 January 2008
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Guinea: 2007 Article IV Consultation and Staff Report for the 2007 Article IV Consultation and Requests for Three-Year Arrangement Under the Poverty Reduction and Growth Facility and for Additional Interim Assistance Under the Enhanced Heavily Indebted Poor Countries Initiative—Staff Report; Staff Supplement; Staff Statement; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for Guinea

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2007 Article IV consultation with Guinea and requests for three-year arrangement under the Poverty Reduction and Growth Facility and for additional interim assistance under the enhanced Heavily Indebted Poor Countries Initiative, the following documents have been released and are included in this package:

- The staff report for the combined 2007 Article IV Consultation and Requests for Three-Year Arrangement Under the Poverty Reduction and Growth Facility and for Additional Interim Assistance Under the Enhanced Heavily Indebted Poor Countries Initiative, prepared by a staff team of the IMF, following discussions that ended on October 3, 2007, with the officials of Guinea on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 6, 2007. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A staff supplement on the joint IMF/World Bank debt sustainability analysis.
- A staff statement of December 21, 2007 updating information on recent economic developments.
- A Public Information Notice (PIN) and Press Release, summarizing the views of the Executive Board as expressed during its December 21, 2007, discussion of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.
- A statement by the Executive Director for Guinea.

The documents listed below have been or will be separately released.

Joint Staff Assessment of the Poverty Reduction Strategy Paper
Letter of Intent sent to the IMF by the authorities of Guinea*
Memorandum of Economic and Financial Policies by the authorities of Guinea*
Poverty Reduction Strategy Paper
Selected Issues Paper and Statistical Appendix
Technical Memorandum of Understanding*
*Also included in Staff Report

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

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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GUINEA

Staff Report for the 2007 Article IV Consultation and Requests for Three-Year Arrangement Under the Poverty Reduction and Growth Facility and for Additional Interim Assistance Under the Enhanced Heavily Indebted Poor Countries Initiative

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

Approved by Jean A.P. Clément and Mark Plant

December 6, 2007

Mission dates: July 5–18 and September 24–October 3, 2007.

Team: J. Le Dem (head), C. Geiregat, M. Gorbanyov, N. Le, and F. Nsengiyumva (all AFR); A. Benbrick (FAD expert); and A. Hilaire (resident representative). Mr. Rutayisire and Mr. Bah (OED) participated in policy discussions. The mission worked closely with overlapping missions from the World Bank.

Meetings: The mission met with President Conté; Prime Minister Kouyaté; Minister of the Economy, Finance, and Planning Doré; Governor of the Central Bank Bangoura; other ministers and senior government officials; and representatives of donors, the private sector, and civil society organizations.

Fund relations: The last Article IV consultation was concluded on December 23, 2005.

HIPC status: Guinea reached the decision point of the HIPC Initiative in December 2000 but has failed to meet the HIPC completion point triggers, including satisfactory performance under a PRGF arrangement.

PRGF arrangement: In the attached letter dated December 4, 2007, the authorities are requesting financial assistance under a three-year PRGF arrangement in the amount of SDR 48.195 million (45 percent of quota) in support of a program covering July 2007–June 2010. A memorandum describing the economic and financial policies for the first program year is attached to the letter.

Exchange system: The exchange system is a managed float with no predetermined path. Guinea has accepted the obligations of Article VIII, §§ 2, 3, and 4, of the IMF's Articles of Agreement. Guinea continues to have a multiple currency practice (MCP) arising from the absence of a mechanism to prevent a potential deviation of the exchange rate used by the central bank in its foreign exchange transactions from the exchange rates used by the commercial banks in transactions with their customers.

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Executive Summary

In 2006, worsening economic performance and stalled reforms led to general strikes and mass protests. Monetization of the budget deficit and extrabudgetary expenditure resulted in money supply expansion of over 80 percent. Economic growth slowed, inflation accelerated to the second-highest rate in sub-Saharan Africa, and international reserves fell to less than one month of imports.

In the second quarter of 2007, a new government came into office with a mandate for far-reaching reforms. The government initiated stabilization measures and launched a new Poverty Reduction Strategy (PRS-II) centered on improving governance that gained wide domestic and international support. Together with a return of confidence in the currency, the tightened fiscal and monetary policies halved inflation in less than six months.

Policy discussions focused on:

- ***Conditions for higher growth and poverty reduction***. The government needs to consolidate economic stabilization; improve the business environment; adopt best international practices (especially for the tax regime) to valorize Guinea's potential in the extractive industries; rehabilitate public utilities; and reinforce the country's economic institutions.

- ***Medium-term fiscal strategy***. Revenue collection needs to be boosted through tax administration measures, and prospective debt relief would create fiscal space for additional social and infrastructure investment spending. Public finance reform is a cornerstone for improved governance and transparency and a more effective fiscal policy.

- ***Exchange rate*****.** Foreign exchange market reforms and the buildup of foreign reserves should enable the central bank to maintain the floating exchange rate while smoothing daily exchange rate fluctuations. The real exchange rate does not seem to be inconsistent with external sustainability, assuming continued aid, debt relief, and prudent macroeconomic policies.

Staff supports the authorities' request for a three-year PRGF arrangement. The design of the PRGF-supported program is aligned with the PRS-II and is tailored to the circumstances that make Guinea a fragile state; the goal is to allow Guinea to establish the preconditions for sustained medium-term growth. Satisfactory completion of a solid set of prior actions (including safeguards-related measures), a high degree of program ownership, and broad support for the PRGF from Guinean authorities and civil society will help mitigate the short-term risks, but significant risks still remain. Successful performance will pave the way for the country to reach the HIPC completion point and benefit from MDRI, which would reduce the external debt burden to sustainable levels.

I. Introduction

1. **A new government was formed in March 2007 with a definite popular mandate for reform, after widespread and violent protests against rising inflation and poor governance early in 2007.** The government took immediate measures to re-establish control of economic policies and quickly launched a short-term recovery program. Its main objectives were to consolidate national unity and preserve peace; restore the rule of law and promote an independent justice system; restore macroeconomic equilibrium; promote good governance and reinforce administrative capacity; and mobilize resources for infrastructure development and basic services delivery.

2. **The government quickly initiated discussions on a recovery program.** A staff team visited Conakry in April–May 2007 to assess the economic situation and discuss the economic aspects of the recovery program. The scope of the stabilization measures and Prime Minister Kouyaté's stated commitment to reforms during a visit to Washington in June 2007 opened the way for discussions of a program that could be supported by the PRGF.

3. **A new Poverty Reduction Strategy (PRS-II) for 2007–10 was finalized in August 2007**.[1] It establishes good governance as the pillar of its strategy. The recovery program and the PRS-II received backing and financial support from the international community at a donor conference in Paris in July 2007, with part of the proposed medium-term financing made conditional on a Fund-supported program.

II. Background

4. **Despite a rich endowment of natural resources, Guinea is one of the world's poorest countries.** It ranks among the lowest on the Human Development Index and other standard indicators of development. Yet Guinea is estimated to house about one third of the world's known bauxite reserves,[2] and it also has an abundance of gold, diamonds, iron ore, and uranium. It also has yet to fully utilize its economic potential in agriculture, fishing, and forestry.

5. **Guinea's fragility has been exacerbated by governance problems and external factors, including regional instability.** Governance and doing business indicators in Guinea compare poorly with the average of sub-Saharan Africa (SSA) (Figures 1–2). The 2004 Ex Post Assessment (EPA) and the authorities' recent evaluation of the PRS-I, identified structural deficiencies and insufficient political support as the main obstacles that prevented the country from reaching its potential. Among the deficiencies are a poor business climate caused by endemic corruption, inadequate legal protection, unreliable public services, and lack of basic infrastructure; problems of absorptive capacity, notably for foreign-financed investments; and insufficient and ineffective decentralization. Conflicts in neighboring countries and adverse trends in external terms of trade have also contributed to the country's ills.

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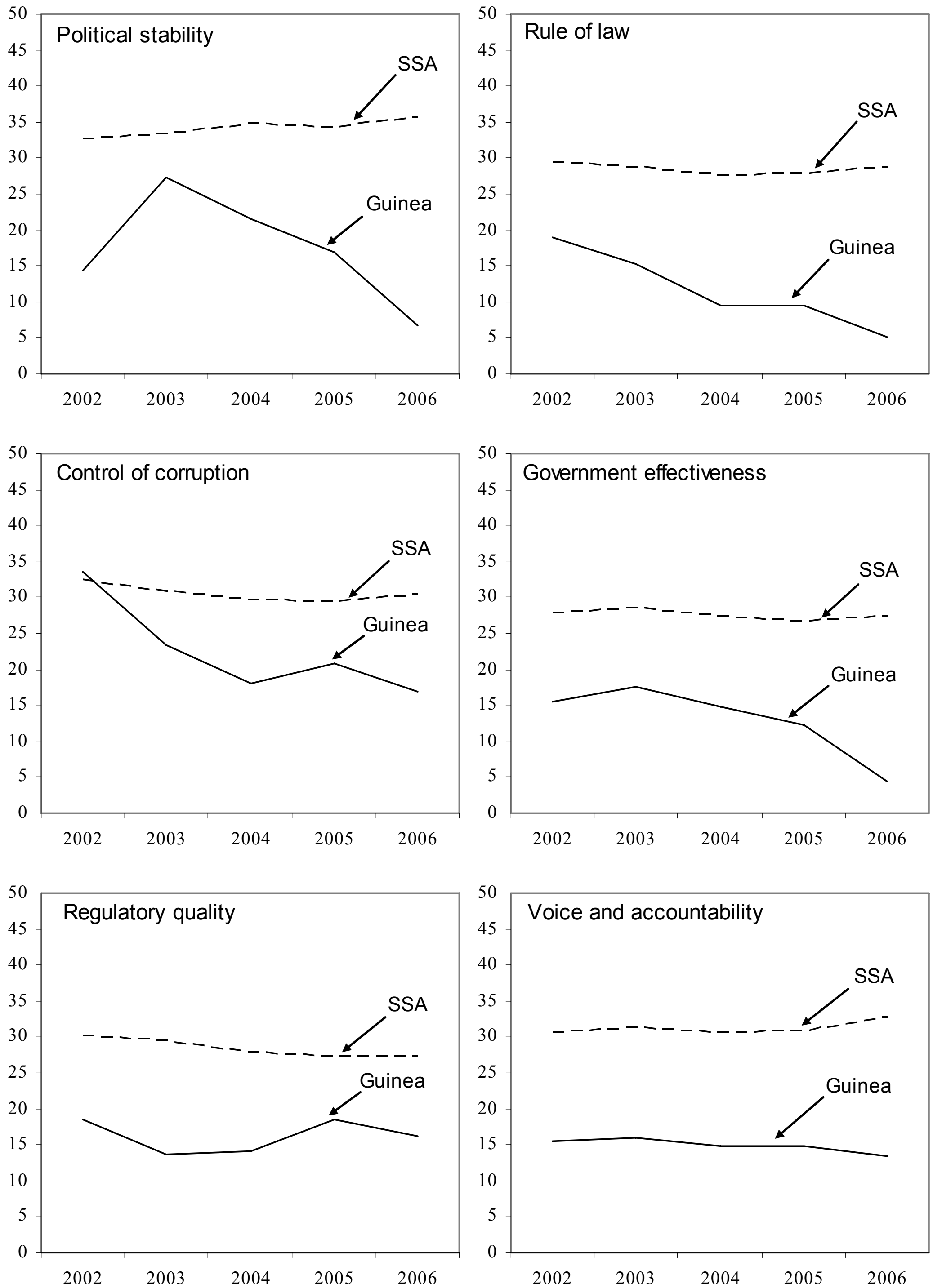
[1] The PRS-II document and the accompanying Joint Staff Assessment Note (JSAN) have been issued jointly with the staff report.

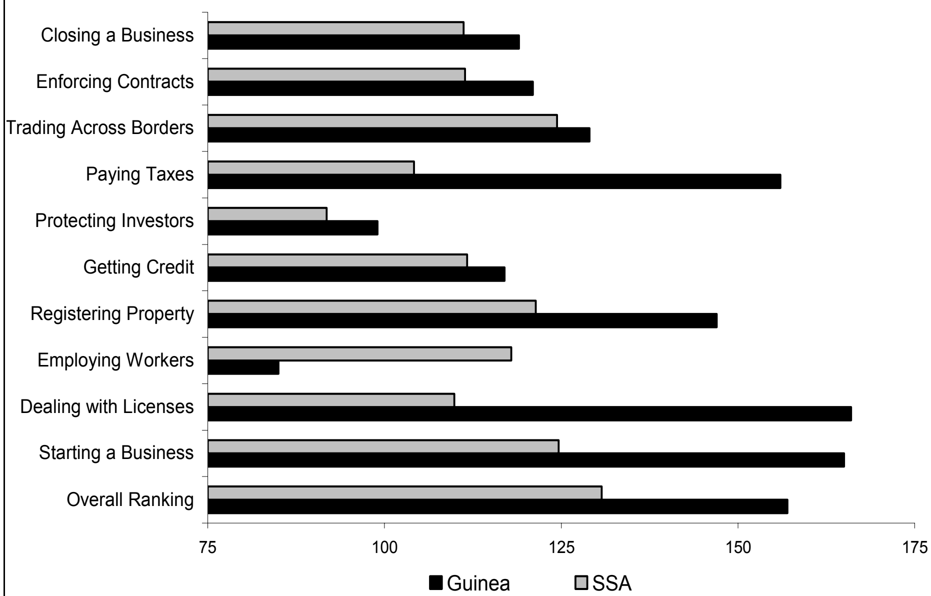
[2] For a detailed review of this sector, see the accompanying Selected Issues and Statistical Appendix.

Figure 1. Guinea: Key Governance Indicators, 2002–06
(Percentile rank)



Source: Kaufman, Kraay, and Mastruzzi (2007). "Governance Matters VI: Governance Indicators for 1996–2006" (available at: www.worldbank.org/wbi/governance).

Figure 2. Doing Business Indicators 2007: Guinea and SSA[1]



Source: World Bank (www.doingbusiness.org).
[1] Ranking out of a total of 175 countries.

6. **Poverty has increased since 2000, partly because macroeconomic performance has been weak**. The incidence of poverty rose from 49 percent in 2002 to 54 percent in 2005 and has likely continued to worsen. The quality of service delivery, especially in education, health, and public utilities, has also deteriorated. Among the few bright spots are the improvements since 1999 in primary school enrollment rates and vaccination rates of children, and the fact that Guinea has until now largely been spared the HIV/AIDS crisis that has ravaged other parts of SSA. The overall disappointing results (in particular in comparison with SSA) are due in part to stop-and-go macroeconomic policies that led to several episodes of high inflation and, incidentally, a reduction in foreign aid flows. Since 2000, growth has not been sufficient to keep up with population.

Text Table 1. Selected Indicators: Guinea and SSA, 1996–2006

	1996–99	2000–06
Real GDP growth		
Sub-Saharan Africa	3.5	4.7
Guinea	4.9	2.9
Inflation, change in average CPI		
Sub-Saharan Africa	19.4	12.8
Guinea	3.6	15.9
Central government grants (percent of GDP)		
Sub-Saharan Africa	3.8	5.0
Guinea	2.9	1.9

Sources: *World Economic Outlook* (October 2007) and IMF staff estimates.

7. **Guinea's performance on the staff-monitored program (SMP) from April 2005 through March 2006 was satisfactory, but the reform momentum could not be sustained.** The tightening of fiscal and monetary policies to some extent reduced inflation, but policy slippages in the last months of the program and the dismissal of the government in April 2006 slowed momentum and stalled the transition to a PRGF-supported program.

III. Recent Macroeconomic Developments

A. Developments in 2006

8. **The economic situation continued to deteriorate in 2006** (Figure 3). GDP growth slowed, and by year-end inflation reached 39 percent, the second-highest level in SSA. Higher inflation was accompanied by rapid depreciation of the Guinean franc. Oil import prices widened the external current account deficit despite rising prices for bauxite and alumina exports. The overall balance is estimated to have deteriorated by almost 2 percent of GDP, reflecting higher external debt obligations and lower disbursements on externally financed investments. Gross foreign reserves of the Central Bank (BCRG) amounted to only about half a month of imports by the end of 2006, and external arrears started to accumulate in the third quarter of the year.

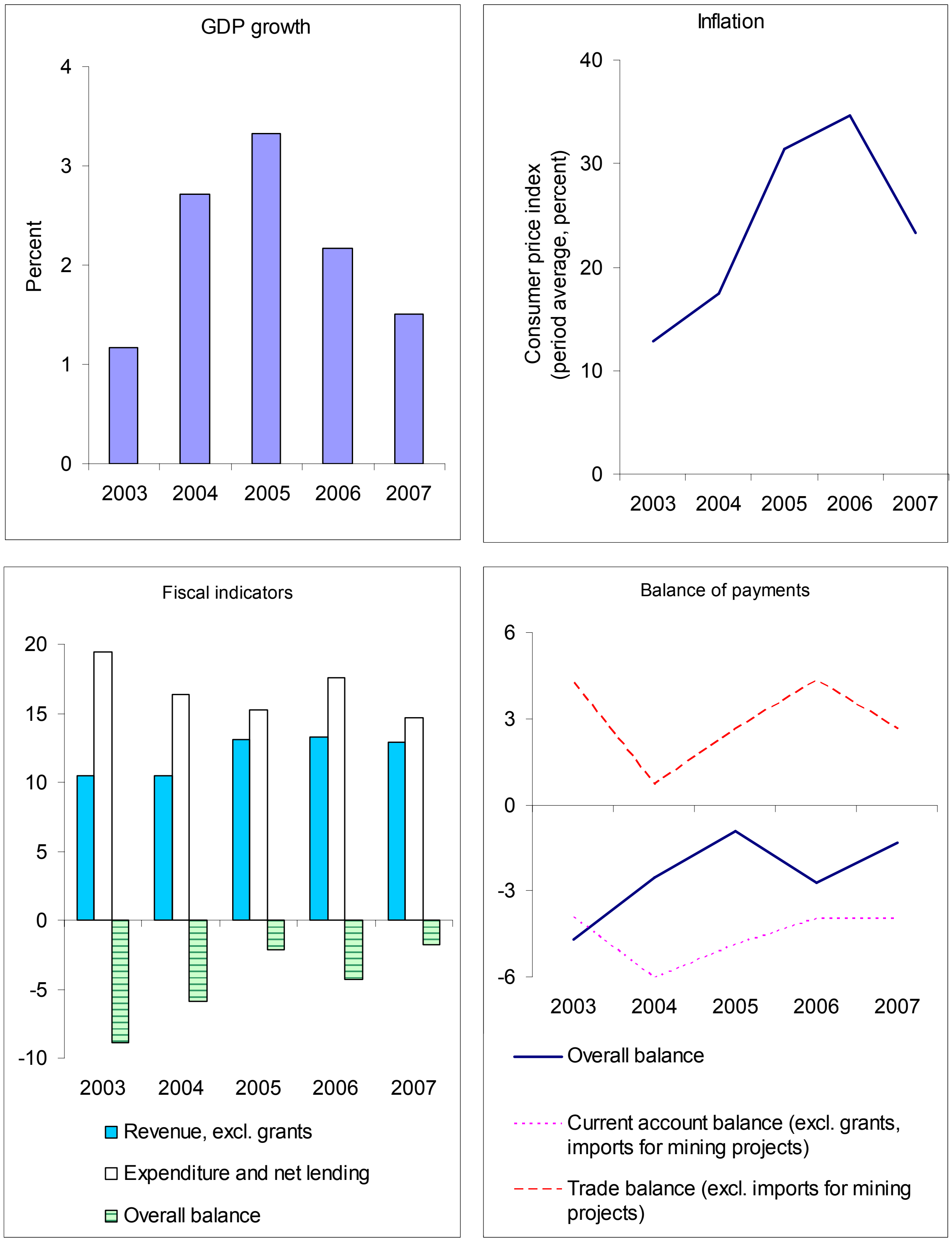
Text Table 2. Selected Economic Indicators, 2005–06

	2005 Est.	2006 Est.
	(Percentage change)	
Real GDP	3.3	2.2
CPI (end of period)	29.7	39.1
Monetary base	25.0	84.1
Nominal effective exchange rate	-38.0	-31.4
	(Percent of GDP)	
Balance of payments: overall balance	-0.9	-2.7
Government deficit (commitments)	-1.5	-2.9
Bank financing of the fiscal deficit	1.1	3.8

Sources: Guinean authorities and IMF staff estimates.

9. **The relaxation of fiscal efforts, compounded by a loose monetary policy, was the main cause of the economic deterioration**. As a result of overruns in current expenditure (including substantial off-budget "sovereignty" outlays), the overall fiscal deficit (excluding grants) deteriorated by more than 2 percent of GDP. The deficit was financed mainly by the BCRG and, to a lesser degree, by the accumulation of domestic and external arrears. This and the lack of enforcement of reserve requirements on bank deposits led to the rapid expansion of reserve money, fueling inflation and exchange rate depreciation.

Figure 3. Guinea: Selected Economic and Financial Indicators, 2003–07
(Percent of GDP, unless otherwise indicated)



Sources: Guinean authorities and IMF staff estimates and projections.

B. Developments in 2007 and Prospects for the Rest of the Year

10. **The general strike of early 2007 and the agreement that ended it, had a significant economic cost.** Several sectors of the economy, including services, were paralyzed for most of the two months of protests. The agreement signed at the end of February by the previous government, trade unions, and civil service organizations provided for measures to offset the negative impact of past inflation, including an increase in government worker compensation. It also featured a ban on exports of foodstuffs and fishing and forestry products, and a reduction in the retail price of petroleum products for the rest of 2007.

11. **Economic activity is expected to recover slowly.** Several sectors continue to be constrained by frequent power outages and low government spending. However, most mining companies were able to operate without significant interruption. Because of favorable weather conditions, prospects for agriculture have remained good, despite the ban on exports.

12. **In the six months through September 2007, the authorities pursued fiscal and monetary tightening to stabilize the economy.** Despite pressing social needs, the government decided to strictly contain spending within the government's monthly revenue envelope. This strict fiscal policy, which the budget law ratified in July 2007, is projected to lead to an improvement of 1.7 percent of GDP in the basic primary balance (excluding foreign-financed spending) in 2007. The stabilized government debt owed to the BCRG helped bring reserve money under control.

Text Table 3. Selected Economic Indicators, 2006–07

	2006 Est.	2007 Proj.
	(Percentage change)	
Real GDP	2.2	1.5
CPI (end of period)	39.1	15.0
Monetary base	84.1	11.9
	(Percent of GDP)	
Balance of payments: overall balance	-2.7	-1.3
Basic primary fiscal balance	1.3	3.0
Bank financing of the fiscal deficit	3.8	0.2
	(US$ millions)	
Underlying current account[1]	-106.2	-157.2

Sources: Guinean authorities and IMF staff estimates.

[1] Current account excluding imports from large mining projects.

13. **Strict economic management contributed to rapid disinflation and a strong appreciation of the local currency.** Twelve-month inflation decelerated to 17 percent by September and seems to be on track to reach the year-end target of 15 percent, despite food-related price increases. The Guinean franc appreciated by 40 percent in nominal terms in the first half of the year, supported by confidence in the new economic management team and discontinuation of BCRG purchases in the foreign exchange market.[3] As economic activity and imports resumed, some of the appreciation was reversed in the third quarter.

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[3] Moreover, the shortage of local currency banknotes in banks during the first months of 2007 brought foreign currency notes back to the foreign exchange market and helped boost the exchange rate temporarily.

14. **The external situation is still precarious; official reserves are low and external arrears are accumulating.** In 2007, the underlying current account deficit (excluding imports for large mining projects) is expected to further deteriorate in U.S. dollar terms, reflecting higher oil import prices and the ban on agricultural exports. Balance of payments developments have already led to a further drawdown on net international reserves to less than two weeks of imports at the end of September 2006, and a further buildup of external arrears, which were US$87.7 million at the end of September 2007, up from US$60 million at the end of 2006.

15. **The new government initiated far-reaching reforms to improve transparency, governance, and management of public resources.** To restore financial control, monthly expenditure ceilings were given to line ministries, automatic debits of treasury accounts by the BCRG were suspended, and extrabudgetary expenditures were prohibited, as were ad hoc tax or customs exemptions. The government initiated audits for most administrations, including the BCRG. It also ordered a review of several mining contracts to check their conformity with best international practices and the appropriateness of the government share in mining revenue, and implemented measures related to the Extractive Industries Transparency Initiative (EITI).[4] High-level staffing changes requested by the new government to improve efficiency and integrity in the public administration are pending.

16. **The authorities pushed forward with long-overdue reforms in the central bank.** In response to the preliminary results of an external audit, the BCRG and the treasury signed an agreement reconciling mutual claims and setting the repayment and debt service schedule. Recently, the BCRG revised some of its accounts to align them with the findings of a special audit of monetary data. It is also taking early steps to strengthen its accounting and internal control procedures, as recommended by the external audit and the recent IMF Safeguards Assessment (see Box 1). The new central bank governor, who was appointed in May 2007, is moving ahead with these reforms and has requested substantial technical assistance (TA) from the Fund.

[4] Guinea adhered to the EITI in 2005. The first EITI report auditing government revenue data from six mining companies for 2005 was published in October 2007. It found that payments reported by the authorities and the companies matched closely.

Box 1. Guinea: Safeguards Assessment Update for the BCRG

An update safeguards assessment of the BCRG completed in October 2007 confirmed the existence of critical weaknesses that pose a high risk to the safeguarding of Fund disbursements. Among the problems identified:

- The external auditor expressed an adverse opinion on the bank's 2006 financial statements noting that the accounts were inaccurate and incomplete. Key information was not made available to the independent auditor. The appointment of an external auditor was a recommendation of the 2002 safeguards assessment.
- Basic controls, especially for reserve management operations, are lacking.
- The BCRG Board was not given enough information to fulfill its oversight responsibilities (in particular, information from external audit findings and the Audit Committee were not made available to the BCRG Board).
- The BCRG lacks independence and has not been able to resist pressure from senior government authorities to bypass the control system for government payments and credit, resulting in breaches of the BCRG law and payments of sovereignty expenditures.

Strong mitigating measures were recommended by the safeguards assessment to address the systemic control breakdowns and help mitigate the safeguards risks that are related to a prospective Fund program. These measures aim to strengthen the BCRG's governance and oversight arrangements, begin the process of immediately addressing specific anomalies noted by the external auditor, and provide a basis to calculate monetary data used for quantitative performance criteria. Immediate actions include:

- Strengthen budgetary controls. The BCRG should not make any payments outside of approved budget procedures. In particular, it should not make any payments for the government without prior authorization from the minister of finance, economy and plan, or payments for the office of the Presidency outside of the approved budget spending procedures.
- Establish a separate account at the BIS to administer future PRGF disbursements.
- Publish the 2006 audited financial statements with the external auditor opinion.
- Complete a special audit of monetary program data for end-June 2007.

The special audit has already resulted in a substantial correction of foreign correspondent balances and the identification of other unexplained differences in these accounts. For example, the audit report has restated net foreign assets from negative GNF 25.9 billion (according to the BCRG) to negative GNF 82.9 billion, while also noting that they cannot confirm that all foreign liabilities have been reported.

IV. POLICY DISCUSSIONS

17. **Many recommendations of the 2005 Article IV consultation remain relevant for the current economic situation.** While these recommendations had little impact on actual policies until recently, the new authorities have promptly started to implement some of them, including the tightening of monetary and fiscal policies, and the strengthening of public finance management. Progress has started to be made on key other recommendations such as improving tax and customs administrations, enhancing institutional capacities of the central bank, intensifying reform of the public utilities and increasing flexibility of the retail petroleum prices.

18. The 2007 Article IV discussions focused on the central challenges for Guinea: (i) the medium-term macroeconomic framework for reducing poverty; (ii) short-term budget constraints and fiscal strategy; and (iii) monetary and exchange rate reforms.

A. Medium-term Framework and Poverty Reduction Strategy

19. **Authorities and staff agreed that the medium-term objectives are to continue stabilizing the economy through fiscal and monetary policies and to unlock Guinea's economic potential by facilitating private-sector involvement and pushing through structural reforms.** Growth in real output is projected to accelerate past 5 percent by 2010, creating the conditions needed to improve standards of living and reduce poverty. Year-on-year inflation is expected to gradually fall from 15 percent at the end of 2007 to about 5 percent in 2010.

Text Table 4. Medium-term Macroeconomic Framework: Selected Indicators, 2007–10

	2007	2008	2009	2010
		Proj.		
	(Percentage change)			
Real GDP	1.5	4.9	5.2	5.5
CPI (end of period)	15.0	10.0	7.0	5.0
Monetary base	11.9	14.5	...	...
	(Percent of GDP, unless otherwise indicated)			
Government revenues	12.9	14.3	14.9	15.5
Government expenditures	14.7	17.1	16.6	17.1
Primary current expenditures	8.7	9.3	9.2	9.1
Capital expenditures	3.9	5.5	5.9	6.6
Basic primary fiscal balance	3.0	3.3	3.8	4.1
Current account	-9.5	-12.8	-11.2	-12.5
Of which: Underlying current account[1]	-3.4	-4.5	-1.9	-2.3
Gross official reserves (months of imports)	0.4	1.0	2.1	3.0

Sources: Guinean authorities and IMF staff estimates and projections.

[1] Current account excluding imports from large mining projects.

20. **While the ambitious medium-term inflation targets seem achievable, staff stressed that it will be vital that the government continue to refrain from new central bank financing of the budget.** The prudent fiscal stance is anchored in consolidation of the basic primary fiscal balance, which is projected to increase to more than 4 percent of GDP by 2010. Monetary policy will complement the fiscal stance by keeping growth in the reserve money close to nominal GDP growth, which will create enough room to increase credit to the private sector.

21. **The consolidation of progress toward macroeconomic stabilization will contribute to the medium-term strengthening of Guinea's external position.** The underlying current account deficit is projected to increase to over 4 percent of GDP in 2008, mainly on account of the rise in imports (boosted by growth, rising international prices for petroleum and food products, and a projected increase in foreign-financed government investment). The deficit will however stabilize at a reduced 2-3 percent of GDP in the medium-term with the implementation of strict macroeconomic policies and the projected increase in mining and agricultural exports. Together with the expected debt relief, this would make possible the gradual buildup of gross foreign reserves to cover three months of imports by the end of 2010.

22. **Improving the institutions that affect the mining sector is critical for growth prospects to materialize**. Several mining projects, most notably for bauxite and its

transformation into alumina and iron ore, are among the largest in Africa; they could bring in up to US$27 billion in foreign direct investment (FDI) over the next eight years and boost export prospects. However, if that is to happen, the laws relating to mining must be clarified and modernized. The authorities are working with development partners to revise the 1995 Mining Code and adopt a model contract consistent with international best practices, especially for taxation. The model contract would also serve as a blueprint for the envisaged renegotiation of current and pending contracts.

23. **Of vital importance in the medium term is improving access to and the quality of public services, especially electricity delivery.** In the World Bank's 2006 Enterprise Survey, almost two-thirds of companies responding—about twice the average proportion in sub-Saharan Africa—identified the lack of reliable electricity supply as their main constraint. The economic recovery program has begun to address bottlenecks, and the PRS-II has set an ambitious goal for increasing access to electricity. The authorities are working with development partners to tap into the country's hydroelectric potential and to upgrade infrastructure to improve the performance of *Électricité de Guinée* (EDG). The authorities also have committed to placing EDG on a sound financial footing by improving management and introducing performance contracts, paying bills promptly, eliminating cross-debts, and adopting appropriate tariff policies.[5] They are considering a similar commitment for the water sector.

Text Table 5. Access to Electricity and Water

	2002	Objective	Year
Electricity	18.8%	65.0%	2010
Water	62.3%	92.8%	2015

Source: Guinean authorities (PRSP-II).

24. **Staff argued that price controls were costly and ineffective in controlling inflation, and removing the ban on some exports should not be delayed.** The reduction in the retail price of petroleum products that was decided in early 2007 carried substantial and unsustainable opportunity costs for the government budget (especially in light of rising world oil prices, which also spurred illegal re-exports to neighboring countries) and the balance of payments.[6] The ban on agricultural, forestry, and fishing exports does not have obvious short-term gains for inflation, compounds Guinea's external position, and might adversely affect farmers' incomes, especially the poorest.[7] These sectors have significant growth potential, their development would diversify the export base and increase employment opportunities

[5] According to the World Bank, EDG's losses from transmission and distribution were approximately 60 percent of production in 2004–05, and about 25 percent of bills are uncollected. The combined potentially foregone revenues amounted to US$42 million in 2004.

[6] A temporary subsidy scheme for rice imports was also implemented on social grounds in September–October 2007.

[7] The ban has already been lifted for some products that are not consumed locally.

for the poor. More broadly, staff emphasized that such controls may not succeed in protecting the poor from adverse developments, whereas well-targeted subsidies would offer superior and more cost-effective alternatives.

25. **A low-income country external debt sustainability analysis (LIC-DSA) confirms that Guinea's external debt is unsustainable without HIPC and MDRI debt relief** (see DSA Supplement)**.** Based on debt at the end of 2006, the DSA finds that the country is in debt distress. Even though external debt declined somewhat in 2005–06, it remained above 100 percent of GDP; full service of the external debt alone would have consumed as much as 53 percent of revenues. Assuming that Guinea reaches the HIPC completion point at the end of 2008, full relief would reduce the NPV of debt by about 60 percent—putting it below the policy-based thresholds—though the outcome would be vulnerable to exogenous shocks. This argues in favor of a prudent external debt strategy that relies on grants and concessional financing.

B. Fiscal Strategy

26. **Mobilizing more revenue will be crucial if Guinea is to reach its fiscal deficit objectives.** Revenues would need to reach 15.5 percent by 2010, an increase of more than 2 percentage points from 2007. Part of this increase will come from the projected expansion of mining production,[8] but the bulk will come from nonmining revenues. This can be achieved by enhancing the financial and human resources devoted to revenue collection; making the tax and customs directorates more accountable; enlarging the tax base; and improving enforcement, particularly through tighter control over exemptions.

27. **Debt relief is expected to create the room needed for poverty-reducing spending.** Total government spending is projected to stabilize at about 17 percent of GDP, but its composition will move away from interest payments on external debt toward priority capital spending. Public investment is projected to increase by 3 percent of GDP through 2010, consistent with the PRS-II objective of catching up on basic priority and growth-enhancing infrastructure.

28. **The authorities' wish to catch up on civil service employment and wages is addressed within a moderate increase in primary current spending over the medium term.** Noting substantial hiring needs in social sectors and government remunerations that are low by international standards, the authorities argued for a significant upfront increase in wages and job creation. While finding merit in the argument, staff stressed that such increases should be implemented in the context of carefully crafted sectoral medium-term expenditure frameworks (MTEFs), and weighed against inflation risks and budgetary constraints. It recommended that priority be given to merit-based remuneration (to strengthen personnel management) and to moving more forcefully against ghost workers.

[8] The planned tax audits of several mining companies could also bring in more revenue.

29. **Reform of public financial management (PFM) is a cornerstone of the strategy to improve governance, transparency, and the effectiveness of fiscal policy.** Staff welcome the authorities' intention to draft a comprehensive multiyear action plan based on a recent Public Expenditure and Financial Accountability (PEFA) assessment and Fund TA recommendations. It should cover budget preparation and approval (based in part on the planned introduction of functional budget classification); budget execution procedures; decentralization issues; ex ante and ex post controls; information sharing (especially between the central bank and the government); debt management systems (including tracking the stock of domestic debt, assessing arrears claims, and eliminating cross-debts); and liquidity management (such as reinstating a single treasury account). Staff encourages the authorities to adopt sectoral MTEFs that translate the PRS-II priorities into budgetary allocations for key ministries. This would improve multi-year planning of investment projects and their recurrent component, and help identify and remove bottlenecks in the execution of programs.

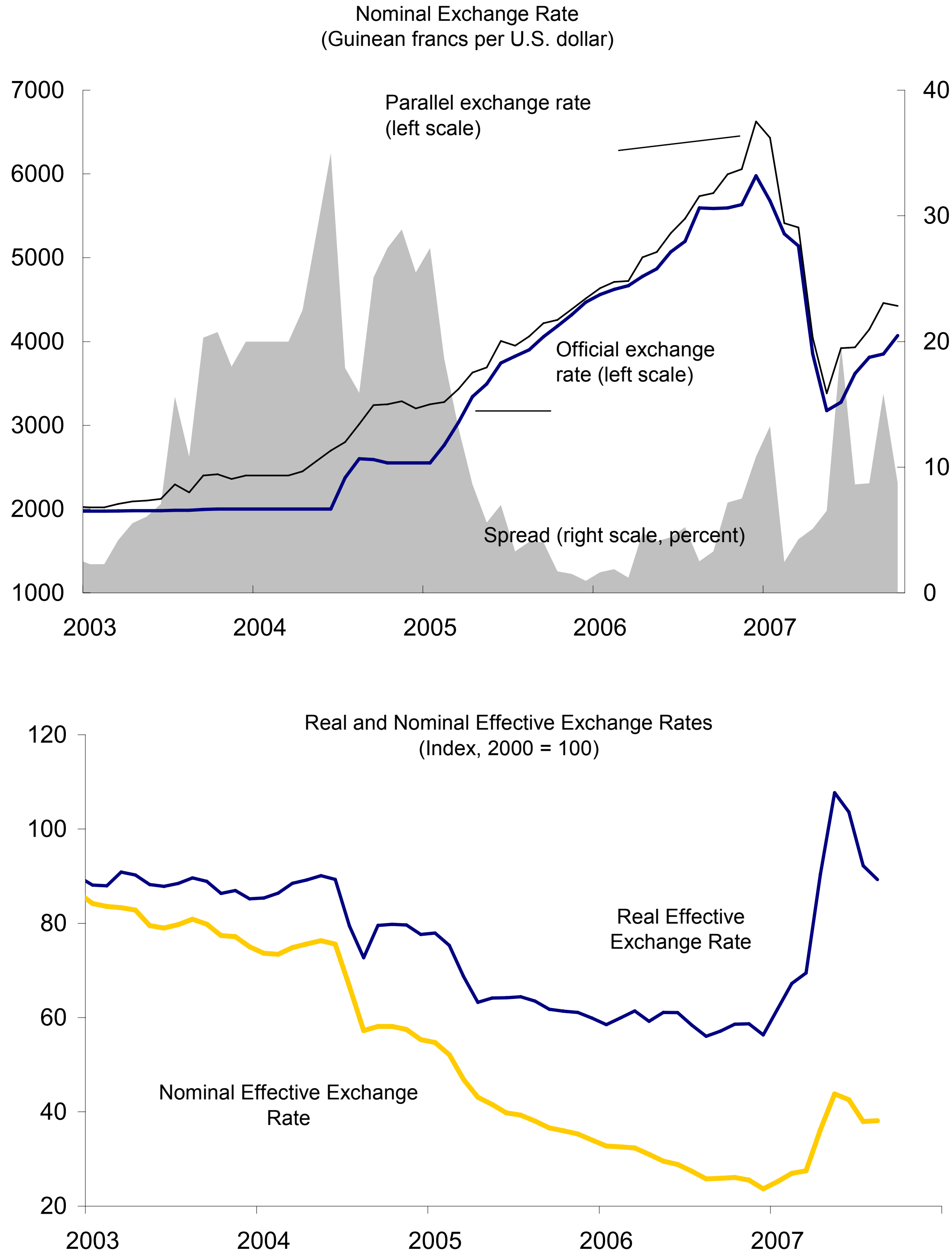
C. Monetary and Exchange Rate Policies and Financial Sector Reforms

30. **The authorities agreed that the causes of inflation were mainly monetary and that, against the backdrop of a floating exchange rate, reserve money should be the nominal anchor.** Reserve money grew by an average of 31 percent for 2000–06 and by more than 80 percent in 2006. The growth in reserve money encouraged lax fiscal policies through, among other things, unsterilized purchases of foreign exchange for quasi-fiscal operations, which undermined the value of the currency and fueled inflation and dollarization. In recent years, dollarization itself has reinforced the pass-through impact of international price increases to domestic prices.[9] To reverse these trends and achieve low single-digit inflation in the medium term, the BCRG will need to strictly align reserve money growth with nominal GDP.

31. **Staff reviewed the classification of the exchange rate regime as a managed float with no predetermined path.** Guinea adopted a floating exchange rate regime in 2005. Since then, there have been large swings in the official exchange rate against the dollar (Figure 4). When the BCRG at times attempted to resist downward pressures through administrative measures, the premium on the parallel exchange rate market widened. While acknowledging that large swings were detrimental to the economy, the authorities concurred that the floating regime was appropriate and that progress toward exchange market reforms and continuing prudent macroeconomic policies should help re-establish the bank's capacity

[9] This is discussed in Gorbanyov, "The determinants of inflation in Guinea", IMF Working Paper (forthcoming).

Figure 4. Guinea: Nominal and Real Exchange Rates, 2003–07



Sources: Guinean authorities and IMF staff estimates.

to smooth daily fluctuations. Following the BCRG decision to eliminate its administrative measures, the parallel market premium narrowed to about 4 percent at end-October 2007.

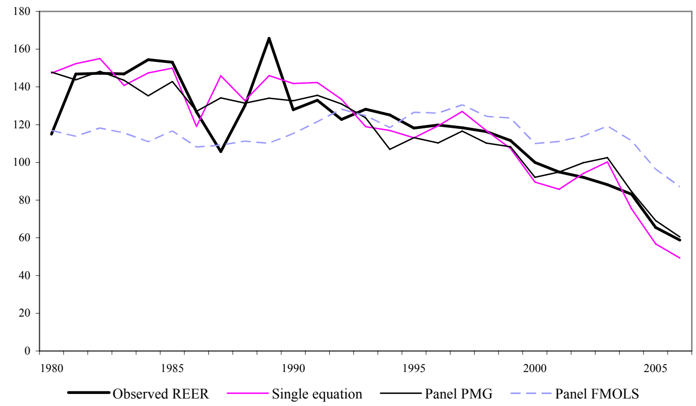
32. **While volatility and continuing structural changes make it difficult to assess the equilibrium level of the exchange rate, the most recent exchange rate level seems appropriate for external sustainability assuming continued aid, debt relief, and prudent macroeconomic policies**. The real exchange rate have steadily deteriorated for the last 25 years. Although standard econometric approaches do not provide a clear view of the fundamental reasons for this depreciation trend (Box 2), it is likely to reflect a vicious circle initiated by structural impediments (including poor governance, weak export performance, uncontrolled aggregate demand driving imports) leading to depletion of official reserves and the accumulation of external arrears, lost confidence in the local currency and rising dollarization. All these factors further depreciated the exchange rate and accentuated the external debt overhang. Attempts to break this vicious circle, including in the context of the HIPC Initiative, were derailed by external (regional conflicts) and domestic (political instability) factors. The appreciation of the real effective exchange rate since the beginning of 2007 is a significant deviation from this trend. However, rather than reflecting a temporary deviation from an uncertain equilibrium exchange rate, it may instead signal increased market expectations of a structural shift toward successful stabilization and reform, external support and debt relief, and foreign direct investment (FDI).

33. **Staff and authorities concurred that Guinea's financial sector, although generally sound, is underdeveloped and will need considerable attention in the medium term to boost its contribution to growth.** Banks seem to have been resilient to recent macroeconomic shocks, including the volatile exchange rate: commercial banks continued to meet minimum capital requirements, and their foreign exchange exposure stayed within prudential limits. However, the BCRG should more vigorously enforce other prudential limits, such as those related to loan concentration, mainly by strengthening onsite supervision. The BCRG also plans to better supervise microfinance institutions to ensure in particular that they comply with the microfinance law adopted in November 2005. Apart from stability issues, the authorities wish to draw up a medium-term strategy of reforms in the financial sector in order to move away from a largely cash-based economy, address dollarization issues, and create financial instruments for the private sector beyond external trade operations. Guinea's participation in the Financial Sector Assessment Program (FSAP), for which the country applied recently, would provide useful information on which to base the strategy.

Box 2. Estimating the Equilibrium Real Exchange Rate (ERER)

Based on three ERER models, the real effective exchange rate (REER) is in relative equilibrium in 2006, as its gradual depreciation from 1980 through 2006 appears to reflect changes in fundamentals.[1] However, ERER estimates for 2006 (and hence the sign and magnitude of the REER deviation from equilibrium) are subject to substantial uncertainty.[2] **In at least one ERER model, the REER appears undervalued as of end-2006, which would imply that the appreciation observed since end-2006 would not lead to an overvaluation.**

Actual and Equilibrium Real Effective Exchange Rates (REER), 1980–2006



Source: IMF staff estimates, and Chudik and Mongardini (2007). PMG refers to the panel data Pooled Mean Group Estimator, and FMOLS to the panel data Fully Modified OLS estimator.

More fundamentally, the REER appreciation may reflect market anticipations of a regime shift that the backward-looking ERER methodology does not capture. The brisk appreciation of nominal and real exchange rates in the first half of 2007 was due in part to "announcement effects" after the strikes; it has since been partially reversed. However, the enhanced credibility of structural policy changes within the context of a program relationship, the anticipation of debt relief and improved donor relations, and prospects of mining exports increasing as a result of major investments may all have contributed to a more appreciated exchange rate.

[1] The methodology uses the single-equation and panel data approaches described in Chudik and Mongardini (WP/07/90). For the single-equation estimation, the observed change in the REER over the period is found to be due primarily to an increase in government consumption (as a percentage of GDP) relative to the weighted average for trading partners. This increase is assumed to reflect a shift toward the consumption of tradable goods, which would cause the ERER to depreciate. The contribution to the decline in the ERER of other standard variables, such as terms of trade, relative productivity, or debt service (as a percentage of exports) is either negligible or not significant.

[2] For example: when measured against the ERER based on the single-equation estimation, the 2006 REER was 19.4 percent overvalued, whereas it was 32 percent undervalued against the panel FMOLS estimation.

V. Program

34. **The objectives of the program are to (i) consolidate macroeconomic stabilization; and (ii) strengthen institutions and policies to establish the preconditions for sustained higher growth and poverty reduction.** The design of the PRGF-supported program is consistent with the PRS-II and is tailored to the circumstances that make Guinea a fragile state. The objective of the first program year is to stabilize the economy through appropriate monetary and fiscal policies while putting in place basic governance structures and laying the foundation for private-sector-led growth. The program would also help the

country strengthen rapidly its external position through external support and debt relief. Once basic controls have been put in place, the focus of the program would shift towards the deepening of reforms, particularly to improve the quality of public services and policies, and to facilitate the smooth functioning of markets. The exact content of the program in the outer years will be shaped by Fund TA, notably in the areas of tax administration, PFM, and financial sector reforms.

A. Economic and Financial Program for 2007–08

Fiscal policy

35. **Fiscal policy in the second half of 2007 will remain tight.** The fiscal deficit objective is consistent with the 2007 budget. Despite the negative impact on revenue of the January–February strikes and tax losses generated by the administrative lowering of petroleum prices, the government projects only a 0.4 percent reduction in total revenue to the equivalent of 12.9 percent of GDP in 2007. The revenue outcome over the first nine months of this year indicates that this is achievable.[10] Spending picks up relative to the first half of the year with the resumption of normal government activities. However, for the year as a whole, expenditures (except those financed from abroad) are projected to drop significantly as a percentage of GDP to avoid any new central bank financing and to keep other bank financing to about 0.5 percent of GDP.

36. **The 2008 budget is tailored to the objectives of consolidating economic stability and addressing pressing development needs**. In contrast to past practices, the submission of the draft budget to Parliament in early October was timely. That makes good on the authorities' commitment to strengthen democratic debate and oversight of government policies. The draft maintains a prudent fiscal stance by abstaining from BCRG financing and projecting an increase in the basic primary balance to 3.3 percent of GDP. Revenues are projected to increase to 14.3 percent of GDP, mainly drawing on the nonmining sectors. The ambitious revenue targets also reflect a return to normal revenue collection after the turbulent months of early 2007, including the gradual resumption of the automatic petroleum pricing mechanism

Text Table 6. Financial Operations of the Government, 2006–08

	2006	2007	2008
	Est.	Proj.	
	(Percent of GDP)		
Revenue	13.3	12.9	14.3
Of which: nonmining sector	9.2	9.5	10.7
Total expenditures	17.6	14.7	17.1
Of which: salary and wage	2.7	3.2	3.7
capital expenditures	4.1	3.9	5.5
Basic primary fiscal balance	1.3	3.0	3.3
Overall balance, commitments basis	-2.9	0.3	-1.2
Financing	2.9	0.1	-5.4
Domestic financing	3.6	0.5	-0.7
Of which: central bank	5.6	-0.3	-0.4
commercial banks	-1.8	0.5	0.8
External financing	-0.7	-0.5	-4.7
Financing gap		0.0	6.6
Identified possible financing		0.0	6.0

Source: Guinean authorities and IMF staff estimates and projections.

[10] Fiscal revenues as of end-September 2007 exceeded projections, on account of buoyant non-mining revenue performance. This may indicate that economic activity is returning to normal.

(MEFP ¶47, a performance criterion).[11] They are further supported by efforts to broaden the tax base and improve revenue collection (the budget makes significant financial resources available to the revenue agencies). On the expenditure side, investments in basic infrastructure are projected to increase substantially. The increase in the wage bill reflects additional hiring, notably in the education sector; a uniform 10 percent increase in base wages; and targeted salary incentives. Spending in general is biased toward priority areas.

37. **On the revenue side, the emphasis will be on modernizing the tax and customs directorates and reducing exemptions.**[12] Modernization of the two revenue agencies will be accelerated, in part by signing and enforcing performance contracts for managers and establishing mutual collaboration, including exchange of data. Current tax and customs exemption regulations will be monitored and strictly enforced; meanwhile, they will be critically reviewed, especially those related to the investment code. Although revenues from mining could also accelerate, this would depend on the outcome of the planned audits of mining companies, the adoption of a new model contract and the ongoing renegotiation of several existing contracts, and progress with the development of the large projects. However, given the uncertain outcome of these developments, staff concurred with the authorities that forecasts for mining revenues should be kept conservative and progress should be reassessed in future reviews.

38. **The authorities will finalize a strategy and three-year PFM action plan before 2008 and will appoint a steering committee to ensure follow-up and accountability.** This strategy and its action plan will build on the recommendations from recent Fund TA missions. Measures for the first year of the program include:[13]

- ***Budget preparation****:* revising the budget nomenclature to make it possible to track poverty-reducing spending; and promptly preparing key sectoral MTEFs (in the health and education sectors particularly) and a medium-term budget framework to ensure that 2009 budget allocations reflect PRS-II objectives. These measures would also contribute to gradually increase Guinea's capacity to absorb foreign-financed investments.

- ***Budget execution****:* continuing to prohibit off-budget spending; publishing a list limiting the spending allowed under exceptional budget procedures; eliminating private bank accounts of public entities; and reconciling personnel and payroll files.

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[11] This measure is projected to raise tax revenue by about 1/4 percentage of GDP in 2008.

[12] See details in the MEFP: ¶24, ¶29, and Box 1.

[13] See details in the MEFP: ¶30–34, and Box 2.

- ***Accounting, audit, and financial information**:* adopting improved government accounting standards; and periodically reconciling treasury account balances with those of the BCRG.

- ***Revising the regulatory framework*** (including the charter budget law) to reflect the planned reforms.

Monetary and exchange rate policies

39. **A prudent monetary stance will complement efforts to stabilize the economy and improve foreign reserves.**[14] For end-2007, the program seeks to limit the growth rate of reserve money to about 12 percent, well below nominal GDP growth, to harness inflation pressures and offset the excessive liquidity that built up in 2006. For 2008, reserve money growth will be limited to about 15 percent, broadly in line with nominal GDP growth rates. At the same time, the BCRG plans to increase its international reserves to one month of imports. To do this, reserve requirements on bank deposits must be strictly enforced, and liquidity management firmed up by making the liquidity committee more efficient (MEFP, ¶36).

40. **The floating exchange rate will be maintained, with appropriate central bank interventions.** Continued stabilization efforts and improved management are necessary to restore BCRG capacity to smooth the erratic daily fluctuations that have been observed in recent months. All BCRG interventions on the foreign exchange market will be fully transparent and conducted only through commercial banks.

41. **Building an interbank foreign exchange market and enhancing the BCRG capacity to manage foreign exchange and reserves are essential to achieve program objectives**. The BCRG will bring the management and internal controls on foreign exchange operations up to international standards (as the safeguards assessment update report recommends), including establishing oversight mechanisms and implementing segregation of duties in the area that manages foreign reserves. It will also clarify foreign exchange regulations and enforce them, especially those related to repatriation of export proceeds; and will reorganize and modernize the foreign exchange department, beginning with formulation of procedures for intervention in the interbank foreign exchange market.

42. **Staff discussed with the authorities ways to eliminate the existing multiple currency practice (MCP).** The authorities proposed to establish the official exchange rate as the interbank market rate once there is one, which would eliminate the MCP. Meanwhile, the central bank intends to use the official exchange rate only for accounting purposes and to make all its foreign exchange transactions at the prevailing market rate in commercial banks'

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[14] The monetary data on which the program is based reflect the end–June 2007 data revisions that were recommended by the external auditor.

transactions with their customers on the previous day (MEFP, ¶39). While this measure would improve transparency in the determination of the exchange rates used by the central bank, staff determined that this measure would not eliminate the MCP unless the calculation of the prevailing market rate is based on the same day's rates, which the central bank considered technically difficult to implement.

Other structural reforms

43. **The government is working to improve Guinea's business environment by promoting transparency and good governance, implementing structural reforms in the utility sector, and improving conditions for investing in the mining sector.** Key measures include:[15]

- Implementing the anti-money-laundering law Parliament passed in 2006 and publishing the activity report of the national agency for the fight against corruption;
- Submitting a draft anti-corruption law that will mandate that high officials declare their assets;
- Lifting the ban on exports of agricultural, forestry, and fishing products (a structural performance criterion);
- Reinvigorating the privatization program;
- Setting benchmarks to improve the performance of the electricity and water companies (notably for operational performance and technical and commercial losses) and conducting a tariff study;[16] and
- Finishing the draft of the standard mining contract and exploring ways of aligning current mining contracts with the standard mining contract.

External sector policies

44. **The program assumes treatment of all external arrears.** At present, Guinea is current with its obligations to all but one multilateral creditors; it has obtained financing assurances from the European Commission regarding the remaining arrears on a European Development Fund loan managed by the European Investment Bank. Paris Club creditors

[15] For a detailed description, see MEFP: ¶43–48.

[16] If necessary tariff rate adjustments will be made on an urgent basis in early 2008 so that the risk of quasi-fiscal losses from those enterprises is minimized (MEFP, ¶44).

have recently provided financing assurances for the forthcoming PRGF-supported program and signaled their willingness to renegotiate all outstanding payment arrears. The government has also proposed in writing to private creditors to renegotiate outstanding payment arrears in the context of the forthcoming program.

45. **The authorities intend to avoid any recourse to nonconcessional loans during the program.**[17] The government has signed two loans totaling US$28.5 million on close-to-concessional terms to improve public transportation and reconstruct the electricity grid, and has also guaranteed a short-term credit line for €25 million for equipment and repairs for the national electricity company. The government explained that it had to find financing urgently because the social situation was deteriorating; it has decided to abstain from raising new short-term or nonconcessional loans with the prospect of a PRGF arrangement nearing.

46. **A new PRGF arrangement with the Fund would support the country in overcoming protracted balance of payments problems, and could unlock interim HIPC assistance and pave the way for debt relief.** Disbursements would help improve the precarious foreign reserves situation and support the country's debt repayment capacity (including to the Fund) while structural policies are put in place. The PRGF arrangement would be catalytic, since delivery of interim HIPC assistance from the IMF and other donors may resume as soon as the new PRGF arrangement is in place. The authorities have requested the third tranche of interim HIPC assistance in the amount of SDR 4.848 million corresponding to 20 percent of the total IMF commitment. The interim HIPC assistance will cover eligible debt service falling due to the IMF over the next 12 months. Taken together, these would eliminate most of the financing gap of the balance of payments in 2008. Furthermore, if performance on the new PRGF arrangement is satisfactory, Guinea could reach the HIPC completion point and benefit from the MDRI as early as the end of 2008.[18]

B. Program Features, Monitoring, Risks, and Safeguards

47. **The authorities have requested a three-year PRGF arrangement.** New disbursements would be equal to 45 percent of quota, consistent with Guinea's status as a fourth-time PRGF user. This access is justified by Guinea's medium-term balance of payment needs and the strength of the program, and is consistent with its projected capacity to repay the Fund (Table 6). Disbursements would be phased in equal semiannual tranches once reviews are completed (Table 9). The first review would assess performance on the criteria for end–2007. The program would be monitored by quantitative performance criteria on the

[17] The minimum degree of concessionality under the program is 35 percent.

[18] According to preliminary assessment, Guinea would need to meet three remaining triggers to achieve the HIPC completion point. The country would need to successfully implement the PRS-II for at least one year; have a track record of six months of satisfactory performance under the PRGF; and satisfy the condition on audits of large procurement contracts, together with the publication of their results.

basic primary fiscal balance, net domestic assets and net international reserves of the central bank, nonconcessional borrowing, short-term external debt, and external arrears.

48. **The proposed prior actions and structural conditionality fall within the Fund's areas of expertise and are critical to achieving the economic objectives and mitigating risks to the program**. A large proportion of the structural conditionality is related to the implementation of the safeguard assessment recommendations. The remainder is related to actions aimed at regaining control of the budget, and ensuring that the 2008 government revenue and official reserves targets can be reached.

49. **Adverse external developments, resistance from vested interests against reform, and the fragile social environment are the main risks to the program.** External risks include further increases in world petroleum prices, a drop in world prices for aluminum and gold, and regional insecurity. Government changes after the pending parliamentary elections (yet to be scheduled) and renewed social unrest, particularly in the military, may elevate the risk of fiscal slippage and slow reform.

50. **Satisfactory completion of a solid set of prior actions,[19] a high degree of program ownership, and broad support for the PRGF from Guinean authorities and civil society mitigate the short-term risks.** The timely implementation of prior actions was an early indication of commitment to the program. Many structural and financial measures that the program envisages originated with the authorities, thus attesting to program ownership. Many high-ranking government officials, including the president and prime minister, and civil society leaders have declared their support for the program objectives.

51. **The BCRG will continue to implement the recommendations of the recent audits and the safeguards assessment update.**[20] The BCRG is taking steps to improve financial governance and strengthen internal accounting and control procedures (Box 1), including reconstructing its accounting records to reflect the findings of the external audit of the 2006 accounts. It will also submit to Parliament by the end of June 2008 a draft law to modify the BCRG statutes to increase its independence and limit its financing of the budget (a structural performance criterion). The quantitative performance criteria on net international reserves and net domestic assets of the central bank would be verified by an independent external auditor until staff determine that controls are adequate. Similarly, the BCRG would retain future PRGF disbursements in a separate account at the Bank of International Settlements (BIS) that would be subject to strict internal approval and independent audit verification. Guinea would continue to keep enough in its SDR account to cover forthcoming obligations to the Fund.

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[19] See MEFP: Table 1.

[20] For details, see ¶42 and Tables 1 and 2 of the MEFP.

C. Technical Assistance and Statistical Issues

52. **A multiyear program of Fund TA to support performance on the program is in place.** Fund TA will help the BCRG in a number of areas, ranging from accounting and internal controls and audits to monetary policy and foreign exchange market reforms. The Fund will also provide TA on tax administration, PFM reforms, and statistics. Fund TA is coordinated with the World Bank and other donors TA in several areas, including central bank reform, PFM, and mining taxation.

53. **The economic data are adequate for surveillance and program monitoring, but need substantial improvement.** The authorities are moving to make macroeconomic statistics more robust. Following Fund recommendations, the national accounts data are being revised, starting from 2003.[21] Monetary data have been amended, reflecting revisions in the BCRG balance sheet that the recent external audits recommended. Fiscal statistics, notably the tracking of poverty-reducing spending, should improve soon, after a functional classification for budgetary expenditures is introduced as planned. With Fund TA, the authorities are also expected to step up efforts to improve balance of payments data.

VI. Staff Appraisal

54. **After a satisfactory but short-lived policy track record, the authorities lost control of the economy in 2006 as governance weakened in most areas.** Significant extrabudgetary spending financed directly by the BCRG fed a large monetary expansion. As a result, the exchange rate plummeted, inflation reached the second-highest level among African countries, the BCRG lost most of its foreign exchange reserves, and payment arrears accumulated. The popular protest against these policies that culminated in early 2007 with strikes and demonstrations opened the way to a reform-minded government.

55. **Over the past eight months the authorities have engineered an impressive policy shift toward macroeconomic stabilization, transparency, and good governance.** The restoration of tight control on budget execution and the elimination of central bank financing of the deficit have halted monetary expansion. Together with a return of confidence in the currency, these policies halved inflation in less than six months. At the same time, the new authorities have begun to improve governance, notably at the BCRG and in the mining sector; initiated audits throughout the public sector; and launched an emergency program that received strong international support.

56. **The new poverty reduction strategy has the appropriate priorities, most notably governance.** As noted in the JSAN, however, successful implementation will require the design of well-prioritized action plans in critical areas, and close monitoring and evaluation.

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[21] Revised national accounts data are expected to be discussed with staff and eventually incorporated into the macro framework during the first program review.

57. **Forceful and steady implementation of sound policies can boost Guinea's growth potential and contribute significantly to attainment of the authorities' poverty reduction goals.** Reaching the envisaged growth targets will require (i) consolidation of macroeconomic stabilization; (ii) improvement of the business environment (starting with strict enforcement of laws and regulations and rehabilitation of public utilities); (iii) adoption of best international practices to ensure the promising development of extractive industries (including a new tax regime, revision of the mining code, a model contract, and continued implementation of the EITI); and (iv) carefully targeted investment in public infrastructure and projects to remove capacity constraints.

58. **Restoring Guinea's external position, a critical short-term priority, will depend on fiscal and monetary policies remaining tight.** The BCRG should build official reserves so it can absorb external shocks, smooth daily fluctuations of the volatile exchange rate, and support the launching of the much-needed foreign exchange interbank market. The government needs to contribute by achieving the targeted reductions in the fiscal deficit. Active interest-based liquidity management and close coordination with the Treasury will also be needed to keep monetary expansion within program limits.

59. **Reinforcing management of revenue agencies and restoring normal budget procedures are essential if Guinea is to reach its ambitious revenue goals and keep control over public spending.** Broadening the tax base (in particular, reducing tax and customs exemptions) and well-targeted tax audits and revenue collection efforts will not be possible without expanded capacity. The government must also restrict recourse to exceptional spending and procurement and enhance the tracking and recording of spending, including poverty-reducing outlays, and controls on it.

60. **Another challenge will be to address the remaining vulnerabilities in the BCRG's safeguards framework, which pose a high risk to the proper safeguarding of IMF disbursements.** The external audits and the safeguard assessment update found a breakdown in safeguards that reflected both the systemic override of existing controls and procedures, and weaknesses in basic record-keeping. Overall, a system of strong internal controls, financial governance, and accountability needs to be urgently re-established and maintained at the BCRG. In response to these findings, the central bank has taken strong short-term mitigating measures and adopted an action plan, a first step to a longer -term solution. However, implementing the action plan will require substantial efforts, such as making the best possible use of the substantial Fund TA program.

61. **Assuming adherence to policies as planned, the delivery of HIPC and MDRI debt relief that Guinea is eligible for once its reaches the completion point can bring external debt back to sustainable levels, possibly before 2009.** The authorities should also persevere with efforts to engage all their external creditors and seek debt relief from multilateral and non-Paris Club bilateral creditors on HIPC terms. The recent recourse to nonconcessional financing, although explicable by the strong pressure on the government for

immediate improvements in the population's harsh living conditions, is regrettable and staff welcome the authorities' intention to cease such practice in the context of the prospective program.

62. **Mindful of the prospective debt relief and of the largely untapped sources of export and productivity growth, the staff considers the current level of the real exchange rate to be adequate.** The significant recent appreciation may simply reflect higher market expectations of policy reforms, resumption of program assistance, and prospects for early debt relief. The expected boost from exports of agricultural goods to neighboring countries (once the ban imposed early this year has been removed) and the imminent launch of several large FDI-financed mining projects also suggest that the current real exchange rate can be sustained, provided economic stabilization and structural reforms continue. However, the exchange rate trend will need to be monitored closely given the rapid structural changes that are expected in the economy.

63. **The authorities should continue to improve the transparency in the determination of the exchange rate and eliminate the existing multiple currency practice.** This will help restore confidence in the Guinean franc and create a sound basis for successful reform of the foreign exchange market.

64. **Balance of payments and national accounts statistics are priority areas for improvement,** though plans to verify and revise BCRG and government accounts are also expected to yield more reliable fiscal and monetary statistics and ease program monitoring.

65. **Given the firm policies adopted by the new government since April 2007 and its commitment to home-grown reforms, the staff recommends approval of the authorities' request for a PRGF arrangement and for additional interim assistance under the Enhanced HIPC Initiative.**

66. **The next Article IV consultation will take place in accordance with the July 15, 2002, decision on consultation cycles.**

Table 1. Guinea: Selected Economic and Financial Indicators, 2005–10

	2005	2006	2007	2008	2009	2010
		Est.		Projections		
	(Annual percentage change, unless otherwise indicated)					
Income						
GDP at constant prices	3.3	2.2	1.5	4.9	5.2	5.5
GDP at current prices	32.9	37.6	21.6	18.6	12.4	10.0
GDP deflator	28.6	34.7	19.8	13.1	6.8	4.3
Consumer prices						
Average	31.4	34.7	23.4	13.8	8.4	5.9
End of period	29.7	39.1	15.0	10.0	7.0	5.0
External sector						
Exports, f.o.b. (US$ terms)	12.4	20.2	6.8	6.2	9.3	4.3
Imports, f.o.b. (US$ terms)	4.7	24.8	27.0	14.2	5.1	9.7
Terms of trade						
Percentage change	-6.8	5.0	-6.1	-11.3	5.5	-0.7
Average effective exchange rates (depreciation –)						
Nominal index	-38.0	-31.4	...	...	...	...
Real index	-21.3	-10.1	...	...	...	...
Money and credit						
Net foreign assets[1]	5.2	10.4	0.7	3.6	...	...
Net domestic assets[1]	32.0	49.0	5.1	10.1	...	...
Net claims on government[1]	7.9	42.7	5.6	2.9	...	...
Credit to nongovernment sector[1]	15.2	12.8	3.3	4.7	...	...
Broad money	37.2	59.4	5.8	13.7	...	...
Reserve money	25.0	84.1	11.9	14.5	...	...
Treasury bill rate (end of period)	23.4	22.0	...	...	...	...
	(Percent of GDP)					
Central government finances						
Total revenue and grants	13.7	14.7	14.9	15.9	52.5	16.9
Revenue	13.1	13.3	12.9	14.3	14.9	15.5
Of which: nonmining revenue	9.9	9.2	9.5	10.7	11.2	11.7
Grants[2]	0.6	1.4	2.0	1.6	37.7	1.4
Current expenditure	11.0	13.4	10.8	11.6	10.7	10.5
Of which: interest payments	2.8	3.3	2.1	2.3	1.5	1.3
Capital expenditure and net lending[3]	4.3	4.2	3.9	5.6	5.9	6.6
Overall budget balance						
Including grants (commitment)[2]	-1.5	-2.9	0.3	-1.2	36.0	-0.2
Excluding grants (commitment)	-2.1	-4.3	-1.7	-2.8	-1.7	-1.6
Basic primary fiscal balance	3.2	1.3	3.0	3.3	3.8	4.1
Gross investment	14.1	13.7	15.0	20.3	22.5	25.2
Government (fixed capital formation)	3.4	3.3	3.1	4.4	4.9	5.5
Nongovernment	10.7	10.4	11.9	15.9	17.6	19.8
Domestic savings	10.9	9.1	6.1	8.2	11.4	12.7
Government	4.7	3.4	4.2	4.7	5.5	6.0
Nongovernment	6.2	5.7	1.9	3.6	5.9	6.7
External current account balance						
Including official transfers	-4.5	-5.9	-9.5	-12.8	-11.2	-12.5
Excluding official transfers	-4.9	-6.5	-10.0	-13.1	-11.3	-12.6
Overall balance of payments	-0.9	-2.7	-1.3	-1.7	2.2	1.4
	(US$ millions, unless otherwise indicated)					
Memorandum items:						
Exports f.o.b.	841.4	1,011.1	1,079.5	1,146.4	1,253.0	1,306.7
Imports f.o.b.	754.9	942.0	1,195.8	1,365.8	1,435.0	1,574.4
External current account (including official transfers)	-146.6	-184.7	-431.6	-580.0	-537.6	-642.5
Overall balance of payments	-30.2	-85.6	-60.2	-79.1	106.0	74.1
Net foreign assets (central bank)[4]	-38.0	-31.4	-22.2	28.8	181.3	292.9
Gross official reserves (months of imports)[5]	0.5	0.6	0.4	1.0	2.1	3.0
Net international reserves[6]	-94.7	-113.0	-69.4	-7.8	142.7	252.1
External public debt (percent of GNFS exports)	346.1	290.6	249.9	223.7	58.8	48.7
Nominal GDP (GNF billions)	11,869	16,330	19,852	23,552	26,467	29,115

Sources: Guinean authorities and IMF staff estimates and projections.

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

[2] Assumes that Guinea reaches the HIPC Completion Point at end–Dec. 2008 and the debt relief transactions will be booked in early 2009. Relief is shown as a stock of debt reduction.

[3] Includes expenditure for restructuring.

[4] Gross foreign assets of the central bank less its foreign liabilities.

[5] Excluding imports for large mining projects and those financed by project loans from donors.

[6] Reserve assets of the central bank (i.e., external assets immediately available to and controlled by it) less its foreign and domestic liabilites in foreign exchange (incl. foreign exchange deposits of local banks).

Table 2. Guinea: Financial Operations of the Central Government, 2005–10

(GNF billions)

	2005	2006	2007 [1]				2008	2009	2010
	Est.	Est.	Mar. Est.	Jun. Est.	Sep. Prel.	Dec. Proj.	Projections		
Revenue and grants	1,631	2,398	563	1,262	1,984	2,967	3,748	13,908	4,916
Revenue	1,557	2,172	500	1,147	1,809	2,569	3,362	3,942	4,510
Mining sector	381	675	155	270	433	674	848	984	1,114
Nonmining sector	1,176	1,497	345	877	1,375	1,895	2,514	2,959	3,396
Direct taxes	181	280	50	219	329	368	444	511	562
Indirect taxes	872	1,057	260	594	955	1,397	1,864	2,216	2,579
Goods and services	554	620	164	380	619	879	1,150	1,366	1,502
International trade	318	436	96	214	336	519	714	850	1,076
Nontax revenue	123	161	35	64	91	130	206	232	255
Grants	75	225	63	115	175	397	386	9,966	406
Project	28	129	50	75	119	291	321	347	375
Program	4	10	8	8	17	34	25	28	31
HIPC multilateral	44	86	4	32	39	72	40	0	0
HIPC/MDRI completion point assistance [2]								9,590	
Total expenditures and net lending	1,808	2,871	557	1,133	1,897	2,914	4,030	4,388	4,967
Current expenditures	1,304	2,188	423	870	1,398	2,139	2,724	2,834	3,052
Primary current expenditures	975	1,652	344	646	1,093	1,718	2,183	2,436	2,660
Salary and wage	333	444	139	281	437	643	869	977	1,074
Goods and services	396	810	110	173	350	665	888	998	1,098
Of which: foreign-financed election spending						58			
Transfers and subsidies	247	397	95	193	306	410	426	461	489
Interest on debt	329	536	79	223	305	420	541	398	392
Domestic debt	161	263	34	128	162	203	301	310	316
External debt	168	274	45	95	143	218	240	88	76
Capital expenditures	500	672	132	262	495	769	1,298	1,543	1,905
Domestically financed	199	295	3	67	196	297	401	490	637
Externally financed	301	377	129	194	299	472	897	1,054	1,268
Net lending	3	11	1	1	4	6	8	11	9
Basic primary fiscal balance [3]	379	214	152	432	515	605	771	1,006	1,203
Overall balance, commitments basis									
Excluding grants	-251	-699	-57	14	-88	-345	-668	-446	-457
Including grants	-176	-474	6	129	87	52	-281	9,520	-51
Financing	176	474	8	-73	-106	12	-1,272	-9,761	-165
Domestic financing	134	586	-31	-70	-119	106	-159	-357	-517
Bank financing	135	617	-29	-125	-160	32	101	-144	-144
Central bank	-21	916	-18	-102	-234	-68	-95	-94	-94
Of which: HIPC account	-25	74	-1	-34	-29	0	-5	0	0
Commercial banks	156	-300	-11	-23	74	100	196	-50	-50
Nonbank financing	-1	-31	-2	55	41	75	-260	-213	-373
Privatization revenue	88	285	11	115	127	177	125	3	3
Amortization of domestic debt	-83	-241	-30	-60	-187	-240	-288	-216	-376
Change in arrears	0	0	8	1	77	76	-102	0	0
Change in float [4]	-35	-92	16	11	38	27	5	0	0
Other	29	17	-7	-12	-14	35	0	0	0
External financing	42	-112	39	-3	12	-94	-1,113	-9,404	352
Drawings	273	248	79	120	180	239	576	707	893
Amortization due [2]	-433	-831	-163	-286	-426	-633	-625	-10,111	-542
Debt rescheduling and HIPC assistance [5]	143	103	17	23	42	47	193	0	0
Change in arrears (– = reduction)	58	368	106	141	217	253	-1,257	0	0
Errors and omissions [4]	...	...	-14	-56	19	-65	0	0	0
Financing gap	0	0	0	0	0	0	1,553	241	216
Identified possible financing [6]							1,414		
Residual financing gap						0	139	241	216
Memorandum items:									
Priority sector spending [7]	416	586	102	258	513	740	1,057	...	...
Nominal GDP	11,869	16,330	19,852	19,852	19,852	19,852	23,552	26,467	29,115

Sources: Guinean authorities and IMF staff estimations and projections.

[1] Cumulative.

[2] Assumes that Guinea reaches the HIPC Completion Point at end–Dec. 2008 and the debt relief transactions will be booked in early 2009. Relief is shown as a stock of debt reduction.

[3] Revenue minus noninterest expenditure and foreign-financed expenditures.

[4] For 2005–06, errors and omissions are included in the change in float.

[5] Committed debt relief.

[6] Assuming the resumption of interim HIPC relief and the rescheduling of outstanding external arrears.

[7] See the Technical Memorandum of Understanding (TMU) for a definition.

Table 3. Guinea: Financial Operations of the Central Government, 2005–10

(Percent of GDP, unless otherwise indicated)

	2005	2006	2007	2008	2009	2010
	Est.	Est.	Projections			
Revenue and grants	13.7	14.7	14.9	15.9	52.5	16.9
Revenue	13.1	13.3	12.9	14.3	14.9	15.5
Mining sector	3.2	4.1	3.4	3.6	3.7	3.8
Nonmining sector	9.9	9.2	9.5	10.7	11.2	11.7
Direct taxes	1.5	1.7	1.9	1.9	1.9	1.9
Indirect taxes	7.3	6.5	7.0	7.9	8.4	8.9
Goods and services	4.7	3.8	4.4	4.9	5.2	5.2
International trade	2.7	2.7	2.6	3.0	3.2	3.7
Nontax revenue	1.0	1.0	0.7	0.9	0.9	0.9
Grants	0.6	1.4	2.0	1.6	37.7	1.4
Project	0.2	0.8	1.5	1.4	1.3	1.3
Program	0.0	0.1	0.2	0.1	0.1	0.1
HIPC multilateral	0.4	0.5	0.4	0.2	0.0	0.0
HIPC/MDRI completion point assistance[1]					36.2	
Total expenditures and net lending	15.2	17.6	14.7	17.1	16.6	17.1
Current expenditures	11.0	13.4	10.8	11.6	10.7	10.5
Primary current expenditures	8.2	10.1	8.7	9.3	9.2	9.1
Salary and wage	2.8	2.7	3.2	3.7	3.7	3.7
Goods and services	3.3	5.0	3.3	3.8	3.8	3.8
Of which: foreign-financed election spending			0.3			
Transfers and subsidies	2.1	2.4	2.1	1.8	1.7	1.7
Interest on debt	2.8	3.3	2.1	2.3	1.5	1.3
Domestic debt	1.4	1.6	1.0	1.3	1.2	1.1
External debt	1.4	1.7	1.1	1.0	0.3	0.3
Capital expenditures	4.2	4.1	3.9	5.5	5.8	6.5
Domestically financed	1.7	1.8	1.5	1.7	1.8	2.2
Externally financed	2.5	2.3	2.4	3.8	4.0	4.4
Net lending	0.0	0.1	0.0	0.0	0.0	0.0
Basic primary fiscal balance[2]	3.2	1.3	3.0	3.3	3.8	4.1
Overall balance, commitments basis						
Excluding grants	-2.1	-4.3	-1.7	-2.8	-1.7	-1.6
Including grants	-1.5	-2.9	0.3	-1.2	36.0	-0.2
Financing	1.5	2.9	0.1	-5.4	-36.9	-0.6
Domestic financing	1.1	3.6	0.5	-0.7	-1.3	-1.8
Bank financing	1.1	3.8	0.2	0.4	-0.5	-0.5
Central bank	-0.2	5.6	-0.3	-0.4	-0.4	-0.3
Of which: HIPC account	-0.2	0.5	0.0	0.0	0.0	0.0
Commercial banks	1.3	-1.8	0.5	0.8	-0.2	-0.2
Nonbank financing	0.0	-0.2	0.4	-1.1	-0.8	-1.3
Privatization revenue	0.7	1.7	0.9	0.5	0.0	0.0
Amortization of domestic debt	-0.7	-1.5	-1.2	-1.2	-0.8	-1.3
Change in arrears	0.0	0.0	0.4	-0.4	0.0	0.0
Change in float[3]	-0.3	-0.6	0.1	0.0	0.0	0.0
Other	0.2	0.1	0.2	0.0	0.0	0.0
External financing	0.4	-0.7	-0.5	-4.7	-35.5	1.2
Drawings	2.3	1.5	1.2	2.4	2.7	3.1
Amortization due[1]	-3.6	-5.1	-3.2	-2.7	-38.2	-1.9
Debt rescheduling and HIPC assistance[4]	1.2	0.6	0.2	0.8	0.0	0.0
Change in arrears (– = reduction)	0.5	2.3	1.3	-5.3	0.0	0.0
Errors and omissions[3]	...	...	-0.3	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	6.6	0.9	0.7
Identified possible financing[5]				6.0		
Residual financing gap			0.0	0.6	0.9	0.7
Memorandum items:						
Priority sector spending[6]	3.5	3.6	3.7	4.5	...	...
Nominal GDP (GNF billions)	11,869	16,330	19,852	23,552	26,467	29,115

Sources: Guinean authorities and IMF staff estimations and projections.

[1] Assumes that Guinea reaches the HIPC Completion Point at end–Dec. 2008 and the debt relief transactions will be booked in early 2009. Relief is shown as a stock of debt reduction.

[2] Revenue minus noninterest expenditure and foreign-financed expenditures.

[3] For 2005–06, errors and omissions are included in the change in float.

[4] Committed debt relief.

[5] Assuming the resumption of interim HIPC relief and the rescheduling of outstanding external arrears.

[6] See the Technical Memorandum of Understanding (TMU) for a definition.

Table 4. Guinea: Monetary Survey, 2005–08

	2005	2006	2007			2008			
			June[1]	Sept.	Dec.	March	June	Sept.	Dec.
				Prel.	Proj.	Projections			
	(GNF billions, unless otherwise indicated)								
Central bank									
Net foreign assets[2]	-171	-177	-83	-74	-75	-62	21	104	97
(US$ millions)	-38	-31	-25	-22	-22	-18	6	31	29
*Of which: n*et international reserves[3]	-261	-639	-303	-289	-233	-213	-123	-33	-26
(US$ millions)	-58	-113	-90	-86	-69	-63	-37	-10	-8
Net domestic assets	1,125	1,934	2,085	1,964	2,040	2,107	2,102	2,110	2,154
Domestic credit	813	1,764	1,915	1,751	1,893	1,942	1,880	1,826	1,851
Government, net	685	1,854	1,920	1,769	1,935	1,917	1,850	1,809	1,840
Of which: credit to the Treasury (PNT1)	...	2,050	1,948	1,832	1,982	1,954	1,877	1,855	1,887
Public enterprises	5	1	0	4	1	1	1	1	1
Private sector	131	168	94	103	106	101	96	91	86
Liabilities to deposit money banks (–)	-8	-259	-100	-125	-149	-78	-68	-74	-76
Of which: sterilization bills (–)	-23	-273	-103	-140	-163	-92	-82	-89	-90
Other items, net (assets +)	313	170	170	213	147	165	222	284	303
Reserve money	954	1,757	2,002	1,889	1,965	2,045	2,123	2,215	2,250
Currency outside banks	786	1,307	1,541	1,340	1,636	1,706	1,773	1,853	1,880
Bank reserves	160	444	455	534	326	337	347	360	369
Deposits	131	405	377	410	282	292	302	314	322
Required reserves	40	94	163	183	198	206	214	224	230
Excess reserves	91	311	214	227	84	86	88	90	92
Of which: in foreign exchange	90	296	130	131	84	86	88	90	85
Cash in vaults of deposit banks	29	39	78	123	44	45	45	46	47
Private sector deposits	8	7	6	16	3.3	3	2	2	1
Deposit money banks									
Net foreign assets	277	496	542	491	417	423	395	403	368
Bank reserves	160	444	455	534	326	337	347	360	369
Deposits at the central bank	131	405	377	410	282	292	302	314	322
Cash in vaults of deposit banks	29	39	78	123	44	45	45	46	47
Claims on central bank	8	259	87	125	149	78	68	74	76
Of which: sterilization bills	23	273	103	140	163	92	82	89	90
Domestic credit	1,013	941	925	939	1,210	1,346	1,487	1,433	1,586
Credit to the government	444	145	122	218	245	343	441	441	441
Claims	533	325	220	316	352	453	554	556	559
Deposits	88	181	98	98	108	110	113	116	118
Claims on public enterprises	0	3	1	1	2	2	2	2	2
Claims on the private sector	568	793	803	720	963	1,001	1,044	991	1,144
Other items, net (assets +)	-216	-205	-292	-264	-305	-319	-369	-265	-373
Liabilities to the private sector (deposits)	1,242	1,934	1,717	1,825	1,797	1,864	1,928	2,005	2,026

Table 4. Guinea: Monetary Survey, 2005–08 (concluded)

	2005	2006	2007			2008			
			June[1]	Sept.	Dec.	March	June	Sept.	Dec.
				Prel.	Proj.	Projections			
	(GNF billions, unless otherwise indicated)								
Monetary survey									
Net foreign assets	106	318	459	417	342	361	416	507	465
Net domestic assets	1,930	2,929	2,805	2,764	3,094	3,211	3,287	3,354	3,443
Domestic credit	1,834	2,964	2,940	2,815	3,252	3,365	3,434	3,334	3,513
Credit to the government	1,129	1,999	2,042	1,988	2,180	2,260	2,291	2,249	2,281
Claims on public enterprises	5	4	1	5	3	3	3	2	2
Claims on the private sector	700	961	897	823	1,069	1,102	1,140	1,082	1,230
Other items, net (assets +)	96	-35	-135	-51	-158	-154	-147	19	-70
Broad money (M2)	2,037	3,247	3,264	3,180	3,436	3,572	3,703	3,860	3,908
Currency	786	1,307	1,541	1,340	1,636	1,706	1,773	1,853	1,880
Deposits	1,250	1,941	1,723	1,841	1,800	1,866	1,930	2,007	2,027
Of which: foreign currency deposits	557	1,045	738	735	585	594	601	612	604
Memorandum items:	(Year-on-year change in percent of beginning-of-period broad money, unless otherwise indicated)								
Net foreign assets	5.2	10.4	4.1	0.5	0.7	0.4	-1.3	2.8	3.6
Of which: central bank	-1.1	-0.3	0.5	0.5	3.2	-0.9	3.2	5.6	5.0
Net domestic assets	32.0	49.0	4.6	1.0	5.1	8.7	14.8	18.5	10.1
Of which: central bank	13.9	39.7	44.6	31.9	3.3	2.9	0.5	4.6	3.3
Domestic credit	23.2	55.5	47.1	26.1	8.9	10.8	15.2	16.3	7.6
Net claims on government	7.9	42.7	37.9	29.0	5.6	6.1	7.6	8.2	2.9
Credit to nongovernment sector	15.2	12.8	9.2	-2.9	3.3	4.7	7.5	8.1	4.7
Broad money	37.2	59.4	...	...	5.8	9.1	13.5	21.4	13.7
Velocity (GDP/average M2)	6.7	6.2	...	...	5.9	...	...	...	6.4
Commercial bank credit to the private sector (annual percentage change)	48.2	39.5	44.6	-2.4	21.5	20.1	30.1	37.6	18.7
Reserve money (annual percentage change)	25.0	84.1	...	...	11.9	3.4	6.0	17.2	14.5
Money multiplier (M2/reserve money)	2.1	1.8	1.6	1.7	1.7	1.7	1.7	1.7	1.7
Deposit dollarization, percent	44.5	53.8	42.8	39.9	32.5	31.8	31.1	30.5	29.8
Exchange rate, GNF per US$[4]	4500	5650	3360	3360	3360	3360	3360	3360	3360

Sources: Central Bank of Guinea and IMF staff estimates and projections.

[1] Starting from June 2007, the monetary data take into account the revisions recommended by the external audit.

[2] Gross foreign assets of the central bank less its foreign liabilities.

[3] Reserve assets of the central bank (i.e., external assets immediately available to and controlled by it) less its foreign and domestic liabilites in foreign exchange (including the foreign exchange deposits of the local banks with the central bank).

[4] Program exchange rate from June 2007.

Table 5. Guinea: Balance of Payments, 2005–12

(US$ millions, unless otherwise indicated)

	2005	2006	2007	2008	2009	2010	2011	2012
		Est.	Projections					
Merchandise trade balance	86	69	-116	-219	-182	-268	-400	-416
Exports, f.o.b	841	1,011	1,079	1,146	1,253	1,307	1,368	1,478
Of which : Mining products	761	909	1,037	1,069	1,149	1,198	1,254	1,357
Agricultural and maritime products	67	96	39	72	99	102	107	113
Imports, f.o.b.	-755	-942	-1,196	-1,366	-1,435	-1,574	-1,768	-1,893
Food products	-131	-147	-156	-163	-173	-189	-202	-211
Other consumption goods	-106	-111	-120	-124	-134	-149	-166	-182
Petroleum goods	-162	-199	-232	-281	-256	-274	-288	-311
Intermediate and capital goods	-356	-485	-688	-797	-872	-962	-1,112	-1,190
Of which: imports for large mining projects		-67	-236	-324	-382	-448	-572	-617
Services trade balance	-189	-215	-287	-327	-352	-376	-431	-477
Services exports	83	86	90	97	104	128	134	140
Of which: transport	6	7	8	9	10	12	13	14
Services imports	-271	-301	-377	-424	-456	-504	-564	-617
Of which: transport	-97	-121	-183	-209	-219	-241	-270	-289
Imports for large mining projects		-11	-39	-53	-63	-74	-94	-101
Income balance	-39.9	-42	-36	-31	0	3	2	1
Of which: interest on public debt [1]	-46.1	-53	-50	-46	-16	-13	-14	-16
Transfers:	-4.7	3	8	-3	-3	-2	-3	-1
Of which: Net private transfers	-17.7	-16	-16	-15	-8	-7	-9	-8
Official transfers	1.0	2	8	5	5	6	6	6
HIPC Initiative assistance (multilat.)	12.0	17	17	8	0	0	0	0
Current account								
Including official transfers	-147	-185	-432	-580	-538	-642	-831	-892
Excluding imports for large mining projects	-147	-106	-157	-203	-93	-120	-165	-174
Excluding official transfers	-160	-203	-456	-593	-543	-648	-837	-899
Capital account	7.6	25	67	62	1,873	66	67	67
Public transfers (project grants)	7.6	25	67	62	63	66	67	67
HIPC completion point and MDRI debt relief [2]	0.0	0	0	0	1,810	0	0	0
Financial account	52	27	304	439	-1,230	651	773	830
Public (medium and long term)	-43	-111	-77	-9	-1,742	62	34	32
Project-related loans	75	48	55	111	128	157	137	143
Program financing	0	0	0	0	0	0	0	0
Amortization due [1]	-118	-159	-132	-120	-95	-95	-103	-111
HIPC completion point and MDRI debt relief [2]	0	0	0	0	-1,776	0	0	0
Public (short term)	0	0	0	0	0	0	0	0
Direct and other private investment (net)	74	160	386	455	516	589	738	795
Of which: large mining projects	0	79	297	408	481	565	720	776
Private short term	22	-23	-5	-7	-3	0	2	3
Errors and omissions	57	48	0	0	0	0	0	0
Overall balance	-30	-86	-60	-79	106	74	10	5
Financing	30	86	49	-284	-174	-133	-45	-38
Change in net foreign assets	-23	-7	-21	-80	-174	-133	-45	-38
Of which: Fund repayments [2]	-26	-19	-21	-18	-34	0	0	0
Change in gross official reserves	5	3	3	-61	-140	-133	-45	-38
Changes in arrears	16	71	58	-242	0	0	0	0
Of which: Suspended debt service to Paris Club	27	26	29	0	0	0	0	0
Committed debt relief and rescheduling	37	22	12	37	0	0	0	0
Financing gap	0	0	12	363	68	59	35	32
Rescheduling and/or cancellation of external arrears	0	0	0	242	0	0	0	0
Resumption of HIPC debt relief (excl. IMF)	0	0	0	37	0	0	0	0
PRGF disbursements and interim HIPC IMF debt relief	0	0	12	29	21	21	0	0
Nonidentified external financing	0	0	0	56	46	37	35	32
Memorandum items:								
Current account-GDP ratio (percent)								
Including official transfers	-4.5	-5.9	-9.5	-12.8	-11.2	-12.5	-15.0	-14.9
Excluding imports for large mining projects	-4.5	-3.4	-3.4	-4.5	-1.9	-2.3	-3.0	-2.9
Excluding official transfers	-4.9	-6.5	-10.0	-13.1	-11.3	-12.6	-15.1	-15.1
Overall balance (percent of GDP)	-0.9	-2.7	-1.3	-1.7	2.2	1.4	0.2	0.1
Exports-GDP ratio (percent)	28.3	34.9	25.6	27.5	28.2	28.0	27.1	27.1
Imports-GDP ratio (percent)	-31.5	-39.6	-34.5	-39.5	-39.4	-40.5	-42.1	-42.0
External medium- and long-term public debt	3,199	3,188	2,923	2,781	798	698	666	630
Percent of GDP	98.1	101.5	64.0	61.4	16.6	13.6	12.0	10.6
Debt-service ratio, before interim debt relief [3]	20.7	21.1	17.4	14.9	8.2	7.7	7.9	7.9
Gross reserves	53.7	51.0	48.4	128.1	249.4	382.3	427.2	465.1
Months of imports of the following year [4]	0.5	0.6	0.4	1.0	2.1	3.0	3.1	3.1
Nominal GDP (US$ millions)	3,261	3,140	4,564	4,529	4,805	5,132	5,537	5,971

Sources: Guinean authorities and IMF staff estimates and projections.

[1] Debt service payments on public and publicly guaranteed debt.

[2] Assumes that Guinea reaches the HIPC Completion Point at end–Dec. 2008 and the debt relief transactions will be booked in early 2009. Relief is shown as a stock of debt reduction.

[3] For 2009, includes the HIPC completion point and MDRI debt relief.

[4] Percent of exports of goods and nonfactor services, excluding imports for large mining projects and those financed by project loans from donors.

Table 6. Guinea: Indicators of Capacity to Repay the Fund, 2005–16[1]

(SDR millions, unless otherwise indicated)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
			Projections									
Obligations from existing drawings[2]												
Credit outstanding	61.1	47.9	34.0	22.2	13.9	6.4	2.6	0.0	0.0	0.0	0.0	0.0
Percent of quota	57.1	44.7	31.8	20.7	13.0	6.0	2.4	0.0	0.0	0.0	0.0	0.0
Repayment of principal	17.4	13.2	13.9	11.8	8.3	7.5	3.9	2.6	0.0	0.0	0.0	0.0
Charges and interest	0.6	0.3	0.4	0.8	0.8	0.7	0.7	0.7	0.6	0.5	0.5	0.4
Obligations from prospective drawings under the new PRGF arrangement												
Credit outstanding	...	...	6.9	20.7	34.4	48.2	48.2	48.2	46.1	41.3	33.7	24.1
Percent of quota	...	...	6.4	19.3	32.1	45.0	45.0	45.0	43.1	38.6	31.5	22.5
Repayment of principal	...	...	...	...	...	...	...	...	2.1	4.8	7.6	9.6
Charges and interest	...	...	...	...	...	...	...	...	0.2	0.2	0.2	0.2
Cumulative (existing and prospective)												
Credit outstanding	61.1	47.9	40.9	42.9	48.3	54.6	50.8	48.2	46.1	41.3	33.7	24.1
Percent of quota	57.1	44.7	38.2	40.0	45.1	51.0	47.4	45.0	43.1	38.6	31.5	22.5
Percent of external public debt	2.7	2.3	2.1	2.1	2.4	2.6	2.4	2.2	2.1	1.8	1.4	1.0
Percent of gross foreign reserves	162.6	141.6	129.8	60.1	29.9	22.2	18.5	16.3	14.4	12.0	9.1	6.1
Repayment of principal	17.4	13.2	13.1	7.0	4.5	7.5	3.9	2.6	2.1	4.8	7.6	9.6
Interim HIPC debt relief	...	...	0.7	4.9	3.8	...	...	...	...	...	...	...
Charges and interest	0.6	0.3	0.4	0.8	0.8	0.7	0.7	0.7	0.8	0.7	0.7	0.6
Total payments to the Fund	18.0	13.5	13.5	7.8	5.3	8.2	4.5	3.3	2.9	5.6	8.2	10.2
Percent of exports of goods and services	2.5	1.6	1.3	0.7	0.4	0.6	0.3	0.2	0.2	0.3	0.4	0.5
Percent of external public debt service[3]	13.4	9.9	10.8	12.6	4.7	7.3	4.6	3.3	2.8	5.1	7.2	8.5
Memorandum items:												
Prospective purchases	...	...	6.9	13.8	13.8	13.8	...	...	...	...	...	...
Exports of goods and services, US$ millions	924	1097	1170	1243	1357	1435	1502	1618	1759	1909	2067	2217
Gross official reserves, months of imports of XGS	0.5	0.6	0.4	1.0	2.1	3.0	3.1	3.1	3.1	3.1	3.1	3.1

Sources: Guinean authorities and IMF staff estimates and projections.

[1] Contrary to other tables in this staff report, these projections do not assume that Guinea will reach the HIPC completion point at end-2008.

[2] These obligations resulted from disbursements made before 2005 and therefore may be eligible for debt relief once Guinea reaches the HIPC completion point and benefits from MDRI.

[3] Debt service due after already approved debt relief and rescheduling.

Table 7. Guinea: Millennium Development Goals, 1990–2015[1]

	1990	1995	2000	2005	2005 Sub-Saharan Africa	2010 PRSP	2015 MDG Target
Goal 1: Eradicate extreme poverty and hunger							halve
Income share held by lowest 20%	..	..	..	*7.0*	..	…	
Malnutrition prevalence, weight for age (% of children under 5)	26.8	..	32.7	..	29.6	…	13.4
Poverty gap at $1 a day (PPP) (%)	..	..	..	..	..	…	…
Poverty headcount ratio at $1 a day (PPP) (%)	..	..	..	..	41.1	…	…
Poverty headcount ratio at national poverty line (%)	..	*40.0*	..	..	..	…	…
Prevalence of undernourishment (%)	*39*	*31*	..	*24*	*30*	…	19.5
Incidence of poverty			*49.2*	*53.6*		*49.7*	…
Goal 2: Achieve universal primary education							100
Literacy rate, youth total (% of people ages 15–24)	44	..	..	*47*	*73*		100
Persistence to grade 5, total (% of cohort)	*59*	..	..	*76*	..		100
Primary completion rate, total (% of relevant age group)	19	20	33	55	58	79	100
School enrollment, primary (% net)	*27*	..	47	67	66	*90*	100
share of current expenditures on education in State equity resources	…	…	…	*14.2*	…	*18.9*	…
Goal 3: Promote gender equality and empower women							100
Proportion of seats held by women in national parliament (%)	..	*7*	*19/114*	*22/114*	16	*50/114*	100
Ratio of girls to boys in primary and secondary education (%)	*45*	..	63	74	86	92	100
Ratio of young literate females to males (% ages 15–24)	43	..	..	*57*	*88*		
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	30.3	..	..	..	..		
Goal 4: Reduce child mortality							>75% reduction
Immunization, measles (% of children ages 12–23 months)	35	61	42	71	64	80	
Mortality rate, infant (per 1,000 live births)	139	124	110	91	96	70	
Mortality rate, under 5 (per 1,000)	234	209	183	163	163	130	78
Goal 5: Improve maternal health							
Births attended by skilled health staff (% of total)	*31*	..	*35*	*38*	*45*	40	
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	740	980	..	700	> 75% reduction
Goal 6: Combat HIV/AIDS, malaria, and other diseases							halt/reverse
Contraceptive prevalence (% of women ages 15–49)	*2*	..	*6*	*7*	*23*		
Incidence of tuberculosis (per 100,000 people)	130	158	193	236	348		halt/reverse
Prevalence of HIV, female (% ages 15–24)	..	..	..	1.4	..		halt/reverse
Prevalence of HIV, pregnant womenl (% of population ages 15–49)	..	..	*2.8*	..	…	< 2.8%	halt/reverse
Tuberculosis cases directly observed (%)	..	43	54	56	49		halt/reverse
Goal 7: Ensure environmental sustainability							
CO2 emissions (metric tons per capita)	0.2	0.2	0.2	*0.1*	*0.8*		
Forest area (% of land area)	30	..	28	27	27		
GDP per unit of energy use (constant 2000 PPP $ per kg of oil equivalent)	..	..	..	..	2.8		
Improved sanitation facilities (% of population with access)	14	..	..	*18*	*37*		57
Improved water source (% of population with access)	44	..	..	*50*	*56*		72
Nationally protected areas (% of total land area)	..	..	..	*6.4*	*11.3*		
Proportion of population with access to a beter sanitation system (urban/rural)	..	..	..	*70.1*	…		
Goal 8: Develop a global partnership for development							
Aid per capita (current US$)	47	55	18	19	44		to increase
Debt service (PPG and IMF only, % of exports, excl. workers' remittances)	19.6	24.3	14.2	11.3	7.4	10	
Fixed line and mobile phone subscribers (per 1,000 people)	2	2	8	*20*	*142*		
Internet users (per 1,000 people)	0	0	1	5	29		
Personal computers (per 1,000 people)	..	1	3	*5*	*15*		
Total debt service (% of exports of goods, services, and income)	20.0	25.0	20.4	*19.9*	*8.8*		
Unemployment, youth female (% of female labor force, ages 15–24)	..	..	..	..	..		
Unemployment, youth male (% of male labor force ages 15–24)	..	..	..	..	..		
Unemployment, youth total (% of total labor force ages 15–24)	..	..	..	..	..		
Other goals and indicators							
Fertility rate, total (births per woman)	6.5	6.3	5.6	5.6	5.3		
GNI per capita, Atlas method (current US$)	430	490	400	420	746		
GNI, Atlas method (current US$ billions)	2.6	3.7	3.4	3.9	554.4		
Gross capital formation (% of GDP)	17.5	16.6	22.0	12.0	19.4		
Life expectancy at birth, total (years)	47	51	53	54	47		
Literacy rate, adult total (% of people ages 15 and above)	27	..	..	*29*	*61*	*50*	
Population, total (millions)	6.2	7.5	8.4	9.4	743.1		
Trade (% of GDP)	61.5	45.3	52.3	55.7	67.3		

Source: World Development Indicators database, April 2007; and Guinean authorities, Second Poverty Reduction Strategy Paper, August 2007.

[1] Figures in italics refer to periods other than those specified.

Table 8. Guinea: External Financing Requirements and Sources, 2005–10
(US$ millions)

	2005	2006	2007	2008	2009	2010
		Est.		Projections		
1. Gross financing requirements	285	298	551	1034	2587	876
External current account deficit [1]	160	203	456	593	543	648
Debt amortization[2]	147	168	155	138	1905	95
Of which: IMF repayments[4]	26	19	21	18	34	0
HIPC completion point and MDRI debt relief [3]	0	0	0	0	1776	0
Change in arrears, net	-16	-71	-58	242	0	0
Gross reserves accumulation [4]	-5	-3	-3	61	140	133
2. Available financing	285	298	551	977	2541	839
Foreign direct investment, net	96	138	381	448	513	589
Identified disbursements	84	74	140	198	218	250
Grants	9	27	75	67	68	72
Project	8	25	67	62	63	66
Program	1	2	8	5	5	6
Loans	75	48	66	132	150	179
Project	75	48	55	111	128	157
Program	0	0	10	21	21	21
Of which: New PRGF disbursements	0	0	10	21	21	21
Other flows[5]	57	48	0	0	0	0
Debt relief and debt rescheduling	49	38	29	331	1810	0
Debt rescheduling and HIPC debt relief [3]	49	38	28	82	0	0
Rescheduling and cancellation of arrears	0	0	0	242	0	0
HIPC completion point and MDRI debt relief [3]	0	0	0	0	1776	0
HIPC and MDRI debt relief from IMF [4]	0	0	1	7	34	0
3. Residual financing gap	0	0	0	56	46	37

Sources: Guinean authorities and IMF staff estimates and projections.

[1] Excluding official transfers.
[2] Including the change in foreign liabilities of the central bank.
[3] Excluding the IMF
[4] For 2009, includes the HIPC completion point and MDRI debt relief.
[5] Errors and omissions.

Table 9. Guinea: Disbursements Under the PRGF Arrangement, 2007–10
(SDR millions)

Date	Disbursement	Subject to
December 21, 2007	6.885	Approval of arrangement
May 2008	6.885	First review and performance criteria (PCs) for end-December 2007
November 2008	6.885	Second review and PCs for end-June 2008
May 2009	6.885	Third review and PCs for end-December 2008
November 2009	6.885	Fourth review and PCs for end-June 2009
May 2010	6.885	Fifth review and PCs for end-December 2009
November 2010	6.885	Sixth review and PCs for end-June 2010
Total disbursement [1]	48.195	

Source: IMF.

[1] The total disbursement is equivalent to 45 percent of Guinea's quota.

ATTACHMENT I: LETTER OF INTENT

Conakry, December 4, 2007

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. Strauss-Kahn:

Since taking office on March 28, 2007, the Guinean government has implemented an economic program designed to reinstate fiscal control, stabilize the economy, improve governance, and launch a major program of structural reforms. The attached Memorandum on Economic and Financial Policies (MEFP) sets out the policies that the Guinean government intends to implement in the context of a medium-term program (covering the period from July 2007 to June 2010) to consolidate macroeconomic stabilization, promote growth, and attain the objectives defined in our second poverty reduction strategy paper. The MEFP also sets out macroeconomic objectives, structural measures, and tracking indicators for the first year of the program. A unit made up of senior staff, including from the Ministry of Finance, the Economy and the Plan and the central bank, has been set up to monitor implementation of the program.

To assist in the attainment of the above objectives and facilitate implementation of the relevant policies, the government hereby requests an arrangement under the Poverty Reduction and Growth Facility (PRGF) in an amount equivalent to SDR 48.195 million (45 percent of Guinea's quota). The government also requests resumption of the interim assistance granted by the IMF under the enhanced HIPC Initiative, specifically, the third tranche of interim HIPC assistance in the amount of SDR 4.848 million.

The government undertakes to provide the IMF with any information that may be necessary to monitor implementation of the proposed measures and attainment of the objectives. The attached Technical Memorandum of Understanding (TMU) sets out the performance criteria, indicative targets, and structural benchmarks of the program and defines the relevant economic variables and the data to be reported to the IMF (see TMU, Table 1). The first review of Guinea's progress under this arrangement will be carried out no later than end–April 2008, and the second no later than end–October 2008.

The government is convinced that the policies and measures set out in the attached MEFP are adequate to achieve the program objectives. However, it stands ready to take any further measures that may prove necessary. The government will consult with the IMF on the adoption of these measures prior to any revision of the policies described in the MEFP, in conformity with the rules of the Fund's policies on such consultation.

During and after the program period and so long as Guinea has financial obligations to the IMF for loans disbursed under this arrangement, the government will consult the Managing Director, on its own initiative or at his request, to discuss Guinea's economic and financial policies.

The government consents to the publication of this letter, the MEFP, the TMU, and the IMF staff report on the request for the conclusion of the arrangement under the PRGF.

Sincerely yours,

/sgd/ /sgd/

Daouda Bangoura
Governor of the BCRG

Ousmane Doré
Minister of Economy, Finance, and Planning

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

ATTACHMENT II. MEMORANDUM ON ECONOMIC AND FINANCIAL POLICIES FOR THE PERIOD FROM JULY 2007 TO JUNE 2008

December 4, 2007

I. INTRODUCTION

1. **The government intends to learn from the past and to undertake a new medium-term program to resume the path of economic and social development.** The first poverty reduction strategy (PRS-I) adopted in 2002 did not yield all the expected results. The incidence of poverty increased from 49 percent in 2002 to 54 percent in 2005. Economic growth slowed from 4.9 percent on average in the latter half of the 1990s to an average 2.9 percent in 2000–06; inflation accelerated, to reach an annual rate of about 39 percent at end-2006; and foreign exchange reserves fell to less than one month of imports. These developments are explained in part by greater insecurity in the region (which required increased military expenditure) and the terms of trade deterioration that our country experienced during that period. Lax economic policies and the worsening of governance problems, which were rapidly sanctioned with the suspension of external assistance and debt relief (Guinea reached the HIPC Initiative decision point in 2000) were also key factors. To date, economic stabilization and reform efforts, including implementation of the April 2005–March 2006 staff-monitored program, have proved insufficient.

2. **Since taking office at end-March 2007, the government has adopted important measures to stabilize the macroeconomic situation and put the country back on the road to reform.** We have acted quickly and resolutely to restore fiscal discipline, regain control of monetary policy, and improve transparency and governance. We also decided in May 2007 to launch a recovery program including a series of priority actions aimed at economic, political, and social stabilization, to be implemented by end-2007. Currently, inflationary pressures have abated and confidence in the domestic currency has been strengthened.

3. **Our second poverty reduction strategy (PRS-II), which covers the period 2007–10, aims at reversing the upward trend of poverty observed since 2002 by expanding and deepening the priority actions of the recovery program.** This strategy is based on: (i) improving governance and building capacity; (ii) accelerating sustainable economic growth that benefits all; and (iii) developing basic public services. Growth policies will be based on sound macroeconomic management and expedited structural reforms aiming to promote private sector development. To ensure that the macroeconomic and financial components of the PRS-II are implemented and to facilitate the mobilization of external resources and the debt relief necessary for its success, we have drawn up a three-year program for July 2007–June 2010, for which we request IMF support under the Poverty Reduction and Growth Facility (PRGF). The purpose of this memorandum is to describe the broad outline of that program and the actions that will be taken in the first year.

II. Economic Environment and Reforms: Recent Developments

4. **The new government inherited a difficult economic and social situation.** In 2006 the economic indicators continued to erode in the wake of the breakdown of governance, owing in particular to a lax monetary policy and the lack of fiscal discipline. By year's end, inflation accelerated to nearly 39 percent on a year-on-year basis, GDP growth slowed to 2.2 percent, official exchange reserves shrank even further, and external arrears began to mount again from mid-2006. The overall fiscal deficit widened to approximately 2.9 percent of GDP and was financed by a very sizable increase in the central bank credit to the government. As a result, monetary aggregates expanded rapidly and put increased pressure on prices and the exchange rate, further encouraging the dollarization of deposits and transactions.

5. **Certain measures adopted in the first quarter of 2007 to restore social peace are proving costly in both economic and fiscal terms.** In January 2007, inflationary slippages and the level of corruption, which the public increasingly resented, triggered general strikes and social unrest that brought economic activity and government operations to a halt for several weeks. A tripartite agreement put an end to the strikes in February 2007, but at the cost of reductions in taxes (on petroleum products and rice) and wage hikes that further dampened the fiscal outlook. Moreover, temporary bans on exports of food and forestry products had to be put in place in an effort to contain their prices, with adverse effects on the balance of payments and the incomes of agricultural workers, among whom the poverty rate is especially high.

6. **Beginning from April 2007, the new government took bold steps to stabilize the macroeconomic environment, restore fiscal discipline, and tighten monetary policy.** In the area of government finance, the amount of central bank advances to the government leveled off in reaction to the strict application of a monthly cash plan beginning in April; extrabudgetary expenditure and ad hoc tax exemptions were prohibited; and nonpriority expenditure was strictly controlled. This fiscal policy and stricter application of the reserve requirement for bank deposits facilitated the tightening of monetary policy. These measures have begun to yield positive results. Consequently, the Guinean franc has strengthened since the beginning of the year and the inflation rate fell back to 17 percent in September 2007.

7. **The government also took resolute steps to enhance the transparency of government actions and governance, including in the key extractive industries sector.** We decided to review the existing mining contracts, in view of the international best practices, particularly with regard to the taxation of mining activities. The government published the results of the audit of fiscal revenues from mining sector for 2005 (cf. site web www.laurore.info) in the context of the Extractive Industries Transparency Initiative (EITI). It decided to continue and even deepen audits pertaining to revenues for 2006 to determine whether the payments made by the mining companies were strictly in line with their contractual obligations. In addition, a full assessment of our public finance management

(PFM) was completed in 2007 and will serve as a major starting point for the reforms envisaged in this area. Lastly, management audits of all government agencies are under way.

8. **The BCRG also began correcting the serious deficiencies in governance and policies uncovered in the external audit of the 2006 financial statements and by the expert commission appointed by the prime minister.** Serious accounting errors are being corrected and a plan to improve the internal control of the central bank operations was adopted. Payments on behalf of the central government or other government entities circumventing the approved budgetary procedures, especially those without the prior authorization of the Minister of Finance, and the posting of such payments to reconciliation or suspense accounts were prohibited. As provided by the law, the BCRG's 2006 financial statements have been sent for publication to the *Journal Officiel* on November 30, 2007.

III. Medium-term Macroeconomic Framework

9. **To reverse the upward trend of poverty since the start of the decade, we intend to promote stronger economic growth.** Our objective is to lower the incidence of poverty to 49 percent in 2010 from 54 percent in 2005. To accomplish this, we will need to achieve average annual real GDP growth of 5.3 percent over the 2008–10 period, compared to 2.6 percent in 2004–06, to enable an average increase of 2.3 percent in per capita income per year. This growth target will be sustainable only if we restore the stability of prices (inflation will be lowered to 15 percent by end-2007 and gradually to 5 percent by end-2010) and strengthen our external position (gross foreign exchange reserves should increase to the equivalent of 3 months of imports of goods and services by end-2010). We plan to achieve these targets by implementing strict macroeconomic policies, improving conditions for private sector development, and carrying out major infrastructure programs to remove the main obstacles to growth.

10. **The primary fiscal objectives will be to increase government revenue and reorient expenditure toward the priority sectors defined in our strategy, to the extent that this is compatible with macroeconomic stability and the reduction of public debt.** The weight of public debt service in public expenditure—the main cause of the fragility of government finances—should be brought to a sustainable level. This assumes, first, a prudent debt strategy based on the elimination of external and domestic arrears, the exclusive use of concessional financing sources to meet external financing needs, the expected substantial relief from our external debt, and the restructuring of government obligations to the central bank. We also plan to gradually bring the basic primary fiscal balance to more than 4 percent of GDP. Accordingly, the government aims to increase tax revenue by at least 2 points of GDP over the course of three years to 15.5 percent in 2010, primarily by expanding the tax base and improving the tax collection, including in the mining sector. To achieve this, the government will continue reducing tax and customs exemptions, particularly through a thorough revision of the investment code, and will modernize the revenue-collecting units and enforce controls over them by applying performance contracts.

11. **The additional resources mobilized from reduction in debt service and donor support will be used primarily to increase expenditure in the priority sectors**, particularly those that affect the access of the poor to basic social services (education and health) and the social safety net protecting vulnerable segments of the population. These expenditures will gradually increase from 35.5 percent of primary expenditure in 2006 to 42 percent in 2010. A youth employment program will be launched and the development of public infrastructures will be accelerated.

12. **Monetary policy will focus on the objective of controlling base money growth.** Such a policy will provide the economy with a solid nominal anchor for controlling inflation. It will be greatly facilitated by the elimination of all financing of the Treasury by the central bank, so that a sufficient margin will be maintained for the development of bank financing of the economy. New permanent deposit and refinancing facilities will be introduced and the central bank's policy rates will be regularly adjusted to accommodate monetary policy requirements. Our priorities in the foreign exchange policy will be to maintain the current floating exchange regime while continuing to restore confidence in our currency. This will create conditions for gradually replenishing our exchange reserves and improving the market mechanisms upon which the valuation of our currency is based.

13. **In view of the strong potential of Guinea's mining sector, the establishment of a transparent and stable framework to promote investment in this sector will underpin the primary outlook for sustained medium- and long-term growth.** Reform of the mining code and the adoption of model contracts will be the main components of that framework. Several major projects financed by foreign direct investment are planned to increase the capacity to produce bauxite and alumina, as well as develop iron ore deposits. These investments are expected to be spread over the coming eight years and could total an estimated US$27 billion, approximately half of which being carried out during the term of the program. Although the operations of these projects will begin after 2010, their construction should contribute significantly to growth in the next three years.

14. **The maintenance of an open trade system is an important element of our growth and export diversification strategy**. The government already aligned its tariff with the WAEMU common external tariff in 2005 and participates actively in other regional trade integration initiatives. In particular, it supports the rapid creation of a free trade area in the ECOWAS countries. The government also plans to follow up on the recommendations of the Diagnostic Trade Integration Study (DTIS) in order to reduce the obstacles to domestic and international trade. The DTIS identified agriculture, fisheries, and tourism as export diversification sectors. The build up of export capacities in agriculture and fishing will create employment opportunities and income for rural population where poverty is the most widespread. In this context, we will remove all restrictions on exports of these products and of forestry products by end-2007. The effort will also involve the development of adequate infrastructures and warehousing facilities, better service coverage throughout the country, and promotion of the provision of services to exporters. The government will implement a

forestry development strategy both to promote an efficient timber industry and to protect the environment.

15. **The objectives of our program cannot be achieved without an improvement in governance and in the quality of government and central bank policies.** Initially, this improvement will involve the clarification and enforcement of existing laws and regulations. First and foremost, this concerns fiscal management (including all revenue and expenditure phases) and management of the central bank (including reestablishing accurate accounting and strict internal control, as well as transparent operating by the foreign exchange market). With assistance from the IMF and our development partners, reform and modernization plans will be implemented in the first year of the program in these two areas, together with efforts to combat corruption and reform the civil service, public enterprises (in particular EDG and SEG), and the judiciary.

16. **The government will continue to improve the management of the civil service with a view to controlling the wage bill, establishing ethical rules, and promoting a performance culture.** It will make a special effort to remove ghost workers. A staff redeployment policy will be implemented to remedy the overstaffing observed in certain departments and to meet the needs of priority sectors. In the context of modernizing human resources management, instruments for forward-looking management of skills and of positions (organic frameworks) will be developed and more sustained efforts will be made to provide staff training. A motivating compensation system will be developed and put in place to promote a merit and performance-based culture.

17. **The government aims to restore the viability of public enterprises that are in difficulty, particularly in the electricity sector and, to a lesser extent, in the water and telecommunications sectors.** This will first require rehabilitation of the existing infrastructures and improvement of the quality of service, while at the same time eliminating the implicit and explicit government subsidies they have been granted. Based on the audits currently under way, performance contracts will be adopted or updated for these three enterprises. These contracts will call for the restoration of financial equilibrium, including through anti-fraud efforts and the adjustment of tariff rates.

18. **The resumption of our privatization program will allow for increased private sector participation in economic and social development.** The public sector remains heavily involved in the economy. The government holds stakes in 45 public enterprises. Over the 2007–10 period, it is expected that government holdings in about 25 enterprises will be privatized. Finally, the government holds a major share of improved and unimproved real estate property in the country, which is a major impediment to the access of businesses and private individuals to land. The management of the improved real estate property will be centralized and placed under the direct authority of the ministry in charge of government holdings. An inventory will be taken and lease rates will be revised upwards to reflect market value. In addition, the program to sell off such property will be reactivated with complete

transparency, and all revenue from the sale of government assets will be deposited in the Treasury account, as required by law.

19. **Aware of the crucial role of a properly functioning judiciary in implementing the poverty reduction strategy and promoting the private sector in the economy, the Government will deepen reforms already under way with the assistance of its development partners.** In particular, this will involve effective application of the uniform acts of the OHADA treaty, notably the act concerning banking law. Moreover, cases of misappropriation of funds uncovered in the aforementioned audits will be submitted to the courts.

20. **The stability and development of financial intermediation are key to the success of the program.** At present, the payment system is outdated; the access of enterprises to credit is more or less limited to the financing of imports of petroleum products and rice; there are no medium-term loans, particularly for SMEs; and microcredit is available only to a small proportion of the population and is disconnected from the banking system. In addition to reorganizing the central bank, we plan as quickly as possible to draw up a plan to reform the financial sector. Accordingly, we have submitted a request for participation in the Financial Sector Assessment Program (FSAP) managed by the World Bank and the IMF.

IV. Economic and Financial Program for the Period July 2007–June 2008

21. **The priorities for the first year of the program will be to implement the emergency program and to prepare and begin carrying out action plans in the priority areas outlined above.** First, this will involve building on the progress made in stabilizing the economy and strengthening the authority of the central government in all domains. We will return promptly to best practices in the matter of governance, based on the enforcement of laws, regulations, and court decisions and, if need be, the strengthening of existing laws and regulations. We will also undertake specific programs—financed in large part by development partners—to restore minimum access to water and electricity and to rehabilitate public equipment and infrastructure destroyed in the social unrest that occurred in early 2007.

22. **We foresee the resumption of growth (in early 2008), in tandem with our continuing macroeconomic stabilization efforts.** In the second half of 2007, the pace of growth will remain relatively slow owing to the gradual fiscal adjustment and restrictions on exports of certain products. In 2008, growth will likely get a new impulse from the recovery of private investment, particularly in the mining sector, as a result of the expected improvement in the business climate and the restoration of the macroeconomic stability. Our program therefore projects growth of close to 5 percent in 2008. The inflation rate, which we aim to lower to 15 percent by end-2007, should continue to fall and amount to no more than 10 percent by end-2008. Finally, the foreign exchange reserves of the BCRG will gradually increase to 1.0 months of import coverage by end-2008. The fiscal, monetary, and foreign exchange policies applied in the first year of the program, as well as the structural and governance reforms, are described in the following.

A. Fiscal Policy

23. **Strict observance of the 2007 budget law, approved by the National Assembly in July 2007, is key to fiscal consolidation.** The budget provides for a reduction in the overall deficit (excluding grants, on commitments basis) from 4.3 percent of GDP in 2006 to 1.7 percent of GDP in 2007, a fiscal adjustment that is in line with our macroeconomic stabilization objective. The basic primary balance surplus (excluding grants, interest on debt, and externally financed expenditure) will be 3.0 percent of GDP, with total revenue equivalent to 12.9 percent of GDP and current primary expenditure equivalent to 8.7 percent of GDP.

24. **The budget is based on revenue-enhancing measures, particularly in the nonmining sector.** Fiscal controls have been strengthened, especially for enterprises that have declared successive losses over the course of several years. Application of the unique identification number of the taxpayer has been systematized, particularly at the customs. The tax and customs exemptions granted under the investment code and other agreements will be no longer extended without prior approval of the Finance Minister and verification of their conformity to the existing legislation. All nonconforming exemptions will be eliminated by end-June 2008 at the latest.

25. **Budget expenditure in 2007 reflects government priorities.** Spending in the priority sectors is projected to increase from 3.6 percent of GDP in 2006 to 3.7 percent of GDP. The budget also calls for more realistic appropriations for sovereignty expenditures and for water and electricity consumption, as well as expenditure covering part of the cost of the legislative elections to be held in 2008 (GNF 73 billion, of which GNF 58 billion from foreign sources).

26. **The 2007 budget does not envisage further reliance on central bank advances, in line with the authorities' intention to prohibit such financing in the charter of the central bank.** Advances and all claims of the central bank on the government as at June 30, 2007 were consolidated and securitized in August 2007. The securitization agreement provides for reimbursement over a maximum term of 20 years for securities unrelated to foreign exchange losses. The budget envisages moderate reliance on net issuance of treasury bills to banks to facilitate the repayment of previously rescheduled domestic debt as well as the repayment of domestic arrears. Similarly, the budget calls for the clearance of all external arrears.

27. **Execution of the 2007 budget will broadly conform to the original budget law.** To deal with rising international prices and fulfill the preceding government's commitments to social partners, the government has established a time-limited program of price subsidies for several staple goods, including rice and sugar, amounting to approximately GNF 20 billion, financed by reallocation of other subsidies and government transfers. Moreover, the government plans to undertake the equivalent of GNF 83.3 billion in additional expenditure by end-2007 under the emergency program decided last May, to be financed entirely with

external assistance. The budget execution will continue to be subject to strict monthly monitoring in the context of treasury committee meetings under the aegis of the prime minister. As the 2007 budget law reaffirms, new spending commitments will not be made after November 30, 2007 to avoid the issuance of payment orders after the end of the calendar year. The government will keep the stock of pending treasury payments, including pending repayments of VAT credits and domestic debt payment arrears, below a ceiling of approximately two months of basic nonwage primary expenditure.

28. **The 2008 budget that we submitted to the National Assembly on October 11, 2007 will extend the adjustment efforts begun in 2007, with the basic primary balance kept above 3.3 percent of GDP.** The projected growth of revenue will facilitate the reorientation of expenditure toward the priority sectors and will make any recourse to central bank financing unnecessary, all this to avoid compromising our macroeconomic stabilization objective.

- On the revenue side, we project a slight increase in mining receipts (from 3.4 percent of GDP in 2007 to 3.6 percent of GDP in 2008) as a result of the delayed effect on revenue of the increase in international prices of bauxite and alumina. As a precautionary measure, we do not foresee any effect in 2008 from the proposed revision of certain mining agreements. Conversely, all the measures we will take to boost the productivity of revenue collection agencies and expand the tax base should result in an increase in nonmining revenue of the order of 1.1 points of GDP.

- On the expenditure side, the budget calls for a significant increase in capital expenditure and, with regard to current expenditure, a decrease in subsidies and military expenditure in favor of the priority sectors—education first and foremost. A large part of the increase in the wage bill will be aimed at overhauling the system of bonuses and incentives, particularly for managerial level staff to narrow the sizable gap vis-à-vis the private sector. We will also honor all commitments made by the government in 2007 regarding the hiring of contractuals in the civil service and improving the situation of teachers.

B. Tax Administration and Fiscal Management

29. **The government plans to expedite the modernization of the tax and customs administrations based on the recommendations of IMF technical assistance missions.** A list of performance indicators will be drawn up by end-December 2007 with each of the revenue collection agencies; quarterly targets will be set and the necessary resources will be made available. Financial incentives for staff will be increased. In addition, effective cooperation between the two administrations will be established and the computerization of the various tax offices will be accelerated. Regarding nontax revenue, the government will review all the existing revenue appropriations granted to public enterprises and will return to the Treasury any appropriations that are not justified. Box 1 contains detailed information on the planned key measures.

Box 1. Guinea—Key Tax Revenue Measures for 2007–08

- Adoption of performance contracts between revenue collection agencies and the Ministry of Finance for 2008, based on performance indicators pertaining to fiscal control and tax collection for the National Tax Administration (NTA) and reduction of exemptions and efficiency of revenue collection for the National Customs Administration (NCA) (December 2007).
- Strengthening of revenue collection procedures, including through the effective use of notices to third parties for uncooperative taxpayers.
- Review of the conformity of tax conventions with the existing legislation and enforcement of its application (cancellation when enterprises do not honor their commitments) (June 2008).
- Amendment of the Customs Code to incorporate international best practices and reflect the adoption of the new customs tariff based on the WAEMU common external tariff (Article 24); adoption of implementing regulations, particularly those related to exemptions from conventions and exceptional regimes (June 2008).
- Application of international standards to customs clearance procedures under the transit regime and enhanced inspection of goods under that regime and the suspension regime (December 2007).
- Elimination of reference values for rice, wheat, sugar, and cigarettes (with modification of excise taxes and of the tariff classification to adjust the overall levy accordingly) and use of the transaction value in the clearing of goods, in accordance with Article VII of the WTO agreement on customs valuation (2008 Budget Law).
- Establishment of direct computer access for the NTA to individual customs records (June 2008).
- Adoption of the decree establishing the powers of the NTA's department for medium-size enterprises (December 2007).
- Monitoring by the NTA of the results of programmed management audits of the accounts of mining enterprises over the 2000–06 period.

30. **The government wants to make a decisive break with past practices and apply basic international standards to public finance management (PFM).** To accomplish this, a reform strategy and a 2008–10 priority action plan for the improvement of PFM will be finalized by December 2007. This plan will be prepared and monitored by a steering committee and a support unit within the framework of an international partnership. It will cover the entire expenditure procedure from budget preparation to submission of the budget review law to the National Assembly, as well as execution, audit and supervision procedures, and data reporting.

31. **Measures in the PFM area will be adopted without delay, specifically to enhance budget preparation and execution and the activities of the audit teams.** To ensure the incorporation of PRS-II objectives in the budget, the Budget Directorate will draw up medium-term expenditure frameworks beginning with the preparation of the 2009 budget. The introduction of a functional budget classification will allow for better identification and better tracking of poverty reduction expenditure. The regular procedure for executing public expenditure, which now covers only a small fraction of expenditure, will be rehabilitated and the use of exceptional procedures will be limited; in particular, the simplified procedure applicable to procurement contracts will be eliminated. In addition, the ongoing decentralization of expenditure payment authorization to the sectoral ministry level will be

completed in 2007. The transparency of government accounting and of the Treasury balance will be enhanced. The responsibilities of the audit teams and, in particular, of the financial supervision unit, the General Finance Inspectorate (IGF), and the General Government Inspectorate (IGE) will be clearly defined and delineated and their performance more closely monitored. In the 2008 budget we have given the IGF and the IGE the resources they will need to improve their performance. We will also ensure that the findings and recommendations of their reports are followed up and we will publish their annual activity report. The specific measures to be implemented in 2007–08 are summarized in Box 2.

Box 2. Guinea—Key Public Finance Management Measures for 2007–08

Budget preparation

- Revise the budget classification to conform it to the classification recommended in the IMF *Government Finance Statistics Manual* and identify poverty expenditure on that basis (March 2008).
- Prepare an overall medium-term budgetary framework and expenditure frameworks for the health and education sectors, linking budget appropriations to sectoral programs and objectives in time for preparation of the 2009 budget (March 2008). The preparation of expenditure frameworks for other priority sectors will be spread out over the 2009–10 period.

Budget execution

- Prohibit all extrabudgetary expenditure.
- Issue a decree stating which expenditures are eligible for simplified procedures, including those without prior commitments (December 2007).
- Place in service a secure computer link between the Treasury and the BCRG to increase transparency and the ensure prompt processing of financial transactions (end-January 2008).
- Complete the decentralization of the administrative expenditure phase of the budgetary process (end-December 2007).
- Resume consolidated cash management by returning to the Treasury the accounts of government entities and public institutions currently held in commercial banks and at the central bank, including project accounts recording counterpart entries of the national development budget (June 2008).
- Prohibit overdrafts in all Treasury accounts, except those controlled by senior government accountants (on a continuous basis).

Accounting, budget audit, and financial information pertaining to the budget

- Complete the government chart of accounts update (June 2008).
- Standardize the Treasury balance accounts (June 2008).
- Each month, verify the balances of the accounts of revenue collection agencies at the central bank (on a continuous basis).
- Within a period of one month, carry out a monthly reconciliation of the balances of government accounts at the BCRG with the Treasury balance (on a continuous basis).

Legal framework

- Adapt the fundamental law concerning budget laws and the general regulation on government accounting to the reforms under way (June 2008).

32. **We will also continue reforming the public procurement system with World Bank support.** The aim of the reform is to rationalize the legal framework, entrust management to decentralized and deconcentrated levels so that the units currently involved retain authority only to ensure the regularity of procurement and the effectiveness of contract

performance. A revised public procurement code will be submitted to the National Assembly by end-June 2008. To enhance transparency, we plan to publish the results of all invitations to bid on procurement contracts within 30 days of the end of each month starting from January 2008, and a quarterly audit report on the largest public procurement contracts according to a sampling method agreed with the World Bank (within a period of three months, beginning with the first quarter of 2008). We hope thereby to meet one pending trigger for the HIPC completion point.

33. **We will also adopt measures to strengthen the domestic debt management systems.** The primary measures in this area will relate to: (i) strengthening the monitoring of domestic public debt and arrears; (ii) audits of domestic claims on the government which are in dispute, if necessary with the assistance of qualified audit firms; and (iii) update of the 2005 audit of domestic arrears and implementation of a plan to clear such arrears.

34. **The government intends to realize major savings through stricter management of its personnel and thus free up resources to hire staff in the priority sectors.** The following measures will be taken to that effect:

- Regularization of personnel records by reconciling the civil service record with that of the payroll department (March 2008).
- Removal of ghost workers by periodically reconciling the list of actual active staff, certified by each ministry, with the staff on the records of the payroll department (December 2008).

C. Monetary and Foreign Exchange Policy

Monetary policy

35. **The disinflation objective will be pursued through firm control of base money growth by the central bank.** In 2007, our goal will be to keep the money supply expansion well below the nominal GDP growth, to harness inflation pressures and offset the excessive liquidity that built up in 2006. In 2008, the goal will be to roughly align the growth of the money supply with nominal GDP growth. Achieving these targets will be facilitated by our decision to eliminate definitively any new advances from the BCRG to the government. Considering our goal of gradually rebuilding the central bank's net foreign assets, the program projections allow for a sufficient margin of increase (around 36.1 percent in 2007) for net credit to the private sector.

36. **To achieve our monetary policy objectives, we plan to energize our liquidity management and strengthen the existing indirect monetary policy instruments and coordination between the central bank and the Treasury.** The BCRG will make a special effort to manage bank liquidity, primarily by issuing central bank bills and (depending on the needs of the Treasury) Treasury bills. Accordingly, it will reactivate the bank liquidity

monitoring committee and will keep its policy rates at levels compatible with its monetary objectives. The BCRG will also ensure that commercial banks continue to scrupulously observe the required reserve ratio (currently 9.5 percent) and will apply the regular sanctions for noncompliance, if necessary. It will consult IMF staff should adjustments of that ratio or of policy interest rates prove necessary.

37. **With IMF assistance, the BCRG will complete its indirect monetary control mechanism.** Two permanent deposit and refinancing facilities will be put in place to provide flexibility in determining the interest rates of Treasury bill and TRM auctions. The caps on commercial bank lending and deposit rates will be eliminated by end-December 2007.

Exchange policy

38. **The authorities want to base the determination of the exchange rate to market mechanisms, while at the same time minimizing exchange rate volatility.** Until April 2007, loosened monetary policy and central bank purchases of foreign exchange outside the banking sector contributed to the depreciation of our currency and to a rising premium on the parallel market. Early in the year, the local currency appreciated considerably as a result of a temporary shortage of banknotes, the expectation of economic reforms created by the political handover, and, in the second quarter, the drastic reduction of the central bank's foreign exchange purchases. Today, the central bank is seeking to gradually rebuild exchange reserves through transparent interventions on the official market.

39. **The central bank will address the operational problems of the official foreign exchange market and make a special effort to reduce the sizable exchange rate premium between the official and parallel market rates.** First, it will publish the details of the official exchange rate calculation and its application. The central bank transactions (including with the government) will be made within the limit of 1 percent around the daily average exchange rate applied by the commercial banks. Moreover, it will launch an interbank exchange market. An exchange market agreement (*convention de place*) was signed in September 2007 by all banks to establish the basis for conducting foreign exchange operations among them. A framework for the efficient and transparent conduct of central bank exchange operations on that market will be put in place shortly with IMF support. The reduction of the parallel market premium and stricter enforcement of the exchange regulation, particularly with regard to capital transactions, should make it possible to halt the trend toward the dollarization of our economy, to domicile a larger proportion of export earnings in banks and thus develop the interbank market. As soon as possible, the determination of the official exchange rate will be based on that market's transactions.

Bank supervision

40. **The central bank will increase its surveillance missions to banks and insurance companies.** It will step up off-site audits and on-site inspections of banks. The new bank chart of accounts will take effect on January 1, 2009. An action plan to rehabilitate the

insurance sector and reform the insurance code will be prepared by end-June 2008. Daily tracking of the exchange position of banks will be instituted.

41. **The development of microfinance will be encouraged.** With AFRITAC technical assistance, the central bank will conduct a new survey of the locations of microfinance institutions throughout the entire national territory. It will also upgrade its financial data reporting system, strengthen the service capabilities of the bank supervision directorate, and will draft implementing regulations for the new law on microfinance.

D. Reform of the Central Bank Governance

42. **Building on the work of the panel of experts appointed by the prime minister and with IMF assistance, the government has undertaken a complete reform of the central bank.**[1] This reform will focus in particular on the central bank's charter, its administrative organization, its accounting and internal and external control procedures, and the transparency of the information it produces. To that end, a package of measures will be taken during the first year of the program:

- Application of international standards to the oversight management and accounting of the foreign exchange reserves, and reorganization of the central bank's Foreign Exchange Directorate (January 2008).
- Implementation of the recommendations of the external audit of BCRG financial statements at end-2006 to correct accounting errors and reform internal control procedures (end-2007).
- Establishment of a reliable internal audit system under the supervision of the Board of directors of the central bank, through the adoption of an internal audit charter and the effective organization of the audit committee (October 2007).
- Submission to parliament of a draft law amending the charter of the central bank in order to clarify its responsibilities, guarantee its independence, ensure the transparency of its operations, and prohibit any financing of the government (June 2008).
- Finalization of the audit of the 2007 financial statements and publication on the Internet of the financial statements and audit reports for 2006 and 2007 (August 2008).
- Establish an external audit policy that provides for ongoing annual audits of the BCRG's financial statements in accordance with International Standards on

[1] This reform will focus in particular on implementing the recommendations of a the recent IMF safeguards assessment mission.

Auditing. Prepare an action plan for implementing International Financial Reporting Standards as the BCRG's financial reporting framework (June 2008).

E. Other Structural Reforms

43. The focus will be on the electricity and water sectors, telecommunications, the mining sector, the privatization of public enterprises, the promotion of good governance, and combating corruption.

44. **With the support of our development partners, from 2008 we expect to enhance the financial situation in the EDG and SEG, while improving their management and services provided.** By end-2007, the two enterprises will agree with their supervisory ministry and the finance ministry on quantitative targets for 2008 regarding operational deficit and reduction of technical, commercial, and payment collection losses. Efforts will be stepped up to eliminate the fraudulent use of water and electricity. Sufficient appropriations were programmed into the central government budget to pay for water and electricity consumption and instructions will be given for the timely payment of invoices. The situation of cross arrears with the government at end-June 2007 will be updated and a settlement plan will be adopted in 2008. If necessary tariff rate adjustments will be made on an urgent basis in early 2008 so that the enterprises can reach their financial objectives. In addition, the ongoing study of the overall policy on electricity and water rates will be completed by end-June 2008 with a view to rationalizing the rate structure by end-2008.

45. **The legal framework governing the operation and output of the mining sector will be revised.** Model contacts based on international best practices will be finalized with World Bank assistance by end-April 2008. They will clearly delineate the exceptions provided for in the 1995 Mining Code for projects exceeding US$50 million. The government will undertake to revise the existing contracts to harmonize and align them with international standards, based on these model contracts. The taxation of the mining sector will be reviewed and amended in consultation with the IMF and the World Bank.

46. **The government envisages to finalize several privatization deals during the first year of the program.** The government plans to prepare for sale some or all of its holdings in at least four companies: GHI (Novotel), Union Guinéenne d'Assurance et de Réassurance (UGAR), Société Mixte de Carburant Aéronautique de Guinée (SOMCAG), and Société de Production Chimique (SOPROCHIM). The government also plans to sell Hôtel Niger, Hôtel Camayen, and the real estates including Hôtel Kaloum. The sale of some of the government's shares in Banque Populaire Maroco-Guinéenne (BPMG) and in Société des Ciments de Guinée is also planned for 2008. In addition, the Société de Production d'Allumette de Guinée (SOPAG) will be liquidated by end-December 2007.

47. **Through end-June 2008, the government will gradually reinstate the formula-based mechanism for monthly adjustments of petroleum products prices in line with international prices.** This mechanism will contribute to ensuring continuous

supply and to regularizing the tax regime applicable to petroleum products. The government's outstanding debt vis-à-vis distribution companies at end-2006 will be reconciled as soon as possible, and settled as agreed in principle by both parties. If needed, a margin to settle losses incurred by distribution companies in 2007 will be introduced in the formula.

48. **The following measures will be adopted to improve transparency and governance and combat corruption:**

- Publication of audited reports in the context of EITI for 2006 (by end-June 2008).
- To promote ethical rules, adoption of a civil service code of professional conduct and specific charters for tax staff (June 2008).
- Submission to Parliament of an anti-corruption law, specifically providing for the mandatory declaration of assets for certain categories of senior officials (June 2008).
- Promulgation of decrees on the powers and operation of the Audit Office and the status of its judges; this institution will also be provided with necessary resources, and its financial autonomy will be confirmed (during 2008).
- Completion of ongoing audits in all ministerial departments and publication of the summary report, including the list of cases submitted to the courts (early 2008).
- Promulgation of U.N. and African Union anti-corruption agreements (during 2008).
- Promulgation of the anti-money laundering law passed by the National Assembly in 2006 and establishment of the financial intelligence unit provided for in that law (during 2008).
- Publication of the activity report of the national anti-corruption agency (March 2008).

F. External Financing

49. **The government will take all necessary steps to meet its obligations to external creditors in accordance with the established timetable and address all outstanding arrears.** Regarding debt service to the IMF, the BCRG will continue the quarterly prepayments to its SDR account to cover all payments falling due in the following quarter.

50. **The government will ask all its external creditors to approve generous debt relief measures, which will enable it to finance its program.** We have asked Paris Club creditors to reinstate the debt service relief and negotiate the settlement of external arrears (including arrears on post cut-off debt) in the context of the prospective PRGF-supported program. We have also applied to other bilateral creditors for debt relief on at least comparable terms. The

government is also asking for resumption of the interim assistance granted by the IMF under the enhanced HIPC Initiative. The authorities request the third tranche of interim HIPC assistance in the amount of SDR 4.848 million.

51. **To cover the financing requirements of the program without running the risk of once more compromising the sustainability of our external debt, the government will only contract assistance in the form of concessional loans and grants beginning in the final quarter of 2007.** The nonconcessional assistance that Guinea was forced to obtain in recent months to finance crucial imports will not be renewed. If our assumptions concerning rescheduling/relief of the above-mentioned debt are correct, the first year of the program, covering the period up to end-June 2008, will be fully financed. We expect that the financing gaps in the last two years of the program will be financed by additional assistance from donors, once this program is approved, and by additional external debt relief when we have achieved the HIPC Initiative completion point.

G. Improvement of Economic Statistics

52. **Better statistics are needed to monitor the program, particularly with regard to the national accounts, the balance of payments, and monetary statistics.** With support from the IMF and AFRITAC, revised national accounts with a new price base will be published up to 2005 by end-2008. In accordance with the new PRS-II, the government will adopt an overall plan to make significant improvements in the quality of macroeconomic statistics and develop appropriate poverty indicators. We plan to ask donors to provide financing for this plan.

H. Risks

53. **Attainment of the program objectives may be affected by the vulnerability of the Guinean economy to exogenous shocks, such as terms of trade fluctuation or the resumption of armed conflicts in neighboring countries.** The government believes that implementation of the present program will enhance its capacity to (i) respond appropriately to such shocks, by strengthening monetary and fiscal safeguards and the country's external position, and (ii) mobilize additional external resources. Moreover, as indicated in the PRS-II (section on risks), the government will endeavor to strengthen consensus among political and social players concerning its poverty reduction strategy and the objectives of this program, to ensure its complete success, regardless of the outcome of the coming elections.

I. Program Monitoring

54. **The government plans to complete the actions indicated in the attached Table 1 prior to consideration, by the IMF Executive Board, of Guinea's request to conclude a three-year arrangement under the PRGF.** To date, all the prior actions except one have been completed.

55. **Program implementation during the first year of the PRGF arrangement will be monitored with the quantitative and structural indicators** listed, respectively, in the attached Tables 2 and 3. The definitions of the relevant variables are contained in the Technical Memorandum of Understanding (TMU, Attachment II). Program implementation and actual economic results compared with programmed objectives will be discussed in two annual reviews, the first to be concluded by end-April 2008 (in accordance with the performance criteria established for December 31, 2007) and the second by end-October 2008 (in accordance with the performance criteria established for June 30, 2008). A unit that includes senior staff of the Ministry of Finance, Economy and Planning and the central bank has been set up to monitor program implementation.

56. **It is understood that the first disbursement under the PRGF arrangement will be available, upon the request of the Guinean government, immediately following approval of the arrangement by the Executive Board.** The second disbursement will be subject to fulfillment of the performance criteria established on December 31, 2007 and conclusion of the first review. The third disbursement will be contingent on meeting the performance criteria established on June 30, 2008 and conclusion of the second review. Additional performance criteria and structural benchmarks may be established in consultation with Fund staff during the first review. The timing, reviews, and other conditions governing disbursements for the second year will be determined in the second review of the arrangement.

57. **In the first year of implementation of the PRGF-supported program, the Guinean government will refrain from**:

a. imposing new exchange restrictions or tightening existing restrictions;

b. introducing multiple currency practices (MCPs) and modifying existing MCPs;

c. imposing or tightening import restrictions for balance of payments reasons;

d. concluding bilateral payment arrangements contrary to the Article VIII of the IMF Articles of Agreement.

Table 1. Guinea: Status of Prior Actions for the Poverty Reduction and Growth Facility

	Status of the measure
I. Quantitative benchmarks	
• End-July	Met
• End-August	Met
II. Central bank	
• Complete the external audit report on financial operations of the central bank in 2006	Met
• Sign an agreement between the Treasury and the central bank concerning the current level of the central bank claims on government and the repayment schedule, including a commitment that the central bank will make no payment for the account of the government without the prior approval of the Minister of Finance or his official representative.	Met
• Arrange for independent verification by an external auditor of the central bank balance sheet data at end-June 2007 that will be used to calculate quantitative performance criteria (i.e., net international reserves and net domestic assets of the central bank).	Met
• Adopt an action plan for the recommendations of the external audit of central bank financial operations in 2006.	Met
• Retain KPMG France to conduct the audit of central bank financial operations in 2007.	Met
• Establish a separate account at the Bank for International Settlements (BIS) for future disbursements under the PRGF. The design of the controls on this account will ensure that withdrawals from this account will require internal approval and independent verification by an external auditor.	Partially met [1]
III. Government finance	
• Prohibit all ad hoc tax and customs exemptions.	Met
• Prohibit all extrabudgetary expenditure.[2]	Met

[1] The central bank has requested an account for it be opened at the BIS and has drafted regulations on applicable controls. The regulations are expected to be transmitted to the central bank Board shortly.

[2] Extrabudgetary expenditure is defined as central government spending for which there is no budget appropriation or legal authorization.

Table 2. Guinea: Proposed Quantitative Performance Criteria and Indicative Targets for 2007–08 Under the PRGF Program[1]

(Cumulative change from end-June 2007 for the 2007 targets, and from end-December 2007 for the 2008 targets)

(Billions of Guinean francs unless otherwise indicated)

	2007			2008	
	end-Jun.[2] Est.	Sep. Prelim.	Dec.[3] Proj.	Mar. Proj.	Jun.[3] Proj.
Quantitative targets					
Basic fiscal primary balance (floor)	431.7	83.7	173.7	147.0	345.0
Net domestic assets of the central bank (ceiling)[4, 5]	2,085.2	-121.4	-45.2	67.0	61.9
Net international reserves of the central bank (floor); US$ millions[4, 5]	-90.2	4.3	20.9	6.1	32.8
Treasury float (ceiling)[6, 7]	295.0	0.0	0.0	5.0	5.0
New nonconcessional medium- or long-term external debt contracted or guaranteed by the government or central bank (ceiling); US$ millions	n.a.	28.5	28.5	0.0	0.0
Stock of outstanding short-term external debt due or guaranteed by the government or the central bank (ceiling); US$ millions	0.0	25.0	15.0	-15.0	-15.0
New external payments arrears (continuous ceiling); US$ millions[8]	77.8	89.1	0.0	0.0	0.0
Expenditure in priority sectors (floor)[6, 9]	257.7	255.1	482.1	240.0	493.3
Reserve money (ceiling)[5, 6]	2,002.3	-113.0	-37.1	80.1	157.3
Memorandum items:					
Exchange rate, GNF/US$ (program)	3,360.0				

Sources: Guinean authorities and IMF staff projections.

[1] For definitions and adjustors, see the technical memorandum of understanding (TMU).

[2] Flow over the first six months of 2007 for fiscal criteria and stock for end-June 2007 for monetary and external debt criteria.

[3] Performance criteria, unless otherwise indicated.

[4] Adjusted upward or downward by program external assistance as specified in the TMU.

[5] Calculated using the program exchange rates.

[6] Indicative target.

[7] Includes float, reimbursements due of VAT credits, and arrears on domestic debt recognized by the government.

[8] No new payment arrears starting from the Board presentation.

[9] Priority sectors include public health, education, urban planning, the environment, energy, and justice. The TMU has a detailed definition.

Table 3. Guinea: Structural Conditionality for the First Year of the Program

	Date of execution
I. Structural performance criteria	
• Independent verification by an external auditor of central bank balance sheet data that will be used to calculate quantitative performance criteria the (i.e., net international reserves and net domestic assets) at end-December 2007.	March 31, 2008
• Deposit of PRGF disbursements in a separate account at the Bank for International Settlements (BIS). Withdrawals from this account will be subject to the express authorization of the Governor or Vice Governor of the BCRG.	Continuous
• No payment by the central bank for the account of the government without the prior signature of the Minister of Economic, Finance, and Planning or his official representative.	Continuous
• Ad hoc tax and customs exemptions are prohibited.	Continuous
• Extrabudgetary expenditure is prohibited.	Continuous
• Submission of a draft law to Parliament amending the charter of the central bank to strengthen its independence and limit financing of the central government budget by the central bank.	June 30, 2008
• Lift the prohibition against exports of agricultural, forestry, and fishery products.	December 31, 2007
• Reinstate the mechanism for the monthly determination of oil prices based on a pricing formula.	June 30, 2008
II. Structural benchmarks	
• Publish the central bank's audited financial statements for 2006 and 2007 on its website, together with the opinion of the external auditor.	August 31, 2008
• Apply international standards to the oversight, management, and accounting of the foreign exchange reserves in accordance with the recommendations contained in the report on safeguard measures.	January 31, 2008
• Close all accounts of nonautonomous government entities at commercial banks, except those explicitly required by donors.	February 29, 2008

Table 3. Guinea: Structural Conditionality for the First Year of the Program (concluded)

	Date of execution
• Issue a ministerial decree stating which expenditures are eligible for simplified procedures and do not require prior authorization.	December 31, 2007
• Adopt in the Council of Ministers a standard mining contract based on international best practices.	April 30, 2008
• Adopt a budget classification based on the IMF Government Finance Statistics Manual 2001 (particularly the economic and functional classifications) and define poverty-reducing expenditure based on the functional classification.	June 30, 2008
• Finalize and publish the results of the audit of mining sector revenue and expenditure in 2006 in the context of the Extractive Industries Transparency Initiative.	June 30, 2008
• Adopt an overall strategy and a rate policy for the electricity sector.	December 31, 2008
• The BCRG will ensure the compliance of commercial banks with the required reserves ratio on their deposits and the system of sanctions provided for that purpose.	Continuous

ATTACHMENT III. TECHNICAL MEMORANDUM OF UNDERSTANDING (TMU)

December 4, 2007

I. INTRODUCTION

1. This technical memorandum sets out the understanding between the Guinean authorities and the staff of the International Monetary Fund (IMF) concerning the definition of quantitative performance criteria and indicative targets for the program supported by the PRGF arrangement, as well as the type of data to be reported to the IMF.

2. The quantitative performance criteria, indicative targets, and cut-off dates are set out in Table 2 of the Memorandum on Economic and Financial Policies (MEFP).

II. MAIN DEFINITIONS

A. Quantitative Performance Criteria

3. The **basic primary fiscal balance** is calculated as the difference between **government revenue excluding grants** and the **government's basic primary expenditure**. The definitions of terms in bold above are consistent with the definitions of the Government Financial Operations Table (TOFE), the method of calculation of which is described in Section V below.

4. The **net domestic assets** (NDA) of the BCRG are, by definition, equal to the difference between base money (defined below) and net foreign assets (NFA) of the BCRG, both calculated at the program exchange rate as indicated below. NFA are equal to the difference between the gross foreign assets of the BCRG, including foreign assets that are not part of reserve assets, and the foreign liabilities of the BCRG (in other words, NDA=base money – NFA, based on the BCRG balance sheet).

5. The **net international reserves** (NIR) of the BCRG are, by definition, equal to the difference between the reserve assets of the BCRG (i.e., external assets immediately available to and controlled by the BCRG, in accordance with the fifth edition of the IMF *Balance of Payments Statistics Manual*), and the foreign exchange liabilities of the BCRG vis-à-vis residents and nonresidents (including the foreign exchange deposits of local banks with the BCRG). In the context of the program, the BCRG's reserve assets in gold will be valued at the price in effect on June 29, 2007 (US$650.50 per ounce) for the second half of 2007 and at the price on December 31, 2007 for 2008. On the dates of valuation, the equivalent in U.S. dollars of other reserve assets and liabilities in foreign exchange will be calculated at the program exchange rate, i.e.: for the second half of 2007 at the exchange rate in effect on June 29, 2007 between the U.S. dollar and the Guinean franc (GF 3,360/US$), the SDR (US$1.51557/SDR), the euro (US$1.3505/€), and the other currencies published in

International Financial Statistics; and for 2008, at the exchange rate in effect on December 31, 2007.

6. **Medium- and long-term external debt contracted or guaranteed by the government or the central bank** is defined as the amount of **external debt** (see Section C below) contracted by the government or the central bank with a maturity of one year or more during the period under review. Debt is considered **concessional** if it has a grant element equivalent to 35 percent or more using the currency-specific commercial interest reference rate (CIRR) on the currency of the loan and following the methodology set out in staff papers.[1] This definition does not apply to financing granted by the IMF.

7. **Short-term external debt contracted or guaranteed by the government or the central bank** is defined as the stock at a specific date of **external debt** owed or guaranteed by the government or the central bank with an initial contractual maturity of less than one year. Regular suppliers' credits linked to imports are excluded from this definition for the purposes of the program, as are deposits in foreign currencies at the central bank.

8. **External arrears of the government or the BCRG** include all debt-service obligations (principal and interest) arising from loans contracted or guaranteed by the government or the BCRG that are due but not paid on the due date, and unpaid penalties or interest charges associated with these loans. For the purposes of this performance criterion, an arrear will be defined as a payment which has not been made within 30 days after falling due.

9. **Extrabudgetary expenditure** is defined as central government spending for which there is no budget appropriation or legal authorization.

B. Indicative Targets

10. Payments pending are outstanding expenditures assumed by the Treasury (see definition below) and not yet paid, including reimbursements of VAT credits, and arrears on domestic debt that are recognized by the government.

11. **Expenditure in priority sectors** includes spending under Title 2 (wages and salaries), Title 3 (goods and services), Title 4 (transfers and subsidies), and Title 5 (domestically financed investment) by the Ministries of (i) Justice and Human Rights, (ii) Agriculture, Livestock, Environment, Water Resources, and Forests, (iii) Fisheries and Aquaculture, (iv) Public Works, Urban Planning, and Housing, (v) Public Health, (vi) Social Affairs, Status of Women and Children, (vii) Education and Scientific Research, and

[1] A more detailed discussion of the concessionality concept and a calculator to estimate the grant element of a financing package is available at the IMF website at http://www.imf.org/external/np/pdr/conc/index.htm.

(viii) Energy and Hydraulics. This expenditure also includes spending under Title 6 (Financial Investment and Capital Transfers) by the Ministry of Public Health as well as utility charges for water, electricity, and telephone (Title 3 of the ministries listed above). However, they exclude spending under Title 4 and Title 6 in connection with university instruction.

12. **Base money** includes deposits of local banks and the private sector with the BCRG (including bank's required reserves) denominated in Guinean francs or in foreign currency, central bank money in circulation in Guinean francs, and the cash holdings of local banks in Guinean francs. Amounts in foreign exchange are converted into Guinean francs at the program exchange rates (as defined in the paragraph on net international reserves).

C. External Debt

13. As indicated in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by the IMF Executive Board on August 24, 2000, for purposes of the program, "debt" will be understood to mean current, i.e., not contingent, liabilities, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services; these payments will discharge the principal and/or interest liabilities incurred under the contract. **External debt** can take a number of forms, the primary ones being the following:

- **loans**: advances of money to the obligor by the lender on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' or suppliers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements, official swap arrangements, or leases);

- **suppliers' credits:** contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and

- **leases**: arrangements under which property is provided that the lessee has the right to use for one or more specified periods of time, which are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of this memorandum, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments that cover the operation, repair, or maintenance of the property.

14. Under this definition of debt, the arrears, penalties, and judicially awarded damages arising from failure to make payment under a contractual obligation that constitutes debt are also considered debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

III. Adjustments to Program Targets

15. The NIR and NDA targets of the program are calculated on the basis of the projected amounts of **net external assistance.** For the purposes of the program, net external assistance is defined as the difference between: (a) total budgetary assistance (grants and loans) and the impact of debt relief granted by external creditors after June 30, 2007; and (b) total external debt service payments owed after relief already obtained. The impact of future debt relief excludes all debt relief under the HIPC (including interim assistance) and MDRI Initiatives.

16. The floor on NIR and the ceiling on NDA will be subject to simultaneous adjustment if disbursements of net external assistance (as defined above) differ from program projections. The floor on NIR will be adjusted upward (downward) and the ceiling on NDA downward (upward) and by an amount equal to the surplus (shortfall) in actual net external assistance compared to expected net external assistance. For the purpose of calculating the adjustment for NDA, the amount of net external assistance will be converted into Guinean francs at the program exchange rate. For a shortfall in net external assistance, the total downward adjustment of NDA will be capped at the equivalent of US$20 million at the program exchange rate.

IV. Information for Program Monitoring

17. The information concerning the implementation and/or execution of structural benchmarks under the program (specified in Table 3 of the MEFP) will be reported to the IMF African Department within two weeks following their scheduled implementation date. The status of implementation of all other structural measures pertaining to the program will be transmitted within 30 days after the end of each month.

18. The authorities will send the data summarized in Table 1 to the IMF's African Department within the time limits set out in that table. Barring any indication to the contrary, the data will take the form mutually agreed by the authorities and the IMF. The authorities will supply the Fund with any additional information that its staff requests in connection with monitoring performance under the program.

V. Definitions for the TOFE

19. Unless otherwise indicated, the **government** is defined as the central administration of the Republic of Guinea and does not include local administrations, the Central Bank of the Republic of Guinea (BCRG), or any other public entity with autonomous legal personality, including government administrative agency.

20. **Government revenue** includes tax and nontax revenue. It does not include external grants and revenue from privatization (recorded as financing). Tax and nontax revenue are defined on a cash basis, in accordance with the IMF *Government Finance Statistics Manual (GFSM)* 1986, section IV.A.1, using the following categories. For tax revenue, the main categories are taxes on income, profit, and dividends (Title 1); taxes on property (Title 2); taxes on international trade (Title 3), including import duties, the export duty (*droit fiscal de sortie*), the surtax on consumption, the liquidation levy (*redevance de liquidation*) and penalties related to international trade; taxes on goods and services (Title 4), including general sales taxes, value-added taxes on domestic sales and on imports, the single tax on vehicles (TUV), the tax on financial transactions, taxes on petroleum products, and export taxes on mining products, including the tax on mining products, taxes on diamonds, and taxes on precious metals. Other tax revenues (Title 5) include stamp taxes and revenue from recording fees. Tax receipts also incorporate the taxes assumed by the State for the purchase of externally financed capital goods. Nontax revenue consists of royalties and dividends (excluding revenue from the sale of telephone licenses), administrative duties and fees and fines and forfeitures (Title 6), and other nontax revenues (Title 7), including incidental revenue and capital revenue (Title 8). Capital revenue includes revenue from the sale of government assets, excluding revenue from privatization.

21. Starting in 2008, **government expenditure** is measured in the stage of assumption *(prise en charge)* by the Treasury, regardless of the execution procedure followed. Under regular or simplified procedures, the expenditure is assumed by the Treasury immediately after the payment order *(ordonnancement)* is issued; in the case of decentralized government appropriation (*délégations de crédit*) or payments without prior payment order, assumption occurs at the time of recording of the payment order *(mise en paiement)*, and in the latter case, no expenditure will be measured at the basis of the regularization orders *(mandatements de régularisation)*. For reimbursements of VAT credits, assumption occurs when those requests are transmitted from the National Tax Directorate to the Treasury. For 2007, government expenditure is measured on a commitment *(engagement)* basis. Government expenditure includes all expenditures of the central government, including subsidies and transfers to autonomous public entities, and loans granted or onlent by the government to public enterprises and other sectors of the economy, net of repayments on such loans.

22. **Basic primary expenditure** is defined as total budgetary expenditures less domestic and external interest outlays, and expenditure financed with foreign loans or grants or counterpart funds.

23. **Bank financing** includes (i) **central bank financing of the Treasury**, i.e., the change in the Treasury's net position at the central bank (TNP1) including the HIPC account but excluding the change in the net position of "satellite" government accounts at the central bank; and (ii) **commercial bank financing of the Treasury**, which includes the change in the stock of Treasury bills held by banks and excludes the change in the net position of "satellite" government accounts held in commercial banks.

24. **Nonbank financing** includes (i) amounts paid to resident holders of government securities; (ii) amounts owed to holders of government securities which have been rescheduled under an agreement signed by the two parties; (iii) revenue from privatization, including revenue from the sale of telephone licenses; (iv) advances of mining receipts received (positive sign) or paid out (negative sign); (v) suppliers' credits falling due in more than three months received (positive sign) or repaid (negative sign); and (vi) the retirement of other domestic debt.

25. **External financing** includes (i) disbursements of external loans; (ii) principal owed on government external debt, (iii) relief and rescheduling of government external debt, minus HIPC assistance obtained from multilateral institutions, which are considered part of grants; and (iv) change in foreign assets.

Table 1. Guinea: Data Reporting Requirements

Category of Data	Table/Report	Frequency	Deadline
Financial and monetary data	Central bank balance sheet, consolidated balance sheet of commercial banks, monetary survey (at both the current and program exchange rate)	Monthly	30th of the month for the previous month
	Detailed net treasury position (NTP) and net government position (NGP)	Monthly	30th of the month for the previous month
	Interest rates and outstanding volumes of government and central bank securities (*BDT* and *TRM*)	Monthly	30th of the month for the previous month
	Prudential indicators of commercial banks	Quarterly	One month after end of quarter
	Foreign exchange budget (*budget en devises*)	Monthly	30th of the month for the previous month
Fiscal data	Table of indicators (*tableau de bord*), including a detailed statement of revenue, expenditure, and cash-flow operations	Monthly	30th of the month for the previous month
	Treasury balances (*balances générales du Trésor*)	Monthly	30th of the month for the previous month
	Cash-flow plan (*plan de trésorerie*)	Monthly	30th of the month for the previous month
	Monthly government flow of funds table (*TOFE*)	Monthly	30th of the month for the previous month
	Expenditure reports by ministries in expenditure circuit (*chaîne des dépenses*)	Monthly	30th of the month for the previous month
	Execution of budgetary expenditure, HIPC resources, and other priority expenditure	Monthly	30th of the month for the previous month
	Outstanding Treasury float, including reimbursements of VAT credits, and arrears on domestic debt recognized by the government	Monthly	30th of the month for the previous month
	Nonbank financing, indicating transactions in Guinean francs and those in foreign currencies.	Monthly	30th of the month for the previous month
Real sector data	Consumer price index, Conakry	Monthly	30th of the month for the previous month
	National accounts	Annual	Summary estimates: three months after the end of year
Balance of payments data	Imports by use and exports by major product, trade balance	Monthly	Three months after end of quarter
	Price and volume indices of imports and of exports	Quarterly	Three months after end of quarter
	Consolidated estimates of the balance of payments	Annual	Summary estimates: six months after the end of year
External debt	Debt service due before and after debt relief	Monthly	30th of the month for the previous month
	Debt service paid	Monthly	30th of the month for the previous month
	Debt service reconciliation table	Monthly	30th of the month for the previous month
	Stock of outstanding debt and arrears	Monthly	30th of the month for the previous month
	Drawings on new loans	Monthly	30th of the month for the previous month
External grants and loans	Disbursements	Quarterly	30th of the last month of the quarter for the preceding quarter
	Monthly transfers of amounts of HIPC Initiative debt relief, by creditor	Monthly	30th of the month for the previous month

ATTACHMENT IV. JOINT IMF-WORLD BANK DEBT SUSTAINABILITY ANALYSIS

Guinea is in debt distress*, and would remain at a high risk of debt distress into the medium term in the absence of the country's reaching the Completion Point under the Enhanced HIPC Initiative and benefiting from the Multilateral Debt Reduction Initiative (MDRI). If the HIPC Completion Point is reached by end-2008, the external debt burden will decline to a sustainable level from that point. Results of the public sector DSA indicate that Guinea's domestic debt is significant but is expected to decrease over time.*[1]

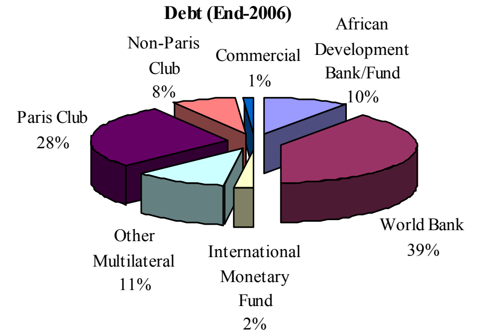
A. Background

1. **This debt sustainability analysis (DSA) updates the analysis of the external and public debt of Guinea that was carried out in 2005**.[2] It applies the methodology of the Fund-World Bank debt sustainability framework (DSF) for low income countries. In accordance with the framework, this DSA compares the expected trajectory of debt indicators with the thresholds for countries with weak policies and institutions (Table 1).[3]

2. **Guinea reached the decision point under the Enhanced HIPC Initiative in December 2000, qualifying for US$545 million (in NPV terms) in debt relief.** In 2001–02, interim debt relief was provided by all main creditors including the IMF, the International Development Association (IDA), the African Development Bank (AfDB), and Paris Club members. After the PRGF went off-track at end-2002, many creditors, including the majority of Paris Club members, discontinued interim relief. At the same time, the AfDB continued interim relief but eventually exhausted resources allocated to that purpose. Only IDA and two Paris Club creditors continued providing interim relief to date. As a result of policy slippages and dwindling debt relief, Guinea has had difficulties servicing its external debt since 2003.

3. **At end-2006, Guinea's public and publicly guaranteed external debt was US$3,188 million, or 101.5 percent of GDP**. Multilateral creditors accounted for 63 percent of the total, with the IDA and the AfDB group accounting for more than four-fifths of the multilaterals' share (Figure 1). The Paris Club group of creditors accounted for 28 percent of total, while non-Paris Club and commercial creditors made up the rest. Like many HIPC countries, the

Figure 1: Creditor Group Composition of External Debt (End-2006)



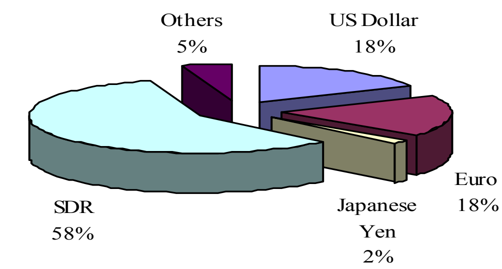
[1] The DSA has been produced jointly by Bank and Fund staffs. The fiscal year for Guinea is January 1 to December 31.

[2] Appendix V of IMF Country Report No. 06/37, January 2006.

[3] Guinea's average score under the World Bank's Country Policy and Institutional Assessment (CPIA) in 2004-06 was 2.9.

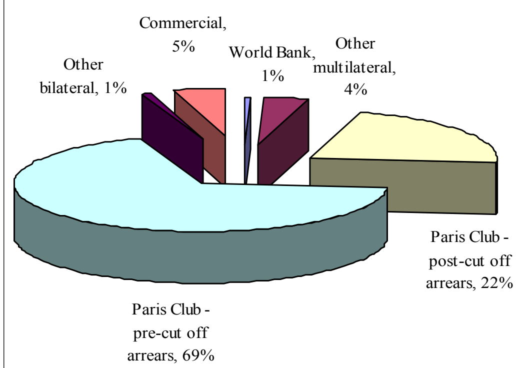
currency composition of Guinea's external debt leaves it vulnerable to changes in the U.S. dollar exchange rate against major international currencies. With 78 percent of the external debt denominated in Euro, Yen and SDR (Figure 2), the depreciation of the U.S. dollar against major international currencies since the decision point has increased the U.S. dollar value of the debt.

Figure 2: Currency Composition of External Debt (End-2006)



4. **The external debt service arrears reached nearly US$191 million at end-2006** (Figure 3). The Paris Club members accounted for 90 percent of the arrears, and commercial creditors and multilateral institutions for 5 percent each, including 1 percent for IDA (there was no overdue obligation to the IMF).[4] Arrears to the Paris Club members accrued on both pre-cut-off and post-cut-off debts. The former largely represents arrears on payments covered by the interim HIPC assistance that was discontinued by a majority of creditors after the PRGF program went off-track at end-2002.

Figure 3: Creditor Group Composition of External Arrears (End-2006)



B. External Debt Sustainability Analysis

Baseline scenario

5. The baseline macroeconomic framework underpinning this DSA assumes implementation of sound macroeconomic policies and structural reforms, focusing on those aimed at improving governance. The average growth assumption (5 percent during 2008–27) is also predicated on measures to remove bottlenecks to the business climate, invest in infrastructure, and promote the provision of electricity and other basic services. In addition, the implementation of large mining projects is expected to lead to the gradual expansion of mining production from 2010 onwards (Box 1).[5]

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[4] Arrears are defined as payments past due date. This may differ from the definitions applied by the creditors.

[5] The baseline is consistent with the macroeconomic framework envisaged for the period 2007–10 in the context of a program to be supported by a PRGF arrangement and the 2007 consultation under the Article IV of the IMF articles of agreement. However, the latter reflects the impact of the debt stock reductions under the enhanced HIPC and MDRI initiatives that would result from Guinea reaching the HIPC completion point. The HIPC completion point and MDRI debt relief is presented here in the alternative scenario.

6. **Consistent with current guidelines,**[6] **the baseline scenario assumes only interim flow relief in 2008.** It is projected that some creditors will provide interim HIPC debt relief according to the HIPC decision point and the subsequent Paris Club debt agreement.

7. **Under the baseline scenario, Guinea is in debt distress** (Table 1, Figure 4)**.** At end-2006, the debt burden indicators were well above the indicative policy-based thresholds. Also, the country has accumulated substantial external arrears in the recent years. In the baseline scenario, several debt burden indicators are projected to remain above the thresholds for the next 10–12 years.[7] In particular, the NPV of debt-to-exports ratio is estimated at 186 percent at end-2006, well above the indicative threshold of 100 percent, and is not projected to go below this threshold until 2020. However, the ratios of debt service to export and revenues can fall below the thresholds as soon as in 2008 reflecting both the projected resumption in interim HIPC debt relief by some creditors and a projected increase in fiscal revenues (Box 1).

Table 1: Policy-Based External Debt Burden Indicators

	Thresholds [1]	Guinea's Ratios							
		Baseline					HIPC and MDRI scenario		
		2006	**2007**	**2008**	**2009**	**2008-27** [2]	**2008**	**2009**	**2008-27** [2]
NPV of debt in percent of:									
Exports	100	186	160	157	146	107	59	60	67
GDP	30	65	41	43	41	29	16	17	18
Revenues [3]	200	530	364	313	282	187	119	115	115
Debt service in percent of:									
Exports	15	19	16	8	13	8	8	5	5
Revenues [3]	25	53	37	15	24	14	15	10	8

[1] Policy indicative thresholds as used in the joint IMF-World Bank LIC DSA framework for a weak policy performance. The quality of policies and institutions is measured by the World Bank's CPIA.
[2] Simple average.
[3] Revenues excluding grants.

[6] International Monetary Fund, 2007, "Staff Guidance Note on the Application of the Joint Fund-Bank Debt Sustainability Framework for Low-Income Countries," IMF Policy Paper and IDA document no 39748.

[7] The thresholds are based on the empirical finding that low-income countries with stronger policies and institutions tend to have a higher debt carrying capacity. See IDA and IMF, "Operational Framework for Debt Sustainability Assessments in Low-Income Countries—Further Considerations" (IDA/R2005–0056), April 2005.

Box 1. Guinea: Macroeconomic Assumptions Underlying the DSA

Real GDP growth is projected to pick up from the average of 3½ percent in the past ten years to an annual average of 5 percent over the projection horizon. The higher growth is predicated on government's planned policies to consolidate macroeconomic stability, upgrade and expand public infrastructure, and strengthen governance. Also, several large mining projects are currently in the implementation stage; they are expected to boost production capacity from 2010 onwards.

Average annual **inflation** as measured by the CPI is expected to decelerate sharply from 35 percent in 2006 and an expected 23 percent in 2007 to single-digit levels in 2009 and to stabilize at 5 percent from 2011 onwards. This inflation projection reflects the authorities' commitment to refraining from monetary financing of the budget deficit and strengthening the central bank capacity to use policy instruments for controlling monetary aggregates.

The **GDP deflator** is expected to be broadly in line with the CPI inflation, while the GDP deflator in U.S. dollar terms will take into account the US inflation, projected to remain within 2–3 percent. This implies a stabilization of the real exchange rate from 2008. For 2007, however, the baseline scenario envisages a strong increase of the nominal GDP in U.S. dollar terms consistent with the appreciation of the local currency in the first ten months of the year.

Export growth is projected to average at about 7 percent over 2007–10 and about 8 percent over 2011–27. The medium-term export projections are affected by the large investments in the mining sector. Excluding official transfers, the **external current account deficit** is assumed to expand from 6.5 percent of GDP in 2006 to 15.2 percent in 2011 and then gradually decrease to 13 percent by 2027, reflecting the projected increase in FDI-related imports over this period.

The **primary fiscal surplus** (including grants) is projected to stay positive over the medium term, gradually decreasing from 2.4 percent of GDP in 2007 to 1.2 percent in 2010 and to 0.7 percent on average in 2011–27. The envisaged broadening of the tax base and strengthening of customs and tax administration would help raise revenue by about 3 percentage points of GDP over the next five years. At the same time, public expenditures would have to increase to address the substantial social and infrastructure needs of the country.

Donor support is projected to increase, assuming the timely implementation of the authorities' new poverty reduction strategy. New grants and concessional loans are expected to be mobilized in equal proportions on top of the already committed financing, which is biased towards loans. For the new loans, the average grant element is projected to remain significantly above the standard threshold of 35 percent for the time of the possible new PRGF arrangement (2007–10), and would slowly decline thereafter.

8. **The baseline macroeconomic projections are subject to significant risks.** A relaxation of fiscal and monetary policies and protracted delays in the strengthening of the central bank and public finances or in the implementation of an effective regulatory and attractive tax frameworks for key sectors of the economy would put into question the assumptions on growth, external support and official reserve accumulation. They would also increase Guinea's external vulnerability.

9. **Guinea's debt burden indicators are particularly sensitive to exogenous shocks and a reversal to historical trends.** Sensitivity analyses indicate that the baseline debt burden indicators are most vulnerable to exogenous shocks to export growth and to a one-time depreciation of the Guinean franc against the U.S. dollar. Under these most extreme stress tests, debt ratios exhibit a significant level increase and are slower to return to policy-based thresholds (see the most extreme stress tests in Figure 4). Sensitivity to exchange rate assumptions is also illustrated in a scenario where key macroeconomic variables remain at their historical averages from 2007 onwards. Under this scenario, Guinea's external debt ratios would snowball, reflecting mostly the assumed continuation of the sharp real exchange rate depreciation that Guinea experienced over the past ten years.

Alternative scenario envisaging HIPC completion point and MDRI

10. **An alternative scenario that simulates HIPC and MDRI debt relief indicates a sharp reduction in the risk of debt distress at the expected HIPC completion point** (Figure 4, HIPC/MDRI scenario). The HIPC debt relief would reduce projected annual debt service due to Paris Club creditors by about three quarters.[8] Upon reaching the HIPC completion point, the country will also become eligible for debt relief under the MDRI, which would write-off all debt obligations to IDA incurred up to end-2003, and the IMF and AfDB debt obligations incurred up to end-2004.[9] The implementation of HIPC and MDRI debt relief at end-2008 would eliminate about 60 percent of Guinea's outstanding external debt at end-2008 (in net present value terms). This would proportionally reduce Guinea's external debt ratios at end-2008, which would remain well below the policy-based thresholds afterwards (Table 1).

11. **Even after the completion point is reached, Guinea's debt sustainability will remain vulnerable to adverse exogenous shocks—especially from exchange rate fluctuations—and policy reversal.** This highlights the importance of rapid achievement of the Completion Point, sustained implementation of sound fiscal, monetary and structural policies, and a prudent debt strategy, which includes contracting external loans only on concessional terms.

C. Public Sector Debt Sustainability Analysis

12. **Guinea's domestic debt is significant but is expected to decrease over time.** At end-2006, identified government domestic debt amounted to about 15 percent of GDP, of which about three quarters consisted of advances from the central bank, the rest being treasury bills owned by commercial banks (6 percent) and securitized arrears to the private sector (20 percent). The baseline macroeconomic scenario assumes a reduction in the level of domestic debt, as a result of the projected fiscal consolidation and elimination of central bank financing of the budget.

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[8] The staff estimates for HIPC completion point debt relief are based on authorities' data and subject to loan data verification and confirmation in the detailed pre-completion point debt analysis (HIPC DSA).

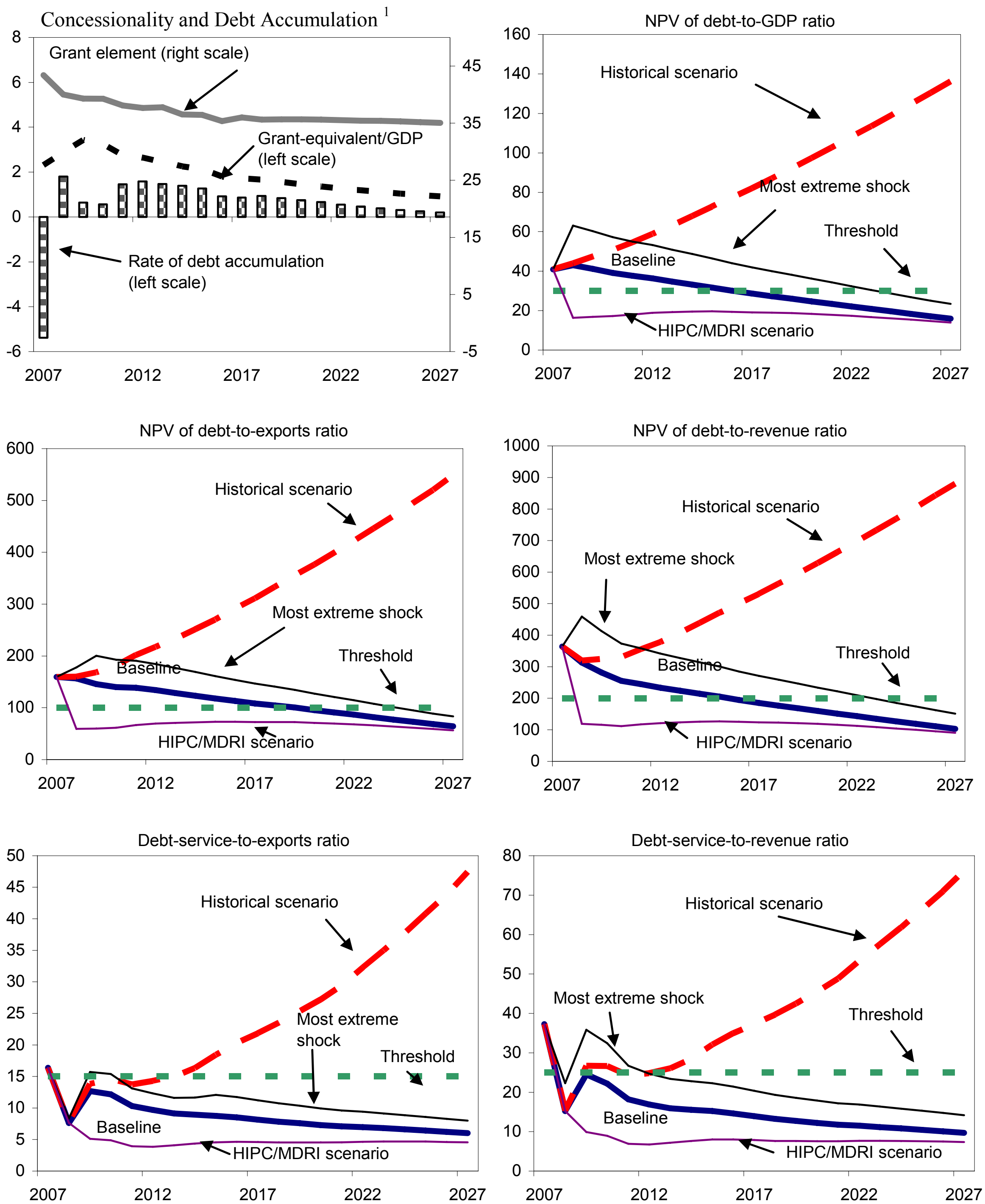
[9] The MDRI does not impact the status of new debt accumulated to multilateral creditors after those dates.

13. **The debt sustainability analysis shows a relatively rapid improvement of public sector debt indicators** (Table 4). The NPV of public sector debt is projected to decline from over 80 percent of GDP at end-2006 to half this level in 2012. Similarly, the debt service-to-revenue ratio decreases from about 78 percent of the government revenues in 2006 to 31 percent in 2012. The sensitivity analysis indicates, however, that the pace of debt reduction may be significantly affected by policy reversal or exogenous shocks, which would increase the risk of debt distress over the medium term. In the no reform scenario, in which the primary balance is maintained at its 2006 level , debt burden indicators remain well above the baseline scenario, although they continue to improve over time. A one-time 30 percent real depreciation in the Guinean franc and real GDP growth at historical level minus one standard deviation in 2008–09 (the most extreme stress tests) would also generate a significant increase in the debt burden indicators (Figure 5).

D. Conclusion

14. **The debt sustainability analysis concludes that under the baseline scenario Guinea is and would remain at a high risk of debt distress into the medium term** in the absence of the country's benefiting from the Enhanced HIPC Initiative and the Multilateral Debt Reduction Initiative (MDRI). Under the alternative scenario assuming that the HIPC completion point is reached by end-2008, the external debt burden would decline to a sustainable level from that point. However, even after benefiting from HIPC and MDRI, Guinea's debt sustainability would remain vulnerable to adverse exogenous shocks and policy reversals. These conclusions highlight the importance of a rapid attainment of the HIPC Completion Point, sustained implementation of sound macroeconomic and structural policies, and a prudent debt strategy. Results of the public sector DSA indicate that Guinea's domestic debt is significant but is expected to decrease over time. The sustainability analysis indicates, however, that the pace of public debt reduction may be significantly affected by policy reversal or exogenous shocks.

Figure 4. Guinea: Indicators of Public and Publicly Guaranteed External Debt
Under Alternative Scenarios, 2007–27



Source: IMF and World Bank staffs projections and simulations.

[1] Concessionality of new borrowing and debt accumulation under the baseline scenario.

Table 2. Guinea: External Debt Sustainability Framework, Baseline Scenario, 2007–27 [1]

(Percent of GDP, unless otherwise indicated)

	Actual	Historical	Standard	Projections									
	2006	Average [7]	Deviation [7]	2007	2008	2009	2010	2011	2012	2007–12 Average	2017	2027	2013–27 Average
External debt (nominal) [1]	**101.5**			**65.7**	**67.8**	**65.5**	**62.6**	**59.7**	**57.1**		**42.9**	**22.5**	
Of which: public and publicly guaranteed (PPG)	101.5			65.7	67.8	65.5	62.6	59.7	57.1		42.9	22.5	
Change in external debt	3.4			-35.8	2.1	-2.3	-2.9	-2.9	-2.5		-2.6	-1.7	
Identified net debt-creating flows	4.5			-0.1	-0.5	-2.9	-2.3	-1.6	-1.3		-1.2	-1.6	
Non-interest current account deficit	**4.5**	**4.1**	**2.5**	**8.4**	**12.4**	**10.3**	**11.7**	**14.3**	**14.3**		**13.6**	**12.3**	13.3
Deficit in balance of goods and services	4.6			8.8	12.1	11.1	12.5	15.0	14.9		14.0	12.4	
Exports	34.9			25.6	27.5	28.2	28.0	27.1	27.1		26.4	24.8	
Imports	39.6			34.5	39.5	39.4	40.5	42.1	42.0		40.4	37.2	
Net current transfers (negative = inflow)	-0.1	-0.2	0.6	-0.2	0.1	0.1	0.0	0.0	0.0		0.1	0.1	0.1
Of which: official	-0.6			-0.5	-0.3	-0.1	-0.1	-0.1	-0.1		-0.1	-0.1	
Other current account flows (negative = net inflow)	-0.1			-0.2	0.2	-0.9	-0.8	-0.7	-0.7		-0.5	-0.2	
Net FDI (negative = inflow)	**-5.1**	**-1.3**	**2.0**	**-8.5**	**-10.1**	**-10.7**	**-11.5**	**-13.3**	**-13.3**		**-13.2**	**-13.1**	-13.2
Endogenous debt dynamics [2]	**5.1**			**0.0**	**-2.8**	**-2.4**	**-2.6**	**-2.6**	**-2.3**		**-1.6**	**-0.8**	
Contribution from nominal interest rate	1.4			1.0	0.5	0.9	0.8	0.7	0.7		0.5	0.3	
Contribution from real GDP growth	-2.2			-1.1	-3.2	-3.3	-3.4	-3.3	-3.0		-2.1	-1.1	
Contribution from price and exchange rate changes [3]	6.0			-30.6	…	…	…	…	…		…	…	
Residual (3–4) [4]	**-1.1**			**-5.1**	**2.6**	**0.6**	**-0.6**	**-1.3**	**-1.2**		**-1.5**	**-0.1**	
Of which: exceptional financing	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
NPV of external debt [5]	64.9			41.0	43.1	41.2	39.1	37.6	36.3		28.6	16.0	
Percent of exports	185.7			159.8	156.9	145.9	139.9	138.6	134.1		108.5	64.4	
NPV of PPG external debt	**64.9**			**41.0**	**43.1**	**41.2**	**39.1**	**37.6**	**36.3**		**28.6**	**16.0**	
Percent of exports	**185.7**			**159.8**	**156.9**	**145.9**	**139.9**	**138.6**	**134.1**		**108.5**	**64.4**	
Percent of government revenues	**530.0**			**363.7**	**313.4**	**282.1**	**255.0**	**244.8**	**233.3**		**185.2**	**103.3**	
Debt service-to-exports ratio (percent)	**18.6**			**16.4**	**7.6**	**12.7**	**12.2**	**10.3**	**9.7**		**8.1**	**6.0**	
PPG debt service-to-exports ratio (percent)	**18.6**			**16.4**	**7.6**	**12.7**	**12.2**	**10.3**	**9.7**		**8.1**	**6.0**	
PPG debt service-to-revenue ratio (percent)	**53.2**			**37.3**	**15.2**	**24.5**	**22.2**	**18.2**	**16.9**		**13.9**	**9.7**	
Total gross financing need (billions of U.S. dollars)	0.2			0.2	0.2	0.2	0.2	0.2	0.2		0.2	0.1	
Noninterest current account deficit that stabilizes debt ratio	1.1			44.2	10.3	12.6	14.6	17.2	16.8		16.3	14.0	
Key macroeconomic assumptions													
Real GDP growth (percent)	2.2	3.4	1.2	1.5	4.9	5.2	5.5	5.7	5.4	4.7	5.0	5.0	5.0
GDP deflator in U.S. dollar terms (change in percent)	-5.7	-4.9	9.1	43.2	-5.4	0.8	1.3	2.1	2.3	7.4	3.0	3.4	3.2
Effective interest rate (percent) [6]	1.4	0.9	0.7	1.5	0.7	1.4	1.3	1.2	1.2	1.2	1.2	1.5	1.3
Growth of exports of G&S (U.S. dollar terms, percent)	18.7	4.2	7.1	6.6	6.3	9.2	5.7	4.7	7.7	6.7	7.2	7.6	7.8
Growth of imports of G&S (U.S. dollar terms, percent)	21.1	3.2	9.3	26.6	13.7	5.7	9.9	12.2	7.6	12.6	7.3	7.6	7.6
Grant element of new public sector borrowing (percent)	...	...	...	43.4	40.0	39.3	39.3	38.1	37.7	39.6	36.0	35.1	35.8
Aid flows (millions of U.S. dollars) [8]	109.1			146.0	219.4	195.2	228.4	209.4	216.6		219.8	231.7	
Of which: Grants	39.9			79.4	71.5	66.9	70.9	72.6	73.1		76.3	88.2	
Grant-equivalent financing (percent of GDP) [9]	...			2.3	2.9	3.4	3.2	2.7	2.6		1.7	0.9	1.5
Grant-equivalent financing (percent of external financing) [9]	...			75.6	59.7	52.2	53.0	54.1	52.9		52.5	50.8	51.5
Memorandum items:													
Nominal GDP (billions of U.S. dollars) [3]	3.1			4.6	4.5	4.8	5.1	5.5	6.0		9.0	20.1	
(NPVt-NPVt-1)/GDPt-1 (percent)				-5.4	1.8	0.6	0.6	1.5	1.6	0.1	0.9	0.2	0.8

Source: IMF and World Bank Staffs simulations.

[1] Includes both public and private sector external debt.

[2] Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = growth rate of GDP deflator in U.S. dollar terms.

[3] Strong appreciation of the local currency in 2007 boosted the nominal GDP in U.S. dollar terms, which greatly contributed to the reduction of external debt to GDP ratio.

[4] Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

[5] Assumes that NPV of private sector debt is equivalent to its face value.

[6] Current-year interest payments due divided by previous period debt stock.

[7] Historical averages and standard deviations are derived over the past 10 years.

[8] Defined as grants, concessional loans, and debt relief.

[9] Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the NPV of new debt).

Table 3. Guinea: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2007–27
(Percent)

	Projections							
	2007	2008	2009	2010	2011	2012	**2017**	2027
NPV of debt-to-GDP ratio								
Baseline	41	43	41	39	38	36	**29**	16
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008–27 [1]	41	44	48	51	55	59	**82**	136
A2. New public sector loans on less favorable terms in 2008–27 [2]	41	44	43	42	41	40	**34**	23
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008–09	41	44	44	41	40	38	**30**	17
B2. Export value growth at historical average minus one standard deviation in 2008–09 [3]	41	45	46	44	42	41	**32**	17
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2008–09	41	47	53	50	49	47	**37**	21
B4. Net nondebt creating flows at historical average minus one standard deviation in 2008–09 [4]	41	50	55	53	51	49	**37**	18
B5. Combination of B1–B4 using one-half standard deviation shocks	41	47	54	51	49	48	**37**	20
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 [5]	41	63	60	57	55	53	**42**	23
NPV of debt-to-exports ratio								
Baseline	160	157	146	140	139	134	**108**	64
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007–26 [1]	160	160	168	181	202	218	**311**	549
A2. New public sector loans on less favorable terms in 2007–26 [2]	160	159	151	149	150	148	**130**	92
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008–09	160	157	146	140	139	134	**108**	64
B2. Export value growth at historical average minus one standard deviation in 2008–09 [3]	160	178	200	193	191	185	**147**	83
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008–09	160	157	146	140	139	134	**108**	64
B4. Net nondebt creating flows at historical average minus one standard deviation in 2008–09 [4]	160	182	196	189	188	181	**140**	74
B5. Combination of B1–B4 using one-half standard deviation shocks	160	169	180	173	171	166	**133**	76
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 [5]	160	157	146	140	139	134	**108**	64
NPV of debt-to-revenue ratio								
Baseline	364	313	282	255	245	233	**185**	103
A. Alternative Scenarios								
A1. Key variables at their historical averages in 200–26 [1]	364	320	325	331	356	378	**531**	880
A2. New public sector loans on less favorable terms in 2007–26 [2]	364	318	293	271	265	257	**222**	148
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008–09	364	322	298	269	259	246	**196**	109
B2. Export value growth at historical average minus one standard deviation in 2008–09 [3]	364	324	315	285	274	261	**204**	108
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2008–09	364	345	364	329	316	301	**239**	133
B4. Net nondebt creating flows at historical average minus one standard deviation in 2008–09 [4]	364	364	379	345	331	316	**239**	118
B5. Combination of B1–B4 using one-half standard deviation shocks	364	341	369	334	321	306	**240**	130
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 [5]	364	459	413	373	358	342	**271**	151

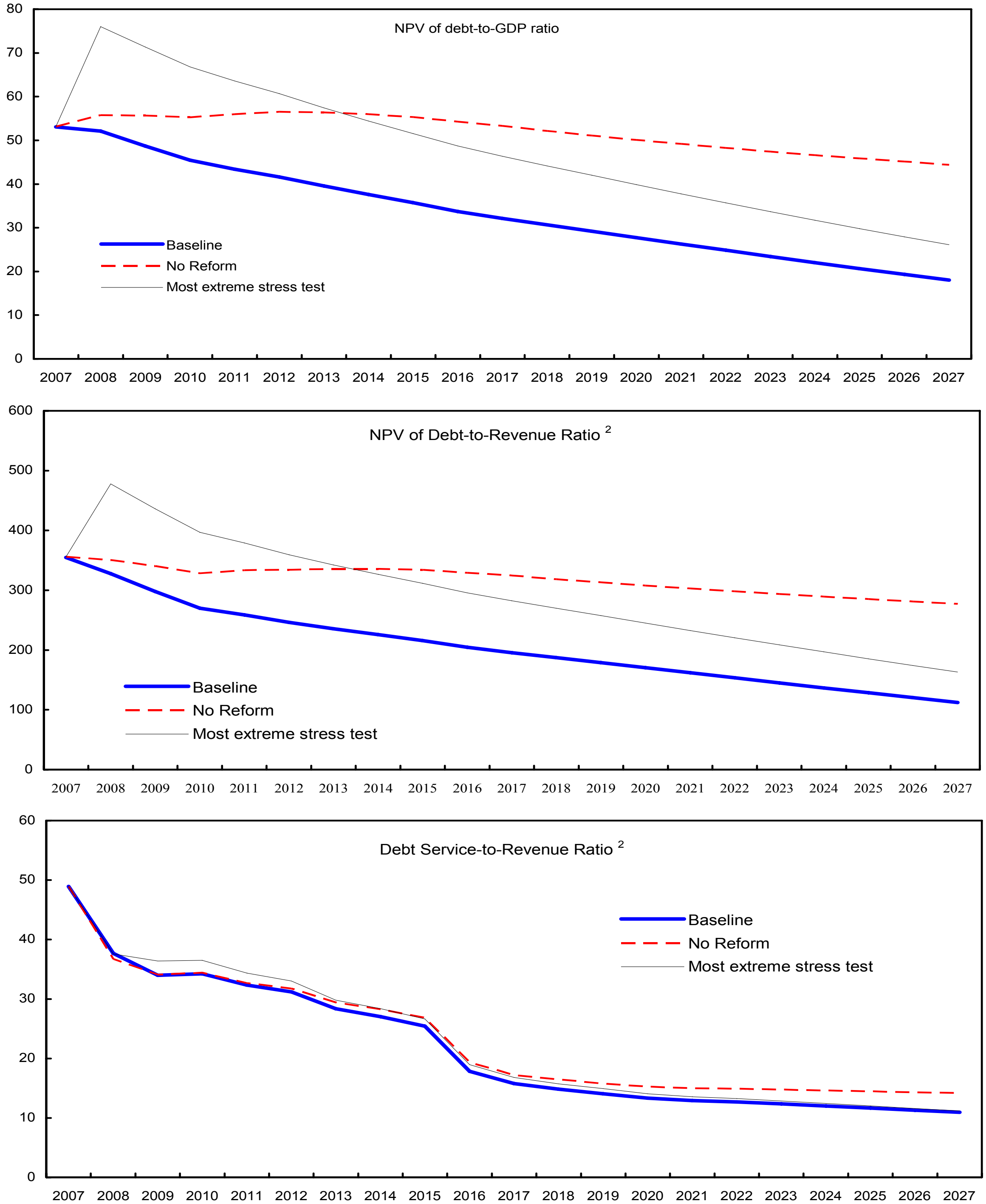
Table 3. Guinea: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2007–27 (concluded)
(Percent)

	Projections							
	2007	2008	2009	2010	2011	2012	**2017**	2027
Debt service-to-exports ratio								
Baseline	16	8	13	12	10	10	**8**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008–27 [1]	16	8	14	15	14	14	**22**	47
A2. New public sector loans on less favorable terms in 2008–27 [2]	16	8	13	13	11	10	**9**	8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008–09	16	8	13	12	10	10	**8**	6
B2. Export value growth at historical average minus one standard deviation in 2008–09[3]	16	8	16	15	13	12	**11**	8
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2008–09	16	8	13	12	10	10	**8**	6
B4. Net nondebt creating flows at historical average minus one standard deviation in 2008–09 [4]	16	8	13	13	11	11	**11**	7
B5. Combination of B1–B4 using one-half standard deviation shocks	16	8	15	14	12	11	**10**	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008[5]	16	8	13	12	10	10	**8**	6
Debt service-to-revenue ratio								
Baseline	37	15	24	22	18	17	**14**	10
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008–27[1]	37	15	27	27	24	25	**37**	76
A2. New public sector loans on less favorable terms in 2008–27[2]	37	15	25	23	20	18	**15**	13
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008–09	37	16	26	23	19	18	**15**	10
B2. Export value growth at historical average minus one standard deviation in 2008–09[3]	37	15	25	23	19	17	**16**	10
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2008–09	37	17	32	29	24	22	**18**	12
B4. Net nondebt creating flows at historical average minus one standard deviation in 2008–09 [4]	37	15	25	24	20	19	**19**	12
B5. Combination of B1–B4 using one-half standard deviation shocks	37	16	30	27	23	21	**18**	12
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008[5]	37	22	36	32	27	25	**20**	14
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline)[6]	38	38	38	38	38	38	**38**	38

Source: IMF and World Bank staffs projections and simulations.

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

Figure 5. Guinea: Indicators of Public Debt Under Alternative Scenarios, 2007–27 [1]



Source: IMF and World Bank staffs projections and simulations.

[1] Most extreme stress test is test that yields highest ratio in 2017.

[2] Revenue including grants.

Table 4. Guinea: Public Sector Debt Sustainability Framework, Baseline Scenario, 2006-2027

(Percent of GDP, unless otherwise indicated)

	Actual			Projections									
	2006	Historical Average [5]	Standard Deviation [5]	2007	2008	2009	2010	2011	2012	2007-12 Average	2017	2027	2013-27 Average
Public sector debt [1]	116.8			77.8	76.9	73.0	68.9	65.5	62.4		46.3	24.3	
Of which: external debt	101.5			65.7	67.8	65.5	62.6	59.7	57.1		42.9	22.5	
Change in public sector debt	-16.6			-39.0	-1.0	-3.9	-4.1	-3.5	-3.0		-2.8	-1.8	
Identified debt-creating flows	-23.5			-37.0	-2.0	-4.6	-4.7	-5.3	-4.8		-3.2	-2.3	
Primary deficit	-0.4	1.4	1.7	-2.4	-1.1	-1.2	-1.2	-1.4	-1.2	-1.4	-0.3	-0.7	-0.5
Revenue and grants	14.7			14.9	15.9	16.3	16.9	16.8	17.0		16.5	16.1	
Of which: grants	1.4			2.0	1.6	1.4	1.4	1.3	1.2		0.9	0.4	
Primary (noninterest) expenditure	14.3			12.6	14.8	15.1	15.7	15.4	15.7		16.2	15.4	
Automatic debt dynamics	-19.2			-32.4	1.0	-3.3	-3.5	-3.8	-3.6		-2.9	-1.6	
Contribution from interest rate/growth differential	-5.7			-4.6	-3.9	-4.0	-3.9	-3.7	-3.4		-2.5	-1.3	
Of which: contribution from average real interest rate	-2.9			-2.8	-0.2	-0.2	-0.1	0.0	0.0		-0.1	0.0	
Of which: contribution from real GDP growth	-2.8			-1.7	-3.6	-3.8	-3.8	-3.7	-3.3		-2.3	-1.3	
Contribution from real exchange rate depreciation	-13.5			-27.9	4.8	0.7	0.4	-0.1	-0.2		...	...	
Other identified debt-creating flows	-3.9			-2.2	-1.9	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	-1.7			-0.9	-0.5	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-2.2			-1.3	-1.4	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	6.9			-2.0	1.1	0.7	0.6	1.8	1.8		0.4	0.4	
NPV of public sector debt	80.2			53.0	52.1	48.7	45.4	43.4	41.6		32.0	17.8	
Of which: external debt	64.9			41.0	43.1	41.2	39.1	37.6	36.3		28.6	16.0	
NPV of contingent liabilities (not included in public sector debt)	...			...	...	...	...	...	...		...	...	
Gross financing need [2]	12.5			6.9	6.5	5.7	6.0	5.4	5.3		3.2	1.5	
NPV of public sector debt-to-revenue ratio (percent) [3]	546.1			355.0	327.5	298.6	269.1	257.6	245.3		194.3	111.0	
Of which: external	441.9			274.1	270.7	252.6	231.6	223.4	214.2		173.8	99.4	
Debt service-to-revenue ratio (percent) [3, 4]	78.2			48.9	37.7	34.1	34.1	32.3	31.1		15.7	10.9	
Primary deficit that stabilizes the debt-to-GDP ratio	16.2			36.6	-0.2	2.6	2.9	2.1	1.8		2.5	1.1	
Key macroeconomic and fiscal assumptions													
Real GDP growth (percent)	2.2	3.4	1.2	1.5	4.9	5.2	5.5	5.7	5.4	4.7	5.0	5.0	5.0
Average nominal interest rate on forex debt (percent)	1.9	1.5	0.3	1.2	0.8	1.5	1.3	1.2	1.2	1.2	1.2	1.5	1.3
Average real interest rate on domestic currency debt (percent)	-12.2	-1.7	7.0	-9.2	4.4	0.8	4.0	6.1	6.6	2.1	5.4	6.1	4.6
Real exchange rate depreciation (percent, + indicates depreciation)	-11.5	8.6	16.6	-28.3	...	...	...	...	...	...	...	...	...
GDP deflator (percent)	34.7	12.1	11.9	19.8	13.1	6.8	4.3	4.1	4.4	8.7	5.1	5.5	5.3
Growth of real primary spending (deflated by GDP deflator, percent)	17.3	3.6	12.9	-10.8	23.6	7.1	9.9	3.8	7.3	6.8	6.4	4.4	4.9

Sources: Guinean authorities; and IMF and World Bank staffs estimates and projections.

[1] Public sector debt covers only central government debt.

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

[3] Revenues including grants.

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

[5] Historical averages and standard deviations are derived over the past 10 years.

Table 5. Guinea: Sensitivity Analysis for Key Indicators of Public Debt, 2007-2027

	Projections							
	2007	2008	2009	2010	2011	2012	2017	2027
NPV of Debt-to-GDP Ratio								
Baseline	53	52	49	45	43	42	32	18
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	53	55	55	55	56	56	53	44
A2. Primary balance is unchanged from 2006	53	56	56	55	56	57	53	44
A3. Permanently lower GDP growth [1]	53	52	49	46	45	44	36	24
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009	53	54	53	50	49	48	40	27
B2. Primary balance is at historical average minus one standard deviations in 2008-2009	53	56	56	52	50	48	36	20
B3. Combination of B1-B2 using one half standard deviation shocks	53	56	57	53	51	48	37	20
B4. One-time 30 percent real depreciation in 2008	53	76	71	67	64	61	46	26
B5. 10 percent of GDP increase in other debt-creating flows in 2008	53	62	57	53	50	48	37	20
NPV of Debt-to-Revenue Ratio [2]								
Baseline	355	328	298	270	259	246	196	112
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	356	347	336	324	330	332	322	271
A2. Primary balance is unchanged from 2006	356	350	341	328	334	334	324	277
A3. Permanently lower GDP growth [1]	356	330	302	276	267	257	216	150
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009	356	338	322	297	290	281	242	165
B2. Primary balance is at historical average minus one standard deviations in 2008-2009	356	353	345	311	297	281	221	125
B3. Combination of B1–B2 using one half standard deviation shocks	356	354	349	315	301	286	225	127
B4. One-time 30 percent real depreciation in 2008	356	478	436	397	379	359	282	163
B5. 10 percent of GDP increase in other debt-creating flows in 2008	356	387	349	315	300	284	223	126
Debt Service-to-Revenue Ratio [2]								
Baseline	49	38	34	34	32	31	16	11
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	49	37	35	36	35	34	19	16
A2. Primary balance is unchanged from 2006	49	37	34	34	33	32	17	14
A3. Permanently lower GDP growth [1]	49	37	34	34	32	31	15	11
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009	49	38	35	36	34	33	16	11
B2. Primary balance is at historical average minus one standard deviations in 2008-2009	49	37	34	34	32	31	15	10
B3. Combination of B1–B2 using one half standard deviation shocks	49	37	35	36	34	32	16	10
B4. One-time 30 percent real depreciation in 2008	49	38	36	36	34	33	17	11
B5. 10 percent of GDP increase in other debt-creating flows in 2008	49	37	35	35	33	31	15	10

Sources: Guinea authorities; and IMF and World Bank staffs estimates and projections.

[1] Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).

[2] Revenues are defined inclusive of grants.

ANNEX I. RELATIONS WITH THE FUND

(As of October 31, 2007)

I. Membership Status: Joined: September 28, 1963; Article VIII (obligations of Sections 2, 3, and 4 accepted on November 17, 1995.

II. General resources account:	**SDR Million**	**%Quota**
Quota	107.10	100.00
Fund holdings of currency	107.03	99.93
Reserve Position	0.08	0.07
Holdings Exchange Rate		

III. SDR department:	**SDR Million**	**%Allocation**
Net cumulative allocation	17.60	100.00
Holdings	3.00	17.04

IV. Outstanding purchases and loans:	**SDR Million**	**%Quota**
Poverty Reduction and Growth Facility (PRGF) arrangements	37.30	34.83

V. Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF[1]	May 02, 2001	May 01, 2004	64.26	25.70
ESAF/PRGF	Jan 13, 1997	Jan 12, 2001	70.80	62.94
ESAF	Nov 06, 1991	Dec 19, 1996	57.90	46.32

VI. Projected payments to Fund (without HIPC assistance)
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2007	2008	2009	2010	2011
Principal	3.25	11.83	8.29	7.50	3.86
Charges/Interest	0.26	0.71	0.66	0.62	0.59
Total	3.51	12.54	8.94	8.12	4.44

[1] The PRFG arrangement went off track as of December 2002.

VII. Implementation of HIPC initiative:

	Enhanced Framework
A. Commitment of HIPC assistance	
Decision point date	Dec 2000
Assistance committed	
by all creditors (US$ Million)[34]	545.00
Of which: IMF assistance (US$ million)	31.40
(SDR equivalent in millions)	24.24
Completion point date	Floating
B. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	5.17
Interim assistance	5.17
Completion point balance	--
Additional disbursement of interest income[35]	--
Total disbursements	5.17

VIII. Safeguards assessments:

Pursuant to Fund policy, the Central Bank of the Republic of Guinea (BCRG) was subject to an updated safeguards assessment in conjunction with a new PRGF arrangement. The safeguards assessment report that was completed on October 21, 2007, confirmed the continued existence of critical vulnerabilities in the BCRG safeguards framework, which would pose a high risk to the proper safeguarding of IMF disbursements. Overall, a system of strong internal controls, financial governance, and accountability needs to be urgently re-established and maintained at the BCRG. The assessment recommends measures that should help mitigate the safeguards risks, though significant risks would still remain. The BCRG has agreed to implement critically important measures as prior actions for the PRGF. Several other recommendations will become performance criteria and structural benchmarks for the program, and staff will monitor their implementation as part of program conditionality.

[34] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts can not be added.

[35] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

IX. Exchange arrangements:

The regime is classified as a managed float with no predetermined path for the exchange rate. As of March 2006, the central bank calculates the official reference exchange rate daily as the weighted average rate of foreign exchange transactions in the banking sector and authorized foreign exchange bureaus (though the latter were excluded from the calculation starting in September 2007). Guinea continues to have a multiple currency practice arising from the absence of a mechanism to prevent a potential deviation of the exchange rate used by the BCRG in its foreign exchange transactions from the exchange rates used by the commercial banks in transactions with their customers. The official reference rate is applied only for accounting purposes.

X. Article IV consultation:

Guinea is currently on the standard 12-month consultation cycle. The last consultation was concluded by the Executive Board on December 23, 2005 (Country Report No. 06/37).

XI. Technical assistance provided in 2004–07:[36]

Department	Purpose	Timing
FAD	Advise on tax administration.	June 2004
FAD	Review progress in implementing tariff and customs administration reforms and advise on a strategy for the next steps.	December 2004
FAD	Advise on budget and accounting procedures and on government financial information systems.	February 2005
FAD	Advise on tax administration reforms.	Apr. 2006, Mar. 2007
FAD	Advise on public finance management.	August 2007
MCM	Advise on bank liquidity management, exchange operations, and supervision	March 2004 Follow-up: September 2004
MCM	Advise on improving prudential instruments and upgrading the capacity of the banking supervision department.	March 2005
MCM	Advise on an operational framework for monetary policy and bank liquidity management.	March–April 2005
MCM	Follow-up mission on banking supervision.	May 2005
MCM	Technical assistance needs assessment mission to the BCRG.	June 2005
MCM	Advise on monetary and exchange operations and supervision.	August 2005
MCM	Formulate a draft law on money laundering prevention.	January–February 2006
MCM	Capacity-building in foreign exchange and monetary operations and supervision.	October 2006

[36] This does not reflect continuing technical assistance provided since 2003 by West AFRITAC resident experts.

Department	Purpose	Timing
MCM	Assess the BCRG information and communications environment.	October 2006
MCM	Technical assistance needs assessment mission to the BCRG.	June–July 2007
MCM	Advise on foreign exchange operations and market development.	August–September 2007
STA	Improve data collection, compilation, and dissemination practices for monetary and financial statistics.	November 2007

XII. Resident representative:

Mr. Alvin Hilaire took up his position as Resident Representative in November 2006.

ANNEX II. IMF-WORLD BANK RELATIONS

(As of October 31, 2007)

Partnership in Guinea's development strategy

1. Guinea's development strategy is laid out in the government's Poverty Reduction Strategy Paper II (PRSP II), which the government issued in August 2007. The staffs of the World Bank and the Fund have prepared a Joint Staff Assessment Note (JSAN), which sets out staff views on priority areas for strengthening the PRS over the coming years. The PRSP II rests on three pillars: (i) improving governance and institutional and human capacity-building; (ii) expediting growth and expanding employment and income opportunities for all; and (iii) improving access to high quality social services.

2. The Fund and the World Bank cooperate closely, within their own mandates, in helping the government to implement its medium-term poverty reduction and growth strategy. The Fund leads the policy dialogue on macroeconomic policies. The World Bank takes the lead in areas of structural reform, such as electricity and water services, mining sector policies, public financial management, health, education, rural development, governance issues, telecommunication, private sector development, and capacity building.

Bank Group Country Assistance Strategy

3. The Bank is working on an interim strategy for Guinea as a lending framework until 2009, when a new full fledged Country Assistance Strategy (CAS) will be drafted. The fragile political environment in Guinea recommended a more temporary approach via an interim strategy. Until there is an interim strategy Bank assistance to Guinea is still guided by the CAS that was approved by the Board in June 2003 and expired in 2006. The CAS was based on three scenarios, high case, base case, and low case. Given the volatile and fragile political environment in Guinea since 2003, only the low case scenario was realized because the government has been unable to make significant progress in resolving macroeconomic, fiscal and governance issues since then. In this case any assistance was limited to safeguarding the progress achieved in sectors vital to poverty reduction; there was no budget support or infrastructure financing.

4. IDA in 2001 provided its most recent budget support in the form of a Structural Adjustment Credit (SAC IV). Provision of budget support operations (PRSC) assumed continuing sound macroeconomic performance and reforms. However, macroeconomic management has deteriorated seriously since mid-2002, and the Fund's PRGF-supported program went off track in December 2002. Contributing factors were overspending related to security outlays, lax monetary policies, and a fixing of the exchange rate, which led to rising inflation and an abrupt decline in gross reserves. Structural reforms came to a halt. The wavering macroeconomic policies, compounded by lower earnings derived from mining of bauxite and other commodities, led to slower GDP growth, which averaged 2.7 percent

between 2002 and 2006. Since early 2005 the government has been making incremental progress toward stabilizing the macroeconomic aggregates, improving governance, and resuming structural reforms. An IMF staff-monitored program was successfully implemented from April 2005 to March 2006. The new government under Prime Minister Lansana Kouyaté plans to address obstacles to development in Guinea through an ambitious reform program based on a new PRSP. The main objectives are to stabilize the economy and improve both governance and service delivery.

5. As of October 2007, IDA had approved 67 credits for Guinea, of which 2 were for transport and infrastructure; 14 for energy, mining, water, and telecommunications; 3 for strengthening the country's management capability; 5 in public sector/governance; 14 in financing rural development; 4 in the urban sector; 5 for health; 7 for education; 1 for social protection; and 3 in the financial sector. The total value of these projects was about US$1,498 million equivalent, of which US$1,383 million have been disbursed. During the period FY98–07, the Board approved 2 adjustment operations (a Public Expenditure Management Adjustment Credit and the Fourth Structural Adjustment Credit) and 13 investment operations: the National Rural Infrastructure Project, Decentralized Rural Electrification, Electricity Sector Efficiency Improvement Project, Education for All, Village Community Support Program, the Capacity Building for Service Delivery Program, the Microfinance LIL, the Pre-Service Teacher Education LIL, the Urban Project, and the Population and Reproductive Health Project. The Bank's current portfolio in Guinea reflects its PRSP priorities. It comprises seven projects totaling US$219 million, of which US$60.3 million are in the form of a grant, and US$108 million remain undisbursed. The Capacity Building for Service Delivery Project (US$19 million, with an undisbursed balance of $14.3 million) closed on June 30, 2004, but was retroactively extended to May 31, 2005 to permit financing of a forensic audit. The nonlending program includes fiduciary assessment; a public expenditure review (PER); analysis of public finance management and audit systems; a poverty assessment; a development policy review; a study on decentralization; and a social and vulnerability assessment.

6. The proposed World Bank lending program for FY07–09 will support electricity and water projects and focus on capacity building.

Bank–Fund collaboration in specific areas

7. IMF and World Bank staffs collaborate in supporting the government's poverty reduction strategy and structural reforms. As part of its assistance to Guinea through lending, country analytic work, and technical assistance, the Bank supports policy reforms in the following areas in collaboration with the Fund.

Public expenditure management

8. Improvements in public expenditure management have been a priority of the Guinean government since 1996. The Bank, the Fund, and other donors have worked closely to give

the government the support needed for institutional and policy reforms. The Fund leads the dialogue on tax policy; the Bank focuses on strategic resource allocation and the operational efficiency of public expenditures. To enhance strategic resource allocation and operational efficiency, the Bank has helped the government prepare the medium-term expenditure framework (MTEF) and is supporting a reinforcement of the budget process and decentralized allocation of resources to propoor priority areas. After a Country Procurement Assessment Review (CPAR) in 2002, a Country Financial Accountability Assessment (CFAA) in 2003 focused on public expenditure management systems, the auditing of public finances, and related governance issues. The CPAR and the CFAA were complemented by a comprehensive PER in 2004. The PER was managed by the Bank, enjoyed strong government ownership, and benefited from extensive consultation with beneficiaries and development partners in close collaboration with the Fund and the AfDB. The Fund has added to this work through interventions via AFRITAC and other missions providing technical assistance and analysis of revenues, customs, and public financial management.

Poverty and social impact analysis

9. The selection of reforms to be analyzed in coming years will be based on the importance of the expected poverty and social impacts of each reform, the prominence of the issue in the government's agenda, the timing and urgency of the reform, and the amount of national debate surrounding the reform. The 2002 household survey was completed in the first half of 2005, making it possible to better identify determinants of poverty and their interdependency and to track impact on poverty over time. The government published an updated poverty diagnostic in July 2006. A second household survey should be initiated soon to take stock of trends since 2002 and to improve the data available for poverty and social impact analysis. Work is under way to strengthen the government's monitoring capacity.

Public service reform and improved service delivery

10. In recent years the Government of Guinea has started a number of initiatives to improve administrative performance and foster accountability, transparency, and integrity in the public sector. The Bank and other donors supported these efforts through (i) the Economic Management Technical Assistance Project, 1993–2000 (*Projet d'Appui à la Gestion Economique et Financière – PAGE*); (ii) the Capacity Building for Service Delivery Project, 2000–04 (*Projet de Renforcement des Capacités Institutionnelles pour une Meilleure Prestation des Services - PRCI*); (iii) governance and corruption surveys launched by the former Anti-Corruption Commission (*Conseil National de Lutte contre la Corruption – CNLC*); and (iv) a grant to strengthen the capacity of the Finance Committee of the National Assembly and the Chamber of Accounts.

11. These reforms aim to improve service delivery and financial accountability through capacity building and support to the decentralization process. However, the impact of PAGE on public service efficiency and effectiveness was limited, and the PRCI was suspended in August 2003 because of corruption, leaving most of the results indicators unachieved. In

contrast, a corruption survey finalized in 2005 has informed the current government's strategy to improve governance.. Progress has been made in building the capacity of the Parliament Finance Committee and the Chamber of Accounts.

12. Cooperation between the Bank and the Fund covers those areas where public sector reform has a direct impact on fiscal stability, public sector financial management, and governance.

Trade reforms

13. The Bank and the Fund are also working together to help Guinea establish a pro-growth trade framework. While the Fund has taken the lead in tariff reforms, the Bank and other donors are trying to foster trade through the Integrated Trade Framework. The Bank is also involved in a dialogue with WAEMU on trade reforms at the regional level.

World Bank Loan and Grant Operations, 2004 - 2008

(In millions of U.S. dollars)

	2004 Actual	2005 Actual	2006 Actual	2007 Proj. [3]	2008 Proj. [3]
I. Project Disbursements	**50.7**	**46.6**	**40.0**	**46.3**	**45.1**
National Rural Infrastructure (8/04)[1]	0.0	0.0	1.2	6.0	6.0
Health Nutrion Sector Project (6/04)[1]	0.0	0.0	4.2	0.0	0.0
Urban III (4/99)[1]	4.5	4.8	1.7	0.0	5.0
Third Water Supply (4/97)[1]	15.4	16.6	2.9	..	..
Water Supply and Sanitation Project (12/78)[1]	6.9	1.4	0.0	0.0	0.0
Population & Reproduction Health (12/98)[1]	2.6	0.0	0.0	0.0	0.0
Education for All (7/01)[1]	12.7	11.2	17.3	20.0	20.0
Village Community Support Program (2/99)[1,2]	5.8	3.4	3.0	3.4	4.4
Multi-Sectoral AIDS Project (12/02)[1]	1.3	6.1	5.1	4.3	2.0
Decentralized Rural Electrification (7/02)[1]	0.7	1.0	0.6	2.0	0.7
National Sanitary Develop. Plan Support Project (3/05)[1]	0.0	0.0	0.0	4.0	..
Land Community Management Project (6/06)[1]	0.0	0.0	0.0	0.7	2.0
Coastal Biodiversity Management Project (6/06)[1]	0.0	0.0	0.0	0.6	1.0
Integrated Water Resource Management (regional)	0.0	0.0	0.0	2.6	..
Air Safety in Central and Western Africa (regional)	0.0	0.0	0.0	1.0	..
Energy Sector Improvement & Efficiency (06/06)	0.0	0.0	0.0	1.9	4.0
II. TA Grant Disbursements	**0.0**	**0.0**	**0.0**	**2.9**	**2.4**
III. Adjustment Operations	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Total I.+II.+III.	**50.7**	**46.6**	**40.0**	**49.2**	**47.5**
IV. IFC Project Portofolio	0.0	0.0	5.0	..	..
V. MIGA Guarantees	15.7	14.1	14.0	67.9	..

[1] Date of Board approval in brackets.

[2] Out of a total of US$49,4 million US$16.5 million are grants.

[3] Does not include an estimate of credits or grants which are expected to be approved by the Board after May 2007and 2008.

ANNEX III. STATISTICAL ISSUES

1. Economic and financial data provided to the Fund are generally adequate for program monitoring and surveillance, but there is room to improve both the internal consistency of fiscal data and their consistency with monetary accounts.

2. The country participates in the General Data Dissemination System (GDDS); its metadata were first posted on the Dissemination Standard Bulletin Board (DSBB) on December 12, 2003. However, because the metadata posted on the DSBB were compiled in March 2002, plans for improvements and metadata for all data categories need to be updated

3. In recent years more detailed government finance data have become available, but serious statistical problems remain, particularly in the compilation of real sector and balance of payments statistics. Changes in the financial system in recent years have adversely affected the quality of data for deposit money banks. Although a law on statistics that organizes the institutional setting for producing statistics at a decentralized level was approved in 1995, neither the National Direction of Statistics (DNS), responsible for coordinating the production of statistics, nor a technical committee responsible for providing recommendations on the statistical program—both created by the new law—seem to have improved the quality of statistics.

Real sector statistics

4. Real sector statistics are weak, incomplete, and published with insufficient timeliness to support economic policy making. Only the monthly consumer price index (CPI) is published in a timely manner (see below); other statistics are published less frequently and less regularly, and are often not reliable. Some of the series are available on the DNS website.[37] Monthly surveys of mining, industrial and agricultural production are produced with long delays. Employment and population statistics are only published annually. A program to reinforce the national accounts is being undertaken with the assistance of the regional technical assistance center (West AFRITAC) and the Gesellschaft für Technische Zusammenarbeit (GTZ). The work is expected to lead to the production of annual input-output matrices. Recent mission by West AFRITAC helped the authorities prepare provisional estimates for the new base year – 2003 and complete the provisional national accounts estimates for the period 2003-05.

5. A monthly CPI for Conakry is available, with a one-month lag. Export prices are estimated on the basis of information supplied directly by the mining companies, and import prices are based on a weighted average of partner country export prices. Exchange rates are reported daily.

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[37] See http://www.afristat.org/ins-guinee/index.htm.

6. Additional data on the agriculture sector have been published sporadically in the form of Food and Agriculture Organization/United Nations Development Program surveys. No data on employment or labor costs are published.

7. In March 2000, a mission presented detailed recommendations to improve real sector statistics. The mission identified the lack of resources for compiling current statistics and insufficient training as the main causes of weakness in the statistical system. Guinea has drafted an action plan to address these weaknesses, but financial resources for many of the measures have yet to be identified.

Balance of payments statistics

8. The authorities have implemented some of the recommendations made by a balance of payments statistics mission in May 1995. Notably, coverage of trade in services, private transfers, and capital flows has been expanded by surveying service providers and large companies every year. However, the survey is not comprehensive, and there are no sanctions for failure to respond. In view of the difficulties encountered in compiling annual statistics, the mission's recommendation that data be compiled quarterly has not yet been implemented.

9. Merchandise trade statistics are reported in the standard Harmonized System of Customs Classification, net of imports by diplomats and transit trade. In spite of the technically advanced method of presentation, the data are inconsistent with actual developments in the country. Some of these inconsistencies may be due to smuggling, as Guinea's borders are porous. Weaknesses in balance of payments statistics also affect national accounts data. The national accounts are based on trade data that include transit trade and imports by diplomats and thus overestimate the openness of the economy. However, the national accounts use estimates of trade in services that are well below those estimated on the basis of the surveys conducted by the BCRG. At the request of the authorities, STA scheduled a balance of payments statistics technical assistance mission in early 2007, but the mission was postponed for security reasons.

Government finance statistics

10. The Ministry of Finance, the Economy and Planning compiles comprehensive monthly central government budgetary data on a cash basis for revenue and on commitment and cash bases for expenditure. AFR receives preliminary data within one month. Budgetary data are often not internally consistent. Consolidated central government operations data originate in the Treasury.

11. The budget includes the bulk of all government operations, although it excludes a number of "satellite" accounts that are not directly incorporated into the budget. There are also significant differences between the national definition of general government and that provided in the *Government Finance Statistics Manual 2001 (GFSM 2001)*. Moreover, autonomous funds, such as the Road Fund, are only partly incorporated into the budget. For the Road Fund, the largest autonomous fund, 100 percent of resources are "committed"

through the budget and transferred from the budget to the fund. Actual disbursements are made at the discretion of the Road Fund (though monitored through its account at the central bank). The fuel tax is not earmarked for the Road Fund, but it is received by the general budget and transferred to the Road Fund through the budget.

12. The latest data published in the *GFS Yearbook* are for 1999 and are on a cash basis only. Guinea does not report fiscal data for publication in *International Financial Statistics (IFS)*.

Monetary accounts statistics

13. Monthly data on monetary authorities, deposit money banks, and interest rates are provided to AFR with a one-month delay; but they are not provided to STA with the same time lag. Beginning in 2001, the authorities undertook regular reporting of monetary data for publication in *IFS*. After a deterioration in 2003, the authorities started reporting monetary data for publication in *IFS* more often, but not monthly. However, reporting again deteriorated in 2006. The latest monetary data published in *IFS* are for September 2006.

14. In August 2006, as part of the authorities' efforts to implement the methodology in the *Monetary and Financial Statistics Manual,* the BCRG reported to STA monetary data for the central bank using the Standardized Report Form. STA reviewed these data and provided comments to the authorities; a response is pending.

15. Developments in the financial system over the last few years, including the liquidation and restructuring of a number of banks, are not fully reflected in the monetary statistics, partly because of problems in collecting data. The authorities have made some progress in adopting the recommendations of a STA mission that visited Conakry in 2000, but further work is needed to update and otherwise strengthen the reporting practices of deposit money banks, especially those relating to classification of nonperforming loans.

16. STA will conduct a follow-up monetary and financial mission during November 19–30, 2007 to address outstanding issues, including preparation of the SRFs for reporting monetary data to STA.

Guinea: Table of Common Indicators Required for Surveillance

(As of November 19, 2007)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]
Exchange Rates	11/14/07	11/15/07	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	09/30/07	11/05/07	M	M	M
Reserve/Base Money	09/30/07	11/09/07	M	M	M
Broad Money	09/30/07	11/09/07	M	M	M
Central Bank Balance Sheet	09/30/07	11/09/07	M	M	M
Consolidated Balance Sheet of the Banking System	09/30/07	11/09/07	M	M	M
Interest Rates[2]	09/30/07	10/19/07	M	M	M
Consumer Price Index	10/31/07	11/19/07	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	---	---	---	---
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	09/30/07	11/09/07	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2006	04/25/07	A	A	A
External Current Account Balance	2006	04/25/07	A	A	A
Exports and Imports of Goods and Services	2006	04/25/07	A	A	A
GDP/GNP	2006	04/25/07	A	A	A
Gross External Debt	2006	04/25/07	A	A	A

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Not Available (NA).

Statement by the IMF Staff Representative
December 21, 2007

1. This statement reports on developments, including the status of the only remaining prior action, since the issuance of the staff report for the 2007 Article IV Consultation and the requests for a program under the PRGF and additional interim assistance under the Enhanced HIPC Initiative. The thrust of the staff appraisal has not changed.

2. On December 13th the central bank opened an account with the Bank for International Settlements that will be used to receive the PRGF disbursements. In doing so, the authorities have fully met all the prior actions for approval of the PRGF. On December 17th the Executive Board of the central bank ratified ex ante and ex post controls on the use of this account.

3. The latest available information suggests that the economy continues to stabilize. Year-on-year inflation was 15.3 percent at the end of November and is on track to meet the projected 15 percent at the end of the year. Since the beginning of November, the exchange rate used in commercial bank transactions has fluctuated in a range of 4,150 and 4,400 Guinean francs per U.S. dollar—about 30 percent stronger than during the same period last year. The premium on the parallel market exchange rate has declined to 2 to 3 percent.

4. Fiscal and monetary performance appear to be on track to meet the 2007 targets. Preliminary data as of October suggest that revenues were below the authorities' projections by 0.2 percentage points of GDP, because mining revenues fell short. In response, current spending was adjusted and the deficit outturn was lower than projected. Spending commitments were stopped at the end of November, as the law envisaged. This will make it easier for Guinea to meet this year's target for the basic primary balance. Reserve money increased by 10.2 percent in the first 10 months of 2007, which is in line with projections.

5. On December 7th the Parliament adopted the budget for 2008; budget projections are consistent with the 2008 program targets, most notably the basic primary balance and total noninterest expenditures. The large increase in public investment that was projected in the draft budget has been slightly reduced (by about 0.1 percentage points of GDP) to make room for more government purchases of goods and services, which were tightly compressed in 2007.

6. On December 5th the President of Guinea signed a decree to reorganize ministries and other government bodies. This removed a major impediment to reforming operations and improving public governance. The decree keeps the central bank under the administrative authority of the Presidency, in line with the current law; the authorities intend to submit to Parliament a new law to strengthen central bank independence—a structural performance criterion by the end of June 2008.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

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

Public Information Notice (PIN) No. 08/05
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17 January 2008

IMF Executive Board Concludes 2007 Article IV Consultation with Guinea

On December 21, 2007, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Guinea.[1]

Background

In March 2007, a pro-reform government took office, following widespread strikes and protests that brought the economy to a standstill in early 2007.

The government change comes after a period of slowing growth, increasing inflation, and deepening poverty in Guinea, in spite of the country's large economic potential in the extractive industries, as well as in agriculture, fishing, and forestry. Average annual real growth slowed to 2.9 percent in 2000–05, from 4.9 percent in 1995–99; inflation reached the double digits; and the incidence of poverty increased to 54 percent, from 49 percent.

The economic slide continued in 2006. Real growth slowed to 2.2 percent, and inflation accelerated to almost 40 percent. The overall fiscal deficit, excluding grants, deteriorated by almost 2 percentage points of GDP and the overall balance of payments

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

deficit widened by a similar margin. Central bank financing of the budget drove a monetary base increase of more than 80 percent, fueling inflation and contributing to the depreciation of the Guinean franc. With external debt remaining at unsustainable levels, arrears to several external creditors have continued to accumulate.

On taking office, the new government promptly reestablished financial controls, put in place tight stabilization policies to reduce the fiscal deficit, phased out central bank financing of the budget, and curtailed monetary expansion to below nominal GDP growth. The government also launched an economic recovery plan and a new Poverty Reduction Strategy designed to improve transparency and governance (including at the central bank) and to strengthen the management of public resources.

The renewed economic discipline and the return of confidence in the currency are expected to bring inflation down to 15 percent at end-2007. Economic activity is projected to recover slowly from the impact of the strikes, with real GDP expected to grow by almost 5 percent in 2008, from 1½ percent in 2007, as prospects improve in the mining sector. This projection assumes that reforms advance as envisioned, with the ban on exports of foodstuff and fishing and forestry products being lifted promptly. As the economy stabilizes, Guinea's external situation from 2008 on should improve, as should its prospects of benefiting from international debt relief.

Executive Board Assessment

Executive Directors commended the new government for engineering an impressive shift in policies over the past eight months to support macroeconomic stabilization and reverse the deterioration in economic performance and governance that occurred in 2006. Directors noted that the recent improvement in economic discipline, including restored control of budget execution and avoiding monetary financing of the deficit, had contributed to rapid disinflation and a strengthening of the Guinean Franc. They viewed that continued solid policy performance would promote economic growth and help stabilize the external situation.

Directors agreed that the priorities set out in the authorities' new poverty reduction strategy are appropriate. Successful implementation of the strategy will depend on well-prioritized action plans, and close monitoring and evaluation. They underscored that the consolidation of macroeconomic stabilization, an improved business environment, the adoption of international best practices for the development of extractive industries, and targeted infrastructure investment will play a critical role in achieving growth targets. Directors stressed the importance of rehabilitating public utilities. They welcomed the authorities' implementation of the Extractive Industries Transparency Initiative.

Directors observed that an appropriately tight fiscal policy will be essential to further stabilizing the economy and shoring up Guinea's external position. In order to meet the ambitious targets set for non-mining revenues, revenue collection will need to be improved and the tax base broadened. The reinstatement of normal budgetary procedures will be essential to maintaining control over public spending and eliminating extrabudgetary outlays.

Directors viewed that the maintenance of a tight monetary policy will be critical to limiting inflationary pressures and improving Guinea's external position. The associated buildup of official reserves will help absorb external shocks, smooth daily fluctuations of the volatile exchange rate, and support the launching of a much-needed foreign exchange interbank market. The use of indirect instruments of monetary policy, along with close coordination with the Treasury, will provide needed support in limiting monetary expansion.

Directors underscored the importance of addressing the serious deficiencies revealed by the recent external audit of the central bank accounts and the safeguard assessment update. They welcomed the strong mitigating measures already taken, and encouraged the authorities to follow through with their action plan for addressing the remaining vulnerabilities in the safeguards framework. Directors looked forward to Guinea's participation in the FSAP, which will support the strengthening of the financial sector.

Directors concurred with the debt sustainability analysis prepared by the staffs of the Fund and of the World Bank, which shows that the delivery of debt relief under the enhanced HIPC and MDRI initiatives can bring external debt back to sustainable levels. They encouraged the authorities to take the necessary steps to promptly reach the HIPC completion point and qualify for debt relief under these initiatives. Directors emphasized that Guinea should persevere with efforts to engage all its external creditors and to seek debt relief from non-Paris Club creditors on HIPC terms. They also welcomed the authorities' intention to avoid external borrowing on nonconcessional terms.

Directors considered the current level of the real exchange rate to be adequate, given the prospective debt relief and the largely untapped sources of export and productivity growth. They encouraged the prompt removal of the remaining bans on exports of agricultural, forestry and fish products by year-end, in order to strengthen Guinea's external position and improve employment opportunities for the poor. Directors called for the elimination of the existing multiple currency practice.

Directors stressed the need for continued efforts to improve the provision of economic and financial data, in particular in the area of national accounts and balance of payments statistics.

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

Guinea: Selected Economic Indicators

	2005 Est.	2006 Est.	2007 Proj.	2008 Proj.
(Annual percentage change, unless otherwise indicated)				
Income				
GDP at constant prices	3.3	2.2	1.5	4.9
GDP at current prices	32.9	37.6	21.6	18.6
GDP deflator	28.6	34.7	19.8	13.1
Consumer prices				
Average	31.4	34.7	23.4	13.8
End of period	29.7	39.1	15.0	10.0
External sector				
Exports, f.o.b. (US$ terms)	12.4	20.2	6.8	6.2
Imports, f.o.b. (US$ terms)	4.7	24.8	27.0	14.2
Terms of trade	-6.8	5.0	-6.1	-11.3
Nominal effective exchange rate (depreciation = -)	-38.0	-31.4	...	...
Real effective exchange rate (depreciation = -)	-21.3	-10.1	...	...
Money and credit				
Net foreign assets[1]	5.2	10.4	0.7	3.6
Net domestic assets[1]	32.0	49.0	5.1	10.1
Net claims on government[1]	7.9	42.7	5.6	2.9
Credit to nongovernment sector[1]	15.2	12.8	3.3	4.7
Broad money	37.2	59.4	5.8	13.7
Reserve money	25.0	84.1	11.9	14.5
(Percent of GDP, unless otherwise indicated)				
Central government finances				
Total revenue and grants	13.7	14.7	14.9	15.9
Revenue	13.1	13.3	12.9	14.3
Of which: nonmining revenue	9.9	9.2	9.5	10.7
Grants[2]	0.6	1.4	2.0	1.6
Current expenditure	11.0	13.4	10.8	11.6
Of which: interest payments	2.8	3.3	2.1	2.3
Capital expenditure and net lending[2]	4.3	4.2	3.9	5.6
Overall budget balance				
Including grants (commitment)	-1.5	-2.9	0.3	-1.2
Excluding grants (commitment)	-2.1	-4.3	-1.7	-2.8
Basic primary fiscal balance	3.2	1.3	3.0	3.3
Gross investment	14.1	13.7	15.0	20.3
Government (fixed capital formation)	3.4	3.3	3.1	4.4
Nongovernment	10.7	10.4	11.9	15.9
Domestic savings	10.9	9.1	6.1	8.2
Government	4.7	3.4	4.2	4.7
Nongovernment	6.2	5.7	1.9	3.6
External current account balance				
Including official transfers	-4.5	-5.9	-9.5	-12.8
Excluding official transfers	-4.9	-6.5	-10.0	-13.1
Overall balance of payments	-0.9	-2.7	-1.3	-1.7
External public debt (percent of exports of GNFS)	346.1	290.6	249.9	223.7
Nominal GDP (GNF billions)	11,869	16,330	19,852	23,552

Sources: Guinean authorities and IMF staff estimates and projections.

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

[2] Includes expenditure for restructuring.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 07/309
FOR IMMEDIATE RELEASE
December 21, 2007

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$75.2 Million PRGF Arrangement and Additional Interim HIPC Assistance for Guinea

The Executive Board of the International Monetary Fund (IMF) today approved a three-year, SDR 48.195 million (about US$75.2 million) arrangement under the Poverty Reduction and Growth Facility (PRGF) for Guinea in support of the government's economic program. The decision allows an immediate disbursement to Guinea of an amount equivalent to SDR 6.885 million (about US$10.7 million).

The Board also approved the disbursement of SDR 4.848 million (about US$7.6 million) in interim assistance under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative.

The PRGF is the IMF's concessional facility for low-income countries. It is intended that PRGF-supported programs are based on country-owned poverty and reduction strategies adopted in a participatory process involving civil society and development partners and articulated in a Poverty Reduction Strategy paper (PRSP). This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5½-year grace period on principal payments.

Following the Executive Board discussion, Mr. Murilo Portugal, Deputy Managing Director and acting Chairman, said:

“The Guinean government has implemented, since March 2007, an impressive policy shift toward macroeconomic stabilization, reversing the deterioration in economic performance and governance that occurred in 2006. This shift has already contributed to rapid disinflation and the appreciation of the Guinean Franc. Continued solid policy performance will promote economic growth and help improve Guinea’s external situation.

“The authorities’ program of economic and financial policies aims to further stabilize the economy and strengthen Guinea’s external position. This will entail the maintenance of tight fiscal and monetary policies, including no new central bank financing of the budget. Achieving these results and meeting the associated ambitious targets set for non-mining revenues, will depend on improved revenue collection, and a broadening of the tax base. Normal budgetary procedures will be restored, in order to better manage public spending.

“The implementation of monetary policy will be facilitated by the introduction of indirect instruments. A targeted increase in official reserves will help absorb external shocks, smooth daily fluctuations of the volatile exchange rate, and support the launching of a much-needed foreign exchange interbank market. The swift implementation of the central bank’s action plan to strengthen internal controls and improve basic record keeping will help address important vulnerabilities in its safeguards framework.

“The authorities have set governance as a key priority. This and other reforms to improve the business environment are crucial to unlock Guinea’s growth potential and reach the ambitious poverty reduction goals that have been set. Efforts to align the legal framework for mining activities with international best practices and continued implementation of the Extractive Industries Transparency Initiative are welcome steps in this direction, along with the rehabilitation of public utilities.

“Once Guinea has taken the necessary steps to qualify for the completion point of the HIPC initiative, the delivery of debt relief under the enhanced HIPC initiative and the Multilateral Debt Relief Initiative would bring external debt back to sustainable levels. In parallel, engagement with all external creditors will continue, including on debt relief from non-Paris Club creditors on HIPC terms. Restoring debt sustainability will also depend on reliance on limiting financing to grants and external borrowing on concessional terms,” Mr. Portugal said.

ANNEX

Recent economic Developments

Despite a rich endowment of natural resources—the country houses about one third of the world's bauxite reserves and has significant deposits of gold, diamonds, iron ore, and uranium—Guinea remains one of the world's poorest countries. The country's fragility has been exacerbated by governance problems and external factors, including conflicts in neighboring countries.

GDP growth slowed in 2006 and by year-end, inflation reached 39 percent, the second highest in sub-Saharan Africa. High inflation was accompanied by rapid depreciation of the Guinean franc. Higher import prices widened the external current account deficit despite rising prices for bauxite and alumina. The overall balance is estimated to have deteriorated by almost 2 percent of GDP, reflecting higher external debt obligations and lower disbursements on externally financed investments. The relaxation of fiscal efforts, compounded by a loose monetary policy, was the main cause of the economic deterioration.

Program Summary

The government's new economic program seeks to consolidate macroeconomic stabilization and strengthen institutions and policies to establish the preconditions for sustained higher growth and poverty reduction. Once basic controls have been put in place, the focus of the program will shift towards the deepening of reforms, particularly to improve the quality of public services and policies, and to facilitate the smooth functioning of markets.

The prudent fiscal stance will continue in 2008. The government projects an increase in the basic primary balance to 3.3 percent of GDP, from 1.3 percent in 2006 and 3.0 percent in 2007. Monetary policy will complement this stance by limiting the growth rate of reserve money to be broadly in line with GDP growth. The program will also rapidly strengthen the country's external position through external support and debt relief.

Reaching the ambitious revenue target will require modernizing the tax and customs directorates and broadening the tax base. The authorities will adopt measures to strengthen budget preparation and execution; improve accounting, audit and financial information; and revise the regulatory framework. Building an interbank foreign exchange market and enhancing the central bank's capacity to manage foreign exchange and reserves are also essential. Other structural reforms focus on enhancing management of the mining sector and on the promotion of good governance.

Guinea: Selected Economic Indicators

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(Annual percentage change, unless otherwise indicated)				
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Real effective exchange rate (depreciation = -)	-21.3	-10.1	...	...
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Total revenue and grants	13.7	14.7	14.9	15.9
Revenue	13.1	13.3	12.9	14.3
Of which: nonmining revenue	9.9	9.2	9.5	10.7
Grants[2]	0.6	1.4	2.0	1.6
Current expenditure	11.0	13.4	10.8	11.6
Of which: interest payments	2.8	3.3	2.1	2.3
Capital expenditure and net lending[2]	4.3	4.2	3.9	5.6
Overall budget balance				
Including grants (commitment)	-1.5	-2.9	0.3	-1.2
Excluding grants (commitment)	-2.1	-4.3	-1.7	-2.8
Basic primary fiscal balance	3.2	1.3	3.0	3.3
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Government (fixed capital formation)	3.4	3.3	3.1	4.4
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Government	4.7	3.4	4.2	4.7
Nongovernment	6.2	5.7	1.9	3.6
External current account balance				
Including official transfers	-4.5	-5.9	-9.5	-12.8
Excluding official transfers	-4.9	-6.5	-10.0	-13.1
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Sources: Guinean authorities and IMF staff estimates and projections.
[1] Percent of broad money stock at the beginning of the period.
[2] Includes expenditure for restructuring.

Statement by Laurean Rutayisire, Executive Director for Guinea
December 21, 2007

I. Introduction

The Guinean authorities would like to thank Management and staff for their support to Guinea's efforts towards sound macroeconomic and structural policies.

Guinea experienced in January and February 2007 the deepest general strikes and mass protests in its history, due to the continued deterioration of the population's living standards. The strike was ended with the appointment of a new government headed by a new Prime Minister, whose mandate was to restore good governance, implement economic and financial reforms and resume cooperation with the international community, including through a Fund-supported program. Strongly committed to reverse the economic situation and put reforms back on track, the new authorities implemented an emergency recovery program, in order to curb the rise of inflation, restrain public expenditure and restore confidence with donors leading to strong mobilization of resources for infrastructure development and basic services delivery. In particular, a cash budget was adopted; extra budgetary spending suppressed and control on public expenditure strengthened with a ban on central bank financing. As a result, the economy was stabilized, as demonstrated by the resumption of economic activity and imports, sharp drop of inflation from 40 percent by end-December 2006 to 17 percent by September 2007, containment of government spending within its monthly revenue envelope, return of confidence in the national currency and the initiation of discussions with staff for a new PRGF-supported program. I should also mention that all prior actions to the PRGF which have been agreed with Staff have all been implemented.

July this year, Guinean authorities organized a donor round table in Paris in order to mobilize donor support for the country's emergency recovery program (July-December 2007) and the second PRSP for the period 2007–10. The outcome of this round table has been satisfactory as the donors made substantial pledges to bridge the financing gaps.

In order to strengthen their efforts to reinstate fiscal control, improve governance and implement needed structural reforms to boost economic growth, the Guinean authorities are requesting a three-year arrangement under the Poverty Reduction Strategy and Growth Facility (PRGF). They also call on the resumption of the interim assistance granted by the IMF under the enhanced HIPC Initiative, in particular, the third tranche of interim HIPC assistance. The well-documented debt sustainability analysis has highlighted the debt distress of Guinea. The authorities are hopeful that successful performance in implementing a new PRGF program will enable them to reach in a near future the HIPC completion point and benefit from MDRI which would reduce the external debt burden to sustainable levels.

II. Recent Economic Developments

Lack of external assistance along with laxed fiscal and monetary policies led to a deep deterioration of the economy in 2006, which fueled the general strike in early 2007. In 2006, real GDP growth slowed, inflation reached 39 percent, gross foreign reserves amounted to two weeks of imports, large amount of domestic and external arrears accumulated and the external current account widened, despite the increase in bauxite and alumina prices. On the fiscal front, the overall deficit deteriorated further and was mainly financed by the central bank, which led to high inflation and exchange rate depreciation. To reverse this situation and put the needed reforms on track, the new government strongly supported by all stakeholders, notably the trade unions and civil service organizations, took tightened fiscal and monetary measures to stabilize the economy.

The strong commitment of the Guinean authorities to adjustment and reforms in order to stabilize the economy and restore stakeholders' confidence has translated into significant progress in the fiscal and monetary areas as well as in the structural reforms. Due to past policy shortfalls and to the strikes which affected all economic sectors, real GDP growth is projected to rebound to less than 2 percent in 2007. However, inflation decelerated to 17 percent in September and the target of 15 percent set out for year-end will be reached. Public expenditure is contained within ceilings given to line ministries, automatic debits of treasury accounts by the central bank were forbidden and extra budgetary spending were also prohibited as well as ad hoc tax and customs exemptions. Financial audits for most public entities, including the central bank were initiated in addition to the review of several mining contracts with a view to check their conformity with best international practices and the appropriateness of the government share in mining revenue.

With regard to the management of the central bank, the authorities are implementing the recommendations made by the external audit and the recent IMF safeguards assessment. In this context, the treasury and the central bank signed an agreement reconciling mutual claims and setting the debt service schedule. Bold steps are being taken to strengthen the accounting and internal control of the central bank. The authorities have also called on the Fund for technical assistance in these areas and foreign exchange management as well. Furthermore, it is important to note that new organizational charts have been designed and approved by presidential decree for all ministries, in order to improve efficiency in the public administration. These new charts will be fulfilled by new high level staff committed to integrity and reform agenda.

III. Medium-Term Program and Policies for 2008

In order to reverse the trend of poverty observed since 2002, the authorities have adopted their second poverty reduction strategy (PRS-II) covering the period 2007–10. This strategy is based on improving governance and building capacity, accelerating sustainable economic growth and developing basic services. In particular, the objectives set out by the Guinean authorities are to lower the incidence of poverty to 49 percent in 2010 from 54 percent in 2005; achieve over the period 2008–10 an average annual real GDP growth of more than 5 percent, restore price stability in targeting 15 percent by end-2007 and 5 percent by-end 2010 and strengthening the external position in building gross foreign exchange reserves equivalent of three months of imports by end-2010. Furthermore, needed structural reforms will be fully implemented to improve the environment for the development of the private sector and major infrastructure programs will also be carried out to remove the main obstacles to economic growth.

1. Fiscal Policy and Debt Sustainability

The authorities are strongly committed to strengthen the newly restored fiscal discipline. Based on this progress, the authorities intend to increase government revenue and redirect public expenditure towards the priority sectors, while preserving macroeconomic stability and the reduction of public debt. In this context, the basic primary fiscal balance will be gradually brought to more than 4 percent of GDP. To this effect, tax revenue will be increased to reach 15.5 percent of GDP in 2010 by expanding the tax base, improving the tax collection, including the mining sector and reducing tax and customs exemptions. More specifically, the authorities intend to revise the investment code, modernize the revenue – collection units and enforce controls over revenue collection services by applying performance contracts.

On the expenditure side, spending in the priority sectors will be increased on the basis of resources mobilized from reduction in debt service and donor support. A youth employment program will be launched and the development of public infrastructure will also be accelerated. The authorities intend to reduce subsidies and military expenditure, while increasing wage bill to overhaul the system of bonuses for managerial level staff and narrow the sizable gap vis-à-vis the private sector. The execution of the budget will continue to be subject to strict monthly monitoring in the context of treasury committee meetings under the aegis of the prime minister. On the other hand, the authorities will apply basic international standard to public finance management. To this end, a reform strategy and a 2008–10 priority action plan will be finalized by end-2007. This plan will cover the expenditure procedure from budget preparation to submission of the budget review law to the National Assembly. To ensure the incorporation of PRS-II objectives in the budget, a medium-term expenditure framework is under preparation beginning with the budget of 2009.

The authorities welcome the debt sustainability analysis. They concurred with staff that in the absence of the country's benefiting from the Enhanced HIPC Initiative and the MDRI; Guinea will continue to be in debt distress. Indeed, the protracted accumulation of external arrears and the low level of official reserves demonstrated the fragility of the Guinea's external situation, which highlights the importance of a rapid attainment of the HIPC completion point, sustained implementation of sound macroeconomic and structural policies and a prudent debt strategy. The authorities are hopeful that the delivery of HIPC and MDRI with the attainment of the completion point before 2009 will help bring down the external debt to sustainable levels. They are committed to prudent debt management through reliance on grants and highly concessional loans for future financing needs. They will also seek assistance to help them upgrade the public debt management capacity.

2. Monetary, Exchange Rate and Financial Policies

The authorities' main monetary policy objective is to contain inflation at a very low level. To this end, the central bank is committed to pursue firm control of base money growth. In 2008, measures designed to align the growth of the money supply with nominal GDP growth will be implemented. To facilitate the implementation of these measures, the authorities have already prohibited any new advances from the central bank to the treasury. In the same vein, the existing indirect monetary instruments will be strengthened as well as the coordination between the central bank and the treasury. The central bank will also energize its liquidity management through the issuance of central bank bills and treasury bills besides the activation of the liquidity monitoring committee. The compliance by the commercial banks of the required reserve ratio will be strictly observed and, if necessary, the ratio or policy interest rate will be adjusted.

The floating exchange rate policy will be maintained. In this respect, the authorities are committed to build an interbank foreign exchange market and enhance the central bank capacity to manage foreign exchange and reserves. Based on the recommendations made by the external audits and the safeguard assessment, an action plan has been designed to strengthen the central bank in these areas. A strong technical assistance from the Fund is needed to help the central bank to further enhance its accounting and internal controls as well as monetary policy and foreign exchange market reforms. The authorities welcome the multiyear program of Fund technical assistance to support their efforts. They are also committed to further enhance transparency in the determination of the exchange rate and eliminate the existing multiple currency practice.

In order to promote the development of the financial sector and boost its contribution to growth, the authorities will design a medium-term strategy for the sector. They intend to modernize the payment system, address dollarization issues and introduce financial instruments necessary for the promotion of the private sector. The authorities are hopeful that the FSAP for which they have applied would provide useful information on which to base the reforms in the financial sector. In the meantime, they will vigorously enforce the banking supervision as well as the supervision of microfinance institutions, with a view to ensure their compliance with the prudential regulation.

3. Structural Reforms

In 2008, the Guinean authorities will step up their efforts to improve the climate for business and investment by promoting transparency and good governance and implementing needed structural reforms. In particular the focus will be on the electricity and water sectors, telecommunications, the mining sector, the privatization of public enterprise and combating corruption. With the support of the development partners, the financial situation and management of the utilities' companies will be strengthened. The legal framework governing the mining sector including the taxation is under revision with the assistance of World Bank in order to be harmonized and aligned with international standards. On the other hand, it is envisaged to finalize several privatization deals during the first year of the program.

The authorities are also committed to gradually reinstate the formula-based mechanism for monthly adjustments of petroleum products prices to better reflect international prices and alleviate the budget. The outstanding debt towards oil companies at end-2006 will be reconciled and settled as agreed by stakeholders. Measures envisaged in the area of transparency, good governance and combat corruption include the publication of audited reports in the context of EITI for 2006; adoption of a civil service code of professional conduct and specific charters for tax staff; completion of ongoing audits in all ministerial departments and publication of the summary reports including the list of cases submitted to the courts; promulgation of UN and African union anti-corruption agreements and promulgation of the anti-money laundering law passed by the National Assembly in 2006 and establishment of the financial intelligence unit provided in that law.

IV. Conclusion

The Guinean authorities are determined to pursue their efforts in implementing sound policies and far-reaching reforms, with a view to achieve sustained economic growth and fight the poverty facing the population. Under their emergency recovery program, the macroeconomic situation has been stabilized. To supplement the authorities' efforts, a strong and sustained assistance from the international community is needed. In this respect, the authorities are hopeful that progress made so far will be supported through a new PRGF program, in order to enable them to reach the completion point under the Enhanced HIPC Initiative and benefit from the Multilateral Debt Relief Initiative (MDRI). The authorities are grateful for the valuable technical assistance received from the IMF and are strongly committed to implement policy measures set out in the PRGF-supported program. They continue to count on their development partners to enhance the macroeconomic stability and reform process and to achieve the MDGs.