LIC DSF. Thresholds for debt burden indicators are also those established in the revised 2017 DSF.

COVERAGE OF PUBLIC DEBT

1. **The definition of public debt used in this DSA covers central government debt, central government-guaranteed debt, and central bank debt contracted on behalf of the government** (Table 1).[2] While other elements of public sector debt, such as non-guaranteed debt of state-owned enterprises and social security funds, are not included due to data constraints, a contingent liability stress test is performed to enhance the robustness of the DSA (Table 1). Staff continues to work with the authorities to broaden the coverage of public debt. The definition of PPG external debt used in the DSA includes the loan for the Souapiti dam (US$1.2 billion, 11 percent of 2017 GDP) signed on September 4, 2018.[3] Furthermore, to depict the potential full impact on the debt profile, the government is assumed to be responsible for servicing the loan in the DSA.[4]

Table 1. Guinea: Coverage of Public Sector Debt

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	

1	**The country's coverage of public debt**	The central government, central bank, government-guaranteed debt			
		Default		**Used for the analysis**	**Reasons for deviations from the default settings**
2	Other elements of the general government not captured in 1.	0	percent of GDP	0.0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	2.0	
4	PPP	35	percent of PPP stock	1.3	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5	percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)			8.3	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SOE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

[2]The definition of PPG external debt excludes French claims under C2D debt-for-development swaps, which were cancelled in the context of the HIPC debt relief. The C2D mechanism implies a payment of the debt service to the creditor from Guinea, which is later returned to the government in the form of grants to finance development projects. The payments with respect to C2D are included in debt service of the fiscal baseline. See Country Report No. 15/39 for a detailed discussion.

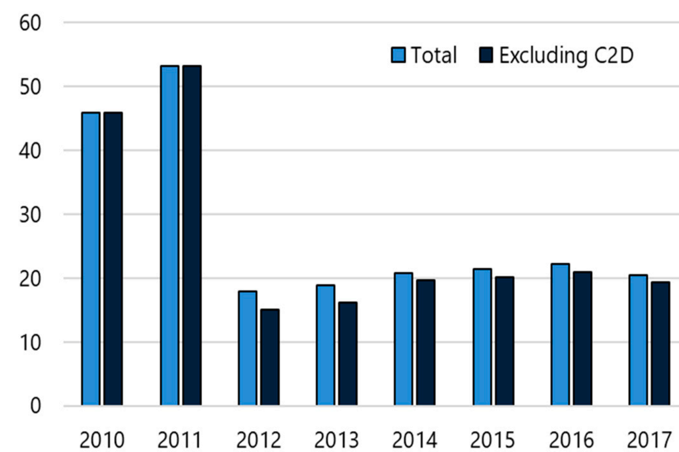
[3]The grant element of the Souapiti loan is estimated to be 29 percent. The loan will be transferred to a Special Purpose Vehicle (SPV) jointly owned by the Guinean government (51 percent) and China International Water and Electricity Corporation (49 percent), which will be managing and operating the dam on a commercial basis and will be responsible for servicing it.

[4]The Souapiti loan is not included in the public investment of the central government as it will be carried out by an SPV that is not considered as part of the central government.

BACKGROUND

2. Guinea's external public debt as a percent of GDP declined in 2017, after having increased gradually since 2012. Total public and publicly guaranteed (PPG) external debt increased to US$2 billion in 2017 (US$1.9 billion in 2016) while it decreased as a percent of GDP to 19.2 percent in 2017 (21.6 percent in 2016), reflecting strong GDP growth (Table 2). Approximately 54 percent of external debt is due to official bilateral creditors, mostly to non-Paris Club creditors, while 43 percent is owed to multilateral creditors. Since Guinea reached the completion point of the HIPC initiative in 2012, external borrowing has been used to finance infrastructure investment in the energy and transport sectors. The loan for the Souapiti dam (US$1.2 billion) was signed on September 4, 2018 and two other non-concessional loans for the rehabilitation of the RN1 national road and urban roads in Conakry were signed on September 5, 2018 for a total amount of US$598 million.[5] At end-2017, Guinea had outstanding external debt arrears of US$150 million (1.4 percent of GDP).[6] These arrears pre-date the completion of the HIPC initiative and are owed to non-Paris Club official bilateral (60 percent) and commercial creditors (40 percent). The authorities continue to make best efforts to discuss debt relief and normalize these arrears with the creditors, with the aim of reaching an agreement on repayment at the earliest. Creditors have so far not requested payment of these arrears.

Figure 1. Guinea: Stock of External Public and Publicly Guaranteed Debt,[1] 2010–17
(Percent of GDP)



Sources: Guinean authorities; and IMF Staff calculations.

[1]Starting in 2014, external and domestic PPG debt includes guarantees issued by the Guinean Central Bank (BCRG) to local and foreign banks to provide commercial loans to private sector operators to pre-finance the execution of public works. Notably, a guarantee issued to an external creditor in foreign currency, increased the stock of public and publicly-guaranteed external debt by US$72 million in 2014.

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[5]For the Souapiti loan, US$980 million, US$155 million and US$41 million are expected to be disbursed in 2019, 2020 and 2021, respectively. For the US$650 million envelope of non-concessional loans, US$56 million is expected to be disbursed in 2018. US$340 million is expected to be disbursed evenly in 2019 and 2020, and the rest US$254 million will be disbursed in 2021-2022.

[6]Guinea owes long-standing arrears that predate the HIPC completion point to non-Paris Club countries (Libya, Morocco, Thailand, Bulgaria, Romania, and Iraq). These arrears continue to be deemed away under the IMF Policy on Arrears to official bilateral creditors as the underlying Paris Club Agreement is adequately representative and the authorities are making best efforts to resolve the arrears. Guinea also owes long-standing arrears to private creditors. the authorities continue to make good faith efforts to engage with commercial creditors and reach a collaborative agreement. The IMF Board concluded a financing assurance review on June 25, 2018.

Table 2. Guinea: Structure of External Public and Publicly Guaranteed Debt
(Nominal values)

	end-2016	end-2017		
	USD (millions)	USD (millions)	Percent of Total	Percent of GDP
Total	**1822.1**	**2026.9**	**100.0**	**19.3**
Total incl. C2D	1934.4	2118.4	104.5	20.2
Multilateral creditors	**778.7**	**869.5**	**42.9**	**8.3**
IMF	241.3	277.2	13.7	2.6
World Bank	219.8	240.4	11.9	2.3
Other Multilateral creditors	317.5	351.9	17.4	3.4
Official Bilateral Creditors	**984.4**	**1095.8**	**54.1**	**10.4**
Paris Club (excl. C2D)	27.7	43.2	2.1	0.4
Non-Paris Club	956.7	1052.6	51.9	10.0
Commercial Creditors	**58.9**	**61.6**	**3.0**	**0.6**
Memo				
Arrears	147.4	150.1	7.4	1.4

Sources: Guinean authorities; and IMF Staff calculations.

Notes: Arrears at end-2017 are due to Non-Paris Club official bilateral creditors (US$88.5 million) and commercial creditors (US$61.6 million). The Guinean authorities have started discussions with creditors in order to reach a resolution on the normalization of these arrears.

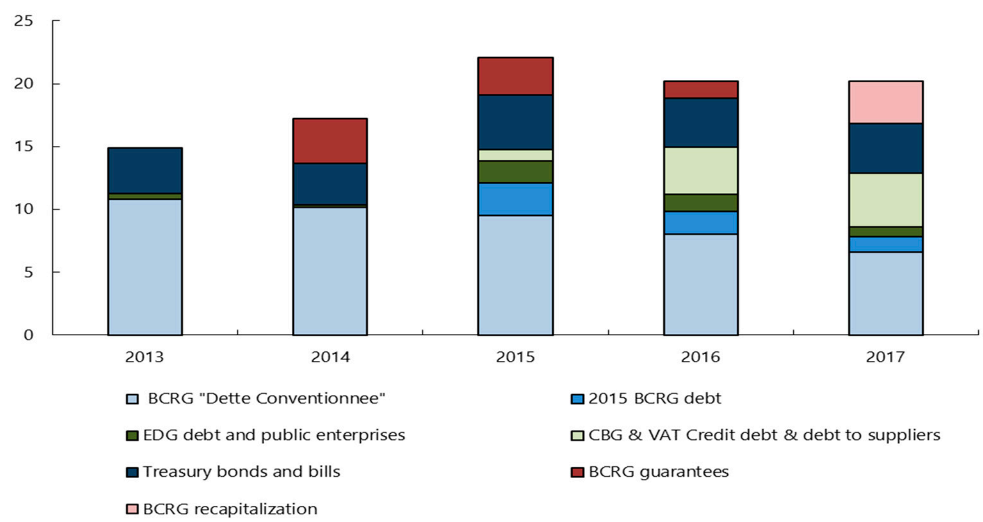
3. **PPG domestic debt as a percent of GDP declined slightly to 20.2 percent of GDP in 2017 from 20.5 percent of GDP in 2016**. The domestic debt stock increased to US$2.1 billion in 2017 from US$1.8 billion in 2016, which was mitigated by buoyant economic growth. On the one hand, continued settlement of debt to the central bank and debt related to the guarantees issued by the central bank and strong GDP growth lend support to domestic debt decumulation (Figure 2). Domestic debt related to the guarantees issued by the central bank during 2014–15 was reduced to 0.4 percent of GDP at end-2017.[7] In addition, outstanding government debt towards the BCRG accumulated in 2015 was repaid in an amount equivalent to 0.3 percent of GDP in 2017. In addition to debt related to the 2014–15 central bank guarantees and to 2015 central bank advances to the government, Guinea continued to hold US$678 million (6.7 percent of 2017 GDP) in "dette conventionnée", which is debt related to consolidated central bank advances accumulated prior to 2013, scheduled to be repaid over 40 years starting in 2023. On the other hand, the inclusion of the

[7]In 2014 and 2015, the central bank had issued US$870 million (9.6 percent of 2017 GDP) worth of guarantees to commercial banks to provide loans to private companies to pre-finance the execution of public investment projects. Most of the guarantees were domestic apart from US$72 million owed to a foreign bank. Owing to restructuring in 2015 and settlements, those guarantees were gradually reduced to reach 1.4 percent of GDP at end-2016 and were fully transferred to the Treasury.

BCRG recapitalization[8] (about US$300 million or 3.4 percent of GDP) in the DSA, retroactive from 2017, increased the stock of domestic debt. The government also accumulated additional domestic arrears of 1 percent of GDP in 2017 owed to domestic suppliers of goods and services. The overall stock of domestic arrears is estimated at 3.3 percent of GDP at end-2017,[9] of which 0.9 percent of GDP were repaid in the first quarter of 2018. The authorities approved a strategy to clear long-standing domestic arrears to the private sector in December 2017, aiming at clearing small creditors first which represent 80 percent of the number of creditors but only 20 percent of the nominal value of the audited and validated arrears. To this end, arrears to small creditors have already been cleared with repayment amounts of GNF 43 billion in 2017 and GNF 59 billion in 2018. The authorities plan to repay the remainder amounts over a seven-year period through issuance of securities and direct payments. They also started the second phase of the external audit in October 2018 for continuing negotiations with creditors and finalizing memoranda of understanding for audited and validated amounts. In addition, the authorities are in the process of negotiating with the same external auditor to conduct a review of domestic arrears contracted during 2014–17.

Figure 2. Guinea: Stock of Domestic Public and Publicly Guaranteed Debt, 2013–17

(Percent of GDP)



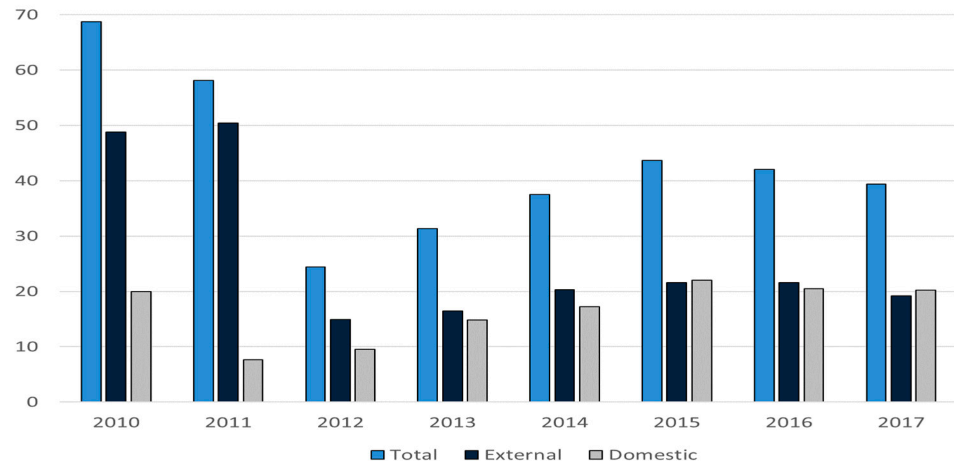
Sources: Guinean authorities; and IMF Staff calculations.
Note: "Dette conventionnée" comprises consolidated past advances to the government which are to be repaid over 40 years with amortization payments beginning in 2023. BCRG debt in 2015 are central bank advances to the government whose repayment agreement calls for amortization over six years beginning in 2016.

[8] A Memorandum of Understanding (MoU) between the Ministry of Finance and Economics and the BCRG was reached in May 2018 which specifies the modalities and the timeline for the recapitalization of the BCRG. Non-marketable government securities backdated to December 2017 (about US$300 million or 3.4 percent of GDP) with an interest rate of 8 percent were issued by the Treasury in October 2018 to recapitalize the BCRG. Additional securities will be issued in subsequent years to cover the interest of all outstanding securities. The government can start to redeem the securities at any point in time.

[9] In July 2016 the authorities completed an audit of the outstanding stock of central government arrears over 1982–2013, which led to the inclusion of an additional US$0.2 billion (2.9 percent of GDP) in arrears, owed mainly to domestic suppliers of goods and services and for VAT credit refunds.

4. The stock of overall public debt as a share of GDP declined in 2017 as both external and domestic debt positions strengthened (Figure 3). Total public debt stood at US$4.1 billion (39.4 percent of GDP) at end-2017 compared with US$3.6 billion (42.1 percent of GDP) in 2016. The external debt stock reached US$2.0 billion, compared with US$1.9 billion in 2016, due to new disbursements of previously signed loans with bilateral creditors. The domestic debt stock increased by US$322 million, mainly owing to the inclusion of the BCRG recapitalization.

Figure 3. Guinea: Stock of Total Public and Publicly Guaranteed Debt, 2010–17
(Percent of GDP)



Sources: Guinean authorities; and IMF Staff calculations.

UNDERLYING ASSUMPTIONS

5. Key assumptions are consistent with the macroeconomic framework outlined in the Staff Report for the Second Review under a Three-Year Extended Credit Facility[10] (Table 3). Changes to the assumptions compared to the June 2018 DSA update are as follows:

- **Real GDP growth** was revised upward to 9.9 percent (from 8.2 percent) in 2017 on the back of stronger-than-expected mining and construction activities, which led to a sizable upward revision of nominal GDP. The growth momentum is expected to continue, with real GDP growth reaching 5.8 percent in 2018 and averaging about 6 percent over the medium term, driven by strong performance in mining, construction, and scaled-up investments in infrastructure (Table 3). Over the long run (2022–38), growth is projected to remain near 5 percent, reflecting the increased productive capacity of the economy and its further diversification. Risks to the medium-term growth outlook are tilted to the downside, prospectively stemming from socio-political tensions and delays in projects and reform implementation. Upside potential could arise from faster-than-expected mining production capacity coming on stream.

[10]Guinea—Second Review of the Arrangement Under a Three-Year Extended Credit Facility, Financing Assurances Review, and Request for Waiver of Nonobservance of Performance Criterion.

- **Inflation** is expected to remain moderate at around 9.7 percent in 2018 and decline slightly over the medium term, reflecting a prudent monetary policy stance.

- **Fiscal balance**.[11] The primary fiscal balance is expected to record a deficit of 1 percent of GDP in 2018 and an average deficit of 0.5 percent over 2019–23, reflecting revenue mobilization efforts and the containment of non-priority current expenditure, including the gradual phasing out of electricity subsidies. Additional tax revenues of about 2.1 percent of GDP are expected to be mobilized over 2018-20, supported by a targeted tax policy, administrative reforms, and stronger mining revenues. Continued revenue mobilization effort is expected to gradually increase tax revenue by 0.8 percent of GDP over 2021–2028. In parallel, capital expenditures are expected to rise with the scale up in public infrastructure investment under the authorities' National Economic and Social Development Plan (PDNES) from 6.1 percent of GDP in 2018 to 6.9 percent in 2023. In view of development needs, capital expenditures are expected to remain high at 6.9 percent of GDP, on average, over 2024-28. Grants are expected at 1.7 percent in 2018 and 1.1 percent on average over the period 2019–21, also reflecting the mobilization of donors' support following the 2017 Consultative Group for Guinea.

- **The current account** is expected to record a deficit of 16 percent of GDP in 2018 and to average 15 percent of GDP over 2019–23, reflecting high and volatile imports for mining and public infrastructure projects including the Souapiti dam financed by FDI and external borrowing. These investments will boost exports, resulting in a gradual narrowing of the current account deficit over the medium term.

- **External financing mix and terms**. Authorities plan to mobilize external financing for scaling up public investments in infrastructure to place the economy on a higher growth path and to support economic diversification. New external borrowing is expected to pick up significantly in the near term, from 1.0 percent of GDP in 2017 to 4.0 percent of GDP in 2018, and average 6.3 percent of GDP over 2019–21. The debt accumulation pick-up in the short term reflects the one-off impact of the borrowing to finance the construction of the Souapiti dam signed in September 2018 (Table 5). In addition to the Souapiti loan to be disbursed over 2019–21, the DSA also incorporates the authorities' expected borrowing of an additional US$650 million in non-concessional loans from China to be disbursed over 2018–21. These loans will finance priority growth-supporting infrastructure projects in the energy, transport and education sectors.[12] Out of this envelope, US$598 million were also signed in September 2018 to finance rehabilitation of the RN1 national road and the Conakry urban road network. External borrowing is expected to continue in the long run to support infrastructure

[11]While it is the primary fiscal balance that drives public debt, the basic fiscal balance is the main fiscal anchor under the ECF program. The basic fiscal balance is defined as government revenue excluding grants minus expenditures, excluding interest payments on external debt and externally financed capital expenditure. This measure of fiscal balance aims to capture actual fiscal efforts. The basic fiscal surplus is projected to improve from 0.8 percent of GDP in 2018 to an average of 1 percent of GDP during 2019–23.

[12]Projects under discussion include the rehabilitation of the RN1 national road and the Conakry urban road network, which were signed in September 2018, the construction of an electrical interconnection line, and the rehabilitation of a university. The grant element of these loans is expected to be approximately 18.9 percent.

development, and average at about 2 percent of GDP. Due to the mostly non-concessional nature of borrowing in the near term, the average grant element of new borrowing would decline sharply to 30 in 2019 from 36.3 percent in 2018 due to an expected large disbursement from the Souapiti loan, and average 30.5 percent in the long run, reflecting that the use of non-concessional financing is expected to gradually increase over time.

- **Domestic borrowing**. Net government domestic financing is expected to be negative throughout 2018–27, as the government is expected to gradually repay past borrowings from the BCRG, domestic arrears accumulated during 2017, and the validated 1982–2013 arrears to the private sector in line with the clearance strategy approved in December 2017. This will be supported by revenue mobilization and containing current non-priority spending. Net domestic borrowing is expected to turn positive in the long term and increase gradually from 2028 onwards. A prudent domestic borrowing strategy, anticipated repayments of government borrowing from the BCGR, and a gradual reduction in domestic arrears will contribute to the gradual stabilization of domestic debt in the next five years (Table 6).

- **Realism of assumptions**. Growth projections at about 6 percent in 2018–19 are predicated on conservative assumptions, notably against the background of weak historical growth outturns in Guinea, reflecting adverse conditions as the Ebola crisis, commodity price shocks and earlier periods of social unrest. In this context, the investment-growth nexus remains conservative (Figure 8, bottom panel). While higher-than-projected primary fiscal deficits were historically the largest contributor to unexpected debt accumulation for the past five years (Figure 7), the current ECF arrangement supports a fiscal adjustment that is feasible for Guinea, taking into account its fragility and capacity constraints (Figure 8, top panel).[13]

Table 3. Guinea: LIC DSA Macroeconomic Assumptions
(Percent of GDP, unless otherwise indicated)

	Previous DSA					Current DSA				
	2016	2017	2018	2023	2028	2016	2017	2018	2023	2028
Nominal GDP ($ Million)	8695	10251	11486	16729	23529	8695	10401	11743	16931	23800
Real GDP (percentage change)	10.5	8.2	5.8	5.0	5.0	10.5	9.9	5.8	5.0	5.0
Fiscal Accounts										
Revenues	14.6	13.8	14.5	16.8	16.9	14.6	13.6	13.7	16.1	16.7
Grants	1.2	1.5	1.3	1.1	0.5	0.9	1.4	1.4	1.1	0.5
Public Sector Expenditure	16.0	17.5	18.0	19.4	18.8	16.0	17.2	17.5	18.2	18.1
of which: Capital expenditure and net lending	4.8	5.9	6.5	7.8	7.4	4.8	5.8	6.6	7.0	7.0
Primary Fiscal Balance	0.9	-1.2	-1.1	-0.6	-0.3	0.9	-1.1	-1.0	0.0	0.1
New external borrowing	...	...	9.0	2.7	2.3	...	...	3.9	2.7	1.8
Grant elements of new external borrowing	...	...	31.1	28.4	25.8	...	...	36.3	34.7	31.0
Balance of Payments										
Exports of goods and services	28.4	39.9	35.9	35.0	33.3	28.4	39.3	37.3	34.8	33.1
Imports of goods and services	59.1	47.4	52.2	45.6	48.8	59.1	46.8	49.0	49.4	48.0
Current account (including transfers)	-31.4	-7.1	-21.2	-11.0	-6.5	-31.8	-7.0	-16.4	-10.2	-6.4
Foreign direct investment	18.3	12.7	13.5	8.7	5.2	18.3	12.6	13.2	8.6	5.1

Sources: Guinean authorities; and IMF and World Bank staff estimates.

[13]The ECF-program supported fiscal adjustment is below the top quartile of fiscal adjustments in all IMF programs for LICs approved since 1990 (Figure 8, top left panel). The programmed fiscal adjustment is expected to have limited impact on growth with a range of possible fiscal multipliers, and the implicitly assumed fiscal multiplier is very conservative (Figure 8, top right panel).

COUNTRY CLASSIFICATION AND MODEL SIGNALS

6. **The Composite Indicator for Guinea is 2.50 based on the October and April 2018 WEO vintages as well as the 2017 update for the CPIA index, which classifies Guinea at weak debt-carrying capacity.**[14] The relevant thresholds for external debt burden indicators and benchmarks for total public debt indicators in the DSA are determined by Guinea's debt carrying capacity (Table 4). Two tailored stress tests are triggered to account for Guinea's specific economic features. A contingent liabilities stress test captures a combined shock from SOEs' external debt default, PPPs' distress and/or cancellations, and financial market vulnerabilities, all of which amount to 8.3 percent of GDP (Table 1).[15] A commodity prices stress test is also applied as mining exports constitute more than 80 percent of total exports for Guinea.[16] And two fully customized scenarios, a weak policy scenario, and a front-loaded disbursement scenario are also performed to assess Guinea's country-specific risks.

Table 4. Guinea: Debt Carrying Capacity and Thresholds

Final classification	Classification based on current vintage	Classification based on the previous LIC DSF
Weak	Weak	Weak
	2.50	3.09

EXTERNAL debt burden thresholds	Current LIC DSF	Previous LIC DSF
PV of debt in % of		
Exports	140	100
GDP	30	30
Debt service in % of		
Exports	10	15
Revenue	14	18
TOTAL public debt burden benchmarks	**Current LIC DSF**	**Previous LIC DSF**
PV of debt in % of GDP	35	38

[14]A country's debt carrying capacity was determined by its CPIA score under the old LIC DSF. Debt carrying capacity for Guinea was also assessed to be weak in the 2017 DSA based on a CPIA score of 3.09 for Guinea.

[15]The contingent liability stress test has two components: (i) a minimum starting value of 5 percent of GDP representing the average cost to the government of a financial crisis in a LIC since 1980; and (ii) a tailored value, reflecting additional potential shocks from SOE's debt and PPP that are not included in the definition of public debt. A tailored PPP shock is used, and the size of the PPP shock is estimated to be 3.8 percent of GDP based on the 2018 PIMA report, larger than the default value of 1.37 percent from the World Banks' PPP database. Local governments in Guinea have limited debt exposure, and the stock of non-guaranteed SOE's debt is also likely to be a small. Overall, a contingent liability shock of 8.3 percent of GDP should adequately capture risks arising from debt not covered under the baseline.

[16]The commodity prices stress test captures the impact of a sudden one standard deviation decline in the export prices of various fuel and non-fuel commodities, as relevant. The size of the commodity price shock is conservatively chosen to be larger than the default value, as commodity imports, which are a mitigating factor for the commodity price shock, do not perfectly offset commodity exports for Guinea.

A. External Debt

7. Under the baseline scenario, all external debt ratios remain below their policy dependent thresholds, indicating that Guinea remains at moderate risk of external debt distress (Table 5 and Figure 4). The PV of debt-to-GDP is expected to remain below the policy-dependent threshold (Table 7), peaking at 22.8 percent in 2020 (below the peak of 23 percent of GDP in the June 2018 DSA update) and then to decline. Furthermore, liquidity ratios (debt service-to-exports and debt service-to-revenues) are also expected to remain well below policy dependent thresholds and decline slightly compared with the June 2018 DSA update. The growth rate for accumulation of external debt will average 3.3 percent (y/y) over 2018–22 in line with the June 2018 DSA update.

8. Guinea remains at moderate risk of external debt distress while vulnerabilities have moderated. While more frontloaded-than-anticipated disbursement profiles for the newly signed Souapiti and the other two non-concessional loans signed in September 2018 increased the debt burden, stronger-than-expected growth has reduced vulnerabilities. Under the historical scenario and most extreme stress tests, all indicators except the debt service-to-exports ratio under the historical scenario breach their thresholds for prolonged periods (Figure 4).[17] Under the bound tests, some indicators also breach their thresholds (Table 8). However, some of these tests are based on historical growth and export averages, which reflect exceptionally adverse economic conditions for Guinea, including the Ebola crisis and commodity price shocks during 2014–15 and earlier periods of civil unrest. Under two more plausible country-specific scenarios—i) a weak policy implementation scenario and ii) a less-prudent phasing of investment projects scenario with frontloaded disbursements of the anticipated US$650 million in non-concessional loans—all indicators remain below their policy dependent thresholds but are slightly higher than under the baseline scenario (Figure 6).[18]

B. Total Public Debt

9. The model signals high risk of overall debt distress as the PV of public debt to GDP breaches the benchmark for two years under the baseline scenario (Table 6 and Figure 5). Public debt dynamics have worsened compared to the June 2018 DSA update mainly due to the one-off impact of the inclusion of the BCRG recapitalization.[19] The PV of total public debt-to-GDP ratio peaks in 2019 at 37 percent of GDP (vis-à-vis the benchmark of 35 percent of GDP), compared with 32.5 percent of GDP in the June 2018 DSA update. The indicator remains above benchmark at 36 percent in 2020, and then declines gradually over the long term. This dynamic mirrors the path of the PPG external debt stock, which increases in the short run due to the Souapiti loan and an

[17]The most extreme stress test for external debt indicators is an export shock that sets export growth to its historical average minus one standard deviation in the second and third years of the projection period.

[18]The weak policy scenario assumes real GDP is 1 percentage point below the baseline over 2019–38, reflecting slower reform implementation, and the basic fiscal balance is 0.5 percent of GDP in 2019–20, reflecting slower revenue collection. The frontloaded disbursement scenario assumes the US$650 million in non-concessional loans are disbursed over a three rather than five-year period.

[19]Without the BCRG recapitalization, the overall public debt-to-GDP ratio would not breach the benchmark.

expected envelope of US$650 million in non-concessional loans. The PV of the total debt-to-GDP ratio exceeds the benchmark in the medium term only under the extreme shock,[20] four bounds tests and the commodity price stress test (Table 8). Delays in repaying domestic arrears or debt owed to the BCRG, unanticipated government borrowing from the BCRG,[21] or data revisions after new audits of domestic debt and arrears could worsen the dynamics of total public debt.

RISK RATING AND VULNERABILITIES

10. Guinea stands at moderate risk of external debt distress with some space to absorb shocks.[22] External debt is expected to increase significantly in the short run due to borrowing for financing priority infrastructure. While more frontloaded-than-anticipated disbursement profiles for the newly signed Souapiti and two non-concessional loans to finance key infrastructure projects increased the debt burden, stronger-than-expected growth has reduced vulnerabilities. The authorities' strategy of carefully phasing investment projects and their commitment to containing non-concessional external borrowing within the amounts specified under the ECF arrangement[23] will be key to ensuring that debt remains sustainable at moderate risk of external debt distress.

11. Guinea's risk of overall debt distress is assessed to be moderate, with application of staff judgement. The PV of total public debt-to-GDP ratio breaches the benchmark in 2019 and 2020, implying substantially less space to absorb shocks than suggested by external debt burden indicators. The increase of the debt burden indicator, leading to the breach of the benchmark, is due to the impact of the inclusion of the BCRG recapitalization in 2018, a key reform to enhance Central Bank independence. Staff applied judgment to assign a moderate risk rating for three main reasons. First, the magnitude of the breach is marginal, and the length is just two years. Second, the recapitalization will only affect one debt burden indicator—the PV of overall public debt to GDP. Notably, the recapitalization will not add to the debt service burden in the near term as it was conducted by issuing 30-year bonds for the overall recapitalization needs as well as related interest and no payment is expected to be made until 2046. Third, projections of growth in the macro-framework are conservative for 2018 as preliminary data point to mining activity being stronger than expected. To maintain debt sustainability, a basic fiscal surplus will need to be achieved to contain

[20]In this case, the most extreme shock scenario is a shock to other flows that sets current transfers-to-GDP and FDI-to-GDP ratios to their historical average minus one SD, or baseline projection minus one SD, whichever is lower in the second and third years of the projection period.

[21]The large unexpected changes in the residual over 2012-17 were due to the issuance of US$870 million (9.9 percent of GDP) worth of guarantees by the BCRG to commercial banks in 2014 and 2015 (Figure 7).

[22]The robustness of a country's debt position at moderate risk of external debt distress depends on the country's available "space" to absorb shocks without being downgraded to high risk of debt distress. For the PV of debt-to-exports ratio and debt service-to-exports ratio, only shocks in the upper quartile of the observed distribution of shocks would downgrade Guinea to high risk of debt distress. For the PV of debt-to-GDP ratio and debt service-to-revenue ratio, shocks smaller than the ones in the upper quartile but bigger than the median observed shocks could trigger a downgrade. As a result, Guinea is assessed to have some space to absorb shocks (Figure 9).

[23]Under the ECF arrangement, non-concessional borrowing is capped at US$650 million, excluding the use of IMF resources, debts classified as international reserve liabilities of the BCRG and the non-concessional loan to finance the Souapiti dam project.

budgetary financing needs. A prudent domestic debt strategy will also support debt sustainability in the medium and long term.

12. Maximizing concessional debt and strengthening debt and public investment management will be essential to preserving debt sustainability. In this regard, the authorities' commitment to implement a prudent borrowing strategy to maximize concessionality and limit non-concessional borrowing to a maximum of US$650 million (excluding Souapiti) during 2018–21 is key to ensuring that the risk of external and overall debt distress does not exceed a moderate level. Strengthening the debt management framework, with the support of technical assistance from the IMF, World Bank, and other development partners, will be essential to contain debt vulnerabilities. A Debt Management Performance Assessment (DeMPA) was completed in May 2018 with the support of the World Bank, and a time-bound action plan to strengthen debt management based on DeMPA findings is being prepared. Updating the medium-term debt management strategy, enhancing capacity to conduct debt sustainability analysis, improving public debt statistics, and strengthening procedures for managing domestic debt will be key. Strengthening public investment management will enhance the transparency, efficiency, and returns of public investment projects.

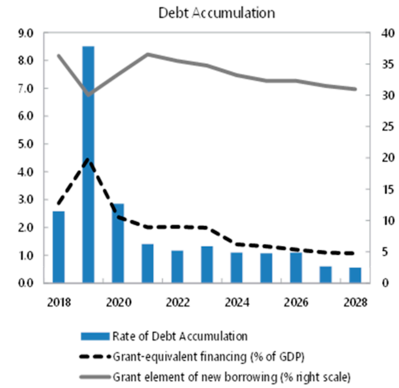
13. The authorities broadly agreed with the conclusions of the DSA. They underscored their commitment to maintaining a sustainable level of debt that does not exceed a moderate risk of debt distress. They also concurred with the importance of maximizing concessional borrowing where possible but noted that financing under these terms is not available in the scale needed to finance their large infrastructure needs. The authorities are committed to implementing their strategy to gradually clear domestic arrears to the private sector. They also remain committed to strengthening debt management by working closely with development partners.

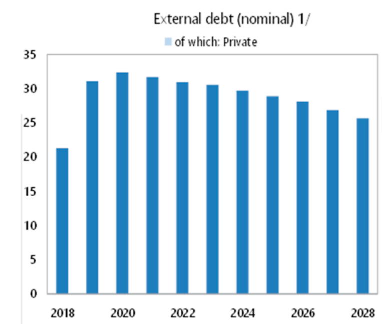
Table 5. Guinea: External Debt Sustainability Framework, Baseline Scenario, 2015–38

(Percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028	2038	Historical	Projections
External debt (nominal) 1/	21.6	21.6	19.2	21.3	31.1	32.4	31.7	30.9	30.5	25.6	15.9	31.3	28.8
of which: public and publicly guaranteed (PPG)	21.6	21.6	19.2	21.3	31.1	32.4	31.7	30.9	30.5	25.6	15.9	31.3	28.8
Change in external debt	1.3	0.0	-2.4	2.1	9.8	1.3	-0.7	-0.7	-0.4	-1.2	-0.8		
Identified net debt-creating flows	9.9	13.7	-9.1	2.2	9.7	2.0	-0.2	0.0	0.1	0.0	-0.6	6.2	1.3
Non-interest current account deficit	12.7	31.5	6.8	16.1	20.1	16.9	12.5	11.5	9.8	6.0	1.5	13.1	11.4
Deficit in balance of goods and services	9.5	30.7	7.5	11.7	13.5	10.9	7.5	6.3	4.8	2.2	-0.5	10.9	6.5
Exports	21.1	28.4	39.3	37.3	35.9	37.1	36.8	35.7	34.8	33.1	31.9		
Imports	30.7	59.1	46.8	49.0	49.4	48.0	44.3	42.0	39.6	35.3	31.4		
Net current transfers (negative = inflow)	0.4	-0.7	-0.9	-0.5	-0.8	-0.8	-1.0	-1.2	-1.3	-1.0	-0.9	-3.0	-1.0
of which: official	-0.2	-0.7	-0.2	-0.2	-0.2	-0.2	-0.4	-0.5	-0.5	-0.3	-0.3		
Other current account flows (negative = net inflow)	2.8	1.5	0.3	5.0	7.4	6.8	6.0	6.4	6.2	4.8	2.8	5.1	5.9
Net FDI (negative = inflow)	-3.0	-18.3	-12.6	-13.2	-9.5	-13.6	-11.3	-10.4	-8.6	-5.1	-1.6	-6.1	-9.1
Endogenous debt dynamics 2/	0.2	0.5	-3.3	-0.7	-0.9	-1.3	-1.4	-1.1	-1.0	-0.9	-0.5		
Contribution from nominal interest rate	0.2	0.3	0.2	0.3	0.2	0.4	0.4	0.4	0.4	0.4	0.3		
Contribution from real GDP growth	-0.8	-2.3	-1.8	-1.0	-1.2	-1.7	-1.8	-1.6	-1.4	-1.2	-0.8		
Contribution from price and exchange rate changes	0.8	2.5	-1.8	...	...	...	...	...	...	...	...		
Residual 3/	-8.6	-13.8	6.7	-0.1	0.0	-0.7	-0.5	-0.7	-0.6	-1.2	-0.2	-9.4	-0.7
of which: exceptional financing	-0.5	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	14.3	14.9	21.8	22.8	22.4	22.0	21.8	19.0	12.2		
PV of PPG external debt-to-exports ratio	...	...	36.4	40.0	60.7	61.5	60.8	61.6	62.7	57.5	38.1		
PPG debt service-to-exports ratio	4.9	3.6	1.4	2.1	2.1	2.7	3.3	4.0	3.9	5.0	4.5		
PPG debt service-to-revenue ratio	7.6	7.1	4.1	5.7	5.1	6.6	7.7	8.8	8.3	10.0	8.6		
Gross external financing need (Billion of U.S. dollars)	0.9	1.2	-0.5	0.4	1.4	0.6	0.4	0.4	0.4	0.6	0.7		
Key macroeconomic assumptions													
Real GDP growth (in percent)	3.8	10.5	9.9	5.8	5.9	6.0	6.0	5.3	5.0	5.0	5.0	5.0	5.3
GDP deflator in US dollar terms (change in percent)	-3.7	-10.5	8.9	6.7	1.7	1.8	1.9	1.9	1.9	2.0	2.0	0.6	2.4
Effective interest rate (percent) 4/	0.8	1.4	1.1	1.5	1.2	1.4	1.4	1.5	1.5	1.5	1.7	1.1	1.5
Growth of exports of G&S (US dollar terms, in percent)	-5.1	32.9	65.3	7.3	3.5	11.7	7.3	3.9	4.3	6.4	7.3	15.4	6.2
Growth of imports of G&S (US dollar terms, in percent)	-7.1	90.8	-5.4	18.3	8.6	5.0	-0.3	1.6	0.9	4.9	6.3	16.4	5.2
Grant element of new public sector borrowing (in percent)	...	...	...	36.3	30.1	33.3	36.5	35.5	34.7	31.0	27.7	...	33.3
Government revenues (excluding grants, in percent of GDP)	13.7	14.6	13.6	13.7	14.5	15.3	15.7	16.1	16.1	16.7	16.9	12.9	15.8
Aid flows (in Billion of US dollars) 5/	0.1	0.1	0.1	0.5	0.4	0.4	0.4	0.4	0.5	0.4	0.6		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	2.9	4.5	2.4	2.0	2.0	2.0	1.1	0.9	...	2.0
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	53.5	35.2	45.0	54.4	54.7	53.3	45.9	45.7	...	48.6
Nominal GDP (Billion of US dollars)	9	9	10	12	13	14	15	16	17	24	47		
Nominal dollar GDP growth	0.0	-1.1	19.6	12.9	7.7	7.9	8.0	7.3	7.0	7.0	7.0	5.6	7.8
Memorandum items:													
PV of external debt 7/	...	...	14.3	14.9	21.8	22.8	22.4	22.0	21.8	19.0	12.2		
In percent of exports	...	...	36.4	40.0	60.7	61.5	60.8	61.6	62.7	57.5	38.1		
Total external debt service-to-exports ratio	4.9	3.6	1.4	2.1	2.1	2.7	3.3	4.0	3.9	5.0	4.5		
PV of PPG external debt (in Billion of US dollars)			1.5	1.8	2.8	3.1	3.3	3.5	3.7	4.5	5.7		
(PVt-PVt-1)/GDPt-1 (in percent)				2.6	8.5	2.9	1.4	1.2	1.3	0.6	0.2		
Non-interest current account deficit that stabilizes debt ratio	11.4	31.6	9.2	14.0	10.4	15.6	13.2	12.3	10.2	7.2	2.3		

Definition of external/domestic debt	Currency-based
Is there a material difference between the two criteria?	No





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

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

6/ 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).

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

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

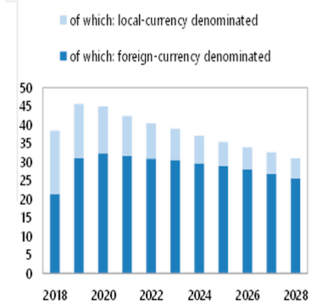
Table 6. Guinea: Public Sector Debt Sustainability Framework, Baseline Scenario, 2015–38

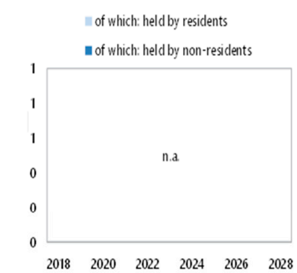
(Percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028	2038	Historical	Projections
Public sector debt 1/	43.6	42.1	39.4	38.4	45.6	45.0	42.4	40.5	39.0	31.0	19.3	46.5	38.3
of which: external debt	21.6	21.6	19.2	21.3	31.1	32.4	31.7	30.9	30.5	25.6	15.9	31.3	28.8
Change in public sector debt	6.1	-1.6	-2.7	-1.0	7.2	-0.7	-2.6	-1.9	-1.5	-1.6	-1.0		
Identified debt-creating flows	5.6	-3.8	-5.8	-2.2	-1.6	-2.4	-2.9	-2.3	-2.0	-1.4	-0.8	-2.5	-1.9
Primary deficit	6.1	-0.9	1.1	1.0	1.5	0.9	0.0	0.0	0.0	-0.1	-0.3	2.2	0.3
Revenue and grants	14.7	15.6	15.1	15.1	15.4	16.2	16.7	17.2	17.2	17.2	17.4	14.2	16.7
of which: grants	1.0	0.9	1.4	1.4	0.9	0.9	1.0	1.1	1.1	0.5	0.5		
Primary (noninterest) expenditure	20.7	14.6	16.2	16.1	16.9	17.2	16.7	17.2	17.2	17.1	17.1	16.3	17.0
Automatic debt dynamics	0.5	-2.9	-6.9	-3.2	-3.0	-3.3	-2.8	-2.3	-2.0	-1.3	-0.5		
Contribution from interest rate/growth differential	-1.2	-4.6	-5.0	-3.2	-3.1	-3.3	-2.8	-2.3	-2.0	-1.3	-0.5		
of which: contribution from average real interest rate	0.2	-0.5	-1.2	-1.0	-0.9	-0.7	-0.3	-0.1	-0.1	0.2	0.4		
of which: contribution from real GDP growth	-1.4	-4.1	-3.8	-2.2	-2.1	-2.6	-2.5	-2.1	-1.9	-1.5	-1.0		
Contribution from real exchange rate depreciation	1.7	1.7	-1.9	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	-1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-2.8	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 contingent liabilities (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		
Debt relief (HIPC and other)	-1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	0.5	2.3	3.1	1.2	8.8	1.7	0.2	0.4	0.5	-0.2	-0.2	0.4	1.2
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	34.4	32.6	37.0	36.1	33.8	32.1	30.8	25.0	15.9		
PV of public debt-to-revenue and grants ratio	...	...	227.9	215.6	240.3	222.2	201.7	187.0	179.0	145.5	91.1		
Debt service-to-revenue and grants ratio 3/	10.0	11.9	8.1	16.9	15.4	14.6	16.2	16.0	15.3	14.8	12.6		
Gross financing need 4/	6.7	-0.2	2.4	3.7	4.0	3.5	2.8	2.8	2.6	2.5	1.9		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	3.8	10.5	9.9	5.8	5.9	6.0	6.0	5.3	5.0	5.0	5.0	5.0	5.3
Average nominal interest rate on external debt (in percent)	0.8	1.5	1.1	1.5	1.2	1.5	1.5	1.5	1.5	1.6	1.8	1.2	1.5
Average real interest rate on domestic debt (in percent)	1.2	-2.7	-5.7	-4.7	-4.4	-3.8	-1.3	-0.3	0.7	6.0	14.1	-0.5	0.5
Real exchange rate depreciation (in percent, + indicates depreciation)	8.8	8.8	-9.9	...	...	...	...	...	...	...	...	1.6	...
Inflation rate (GDP deflator, in percent)	2.8	7.1	10.4	9.7	8.8	8.1	8.0	7.9	7.8	8.0	8.0	8.4	8.2
Growth of real primary spending (deflated by GDP deflator, in percent)	14.0	-22.2	22.0	5.1	10.9	7.7	3.3	8.2	5.2	5.2	4.9	17.0	5.9
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-0.1	0.6	3.8	2.0	-5.7	1.6	2.6	1.9	1.5	1.5	0.7	1.5	1.1
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**No**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, central bank, government-guaranteed debt. Definition of external debt is Currency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

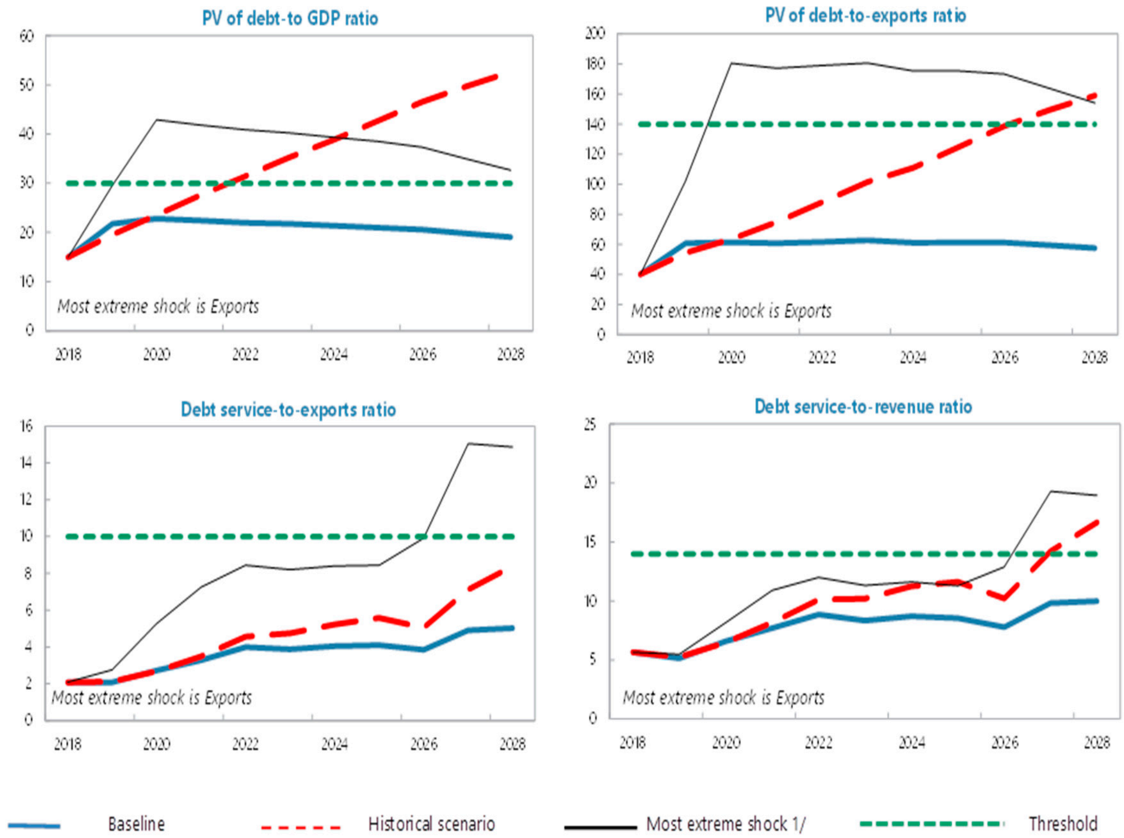
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ 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 and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Figure 4. Guinea: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2018–28



Customization of Default Settings		
	Size	Interactions
Tailored Tests		
Combined CLs	No	
Natural Disasters	n.a.	n.a.
Commodity Prices [2/]	Yes	No
Market Financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions for Stress Tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.6%	1.6%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	20	20
Avg. grace period	6	6

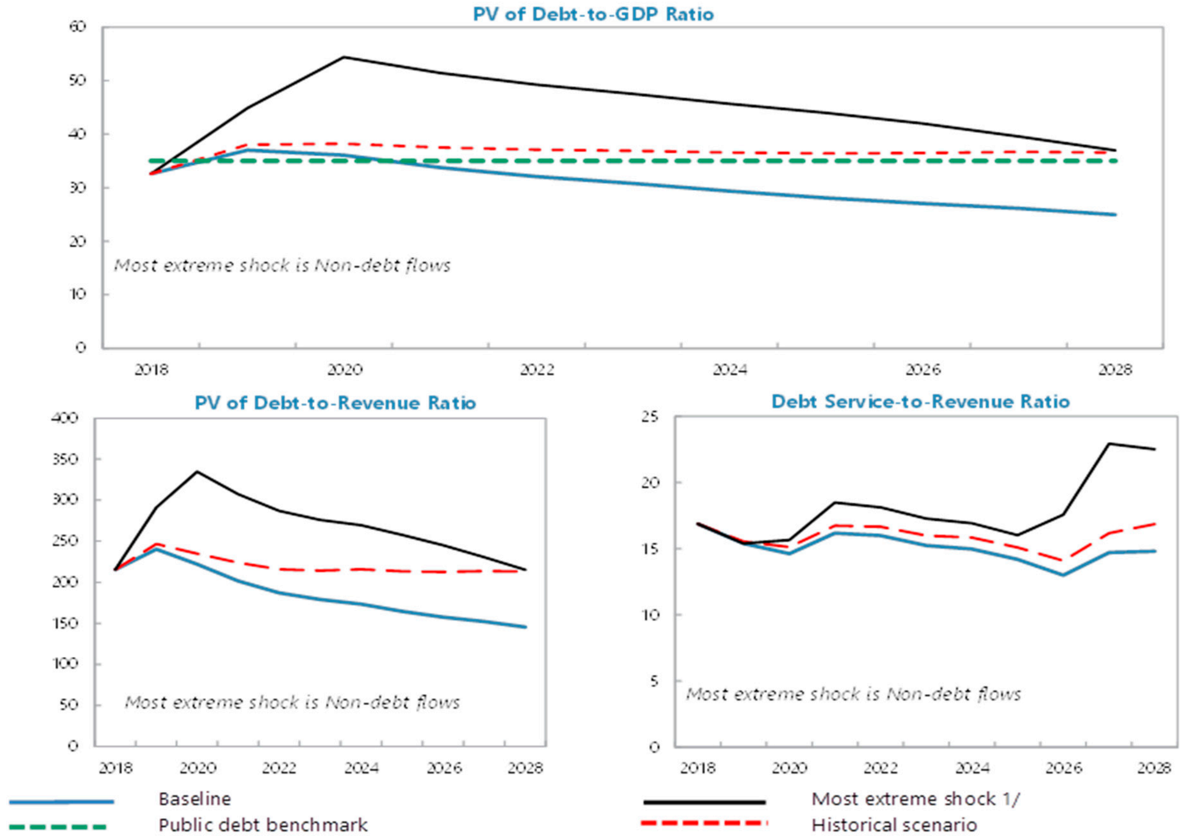
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2028. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 5. Guinea: Indicators of Public Debt Under Alternative Scenarios, 2018–28



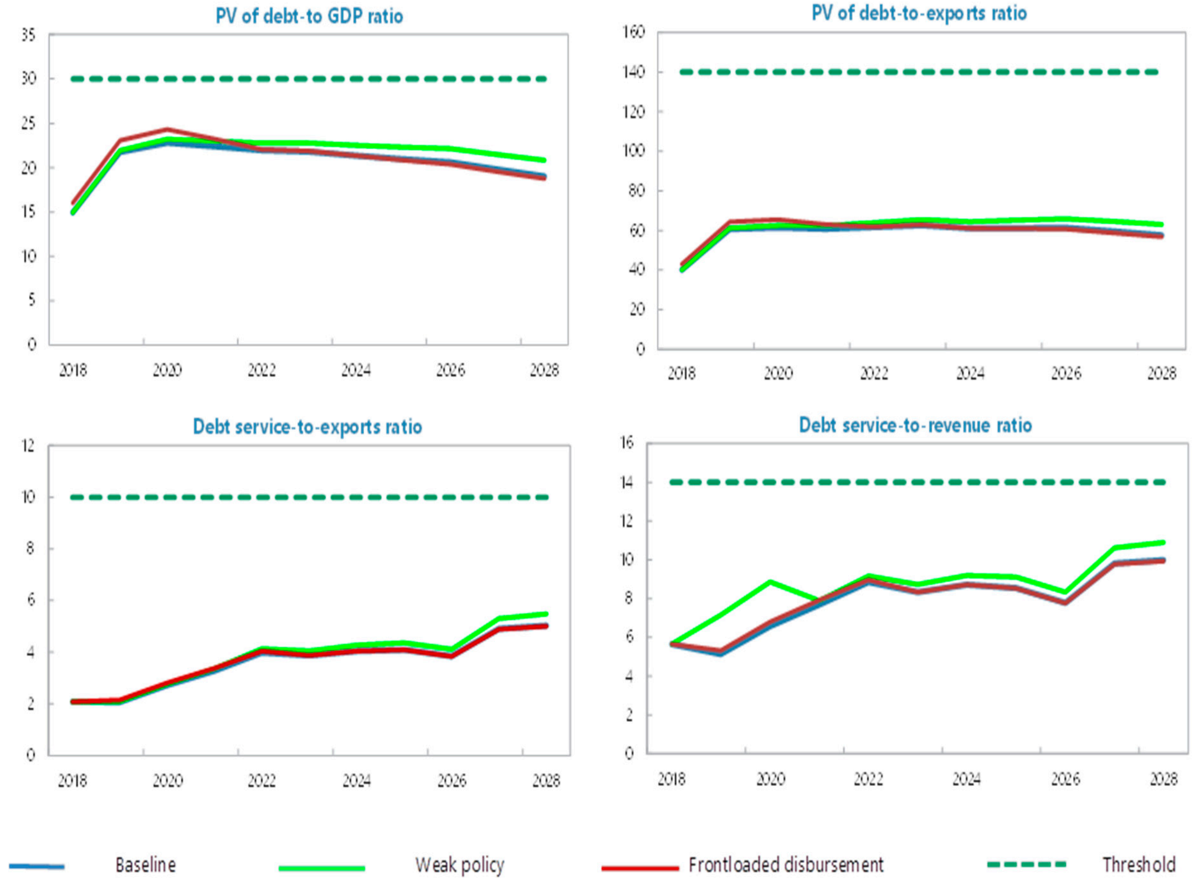
Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	91%	91%
Domestic medium and long-term	1%	1%
Domestic short-term	7%	7%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.6%	1.6%
Avg. maturity (incl. grace period)	20	20
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	2.4%	2.4%
Avg. maturity (incl. grace period)	2	2
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	0%	0.0%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2028. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 6. Guinea: Indicators of Public and Publicly Guaranteed External Debt under Country Specific Alternative Scenarios, 2018–28[1]



Sources: Country authorities; and staff estimates and projections.

[1]The weak policies scenario assumes real GDP growth of 1 percentage point below the baseline over 2019–28 and a lower overall primary fiscal balance of 0.5 percent of GDP in 2019–20 to reflect slower reform implementation and revenue collection. The frontloaded disbursement scenario assumes the $650 million in non-concessional loans are disbursed over a three rather than five-year period.

Table 7. Guinea: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2018–28

(Percent)

		Projections 1/									
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
PV of debt-to GDP ratio											
Baseline	15	22	23	22	22	22	21	21	21	20	19
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2038 2/	15	20	24	28	**31**	**35**	**39**	**43**	**47**	**50**	**53**
Weak policy	15	22	23	23	23	23	23	22	22	21	21
B. Bound Tests											
B1. Real GDP growth	15	23	26	26	25	25	24	24	24	23	22
B2. Primary balance	15	24	28	27	27	26	26	25	25	24	23
B3. Exports	15	30	**43**	**42**	**41**	**40**	**39**	**39**	**37**	**35**	**33**
B4. Other flows 3/	15	29	**41**	**40**	**39**	**38**	**37**	**36**	**35**	**33**	**31**
B5. Depreciation	15	27	25	25	25	24	24	24	23	22	22
B6. Combination of B1-B5	15	**32**	**42**	**41**	**40**	**39**	**38**	**37**	**36**	**34**	**32**
C. Tailored Tests											
C1. Combined contingent liabilities	15	27	28	27	27	26	26	25	25	24	23
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	15	22	23	23	22	22	22	21	21	20	19
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	40	61	61	61	62	63	61	61	61	60	58
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2038 2/	40	55	64	75	88	102	111	125	139	**149**	**159**
Weak policy	40	61	63	62	64	65	64	65	66	65	63
B. Bound Tests											
B1. Real GDP growth	40	61	61	61	62	63	61	61	61	60	58
B2. Primary balance	40	67	75	74	75	76	74	74	74	72	69
B3. Exports	40	102	**180**	**177**	**179**	**181**	**175**	**175**	**173**	**164**	**154**
B4. Other flows 3/	40	82	109	107	108	109	106	106	105	99	93
B5. Depreciation	40	61	55	54	55	56	54	55	55	54	52
B6. Combination of B1-B5	40	95	101	127	128	130	126	126	124	117	110
C. Tailored Tests											
C1. Combined contingent liabilities	40	74	75	74	75	76	74	74	74	72	70
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	40	62	63	63	63	64	62	63	63	61	59
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**
Debt service-to-exports ratio											
Baseline	2	2	3	3	4	4	4	4	4	5	5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2038 2/	2	2	3	3	5	5	5	6	5	7	8
Weak policy	2	2	3	3	4	4	4	4	4	5	5
B. Bound Tests											
B1. Real GDP growth	2	2	3	3	4	4	4	4	4	5	5
B2. Primary balance	2	2	3	4	4	4	4	4	5	6	6
B3. Exports	2	3	5	7	8	8	8	8	10	**15**	**15**
B4. Other flows 3/	2	2	3	4	5	5	5	5	6	9	9
B5. Depreciation	2	2	3	3	4	4	4	4	4	4	4
B6. Combination of B1-B5	2	2	4	5	6	6	6	6	8	**11**	**11**
C. Tailored Tests											
C1. Combined contingent liabilities	2	2	3	4	4	4	4	4	4	5	5
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	2	2	3	3	4	4	4	4	4	5	5
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	6	5	7	8	9	8	9	9	8	10	10
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2038 2/	6	5	6	8	10	10	11	12	10	**14**	**17**
Weak policy	6	7	9	8	9	9	9	9	8	11	11
B. Bound Tests	6	7	9	8	9	9	9	9	8	11	11
B1. Real GDP growth	6	5	8	9	10	10	10	10	9	11	11
B2. Primary balance	6	5	7	8	9	9	9	9	9	12	12
B3. Exports	6	5	8	11	12	11	12	11	13	**19**	**19**
B4. Other flows 3/	6	5	8	10	11	10	11	10	13	**18**	**18**
B5. Depreciation	6	6	8	9	11	10	11	10	9	11	11
B6. Combination of B1-B5	6	5	9	11	12	11	12	11	14	**19**	**18**
C. Tailored Tests											
C1. Combined contingent liabilities	6	5	7	8	9	9	9	9	8	10	10
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	6	5	6	8	9	8	9	9	8	10	10
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	14	14	14	14	14	14	14	14	14	14	14

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

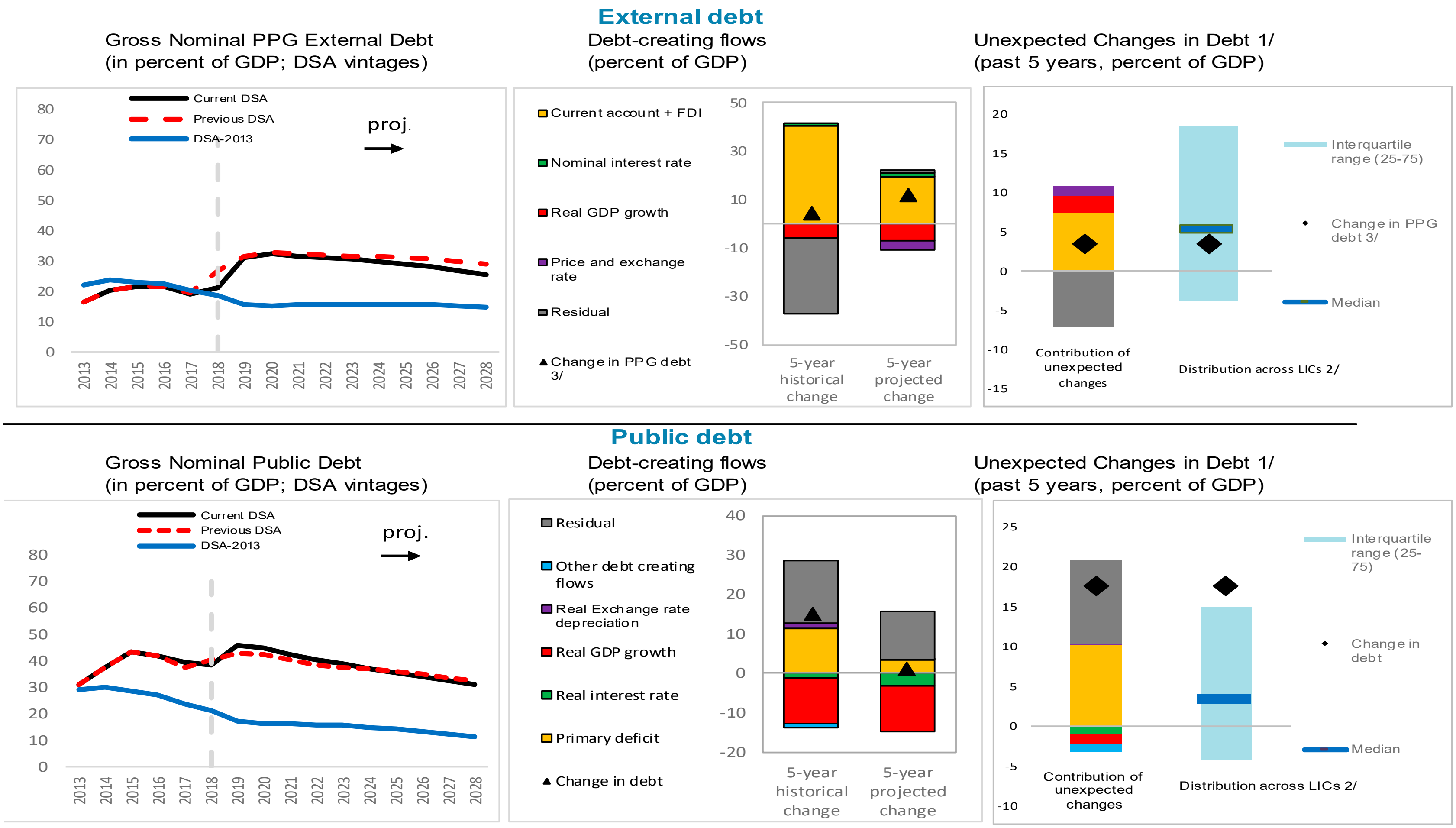
Table 8. Guinea: Sensitivity Analysis for Key Indicators of Public Debt, 2018–28

(Percent)

	Projections 1/										
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					PV of Debt-to-GDP Ratio						
Baseline	33	**37**	**36**	34	32	31	29	28	27	26	25
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2038 2/	33	**38**	**38**	**38**	**37**	**37**	**37**	**36**	**36**	**37**	**37**
B. Bound Tests											
B1. Real GDP growth	33	**40**	**44**	**42**	**42**	**42**	**41**	**41**	**41**	**42**	**42**
B2. Primary balance	33	**40**	**42**	**39**	**37**	**36**	34	33	32	31	29
B3. Exports	33	**43**	**53**	**50**	**48**	**46**	**44**	**43**	**41**	**38**	**36**
B4. Other flows 3/	33	**45**	**54**	**51**	**49**	**48**	**46**	**44**	**42**	**40**	**37**
B5. Depreciation	33	**37**	**35**	32	30	28	26	24	22	21	19
B6. Combination of B1-B5	33	**39**	**40**	35	33	32	30	29	28	27	26
C. Tailored Tests											
C1. Combined contingent liabilities	33	**43**	**42**	**39**	**37**	**36**	34	33	32	31	29
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	33	**38**	**38**	**37**	**36**	**36**	**36**	**36**	**37**	**37**	**37**
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
					PV of Debt-to-Revenue Ratio						
Baseline	216	240	222	202	187	179	173	165	158	152	146
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2038 2/	216	247	235	224	216	214	216	213	213	214	213
B. Bound Tests											
B1. Real GDP growth	216	261	266	251	241	240	243	241	240	241	241
B2. Primary balance	216	259	258	235	218	209	203	193	185	178	170
B3. Exports	216	280	325	298	278	268	261	250	238	224	210
B4. Other flows 3/	216	291	335	307	287	276	270	258	245	231	215
B5. Depreciation	216	243	219	195	176	163	153	141	131	122	112
B6. Combination of B1-B5	216	253	243	207	192	184	178	169	164	158	151
C. Tailored Tests											
C1. Combined contingent liabilities	216	279	256	234	217	208	202	192	184	178	171
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	216	240	230	216	209	210	214	214	215	217	218
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
					Debt Service-to-Revenue Ratio						
Baseline	17	15	15	16	16	15	15	14	13	15	15
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2038 2/	17	16	15	17	17	16	16	15	14	16	17
B. Bound Tests											
B1. Real GDP growth	17	16	17	19	19	19	19	18	17	20	21
B2. Primary balance	17	15	17	19	17	16	16	15	14	17	17
B3. Exports	17	15	15	18	18	17	17	16	17	22	22
B4. Other flows 3/	17	15	16	18	18	17	17	16	18	23	23
B5. Depreciation	17	15	15	17	17	16	16	15	13	15	15
B6. Combination of B1-B5	17	15	15	16	16	15	15	14	15	17	17
C. Tailored Tests											
C1. Combined contingent liabilities	17	15	19	18	17	16	16	15	14	15	15
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	17	15	15	17	17	16	17	16	15	17	18
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the benchmark.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.

Figure 7. Guinea: Drivers of Debt Dynamics—Baseline Scenario External Debt



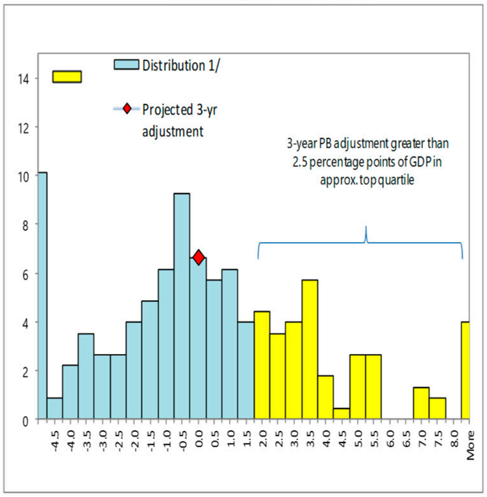
1/ Difference betw een anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for w hich LIC DSAs w ere produced.

3/ Given the relatively low private external debt for average low -income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

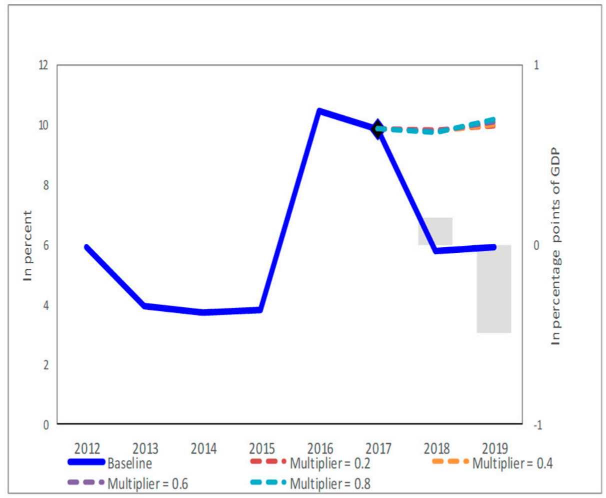
Figure 8. Guinea: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



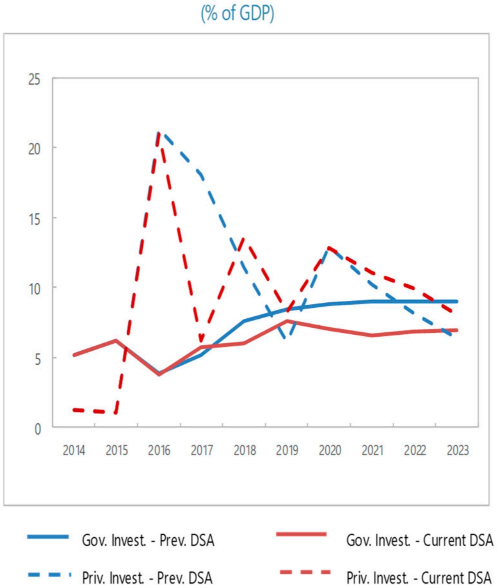
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(% of GDP)



Contribution to Real GDP growth
(percent, 5-year average)

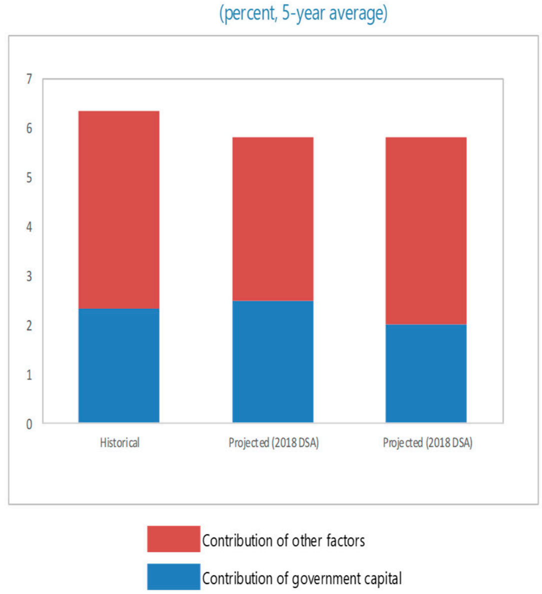
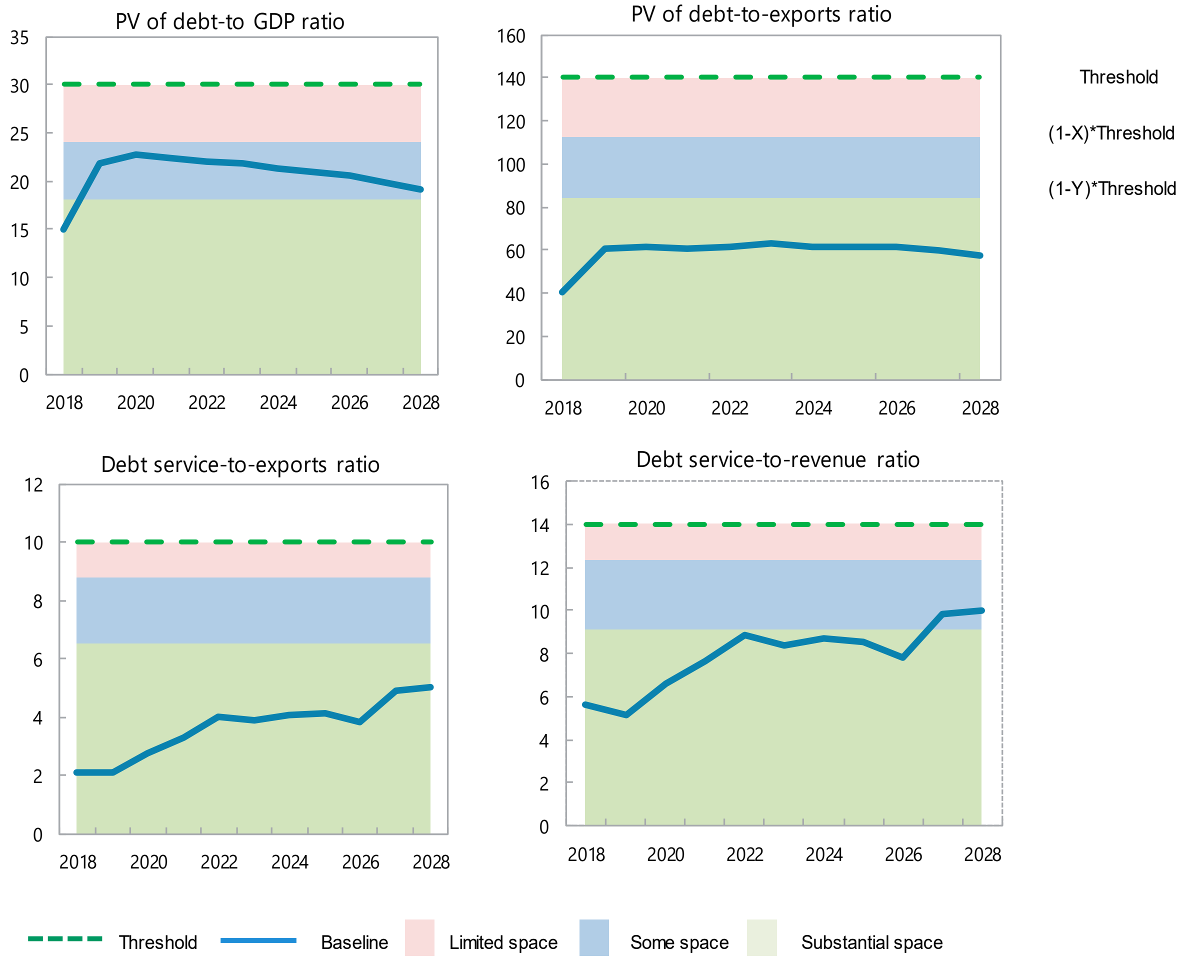


Figure 9. Guinea: Qualification of the Moderate Category, 2018–28[1]



Sources: Country authorities; and staff estimates and projections.

1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

Statement by the IMF Staff Representative on Guinea

December 21, 2018

1. **This statement provides an update on the status of the remaining structural benchmark at end-November and fiscal developments at end-October**. This is based on information received since the issuance of the staff report on December 11, 2018. The additional information does not change the thrust of the staff appraisal.

2. **The end-November structural benchmark to support mobilizing additional mining revenue and foster good governance was met**. Staff noted in the staff report that: i) a new agreement for bauxite extraction had been put fully in line with the tax provisions of the mining code; and ii) a new bauxite agreement entailing new investments in infrastructure had been submitted to the National Assembly with an assessment of tax expenditures. In addition to this, a new mining contract for bauxite extraction and transformation was signed at end-November. As the authorities indicated that the legal ratification process by the National Assembly has not yet been finalized, this mining contract was not included in the assessment of the structural benchmark at end-November. Staff will assess this contract against the proposed continuous structural benchmark in the context of the third review.

3. **The year-to-date basic fiscal balance recorded a surplus of 0.9 percent of annual GDP at end-October, consistent with achieving the end-2018 fiscal target**. Mining tax revenues reached 2.1 percent of GDP, on the back of buoyant activity. Non-mining tax revenues increased to 8.2 percent of GDP, supported by taxes on goods and services. Spending on goods and services and capital expenditures were contained at 2.2 percent of GDP and 3.5 percent of GDP, respectively. A net government repayment to the central bank was recorded and net borrowing from commercial banks remained limited. The net accumulation of domestic arrears declined by 0.07 percent of GDP at end-October, compared to end-September.

Statement by Mr. Mohamed-Lemine Raghani, Executive Director for Guinea, Mr. Facinet Sylla, Alternate Executive Director and Mr. Mamadou Siradiou Bah, Advisor to the Executive Director

December 21, 2018

The Guinean authorities are thankful to the Executive Board, Management and Staff for the continued support they are benefiting from the Fund in the implementation of their ECF-supported program. Our Guinean authorities value the constructive discussions they have had with staff in the context of the second review of the ECF-supported program and they remain strongly committed to further strengthening macroeconomic stability, restructuring the economy and achieving higher, broad-based and inclusive growth.

Remarkable progress is being achieved in the implementation of the reform agenda, despite severe difficulties which include commodity and oil price volatility, capacity constraints, socio-political tensions and trade unions' strikes. The authorities' commitment to sound policies and measures under the program remain strong as demonstrated by the overall satisfactory performance achieved under the program. They will further enhance the ownership of the program which is essential in their continued efforts to mitigate potential risks and achieve reforms' objectives.

Performance under the Program and Request for a Waiver of Nonobservance of Performance Criterion

Program's performance at end-June 2018 was satisfactory as criteria on the basic fiscal balance, net government budgetary borrowing from the central bank, net domestic assets, non-accumulation of external arrears, and net international reserves were all met. In addition, the indicative target on new domestic arrears was also attained. However, the indicative targets on mobilizing tax revenues and domestically-financed social safety nets were missed due to the impact of strikes on economic activity, higher-than-anticipated losses stemming from rising international oil prices, and capacity constraints. While fiscal performance at end-September was more challenging due to lower-than-expected tax revenue, the authorities have taken corrective measures in the form of additional revenue measures to meet the year-end fiscal targets. It is worth noting that the basic fiscal balance at end-October stands as a surplus and in line with end-year program fiscal objectives.

Significant progress has been made on structural reforms as most structural benchmarks have been completed although some with minor delays. In this context, the reforms aimed at reducing the energy subsidies, strengthening public finances, improving the central bank's operational autonomy and fostering a conducive business climate for the development of a vibrant private sector are noteworthy.

Due to execution capacity constraints, the continuous performance criterion on new non-concessional debt was missed by a small margin at end-November under a non-concessional loan signed for budget support. As immediate corrective measures, the authorities have decided to re-open the negotiations with the lender to obtain more concessional financing conditions. In any case, the authorities intend to earmark this loan to finance key infrastructure projects.

Based on the progress to date in implementing the ECF-supported program as well as on their strong determination to continue meeting the program's objectives, our Guinean authorities are requesting the Executive Board's support for the completion of the second review of the program and a waiver for nonobservance of the performance criterion on non-concessional debt.

Recent Economic and Financial Developments

The Guinean economy has continued its strong growth momentum in recent years driven mainly by a significant pick up in mining production, higher energy production, strong construction activity, good agricultural performance and buoyant manufacturing and services. Real GDP growth reached about 10 percent in 2017. It is estimated at 6 percent in 2018 given the impact of higher oil prices and strikes on economic activity. Headline inflation stood at 9.8 percent (y-o-y) last October reflecting the increase in domestic oil price in July.

In the fiscal area, the basic balance was higher than programmed with a surplus of 1.6 percent of GDP at end-June and 0.9 percent of GDP at end-September. The shortfall of fiscal revenue resulting from the strikes and capacity constraints in implementing some revenue mobilization measures explained the outcomes for end-September although spending on goods and services was lower than envisaged and subsidies and wage bill were maintained in line with program's targets. In the same vein, a net Treasury's repayment to the central bank was recorded and borrowing from commercial bank was also contained.

The deficit of the current account in 2017 narrowed to 7 percent of GDP on the account of high increases in mining exports including bauxite and artisanal gold and in foreign direct investments as well. However, the current account deficit is expected to widen in 2018 owing to increases in imports and infrastructure development. At end-June 2018, the gross international reserves increased to cover 2.7 months of imports. The exchange rate appreciated by 4 percent in 2017 and 9 percent in the first eight months of 2018. The spread between the official and foreign exchange bureau declined to 0.46 percent at end-August 2018 from 0.74 percent at end-2017.

The Guinean banking system remains stable and credit to the private sector is growing with an improved activity in the interbank market. The non-performing loans declined to 8.7 percent in June 2018 down from 9.4 percent in 2016.

Economic Policies and Reforms for 2018-2019

Our Guinean authorities will continue implementing needed policies and reforms to meet the program objectives and enable the country's growth potential to significantly improve the living conditions of the population. Given that the macroeconomic outlook is favorable, policies aimed at strengthening macroeconomic stability, scaling-up investments supportive of growth and economic diversification and reducing poverty as well as advancing structural reforms to foster private sector development will be forcefully implemented with the support of international community including the Fund.

Fiscal Policy

The aim of the authorities' fiscal policy is to further strengthen the macroeconomic stability and achieve the program fiscal targets. Based on progress made, the authorities expect to achieve a basic fiscal surplus of 0.8 percent of GDP in 2018, 0.9 percent of GDP in 2019 and 1.0 percent of GDP in 2020. They are aware of the need to create larger fiscal space to increase growth-supporting investment in infrastructure and execute priority social spending. The budget for 2019 submitted to the Parliament in October targets a fiscal surplus to preserve macroeconomic stability and debt sustainability.

On the revenue side, tax policy measures adopted in 2018 to simplify the tax system and support efforts to further broaden the tax base will be enforced. Moreover, the elimination of ad-hoc tax exemptions will be pursued. The mobilization of additional revenues will help to increase non-mining tax revenues to 11.2 percent of GDP. Regarding the expenditure, the wage bill and spending on goods and services will be contained as envisaged in the program to create the needed fiscal space for public investments and social safety nets program.

The authorities remain committed to the implementation of the automatic price mechanism for petroleum products. In this regard, a large communication campaign towards the public and key stake holders will be conducted and measures to protect the most vulnerable segment of the population including the strengthening of public transportation and the expansion of high intensity public work schemes will also be carried out by the authorities. Ongoing efforts to enhance the public finance management, improve budgetary transparency, establish a Treasury Single Account and increase efficiency of public investment management will be further intensified.

Debt Policy and Management

The authorities welcome the recent DSA conducted under the ECF-program's second review stating that "Guinea is at moderate risk of external debt distress with some space to absorb shocks". However, debt vulnerabilities will increase in the event that adverse shocks materialize. In this regard and despite the capacity constraints they face, the authorities remain committed to a prudent debt policy and debt management. A prudent borrowing strategy to maximize the concessionality of new debt and limit non-concessional loans to program's limits will be pursued.

The authorities are cognizant of the importance of a prudent debt policy which associated with an improved debt management capacity is essential in preserving the debt sustainability. In June 2018, they have started to publish the report on debt on a quarterly basis. Furthermore, a time-bound action plan to strengthen debt management based on the recommendations of the Debt Management Performance Assessment will be implemented with the support of development partners. In the same vein, the authorities plan to update in early 2019, with Fund TA, their medium-term debt management strategy.

Monetary and Exchange Rate Policy

The authorities' monetary policy will continue to be prudent to maintain inflation within single digits by keeping the base money in line with program's objectives. Given the build-up in inflationary pressures due prices of petroleum products, the central bank (BCRG) will pursue its prudent monetary policy and be ready to tighten it if necessary to maintain a positive real interest rate. In addition, the Treasury borrowing from the central bank will also be contained based on the MoU signed in May 2018 between the Ministry of Economy and Finance and the BCRG.

To further enhance the BCRG, the authorities will continue implementing the recommendations of the 2018 Safeguards Assessment Update including the financial reporting, transparency, accountability and internal audit. In this regard, a liquidity committee was established in August to support, under the active liquidity management, reserve money targeting and banks' provision of credit to the economy. In addition, the BCRG was recapitalized in October to restore its operational and financial autonomy through the issuance of non-marketable government securities.

Regarding the exchange rate policy, the authorities will enhance its flexibility and will gradually pursue the accumulation of foreign reserves to strengthen external buffers. They are also implementing the needed measures to strengthen the foreign exchange market operations. In this context, the central bank's interventions will be limited to providing liquidity and preventing disorderly market conditions. This will be supportive to the build-up of buffers to reach the reserve adequacy metric of 3.8 and a greater exchange rate flexibility.

Financial Sector

The Guinean financial sector is broadly sound, and the authorities remain committed to further enhance its stability and foster its development. The measures required to strengthen the banking supervision and regulatory framework will be put in effect. In this regard, the banks' accounting and reporting system recently updated will be gradually enforced by end-2019. In addition, a deposit guarantee scheme and a banking resolution framework are underway. The central bank will ensure that all banks comply with reserve and capital requirements. The authorities intend to develop a National Strategy on Financial Inclusion to enhance the framework for microfinance activity and support the development of the private sector.

Structural Reforms

The development of a vibrant private sector is needed to unleash Guinea's non-mining potential growth and improve the living standards of the population. To this end, the authorities are determined to move ahead with the implementation of key structural reforms. They will fully implement the action plan adopted last March to improve the business climate as well as the legislative anti-corruption framework including the decree on the National Agency for the Fight against Corruption. The implementation decrees on the asset declaration covering high level officials will be issued by September 2019.

The authorities will also finalize the public-private partnership framework to better monitor and manage the risks and potential liabilities associated with PPP-financed projects. A PPP unit will be established at the Ministry of Economy and Finance by end-March 2019.

The reform of the state-owned enterprises had advanced with the approval last September of the new SOEs' law aiming at strengthening governance and limiting fiscal risks. The authorities are also developing a medium-term strategy to improve the financial conditions of loss-making SOEs with a view to reduce fiscal costs and the build-up of contingent liabilities.

Conclusion

Our Guinean authorities remain strongly determined to pursue the implementation of their ECF-supported program to achieve its objectives and foster a broad-based growth for the benefice of the population. Despite the daunting challenges they face, the performance under the current review is broadly satisfactory. They stand ready to take additional measures as needed if performance falls short of expectations. Against this backdrop, and on behalf of our authorities, we would appreciate the Executive Board's completion of the second review and approval of the authorities' request for a waiver of non-observance of performance criterion.