

Guinea: Selected Issues and Statistical Appendix

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GUINEA

Selected Issues and Statistical Appendix

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July 2, 2003

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Guinea: Social and Demographic Indicators

| | | | | |
|--|---------|--------------------|-------------------|--------------------|
| Land area (square km) | 245,720 | | | |
| Population | | | | |
| Population (thousands; in 2000) | 7,968 | | | |
| Annual rate of growth (in percent; average 1990-2000) | 2.6 | | | |
| Density (per square km; in 2000) | 30 | | | |
| | 1990 | | 1999 ¹ | |
| | Guinea | Sub-Saharan Africa | Guinea | Sub-Saharan Africa |
| Population characteristics | | | | |
| Life expectancy at birth | 44 | 50 | 50 | 47 |
| Infant mortality (per 1000 live births; year) | 121 | 102 | 96 | 92 |
| Population under age 15 (percent; year) | 47 | 45 | 45 | 44 |
| Income | | | | |
| GNP per capita (current US dollars; year) | 460 | 552 | 450 2/ | 474 2/ |
| Education | | | | |
| Adult illiteracy rate (in percent of population aged 15 or higher) | 76 | 50 | 64 | 38 2/ |
| Gross primary school enrollment (in percent of school-aged children) | | | | |
| Male | 50 | 83 | 72 3/ | 85 |
| Female | 24 | 68 | 63 3/ | 71 |
| Health | | | | |
| Immunization against measles (in percent of population aged 12 months and under) | 25 | 53 | 61 2/ | 50 4/ |
| Population with access to safe water (in percent of population) | 45 | 49 | 48 2/ | 55 2/ |

Sources: Guinean authorities (primary school enrollment rates for 2002) and World Bank, World Development Indicators, and World Development Reports.

1/ 1999 or latest available statistics.

2/ 2000 data.

3/ 2002 data.

4/ 1998 data.

I. INTRODUCTION

1. This selected issues paper and statistical appendix provide background information to the staff report on the 2003 Article IV consultation discussions with Guinea (SM/03/228, 7/2/03)
2. The staff report discusses the main challenges facing Guinea in the short- and medium-term. The immediate task is to arrest the surge in inflation and to restore macroeconomic stability by bringing the budget under control and tightening monetary policy. The main challenge for the medium-term is to enhance competitiveness so as to attract investments and create a viable private sector to foster growth prospects and reduce poverty.
3. The topics in this paper were selected to focus on some of these key challenges. The first chapter discusses price trends and the relationship between money growth and inflation in Guinea. The study shows both an immediate and long-run monetary pass-through in CPI inflation, indicating the need to contain reserve and broad money growth.
4. The second chapter focuses on the central challenge of improving competitiveness and promoting exports to enhance growth in the economy. It shows that Guinea's export performance has been poor despite a depreciating real effective exchange rate and a relatively open trade regime, because of a lack of diversification policies and institutional and structural impediments to trade.
5. The third chapter reviews the microfinance sector in Guinea. It examines the development and growth of microfinance institutions and their impact on poverty reduction, and the appropriate regulatory and supervisory framework that must be put in place to ensure the proper functioning of these institutions.

II. INFLATION AND MONETARY PASS-THROUGH IN GUINEA¹

A. Introduction

6. This paper develops stylized facts about the inflationary process in Guinea, focusing particularly on the relationship between money growth and inflation. The adequate assessment of inflationary pressures, and the forecasting of inflation trends is particularly important in designing economic policy, notably a proper fiscal policy based on accurate revenue and expenditure forecasts. To this end, we examine the influences of changes in broad and reserve money on CPI inflation using quarterly data for the September 1991-March 2003 period. Limited data availability for the period calls for caution when interpreting the results. The findings nonetheless provide indications on how to interpret changes in monetary aggregates and guide monetary policy.

7. Since independence, price trends in Guinea have been largely distorted by administratively controls, and have not reflected market mechanisms, in particular up to the late 1970s. The partial and progressive liberalization that followed, in the context of significant fiscal imbalances and loose monetary policy, resulted in periods of hyperinflation. Only in the late 1980s and early 1990s was CPI inflation reduced to single-digit levels. Given the importance of exogenous factors in the determination of price levels in the country, the role of the monetary pass-through in CPI inflation might have been underestimated.

8. To provide evidence on the links between inflation and money growth, we build a bivariate inflation model containing monetary growth and CPI inflation. The study shows that, in the last ten years, a significant long-run relationship may be established between money growth and CPI inflation. Using an error correction model and impulse response analysis, we also find that money has an immediate and lasting impact on inflation. The results support the argument in favor of an active monetary policy in order to maintain inflation at reasonable levels. The consideration of broad money and reserve money variables suggests that monetary policy may act in two related ways: (i) by direct liquidity management, to contain reserve money growth; and (ii) by ensuring that the policy mix does not lead to excessive broad money expansion in the economy.

9. The remainder of this chapter is organized as follows. Section B provides a summary of recent developments in CPI inflation. Section C discusses the composition of the Guinean CPI and other data-related issues. Section D presents the theoretical framework of the model. Section E investigates the long-run relationship between money and inflation, while Section F focuses on short-run dynamics. Section G concludes and provides policy recommendations.

¹ This paper was prepared by Rodolphe Blavy.

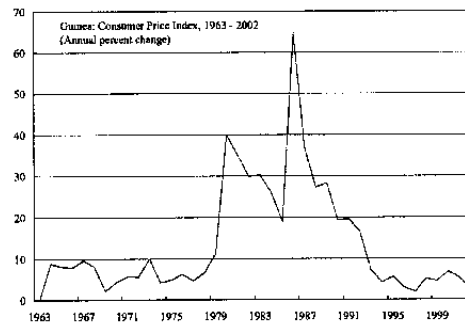
B. Developments in Inflation and Money Growth

10. The 12-month rate of change in the CPI fell from 7.2 percent in December 2000 to 1.1 percent in December 2001, and was contained below 3 percent until October 2002. Policy slippages in 2000 had resulted in increased inflationary pressures, as fiscal spending increased dramatically, and as its monetary financing led to a significant monetary overhang. Twelve-month CPI inflation returned to double-digits in the second half of 2000, reaching 10.4 percent, and remained around or above 7 percent until the last quarter of 2001, when fiscal discipline and monetary tightening eventually contributed to curbing inflation.

11. Developments in the last quarter of 2002 and first quarter of 2003 show a resurgence of inflation, rising to 6.1 percent in December 2002 and 10.4 percent in March 2003. With a very substantial increase in credit to the government, and in base and broad money, a significant drop in net foreign assets of the central bank, further increases in inflation, reflecting the loose policy stance, would pose serious risks to the economy, including prolonged output losses, a long-term distortion in the allocation of resources, and an acute impact on the poor segments of the population. These developments illustrate the consequences of “stop-and-go” economic policies.

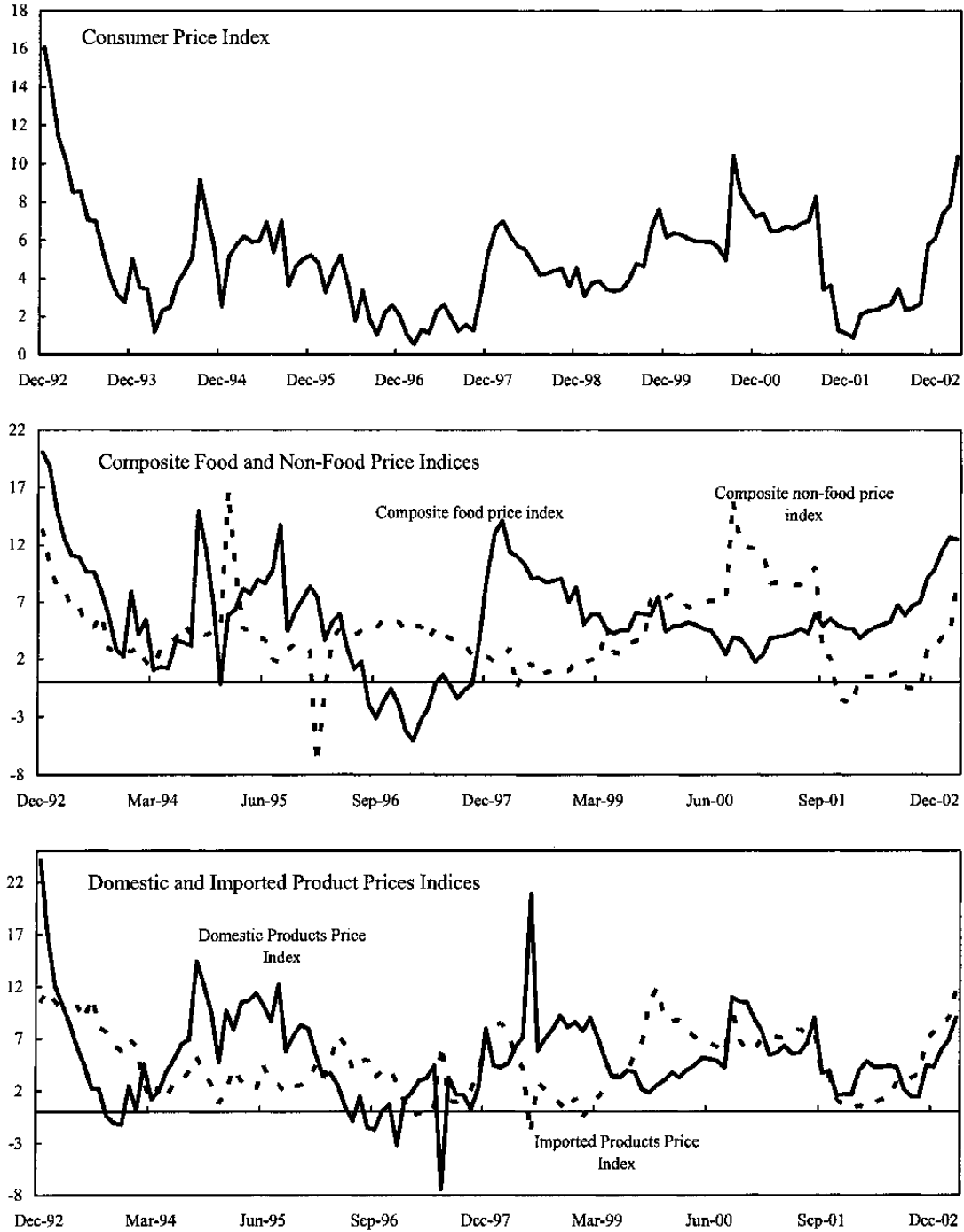
Box II.1. Guinea: Trends in Inflation, 1962 - 2003

The examination of past inflationary trends in Guinea reveal the risks associated with inflation in a country that has been exposed to prolonged periods of hyperinflation. While price levels during the first two decades after independence were largely administered, and inflation remained under control, averaging 6.7 percent from 1964 to 1979, it accelerated sharply with the first liberalization attempts, as supply responses were weak and excessive fiscal spending, and its monetary financing, increased inflationary pressures. With the extensive reform program that followed the 1984 coup, inflation first increased dramatically, culminating at an annual average of 65 percent in 1986 when the national currency was devalued by 92 percent, trade was liberalized, and price controls removed (except those on fuel and rice).



After 1986, the annual average rate of inflation dropped sharply (see figure II.2). This positive performance was supported by favorable climatic conditions leading to very significant increases in agricultural output and food production and to low price increases in food produce, by low price rises in basic commodities, including housing and transport, and by exchange rate stability and a decline in imported prices, in particular in the prices of imported rice (see figure II.1). Aside from 1995, when elections and heavy rains pushed prices upward, the declining trend in inflation continued. Annual average CPI inflation was under 2 percent in 1997, and remained under control until 1999, largely due to the relative stability of monetary policy. Broad money growth was limited, bank credit to the government contained, and net foreign assets remained at adequate levels.

Figure II.1. Guinea: Consumer Price Index, Dec. 1992 - March 2003
(12-month year-on-year growth rates, in percent)



Source: Guinean authorities, DNSI.

C. Composition and Structure of the Guinean CPI

12. The Guinean CPI covers 165 items since 1987. The components and their weights in the CPI are summarized in table II.1. Food items account for a large proportion of the basket, which suggests that factors affecting food prices dominate movements in the CPI (see figure II.1). These factors include agro climatic conditions, wages, domestic inputs, and transportation costs, with rainfall playing a key role. In particular, the scarcity of food products between harvests leads frequently to tensions in domestic prices, and to sudden jumps in the price level – illustrated in Figure II.1 in the summer months. Figure II.1 also suggests that domestic prices are more volatile than imported product prices, and weigh more heavily on CPI movements. In particular, the dramatic reduction in the rate of inflation until December 1993 was mainly driven by the decline in the inflation of non-tradable goods prices in the CPI, while the decline in imported products prices was less marked.

Table II.1. Guinea: Consumer Price Index Market Basket (In percent)

| Commodity | CPI weights |
|-----------------------|--------------|
| Food | 41.9 |
| Nonfood | 58.0 |
| <i>Of which:</i> | |
| Clothing | 7.0 |
| Health | 9.3 |
| Housing | 15.1 |
| Electricity and water | 7.4 |
| Transport | 12.0 |
| Leisure and culture | 7.2 |
| All items | 100.0 |
| <i>Of which:</i> | |
| Domestic products | 58.8 |
| Imported products | 41.2 |

Source: DNSI, 2003

13. A number of data weaknesses may be identified at the onset of the study. The index may not reflect socio-economic realities in the capital city. Also, the weights (based on a 1991 survey) and some of the items composing the index are obsolete.² Further, information is being collected in five markets in different neighborhoods of Conakry. Supermarkets and small retail shops, which account for a growing share of domestic sales, are excluded from the sample. Another limitation of the index is the absence of a breakdown between urban and rural indices, as it covers only the capital city, Conakry.³ In light of those weaknesses, there has been some concern that official figures may not reflect the actual rate of inflation.

² This is the case for some items that are not consumed in Guinea anymore, for which the index is frozen, accounting for more than 3 percent of the CPI. Also, new consumption patterns are not captured, including mobile phones, transports, construction, and food products for which consumption has increased very substantially, e.g., rice, potatoes.

³ The authorities have acknowledged the urgent need to revise the CPI methodology used in Guinea, based on a 1995 survey of consumption patterns, and on the results of the poverty map to be established in 2003. The number of items in the index will be expanded to 317, and the weights for each item will be determined based on a survey of 4416 households, compared to 300 households for the present index. In the medium-term, the index will cover all major urban centers in the country.

14. The statistical relevance and accuracy of the various measures of inflation is an additional issue, developed further in appendix I. In the case of Guinea, 12-month inflation growth rates tend to overweight outlier observations, often related to the price jumps between harvests, as mentioned above. Measures of inflation may therefore be distorted. The use of quarterly data tracks better current developments in inflation, while limiting the presence of noise in the data.

D. Theoretical Framework

15. An inflation equation is derived to measure the impact of the relevant explanatory variables and predict the inflationary outcome of economic policy and exogenous factors. In a small open economy, the price level is commonly postulated to be influenced both by money demand and by imported inflation. The overall price level (*CPI*) is a weighted average of the price of domestic goods and imported goods. The price of imported goods is determined exogenously in the world market, and valued domestically according to the level of the exchange rate. Given limited data available and the shortness of the time series, the study focuses on domestic determinants of the price level. The price of goods is assumed to be determined domestically by the difference between real money demand and supply, the demand for real money balances being determined by the following four variables: real income; inflationary expectations; expected domestic interest rates; and expected foreign interest rates:

$$p = m^d(y, p^e, r_d, r_w) - m^s \quad [1]$$

Equation [1] specifies a long-term relationship in the money-market. An increase in real income, expectations of a reduction in the rate of inflation, an increase in expected domestic interest rates, and a reduction in foreign interest rates will increase money demand, and thereby lead to inflationary pressures.⁴

16. Two alternative bivariate models are considered: $z_{1t} = [\Delta p_t, \Delta res_t]$ and $z_{2t} = [\Delta p_t, \Delta M2_t]$ containing monetary growth and inflation. Two monetary variables are used, corresponding to the narrowest (reserve money, *res*) and the broadest (broad money, *M2*) monetary aggregates. Under the hypothesis of a long-term relationship between the variables, we proceed by including all the variables in a single dynamic system, where none of the variables is assumed *a priori* to be exogenous. We estimate a vector auto regression (VAR) model and apply cointegration tests to verify whether there are any long-run

⁴ The independent role of geoclimatic conditions in influencing food prices, the impact of domestic petroleum price fluctuations, and the indirect impact of electoral spending during major national elections may also be substantial.

relationships among the variables. The analysis is based on an auto-regression model of the form:

$$\Delta x_t = \mu + \sum_{i=1}^k \Gamma_i \Delta x_{t-i} + \Pi x_{t-i} + \varepsilon_t \quad [2]$$

where x_t is the vector of the endogenous variables included in the model ($\Delta p, \Delta m$); the parameters μ and Π are allowed to vary without restrictions; k is the lag length of the model; and ε_t is a vector of errors with mean zero. The existence of a cointegrating relationship between the variables is tested by analyzing the rank of the matrix Π , using the methodology developed by Johansen (1988, 1995).

E. Long-Run Relationships Between Money and Inflation

17. The empirical analysis is conducted using quarterly data. End-of-period values are used, and all variables are in logarithms. The time series are not seasonally adjusted in order to preserve their time series properties.⁵ The variables are as follows:

- **Inflation variables:** As the Guinean authorities do not compute a non-core inflation index, the non-food index (*NONF*) is used as an alternative to the composite CPI index (*CPI*). A stronger relationship between money growth and nonfood inflation is expected *a priori* in the model, as the composite index is more sensitive to exogenous events, such as geoclimatic conditions, and may overweight food products (see Section C).
- **Monetary variables:** Two monetary aggregates are used alternatively, broad money (*M2*) and reserve money (*RES*). Quarterly monetary data are available only from September 1991, restricting the sample for the model to September 1991–March 2003.

18. Standard augmented Dickey-Fuller (ADF) unit root tests suggest that the variables are integrated of order 1, I(1), i.e., they are nonstationary in levels while the first differences of the variables are stationary (see Table II.3). As a result, and given that the two variables are considered endogenously determined, we proceed to formulate an unrestricted VAR model, with appropriate lags.⁶ The results are presented in appendix II.

⁵ Similar results were obtained with seasonally adjusted series.

⁶ The appropriate lag length is chosen based on the results of lag exclusion tests, and the various lag length criteria computed in e-views, including the sequential modified LR statistic, the final predictor error, the Akaike information criterion, the Schwarz information criterion, the Hannan-Quinn information criterion.

19. The Johansen methodology is used to test the presence of a cointegrating relationship. Two series of results are reported, the trace statistics and the maximum eigenvalue test, both of which provide indication as to whether the hypothesis of cointegration between the variables should be rejected. Economic theory should then be used to place restrictions and identify the long-run equations. Given the paucity of data in the case of Guinea, long run equations, in the form of the money demand equation defined above, may not be fully identified. Variables such as real income, and domestic interest rates are not available for the period under study. Caution should therefore be exercised in the interpretation of the identified long-run relationship between the price level and monetary aggregates. The coefficients may represent only partially the extent of the relationship, and an omitted variable bias may affect the coefficients. The results from the cointegration analysis are presented in Table II.4. The VAR model consists of the appropriate lags on the endogenous variables, with a term trend, restricted to lie within the cointegration space.⁷ In all four models, the hypothesis of no cointegration between the endogenous variables is rejected, and one-long run relationship is identified between the price level and money at the 5 percent level of confidence.

The four long-run relationships may be written as follows:

$$LCPI = 0.317LM2 + 0.004Trend$$

$$LCPI = 0.477LRES + 0.004Trend$$

$$LNONF = 0.257LM2 + 0.004Trend$$

$$LNONF = 0.160LRES + 0.007Trend$$

20. The model performs well in terms of explaining the price level as a function of money, suggesting that increases in the money stock have a substantial long-term effect on inflation.⁸ The impact of reserve money on the composite CPI is found larger than the impact of broad money, as expected. However, the results on the non-food price index are somehow

⁷ Alternative specifications have been explored, in particular models with a constant, with and without timetrend. The results are not reported here and are broadly similar to those presented. The model proposed here is retained as it provides the strongest cointegrating relationship between the variables. A forthcoming working paper will present detailed results and discussion of the various models.

⁸ Results on the pair wise Granger test of causality reinforce the findings that money and inflation are to be treated as endogenous variables. However, the Wald statistic is lower for the inflation variable in the money equation, suggesting that the direction of causality is indeed from money to prices.

counterintuitive, with (i) the impact of monetary variables being more subdued,⁹ (ii) broad money having a larger impact than reserve money on the non food price level. In addition, the coefficients of the money variables are lower than could be expected, suggesting that a doubling in the money supply results in an increase in prices of only about 16 to 48 percent. Two explanations may be given for such low coefficients. First, lack of data and incomplete model specification (as suggested in the above paragraph) may introduce an error-in-variables problem. This would explain why the time trend enters positively in the model, compensating for low coefficients on money variables. Second, the price level may be affected only by large changes in the money supply. The positive coefficient of the trend term would then suggest persistence of inflation over time.

F. Short-Run Inflation Dynamics

21. The dynamic version of the long-run relationship estimated in equation [2] can be specified as an error correction model of the form:

$$\Delta x_t = \mu + \sum_{i=1}^k \Gamma_i \Delta x_{t-i} + \alpha \beta' x_{t-i} + \varepsilon_t \quad [3]$$

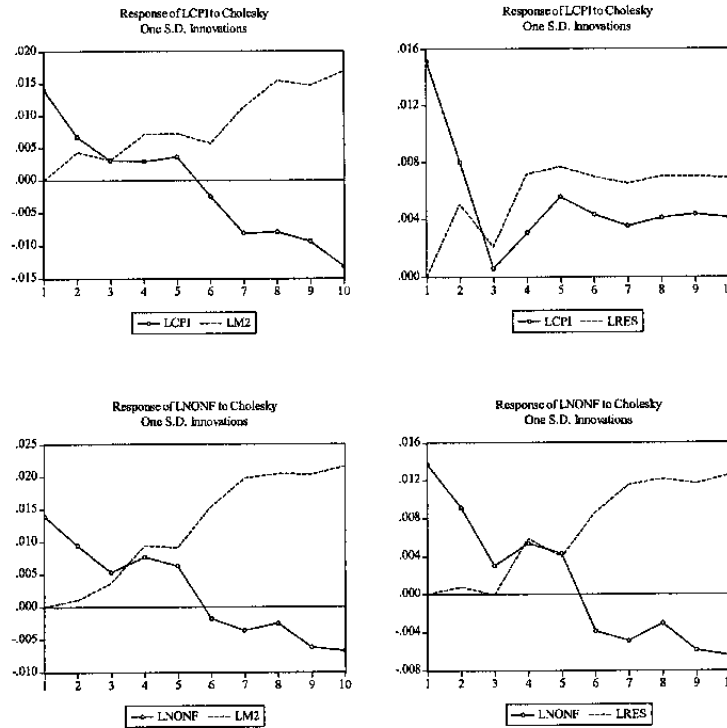
which differs from a simple vector autoregressive model in first differences in the $\beta' x_{t-i}$ term, called the error correction term. The error-correction model approximates deviation from the equilibrium and estimates the short-run response necessary for the system to return to its equilibrium.

22. We estimate the error-correction model using the full information maximum likelihood. While the system estimates error-correction equation for each of the two variables in the model, we report in Table II.5 only the four error-correction equations corresponding to the inflation equation. In each of the four equations, the coefficient of the error correction term is significant at the 5 percent level, and varies in levels between -0.604 and -0.733, suggesting that about two-third of the excess in the money supply is reabsorbed through inflation in each quarter. However, the suggested impact of lagged money growth is counterintuitive, as the model suggests that acceleration of the rate of money growth results in a reduction in inflation. Finally, coefficients on lagged inflation are significant and positive (at varying lags depending on the variables entered in the model), suggesting that inflation is persistent over time.

⁹ One possible explanation for the impact of monetary variables on the non-food CPI being more subdued is a consequence of the absence in the model of variables accounting for the changes in the nominal exchange rate and for other import price shocks. However, the results obtained after inclusion of the nominal exchange rate in the model provided insignificant coefficients for that variable.

23. The dynamic vector error-correction model estimates the dynamic impact of changes in the variables in the model. An impulse response analysis traces the impact of a shock to the *i*-th variable to all of the other endogenous variables in the model. The effect of a change in the monetary and the inflationary variable on current and future values of the inflation variable is represented in Figure II.2. In response to a shock in money growth, inflation rises significantly over a period of about two years, after which it stabilizes at a higher level. This response is consistent with what was expected, the increase in the stock of broad money or reserve money resulting in a permanent increase in price levels. The impact of a contemporaneous shock in inflation on future values of inflation suggests an immediate jump in price levels, which decreases over time. After between 5 and 6 periods, the impact turns negative, and leads to a reduction in inflation. This may suggest that, experience of high inflation leads to a policy response that eventually reduces the rate of inflation. This interpretation is supported by the experience in Guinea since 1991. It also confirms that there is a significant role for monetary policy in addressing inflation risks.

Figure II.2. Impulse Response Analysis on the Inflation Variables



G. Conclusion

24. The findings in this chapter support a long-term relationship between money and inflation, with money growth passing through inflation. Short-term dynamics reinforce this

impact. Impulse response analysis show that a shock in the money stock will have an increasing impact on inflation over two years, and stabilize at a higher level after that time.

25. From a policy perspective, both reserve money and broad money are found to significantly impact inflation over time. This reveals the need for monetary policy to focus on both aggregates. Active liquidity management (presently in the form of issuance of sterilization bills) is needed to meet reserve money targets. To prevent excessive broad money expansion, an adequate macroeconomic policy mix is required, including, notably, a sustainable fiscal policy. The financing of the government deficit through treasury bills, even though sounder than its monetary financing, would lead to an expansion in net domestic assets, and hence in broad money, with a substantial impact on price levels in the economy.

26. The resurgence of high inflation in recent months is very specific, notably as it is counter-seasonal. This suggests that the role of monetary expansion may have been greater in recent trends than over the period examined in this model, and hence reinforces the urgent need for a monetary tightening if inflation is to remain at sustainable levels.

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Measures of Inflation and Early Signals in Guinea

A common way to measure inflation is to use data on the year-on-year rate of change, sometimes complemented by the twelve-month annual average rate of change. Twelve-month growth rates present a summary of the trends over the last twelve months, but reflect only partially the most recent changes in inflation and can therefore be misleading. Inflationary trends in Guinea over the last year are illustrative. The annualized one-month and three-month rates indicated as early as July 2002 the emergence of inflationary pressures, while the twelve-month rates remained at low levels until October 2002. During the same period, monetary policy remained lax and failed to absorb the excess liquidity injected in the system. In order to provide early monetary policy responses, the one-month and three-month growth rates may provide adequate additional indicators.

Table II.2. Guinea: Developments in the Overall CPI, January 2000 - December 2001
(Unless otherwise indicated)

| | Index (1991=100) | 12-Month Growth Rate | Average Annual Growth Rate | 1-Month Growth rate | 1-Month Growth rate at Annualized Rate | 3-Month Growth rate at Annualized Rate | Corrected 12-Month Growth Rate |
|--------|---------------------|----------------------|-------------------------------|---------------------|---|---|-----------------------------------|
| Jan-00 | 156.7 | 6.4 | 6.2 | -0.1 | -0.8 | 8.1 | 6.2 |
| Feb-00 | 156.9 | 6.3 | 6.1 | 0.1 | 1.5 | 4.1 | 6.1 |
| Mar-00 | 157 | 6.1 | 5.9 | 0.1 | 0.8 | 0.5 | 5.9 |
| Apr-00 | 156.6 | 6.0 | 5.8 | -0.3 | -3.1 | -0.3 | 5.8 |
| May-00 | 157 | 5.9 | 5.8 | 0.3 | 3.1 | 0.3 | 5.8 |
| Jun-00 | 157.3 | 5.9 | 5.8 | 0.2 | 2.3 | 0.8 | 5.8 |
| Jul-00 | 157.8 | 5.6 | 5.5 | 0.3 | 3.8 | 3.1 | 5.5 |
| Aug-00 | 158.6 | 5.0 | 4.9 | 0.5 | 6.1 | 4.1 | 4.9 |
| Sep-00 | 166.6 | 10.4 | 10.1 | 5.0 | 60.5 | 23.6 | 5.4 |
| Oct-00 | 166.6 | 8.5 | 8.3 | 0.0 | 0.0 | 22.3 | 3.5 |
| Nov-00 | 167.4 | 7.8 | 7.6 | 0.5 | 5.8 | 22.2 | 2.9 |
| Dec-00 | 168.1 | 7.2 | 7.1 | 0.4 | 5.0 | 3.6 | 2.3 |
| Jan-01 | 168.3 | 7.4 | 7.3 | 0.1 | 1.4 | 4.1 | 2.5 |
| Feb-01 | 167.1 | 6.5 | 6.4 | -0.7 | -8.6 | -0.7 | 1.6 |
| Mar-01 | 167.2 | 6.5 | 6.4 | 0.1 | 0.7 | -2.1 | 1.6 |
| Apr-01 | 167.1 | 6.7 | 6.6 | -0.1 | -0.7 | -2.9 | 1.8 |
| May-01 | 167.4 | 6.6 | 6.5 | 0.2 | 2.2 | 0.7 | 1.8 |
| Jun-01 | 168.1 | 6.9 | 6.8 | 0.4 | 5.0 | 2.2 | 2.0 |
| Jul-01 | 168.9 | 7.0 | 6.9 | 0.5 | 5.7 | 4.3 | 2.2 |
| Aug-01 | 171.7 | 8.3 | 8.1 | 1.7 | 19.9 | 10.3 | 2.1 |
| Sep-01 | 172.3 | 3.4 | 3.4 | 0.3 | 4.2 | 10.0 | 2.2 |
| Oct-01 | 172.6 | 3.6 | 3.6 | 0.2 | 2.1 | 8.8 | 2.3 |
| Nov-01 | 169.5 | 1.3 | 1.3 | -1.8 | -21.6 | -5.1 | 2.1 |
| Dec-01 | 170 | 1.1 | 1.2 | 0.3 | 3.5 | -5.3 | 2.0 |
| Jan-02 | 169.8 | 0.9 | 0.9 | -0.1 | -1.4 | -6.5 | 1.7 |
| Feb-02 | 170.6 | 2.1 | 2.1 | 0.5 | 5.7 | 2.6 | 2.9 |
| Mar-02 | 171 | 2.3 | 2.3 | 0.2 | 2.8 | 2.4 | 3.1 |
| Apr-02 | 171 | 2.3 | 2.3 | 0.0 | 0.0 | 2.8 | 3.2 |
| May-02 | 171.6 | 2.5 | 2.5 | 0.4 | 4.2 | 2.3 | 3.3 |
| Jun-02 | 172.5 | 2.6 | 2.6 | 0.5 | 6.3 | 3.5 | 3.5 |
| Jul-02 | 174.7 | 3.4 | 3.4 | 1.3 | 15.3 | 8.7 | 3.5 |
| Aug-02 | 175.7 | 2.3 | 2.3 | 0.6 | 6.9 | 9.6 | 3.7 |
| Sep-02 | 176.5 | 2.4 | 2.4 | 0.5 | 5.5 | 9.3 | 3.8 |
| Oct-02 | 177.2 | 2.7 | 2.7 | 0.4 | 4.8 | 5.7 | 4.0 |
| Nov-02 | 179.3 | 5.8 | 5.6 | 1.2 | 14.2 | 8.2 | 5.0 |
| Dec-02 | 180.4 | 6.1 | 6.0 | 0.6 | 7.4 | 8.8 | 5.4 |
| Jan-03 | 182.3 | 7.4 | 7.1 | 1.1 | 12.6 | 11.5 | 6.6 |
| Feb-03 | 184 | 7.9 | 7.6 | 0.9 | 11.2 | 10.5 | 7.1 |
| Mar-03 | 188.7 | 10.4 | 9.9 | 2.6 | 30.7 | 18.4 | 9.6 |

Source: Guinean authorities, and staff calculations

Misleading information may come from the fact that simple-moving averages are very sensitive to shocks and outliers. In Guinea, outliers in inflation series are frequent, and their impact is persistent in the published 12-month growth rates of inflation. To illustrate the

argument, we correct the CPI index for outliers, and replace the monthly price change by the average of the previous and next month price changes. The lasting impact of a one-month price change is clear. For example, the 5 percent monthly increase in September 2000 –the largest monthly increase by far in the series– caused the twelve-month rate of inflation to be 4.8 percentage points higher than it would have been without the outlier observation for the next eleven-month period.¹⁰ In the same way, a base effect distorts twelve-month inflation time series, when the drop (or increase) in the series is caused by the dropping out of the twelve-month average rate of the abnormally high (or low) rate observed in the twelfth month before. In the Guinea data, this is observed most clearly in the reduction in the twelve-month growth rate from 8.3 percent in August 2001 down to 3.4 percent in September 2001. One of the solutions proposed in the literature¹¹ is to use the three-month growth rates, which take into account more accurately current inflation developments while reducing the amount of noise from the one-month growth rate.

¹⁰ A similar phenomenon was identified by M. Kaufman and R. Luzio in the Selected Issues Paper on “Price Stability and the Choice of Inflation Target for Monetary Policy”, Kenya, IMF 2002

¹¹ For example Blinder (1997) and Cecchetti (1997).

Unit Root Tests and Estimation Results

Table II.3. Unit Root Tests

| | Lags included | ADF <i>t</i> -Values on Levels | Probability | Lags included | ADF <i>t</i> -Values on First Differences | Probability |
|-------|---------------|--------------------------------|-------------|---------------|---|-------------|
| LCPI | 2 | -3.070 | 0.126 | 1 | -6.127 | 0.000 |
| LNONF | 0 | -3.403 | 0.064 | 4 | -3.636 | 0.039 |
| LM2 | 1 | -1.332 | 0.867 | 0 | -3.239 | 0.090 |
| LRES | 1 | -1.579 | 0.786 | 0 | -9.649 | 0.000 |

Notes:

1. The ADF is the augmented Dickey-Fuller test. The null hypothesis is that a series contains a unit root.
2. The number of lags was determined automatically based on the Schwartz Information Criteria (SIC).
3. The reported statistics are for the tests with a constant term and a linear trend included.

The existence of a cointegrating relationship is tested by analyzing the rank of the matrix Π . If the coefficient matrix Π has reduced rank $\tau < n$, where n is the number of endogenous variables, then there exist $k \times \tau$ matrices α and β each with rank τ such that $\Pi = \alpha\beta'$ and $\beta'y_t$ is $I(0)$. β contains the cointegrating vectors, and the elements of α are known as the adjustment parameters in the VEC model, i.e., the coefficients of the error correction terms, or the speed of adjustment to the long run equilibrium.

Table II.4. Long-Run Economic Relationships between Money and Inflation

| Specification 1: LCPI and LM2 | | | | Specification 3: LNONF and LM2 | | | |
|---|------------|----------------------|----------------|---|------------|----------------------|----------------|
| Normalized cointegrating coefficients (inc. <i>st. err.</i>) | | | | Normalized cointegrating coefficients (inc. <i>st. err.</i>) | | | |
| Lag length | LCPI | LM2 | Trend | Lag length | LCPI | LM2 | Trend |
| 5 | 1.000 | -0.317 | -0.004 | 4 | 1.000 | -0.257 | -0.004 |
| | | 0.066 | 0.002 | | | 0.069 | 0.002 |
| Hypothesized number of CE | Eigenvalue | Trace Statistics | Critical Value | Hypothesized number of CE | Eigenvalue | Trace Statistics | Critical Value |
| | | | 5 Percent | | | | 5 Percent |
| None | 0.39 | 24.64 | 18.96 | None | 0.45 | 29.19 | 25.32 |
| At most 1 | 0.10 | 4.46 | 12.25 | At most 1 | 0.11 | 4.75 | 12.25 |
| Hypothesized number of CE | Eigenvalue | Max-Eigen Statistics | Critical Value | Hypothesized number of CE | Eigenvalue | Max-Eigen Statistics | Critical Value |
| | | | 5 Percent | | | | 5 Percent |
| None | 0.39 | 20.18 | 18.96 | None | 0.45 | 24.44 | 18.96 |
| At most 1 | 0.10 | 4.46 | 12.25 | At most 1 | 0.11 | 4.75 | 12.25 |
| Specification 2: LCPI and LRES | | | | Specification 4: LNONF and LRES | | | |
| Normalized cointegrating coefficients (inc. <i>st. err.</i>) | | | | Normalized cointegrating coefficients (inc. <i>st. err.</i>) | | | |
| Lag length | LCPI | LRES | Trend | Lag length | LCPI | LM2 | Trend |
| 2 | 1.000 | -0.477 | -0.004 | 4 | 1.000 | -0.160 | -0.007 |
| | | 0.016 | 0.002 | | | 0.050 | 0.001 |
| Hypothesized number of CE | Eigenvalue | Trace Statistics | Critical Value | Hypothesized number of CE | Eigenvalue | Trace Statistics | Critical Value |
| | | | 5 Percent | | | | 5 Percent |
| None | 0.46 | 30.10 | 25.32 | None | 0.44 | 28.44 | 25.32 |
| At most 1 | 0.07 | 2.99 | 12.25 | At most 1 | 0.11 | 4.93 | 12.25 |
| Hypothesized number of CE | Eigenvalue | Max-Eigen Statistics | Critical Value | Hypothesized number of CE | Eigenvalue | Max-Eigen Statistics | Critical Value |
| | | | 5 Percent | | | | 5 Percent |
| None | 0.46 | 27.10 | 18.96 | None | 0.44 | 23.51 | 18.96 |
| At most 1 | 0.07 | 2.99 | 12.25 | At most 1 | 0.11 | 4.93 | 12.25 |

Note: In order to perform the cointegration tests, the series are assumed to have an intercept and a trend, restricted to lie inside the cointegration space.

Table II.5. Vector Error Correction Estimates for D(LCPI) and D(LNONF)

| | D(LCPI) | | D(LCPI) | | D(LNONF) | | D(LNONF) | |
|----------------|---------------------------|----------------|---------------------------|----------------|---------------------------|----------------|---------------------------|--|
| ECM | -0.604 <i>0.171 **</i> | ECM | -0.622 <i>0.127 **</i> | ECM | -0.733 <i>0.146 **</i> | ECM | -0.667 <i>0.137 **</i> | |
| D(LCPI(-1)) | 0.198 <i>0.195</i> | D(LCPI(-1)) | 0.070 <i>0.123</i> | D(LNONF(-1)) | 0.404 <i>0.168 **</i> | D(LNONF(-1)) | 0.336 <i>0.156 **</i> | |
| D(LCPI(-2)) | 0.091 <i>0.201</i> | D(LCPI(-2)) | -0.200 <i>0.114</i> | D(LNONF(-2)) | 0.305 <i>0.165 *</i> | D(LNONF(-2)) | 0.109 <i>0.149</i> | |
| D(LCPI(-3)) | 0.352 <i>0.170 **</i> | D(LRES(-1)) | -0.049 <i>0.040</i> | D(LNONF(-3)) | 0.611 <i>0.151 **</i> | D(LNONF(-3)) | 0.506 <i>0.138 **</i> | |
| D(LCPI(-4)) | 0.375 <i>0.155 **</i> | D(LRES(-2)) | -0.095 <i>0.037 **</i> | D(LNONF(-4)) | 0.500 <i>0.146 **</i> | D(LNONF(-4)) | 0.336 <i>0.136 **</i> | |
| D(LCPI(-5)) | 0.000 <i>0.137</i> | C | 0.019 <i>0.003 **</i> | D(LM2(-1)) | -0.168 <i>0.056 **</i> | D(LRES(-1)) | -0.095 <i>0.043 **</i> | |
| D(LM2(-1)) | -0.093 <i>0.078</i> | | | D(LM2(-2)) | -0.126 <i>0.049 **</i> | D(LRES(-2)) | -0.112 <i>0.041 **</i> | |
| D(LM2(-2)) | -0.156 <i>0.072 **</i> | | | D(LM2(-3)) | -0.039 <i>0.048</i> | D(LRES(-3)) | -0.021 <i>0.040</i> | |
| D(LM2(-3)) | -0.058 <i>0.062</i> | | | D(LM2(-4)) | -0.100 <i>0.045 **</i> | D(LRES(-4)) | -0.080 <i>0.038 **</i> | |
| D(LM2(-4)) | -0.120 <i>0.055 **</i> | | | C | 0.004 <i>0.005</i> | C | 0.005 <i>0.004</i> | |
| D(LM2(-5)) | -0.168 <i>0.051 **</i> | | | | | | | |
| C | 0.017 <i>0.005 **</i> | | | | | | | |
| R-squared | 0.622 | R-squared | 0.452 | R-squared | 0.563 | R-squared | 0.577 | |
| Adj. R-squared | 0.479 | Adj. R-squared | 0.380 | Adj. R-squared | 0.436 | Adj. R-squared | 0.455 | |
| Normality | 11.997 ** | Normality | 2.809 ** | Normality | 23.150 | Normality | 5.434 ** | |

Notes: T-statistics are reported in italic; ** indicates significant at 5 percent level, * indicates significant at 10 percent level.

Results for normality are the multivariate extensions of the Jarque-Bera residual normality tests, based on the Cholesky orthogonalization method. Except for one equations, we may not reject the hypothesis of multivariate normality at the 5 percent degree of confidence.

III. COMPETITIVENESS AND EXPORTS¹²

A. Introduction

27. The Guinean authorities share the widely held view that an export-oriented development strategy stimulates economic growth and would advance the implementation of their poverty reduction strategy. Guinea's poverty reduction strategy paper (PRSP) attributes to export promotion an important role in raising income per capita and reducing poverty. It considers that the objective of reducing the incidence of poverty to 10 percent in 2010, from 40 percent in 1995, hinges to a great extent on increasing rural incomes through development of agricultural and other nontraditional exports.

28. To promote exports, policies and reforms that foster appropriate incentives and enhance competitiveness are required. Guinea's PRSP highlights important impediments to increased production—including limited access to basic social services, poor governance and institutional framework—and discusses actions that are needed to boost output and exports.

29. The academic literature considers that trade policy—encompassing tariffs, quotas, and export subsidies—and exchange rate policy and restrictions to the foreign exchange system have a bearing on a country's trade in general, and the competitiveness of its exports in particular. Accordingly, the openness of the trade regime and the evolution of the real exchange rate have, traditionally, been taken into account in the assessment of competitiveness. The concept of "competitiveness" is not without controversy. It has been defined with reference to products, micro-scale entities, and nations. The OECD defines a nation's competitiveness as "the degree to which it can, under free and fair market conditions, produce goods and services, which meet the test of international markets while simultaneously maintaining the real incomes of its people over the long run." (cited by Oughton, 1997, p.1488). Krugman (1994) argues that competitiveness is a meaningless word when applied to national economies. Among many researchers and policymakers who think of the concept as relevant for nations, there is an understanding that competitiveness is influenced by price and nonprice factors. For instance, Tiwari (1998) argues that competitiveness is an outcome of numerous price and nonprice factors emanating from internal supply and external demand conditions, but largely influenced by the internal supply conditions of the export country. He cites trade and production policies among the factors influencing competitiveness.

30. Considering that competitiveness is relevant for nations, this chapter reflects on the competitiveness of Guinea's exports by looking at the evolution and status of selected traditional and nontraditional indicators. The chapter is organized as follows: section B discusses Guinea's trade patterns and developments in the area of exports. Section C

¹² This paper was prepared by Mwanza Nkusu.

discusses developments in traditional competitiveness indicators. Section D highlights some structural factors relevant to the competitiveness of Guinea's exports. Section E concludes.

B. Trade Patterns and Developments in the Area of Exports

31. Guinea's exports depend heavily on a few commodities (Table III.1). Bauxite and alumina are the country's main exports, followed by gold and diamonds. During the period 1997-2002, the share of bauxite and alumina in exports of goods averaged almost 63 percent, while all mining products accounted for an average of 85 percent. Coffee, fish, hides and skins, and other products made up the remaining 15 percent. Exports of manufactured products were marginal. Guinea is a price taker on the world market. The structure of its exports highlights the country's vulnerability to fluctuations in international commodity prices.

32. Export performance in the past several years has not been encouraging in three particular aspects. First, Guinea's exports-to-GDP ratio has averaged 23.4 percent over the period 1997-2002 (Table III.2), a level well below the country's potential—as indicated by its climate favorable to agriculture and its mineral and hydropower resources—and the average for sub-Saharan Africa and Guinea's neighbors from the West African Economic and Monetary Union (WAEMU). Second, during the period 1997-2002, real exports growth was sluggish and again below the average for sub-Saharan Africa (Table III.3). It averaged about 4 percent a year, compared with 6 percent and 4.75 percent for the WAEMU countries and sub-Saharan Africa, respectively. Third, efforts to diversify the export base have not been forceful and have had only very limited success. Amongst nontraditional exports, only hides and skins have registered a remarkable pickup. An analysis of the development of competitiveness indicators could provide insights into the development of exports.

C. Competitiveness of Exports

33. Guinea's competitiveness needs to be analyzed by looking at developments of its competitiveness indicators in comparison with its main competitors in the world market for bauxite/alumina (Australia, Brazil, and Jamaica), and neighbors (WAEMU countries and Ghana).¹³ Competitiveness is assessed looking at traditional competitiveness indicators such as the real exchange rate and the openness of the trade regime.

¹³ The rationale for including Ghana is that, besides its vast agricultural resources, it has a strong potential for mining and can be considered by relevant investors as an alternative destination for foreign direct investment (FDI).

Exchange rate policy and the real exchange rate

34. Guinea has maintained a floating exchange rate over the past decade, although in recent months the rate against the U.S. dollar has been kept broadly stable. The foreign exchange market is made up of an official market that has, since 1999, operated through an auction system. The official exchange rate is determined at the end of each auction session and remains in force until another auction is held. Besides the official market, there is a parallel market that comprises licensed foreign exchange bureaus and informal traders. An estimated 70 percent of foreign exchange transactions in the country are channeled through the parallel market. The official market is thin, suffering from a shortage of foreign exchange, which has reduced the frequency of auctions. Auctions, which were weekly at the onset of the auctions system, have been held on a monthly basis since the last quarter of 2001.

35. During the past several months, despite the shortage of foreign exchange and the growing macroeconomic imbalances,¹⁴ the authorities have maintained the Guinean franc per US dollar exchange rate almost unchanged by using moral suasion on commercial banks participating in the auctions. In light of these developments, the Annual Report on Exchange Arrangements and Exchange Restrictions (AREAER) issued by the IMF has reclassified Guinea's exchange rate arrangement from independently floating to managed floating with no preannounced path for the exchange rate.

36. The floating exchange rate had been an encouraging development in view of the many shocks—terms of trade and other real shocks—which necessitated adjustment in the economy. The Guinean franc has depreciated continuously over the past several years. During the period 1997-2002, the CPI-based nominal effective exchange rate (NEER) and the real effective exchange rate (REER) depreciated by an annual average of 6.3 percent and 4 percent, respectively, indicating that Guinea has at least maintained its external competitiveness compared to its major competitors.¹⁵ The depreciation of Guinea's REER is second only to that of Brazil. In a descending order, Guinea is followed by Ghana, Australia, and Jamaica, which is the only country in the group of bauxite producing competitors having registered an annual average appreciation of the REER (Table III.5 and Figure III.1). Depreciations of the REER were driven by nominal depreciations, which more than offset the differential between inflation in Guinea and the average inflation of its trading partners.

¹⁴ 2001 and 2002 were years of serious macroeconomic imbalances driven by expansionary fiscal and monetary policies.

¹⁵ The REER can also be based on labor cost. Such a measure is not available for Guinea.

37. Maintenance of Guinea’s competitiveness is also illustrated by adjustment of its REER to the terms of trade shocks compared to its competitors.¹⁶ During 1997-2002, Guinea’s REER depreciated by 4 percent as indicated above while its terms-of-trade improved by an annual average of 2.5 percent, notwithstanding a deterioration by 8.5 percent and 7.8 percent in 1999 and 2000, respectively. Its neighbors and its bauxite producing competitors faced less favorable terms of trade but registered, with the exception of Brazil, REER depreciations below 4 percent. Brazil, whose average REER depreciation was larger than Guinea’s, experienced adverse terms-of-trade shocks compared with Guinea’s terms of trade improvement (Table III.4).

Trade policy

38. Trade policy, as assessed through some trade openness indicators, is an important component of competitiveness. For firms or countries to be competitive, they must be able to produce products that can compete with foreign goods in the domestic market, as well as abroad. Restrictions in the trade regime can interfere with that ideal on two fronts. First, they can foster inefficiency in the domestic production of goods. This is the case of export subsidies or import restrictions that make imports of final goods more costly, thereby encouraging inefficient production of import substitutes. Second, they can reduce the competitiveness of domestic products compared with foreign goods. This is the case for export taxes or import restrictions applied to raw materials, intermediate, or capital goods. Although variations in trade restrictions influence the exchange rate by affecting the supply and demand of foreign exchange, the trade regime itself has a bearing on competitiveness beyond its impact on the exchange rate.

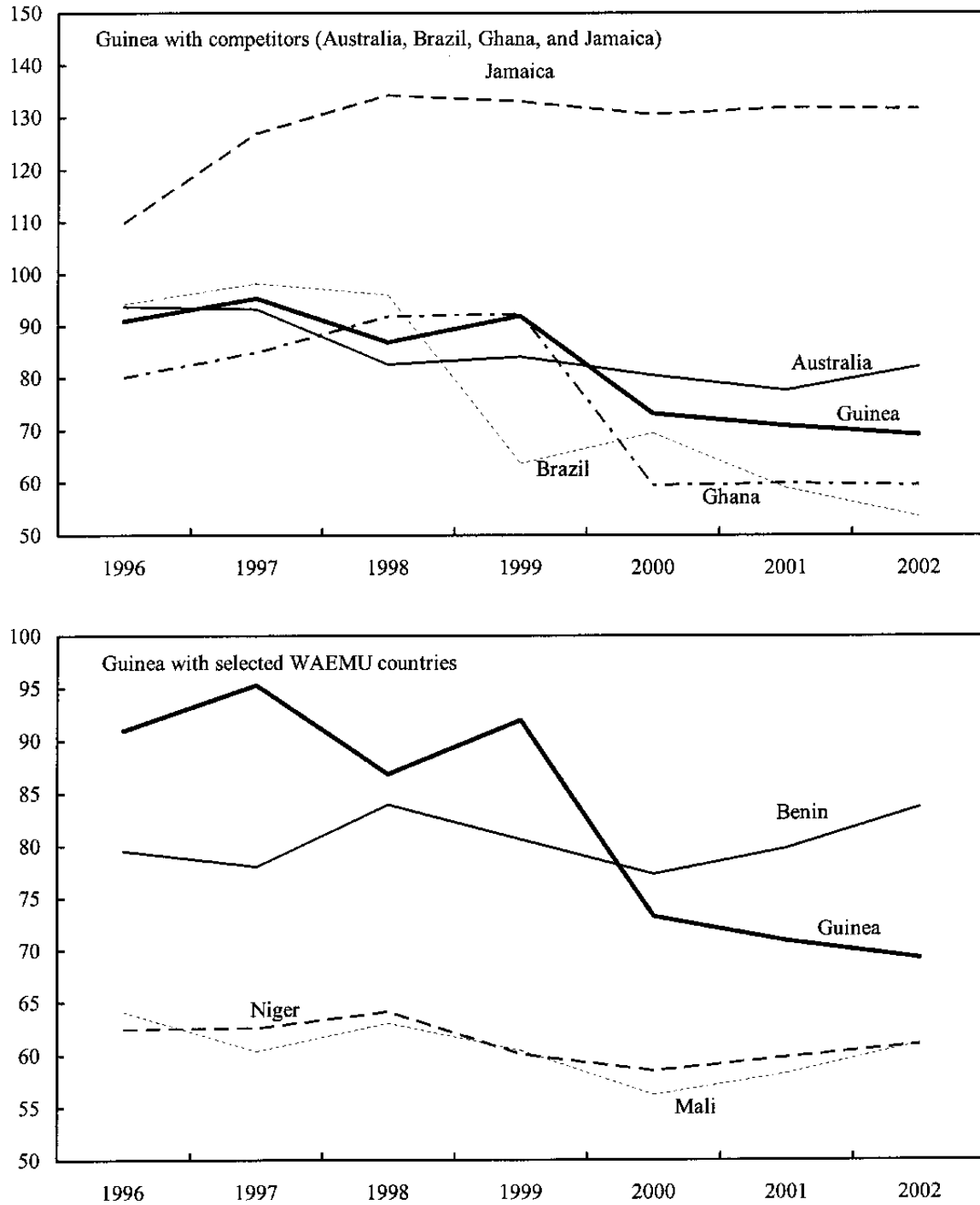
39. Guinea’s trade system gives it a competitive edge, compared with many of the selected competitors. Trade liberalization efforts undertaken over the last decade have led to a significant reduction in tariff and nontariff barriers. At 3, the IMF’s trade restrictiveness index for Guinea is second only to that for Australia (Box III.1).¹⁷ Moreover, Guinea’s overall index will improve to 2 once it adopts the common external tariff (CET) of the WAEMU and simplifies its tariff system further.

| Box III.1: Trade Restrictiveness Indices | | | |
|--|---------|--------|-----------|
| | Overall | Tariff | Nontariff |
| Australia | 1 | 1 | 1 |
| Guinea | 3 | 3 | 1 |
| WAEMU | 3.5 | - | - |
| Jamaica | 4 | - | - |
| Brazil | 5 | 2 | 2 |
| Ghana | 5 | 2 | 2 |

¹⁶ The comparison is only indicative as it ignores changes in other determinants of the real exchange rate.

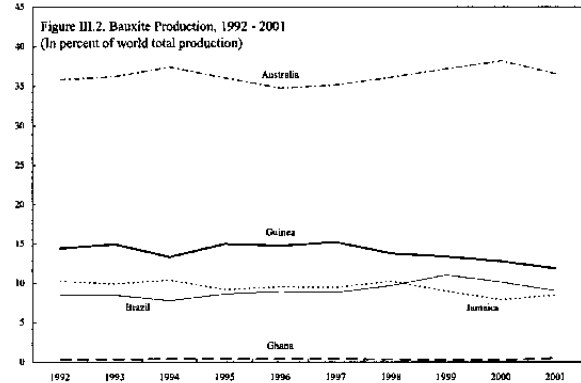
¹⁷ On a scale of 0–10, where 10 represents the most restrictive trade regime.

Figure III.1. Guinea: Real Effective Exchange Rate (1990=100), 1996 - 2002



Source: Fund staff estimates.

Despite a depreciating REER and relatively open trade regime, Guinea's exports have performed poorly. As shown in Table III.1 and Table 16 of the statistical appendix, the Guinean economy has not experienced any major change in the structure of its exports as a result of improved competitiveness associated with movements in the CPI-based REER or the openness of its trade regime. Moreover, Guinea's share in the world production of its main export product, bauxite, declined from 14.4 percent in 1992 to 11.9 percent in 2001 (Figure III.2). While world production of bauxite grew by an annual average of 2.8 percent during 1992-2001, Guinea's output rose by only 0.8 percent on average per year, the worst performance among the major producers.¹⁸ Clearly, these developments indicate that a lack of diversification policies and new investments in the mining sector, combined with institutional and structural weaknesses, have prevented the depreciation of the real exchange rate and the opening up of the trade regime from encouraging a positive supply response.



Institutional and structural aspects of competitiveness

40. Competitiveness is multifaceted and encompasses the existence of a broad range of factors that affect firms' incentive to invest in the production of tradables. The *World Competitiveness Yearbook* lists many relevant factors, including the creation of a stable legislative environment; development of traditional and technological infrastructure; investment in health and education; and maintenance of a stable macroeconomic environment.¹⁹ These factors create conditions that attract investment, which is generally recognized as crucial for increasing a country's productive capacity, notably through technology transfers.

41. The macroeconomic policies and structural reforms implemented by Guinea over the past several years have not been sufficient to ease bottlenecks that limit investment and the diversification of the export base. The efforts made in macroeconomic management, including maintenance of low and stable inflation and a non-appreciating REER, have had

¹⁸ Source: Canadian Government Natural Resource site
<http://www.nrcan.gc.ca/mms/efab/mmsd/wnf/2002/Wnf01b.pdf>

¹⁹ *IMD World Competitiveness Yearbook*, 2003 edition

only marginal positive results. The easing of structural and institutional constraints is important for strengthening the extent to which good macroeconomic policies that improve traditional competitiveness indicators contribute to export development and thereby to economic growth.

D. Main Constraints to Export Development

42. The constraints to the development of Guinea's exports are the same as those preventing the emergence of a buoyant private sector in the country. These constraints include poor governance, weaknesses in the regulatory framework and the administration of justice, an inadequate transportation network, a shallow financial sector, inefficiency in the provision of public utilities such as water, electricity, and telecommunication services, complex tariff regulations, and inefficiencies in the operation of the port and international airport.

43. These structural constraints appear to have played an important role in restraining FDI flows into Guinea (Table III.6). Looking at indicators such as availability and cost of communication services, electricity supply, and road network, Guinea ranks poorly among the comparators chosen. For instance, all the countries chosen, except Ghana, have increased their electricity production significantly.²⁰ In Guinea, the electricity sector has been in decline; frequent outages in the past few several months have been disruptive to domestic economic activity and have raised production costs for many businesses.²¹ To correct the weaknesses in the provision of electricity, the government intends to promote private sector involvement as indicated in its PRSP. The recent crisis highlights the urgency of taking concrete appropriate actions. With regard to the road infrastructure, Guinea is also at a disadvantage compared with competitors.²² All these factors, coupled with poor governance and other institutional weaknesses, have made Guinea less attractive to FDI and have also prevented the establishment of formal small-scale mining activities.

44. Over the last decade, Guinea had the worse performance in attracting FDI compared with its competitors (Figure III.3). Between 1991 and 2000, FDI averaged only a paltry

²⁰ Electricity production figures for Guinea are not available.

²¹ During the May 2003 mission, some businessmen indicated that the cost of operating a private power generator is almost 10 times as high as that of electricity provided by the power company.

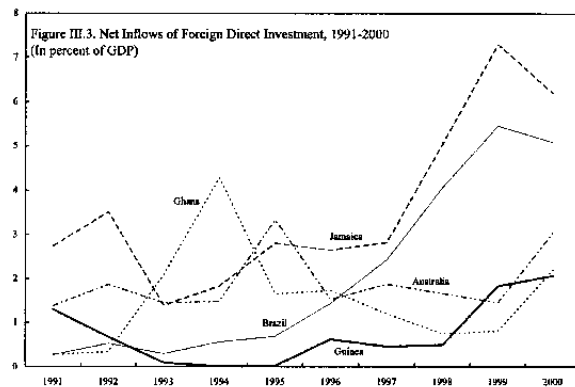
²² Ghana has an area about 95 percent the size of Guinea, but its road network is 29 percent longer, and the share of paved roads is 50 percent higher. Jamaica is only 5 percent the size of Guinea, but its road network is almost half the length of Guinea's and the ratio of paved roads that is four times higher. Australia and Brazil have better road networks than Guinea.

0.8 percent of GDP in Guinea, compared with 3.6 percent of GDP in Jamaica, 2.1 percent of GDP in Brazil, 1.9 percent of GDP in Australia, and 1.5 percent of GDP in Ghana. Guinea's shrinking share of world bauxite production indicates that the country has not kept up with its competitors in improving the investment climate. Without action to remove or ease structural impediments to private investment, Guinea will not be able to increase its market share in the world market for mining products or other nontraditional products for which it has a comparative advantage (Box III.2).

45. Some aspects of the constraints identified above prevent the pickup in nontraditional exports from rural areas. The inadequacy of transport infrastructure linking villages and production areas to markets and social services has been a major constraint to rural

development. Other factors such as the underdevelopment of rural electrification, insufficient access to credit and lack of information on opportunities for trade also constitute nonnegligible constraints. If those constraints were eased, the agricultural sector could flourish and probably provide raw material to industrial activities downstream, while also boosting exports and helping to raise rural incomes. Therefore, rural development should be considered as an

important aspect of competitiveness and diversification of the export base and a critical ingredient of the poverty reduction strategy, as reflected in the country's PRSP.



Box III.2. Exports and Growth Potential

Mining products

Guinea's mining sector could in principle play an even greater role in the country's exports and economic development. Guinea has one third of the world's known reserves of bauxite, the largest of any country in the world. Its bauxite remains of good quality despite the decline in alumina content registered in the last couple of years. In addition, low labor costs, the proximity of a port, and the presence in the country of the major international aluminum companies, should constitute clear advantages for Guinea, and help attract additional FDI. Nonetheless, these advantages need to be reinforced by the providing of a reliable electricity supply and easing of numerous structural and institutional bottlenecks, so as to improve the investment climate. Besides bauxite, Guinea has reserves of iron ore, diamond, and gold, the exploitation of which would also benefit from an improvement in the investment climate.

Nontraditional products

Guinea's Poverty Reduction Strategy Paper (PRSP) points out that Guinea has the potential for developing agricultural exports, livestock, and fish farming. The development of industrial fisheries is also a promising area. Nonetheless, to make headway in the exportation of fresh produce, fish and meat products, Guinea needs to improve conservation facilities so as to meet international quality standards. Here again, reforms in the electricity sector are crucial.

E. Concluding Remarks

46. Sound macroeconomic policies and structural and institutional reforms ought to reinforce each other to boost competitiveness. Historical developments have shown that good performance of the traditional competitiveness indicators—REER and trade openness—is not sufficient to promote exports. Numerous analyses conducted over the years, including in the context of the elaboration of the poverty reduction strategy paper (PRSP), have identified key areas that need decisive actions in order to unlock Guinea's considerable growth potential. The PRSP envisages a number of medium- and long-term actions to ease the constraints identified and support sectors with a strong growth potential. These actions include (i) the development of production and distribution infrastructure, (ii) the improved provision of basic social services in rural areas, (iii) the provision of training in entrepreneurship, (iv) the facilitation of access to financing, (v) the simplification of procedures for small-scale mining operators to obtain mining titles, and (vi) the improvement of the regulatory framework and the administration of justice. In addition, policies in these areas will be guided by the results of the World Bank's Diagnostic Trade Integration Study for Guinea, which seeks to link more clearly trade reform and poverty reduction.

47. There is no miracle solution to boost the competitiveness of Guinea's exports. While some actions envisaged in the PRSP require financial resources, including from the international donor community, political determination will be the key to promoting an environment in which formal private sector activities can emerge and prosper.

Table III.1. Guinea Exports of Goods, 1991-2002
(In millions of US dollars)

| | 1991 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | Average Est. 1997-2002 |
|-------------------------------|-------|-------|-------|-------|-------|-------|-------|---------------------------|
| (In millions of US dollars) | | | | | | | | |
| Total exports | 769.8 | 629.5 | 653.0 | 635.7 | 666.6 | 722.8 | 700.4 | 668.0 |
| Mining products | 700.0 | 512.1 | 544.5 | 537.8 | 570.6 | 636.5 | 611.8 | 568.9 |
| Bauxite and alumina | 569.6 | 421.3 | 424.3 | 392.5 | 402.2 | 458.1 | 433.6 | 422.0 |
| Diamonds | 50.7 | 56.8 | 48.4 | 50.8 | 51.3 | 28.1 | 34.5 | 45.0 |
| Gold | 79.7 | 34.0 | 71.8 | 94.5 | 117.1 | 150.2 | 143.7 | 101.9 |
| Nonmining products | 69.8 | 117.4 | 108.5 | 97.9 | 96.0 | 86.4 | 88.6 | 99.1 |
| (In percent of total exports) | | | | | | | | |
| Total exports | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Mining products | 90.9 | 81.4 | 83.4 | 84.6 | 85.6 | 88.1 | 87.4 | 85.1 |
| Bauxite and alumina | 74.0 | 66.9 | 65.0 | 61.7 | 60.3 | 63.4 | 61.9 | 63.2 |
| Diamonds | 6.6 | 9.0 | 7.4 | 8.0 | 7.7 | 3.9 | 4.9 | 6.8 |
| Gold | 10.3 | 5.4 | 11.0 | 14.9 | 17.6 | 20.8 | 20.5 | 15.0 |
| Nonmining products | 9.1 | 18.6 | 16.6 | 15.4 | 14.4 | 11.9 | 12.6 | 14.9 |

Source : Guinean authorities; Fund staff estimates.

Table III.2. Exports of Goods and Services, 1996 - 2002
(In percent of GDP)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | Average 1997-2002 |
|--------------------|------|------|------|------|------|------|------|----------------------|
| Cote d'Ivoire | 41.1 | 41.4 | 39.7 | 40.4 | 39.7 | 38.6 | 40.8 | 40.1 |
| Ghana | 32.1 | 32.4 | 33.9 | 32.1 | 48.8 | 45.1 | 42.0 | 39.0 |
| Togo | 33.3 | 29.0 | 33.3 | 32.0 | 32.6 | 32.6 | 31.6 | 31.9 |
| Senegal | 29.5 | 29.2 | 30.4 | 30.8 | 29.9 | 30.4 | 30.1 | 30.1 |
| Mali | 20.4 | 26.4 | 23.9 | 25.1 | 26.3 | 31.5 | 32.7 | 27.6 |
| Guinea | 19.2 | 19.6 | 21.3 | 21.0 | 24.0 | 27.6 | 27.1 | 23.4 |
| Niger | 18.5 | 16.8 | 17.8 | 15.9 | 17.8 | 16.6 | 16.3 | 16.9 |
| Benin | 19.2 | 16.1 | 17.1 | 16.1 | 15.2 | 15.2 | 14.0 | 15.6 |
| Total Africa | 28.8 | 28.8 | 26.2 | 27.5 | 32.6 | 31.6 | 31.5 | 29.7 |
| Sub-Saharan Africa | 30.1 | 29.8 | 28.0 | 29.6 | 35.5 | 33.8 | 33.6 | 31.7 |
| WAEMU | 30.5 | 30.8 | 30.6 | 30.5 | 29.8 | 29.6 | 30.3 | 30.3 |

Sources: African Department data base, April 2003, and WEO, 4/02/2003.

Table III.3. Real Exports of Goods and Services Growth, 1996 - 2002
(In percent)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | Average 1997-2000 |
|--------------------|-------|------|-------|-------|------|------|------|----------------------|
| Mali | 3.3 | 41.0 | 1.4 | 21.8 | -2.0 | 20.5 | 23.6 | 17.7 |
| Benin | 20.1 | -8.3 | 9.3 | 30.0 | -5.8 | -8.7 | 23.3 | 6.6 |
| Ghana | 43.3 | 4.9 | 10.4 | 6.0 | 9.5 | 3.8 | 0.7 | 5.9 |
| Senegal | -12.2 | -1.0 | 10.7 | 10.1 | -2.9 | 9.7 | 6.6 | 5.6 |
| Togo | 5.2 | 25.3 | -19.4 | 15.1 | -7.9 | -0.7 | 20.8 | 5.5 |
| Guinea | -7.0 | -8.2 | 10.1 | 5.8 | 1.4 | 9.6 | 4.5 | 3.9 |
| Niger | 29.7 | -5.9 | 13.2 | -13.6 | 23.4 | -2.3 | 3.7 | 3.1 |
| Cote d'Ivoire | 17.0 | 4.7 | 3.0 | 10.7 | -3.0 | -0.2 | -7.0 | 1.4 |
| Total Africa | 7.5 | 6.4 | 3.4 | 6.2 | 8.0 | 2.4 | 1.7 | 4.7 |
| Sub-Saharan Africa | 10.6 | 6.6 | 1.6 | 3.7 | 11.0 | 2.7 | 2.7 | 4.7 |
| WAEMU | 7.9 | 8.0 | 9.0 | 8.8 | -1.4 | 2.9 | 8.1 | 5.9 |

Sources: African Department data base, April 2003, and WEO, 4/02/2003.

Table III.4. Terms of Trade, 1997 - 2002
(Index, 1995=100; annual percentage change)

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | Average 1997-2002 |
|---------------|------|------|-------|-------|-------|-------|----------------------|
| Guinea | 15.4 | 8.5 | -8.5 | -7.8 | 8.0 | -0.7 | 2.5 |
| Australia | 2.9 | -2.9 | -2.3 | 7.9 | 3.2 | 1.9 | 1.8 |
| Senegal | 2.3 | 6.8 | -3.5 | -3.6 | 4.0 | -2.4 | 0.6 |
| Brazil | -5.2 | -1.8 | -13.2 | 3.1 | 5.6 | 5.6 | -1.0 |
| Côte d'Ivoire | -3.6 | 4.9 | -7.8 | -20.1 | 0.8 | 17.5 | -1.4 |
| Mali | -3.9 | 2.1 | -13.6 | -3.4 | 7.8 | -1.4 | -2.1 |
| Ghana | 1.6 | 9.8 | -9.4 | -21.4 | 1.0 | 3.9 | -2.4 |
| Benin | -1.7 | 5.9 | -22.2 | 1.6 | 15.4 | -15.8 | -2.8 |
| Jamaica | 3.6 | -3.0 | -4.8 | 0.3 | -12.8 | -0.9 | -2.9 |
| WAEMU | -2.8 | 5.6 | -8.3 | -13.3 | 4.0 | 5.0 | -1.6 |

Sources: African Department data base, April 2003, and WEO, 4/02/2003.

Table III.5. Real Effective Exchange Rate Developments, 1996-2002
(Index 1990=100)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | Averages 1997-2002 |
|----------------------------|--------|--------|--------|--------|--------|--------|--------|-----------------------|
| Guinea | 90.95 | 95.30 | 86.84 | 91.93 | 73.19 | 70.85 | 69.21 | 81.22 |
| Australia | 93.73 | 93.25 | 82.59 | 84.08 | 80.56 | 77.68 | 82.18 | 83.39 |
| Brazil | 94.21 | 98.21 | 95.97 | 63.71 | 69.51 | 59.05 | 53.58 | 73.34 |
| Jamaica | 109.87 | 126.93 | 134.22 | 132.97 | 130.56 | 131.82 | 131.61 | 131.35 |
| Benin | 79.54 | 78.02 | 83.96 | 80.62 | 77.27 | 79.79 | 83.67 | 80.56 |
| Cote-d'Ivoire | 84.14 | 81.04 | 84.65 | 83.69 | 78.91 | 80.48 | 82.88 | 81.94 |
| Ghana | 80.10 | 84.92 | 91.88 | 92.36 | 59.59 | 59.98 | 59.61 | 74.73 |
| Mali | 64.13 | 60.37 | 63.02 | 60.43 | 56.20 | 58.27 | 61.12 | 59.90 |
| Niger | 62.48 | 62.58 | 64.11 | 60.08 | 58.50 | 59.79 | 61.04 | 61.02 |
| (Annual percentage change) | | | | | | | | |
| Guinea | | 4.78 | -8.88 | 5.86 | -20.38 | -3.19 | -2.32 | -4.02 |
| Australia | | -0.51 | -11.43 | 1.80 | -4.18 | -3.58 | 5.79 | -2.02 |
| Brazil | | 4.25 | -2.28 | -33.61 | 9.09 | -15.04 | -9.27 | -7.81 |
| Jamaica | | 15.52 | 5.74 | -0.93 | -1.81 | 0.96 | -0.16 | 3.22 |
| Benin | | -1.92 | 7.61 | -3.98 | -4.15 | 3.27 | 4.86 | 0.95 |
| Cote-d'Ivoire | | -3.68 | 4.45 | -1.14 | -5.71 | 1.99 | 2.98 | -0.18 |
| Ghana | | 6.03 | 8.19 | 0.52 | -35.48 | 0.66 | -0.62 | -3.45 |
| Mali | | -5.85 | 4.39 | -4.11 | -7.00 | 3.68 | 4.89 | -0.67 |
| Niger | | 0.16 | 2.44 | -6.29 | -2.62 | 2.21 | 2.08 | -0.34 |

Source: IMF, Information Notice System.

Table III.6. Selected Development Indicators, 1991-2000

| | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|--|--------------|--------------|---------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Telephone mainlines (mobile phones); per 1,000 people | | | | | | | | | | |
| Guinea | 1.9 (0.0) | 1.7 (0.0) | 1.7 (0.0) | 1.3 (0.1) | 1.4 (0.1) | 2.1 (0.1) | 2.5 (0.4) | 4.7 (2.8) | 5.9 (3.2) | 7.8 (5.3) |
| Australia | 465.5 (16.9) | 472.0 (28.4) | 483.5 (39.1) | 495.6 (68.3) | 492.4 (124.1) | 500.7 (217.9) | 512.7 (247.1) | 509.3 (262.6) | 515.3 (333.5) | 524.6 (446.9) |
| Brazil | 110.3 (0.0) | 254.5 (0.2) | 116.5 (1.2) | 123.0 (3.7) | 126.9 (8.3) | 164.7 (15.8) | n.a. (28.5) | n.a. (44.4) | n.a. (89.5) | n.a. (136.3) |
| Ghana | 3.0 (0.0) | 2.9 (0.0) | 2.9 (0.1) | 2.9 (0.2) | 3.6 (0.4) | 4.3 (0.7) | 5.7 (1.2) | 7.5 (2.2) | 8.0 (3.6) | 11.7 (6.4) |
| Jamaica | 55.6 (1.0) | 69.1 (3.2) | 85.0 (6.2) | 101.4 (10.6) | 116.1 (18.1) | 142.0 (21.7) | 164.2 (26.1) | 182.3 (31.0) | 190.3 (56.4) | 198.6 (142.4) |
| Average cost of local call , in US\$ per three minutes | | | | | | | | | | |
| Guinea | 0.07 | 0.08 | 0.09 | 0.11 | 0.11 | 0.11 | 0.10 | 0.09 | 0.10 | n.a. |
| Australia | 0.18 | 0.18 | 0.16 | 0.18 | 0.18 | 0.19 | 0.18 | 0.15 | 0.16 | 0.12 |
| Brazil | n.a. | n.a. | n.a. | 0.03 | 0.04 | 0.07 | 0.09 | 0.08 | 0.03 | 0.03 |
| Ghana | 0.05 | 0.04 | 0.15 | 0.10 | 0.08 | n.a. | 0.09 | 0.08 | 0.07 | 0.03 |
| Jamaica | n.a. | 0.01 | n.a. | n.a. | 0.06 | 0.06 | n.a. | n.a. | n.a. | n.a. |
| Roads, total network in thousands of km (paved roads in percent of total) | | | | | | | | | | |
| Guinea | 29.7 (15.2) | 29.9 (15.5) | 30.0 (15.8) | 30.2 (16.1) | 30.3 (16.4) | 30.5 (16.5) | 30.5 (16.5) | 30.5 (16.5) | 30.5 (16.5) | n.a. (n.a.) |
| Australia | 828.0 (35.7) | 844.0 (36.4) | 860.0 (37.1) | 878.0 (37.9) | 896.0 (38.6) | 913.0 (38.7) | n.a. (n.a.) | 913.0 (38.7) | 811.6 (n.a.) | n.a. (n.a.) |
| Brazil | 1661.9 (8.6) | 1661.9 (8.6) | 1824.4 (12.3) | 1824.4 (8.1) | 1657.8 (8.9) | 1980.0 (9.3) | 1657.8 (9.1) | 1670.1 (9.6) | 1726.9 (5.6) | 1724.9 (5.5) |
| Ghana | 36.7 (23.0) | 37.0 (23.5) | 37.2 (23.9) | 37.4 (24.4) | 37.6 (24.9) | 37.8 (24.1) | n.a. (n.a.) | n.a. (n.a.) | 39.4 (29.6) | n.a. (n.a.) |
| Jamaica | 17.2 (65.2) | 17.5 (66.5) | 17.9 (67.9) | 18.2 (69.2) | 18.6 (70.6) | 19.0 (70.7) | n.a. (n.a.) | 18.7 (70.1) | 18.7 (70.1) | n.a. (n.a.) |
| Electricity production , in millions of kwh | | | | | | | | | | |
| Australia | 156,569 | 159,230 | 163,333 | 167,223 | 173,030 | 177,349 | 182,844 | 195,628 | 203,020 | n.a. |
| Brazil | 234,366 | 241,731 | 251,973 | 260,041 | 275,601 | 291,245 | 307,980 | 321,748 | 332,306 | n.a. |
| Ghana | 6,116 | 6,603 | 6,335 | 6,131 | 6,136 | 6,655 | 6,885 | 5,013 | 5,233 | n.a. |
| Jamaica | 2,054 | 2,199 | 3,791 | 4,775 | 5,829 | 6,038 | 6,255 | 6,480 | 6,609 | n.a. |
| Memorandum items: | | | | | | | | | | |
| Net inflows of FDI, in millions of US dollars | | | | | | | | | | |
| Guinea | 39.0 | 20.0 | 3.0 | 0.2 | 0.8 | 24.0 | 17.3 | 17.8 | 63.4 | 63.4 |
| Australia | 4,312.4 | 5,699.1 | 4,318.4 | 5,000.7 | 12,026.4 | 6,181.4 | 7,631.3 | 6,046.2 | 5,699.3 | 11,527.0 |
| Brazil | 1,103.0 | 2,061.0 | 1,292.0 | 3,072.0 | 4,859.0 | 11,200.0 | 19,650.0 | 31,913.0 | 28,576.0 | 30,499.0 |
| Ghana | 20.0 | 23.0 | 125.0 | 233.0 | 107.0 | 120.0 | 83.0 | 56.0 | 62.6 | 110.0 |
| Jamaica | 133.0 | 142.4 | 77.9 | 129.7 | 147.4 | 183.7 | 203.3 | 369.0 | 523.7 | 456.0 |

Source: World Development Indicators.

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IV. THE MICROFINANCE SECTOR IN GUINEA²³

A. Introduction

48. The importance of financial institutions in economic development revolves around a number of functions, including the mobilization of savings, the allocation of capital to the productive sectors of the economy, the facilitation of payment transfers, and the diversification of risk. In the least developed economies, financial systems are often characterized by a small number of formal sector financial institutions, with large credit exposure to government and government-related businesses, such as public enterprises. Microfinance institutions²⁴ (MFIs) have emerged in many countries to provide a broad range of financial services to the lower end of the credit market, i.e., poor households and micro-entrepreneurs in both rural and urban settings, under the belief that they could implement those functions more effectively than traditional institutions such as tontiniers, money-lenders, business traders, etc. Slow economic growth in Africa is often associated with poor capital accumulation, whereas high rates of economic growth, for example in Asia, are correlated with high domestic savings rates. The role of MFIs in providing vehicles for savings may be crucial in enhancing growth prospects, while reducing dependence on aid flows and foreign capital.

49. The development and growth of microfinance institutions has not been without challenges in Guinea as exemplified by the liquidation of the largest MFI, the *Crédit Mutuel de Guinée* (CMG) because of insolvency. Two main questions need to be addressed in a forward-looking analysis of the microfinance sector: (i) the appropriate regulatory and supervisory framework that must be put in place to ensure the proper functioning of microfinance institutions and to prevent the emergence of systemic risks to the financial

²³ This paper was prepared by Rodolphe Blavy.

²⁴ Throughout this paper, the term “microfinance institutions” (or MFIs) is used as commonly defined, i.e., to designate financial institutions dedicated to assisting small enterprises, the poor, and households who have no access to the more institutionalized financial system, in mobilizing savings, and obtaining access to financial services. While in other countries institutions offering microfinance services are very diverse, including commercial banks, state-owned development banks, postal offices, Guinea’s microfinance institutions are distinguished from both commercial banks, which are reluctant to engage into microfinance, and small informal structures dealing with the poor. The instruction of the Central Bank of the Republic of Guinea on the regulation of microfinance activities (January 16, 2002) defines microfinance institutions as follows: institutions, other than banks and other financial institutions, that provide, as their core business, credit and savings services, and other financial services targeted specifically at individuals or corporations excluded from the formal financial system.

sector as a whole, (ii) the relationship between microfinance institutions and other financial institutions needs to be clearly defined for each to perform their specific economic functions and complement each other.

50. This paper looks at the specific experience of Guinea, and reflects on the experience of other countries to provide some insight to two key issues: (i) the role of microfinance institutions in economic development and poverty reduction and, (ii) regulatory and supervisory policies in the microfinance sector. The specificity of the Guinean experience, i.e., microfinance institutions of diverse nature and characteristics, the failure in 2001 of the largest institution operating in the country and, the recent development of a regulatory framework for the sector, may also provide useful lessons for other countries.

51. The remainder of this chapter is organized as follows: First, the characteristics of microfinance institutions in Guinea are presented, with a tentative assessment of their economic and social impact. Second, the major challenges facing the microfinance sector are assessed, in particular in terms of regulation and supervision. Lastly, the conclusion provides recommendations for the sound development of the sector in the coming years.

B. Background: Development of the Microfinance Sector in Guinea

52. The banking sector in Guinea is composed of few institutions. As indicated in table IV.1, there were only 7 commercial banks in Guinea in 2002, accounting for about 60 percent of total assets of the financial system, while the central bank, the Banque Centrale de la République de Guinée (BCRG), accounts for the remainder. In 2002, credit to the private sector accounted for 70 percent of total commercial bank credit. The proportion of non-performing loans has remained in the 27-28 percent of total credit range over the last five years, reflecting lax judicial enforcement and the difficulty of commercial banks in assessing the degree of risk associated with their lending operations. This situation may be detrimental to the low-end of the credit market, with small-scale enterprises and poor households being excluded from the credit market. The development of the microfinance sector may provide a solution by focusing specifically on the low-end of the credit market, notably through a wide network of local and rural branches that commercial banks lack. However, microfinance institutions are also subject to lax judicial enforcement and client risks, and they may provide an effective response only provided adequate risk management mechanisms are in place for micro-credit, as well as sound internal control and bookkeeping practices (discussed later in the paper).

Table IV.1. Selected Indicators of the Banking Sector in Guinea, 1997 - 2002
(End-of-period)

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|--|-------|-------|-------|-------|-------|-------|
| Number of commercial banks 1/ | 6 | 6 (7) | 7 | 7 | 7 | 7 |
| Total assets (in billion of GNF) | 345.8 | 407.7 | 491.7 | 504.1 | 537.2 | 647.6 |
| In percent of total assets of the banking system 2/ | 45.2 | 48.3 | 54.2 | 54.1 | 55.1 | 59.1 |
| Loans (in billion of GNF) | 231.1 | 261.6 | 287.8 | 292.4 | 339.0 | 420.1 |
| In percent of total assets of commercial banks | 66.8 | 64.2 | 58.5 | 58.0 | 63.1 | 64.9 |
| In percent of private deposits of commercial banks | 108.1 | 116.1 | 121.1 | 104.9 | 95.5 | 93.8 |
| <i>Of which: loans to the private sector</i> | 184.1 | 214.1 | 248.5 | 274.2 | 292.0 | 295.1 |
| Healthy (in percent of loans to the private sector) | 76.0 | 73.0 | 71.9 | 74.2 | 72.0 | 72.9 |
| Non-performing (in percent of loans to the private sector) | 24.0 | 27.0 | 28.1 | 25.8 | 28.0 | 27.1 |
| Private deposits (in billion of GNF) | 213.9 | 225.2 | 237.6 | 278.6 | 355.1 | 447.6 |
| In percent of total assets | 61.8 | 55.2 | 48.3 | 55.3 | 66.1 | 69.1 |

Source: BCRG.

1/ Ecobank was created on Dec. 5, 1998.

2/ Central bank assets are on a net basis.

53. The microfinance sector provides financial services to a large number of economic agents, operating in various sectors of the economy. Since 1997, MFIs have experienced a significant development. This is indicated in table IV.2, which presents selected indicators for the largest Guinean MFIs. The remaining institutions account for a marginal portion of total deposits and loans by MFIs. Between 1997 and 2002 the importance of the microfinance sector has grown significantly: the number of beneficiaries of microfinance institutions increased by more than 130 percent, while the number of local branches almost doubled. During the same period, deposits experienced a three-fold increase, while loans increased more than 3.5 times. As a share of the financial system as a whole, the relative role of the microfinance sector has also grown. Deposits in MFIs represented 1.0 percent of total deposits in the financial sector in 1997, and 1.5 percent in 2002. The share of MFI loans in total loans of the financial sector rose from 2.0 percent in 1997 to 3.8 percent in 2002. While MFIs have benefited from various sources of funds that allowed them to expand their loan portfolio significantly above their deposit base, representatives of the sector expressed concern that the expansion of the microfinance sector is constrained today by the capacity of microfinance institutions to access capital, either in the form of deposits or in the form of short- and medium-term credit lines, in particular in a context where foreign assistance is becoming scarcer.²⁵

²⁵ The low deposits-to-loans ratio in the microfinance system, as revealed in table IV.2, is due mainly to (i) the low ratio for the CRG, (ii) to the fact two out of the four major institutions do not collect deposits.

Table IV.2. Selected Indicators of Microfinance Institutions in Guinea, 1997 - 2002

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|--------|--------|--------|---------|---------|---------|
| Network of microfinance institutions 1/ | 73 | 83 | 98 | 110 | 114 | 120 |
| Beneficiaries | 60,213 | 75,629 | 88,102 | 109,225 | 118,716 | 138,953 |
| <i>Penetration rate (in percent) 2/</i> | 4.7 | 5.8 | 6.6 | 7.9 | 8.4 | 9.5 |
| Deposits (in millions of GNF) | 2,151 | 2,658 | 3,334 | 4,413 | 5,392 | 6,811 |
| In percent of total deposits with the banking sector | 1.0 | 1.2 | 1.4 | 1.6 | 1.5 | 1.5 |
| Loans (in millions of GNF) | 4,760 | 6,544 | 8,437 | 10,461 | 12,020 | 16,687 |
| In percent of total loans of the banking sector | 2.1 | 2.4 | 2.8 | 3.5 | 3.4 | 3.8 |
| <i>Of which nonperforming loans (in percent of total loans)</i> | 12.5 | 12.3 | 14.7 | 4.6 | 4.6 | 2.0 |
| Lending interest rate (average, in percent) | 23 | 22 | 22 | 23 | 25 | 26 |

Sources: BCRG and Fund staff estimates.

1/ Number of branches; Four institutions are covered in the sample, representing the most significant players in the sector.

2/ The penetration rate is the number of beneficiaries divided by the number of families, assuming 6 persons per family.

54. Aside from six small and active structures, four institutions accounted for the bulk of the microfinance sector in 2002, both in terms of deposits and of number of clients. Three categories of institutions are defined in the instructions issued by the BCRG in 2002, depending on the functions they undertake. The first category consists of institutions that collect savings and allocate them to its own members, such as the *Caisses Populaires d'Épargne et de Crédit de Conakry (CPEC-Co)* or *Yété mali*. The second category groups institutions that collect deposits, and allocate them to third parties, regardless of their affiliation to the institution. The *Crédit Rural de Guinée (CRG)* is one of such institutions. The third category corresponds to microcredit institutions that do not collect savings, and operate with external sources of funds, for example donors' money, such the *Programme Intégré pour le Développement de l'Entreprise (Pride/Finance)* and the *Agence Autonome d'Assistance intégrée aux Entreprises (3AE)*. The agency structure of the Guinean microfinance institutions is relatively similar across institutions, with a network of local associations or cooperative societies headed by a national structure. Table IV.3 provides a detailed description of those four MFIs.

The Crédit Rural de Guinée

55. The CRG is by far the largest microfinance institution in Guinea, with 107,000 members in the four regions of the country in 2002. The CRG is a limited liability company, with three groups of shareholders – local structures (village-bank type systems, accounting for 40 percent of capital), employees (35 percent), local and foreign donors (25 percent) – all three being represented on the executive board. The activities of the CRG are focused on offering access to credit to the rural poor, especially in agriculture, fishing, livestock, handicraft, and commerce, and encouraging savings in rural areas. In 2002, savings collected by the CRG amounted to GNF 4.6 billion, for a total portfolio of GNF 9.3 billion, after increasing more than 260 percent since 1997. This increase is explained by the general dynamism of the sector and by the liquidation of the CMG, most of whose clients stepped over to the CRG.

The Caisses Populaires d'Épargne et de Crédit de Conakry or Yétémali

56. Yétémali was created in July 1997, in cooperation with the Canadian government (Agence Canadienne de Développement International) with activities strictly concentrated in Conakry and its suburbs. Yétémali is a cooperative through which individuals or small organizations save and borrow in order to undertake micro-investments, as in the "solidarity group" model of microfinance. Local cooperatives are supervised by a central structure, organized like the local branches, with an administrative board, complemented by a credit committee and a supervisory board. In 2002, there were 16,650 members, and total savings credit amounted to GNF 2.17 billion and GNF 1.01 billion, respectively.

The Programme Intégré pour le Développement de l'Entreprise

57. PRIDE/Finance was created in 1992 with the support of U.S.AID to promote micro- and small businesses in urban centers throughout the country. Its activities are twofold: (i) allocation of credit to small businesses, (ii) training of prospective entrepreneurs. PRIDE has 15,171 clients, with a volume of credit of GNF 5.139 billion. In order to focus PRIDE/Finance's activities on its financial role, PRIDE/Formation has been created to dispense training independently.

The Agence Autonome d'Assistance intégrée aux Entreprises

58. 3AE was created in 1989 to provide microfinance to small businesses. With the support of the European Union and the United Nations Development Program / International Labor Office (UNDP / ILO) fund, it has concentrated its activities on women-based small business initiatives, and on projects intended for the reinsertion of the handicapped. 3AE does not collect deposits, and its source of equity is grants and donated funds. In 2002, 3AE was financing 132 small businesses, with total credits of GNF 1.2 billion. It is active in Conakry, and other urban centers throughout the country, and remains to date a small structure, with less than 50 employees.

C. Economic and Social Impact of Microfinance Institutions

As suggested earlier, the microfinance sector may be a key instrument in the fight against poverty, by providing financial services to the poor and small-scale enterprises, and allowing for a deepening of the financial sector. The potential demand for microfinance services is large, and applies as much to credit as to savings. Further, the impact of microfinance is not limited to financial services, as other issues addressed included gender equality, with the recognition of the role of women in savings and in the creation of small businesses, more equitable income distribution, and the promotion of participatory approaches at the collective level. In Guinea, the microfinance sector has clearly been identified in the Poverty Reduction Strategy Paper (PRSP) as key to poverty reduction. The PRSP has set a number of objectives regarding the microfinance sector, to be achieved by 2005. They include: doubling of the customer base, improving the saving rates, providing all regional development centers with at least one local savings and loan association. At end 2002, some progress may be observed, including a 40 percent increase in loans in 2002 only. Expanding the customer base and the

degree of penetration of microfinance activities is an objective of microfinance policies. However, expanding microfinance services involves higher costs and risks, and impacts on the structure of the financial institutions involved, i.e., ownership, management, sources of funds, and legal structure, and on their operations, i.e. staffing, risk management systems, products, and distribution networks in order to ensure their financial sustainability. Previous experience in microfinance indicated that, while a major constraint for MFIs has been access to capital, in many cases, the major limit to sustainability has been the lack of institutional capability at the level of MFI local branches, which is examined in the next section.

Table IV.3. Guinea: Selected Indicators of the Four Largest Microfinance Institutions, 2002

| Institution of creation) | (Date | Members / Clients | Branches | Private Deposits | Loans | | Non-Performing Loans | Lending interest rate |
|-------------------------------|-------|----------------------|----------|------------------|-----------------|---------------------------------|-------------------------|--------------------------|
| | | | | | In GNF millions | In percent of total deposits | | |
| Crédit Rural de Guinée (1988) | | 107,000 | 92 | 4,640 | 9,338 | 202.2 | 2.0 | 36 |
| Yétémali (1997) | | 16,650 | 14 | 2,170 | 1,006 | 46.4 | 2.4 | 24 |
| Pride/Finance (1992) | | 15,171 | 13 | --- 1/ | 5,139 | --- 1/ | 3.1 | 30 |
| 3AE (1989) | | 132 | 1 | --- 1/ | 1,205 | --- 1/ | 0.6 | 15 |

| Institution (Cont'd) | Geographic and sectoral focus | Ownership / Partners / Assistance |
|------------------------|---|--|
| Crédit Rural de Guinée | Rural - Broad range of activities | Owned by local cooperatives (48.2 percent), employees (35.0 percent), State (15 percent), IRAM (1.8 percent) |
| Yétémali | Urban (Conakry) - Broad range of activities | Financed by the Canadian cooperation (ACDI) and the Guinean government |
| Pride/Finance | Urban (inside the country) Micro- and small enterprises | Supported by U.S. AID |
| 3AE | Urban (Conakry and other urban centers) - Micro- and small enterprises, focusing on women and the handicapped | Supported by the European Union and the UNDP / ILO Fund |

Source: BCRG, and microfinance institution representatives.

1/ These institutions do not collect deposits.

Box IV.1. Common Characteristics of MFIs

Microfinance institutions are characterized by the financial services they provide, the clientele they deal with, and the structure of their operations and balance sheets.

Legal structure of MFIs: Most MFIs are connected to NGOs, and are often incorporated as such, or as nonprofit organizations or other forms depending on the legal structure of their country of origin, e.g., credit unions, or savings cooperatives. In a number of countries, commercial banks have become large providers of microfinance services, though this requires strong local knowledge, and relatively high operation costs in decentralized areas. Other institutions with large existing infrastructures, such as state-owned banks, financial cooperatives, and even retail chains could play a significant role in reaching out to the poor.

Functions and services: The poor need a wide array of financial services, from vehicles for savings collection, to credit and various loan products. The importance of these two functions vary from country to country. While the credit allocation function dominated early models of microfinance, in some countries, MFIs act mostly as savings cooperatives. There is some evidence that this is often the case in Africa. As savings institutions, MFIs are useful in helping the poor to save and to establish some credit history and financial record. Additional financial services may include insurance, and payment transfer systems.

Clientele: Microfinance institutions are directed to poor people, including micro-entrepreneurs but also, and increasingly, individuals that face severe barriers to entry into the conventional financial system. Barriers to entry range from social constraints (distrust in the financial system, lack of savings habits, illiteracy), institutional constraints (weak enforcement of formal property rights, and contract terms), economic constraints (high costs of operations, high risk associated to lending, little negotiable assets from the part of the borrower), and geographic and social constraints (distance from urban centers, low levels of education).

Risk management: Because MFIs direct their activities towards a risky clientele, they have to develop appropriate solutions to risk management. Those include group lending, where a group of borrowers is collectively responsible for the repayment of loans of each of its member (this model was pioneered by Grameen Bank in Bangladesh in the mid-1970s), and dynamic incentives, where satisfactory repayment increases access to credit and gradually strengthens the incentive to repay loans.

Financial operations and profitability: Given the nature of the services performed by the MFIs and their clientele, MFIs usually operate with small balance sheets, loans and deposits of limited size, on average U.S.\$50 or less for loans and U.S.\$5 for deposits. MFIs usually operate at high costs and low revenues because of substantial overheads and fixed costs, due to the labor-intensive nature of micro-lending and to the high risk associated with their clientele, that may translate into a high share of delinquent loans. As a result, MFIs usually charge high interest rates to borrowers. However, many MFIs are not financially profitable and are dependent on the support of donors, which include domestic and foreign NGOS, governments, or foreign official donors. A challenge for MFIs is to reach sustainability in the medium- and long-term.

59. An important goal for MFIs is to reach, durably, a large segment of the population, in particular rural and poor households, small enterprises, and women, which are normally excluded from the credit market. The extensive assessment of the poverty profile in Guinea undertaken in the context of the PRSP identified zones with low degrees of urbanization, underdeveloped infrastructure, production and communications equipment, as the poorest of the country. In Guinea, rural population represents close to 70 percent of total population, and rural poverty accounts for 87.5 percent of national poverty, with nearly 18 percent of the rural population living in extreme poverty, revealing the importance of involving rural areas in any significant poverty reduction strategy. In income terms, about 40 percent of the population lives below poverty levels (estimated at about U.S.\$300 per year per person). The incidence of poverty also varies by region, with poverty least prevalent in Conakry and most prevalent in Haute- and Moyenne-Guinée.

60. The impact of MFIs on economic development and poverty reduction is difficult to assess quantitatively, as no extensive impact analysis has been conducted yet.²⁶ One proxy for the evaluation of the social impact of MFIs is to measure their penetration rate, or the extent to which microfinance institutions provide financial services throughout the country. To properly evaluate the economic and social impact of MFIs, measures of outreach (such as the penetration rate used in the section) would need to be considered jointly with indicators of financial sustainability and of poverty reduction, which are not yet available for Guinea. Table IV.2 provides a penetration indicator by estimating the number of families in the population (as a share of the total number of families) that use financial services provided by microfinance institutions. This share has more than doubled in the last five years, rising from 4.7 percent in 1997 to 9.6 percent in 2002. During the same period, the number of branches of the major MFIs rose by more than 60 percent, indicating the greater outreach of microfinance institutions today.

61. Guinea's four major MFIs focus on different credit markets. Their complementarities allow for a broader penetration of microfinance services, with a potential significant impact on economic development and on poverty reduction. First, microfinance institutions provide short-term assistance to the very poor and to the most marginalized segment of the population. Two examples are the provision of credit to the rural poor in periods of draught or between two harvests, and the financing of business projects developed by the handicapped. Also, through "village-units", microfinance institutions provide credit to remote rural areas, which is then allocated according to the various needs of the village's inhabitants.

²⁶ Tentative assessments have been initiated by local MFIs, driven by foreign donors that wish to obtain a tangible evaluation of returns on allocated funds. However, no generalization may be made yet at the level of the sector as a whole.

Second, MFIs finance micro-businesses and micro-projects, some having a special focus on women. The geographic coverage is broad, from small rural businesses to micro- and small businesses in urban centers. Finally, some institutions provide bigger loans (up to GNF 5 million, or about U.S.\$2,500) in order to accompany successful businesses in their development, up to the point when they can rely on the conventional banking system.

62. MFIs in Guinea have developed largely outside of the realm of the formal financial sector. The limited systemic impact of the liquidation of the CMG resulted in part from the insulation of the microfinance sector. However, it has been recognized²⁷ that the integration of microfinance institutions with the broader financial systems supports the development of the sector, by allowing for more access to capital, better protection of poor people's savings, and increased professionalization of the sector. Further, in the specific case of Guinea, microfinance institutions provide a complement to the commercial banks, which focuses solely on the formal sector of the economy. In Guinea, the interaction between banks and microfinance institutions has increased in recent years. Most commonly, microfinance institutions are clients of commercial banks, which hold the deposits collected by microfinance institutions and provide cash management services. Some banks also provide, although such initiatives remain embryonic, extended financial facilities that offer more flexibility to MFIs' operations, such as extended credit lines, and emergency credit lines to cover cash flow shortfalls. Avenues for cooperation are diverse, including the use of the specialized and extended retail network of microfinance institutions by conventional banks, to target large rural clients and to cooperate in credit collection. On some projects, the two kinds of financial institutions may cooperate, with banks focusing on the larger clients and MFIs providing credit to smaller entrepreneurs. This would be the case in industrial projects involving small-scale local entrepreneurs. While cooperation seems promising for both MFIs and banks, fundamental differences in objectives and management remain. Promoting and developing better linkages between MFIs and banks can only be based on commercially sustainable operations, and on a reliable partnership where the provision of accurate and regular data on operations is available. Also, greater integration between banks and MFIs would increase the systemic risk associated with potential failures of either type of institutions (see next section).

63. The risks associated with microfinance operations were exemplified by the failure of the largest microfinance institutions operating in Guinea, the CMG,²⁸ prompting the government to liquidate the institution in 2001. The decision to liquidate the CMG came after a thorough operational and financial audit, conducted with the assistance of the World Bank and the Agence Française de Développement (AFD). The audit identified a severe liquidity

²⁷ See, for example, CGAP Phase III 2003- 2008 Strategy paper, January 2003.

²⁸ The CMG had been set up in 1988 by the Guinean government in order to fill the gap left by the liquidation of the network of State-owned banks in the mid-1980s.

risk, as liquid assets amounted only to GNF 0.3 billion. Also, given the significant losses it was incurring, the CMG was financing its current expenditures with drawing on the deposit base. The reasons for the failure of the CMG were clearly identified, including low quality of the loan portfolio, mismanagement, corruption and fraud, inadequate use of technical assistance, and the absence of a proper supervisory and regulatory environment. The government implemented an action plan for the liquidation of the CMG: closure of the microfinance network by March 2001, set up of a committee to supervise the liquidation operation, commissioning of an international audit company to assist the liquidator in the process, and full reimbursement of depositors. The liquidation of the CMG will be completed by mid-2003, and appears successful. General distrust in the financial system has been avoided, and most depositors shifted to other microfinance institutions, in particular towards the CRG. The reimbursement of depositors was financed partly by a grant from the AFD, and partly by the Guinean government.

D. Supervision of the Microfinance Sector: The Guinean Experience, Before and After the CMG

64. The importance of prudential supervision to ensure the soundness of financial institutions is generally accepted. Prudential regulation of the microfinance sector raises a number of specific issues, because of the peculiarities of the sector, including:

- **Protection of depositors.** Depositors of MFIs may require more protection than traditional depositors, as they are relatively unsophisticated, more numerous and uncoordinated, facing MFIs that often operate as local monopolies. With undiversified portfolios, depositors are more fragile to losses from the failure of an MFI, and MFIs are often non profitable and prone to failure (see Box IV.1). The protection of public funds is also a concern. Prudential regulation is also needed to prevent that the failure of a MFI leads to a run on deposits, with possibly, systemic consequences for the financial system as a whole. The degree of protection may therefore be scaled depending on the sources of finance, as risks associated with outside finance, e.g., donors, are lower than those associated with domestic depositors. In cases where the State is a large shareholder in MFIs, failure would result in a direct cost to the invested public funds and prudential regulation may be needed in order to reduce de facto bail-outs.
- **Protection of borrowers.** The risk facing borrowers is that monopolistic MFIs would charge too high interest rates at the expense of their clientele. International evidence suggests that, on average, MFIs operate at high costs and charge high real rates of interests to borrowers.
- **Protection of the financial system.** Failure of an MFI may have spill-over effects to other financial institutions if the MFI had borrowed extensively from other institutions and/or if failure creates a fall in confidence with regards to the financial system as a whole. Panic, and bank-run may ensue. This would be particularly true of

large MFIs, and of situations where people's trust in financial institutions is yet to strengthen. The development of the MFI sector, and following, of a broad financial sector, may be impaired by fraudulent MFIs.

65. The benefits of prudential supervision have to be balanced against its costs. Supervision is costly, especially as MFIs are often small and numerous in terms of the size of their operations, with poor record keeping, and difficult to monitor, in countries where supervisory expertise is scarce. There is an evident trade-off in the allocation of supervisory resources between MFIs and financial institutions that may be more central to the stability of the overall financial system. Regulations are also costly to MFIs, and the costs are eventually passed on to the final customer. Finally, the social and economic benefits of MFIs come in part from the innovative solution they provide to overcome traditional barriers in the credit market. Regulation, such as imposing minimum collateral requirements, may limit the effectiveness of MFIs. A good example of this trade-off is the choice of minimum capital requirement. If set too low, it could lead to the proliferation of small MFIs and stretch supervisory capacity past its ability. If set too high, it could impair the development of the sector. The need for prudential regulation depends on the type of activities undertaken by the MFI (collecting deposits, lending, etc.), its level of development, and on its legal structure.

66. As suggested earlier, past experience has shown that sustainable microfinance is achieved through the strengthening of capacity at the level of retail microfinance branches, rather than increasing access to capital. Non-prudential regulation is therefore key, including the setting up of reliable management information systems, the development of appropriate management and staffing policies, the establishment of strong financial capabilities and internal controls, the maintenance of a high quality of loan portfolios, and enhancing the development of the sector.²⁹ Furthermore, improvement in the quality of data, notably through the availability of transparent, harmonized, and detailed financial information, is a pre-requisite for effective prudential regulation. The cost associated with sustainability is often underestimated, in particular the unpopular measures they imply, i.e., charging higher interest rates to customers to cover the full cost of services, and developing very strict reporting and monitoring systems in order to maintain low delinquency rates.

Supervisory and regulatory issues in Guinea

67. In the specific context of Guinea, the main motivations for a strengthening of the regulatory and supervisory framework were to dampen the risk of moral hazard in the sector after the bail-out of the CMG, and to ensure that the bases for the stability of the sector are in place, in particular with regards to the competence of the actors in the sector and the monitoring of risk exposures. In November 2002, the central bank issued 10 instructions and

²⁹ For example, the United Nations Capital Development Fund (UNCDF) reached such conclusions in its *Working Paper on Microfinance, Building on Lessons Learned* (February 1999), and decided to re-orient its strategy to focus notably on institution building.

is preparing a law to regulate the sector. To operate officially in Guinea, microfinance institutions and their managers need to be approved and licensed by a commission (the *Commission d'agrément*) presided by the Governor of the central bank. The *Commission d'agrément* aims at (i) ensuring the soundness of the institutions operating in the sector, (ii) offering institutional backing for the development of the sector, conducive notably to foreign assistance, (iii) providing a basis for supervision by the central bank. Supervision has also been reinforced in 2002. Off-site and on-site audits have been put in place. Under the new regulations, MFIs have to communicate every three month performance indicators, and standard financial statements, including income statements and balances. Regarding on-site audits, inspectors are guided by clearly defined procedures, detailed in a new *Manuel des procédures*.

68. The ten instructions issued by the central bank set a number of rules for the operation of microfinance institutions, including their administrative structures, prudential ratios, and penalties for noncompliance. The instructions specify eight requirements, which may vary with the type of microfinance institution:³⁰ (i) minimum required capital (none for category I MFIs, GNF 400 million for category II MFIs, and GNF 200 millions for category III MFIs); (ii) minimum provisioning for nonperforming loans (from 25 percent to 100 percent depending on the length of non-payment); (iii) assets have to exceed liabilities by at least the amount of minimum capital as defined in (i); (iv) a ceiling on risks, or solvability ratio (not to exceed 10 percent of capital); (v) a ratio of liquid assets to short-term liabilities, or liquidity ratio, of at least 80 percent; (vi) a ceiling on the total amount of loans granted to a single individual (15 percent of capital for type I MFIs, and 25 percent for type II and III MFIs); (vii) a ceiling on total loans larger than 10 percent of capital (not to exceed eight times capital); and (viii) minimum reserves (20 percent of annual net benefits for type I MFIs and 15 percent for type II and III MFIs).

69. Guinea's short experience under those new regulations is mixed. Three institutions have been licensed and two are in the process of receiving accreditation. For smaller and newer institutions, the central bank is working on allowing for a more flexible regulatory framework. One on-site audit has been conducted in early 2003. Off-site audits have been impaired by the continued scarcity of reliable information from MFIs. Since the new reporting requirements have been established, only one institution was able to comply. The other institutions experience difficulties, due to the dispersion of their activities throughout the country, the use of different accounting standards, and the high frequency at which they

³⁰ As mentioned above, three categories of institutions are defined in the instructions issued by the BCRG in 2002, depending on the functions they undertake. Category I MFIs consist of institutions that collect savings and allocate them to its own members. Category II groups institutions that collect deposits, and allocate them to third parties, regardless of their affiliation to the institution. Category III corresponds to microcredit institutions that do not collect savings, and operate with external sources of funds, for example donors' money.

are required to report. This experience reveals some of the difficulties encountered in supervising the sector. The expertise in microfinance supervision is limited but the need to regulate the sector is urgent. The central bank is proceeding in a sort of “trial-and-error” fashion, with a temporary body of regulation before developing an exhaustive law covering the sector. Institutional capacity is weak at the level of the BCRG. Three central bank agents are in charge of the microfinance sector, which appears insufficient to develop a public policy for the sector, conduct off-site audits, and undertake extensive on-site audits. Microfinance institutions often lack themselves the institutional ability to produce timely financial and operational reports. The ability to produce transparent, detailed and harmonized data is crucial for effective monitoring, and the reinforcement of the institutional ability of Guinean MFIs is needed in the pursuit of the stability of the sector.

70. In spite of the difficulties outlined above, the microfinance sector in Guinea appears relatively sound and is improving. Even though the data on non-performing loans (NPL) should be interpreted with caution, given the divergence in the definitions used by MFIs before the new regulations were put in place,³¹ the data reported by the central bank shows that the proportion of non-performing loans in total credit by microfinance institutions has declined significantly, and is substantially below the proportion observed in the conventional banking sector, as shown in tables IV.1. and IV.2. In view of the difficulties encountered by the CMG, the other MFIs engage into a drastic effort to reduce the proportion of non-performing loans in their portfolios. Microfinance institutions created their own mechanisms for dispute resolution and settlement – for example group lending and mutual collateral—and do not have to go through burdensome and sometimes ineffective judicial procedures, as banks do. Those results are achieved with microfinance institutions charging high interest rates, ranging from 15 to 36 percent in 2002, with an average of 26 percent. This average compares to an annual average treasury bill rate of 13.3 percent in 2002, 12.5 for sterilization bills.³² Combined with lower NPL rates than commercial banks, the high interest rates charged by MFIs should allow them to achieve sustainability. However, out of the four main MFIs, only one has reached operational sustainability at end-2002, while the others continue to rely on grants.

71. Finally, the role of the government with regard to MFI should not be limited to supervision and regulation. It is important notably that the government defines a policy to guide the development of the sector, and improve the overall business environment. As for other sectors of the economy, this would include a strengthening of the judicial system, an improvement in the level of education and in the quality of infrastructure in the country.

³¹ Non-performing loans are defined in the instructions of the BCRG as loans overdue for more than 31 days. Strengthened data reporting and information dissemination requirements should also improve the reliability of NPL figures.

³² The annual average rate of inflation in 2002 was 3.0 percent.

These general policies would contribute to a reduction in the costs and risks of microfinance activities, and, eventually, to their sustainability.

E. Conclusions and Recommendations: Assessment of the Prospects of the Microfinance Sector in Guinea

72. The discussion has identified the major challenges for the development of the microfinance sector in Guinea, namely, (i) a balanced and sustainable expansion of lending activities, matched by a similar expansion of deposits and/or access to other sources of finance, (ii) an adequate collaboration with the banking sector, (iii) a regulatory and supervisory framework that ensures the soundness of the sector while leaving enough room for innovation and expansion. Ensuring the sustainability of microfinance institutions is crucial for them to have a sustainable impact on the poor and on economic development.

73. The failure of the CMG has shown that, in the end, the relative success of microfinance institutions will depend not only on their ability to acquire a large deposit base, but also on their performance in managing cash flow and loan portfolios. Strengthening the prudential regulation is a step in the right direction, pushing microfinance institutions towards greater scrutiny and self-discipline. Based on available data, the four largest microfinance institutions operating in Guinea appear sound and well managed, with low proportion of non-performing loans, but institutional capacity needs to be significantly reinforced. The risk lies in the rapid expansion of microfinance activities, which needs to be carefully monitored to prevent a repeat of the CMG experience.

74. To conclude, the potential role of microfinance institutions in economic development and poverty reduction is significant, by providing access to credit to those excluded from traditional banking services and by fostering the development of new economic activities. Furthermore, they may act as a stepping stone for informal activities to eventually join the formal sector, with regular access to bank credit. While the PRSP process acknowledges the role of microfinance institutions, a clear public policy for the sector still needs to be adopted, of which the supervisory and regulatory framework is a key, but not sole, component.

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Table 1. Guinea: Selected Economic and Financial Indicators, 1998-2002

| | 1998 | 1999 | 2000 | 2001 | 2002 Est. |
|---|---------|---------|---------|---------|--------------|
| (Annual percentage change, unless otherwise indicated) | | | | | |
| National income and prices | | | | | |
| GDP at constant prices | 4.8 | 4.6 | 1.9 | 3.8 | 4.2 |
| GDP at current prices | 7.1 | 8.2 | 13.2 | 9.0 | 7.2 |
| GDP deflator | 2.2 | 3.5 | 11.1 | 5.0 | 2.9 |
| Consumer prices | | | | | |
| Average | 5.1 | 4.6 | 6.8 | 5.4 | 3.0 |
| End of period | 4.5 | 6.2 | 7.2 | 1.1 | 6.1 |
| External sector | | | | | |
| Exports, f.o.b. (in U.S. dollar terms) | 3.7 | -2.7 | 4.9 | 8.4 | -3.1 |
| Imports, f.o.b. (in U.S. dollar terms) | 7.4 | -4.1 | 4.3 | -3.7 | 15.6 |
| Terms of trade | 8.0 | -8.5 | -7.9 | 8.0 | -5.6 |
| Government budget | | | | | |
| Domestic revenue | 4.4 | 4.1 | 14.9 | 12.7 | 14.0 |
| Total expenditure | -9.7 | 18.0 | 15.4 | 24.7 | 15.1 |
| Current expenditure | 2.7 | 10.8 | 17.3 | 35.8 | 13.4 |
| Capital expenditure and net lending 1/ | -23.2 | 28.4 | 13.0 | 10.3 | 17.8 |
| Money and credit | | | | | |
| Net domestic assets 1/ | | | | | |
| Public sector (net) 1/ | 0.5 | 10.1 | 28.2 | 2.1 | 31.2 |
| Private sector 1/ | -3.4 | 10.8 | 21.5 | 3.7 | 34.2 |
| Broad money | 7.9 | 8.6 | 5.0 | 4.3 | 3.5 |
| Reserve money | 6.1 | 8.8 | 23.4 | 14.8 | 19.2 |
| Velocity (GDP/average year-end M2) | 14.0 | 15.0 | 17.0 | 11.0 | 18.3 |
| | 10.5 | 10.6 | 10.3 | 9.4 | 8.6 |
| (In percent of GDP) | | | | | |
| Central government finances | | | | | |
| Total revenue and grants | 14.1 | 13.1 | 13.2 | 14.7 | 14.3 |
| Current expenditure | 8.7 | 8.9 | 9.3 | 11.6 | 12.2 |
| Capital expenditure and net lending 2/ | 6.0 | 7.2 | 7.2 | 7.2 | 8.0 |
| Overall budget balance | | | | | |
| Including grants (commitment) | -0.7 | -3.0 | -3.2 | -4.1 | -5.9 |
| Excluding grants (commitment) | -3.6 | -5.3 | -5.5 | -7.5 | -8.2 |
| Primary balance | 2.6 | 2.4 | 2.5 | 0.6 | 0.0 |
| Gross investment | | | | | |
| Government 3/ | 21.0 | 22.1 | 22.0 | 21.9 | 22.7 |
| Nongovernment | 5.6 | 7.2 | 7.1 | 7.1 | 7.8 |
| Domestic savings | | | | | |
| Government | 15.3 | 17.0 | 16.8 | 20.0 | 17.2 |
| Nongovernment | 3.9 | 3.4 | 3.3 | 1.3 | 1.5 |
| External current account balance | | | | | |
| Including official transfers | 11.4 | 13.7 | 13.5 | 18.8 | 15.7 |
| Excluding official transfers | -8.5 | -7.6 | -7.3 | -2.4 | -6.5 |
| | -10.2 | -8.3 | -8.1 | -3.8 | -7.8 |
| (In millions of US dollars, unless otherwise indicated) | | | | | |
| Overall balance of payments | 64.4 | -33.0 | 68.5 | -15.1 | -83.5 |
| Gross official reserves (in months of imports) | 3.1 | 2.8 | 2.0 | 2.6 | 2.0 |
| Gross reserves (in percent of broad money) | 73.9 | 76.0 | 48.3 | 61.3 | 41.9 |
| Nominal GDP (in billions of Guinean francs) | 4,438.2 | 4,802.2 | 5,436.9 | 5,924.9 | 6,350.2 |

Sources: Guinean authorities, and staff estimates and projections.

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

2/ Includes expenditure for restructuring.

3/ Fixed capital formation.

Table 2. Guinea: Gross Domestic Product at Current Prices by Demand Components, 1998-2002

| | 1998 | 1999 | 2000 | 2001 | 2002 Est. |
|--|---------------------------------|---------|---------|---------|--------------|
| | (In billions of Guinean francs) | | | | |
| GDP at market prices | 4,438.2 | 4,802.2 | 5,436.9 | 5,924.9 | 6,350.2 |
| Consumption | 3,757.6 | 3,984.2 | 4,521.3 | 4,738.3 | 5,260.8 |
| Public | 270.6 | 284.3 | 316.6 | 349.0 | 446.8 |
| Private | 3,487.0 | 3,699.9 | 4,204.7 | 4,389.4 | 4,814.0 |
| Investment | 930.8 | 1,061.2 | 1,193.8 | 1,299.8 | 1,438.4 |
| Fixed capital formation | 871.8 | 1,016.2 | 1,147.8 | 1,252.8 | 1,426.2 |
| Government | 250.4 | 343.9 | 386.6 | 423.4 | 493.4 |
| Other sectors | 621.4 | 672.3 | 761.2 | 829.5 | 932.8 |
| Change in stocks | 59.0 | 45.0 | 46.0 | 47.0 | 12.2 |
| Foreign balance | -250.2 | -243.3 | -278.2 | -113.3 | -349.1 |
| Exports of goods and nonfactor services | 944.8 | 1,006.9 | 1,283.2 | 1,601.7 | 1,539.3 |
| Imports of goods and nonfactor services | 1,194.9 | 1,250.2 | 1,561.4 | 1,715.0 | 1,888.5 |
| | (In percent of GDP) | | | | |
| GDP at market prices | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Consumption | 84.7 | 83.0 | 83.2 | 80.0 | 82.8 |
| Public | 6.1 | 5.9 | 5.8 | 5.9 | 7.0 |
| Private | 78.6 | 77.0 | 77.3 | 74.1 | 75.8 |
| Investment | 21.0 | 22.1 | 22.0 | 21.9 | 22.7 |
| Fixed capital formation | 19.6 | 21.2 | 21.1 | 21.1 | 22.5 |
| Government | 5.6 | 7.2 | 7.1 | 7.1 | 7.8 |
| Other sectors | 14.0 | 14.0 | 14.0 | 14.0 | 14.7 |
| Change in stocks | 1.3 | 0.9 | 1.9 | 0.8 | 0.2 |
| Foreign balance | -5.6 | -5.1 | -5.1 | -1.9 | -5.5 |
| Exports of goods and nonfactor services | 21.3 | 21.0 | 23.6 | 27.0 | 24.2 |
| Imports of goods and nonfactor services | 26.9 | 26.0 | 28.7 | 28.9 | 29.7 |
| Domestic savings | 15.3 | 17.0 | 16.8 | 20.0 | 17.2 |
| Gross national savings | 12.5 | 14.5 | 14.7 | 19.5 | 16.2 |
| External current account balance (including official transfers) | -8.5 | -7.6 | -7.3 | -2.4 | -6.5 |

Sources: Guinean authorities; and staff estimates.

Table 3. Guinea: Gross Domestic Product at Constant 1996 Prices by Sectors, 1998-2002

| | 1998 | 1999 | 2000 | 2001 | 2002 Est. |
|---------------------------------|---------|---------|---------|---------|--------------|
| (In billions of Guinean francs) | | | | | |
| GDP at factor cost | 4,106.2 | 4,302.3 | 4,390.5 | 4,559.4 | 4,715.2 |
| Primary sector | 749.3 | 808.8 | 806.5 | 857.2 | 901.2 |
| Agriculture | 493.9 | 535.9 | 514.7 | 549.4 | 582.5 |
| Livestock | 140.9 | 149.7 | 159.2 | 164.7 | 171.1 |
| Fisheries | 27.6 | 29.9 | 32.6 | 35.8 | 37.1 |
| Forestry | 86.8 | 93.2 | 100.0 | 107.3 | 110.5 |
| Secondary sector | 1,261.1 | 1,342.0 | 1,390.7 | 1,464.8 | 1,532.6 |
| Mining | 703.3 | 740.1 | 751.9 | 778.5 | 801.2 |
| Manufacturing | 157.7 | 168.0 | 179.7 | 189.6 | 201.1 |
| Water and electricity | 25.0 | 26.5 | 27.5 | 28.3 | 29.1 |
| Construction | 375.1 | 407.4 | 431.6 | 468.4 | 501.2 |
| Tertiary sector | 2,095.8 | 2,151.5 | 2,193.3 | 2,237.5 | 2,281.3 |
| Trade | 1,143.0 | 1,179.6 | 1,201.7 | 1,225.8 | 1,247.8 |
| Transport | 257.3 | 266.3 | 270.3 | 275.3 | 281.3 |
| Administration | 249.3 | 246.0 | 249.3 | 250.8 | 257.0 |
| Other | 446.2 | 459.6 | 472.0 | 485.7 | 495.1 |
| Indirect taxes | 164.7 | 166.3 | 161.5 | 166.0 | 207.3 |
| GDP at constant prices | 4,270.9 | 4,468.6 | 4,552.0 | 4,725.4 | 4,922.4 |
| (Annual percentage change) | | | | | |
| GDP at factor cost | 5.0 | 4.8 | 2.1 | 3.8 | 3.4 |
| Primary sector | 5.6 | 7.9 | -0.3 | 6.3 | 5.1 |
| Agriculture | 7.1 | 8.5 | -4.0 | 6.7 | 6.0 |
| Livestock | 5.7 | 6.2 | 6.4 | 3.4 | 3.9 |
| Fisheries | -10.4 | 8.4 | 8.9 | 9.7 | 3.6 |
| Forestry | 2.7 | 7.3 | 7.3 | 7.3 | 3.0 |
| Secondary sector | 4.8 | 6.4 | 3.6 | 5.3 | 4.6 |
| Mining | 3.5 | 5.2 | 1.6 | 3.5 | 2.9 |
| Manufacturing | 5.2 | 6.5 | 7.0 | 5.5 | 6.0 |
| Water and electricity | 8.5 | 6.3 | 3.5 | 3.0 | 3.0 |
| Construction | 6.8 | 8.6 | 6.0 | 8.5 | 7.0 |
| Tertiary sector | 4.8 | 2.7 | 1.9 | 2.0 | 2.0 |
| Trade | 4.7 | 3.2 | 1.9 | 2.0 | 1.8 |
| Transport | 7.5 | 3.5 | 1.5 | 1.8 | 2.2 |
| Administration | 1.7 | -1.3 | 1.3 | 0.6 | 2.5 |
| Other | 5.7 | 3.0 | 2.7 | 2.9 | 2.0 |
| Indirect taxes | 0.3 | 1.0 | -2.9 | 2.8 | 24.9 |
| GDP at constant prices | 4.8 | 4.6 | 1.9 | 3.8 | 4.2 |

Sources: Guinean authorities; and staff estimates.

Table 4. Guinea: Consumer Price Index, 1998-2002
(Period average)

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|----------------------------|-------|-------|-------|-------|-------|
| (Index, 1991=100) | | | | | |
| Aggregate index | 143.8 | 150.4 | 160.6 | 169.2 | 174.2 |
| Food | 154.7 | 163.1 | 169.6 | 177.2 | 188.1 |
| Nonfood | 135.8 | 141.2 | 154.0 | 163.4 | 164.2 |
| Clothing | 123.0 | 124.6 | 129.8 | 136.2 | 139.3 |
| Health | 149.5 | 158.3 | 165.4 | 170.7 | 175.5 |
| Housing | 129.5 | 133.9 | 138.9 | 146.1 | 147.4 |
| Electricity and water | 124.9 | 131.3 | 143.1 | 149.2 | 153.0 |
| Transportation | 133.0 | 139.5 | 175.2 | 189.4 | 170.9 |
| Leisure and culture | 159.7 | 165.0 | 170.7 | 190.2 | 208.3 |
| (Annual percentage change) | | | | | |
| Aggregate index | 5.1 | 4.6 | 6.8 | 5.4 | 3.0 |
| Food | 9.9 | 5.4 | 4.0 | 4.5 | 6.1 |
| Nonfood | 1.3 | 4.0 | 9.1 | 6.1 | 0.5 |
| Clothing | -0.8 | 1.2 | 4.2 | 4.9 | 2.3 |
| Health | 0.7 | 5.9 | 4.5 | 3.2 | 2.8 |
| Housing | 2.8 | 3.4 | 3.7 | 5.2 | 0.9 |
| Electricity and water | 1.3 | 5.1 | 9.0 | 4.3 | 2.5 |
| Transportation | 0.2 | 4.9 | 25.6 | 8.1 | -9.8 |
| Leisure and culture | 2.9 | 3.3 | 3.5 | 11.4 | 9.5 |

Sources: Guinean authorities; and staff estimates.

Table 5. Guinea: Consumer Price Index, 1998-2002
(End of period)

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|----------------------------|-------|-------|-------|-------|-------|
| (Index, 1991=100) | | | | | |
| Aggregate index | 147.7 | 156.8 | 168.1 | 170.0 | 180.4 |
| Food | 163.0 | 170.2 | 173.2 | 181.4 | 199.4 |
| Nonfood | 137.1 | 147.2 | 164.4 | 161.8 | 166.6 |
| Clothing | 122.9 | 127.9 | 134.2 | 137.1 | 144.8 |
| Health | 150.4 | 160.2 | 168.9 | 171.1 | 178.3 |
| Housing | 131.9 | 135.5 | 143.3 | 145.6 | 148.8 |
| Electricity and water | 126.2 | 140.4 | 148.2 | 151.2 | 155.5 |
| Transportation | 133.5 | 157.4 | 210.4 | 168.1 | 173.6 |
| Leisure and culture | 157.6 | 163.4 | 172.6 | 208.2 | 210.3 |
| (Annual percentage change) | | | | | |
| Aggregate index | 4.5 | 6.2 | 7.2 | 1.1 | 6.1 |
| Food | 8.3 | 4.4 | 1.8 | 4.7 | 9.9 |
| Nonfood | 1.8 | 7.4 | 11.7 | -1.6 | 3.0 |
| Clothing | -0.6 | 4.1 | 4.9 | 2.2 | 5.6 |
| Health | 0.7 | 6.5 | 5.4 | 1.3 | 4.2 |
| Housing | 4.5 | 2.7 | 5.8 | 1.6 | 2.2 |
| Electricity and water | 1.3 | 11.3 | 5.6 | 2.0 | 2.8 |
| Transportation | 0.6 | 17.9 | 33.7 | -20.1 | 3.3 |
| Leisure and culture | -0.4 | 3.7 | 5.6 | 20.6 | 1.0 |

Sources: Guinean authorities; and staff estimates.

Table 6. Guinea: Financial Operations of the Central Government, 1998-2002

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---------------------------------|--------|--------|---------|---------|
| | (In billions of Guinean francs) | | | | |
| Revenue and grants | 624.5 | 628.3 | 719.8 | 873.0 | 909.7 |
| Revenue | 496.7 | 517.2 | 594.5 | 670.2 | 763.9 |
| Mining sector revenue | 126.4 | 117.3 | 146.4 | 166.6 | 145.4 |
| Nonmining sector revenue | 370.4 | 399.9 | 448.1 | 503.6 | 618.5 |
| Direct taxes | 48.1 | 57.7 | 58.3 | 78.1 | 94.9 |
| Indirect taxes | 289.3 | 309.4 | 335.9 | 362.5 | 452.4 |
| Taxes on international trade | 71.9 | 80.8 | 119.1 | 114.0 | 139.1 |
| Nontax revenue | 32.9 | 32.8 | 53.9 | 63.1 | 71.3 |
| Grants | 127.8 | 111.1 | 125.3 | 202.8 | 145.8 |
| Expenditure and net lending | 655.6 | 773.6 | 893.0 | 1,113.8 | 1,281.8 |
| Current expenditure | 387.7 | 429.5 | 504.0 | 684.7 | 776.1 |
| Wages and salaries | 181.2 | 194.7 | 206.2 | 215.1 | 236.9 |
| Other goods and services | 89.4 | 89.6 | 110.4 | 133.9 | 209.9 |
| Subsidies and transfers | 53.0 | 70.7 | 97.6 | 246.1 | 224.0 |
| Interest due on external debt | 55.2 | 59.5 | 73.9 | 62.1 | 74.1 |
| Interest on domestic debt | 8.9 | 15.0 | 15.9 | 27.5 | 31.2 |
| Public investment program | 250.4 | 343.9 | 386.6 | 423.4 | 493.4 |
| Externally financed | 209.0 | 295.0 | 345.0 | 388.7 | 415.0 |
| Domestically financed | 41.4 | 48.9 | 41.6 | 34.7 | 78.4 |
| Banking system restructuring | 13.6 | 0.0 | 0.0 | 4.5 | 7.9 |
| Net lending | 3.9 | 0.2 | 2.4 | 1.3 | 4.4 |
| Balance, commitment basis | | | | | |
| Including grants | -31.1 | -145.3 | -173.2 | -240.8 | -372.1 |
| Excluding grants | -158.8 | -256.4 | -298.5 | -443.6 | -517.9 |
| Excluding mining revenue | -285.2 | -373.7 | -444.9 | -610.2 | -663.3 |
| Change in payments arrears | -73.6 | -3.4 | -38.0 | -4.4 | -52.4 |
| Domestic 1/ | -72.2 | 0.4 | -43.3 | -4.1 | -49.5 |
| External | -1.4 | -3.8 | 5.4 | -0.3 | -2.9 |
| Adjustment for cash balances in bank | 0.0 | 0.3 | 10.9 | -15.9 | -26.8 |
| Overall balance, cash basis | -104.7 | -148.4 | -200.3 | -261.1 | -451.2 |
| Financing | 104.7 | 148.4 | 200.3 | 261.1 | 457.3 |
| Net external financing | 93.7 | 105.7 | 110.4 | 244.8 | 196.2 |
| Drawings | 153.1 | 203.4 | 224.3 | 346.5 | 307.5 |
| Project financing | 115.7 | 200.9 | 221.2 | 229.1 | 305.5 |
| Other | 37.3 | 2.5 | 3.1 | 117.4 | 1.9 |
| Amortization due | -75.4 | -88.2 | -140.0 | -234.1 | -191.1 |
| Arrears (reduction -) | 15.9 | -9.5 | 26.1 | 0.5 | -1.7 |
| Debt relief | 0.0 | 0.0 | 0.0 | 133.5 | 83.1 |
| Debt repurchase | 0.0 | 0.0 | 0.0 | -1.6 | -1.7 |
| Net domestic financing | 11.0 | 42.7 | 89.9 | 16.2 | 261.1 |
| Banking system | -12.7 | 47.0 | 105.5 | 21.8 | 230.3 |
| Nonbank financing | 23.7 | -4.3 | -15.6 | -5.6 | 30.8 |
| Errors and omission / Net financing gap | 0.0 | 0.0 | 0.0 | 0.0 | -6.1 |
| | (In percent of GDP) | | | | |
| Memorandum items: | | | | | |
| Revenue and grants | 14.1 | 13.1 | 13.2 | 14.7 | 14.3 |
| Expenditure | 14.8 | 16.1 | 16.4 | 18.8 | 20.2 |
| Balance, commitment basis | | | | | |
| Including grants | -0.7 | -3.0 | -3.2 | -4.1 | -5.9 |
| Excluding grants | -3.6 | -5.3 | -5.5 | -7.5 | -8.2 |
| Balance, cash basis | -2.4 | -3.1 | -3.7 | -4.4 | -7.1 |
| Domestic primary balance 2/ | | | | | |
| Including mining revenue | 2.6 | 2.4 | 2.5 | 0.7 | 0.0 |
| Excluding mining revenue | -0.3 | -0.1 | -0.2 | -2.1 | -2.3 |

Sources: Guinean authorities; and staff estimates.

1/ Comprises the change in outstanding domestic arrears and the change in the float between expenditure commitments and cash payments for the current fiscal year.

2/ Revenue minus noninterest expenditure, excluding foreign-financed investment projects, net lending and bank restructuring.

Table 7. Guinea: Central Government Revenue, 1998-2002

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|--|---------------------------------|----------------------------|-------|-------|-------|
| | (In billions of Guinean francs) | | | | |
| Total revenue | 496.7 | 517.2 | 594.5 | 670.3 | 763.9 |
| Mining sector | 126.4 | 117.3 | 146.4 | 166.6 | 145.4 |
| Profit taxes and dividends | 7.5 | 5.0 | 6.0 | 7.8 | 8.7 |
| Special tax on mining products | 116.7 | 109.6 | 140.0 | 154.1 | 131.2 |
| Other | 2.2 | 2.2 | 0.5 | 4.7 | 5.5 |
| Nonmining sector | 370.4 | 399.9 | 448.1 | 503.7 | 547.3 |
| Income and profit taxes | 48.1 | 57.7 | 58.3 | 78.1 | 94.9 |
| Taxes on domestic production and trade | 217.4 | 228.6 | 216.8 | 248.5 | 313.2 |
| Value-added tax (VAT) 1/ | 96.4 | 102.7 | 115.1 | 156.2 | 184.8 |
| Excise surcharge | 8.5 | 9.5 | 7.2 | 10.8 | 10.6 |
| Petroleum excise tax | 66.3 | 70.7 | 47.2 | 72.8 | 77.4 |
| Other | 46.2 | 45.8 | 47.3 | 8.7 | 40.5 |
| Taxes on international trade | 71.9 | 80.8 | 119.1 | 114.0 | 139.1 |
| Import duties | 67.8 | 76.7 | 84.3 | 88.0 | 108.4 |
| Taxes on exports | 0.8 | 1.3 | 4.0 | 5.2 | 5.8 |
| Other 2/ | 3.3 | 2.8 | 30.8 | 20.8 | 24.9 |
| Nontax revenue and miscellaneous | 32.9 | 32.8 | 53.9 | 63.1 | 71.3 |
| | (In percent of GDP) | | | | |
| Memorandum items: | | | | | |
| Total revenue | 11.2 | 10.7 | 11.1 | 11.5 | 12.0 |
| Mining sector revenue | 2.8 | 2.4 | 2.7 | 2.9 | 2.3 |
| Nonmining sector revenue | 8.4 | 8.3 | 8.4 | 8.6 | 9.7 |
| <i>Of which</i> | | | | | |
| Income and profit taxes | 0.2 | 0.1 | 1.1 | 1.3 | 1.5 |
| Taxes on domestic production and trade | 4.9 | 4.7 | 4.1 | 4.3 | 4.9 |
| Taxes on international trade | 1.6 | 1.7 | 2.2 | 2.0 | 2.2 |
| Nontax revenue and miscellaneous | 0.7 | 0.7 | 1.0 | 1.1 | 1.1 |
| | 4943076.923 | (Annual percentage change) | | | |
| Total revenue | 4.4 | 4.1 | 14.9 | 12.8 | 14.0 |
| Mining sector revenue | 2.8 | -7.2 | 24.8 | 13.8 | -12.7 |
| Nonmining sector revenue | 4.9 | 8.0 | 12.0 | 12.4 | 8.7 |
| Income and profit taxes | 4.6 | 20.0 | 1.0 | 34.0 | 21.5 |
| Taxes on domestic production and trade | 8.4 | 5.1 | -5.2 | 14.6 | 26.1 |
| Taxes on international trade | -2.7 | 12.3 | 47.4 | -4.3 | 22.0 |
| Nontax revenue and miscellaneous | 1.2 | -0.2 | 64.2 | 17.2 | 12.9 |

Sources: Guinean authorities; and staff estimates.

1/ The VAT, introduced in August 1996, replaced the turnover tax. Includes the VAT (the turnover tax before 1996) on imports.

2/ Including recovery of arrears.

Table 8. Guinea: Central Government Expenditure, 1998-2002

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|--|-------|-------|-------|---------|---------|
| (In billions of Guinean francs) | | | | | |
| Total expenditure | 655.6 | 773.3 | 893.0 | 1,113.8 | 1,281.8 |
| Current expenditure | 387.7 | 429.5 | 504.0 | 684.7 | 776.1 |
| Wages and salaries | 181.2 | 194.7 | 206.2 | 215.1 | 236.9 |
| Other goods and services | 89.4 | 89.6 | 110.4 | 133.9 | 209.9 |
| Subsidies and transfers | 53.0 | 70.7 | 97.6 | 246.1 | 224.0 |
| Interest due on external debt | 55.2 | 59.5 | 73.9 | 62.1 | 74.1 |
| Interest due on domestic debt | 8.9 | 15.0 | 15.9 | 27.5 | 31.2 |
| Capital expenditure | 250.4 | 343.9 | 386.6 | 423.4 | 493.4 |
| Domestically financed | 41.4 | 48.9 | 41.6 | 34.7 | 78.4 |
| Foreign financed | 209.0 | 295.0 | 345.0 | 388.7 | 415.0 |
| Cost of bank restructuring | 13.6 | 0.0 | 0.0 | 4.5 | 7.9 |
| Net lending | 3.9 | 0.2 | 2.4 | 1.3 | 4.4 |
| Memorandum items: | | | | | |
| Defense expenditure | 55.7 | 76.6 | 80.3 | 171.1 | 185.0 |
| Social current expenditure | | | | | |
| Education (excluding higher education) | 60.4 | 65.9 | 71.4 | 91.0 | 97.8 |
| Health | 17.3 | 18.8 | 21.4 | 51.6 | 50.5 |
| (In percent of GDP) | | | | | |
| Total expenditure | 14.8 | 16.1 | 16.7 | 19.1 | 20.2 |
| Current expenditure | 8.7 | 8.9 | 9.4 | 11.8 | 12.2 |
| Wages and salaries | 4.1 | 4.0 | 3.9 | 3.7 | 3.7 |
| Other goods and services | 2.0 | 1.9 | 2.1 | 2.3 | 3.3 |
| Subsidies and transfers | 1.2 | 1.5 | 1.8 | 4.2 | 3.5 |
| Interest due on external debt | 1.2 | 1.2 | 1.4 | 1.1 | 1.2 |
| Capital expenditure | 5.6 | 7.2 | 7.2 | 7.3 | 7.8 |
| Domestically financed | 0.9 | 1.0 | 0.8 | 0.6 | 1.2 |
| Foreign financed | 4.7 | 6.1 | 6.5 | 6.7 | 6.5 |
| Net lending | 0.1 | 0.0 | 0.0 | 0.0 | 0.1 |
| Current expenditure for | | | | | |
| Defense | 1.3 | 1.6 | 1.0 | 2.3 | 2.9 |
| Education | 1.4 | 1.4 | 1.2 | 1.2 | 1.5 |
| Health | 0.4 | 0.4 | 0.4 | 0.5 | 0.8 |
| (Annual percentage change) | | | | | |
| Total expenditure | -9.7 | 18.0 | 15.5 | 24.7 | 15.1 |
| Current expenditure | 2.7 | 10.8 | 17.4 | 35.8 | 13.4 |
| Wages and salaries | 5.5 | 7.4 | 5.9 | 4.3 | 10.2 |
| Other goods and services | 6.5 | 0.2 | 23.2 | 21.3 | 56.8 |
| Subsidies and transfers | -2.4 | 33.5 | 38.0 | 152.1 | -9.0 |
| Interest due on external debt | -6.6 | -1.1 | 12.5 | -23.0 | 9.4 |
| Capital expenditure | 35.2 | 36.2 | 37.2 | 38.2 | 39.2 |

Sources: Guinean authorities; and staff estimates.

Table 9. Guinea: Monetary Survey, 1998-2002
(In billions of Guinean francs, unless otherwise indicated)

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|--|-------|-------|--------|--------|--------|
| Central bank | | | | | |
| Net foreign assets | 146.0 | 124.7 | 53.6 | 119.9 | 52.1 |
| (in millions of U.S. dollars) | 113.6 | 71.8 | 27.9 | 60.7 | 26.4 |
| Net domestic assets | 109.3 | 168.8 | 289.7 | 261.1 | 397.0 |
| Domestic credit | 91.8 | 153.5 | 241.8 | 227.5 | 392.8 |
| Government (net) | 74.8 | 137.4 | 252.5 | 249.7 | 413.9 |
| <i>Of which</i> | | | | | |
| Gold revaluation claims | 17.6 | 17.6 | 17.7 | 17.6 | 17.6 |
| Public enterprises | 4.5 | 6.6 | 5.8 | 6.0 | 2.7 |
| Private sector | 5.8 | 6.8 | 5.4 | 12.9 | 26.6 |
| Claims on deposit money banks | 6.7 | 2.6 | -22.0 | -41.2 | -50.4 |
| <i>Of which</i> | | | | | |
| Sterilization bills (-) | 0.0 | -2.8 | -30.0 | -44.3 | -60.8 |
| Other items, net (assets +) | 17.5 | 15.4 | 48.0 | 33.6 | 4.2 |
| Reserve money | 255.2 | 293.5 | 343.3 | 381.0 | 450.6 |
| Currency outside banks | 208.0 | 225.6 | 285.2 | 310.1 | 349.8 |
| Bank reserves | 44.6 | 56.9 | 36.5 | 64.3 | 97.2 |
| Deposits | 39.1 | 49.8 | 30.2 | 50.0 | 78.4 |
| Required reserves | 24.8 | 26.1 | 15.3 | 19.5 | 24.8 |
| Excess reserves | 14.3 | 23.7 | 14.9 | 30.5 | 53.5 |
| Cash in till | 5.5 | 7.1 | 6.3 | 14.3 | 18.9 |
| Private sector deposits | 2.7 | 11.0 | 21.7 | 6.6 | 3.6 |
| Deposit money banks | | | | | |
| Net foreign assets | 34.4 | 25.7 | 74.2 | 81.8 | 69.5 |
| Bank reserves | 50.1 | 59.9 | 36.5 | 64.3 | 97.2 |
| Deposits at the central bank | 44.6 | 52.8 | 30.2 | 50.0 | 78.4 |
| Cash in till | 5.5 | 7.1 | 6.3 | 14.3 | 18.9 |
| Liabilities to central bank (-) | -7.2 | -3.1 | 21.0 | 41.2 | 50.4 |
| <i>Of which</i> | | | | | |
| Sterilization bills | 0.0 | 2.8 | 30.0 | 44.3 | 60.8 |
| Domestic credit | 238.0 | 256.6 | 269.3 | 311.5 | 389.9 |
| Credit to the government | 23.6 | 8.0 | -5.1 | 19.5 | 84.9 |
| Claims | 47.2 | 39.3 | 18.0 | 47.0 | 115.0 |
| Deposits | 23.6 | 31.3 | 23.1 | 27.5 | 30.1 |
| Claims on public enterprises | 0.3 | 0.0 | 0.2 | 0.1 | 10.0 |
| Claims on the private sector | 214.1 | 248.5 | 274.2 | 292.0 | 295.1 |
| Other items, net (assets +) | -90.0 | -99.5 | -122.4 | -143.7 | -159.4 |
| Liabilities to the private sector | 225.2 | 237.6 | 278.6 | 355.1 | 447.6 |
| Monetary survey | | | | | |
| Net foreign assets | 180.4 | 150.4 | 127.8 | 201.7 | 121.6 |
| Net domestic assets | 255.5 | 323.8 | 457.6 | 470.1 | 679.4 |
| Domestic credit | 323.1 | 407.4 | 533.0 | 580.2 | 833.1 |
| Credit to the government | 98.4 | 145.5 | 247.4 | 269.2 | 498.8 |
| (excluding gold revaluation claims) | 80.8 | 127.9 | 229.8 | 251.6 | 481.2 |
| Claims on public enterprises | 4.8 | 6.6 | 6.0 | 6.1 | 12.6 |
| Claims on the private sector | 219.8 | 255.3 | 279.6 | 304.9 | 321.7 |
| Other items, net (assets +) | -67.6 | -83.6 | -75.4 | -110.1 | -153.8 |
| <i>Of which</i> | | | | | |
| Discrepancy: Central bank/banks | 5.0 | 0.6 | -1.0 | -9.1 | -6.0 |
| Broad money (M2) | 435.8 | 474.2 | 585.4 | 671.8 | 801.0 |
| Currency | 208.0 | 225.6 | 285.2 | 310.1 | 349.8 |
| Deposits | 227.9 | 248.6 | 300.3 | 361.7 | 451.2 |
| <i>Of which</i> | | | | | |
| Foreign currency deposits | 56.6 | 82.5 | 85.6 | 106.5 | 120.3 |
| Memorandum items: | | | | | |
| Gross reserves (in months of imports) | 2.5 | 2.0 | 1.2 | 2.6 | 2.0 |
| Broad money (12-month change in percent) | 6.1 | 8.8 | 23.4 | 14.8 | 19.2 |
| Reserve money (12-month change in percent) | 14.0 | 15.0 | 17.0 | 11.0 | 18.3 |
| Velocity (GDP/average M2) | 10.1 | 10.3 | 10.2 | 9.4 | 8.6 |

Source: Central Bank of the Republic of Guinea (BCRG).

Table 10. Guinea: Summary Accounts of the Central Bank, 1998-2002

(In billions of Guinean francs)

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|-----------------------------------|--------|--------|--------|--------|--------|
| Net foreign assets | 146.0 | 124.7 | 53.6 | 119.9 | 52.1 |
| Gold | 18.1 | 15.3 | 25.4 | 16.6 | 183.7 |
| IMF | -162.4 | -220.9 | -215.4 | -248.0 | -268.7 |
| SDR holdings | 1.9 | 2.5 | 1.3 | 1.6 | 2.5 |
| Foreign exchange holdings | 302.0 | 342.4 | 256.2 | 393.3 | 149.6 |
| Short-term liabilities | -13.6 | -14.7 | -13.9 | -43.6 | -15.1 |
| Net domestic assets | 109.3 | 168.8 | 289.7 | 261.1 | 397.0 |
| Net domestic credit | 91.8 | 153.5 | 241.8 | 227.5 | 392.8 |
| Public sector (net) | 79.3 | 144.1 | 258.3 | 255.8 | 416.6 |
| Government (net) | 74.8 | 137.4 | 252.5 | 249.7 | 413.9 |
| <i>Of which</i> | | | | | |
| Gold valuation | 17.6 | 17.6 | 17.7 | 17.6 | 17.6 |
| Public enterprises | 4.5 | 6.6 | 5.8 | 6.0 | 2.7 |
| Private sector | 5.8 | 6.8 | 5.4 | 12.9 | 26.6 |
| Refinancing | 6.7 | 5.4 | 8.0 | 3.0 | 10.3 |
| Sterilization bills (-) | 0.0 | -2.8 | -30.0 | -44.3 | -60.8 |
| Other items, net (assets +) | 17.5 | 15.4 | 48.0 | 33.6 | 4.2 |
| Revaluation accounts | 30.4 | 12.1 | 4.1 | 8.1 | 9.7 |
| Adjustment IMF accounts | 7.8 | 8.4 | 4.9 | 3.0 | 0.1 |
| Capital, reserves, and provisions | -29.2 | -16.5 | -20.2 | -25.1 | -20.4 |
| SDR allocations | -5.8 | -5.8 | -5.8 | -5.8 | -5.8 |
| Other (net) | 12.3 | 15.2 | 63.0 | 51.4 | 18.6 |
| Other (central bank) | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Reserve money | 255.2 | 293.5 | 343.3 | 381.0 | 450.6 |
| Currency outside banks | 208.0 | 225.6 | 285.2 | 310.1 | 349.8 |
| Bank reserves | 44.6 | 56.9 | 36.5 | 64.3 | 97.2 |
| Cash | 5.5 | 7.1 | 6.3 | 14.3 | 18.9 |
| Deposits | 39.1 | 49.8 | 30.2 | 50.0 | 78.4 |
| Private sector deposits | 2.7 | 11.0 | 21.7 | 6.6 | 3.6 |
| <i>Of which</i> | | | | | |
| In foreign currency | 0.3 | 4.7 | 4.7 | 3.3 | 0.2 |

Source: Central Bank of the Republic of Guinea (BCRG).

Table 11. Guinea: Summary Accounts of Deposit Money Banks, 1998-2002

(In billions of Guinean francs)

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|---------------------------------------|--------|--------|--------|--------|--------|
| Net foreign assets | 34.4 | 25.7 | 74.2 | 81.8 | 69.5 |
| Assets | 110.7 | 134.6 | 151.2 | 136.1 | 145.9 |
| Liabilities | 76.3 | 108.9 | 76.9 | 54.3 | 76.4 |
| Claims on central bank | 42.8 | 54.8 | 57.5 | 96.4 | 141.7 |
| Refinancing (-) | -7.2 | -7.8 | -9.0 | -4.8 | -15.5 |
| Sterilization bills | 0.0 | 2.8 | 30.0 | 44.3 | 60.8 |
| Banks' reserves | 50.1 | 59.9 | 36.5 | 64.3 | 97.2 |
| Deposits | 44.6 | 52.8 | 30.2 | 50.0 | 78.4 |
| Cash in till | 5.5 | 7.1 | 6.3 | 14.3 | 18.9 |
| Domestic credit | 238.0 | 256.6 | 269.3 | 311.5 | 389.9 |
| Claims on public sector | 23.9 | 8.0 | -4.9 | 19.5 | 94.8 |
| Government (net) | 23.6 | 8.0 | -5.1 | 19.5 | 84.9 |
| Claims | 47.2 | 39.3 | 18.0 | 47.0 | 115.0 |
| Liabilities | 23.6 | 31.3 | 23.1 | 27.5 | 30.1 |
| Public enterprises (PEs) | 0.3 | 0.0 | 0.2 | 0.1 | 10.0 |
| Claims on private sector | 214.1 | 248.5 | 274.2 | 292.0 | 295.1 |
| Healthy | 156.4 | 178.7 | 203.4 | 210.1 | 215.2 |
| Nonperforming | 57.7 | 69.9 | 70.8 | 81.9 | 79.9 |
| Other items, net | -90.0 | -99.5 | -122.4 | -143.7 | -159.4 |
| Other assets | 35.4 | 69.3 | 60.5 | 62.1 | 81.6 |
| Correspondents | 0.0 | 4.8 | 0.0 | 0.1 | 0.3 |
| Immobilizations | 18.8 | 25.3 | 24.6 | 25.5 | 27.1 |
| Other | 16.7 | 39.2 | 35.8 | 36.5 | 54.1 |
| Other liabilities | -125.5 | -168.8 | -182.9 | -205.7 | -235.1 |
| Correspondents | -6.8 | -8.3 | -3.0 | -11.9 | -15.8 |
| <i>Fonds propres</i> | -92.7 | -113.2 | -124.8 | -134.9 | -161.5 |
| Other | -26.0 | -47.3 | -55.2 | -59.0 | -63.7 |
| Liabilities to private sector and PEs | 225.2 | 237.6 | 278.6 | 355.1 | 447.6 |
| Deposits in Guinean francs | 168.9 | 159.8 | 197.7 | 251.8 | 327.5 |
| Demand deposits | 144.0 | 137.0 | 177.1 | 223.0 | 298.8 |
| Saving and time deposits | 24.9 | 22.8 | 20.6 | 28.8 | 28.7 |
| Deposits in foreign currency | 56.3 | 77.8 | 80.9 | 103.3 | 120.1 |

Source: Central Bank of the Republic of Guinea (BCRG).

Table 12. Guinea: Sectoral Distribution of Credit, 1998-2002

(In percent, unless otherwise indicated)

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|---------------------------------------|-------|-------|-------|-------|-------|
| Trade | 54.8 | 58.6 | 60.7 | 59.7 | 59.9 |
| Construction, public works | 11.9 | 8.7 | 7.7 | 8.1 | 8.8 |
| Agriculture and textiles | 7.4 | 8.0 | 7.3 | 6.9 | 5.8 |
| Business services | 8.4 | 7.8 | 7.7 | 9.2 | 10.0 |
| Other manufacturing industries | 4.2 | 4.2 | 5.6 | 7.2 | 7.1 |
| Transport | 2.3 | 2.7 | 2.6 | 2.8 | 3.2 |
| Other sectors 1/ | 10.9 | 10.1 | 8.5 | 6.1 | 5.3 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Total (in billions of Guinean francs) | 288.4 | 335.5 | 397.3 | 411.3 | 436.2 |

Source: Central Bank of the Republic of Guinea (BCRG).

1/ Includes exploitation of natural resources; extraction and production of minerals; energy and water production; and nonbusiness services.

Table 13. Guinea: Quarterly Distribution of Credit by Sector and Maturity, 1998-2002

| Sector | 1998 | | | | 1999 | | | | 2000 | | | | 2001 | | | | 2002 | | | |
|--------------------------------|---------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| | (In percent) | | | | | | | | | | | | | | | | | | | |
| Trade | 56.1 | 56.6 | 54.6 | 54.8 | 56.5 | 57.9 | 57.7 | 58.6 | 58.9 | 60.7 | 58.8 | 60.7 | 58.6 | 60.4 | 59.9 | 59.7 | 58.6 | 60.3 | 60.5 | 59.9 |
| Construction, public works | 11.6 | 10.8 | 10.9 | 11.9 | 11.0 | 10.9 | 9.7 | 8.7 | 8.8 | 8.7 | 9.0 | 7.7 | 8.3 | 7.6 | 7.9 | 8.1 | 8.6 | 8.0 | 9.0 | 8.8 |
| Agriculture and textiles | 6.4 | 6.8 | 7.6 | 7.4 | 7.7 | 7.1 | 7.2 | 7.9 | 8.6 | 8.6 | 7.7 | 7.3 | 7.4 | 7.1 | 6.9 | 6.9 | 6.9 | 6.4 | 6.3 | 5.8 |
| Business services | 8.6 | 8.1 | 8.3 | 8.4 | 8.8 | 8.0 | 8.4 | 7.8 | 8.2 | 7.5 | 7.7 | 7.7 | 8.5 | 8.5 | 8.7 | 9.2 | 9.0 | 9.8 | 9.0 | 10.0 |
| Other manufacturing industries | 4.3 | 3.7 | 4.0 | 4.2 | 3.8 | 3.9 | 4.3 | 4.2 | 5.0 | 4.2 | 3.0 | 5.6 | 6.4 | 6.4 | 7.9 | 7.2 | 8.1 | 7.6 | 7.2 | 7.1 |
| Transport | 2.7 | 2.3 | 2.4 | 2.3 | 2.6 | 2.7 | 2.8 | 2.7 | 2.6 | 2.3 | 2.7 | 2.6 | 2.7 | 2.7 | 2.7 | 2.8 | 2.8 | 2.7 | 3.2 | 3.2 |
| Other sectors 1/ | 10.4 | 11.6 | 12.2 | 10.9 | 9.6 | 9.5 | 10.1 | 10.1 | 8.0 | 8.1 | 9.2 | 8.5 | 8.1 | 7.3 | 6.0 | 6.1 | 6.0 | 5.2 | 4.9 | 5.3 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| | (In billions of Guinean francs) | | | | | | | | | | | | | | | | | | | |
| Maturity | | | | | | | | | | | | | | | | | | | | |
| Total credit utilized | 188.3 | 137.9 | 202.0 | 210.0 | 208.7 | 208.9 | 232.3 | 248.3 | 257.1 | 255.8 | 258.6 | 270.4 | 269.0 | 277.9 | 273.6 | 280.0 | 280.0 | 281.7 | 296.0 | 282.4 |
| Short term | 154.7 | 164.7 | 171.1 | 174.5 | 173.4 | 172.9 | 190.8 | 203.9 | 214.5 | 211.9 | 215.4 | 228.3 | 228.9 | 240.9 | 237.7 | 244.7 | 253.1 | 256.0 | 263.0 | 249.8 |
| Medium term | 30.4 | 30.0 | 33.6 | 33.0 | 32.9 | 33.9 | 39.4 | 39.4 | 40.7 | 42.0 | 41.5 | 40.5 | 38.5 | 36.7 | 35.4 | 34.9 | 26.4 | 24.0 | 31.4 | 31.1 |
| Long term | 3.3 | 3.3 | 2.9 | 2.5 | 2.4 | 2.2 | 2.1 | 2.0 | 1.9 | 1.8 | 1.7 | 1.7 | 1.6 | 0.3 | 0.5 | 0.5 | 0.4 | 1.6 | 1.6 | 1.5 |
| Guarantees and liabilities | 81.4 | 91.2 | 87.0 | 78.4 | 86.0 | 90.8 | 89.3 | 87.2 | 88.8 | 108.7 | 105.1 | 126.8 | 121.9 | 137.4 | 135.2 | 131.3 | 134.8 | 158.9 | 157.5 | 153.8 |
| Total | 269.7 | 289.0 | 294.5 | 288.4 | 294.7 | 299.7 | 321.6 | 335.5 | 345.9 | 364.4 | 363.8 | 397.3 | 391.0 | 415.3 | 408.7 | 411.3 | 414.8 | 440.6 | 453.5 | 436.2 |

Source: Central Bank of the Republic of Guinea (BCRG).

1/ Includes exploitation of natural resources; extraction and production of minerals; energy and water production; and nonbusiness services.

Table 14. Guinea: Structure of Interest Rates, 1998-2002

(In percent per annum; end of period)

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|-----------|-----------|-----------|-----------|-----------|
| Central bank refinancing or rediscounting 1/ | | | | | |
| Normal rate | 12.0 | 14.0 | 11.5 | 16.3 | 16.3 |
| Treasury bills 2/ | 9.0 | 11.0 | 14.7 | 13.4 | 13.3 |
| Central bank bills 3/ | ... | ... | 13.0 | 12.6 | 12.5 |
| Commercial banks | | | | | |
| Lending rates | free rate | free rate | free rate | free rate | free rate |
| Deposit rates | | | | | |
| Savings deposit 4/ | 5.5 | 7.5 | 7.5 | 8.2 | 6.5 |
| Sight deposit | free rate | free rate | free rate | free rate | free rate |
| Term deposit (above of GF 2 millions) | free rate | free rate | free rate | free rate | free rate |
| Treasury note | free rate | free rate | free rate | free rate | free rate |
| Interbank rate | free rate | free rate | free rate | free rate | free rate |

Source: Central Bank of the Republic of Guinea (BCRG).

1/ Since June 1993, central bank refinancing has been discontinued, except for a limited number of on-lent donor lines of credit. Since then, the central bank rediscounts only treasury bills at a rate set at 3 percentage points above the prevailing treasury bill rate.

2/ Introduced in June 1993, and issued at monthly auctions since December 1993.

3/ Central bank bills were introduced in 2000.

4/ Minimum deposit rate. Since June 1993, the controls on bank deposit and lending rates have been lifted. The banks are free to determine their rates subject to a maximum limit of 12 percentage points above the treasury bill rate for lending rates, and a minimum limit for the savings deposit rate set at 3 percentage points below the treasury bill rate.

Table 15. Guinea: Balance of Payments, 1998-2002
(in millions of U.S. dollars, unless otherwise indicated)

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|--|---------|---------|---------|---------|---------|
| Merchandise trade balance | 69.8 | 76.2 | 83.3 | 160.9 | 50.8 |
| Exports, f.o.b. | 653.0 | 635.7 | 666.6 | 722.8 | 700.4 |
| Of which: mining products | 544.5 | 537.8 | 570.6 | 636.5 | 611.8 |
| Imports, f.o.b. | -583.3 | -559.4 | -583.3 | -561.9 | -649.6 |
| Food products | -85.0 | -100.0 | -106.2 | -104.7 | -123.2 |
| Other consumption goods | -90.6 | -88.4 | -87.4 | -83.0 | -100.3 |
| Petroleum goods | -82.5 | -61.8 | -81.5 | -87.9 | -116.6 |
| Intermediate and capital goods | -325.2 | -309.3 | -308.3 | -286.3 | -309.5 |
| Services trade balance | -272.1 | -251.6 | -242.5 | -219.1 | -227.6 |
| Services exports | 110.8 | 90.1 | 68.0 | 99.5 | 78.9 |
| Of which: transport | 48.7 | 19.4 | 15.6 | 25.8 | 22.7 |
| Services imports | -382.9 | -341.7 | -310.5 | -318.6 | -306.5 |
| Of which: transport | -149.6 | -100.4 | -137.7 | -143.6 | -97.6 |
| Income balance | -123.5 | -82.3 | -77.6 | -66.2 | -59.2 |
| Of which: | | | | | |
| Dividend payments | -60.1 | -32.4 | -8.4 | -20.0 | -20.0 |
| Interest on public debt 1/ | -53.5 | -50.0 | -55.0 | -31.9 | -37.5 |
| Transfers | 22.1 | -4.3 | 10.5 | 51.5 | 27.9 |
| Net private transfers | -38.9 | -31.0 | -15.0 | -12.9 | -15.9 |
| Official transfers | 61.0 | 26.7 | 25.5 | 43.8 | 25.5 |
| HIPC Initiative assistance (multilat.) | 0.0 | 0.0 | 0.0 | 20.6 | 18.3 |
| Current account | | | | | |
| Including public transfers | -303.7 | -261.9 | -226.4 | -72.8 | -208.1 |
| Excluding public transfers | -364.7 | -288.6 | -251.9 | -116.6 | -251.9 |
| Capital account | 209.5 | 122.4 | 71.7 | 81.9 | 55.4 |
| Public transfers (project grants) | 75.4 | 80.1 | 71.7 | 81.9 | 55.4 |
| Debt cancellation | 134.1 | 42.2 | 0.0 | 0.0 | 0.0 |
| Financial account | 111.9 | 121.7 | -1.2 | -0.3 | 90.1 |
| Public (medium and long term) | 62.8 | 83.0 | 48.3 | 57.7 | 58.9 |
| Project-related loans | 93.6 | 144.8 | 126.6 | 117.6 | 154.7 |
| Program financing | 30.2 | 1.8 | 1.8 | 60.3 | 1.0 |
| Amortization due 1/ | -60.9 | -63.6 | -80.1 | -120.2 | -96.8 |
| Public (short term) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Direct and other private investment (net) | 62.1 | 53.7 | -47.2 | -58.0 | 31.2 |
| Private short term | -13.0 | -15.1 | -2.3 | 0.0 | 0.0 |
| Errors and omissions | 58.9 | -13.2 | 94.6 | -23.9 | -20.9 |
| Overall balance | 76.7 | -31.0 | -61.3 | -15.1 | -83.5 |
| Financing | -76.7 | 31.0 | 61.3 | 15.1 | 83.5 |
| Change in official reserves | -6.7 | 38.7 | 51.4 | -58.1 | 38.5 |
| Net use of Fund resources | 12.3 | 1.9 | -8.0 | 4.6 | 5.2 |
| Changes in arrears and govt. assets (net) | -82.3 | -9.6 | 18.0 | 0.1 | -2.3 |
| Debt relief 2/ | 0.0 | 0.0 | 0.0 | 68.6 | 42.1 |
| of which: HIPC Initiative assistance (Cologne terms) | 0.0 | 0.0 | 0.0 | 20.4 | 14.2 |
| Residual financing gap | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Memorandum items: | | | | | |
| Current account-GDP ratio (in percent) | | | | | |
| Including public transfers | -8.5 | -7.6 | -7.4 | -2.4 | -6.5 |
| Excluding public transfers | -10.2 | -8.3 | -8.2 | -3.8 | -7.8 |
| Exports of GNFS-GDP ratio (in percent) 3/ | 21.3 | 21.0 | 24.0 | 27.0 | 24.2 |
| Imports of GNFS-GDP ratio (in percent) 3/ | -26.9 | -26.0 | -29.2 | -28.9 | -29.7 |
| External medium-and long-term public debt | 3,441.6 | 3,374.8 | 3,261.0 | 3,214.2 | 3,085.5 |
| In percent of GDP | 95.9 | 97.5 | 106.4 | 89.6 | 89.1 |
| Gross reserves | 248.0 | 207.5 | 150.3 | 208.4 | 170.0 |
| In months of imports of GNFS 3/ | 3.1 | 2.8 | 2.0 | 2.6 | 2.0 |

Sources: Guinean authorities; and staff estimates.

1/ Including debt-service payments on publicly guaranteed debt.

2/ Turnaround in private investment flows is due to the end of amortization of some private sector debt in 2001.

3/ GNFS: goods and nonfactor services.

Table 16. Guinea: Composition of Merchandise Exports, 1998-2002

(In millions of U.S. dollars, unless otherwise indicated)

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|-----------------------------------|-------|-------|-------|-------|-------|
| Total exports, f.o.b. | 653.0 | 635.7 | 666.6 | 722.8 | 700.4 |
| Mining products 1/ | 544.5 | 537.8 | 570.6 | 636.5 | 611.8 |
| Other | 108.5 | 97.9 | 96.0 | 86.4 | 88.6 |
| Bauxite | 325.3 | 298.4 | 299.4 | 319.6 | 305.2 |
| CBG 2/ | 305.0 | 278.8 | 269.1 | 290.0 | 285.6 |
| Volume (million tons) | 12.5 | 12.6 | 12.5 | 12.3 | 13.4 |
| Price (U.S. dollars per ton) | 24.3 | 22.1 | 23.5 | 24.2 | 25.0 |
| SBK 3/ | 16.3 | 18.3 | 20.8 | 20.4 | 19.7 |
| Volume (million tons) | 1.5 | 1.4 | 1.4 | 1.6 | 1.8 |
| Price (U.S. dollars per ton) | 11.0 | 13.3 | 11.0 | 11.3 | 11.7 |
| Alumina (Friguia) | 99.0 | 94.1 | 102.8 | 138.5 | 128.4 |
| Volume (thousand tons) | 510.0 | 570.0 | 570.9 | 679.7 | 674.6 |
| Price (U.S. dollars per ton) | 192.3 | 165.0 | 158.7 | 163.7 | 168.8 |
| Diamonds | 48.4 | 50.8 | 51.3 | 28.1 | 34.5 |
| Arédor, Hymex and Quatro | 7.4 | 10.2 | 18.2 | 4.4 | 6.4 |
| Volume (thousand carats) | 28.2 | 30.0 | 41.4 | 25.5 | 22.2 |
| Price (U.S. dollars per carat) | 272.7 | 361.4 | 450.2 | 175.1 | 286.7 |
| Others | 40.9 | 40.6 | 33.2 | 23.7 | 28.2 |
| Gold | 71.8 | 94.5 | 117.1 | 150.2 | 143.7 |
| SMD 4/ | 16.2 | 16.9 | 24.6 | 29.5 | 31.9 |
| Volume (tons) | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 |
| Price (U.S. dollars per ounce) | 293.0 | 279.0 | 283.0 | 280.0 | 293.6 |
| SAG 5/ | 53.4 | 67.9 | 78.6 | 77.0 | 83.8 |
| Volume (tons) | 8.4 | 8.4 | 8.4 | 8.4 | 8.4 |
| Price (U.S. dollars per ounce) | 293.0 | 281.0 | 281.0 | 270.1 | 311.0 |
| Other 6/ | 2.3 | 9.7 | 13.9 | 43.7 | 28.0 |
| Volume (tons) 6/ | 3.6 | 3.6 | 3.6 | 3.6 | 3.6 |
| Price (U.S. dollars per ounce) 6/ | 234.7 | 273.2 | 220.4 | 248.8 | 240.6 |
| Coffee | 37.5 | 35.4 | 21.4 | 15.2 | 17.6 |
| Volume (thousand tons) | 23.0 | 20.2 | 19.6 | 21.2 | 21.8 |
| Price (U.S. dollars per ton) | 1.6 | 1.8 | 1.1 | 0.7 | 0.8 |
| Fish | 24.1 | 14.0 | 23.5 | 25.2 | 28.3 |
| Other exports 7/ | 46.9 | 48.5 | 51.1 | 46.1 | 42.7 |
| Memorandum items: | | | | | |
| Exports, 1996 prices | 641.1 | 685.1 | 722.3 | 761.9 | 751.7 |
| Percentage change | 9.5 | 6.9 | 5.4 | 5.5 | -1.3 |
| Price index, (1996=100) | 101.9 | 92.8 | 92.3 | 94.9 | 93.2 |
| Percentage change | -5.3 | -8.9 | -0.5 | 2.8 | -1.8 |
| Exports-GDP ratio (in percent) | 18.2 | 17.7 | 18.6 | 20.1 | 19.5 |
| Mining products | 15.2 | 15.5 | 18.3 | 20.9 | 19.0 |
| Other | 3.0 | 2.2 | 0.2 | -0.8 | 0.5 |

Sources: Guinean authorities; and staff estimates.

1/ Exports of bauxite, alumina, diamonds, and gold.

2/ Compagnie Bauxite de Guinée.

3/ Société Bauxite de Kindia.

4/ Société Minière de Dinguirayo.

5/ Société Aurifère de Guinée.

6/ From 1995 onward, gold exports by the central bank are fully captured by the Ministry of Planning export data.

7/ Comprising mainly food products.

Table 17. Guinea: Composition of Imports, 1998-2001 1/

(In millions of U.S. dollars, unless otherwise indicated)

| HS 1/ | Section | 1998 | 1999 | 2000 | 2001 |
|-------------------|--|-------|-------|-------|-------|
| | Total | 618.0 | 585.1 | 532.7 | 557.8 |
| | <i>Of which</i> | | | | |
| I | Live animals; animal products | 12.3 | 6.6 | 15.0 | 6.8 |
| II | Vegetable products | 75.4 | 32.4 | 49.0 | 48.9 |
| III | Animal or vegetable fats and oils | 12.7 | 8.2 | 9.9 | 10.6 |
| IV | Prepared foodstuffs; beverages and tobacco | 89.7 | 41.5 | 58.1 | 59.8 |
| V | Mineral products | 64.8 | 17.3 | 130.2 | 186.1 |
| VI and VII | Products of the chemical or allied industries, plastics, and rubber | 84.2 | 59.1 | 76.9 | 74.4 |
| VIII | Hides and skins and travel goods | 1.9 | 1.1 | 1.4 | 1.5 |
| IX and X | Wood and paper | 10.9 | 11.1 | 8.6 | 9.2 |
| XI | Textiles and textile articles | 31.5 | 19.6 | 23.7 | 21.6 |
| XII | Footwear, headgear, and umbrellas | 15.0 | 5.9 | 7.3 | 6.9 |
| XIII and XIV | Articles of stone, ceramic, and glass (including jewelry and coins) | 7.0 | 3.6 | 5.4 | 6.4 |
| XV | Base metals and articles thereof | 34.4 | 21.5 | 31.7 | 24.7 |
| XVI | Machinery and mechanical appliances | 116.0 | 41.9 | 61.4 | 51.1 |
| XVII | Vehicles, vessels, and other transport equipment | 49.9 | 25.4 | 40.9 | 41.3 |
| XVIII | Precision watches and musical instruments | 4.7 | 3.8 | 5.2 | 3.0 |
| XIX | Arms and ammunition | 1.5 | 1.4 | 1.7 | 1.0 |
| XX | Miscellaneous (including art work) | 7.6 | 4.1 | 6.1 | 4.3 |
| Memorandum items: | | | | | |
| | Imports, c.i.f., current prices | 705.0 | 666.0 | 694.4 | 668.9 |
| | Imports, c.i.f., 1996 prices | 692.2 | 717.8 | 752.5 | 705.1 |
| | Percentage change | 11.6 | 3.7 | 4.8 | -6.3 |
| | Import prices (1996=100) | 81.3 | 79.7 | 86.3 | 81.5 |
| | Percentage change | -13.6 | -1.9 | 8.2 | -5.5 |
| | Import-GDP ratio (in percent) | 26.9 | 26.0 | 28.7 | 28.9 |
| | Merchandise imports, f.o.b. | 16.3 | 16.2 | 18.7 | 18.5 |
| | Services imports | 10.7 | 9.9 | 10.0 | 10.5 |
| | Terms of trade (1996=100) | 124.6 | 114.1 | 105.1 | 113.6 |
| | Percentage change | 8.0 | -8.5 | -7.9 | 8.0 |

Sources: Guinean authorities; and staff estimates.

1/ data from the Harmonized System of Customs Classification.

Table 18. Guinea: Direction of Trade--Exports, 1998-2002

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|----------------------------------|-------------------------------|-------|-------|-------|-------|
| | (In percent of total) | | | | |
| Industrial countries | 74.9 | 68.7 | 65.4 | 67.9 | 61.1 |
| <i>Of which:</i> | | | | | |
| United States | 15.7 | 17.6 | 13.4 | 11.1 | 9.6 |
| Japan | 0.7 | 0.4 | 0.4 | 0.9 | 0.1 |
| Austria | 0.2 | 0.1 | 0.1 | 0.0 | 0.1 |
| Belgium | 13.1 | 14.9 | 17.5 | 16.4 | 10.1 |
| Denmark | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| France | 6.6 | 6.2 | 6.7 | 9.0 | 7.4 |
| Germany | 3.4 | 5.1 | 5.1 | 5.0 | 5.0 |
| Italy | 1.8 | 1.0 | 0.9 | 1.0 | 2.8 |
| Netherlands | 1.2 | 0.1 | 0.1 | 0.4 | 0.6 |
| Norway | 0.6 | 1.2 | 0.0 | 0.0 | 0.0 |
| Spain | 13.4 | 9.5 | 9.5 | 10.7 | 10.5 |
| Switzerland | 0.0 | 0.0 | 0.0 | 0.0 | 1.7 |
| United Kingdom | 0.4 | 0.9 | 0.1 | 0.0 | 0.5 |
| Developing countries | 25.1 | 31.3 | 34.6 | 32.1 | 38.9 |
| Africa | 7.1 | 7.3 | 7.1 | 7.0 | 10.9 |
| <i>Of which:</i> | | | | | |
| Cameroon | 3.8 | 4.1 | 3.8 | 3.6 | 10.1 |
| Côte d'Ivoire | 1.0 | 1.1 | 1.1 | 1.1 | 0.0 |
| Morocco | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 |
| Asia | 3.9 | 8.2 | 7.9 | 6.6 | 19.6 |
| <i>Of which:</i> | | | | | |
| People's Republic of China | 0.1 | 0.9 | 0.0 | 0.7 | 0.9 |
| Hong Kong SAR | 0.9 | 0.8 | 0.4 | 0.3 | 0.1 |
| Europe | 13.6 | 15.2 | 18.6 | 18.1 | 8.0 |
| <i>Of which:</i> | | | | | |
| Ukraine | 6.4 | 6.1 | 5.6 | 5.8 | 0.2 |
| Middle East | 0.2 | 0.4 | 0.7 | 0.4 | 0.0 |
| Western Hemisphere | 0.3 | 0.2 | 0.3 | 0.0 | 0.0 |
| Memorandum items: | | | | | |
| European Union | 55.7 | 48.6 | 49.9 | 53.8 | 46.4 |
| Oil-exporting countries | 1.4 | 1.6 | 1.7 | 1.6 | 0.0 |
| Non-oil developing countries | 23.7 | 29.7 | 32.9 | 30.5 | 38.9 |
| | (In millions of U.S. dollars) | | | | |
| Exports according to <i>DOTS</i> | 904.1 | 835.4 | 905.4 | 951.9 | 796.4 |
| Exports according to <i>BOP</i> | 653.0 | 635.7 | 666.6 | 722.8 | 700.4 |

Sources: Guinean authorities; staff estimates; and IMF, *Direction of Trade Statistics (DOTS)*.

Table 19. Guinea: Direction of Trade--Imports, 1998-2002

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|------------------------------|-------------------------------|-------|-------|-------|-------|
| | (In percent of total) | | | | |
| Industrial countries | 68.0 | 66.5 | 64.6 | 63.7 | 68.5 |
| <i>Of which:</i> | | | | | |
| United States | 9.6 | 8.3 | 11.0 | 11.6 | 8.6 |
| Canada | 1.4 | 0.6 | 0.7 | 0.7 | 0.5 |
| Japan | 3.0 | 2.5 | 2.1 | 2.2 | 2.7 |
| Austria | 1.8 | 2.5 | 2.6 | 2.5 | 1.9 |
| Belgium | 6.8 | 8.6 | 7.1 | 7.8 | 7.9 |
| France | 24.3 | 22.5 | 18.9 | 16.1 | 19.6 |
| Germany | 2.5 | 3.0 | 3.2 | 2.9 | 3.1 |
| Italy | 4.1 | 4.2 | 3.0 | 4.0 | 9.3 |
| Luxembourg | 0.9 | 0.7 | 1.3 | 1.1 | 0.5 |
| Netherlands | 4.0 | 3.4 | 3.2 | 3.4 | 3.1 |
| Spain | 3.6 | 2.6 | 2.4 | 2.4 | 2.2 |
| Switzerland | 1.2 | 1.1 | 1.3 | 1.3 | 1.0 |
| United Kingdom | 2.7 | 4.6 | 5.5 | 4.7 | 5.4 |
| Developing countries | 31.9 | 33.5 | 35.4 | 36.2 | 31.4 |
| Africa | 12.0 | 12.0 | 13.7 | 13.9 | 14.8 |
| <i>Of which:</i> | | | | | |
| Côte d'Ivoire | 6.5 | 7.3 | 8.5 | 8.7 | 11.6 |
| Morocco | 0.0 | 0.0 | 0.0 | 0.0 | 0.4 |
| Nigeria | 0.5 | 0.5 | 0.6 | 0.6 | 0.2 |
| South Africa | 1.3 | 1.5 | 1.1 | 1.0 | 1.2 |
| Asia | 15.3 | 18.1 | 16.6 | 17.4 | 12.9 |
| People's Republic of China | 5.5 | 6.8 | 5.4 | 5.8 | 0.0 |
| India | 0.9 | 1.0 | 1.2 | 1.2 | 1.3 |
| Singapore | 1.1 | 0.9 | 0.9 | 1.1 | 1.1 |
| Europe | 3.1 | 1.9 | 3.4 | 3.4 | 1.2 |
| Middle East | 0.8 | 0.8 | 1.0 | 1.0 | 1.4 |
| Western Hemisphere | 0.7 | 0.6 | 0.7 | 0.6 | 0.6 |
| Memorandum items: | | | | | |
| European Union | 52.3 | 53.4 | 49.0 | 46.8 | 55.2 |
| Oil-exporting countries | 2.4 | 2.3 | 3.2 | 3.2 | 2.1 |
| Non-oil developing countries | 29.6 | 31.2 | 32.2 | 33.1 | 29.4 |
| | (In millions of U.S. dollars) | | | | |
| Imports according to DOTS | 680.0 | 678.9 | 625.5 | 673.1 | 808.9 |

Sources: Guinean authorities; staff estimates; and IMF, *Direction of Trade Statistics (DOTS)*.

Table 20. Guinea: External Public Debt, 1998-2002 1/

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|--|---------|---------|---------|---------|---------|
| (In millions of U.S. dollars) | | | | | |
| Total medium- and long-term debt outstanding | 3,568.4 | 3,374.8 | 3,261.0 | 3,214.2 | 3,085.5 |
| Medium- and long-term debt, excluding IMF | 3,441.6 | 3,247.6 | 3,146.7 | 3,085.5 | 2,953.0 |
| Multilateral institutions, excluding IMF | 1,658.5 | 1,682.8 | ... | ... | ... |
| Organizations of Arab countries | 101.1 | 115.9 | ... | ... | ... |
| Bilateral creditors 1/ | 1,640.0 | 1,554.8 | ... | ... | ... |
| Paris Club | 1,192.1 | 1,177.9 | ... | ... | ... |
| Post cutoff | 313.3 | 272.8 | ... | ... | ... |
| Rescheduled in 1986 and not previously rescheduled | 91.7 | ... | ... | ... | ... |
| Rescheduled in 1989 | 61.1 | 64.0 | ... | ... | ... |
| Rescheduled in 1992 | 117.1 | 96.7 | ... | ... | ... |
| Rescheduled in 1995 | 97.9 | 91.9 | ... | ... | ... |
| Rescheduled in 1997 | 74.3 | 71.8 | ... | ... | ... |
| Russian Federation | 436.7 | 489.0 | ... | ... | ... |
| Other bilateral creditors | 447.9 | 376.9 | ... | ... | ... |
| Commercial creditors | 16.2 | 10.0 | ... | ... | ... |
| Postal debt | 0.0 | 0.0 | ... | ... | ... |
| Outstanding IMF credit 2/ | 126.8 | 127.2 | 112.9 | 128.7 | 132.5 |
| (In percent of GDP) | | | | | |
| Memorandum items: | | | | | |
| Total debt | 99.4 | 97.5 | 104.8 | 105.7 | 96.0 |
| Medium- and long-term debt, excluding IMF | 95.9 | 93.8 | 101.1 | 101.4 | 91.9 |
| IMF credit | 3.5 | 3.7 | 3.6 | 4.2 | 4.1 |

Sources: Guinean authorities; and staff estimates.

1/ Guinea's debt to some bilateral creditors is not fully reconciled; the presentation follows the Guinean position.

2/ Structural Adjustment Facility/Poverty Reduction and Growth Facility Loans.

Table 21. Guinea: External Debt Service, 1998-2002

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|-------|-------|-------|-------|-------|
| (In millions of U.S. dollars) | | | | | |
| Debt service due before debt rescheduling 1/ | 195.2 | 179.3 | 143.8 | 164.4 | 145.9 |
| Interest | 79.5 | 55.2 | 55.6 | 32.4 | 37.9 |
| Principal | 115.7 | 124.1 | 88.2 | 132.0 | 108.0 |
| <i>Of which</i> : IMF repurchases | 9.4 | 7.9 | 8.0 | 11.8 | 11.2 |
| Debt rescheduling | 26.1 | 0.0 | 0.0 | 20.4 | 14.2 |
| Interest | 7.4 | 0.0 | ... | ... | ... |
| Principal | 18.7 | 0.0 | ... | ... | ... |
| Debt service due after debt rescheduling | 169.1 | 179.3 | 143.8 | 144.0 | 131.7 |
| Interest | 72.1 | 55.2 | ... | ... | ... |
| Principal | 97.0 | 124.1 | ... | ... | ... |
| (In percent of exports of goods and services) | | | | | |
| Memorandum items: | | | | | |
| Debt service due before debt rescheduling | 25.6 | 24.7 | 19.6 | 20.0 | 18.7 |
| Interest | 10.4 | 7.6 | ... | ... | ... |
| Principal | 15.1 | 17.1 | ... | ... | ... |
| Debt service due after debt rescheduling | 22.1 | 24.7 | 19.6 | 17.5 | 16.9 |
| Interest | 9.4 | 7.6 | ... | ... | ... |
| Principal | 12.7 | 17.1 | ... | ... | ... |

Sources: Guinean authorities; and staff estimates.

1/ Government and public enterprises and, for 1998, public-guaranteed debt.

Table 22. Guinea: Debt-Service Liabilities on Medium- and Long-Term External Public Debt, 1998-2002

(In millions of U.S. dollars)

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|--|-------|-------|-------|-------|-------|
| Total debt service due (excluding IMF) | 114.5 | 113.5 | 135.1 | 152.1 | 134.3 |
| Interest due on medium- and long-term public debt | 53.5 | 50.0 | 55.0 | 31.9 | 37.5 |
| International organizations 1/ | 18.0 | 23.9 | ... | ... | ... |
| Organizations of Arab countries | 1.9 | 3.7 | ... | ... | ... |
| Paris Club, post-cutoff date | 5.7 | 6.0 | ... | ... | ... |
| Paris Club, 1986 and previously rescheduled debt (PRD) | 1.5 | ... | ... | ... | ... |
| Paris Club, 1989 | 5.9 | ... | ... | ... | ... |
| Paris Club, 1992 | 5.0 | ... | ... | ... | ... |
| Paris Club, 1995 | 4.5 | ... | ... | ... | ... |
| Paris Club, 1997 | 3.8 | ... | ... | ... | ... |
| Non-Paris Club bilaterals | ... | ... | ... | ... | ... |
| Bank and suppliers | ... | ... | ... | ... | ... |
| Principal due on medium- and long-term public debt (excluding IMF) | 60.9 | 63.6 | 80.1 | 120.2 | 96.8 |
| of which: International organizations 1/ | 23.3 | 46.0 | ... | ... | ... |
| Paris Club, post-cutoff-date | 6.9 | 14.1 | ... | ... | ... |
| Russian Federation 2/ | 26.6 | ... | ... | ... | ... |
| Non-Paris Club bilaterals 2/ | 10.3 | ... | ... | ... | ... |
| Memorandum items: | | | | | |
| Change in debt-service payments arrears | 30.0 | 4.7 | 18.0 | 0.1 | -2.3 |
| Interest | 0.0 | 0.9 | ... | ... | ... |
| Principal | 30.0 | 3.8 | ... | ... | ... |

Sources: Guinean authorities; and staff estimates.

1/ Excluding organizations of Arab countries.

2/ Debt to some bilateral creditors is not fully reconciled; the table follows the Guinean position.

Table 23. Guinea: Nominal Exchange Rates and Effective Exchange Rate Indices, 1998: Q1– 2002: Q4
(Index, 1990=100, unless otherwise indicated)

| | Guinean Francs per U.S. Dollar | | Guinean francs per SDR | | Relative Price Index | | Effective Exch. Rate | | Effective Exch. Rate | |
|------|-----------------------------------|------------------|------------------------|------------------|-------------------------|------------------|----------------------|------|----------------------|------|
| | Period average | End of period | Period average | End of period | Period average | End of period | Nominal | Real | Nominal | Real |
| | | | | | | | Period average | | End of period | |
| 1998 | | | | | | | | | | |
| Q1 | 1,180.1 | 1,205.0 | 1,585.9 | 1,609.7 | 98.3 | 98.4 | 96.4 | 94.9 | 94.4 | 93.0 |
| Q2 | 1,222.8 | 1,229.4 | 1,635.9 | 1,637.0 | 98.3 | 98.3 | 92.9 | 91.5 | 93.0 | 91.5 |
| Q3 | 1,242.2 | 1,259.4 | 1,674.1 | 1,727.1 | 98.0 | 98.2 | 91.4 | 89.7 | 88.2 | 86.8 |
| Q4 | 1,278.2 | 1,283.7 | 1,788.0 | 1,807.5 | 99.4 | 101.0 | 84.7 | 84.3 | 84.4 | 85.4 |
| 1999 | | | | | | | | | | |
| Q1 | 1,310.0 | 1,312.3 | 1,796.1 | 1,781.9 | 100.5 | 100.8 | 85.7 | 87.6 | 87.6 | 88.4 |
| Q2 | 1,322.8 | 1,335.1 | 1,777.8 | 1,783.5 | 100.7 | 101.5 | 87.7 | 87.8 | 87.8 | 89.3 |
| Q3 | 1,353.2 | 1,360.5 | 1,849.8 | 1,888.0 | 101.4 | 101.7 | 83.7 | 85.0 | 81.8 | 83.3 |
| Q4 | ... | 1,736.0 | ... | 2,382.7 | 104.4 | 104.3 | 75.01 | 80.4 | 69.9 | 73.1 |
| 2000 | | | | | | | | | | |
| Q1 | 1,747.4 | 1,679.5 | 2363.8 | 2,262.1 | 103.9 | 104.6 | 75.3 | 78.3 | 71.7 | 75.2 |
| Q2 | 1,610.2 | 1,626.0 | 2136.5 | 2,174.4 | 104.5 | 105.1 | 68.1 | 71.3 | 75.1 | 79.0 |
| Q3 | 1,738.2 | 1,825.8 | 2274.6 | 2,369.6 | 105.0 | 109.2 | 76.5 | 80.4 | 71.1 | 77.8 |
| Q4 | 1,891.7 | 1,882.3 | 2436.2 | 2,452.4 | 106.3 | 108.8 | 72.5 | 77.2 | 66.8 | 72.8 |
| 2001 | | | | | | | | | | |
| Q1 | 1,923.3 | 1,974.7 | 2,484.54 | 2,489.38 | 108.7 | 108.9 | 66.2 | 72.1 | 67.0 | 73.1 |
| Q2 | 1,945.0 | 1,951.8 | 2,450.73 | 2,431.29 | 109.1 | 109.4 | 68.3 | 74.6 | 69.3 | 75.9 |
| Q3 | 1,950.0 | 1,951.8 | 2,450.73 | 2,431.29 | 110.4 | 110.6 | 67.3 | 74.4 | 66.3 | 73.4 |
| Q4 | 1,972.2 | 1,974.4 | 2,504.61 | 2,481.17 | 109.1 | 108.2 | 66.9 | 73.1 | 66.9 | 72.6 |
| 2002 | | | | | | | | | | |
| Q1 | 1,977.0 | 1,975.0 | 2,469.4 | 2,455.3 | 108.9 | 109.4 | 64.5 | 71.1 | 64.6 | 71.5 |
| Q2 | 1,974.0 | 1,975.5 | 2,523.5 | 2,548.8 | 110.2 | 110.8 | 62.6 | 69.8 | 61.1 | 68.5 |
| Q3 | 1,976.0 | 1,976.0 | 2,613.7 | 2,631.5 | 111.2 | 110.9 | 60.2 | 67.8 | 60.4 | 67.9 |
| Q4 | 1,976.0 | 1,976.0 | 2,627.3 | 2,620.2 | 111.7 | 110.8 | 60.2 | 68.1 | 60.5 | 67.9 |

Sources: Guinean authorities; IMF, *International Financial Statistics*; and Information Notice System; and staff estimates.

Guinea: Summary of the Tax System
(As of December 31, 2002)

| Tax | Nature of Tax | Exemptions and Deductions | Rates |
|--|---|--|--|
| 1. Taxes on income and profits | | | |
| 1.1 Taxes on companies | | | |
| 1.1.1 Corporate tax [<i>Impôt sur les Sociétés - IS</i>] (enterprises operating in Guinea). | <p>Levied on net income including capital gains made by public and private enterprises established as joint-stock companies [<i>sociétés de capitaux</i>] and nonexempt corporate entities.</p> <p>Deficits can be carried over for a maximum of three consecutive fiscal years.</p> <p>Tax returns must be filed within a three-month period after the end of the fiscal year.</p> | <p>Agricultural supply and procurement cooperatives, nonprofit associations. Exemptions provided under the Investment Code, mining code and special conventions.</p> | <p>35 percent, except special arrangements.</p> <p>Guinea Bauxite Company (CBG)--total assessment, inclusive of corporate taxes and dividends, based on gross profits:</p> <p>Frignia: 30 percent.</p> |
| 1.2 Taxes on individuals | | | |
| 1.2.1 Personal income tax [<i>Impôt sur le revenu-IR</i>]. | <p>Levied on total net income of individuals residing or having their primary occupation in Guinea. Some income categories are subject to withholding by the party responsible for payment (property income; wages, salaries, and pensions; income from financial assets); withholdings are final if there is no other source of income.</p> | <p>Income amounting to less than GF 100,000. Members of the diplomatic and consular corps, subject to reciprocity.</p> | <p>Progressive scale of income brackets: 10 percent to 35 percent for income between GF 100,000 and GF 20 million; a uniform rate of 40 percent applied to incomes in excess of GF 20 million.</p> |
| 1.2.2 Withholding tax on wage income [<i>Retenue à la source sur traitements et salaires-RTS</i>]. | <p>Levied on wages, salaries, and pensions as part of income (under 1.2.1) of individuals residing or having their primary occupation in Guinea. Paid monthly or quarterly by the employer.</p> | <p>Members of the diplomatic and consular corps, subject to reciprocity. Does not apply to family allowances, severance pay, separation allowances, or pensions. Salaries paid to apprentices.</p> | <p>Progressive scale of income brackets: 10 percent to 30 percent for income between GF 30,000 and GF 5 million; rate of 5 percent for income in excess of GF 5 million.</p> |

Guinea: Summary of the Tax System
(As of December 31, 2002)

| Tax | Nature of Tax | Exemptions and Deductions | Rates |
|---|--|---|---|
| 1.2.3 Withholding on nonwage income paid to nonresidents [<i>Retenue à la source sur les revenus non salariaux versés à des non résidents-RNS</i>]. | Lump-sum tax levied on the gross amount paid to individuals or enterprises located outside of Guinea and corresponding to services of all types physically provided or used in Guinea. | | 10 percent. |
| 1.2.4 Tax on individual businesses [<i>Impôt sur les bénéfices industriels et commerciaux-BIC</i>]. | Levied on net income including capital gains made by individual businesses not subject to the IS. | Idem as under 1.1.1 | 30 percent for individual industrial or commercial enterprises 20 percent for craftsmen. |
| 1.2.5 Tax on noncommercial profits [<i>Impôt sur les bénéfices non commerciaux-BNC</i>]. | Levied on net income of liberal professions and other income from intellectual property. | Amount received for the benefit of customers, fees retroceded, and professional charges paid by taxpayers. | 30 percent |
| 1.2.6 Tax on financial returns [<i>Impôt sur les revenus des capitaux mobiliers-IRCM</i>]. | Withholding tax levied on returns on fixed term savings, t-bills, and investments in stocks and shares. | Interest on bank deposits, with maturities in excess of three months, earned by domestic investors. | 15 percent |
| 1.2.7 Tax on nonprofessional real estate gains [<i>Imposition des plus-values immobilières non professionnelles-PVINP</i>]. | Levied on the gain in value at the sale or transfer of private immovable property by non-professional owners. | Does not apply to companies subject to the IS under 1.1.1, to transaction for less than GF 2 million. | 15 percent. |
| 1.2.8 Withholding tax levied on rent [<i>Retenue à la source sur les loyers-RSL</i>]. | Withholding tax levied by enterprises, which paid a rent on one, or more buildings owned by an individual. | Does not apply to companies subject to the IS under 1.1.1 and which receive property income. Deductible from the CFU owned by the owners of the buildings rented out. | 10 percent for the tenant, which use his building. 15 percent on all rented buildings. |
| 1.2.9 Lump-Sum deduction on all advantage in kind. [<i>Prelevement forfaitaire sur avantages en nature</i>]. | Levied on all payment in kind made to the managerial and other staff of enterprises. | | 5 percent on the gross value of the payment in kind. |

Guinea: Summary of the Tax System
(As of December 31, 2002)

| Tax | Nature of Tax | Exemptions and Deductions | Rates |
|---|--|--|---|
| 1.2.10 Lump-um deduction on imports. [<i>Prelevement forfaitaire sur importations</i>]. | Levied on cif value of imports during clearing through custom | Imports made by taxpayers of VAT. | 5 percent of the cif value of import |
| 1.2.11 Lump-Sum Deduction on local purchases | Levied on local purchases of goods and services by the state, public entities, and mining companies from suppliers not subject to the VATs | | 10 percent of the amounts paid.s |
| 2. Lump sum minimum tax [Impôt Minimum Forfaitaire-IMF] | Tax levied on companies subject to the IS under 1.1.1, as well as import-export traders, and those subject to BNC under 1.2.4. | Companies under the article 202 - V of the CIDE. Companies exempted from the IS owing in full or in part to their operations; new companies during the first year of operation. | 3 percent of the gross turnover of the previous year (with a minimum of GF 3 million and a maximum of GF 40 million for IS taxpayers and import-export traders,, and a minimum of GF 2 million and a maximum of GF 10 million for BNC taxpayers). |
| 3. Payroll taxes | | | |
| 3.1 Apprenticeship tax [<i>Taxe d'apprentissage - TA</i>]. | Annual tax payable by employer on the total amount of wages, salaries, and other benefits paid in cash or in kind. | Exemptions provided under the Investment Code or specific conventions; Employers with apprenticeship programs; Employers subject to the contribution to finance continuing vocational training; home-based workers and craftsmen.. | 3 percent of total payroll. |
| 3.2 Lump-sum payroll tax [<i>Versement forfaitaire sur les salaires - VF</i>]. | Similar to 3.1 less deduction of family allowances. Payable monthly or quarterly. | | 6 percent of gross salaries. |
| 4. Taxes on property | | | |
| 4.1 Unified real estate tax [<i>contribution foncière unique-CFU</i>]. | Synthetic tax based on the rental value of the real estate property. | Public buildings, religious buildings, private schools constructed by founders, chancellery buildings. | 10 percent of annual rental value for buildings that are owner occupied; 15 percent for rental properties. |

Guinea: Summary of the Tax System
(As of December 31, 2002)

| Tax | Nature of Tax | Exemptions and Deductions | Rates |
|--|---|--|---|
| 4.2 Inheritance and gift tax [<i>Droits de succession et donation</i>]. | Levied on the transfer of movable or immovable property without valuable consideration. | GF 50,000 allowance. | Variable scale from 1 to 10 percent, depending on the degree of family relationship between the donor or the deceased and the recipient or heir. |
| 4.3 Registration fees [<i>Droits d'enregistrement</i>]. | | | |
| 4.3.1 Corporate act fees [<i>Droits sur les actes des sociétés</i>]. | Levied on capital increases, merger capital contributions and formation. Assessed on the capital or amount of the contribution. | Special conventions exempt some companies (e.g., FRIGUIA). | Commercial enterprises: Digressive scale by brackets: 2 percent to 1 percent for amounts between GF 1 billion and GF 10 billion. A unique rate of 0.5 percent for amounts in excess of GF 10 billion. |
| 4.3.2 Credit act fees [<i>Droits sur les actes de crédit</i>]. | Levied on all credit contracts and overdraft facilities, and transactions between companies, or between firms and their subsidiaries. | | 0.1 percent. |
| 4.3.3 Assignment of corporate shares or stocks [<i>Cessions de parts ou d'actions de sociétés</i>]. | Tax levied on the value of the property transferred. | | 10 percent. |
| 4.3.4 Tax on transfer of movable property [<i>Droits frappant le transfert de biens meubles</i>]. | Levied on the sale or rental of movable property. | | Sales: 10 percent; Rentals: 2 percent. |
| 4.3.5 Tax on transfer of immovable property [<i>Droits frappant le transfert de biens immeubles</i>]. | Levied on the sale, rental, or exchange of immovable property. | | Sales: 10 percent; Rental (limited term): 2 percent; Rental (unlimited term): 10 percent; Exchange : 10 percent |
| 4.3.6 Tax on collateral mortgage and sentence operations [<i>Droits frappant les opérations de nantissement, d'hypothèque et de condamnation</i>]. | Levied on business, material, and contract collaterals, on acts of release of mortgage and guarantee, inscription and sentence for payment. | | Inscription and release of mortgage, 1 percent; collateral of business, material, and contracts, 1 percent; sentence for payment, 0.5 percent. |

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| Tax | Nature of Tax | Exemptions and Deductions | Rates |
|--|---|--|--|
| 4.3.7 State fee and topographic tax on state and local government properties [<i>Redevances domaniales et taxes topographiques sur les domaines de l'Etat et des collectivités locales</i>]. | Fees on lease or temporary concessions of property to individuals or enterprises. Topographic taxes required at the time of the acquisition of government property. | | Amount mentioned on the provisional concession or lease contract or on the decree of land allocation. |
| 4.3.8 Tax on capital gains on immovable property [<i>Taxe de plus-values immobilières</i>]. | Levied on the gain in value at the sale or transfer of immovable property. | Exemptions in case of merger of specific companies. | 25 percent of the gain. |
| 4.4 Stamp tax on public contracts [<i>Droit de timbre sur les marchés publics</i>]. | Tax to be paid by the holders of public contracts entered into with the central government or local authorities. Assessed on the total price of the contract. | Foreign-financed procurement contracts | Lump-sum tax varying with the size of the stamp; and a proportional tax: GF 1-10 million: 1 percent; GF 10-100 million: 0.5 percent; GF 100-1,000 million: 0.25 percent; Over GF 1 billion: 0.1 percent. |
| 4.5 Other registration fees | Levied on all other notarized acts or private transactions executed by third parties. | | Minimum levy of GF 5,000; Proportional rate: 2 percent |
| 5. Taxes on goods and services | | | |
| 5.1 Value added tax - VAT. | Tax to be paid by producers, importers and exporters, providers of services liable to tax. It is based on gross revenue. | Exempted are sales of revenue stamps, newspapers, rice, flour, wheat, bread, edible oils, pharmaceutical products, fertilizers and phytosanitary products, books and schoolbooks. Total exclusion for those subject to the TPU. Traders with less than GF 150 million annual turnover and less than GF 60 million in annual sales, except by choice. | 0 percent for exports and international transport. 18 percent for taxable operations. |
| 5.2 Taxes on financial operations [<i>Taxes sur les activités financières</i>]. | Levied on remuneration on banking operations, insurance contracts, and life annuity. | Central bank's operations and transactions, interest and commissions on interbank transactions, interest paid on term deposits, rental of safe deposit | Loan operations for more than a year: 5 percent Other operations: 13 percent. |

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| Tax | Nature of Tax | Exemptions and Deductions | Rates |
|-------|---|---|---|
| 5.3 | Tax on insurance contracts. | Levied on premia collected by insurance companies. | boxes, juridical or financial consultations, recording fees.. Reinsurance operations; export credit insurance; life insurance contracts annuities subscribed by persons not resident in Guinea; other contracts where the risk is situated outside Guinea or concerns establishments outside Guinea. |
| | | | Risks on sea, river and aerial navigation: 20 percent Other risks: 8 percent Life insurance, life annuity: 5 percent Other insurance: 12 percent. |
| 5.4 | Special products fiscal surcharge [<i>Surtaxe fiscale</i>]. | Specific tax on beer, alcoholic beverages; ad valorem tax levied on the tax-exclusive sales price of Virginia tobacco. | Nonalcoholic beverages: GF 10 per bottle or can up to 50 cl. or per liter; GF 15 for quantities exceeding 50 cl. or per liter. Alcoholic beverages: GF 20 per bottle or can up to 50 cl.; GF 30 for quantities exceeding 50 cl. or per liter. Tobacco: 5 percent of the cession price before tax applicable to Virginia tobacco products. |
| 5.5 | Tax on the use of goods or properties | | |
| 5.5.1 | Business and professional license tax [<i>Contribution des patentes</i>]. | Annual tax paid by individuals and corporations engaged in commercial, industrial, or artisanal activities, or a liberal profession. Collected on behalf of local entities. | Exemptions: Artisans having a maximum of one employee; Social and educational activities. Companies subject to the TPU. |
| 5.5.2 | License fees [<i>Contribution des licences</i>]. | Annual tax that must be paid by individuals and corporations selling alcoholic or fermented beverages. Collected on behalf of local entities. | Companies subject to the TPU. |
| 5.5.3 | Tax on vehicles [<i>Taxe unique sur les véhicules</i> - | Annual fee levied on motor vehicles and pleasure boats. 25 percent of the | Exemptions: Diplomatic corps vehicles; |
| | | | The tax comprises a fixed fee, which varies (GF 60,000-5 million) depending on the activity, and a proportional fee of 10-15 percent levied on the estimated rental value of the professional premises (10 percent of the market value). Fee of GF 15,000-150,000, depending on the type and quality of beverages sold, the size of the seller, and whether the beverage is sold in Conakry or inside the country. Specific rates of GF 15,000 for mopeds to GF 430,000 for heavy trucks. |

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| Tax | Nature of Tax | Exemptions and Deductions | Rates |
|---|---|---|---|
| <i>TUV</i>]. | tax is allocated to local entities. | Vehicles owned by the central government or local authorities with VA plate; vehicles owned by the armed forces. | |
| 5.6 Single professional tax [<i>Taxe professionnelle unique-TPU</i>]. | Annual synthetic tax replacing the professional license tax [<i>patente</i>], the tax on individual businesses [<i>Impôt sur les bénéfices industriels et commerciaux-BIC</i>], and the turnover tax, for the informal sector. A percentage is transferred to local entities. | Persons subject to the VAT Liberal professions, individuals, importers, and other activities set out in the tax code. | 5 percent of previous year's turnover determined on the basis of the taxpayer's declaration or by administrative estimate.. |
| 5.7 Other local taxes | | | |
| 5.7.1 Head tax [<i>Impôt minimum pour le développement local-IMDL</i>]. | Annual head tax paid by individuals aged 14 to 60 residing in Guinea. Collected on behalf of local entities. | Exempted: indigents, students, civil servants, and the military. | GF 2,000 per person. |
| 5.6.2 Tax on fire arms. | Annual tax paid by holders of firearms. Collected on behalf of local entities. | Exempted: sellers of firearms; arms used for sport or military training. | GF 225-2,000 per weapon, depending on the caliber. |
| 6. Taxes assessed by the National Customs Administration | | | |
| 6.1 Import fees and taxes. | | | |
| 6.1.1 Import duties [<i>Droits de douane à l'entrée - DDE</i>]. | Based on c.i.f. value of goods. | Imports of butane gas and agricultural tools and materials are exempted. 25 percent reduction for students' personal effects. FRIGUIA's imported fuel oil and other imported raw materials are exempted.-CBG's imports are subject to a flat rate of 5.6 percent (in lieu of the DFE and DDE). Medicines under Heading 30 are exempt if imported by approved wholesalers; or taxed at reduced rates | 7 percent, except for office machines, refrigerators, freezers, computers, exercise books and school material, and new motor vehicles are taxed at 2 percent. 6 percent for companies qualifying for exemption clauses under the Investment Code. |

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| Tax | Nature of Tax | Exemptions and Deductions | Rates |
|---|--|--|---|
| | | (DDE 2 percent, DFE 6 percent). | |
| 6.1.2 Fiscal import duties [<i>Droit fiscal à l'entrée - DFE</i>]. | Based on c.i.f. value of goods. | Goods subject to the DDE of 2 percent. Vegetable oil and wheat flour. | 8 percent. 6 percent for goods taxed at a DDE of 2 percent. |
| 6.1.2 Single Fiscal import duties [<i>Droit unique à l'entrée - DUE</i>]. | Based on the c.i.f. value of goods. | | 6 percent for raw materials. 5.6 percent for petroleum products and imports of mining companies during their exploitation phase; specific tax rates for cigarettes varying by brand |
| 6.1.3 Consumption surcharge [<i>Surtaxe de consommation - SC</i>]. | Surtax on luxury items or some goods that are also locally produced. | Exemptions provided under the Investment Code. Mixed-mining companies. | Variable rates. Beer and alcoholic beverages: 50 percent; flour and wines: 25 percent; soft drinks, games and leather products: 20 percent; video recorders, electrophones, mineral water: 10 percent. Used vehicles over 5 years of age: 10 percent; paints and plastic tubes: 5 percent; vegetable oils : 8 percent |
| 6.1.4 Value-added tax [<i>Taxe sur la valeur ajoutée</i>]- see 5.1. | Levied on the tax-inclusive value of imported goods | Rice, vegetable oils, school materials, medication | 18 percent |
| 6.1.5 Withholding tax on imports and government purchases [<i>Prélèvement forfaitaire</i>]. | Levied on all imports of individual businesses not submitted to the VAT and on all government domestic purchases. Tax payments are deductible from corporate tax (1.1.1.) or tax on individual businesses (1.2.4) returns, but cannot be reimbursed if the enterprise is loss making or did not file a tax return in time. | Importers registered at the national fiscal directorate (Direction Nationale des Impôts) | 3 percent. |

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| Tax | Nature of Tax | Exemptions and Deductions | Rates |
|---|--|---|---|
| 6.1.8. Centimes additionnels (CA) | Levied to the benefit of the Chamber of Commerce or the Chamber of Agriculture on the basis of the c.i.f. value of imports | | 0.25 percent |
| 6.1.9. Community levy (prélèvement communautaire – PC) | Taxes on exports. | 0.50 percent | |
| 6.2. Export fees and taxes. | | Exemptions for agricultural products and locally produced industrial products, including alumina. | 2 percent on all products. US\$13 for each ton of coffee. 3 percent for diamond and gold. |
| 6.2.1 Fiscal export duties [Droit fiscal de sortie - DFS]. | | | |
| 6.3. Other fees and taxes. | | | |
| 6.3.1 Transit fee [<i>Droit de transit - DT</i>]. | Applicable to unused merchandise subject to customs in international transit. | | 3 percent. |
| 6.3.2 Sealing fee, storage fee [<i>Droit de plombage, droit de magasinage - DP</i>]. | Applicable to merchandise circulating on national territory under suspensive regimes | | GF 1,000-3,000 per carton, GF 5,000 per transport truck.. |
| 6.3.3 Customs registration tax [<i>Taxe d'enregistrement en douanes - TE</i>]. | Levied on imports of projects benefiting from the Investment Code (c.i.f. value). | | 0.50 percent. |
| 6.3.4 Warehouse tax [<i>Taxe d'entreposage - TEN</i>]. | Applied to the c.i.f. value of all goods entering warehouses | | 1 percent. |
| 6.3.5 Assessment-processing fee [<i>Redevance de traitement et de liquidation - RTL</i>]. | Levied on c.i.f. value of all imported goods. | Does not apply to embassies, technical assistance under external finance; personal effects of NGOs; mixed mining companies. | 2 percent. |

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| Tax | Nature of Tax | Exemptions and Deductions | Rates |
|-------|---|---|---|
| 6.4 | Tax on mining products. | | |
| 6.4.1 | Special tax on mining products [<i>Taxe spéciale sur les produits miniers et dérivés - TSPM</i>]. | Levied monthly as an advance payment for aggregate taxes and dividends due by CBG (assessed by customs, collected by the central bank). <u>1/</u> | CBG (bauxite): US\$8-9 per ton depending on world prices; |
| 6.4.2 | Specific tax on consumed bauxite [<i>Taxe spécifique sur la bauxite consommée</i>]. | Levied monthly on the quantity of bauxite used by FRIGUIA <u>1/</u> to produce alumina. | FRIGUIA (alumina): US\$0.5 per ton of bauxite used to produce alumina (about US\$1.75 per ton of produced alumina). <u>1/</u> |
| 6.4.3 | Special tax on the turnover of SBK. | Withheld by the central bank at the time of payment for shipments | 30 percent of SBK's turnover (f.o.b. export value). |
| 6.5 | Tax on petroleum products. | | |
| 6.5.1 | Special tax on petroleum products [<i>Taxe spéciale sur les produits pétroliers - TSPP</i>]. | Added to duties, fees and taxes. Variable specific rates determined each month. | Exemptions provided under the Investment Code; Mixed mining companies. |
| | | | Fixed scale: GF355 for gasoline; GF 245 for diesel GF 135 for lubricant; GF 160 for kerosene. |

Source: Guinean authorities.