INTERNATIONAL MONETARY FUND

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GUINEA

March 2016

SIXTH AND SEVENTH REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, FINANCING ASSURANCES REVIEW, AND REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA, EXTENSION OF THE ARRANGEMENT, AND REPHASING OF DISBURSEMENTS—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GUINEA

In the context of the Sixth and Seventh Reviews under the Extended Credit Facility Arrangement, Financing Assurances Review, and Requests for Waivers of Nonobservance of Performance Criteria, Extension of the Arrangement, and Rephasing of Disbursements, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 14, 2016, following discussions that ended on December 15, 2015, with the officials of Guinea on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on March 3, 2016.
- A**n Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for Guinea.

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

Letter of Intent sent to the IMF by the authorities of Guinea*
Memorandum of Economic and Financial Policies by the authorities of Guinea*
Technical Memorandum of Understanding*
*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

Press Release No. 16/109
FOR IMMEDIATE RELEASE
March 14, 2016

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Sixth and Seventh Reviews Under ECF Arrangement for Guinea, Extends Arrangement, and Approves a US$25.6 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the sixth and seventh reviews of Guinea's economic performance under the program supported by an Extended Credit Facility (ECF) arrangement. The Board's decision enables the immediate disbursement of SDR 18.36 million (about US$25.6 million), bringing total disbursements under the arrangement to SDR 155.295 million (about US$216.7 million). The Board also approved a request for an extension of the current ECF arrangement to end-October 2016 to allow time to assess the implementation of the program at end-June 2016 as well as a rephasing of the remaining disbursement under the arrangement.

In completing the review, the Board approved the authorities' request for waivers for the nonobservance of the performance criterion at end-2014 on the net international reserves of the Central Bank of the Republic of Guinea (BCRG) and for the performance criteria at end-2015 on the basis fiscal balance of the government, the net domestic assets and the net international reserves of the BCRG, the net domestic bank financing of the government. The Executive Board also approved the request for waivers for the non-observance of performance criteria on the contracting or guaranteeing by the government or the BCRG of new medium and long- term non-concessional external debt and on the introduction or modification of multiple currency practices.

The Executive Board approved the ECF arrangement for Guinea on February 24, 2012, for SDR 128.52 million (see Press Release No. 12/57).

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

"Guinea was declared free of the Ebola epidemic in end-2015, reflecting the sustained efforts of the government and Guinea's civil society. The epidemic has claimed thousands of lives, brought economic activity to a standstill, reversed socioeconomic gains, and aggravated poverty.

"After solid performance in 2014, program implementation under the Extended Credit Facility (ECF) weakened in 2015, mostly because of the impact of the Ebola disease, and a large public investment program supported by central bank guarantees. Structural reforms also stalled, partly because of difficulties in securing technical assistance. Growth is expected to rebound in 2016 to 4 percent, thanks to pent-up demand coupled with robust agricultural growth. However, given the severity of the shocks that have hit Guinea during 2014-15 and depressed commodities prices, the recovery will be gradual.

"The authorities have taken strong adjustment measures to put their Fund-supported program back on track. Going forward, continued efforts are needed to restore macroeconomic stability and support the recovery, including structural reforms to improve the business environment, particularly in the mining and electricity sectors, and strengthen the delivery of public service.

"The broad-based fiscal adjustment envisioned in the 2016 budget is appropriate, given the need to maintain fiscal sustainability and strengthen the central bank's international reserves. The recent reform of the exchange rate determination mechanism will allow the exchange rate to fully play its shock absorber role and safeguard reserves. The restructuring of some of the central bank guarantees will free budgetary space for social programs, including in the health sector.

"Inaccurate data on public sector non-concessional external debt had resulted in a noncomplying disbursement. In view of the remedial actions taken by the authorities, including planned measures to strengthen debt management, Directors decided to waive the nonobservance of the performance criterion that gave rise to the noncomplying disbursement."

INTERNATIONAL MONETARY FUND

GUINEA

March 3, 2016

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

EXECUTIVE SUMMARY

Guinea was declared free of the Ebola epidemic at end-2015 and after two years of stagnant activity, growth is expected to rebound this year. Pent-up demand coupled with robust agricultural growth, and improved electricity provision will be the main drivers of activity, lifting growth to around 4 percent. However, given the severity of the shocks that have hit Guinea during 2014–15 and continued depressed commodities prices, the recovery is expected to be gradual and will need to be supported by policies to restore macroeconomic stability and rebuild domestic and external buffers. Structural reforms are also needed to improve the business environment, including in the mining sector, and strengthen the delivery of public service.

After solid performance in 2014, ECF program implementation weakened in 2015. Most performance criteria for end-June and indicative targets for end-September 2015 were missed. Net domestic assets of the central bank exceeded program projections and net international reserves have fallen sharply. The deviations result from the impact of Ebola, and slippages resulting from a large public investment program guaranteed by the central bank and the policy decision to keep fuel pump price low. Structural reforms also stalled, partly because of difficulties in securing technical assistance.

Following last October's Presidential elections, there has been a concerted effort to bring the ECF-supported program back on-track. The completion of the reviews required the implementation of several policy understandings, including the adoption of a sustainable 2016 budget and the reform of the foreign exchange market to unify the official rate and the bureaus' rate implying a devaluation of about 12 percent. Revenue measures in the 2016 budget include an increase in the VAT rate and new taxes on telecommunications. The authorities have also restructured, or cancelled, one third of the central bank guarantees to ensure spending in 2015 and 2016 would be consistent with the available financing envelope.

Staff supports the completion of the 6th and 7th reviews under the ECF arrangement and financing assurances review and requests for waivers of the nonobservance of performance criteria, for extension of the arrangement, and for re-phasing of disbursements. Completion of the reviews will result in the disbursement of SDR18.36 million (8.6 percent of quota).

Approved By
Abebe A. Selassie and Masato Miyazaki

An IMF team consisting of Mr. Wane (head), Mrs. Charry, Messrs. Bouis (all AFR), Dicks-Mireaux (SPR), Petit (FAD), Mooney (FIN), and Sulemane (resident representative) held discussions with the authorities in Conakry, Guinea during April 24–May 8 and December 2–15, 2015. The team met with President of the Republic Condé, the then Minister of State for Economy and Finance Diaré, the Governor of the Central Bank of Guinea Nabé, and other senior officials, and representatives of civil society, the press, and the donor community. Discussions were finalized after the appointment of a new Cabinet in January 2016 through videoconference with Mrs. Malado Kaba Minister of Finance, Mr. Mohamed Doumbouya Minister of Budget, and other senior officials of the new Cabinet. Mr. Raghani, Alternate Executive Director for Guinea participated in the discussions.

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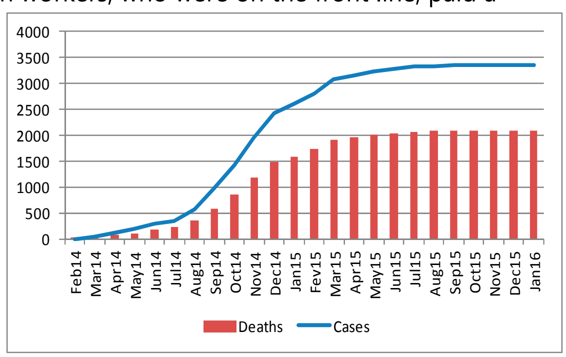
FACING HEADWINDS

A. Background

1. Recent developments in Guinea were dominated by the Ebola epidemic, which devastated the country during the last two years. Since its appearance in December 2013, the epidemic has claimed 2,536 lives, reversed socioeconomic gains, aggravated poverty and food insecurity, and destroyed livelihoods (Box 1). The government focused most of the country's resources on the fight against Ebola. The Ebola response plan, formulated with the assistance of the international community to eradicate the disease and estimated to cost about $315 million, prioritized community mobilization to undertake preventive measures and minimize exposure to suspected cases and corpses. Community and religious leaders were instrumental in convincing populations to adopt safe burial practices. The government provided food, financial assistance, and non-food items to affected households. Thanks to these sustained efforts, Guinea was declared Ebola-free by the World Health Organization (WHO) on December 28, 2015.

Box 1. Guinea: Update on the Ebola Outbreak and Its Impacts

The deadly epidemic, which lasted two years, claimed more than 2,500 lives and impinged on many communities. The epidemic affected 3,804 persons and is estimated to have killed 2,536 in Guinea out of the 28,638 cases and 11,316 deaths worldwide. Health workers, who were on the front line, paid a particularly high price with 115 deaths. While the epidemic was mostly localized in the forest region during the first months, it spread to all regions, affecting 26 out of the 34 prefectures in the country. Since the WHO declared Guinea Ebola-free in end-December, the country has been put under a 90-day heightened security period to prevent resurgence.



The epidemic has had significant adverse economic and social impacts. Foreign investments came to a virtual halt and activity in the service sector, buoyed earlier by foreign investors and expatriate working in the mining sector, declined significantly. In addition, the closing of borders with neighboring countries shut export markets and reduced producer prices and farmers' income. The epidemic has also drained public finances, as revenue fell short of target and spending was increased to combat the disease and provide assistance to affected people. The socioeconomic impact is also significant. UNICEF estimates the number of orphans from Ebola victims at 6,220, of which the majority is under 13 years of age. The organization warns that thousands of those who survived infection would be in need of continued assistance. The epidemic hit most severely the income of those working in the informal sector, including small farmers. It also triggered significant disruptions in the delivery of health services, including a drastic drop in the use of health facilities, and a prolonged closure of schools.

2. Political tensions eased with the successful organization of the presidential election in October 2015. Political tensions abated somewhat after the October 2013 legislative elections but flared anew ahead of the October 2015 presidential elections. The opposition's demands to reform the electoral commission (CENI) and organize communal elections before the presidential elections[1] culminated with the opening of the campaign for the presidential elections. As a result, acts of civil disobedience, which increased economic uncertainty and resulted in loss of life, continued throughout most of last year. However, the presidential elections were held peacefully on October 11, 2015 despite calls from the opposition to postpone the vote to address operational deficiencies of the CENI. On October 31, 2015, the Constitutional Court proclaimed the results of the elections, which were deemed fair and transparent by international observers. President Alpha Condé was re-elected in the first round with about 58 percent of votes, strengthening his popular support compared to the 2010 presidential and 2013 legislative elections. The President was sworn in on December 14, 2015, and appointed a new government in early January 2016.[2]

3. International prices of commodities exported by Guinea declined significantly. Lower commodity prices linked to weak growth in emerging markets posed an additional drag to mining investment, government revenue from the mining sector, and foreign exchange proceeds from mining exports. Compared to their peak values of recent years, prices of bauxite, diamond, gold, and iron ore have declined by 30 to 60 percent (Text table 1). Although revenue from bauxite is partly shielded from short-term international price movements thanks to long-term sales contracts, a number of projects were delayed because of the gloomy price outlook. The decline in gold prices severely hit gold production (with a large part being artisanal) and the collapse in the price of iron ore has further increased uncertainty concerning the implementation of the Simandou project.[3] However Guinea's terms of trade improved reflecting the decline in international oil prices, which helped reduce production cost for mining companies.

Text Table 1. Prices of Main Commodities in Guinea, End of Period, 2012–15

	2012	2013	2014	2015
Bauxite ($/T)	53.5	54.3	68.9	48.4
Diamonds	94.2	183.6	172.9	112.1
Gold ($/oz)	1,668.8	1,411.1	1,266.2	1,160.1
Iron ore ($/MT)	128.5	135.4	96.8	55.2
Coffee, other mild (cts/lb)	187.6	141.1	202.8	160.5

Sources: IMF staff estimates, BCRG, and the Bauxite Index.

[1] The opposition leaders insisted to have communal elections before the presidential ones arguing elected local representatives have a significant impact on the organization of the presidential elections. They stressed the August 2013 political accord included the organization of the communal elections before the presidential elections.

[2] The new Cabinet, headed by Mr. Mamady Youla as Prime Minister, has been asked to focus on economic recovery and employment creation for the young and women. The new cabinet brought into government several younger, more technocratic and well-educated Guineans, and increased the number of women (from four to seven) despite a slight reduction in the number of ministerial positions.

[3] The Bankable Feasibility Study (BFS) for the mine was finalized in December 2015, and the BFS for the infrastructure project is expected to be finalized during Q1 2016. These two studies will be merged by May 2016 into an integrated BFS that will inform a decision on the feasibility of the project around mid-2016. Exports are projected to start 6-7 years after the start of the project.

B. Macroeconomic Policies and Outcomes in 2015

4. Economic activity stalled as political uncertainty and the drop in commodity prices exacerbated the effects of the Ebola disease (Figure 1). Revised estimates suggest close to zero growth for 2014–15 (Table 1), reflecting weak activity in the mining, manufacturing, trade, and transport sectors.[4] Private sector investment and services were held back by political uncertainty related to the October 2015 presidential elections, limited international flight availability, Ebola-related delays in most projects involving expatriate workers, and the lackluster pace of structural reforms. Contractions in the secondary and tertiary sectors were however offset by a resilient agriculture sector thanks to higher cultivated surfaces and better yields, despite lower government support.[5] Poverty has likely increased in 2015 from its 2012 level of 55 percent as real GDP per capita declined by almost 4 percent in the interim period.

5. To address the impacts of the aforementioned shocks, the authorities relaxed macroeconomic policies, leading to significant imbalances. Against the backdrop of muted growth the authorities sought to support the economy and households by accelerating investment spending supported by central bank guarantees (Box 2), propping up the currency, which appreciated in real terms by 12.5 percent, and easing commercial banks' liquidity. As a result of these expansionary policies and the stickiness of the exchange rate mechanism, the average premium between the official market exchange rate and bureaus' rate increased sharply in August and hovered around 12 percent until the end of the year (Figure 2). Notwithstanding a nominal depreciation of about 11 percent of the local currency, 12-month inflation declined to 7.3 percent from 10.5 percent at end-2013, because of subdued demand and lower fuel pump prices. However, the authorities had to tighten policies during the last quarter of 2015, mainly because of external financing constraints and lower proceeds from gold exports.

[4] Bauxite productions of the two historical companies, CBG and CBK, stalled at their maximum capacity levels. However, in 2015, a new bauxite company, *Société Minière de Boké* (SMB), added about 12 percent to Guinea's bauxite production. SMB is operated by a consortium of three Chinese companies and of the Guinean logistics company UMS. As for the gold sector, against the backdrop of lower prices and difficulties to export production, extraction dropped by about 25 percent with artisanal gold collapsing (by almost 70 percent) after a boom in 2014, while industrial production declined by 6 percent.

[5] According to officials in the ministry of agriculture the reallocation of public funding toward pesticides and fertilizers has helped improve yields. However, with the reduction in the overall budget subsidies for the sector, public support for training activities was curtailed. The expansion of irrigated surfaces for rice cultivation also contributed to improve yields.

Box 2. Guinea: Central Bank Guarantees of Public Investment Projects

At the request of the Ministry of Finance, the central bank (BCRG) issued guarantees during 2014 and 2015 to local and foreign banks on behalf of 12 local and foreign private companies executing public works contracts to help them secure commercial bank loans. The total value of the public works contracts is equivalent to 15.2 percent of GDP ($1,017 million), of which 85 percent benefited from central bank guarantees, most of which in foreign exchange (Text Table). The foreign-currency denominated portion of payments on these loans falling due in 2016 (about $75 million dollars) represents a contingent claim on international reserves, and is thus not included in the program measurement of the central bank's net international reserves. In addition, the guarantees add $72 million dollars to the stock of public and public-guaranteed external debt.

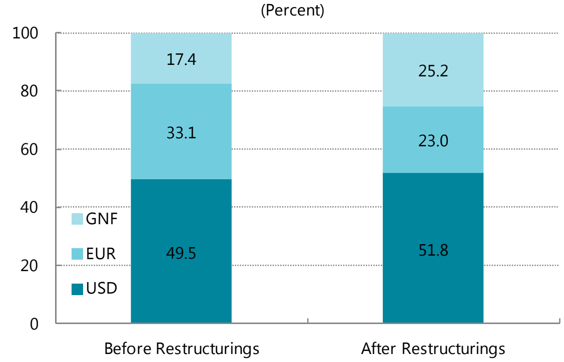
Text Table. Guarantees of Public Works Contracts

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

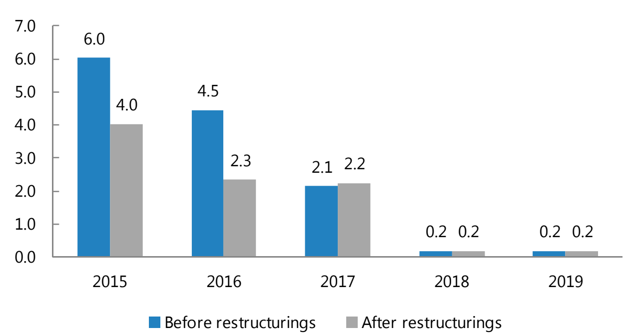
Sources: Guinean authorities, IMF staff estimates.

These operations carry significant implications for fiscal transparency, financial flexibility, and with respect to the availability of external buffers. First, the guarantees program reduces budget flexibility and increases budgetary risks by locking in spending over several years, which would prevent the authorities from adjusting their spending priorities going forward, while the inclusion of acceleration clauses in the loan contracts pose a risk that banks call the full amount of the guarantees. Second, the selection process of companies lacked transparency, and in some cases was not aligned with public procurement laws, with unit costs for the road projects reportedly significantly higher than the sector's benchmarks. Third, the guarantees compromise several program objectives as: (i) they encumber a portion of the BCRG's NIR, (ii) they triggered large central bank financing of the government, and (iii) they increase Guinea's debt vulnerabilities, although Guinea's risk of debt distress remains moderate (see DSA, *Supplement 1*).

Currency Composition
(Percent)



Implementation Horizon
(Percent of GDP)



Sources: Guinean authorities; IMF staff estimates

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

[2] See ¶7 and ¶8 of the Technical Memorandum of Understanding, and "International Reserves and Foreign Liquidity: Guidelines for a Data Template", IMF (2013).

6. Budget execution in 2015 was characterized by revenue shortfalls, and expenditure slippages that resulted in large central bank financing and domestic arrears (Figure 1, Tables 2a–2b). The basic fiscal deficit increased to 7.1 percent of GDP (MEFP ¶ 4) financed by central bank advances (3.3 percent of GDP higher than in the 2015 revised budget) and the accumulation of domestic arrears (0.9 percent of GDP higher than in the 2015 revised budget).[6]

- Tax and non-tax revenue fell short by about 2¾ percent of GDP from the revised 2015 budget's projections. The shortfall reflected the decision to keep fuel pump prices 20 percent below the level envisioned in the 2015 budget and the loss of import tax revenue as flour and cement imports were stopped following the opening of largely tax-exempt local production units.
- For the first time since the start of the program, the government exceeded targets for investment reflecting its goal of finalizing key projects before the elections. To make room for more investment and transfers to the electricity company EDG, the authorities kept outlays on salaries and goods and services below budget appropriations.

7. Monetary and exchange rate policy was relaxed to boost domestic demand (MEFP ¶ 6–7)**.**

- The central bank cut the reserve requirement rate from 20 percent to 18 percent and its policy rate to 11 percent in February 2015 (Figure 1). Commercial bank credit increased by a robust 26 percent (Figure 1), evenly split between the private sector and the government (Table 3a). However, most of the increase in private sector credit was allocated to companies that benefited from the central bank guarantees. Despite solid growth in deposits (21 percent) and capital (14 percent), and the cut in the reserve requirement rate, liquidity in local currency dried up.[7] As a result, interest rates on government debt increased throughout the yield curve (600 bps and 190 bps for three-month and one-year paper, respectively).
- The central bank increased its foreign currency injections to dampen the depreciation of the local currency. Bank-wide FX liabilities doubled because of increased FX demands from letters of credit to finance imports and FX-denominated loans guaranteed by the BCRG. Higher precautionary demand in the run-up to the elections and demand for foreign non-Ebola medical care added to the pressures on FX. The BCRG doubled its average monthly FX sales to $30 million during the first semester, reducing reserves to 2 months of imports by end-2015, and aimed to rebuild its reserves through a gold purchase program (Box 3).[8] Notwithstanding, banks' NFAs fell to very low levels (Table 3b),[9] and the exchange rate premium (official vs. bureaus) peaked at 15.2 percent in November 2015, despite the widening from ±3 percent to ±4 percent of the band around the weekly FX auctions rate in May 2015.

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[6] Financing expected in 2015 from the World Bank ($40 million) and the European Union (€12 million) was delayed to 2016.

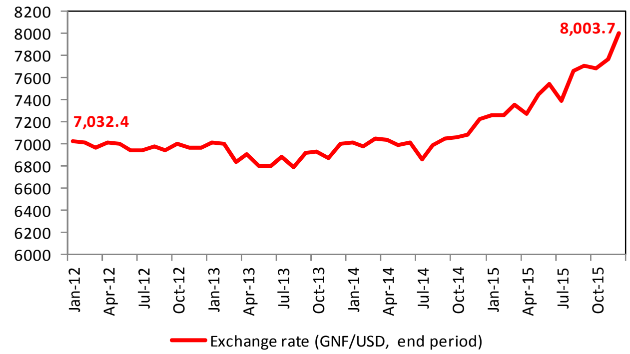
[7] After the successful issuance of GNF550 billion (1 percent of GDP) in 3-year bonds in June, banks lost appetite for longer maturities during 2015H2. Pressures intensified during 2015Q4, when two treasury auctions failed.

[8] The BCRG decided to discontinue the program in May 2015 (Box 3). However, the BCRG accrued a loss of about 10 million because of the decline in gold prices between February and May 2015.

[9] A low of $10 million was registered in end-October. NFAs recovered to $63 million in December 2015.

Box 3. Guinea: The Gold Purchase Program and Its Implications

Up to early 2016, Guinea's exchange rate regime was classified as a "stabilized arrangement",[1] as the BCRG maintained a *de facto* anchor to the US dollar, and the Guinean franc traded within a relatively narrow range vis-à-vis the US dollar since 2012 (see figure). This stability helped bolster confidence and anchor inflation expectations, but also prevented the exchange rate from fully playing its role as shock-absorber, eroded external buffers, and forced the BCRG to resort to unconventional measures to offset the resulting loss of reserves. One such measure included the launch of a program to replenish international reserves via the purchase of artisanal gold (using both local and foreign currency) starting in February 2015, totaling about $102 million through end-April. The gold purchase program had several drawbacks however:



- ***Reserves Portfolio and Investment Policy:*** The increase in the value of BCRG gold holdings (from $9 million at end-2014 to $102 million at end-April 2015) is inconsistent with the BCRG's Reserves Investment Policy adopted in 2014. Similarly, transaction costs associated with purchasing, storing, transporting, and refining non-monetary gold stocks implied a loss.

- ***Pro-cyclical Bias for Reserves:*** An increase in the proportion of gold in BCRG's international reserves amplifies the pro-cyclical characteristics of the portfolio as Guinea is a significant gold producer—gold production represented about 17 percent of GDP and 53 percent of exports in 2014. A shock to gold prices would compress external buffers just as the value of exports and output also deteriorate.

- ***Temporary Reduction of Buffers:*** Monetary gold needs to be refined to at least 995/1000 purity to be counted as part of net international reserves (NIR). This refining process was subject to delays, compromising the end-March-2015 and end-June-2015 program NIR targets; $55 million in new gold purchased through end-March could not be counted as part of NIR in end-June.

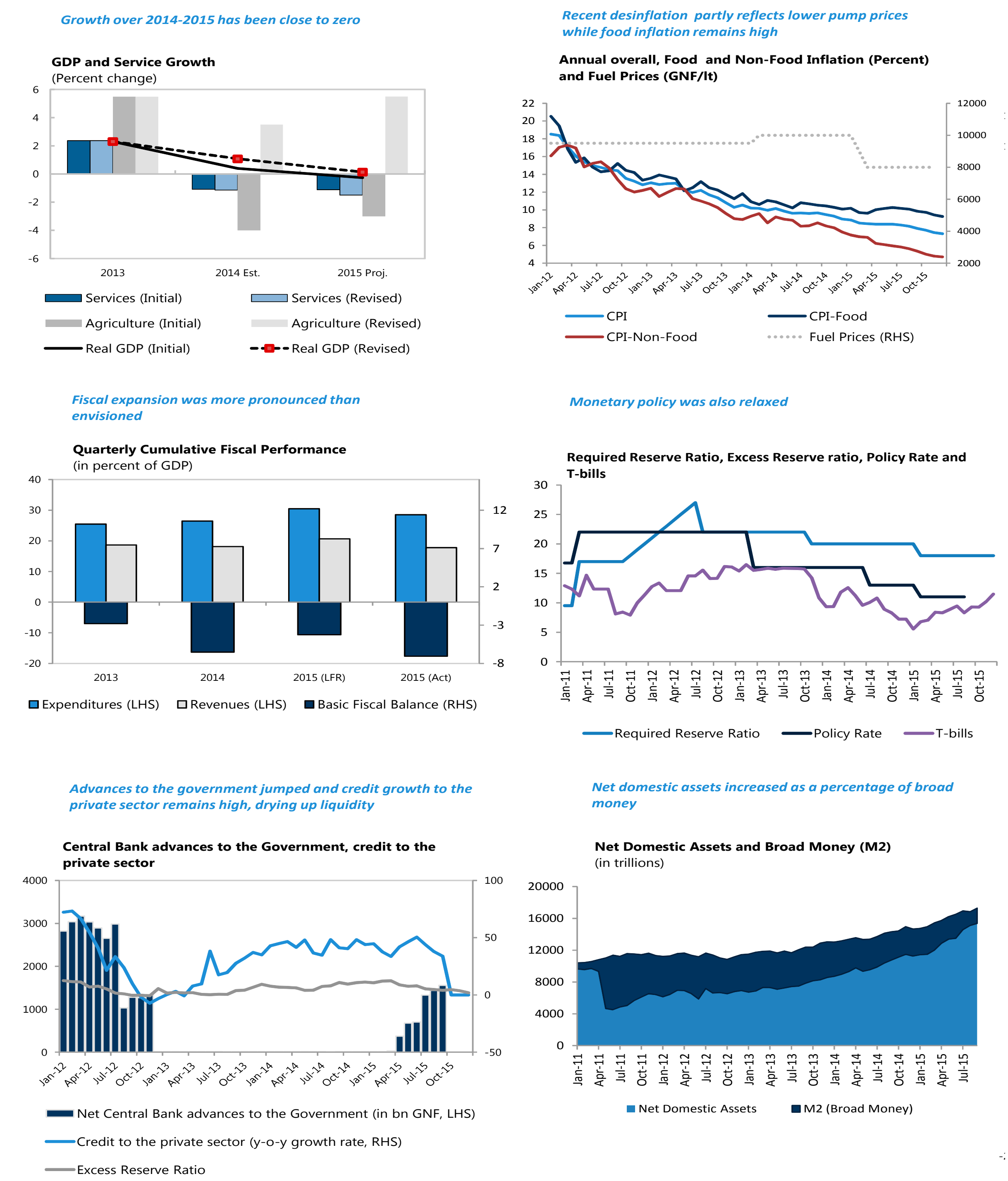
[1] http://www.imf.org/external/pubs/nft/2014/areaers/ar2014.pdf. The classification was changed to "other managed" in early 2016 after the reform of the exchange rate determination mechanism to improve the role of market forces.

8. **Prudential indicators deteriorated reflecting increased risk taking (Table 9)**. Total regulatory capital fell to 16.7 percent of risk-weighted assets (RWA) in September 2015, from 18 percent a year earlier. All liquidity indicators worsened, and signs of deterioration in asset quality emerged. This increase in risk-taking on the part of banks was consistent with an improvement of profitability, which was most evident in the 48 percent annual increase in FX-denominated loans as of October 2015 resulting also from the BCRG's guarantees program (Figure 2).

9. **The external current account deficit is estimated to have narrowed in 2015 (Table 4).** The improvement to 22.4 percent of GDP, owed primarily to a decline in imports (Figure 2), reflected the slowdown in growth, a partial winding down of Ebola-related imports as the epidemic tailed off, and a collapse in import prices. This more-than-offset an increase in the volume of imported investment goods linked to central bank guarantees and a drop in official transfers. However, because of a decline in financial inflows and unrecorded financing (errors and omissions)[10] inflows, the overall balance of payments deficit is estimated to have widened to 5.2 percent of GDP in 2015 leading to a rundown in gross reserves to below $2^{1/2}$ months of imports.

[10] In both 2014 and 2015 large positive errors and omissions reflect the under-reporting of sizeable donor financing for Ebola related imports of goods and service term (see Office of United Nations Special Envoy on Ebola, Resources for Results V, October 2015 for data on the size and distribution of aid flows). With the winding down of Ebola in 2015, errors and omissions are estimated to have declined.

Figure 1. Guinea: Recent Domestic Economic Developments



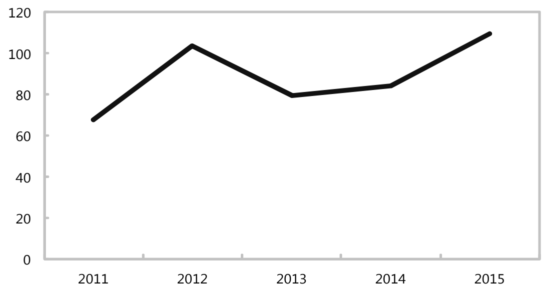
Sources: Guinean authorities, IMF staff estimates.

Note: "Initial projections" refer to the estimates made at the time of the 5th ECF review.

Figure 2. Guinea: Recent External Economic Developments

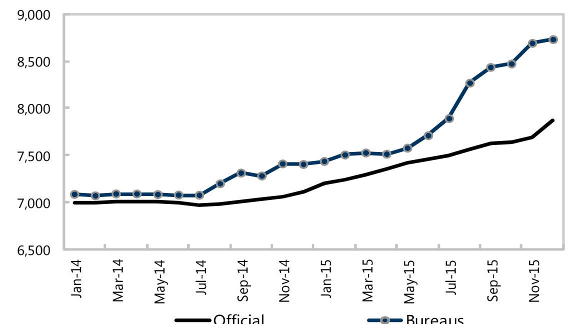
Terms of trade improved on the back of lower oil prices

Terms of Trade



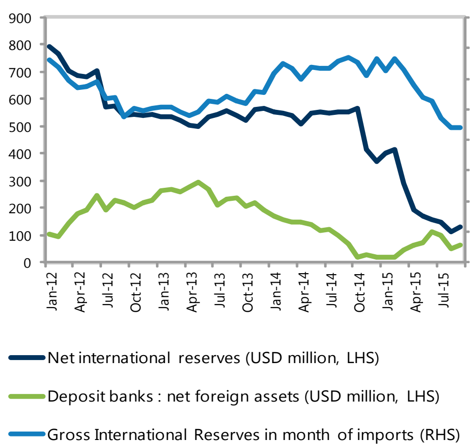
The premium between the official and the bureau exchange rates strongly increased from August

Official, Bureau Market, and Real Effective Exchange



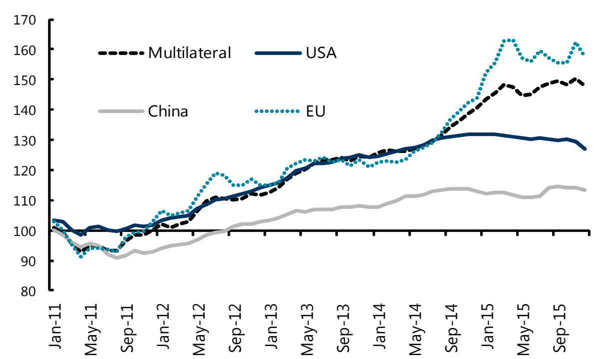
International reserves sharply depleted and have fallenm below pre-ECF program levels

Net international reserves and gross international reserves in months of imports



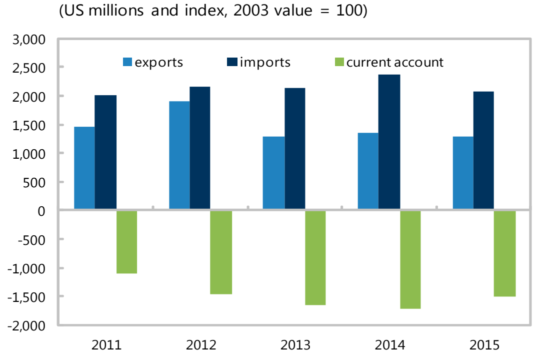
REER further appreciated reflecting a still high inflation differential and euro depreciation

Real Effective Exchange Rate, Jan. 2011-Nov. 2015
(Index)



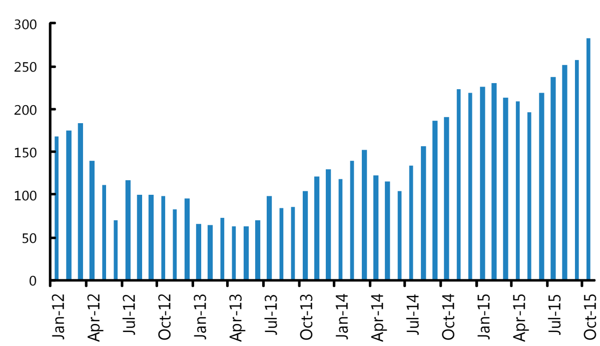
Lower import values in a context of lower oil prices and subdued demand have been associated with a reduction in the current account deficit

Trade in Goods and Services and current account
(US millions and index, 2003 value = 100)



Loans in foreign currency increased significantly

Credit in Foreign Currency
(USD millions)



Sources: Guinean authorities, IMF staff estimates.

C. Program Implementation

10. The sixth review under the ECF arrangement could not be completed as envisioned. After a solid performance in 2014, the program went off-track in 2015 (MEFP ¶ 3) because of the larger-than-envisaged impacts of adverse shocks and policy slippages, and delays in structural reform implementation. Significant revenue losses, as key mining projects have been delayed following the fall in commodity prices and a protracted Ebola outbreak, and increased spending needs, as the government sought to stem the Ebola outbreak and accelerate infrastructure spending (Box 2), led to significant fiscal relaxation in the first half of the year.

- Out of seven performance criteria (PCs), the government met five at end-2014, but missed four[11] at end-June 2015 (Figure 3, Table 5). Policy slippages include the issuance of large central bank guarantees to boost public investment ahead of the elections, and the decision to keep fuel pump prices 20 percent below the level projected in the 2015 budget. Policies to redress these slippages and permit Executive Board consideration of the sixth review could not be implemented before the October 2015 presidential elections. As a result, most end-September 2015 indicative targets were also missed by sizeable margins, and the path of macroeconomic outcomes deviated further from the program's objectives.[12] The BCRG also missed the continuous performance criterion on not introducing a multiple currency practice (MCP). The competitive auction that was introduced in January 2016[13] is a multi-price foreign exchange auction, which resulted in an MCP due to the lack of a mechanism to keep exchange rates of accepted bids at the auction within ±2 percent.
- Structural reforms continued to lag as the authorities focused their attention on fighting Ebola. Only one out of 6 structural benchmarks was met (approval of a decree redefining the role of SOGUIPAMI), and the remaining structural benchmarks were completed with a delay or had to be reprogrammed. The authorities attributed the delays mostly to difficulties in securing technical assistance.

11. The authorities expressed strong interest in completing successfully the current ECF arrangement[14] and started implementing corrective measures after the elections. To enable discussions on policies for the remainder of 2015 and for 2016 they requested an extension of the arrangement to end-March 2016 (EBS/15/148). In that context, understandings were reached at the

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[11] Not including the continuous PC on new nonconcessional medium- or long-term external debt that was already missed.

[12] In particular the central bank advances to the treasury exceeded the program projections and the ceiling allowed by the central bank law, and net international reserves plunged to pre-ECF program levels

[13] Instruction N° 0056/DGCC/DCH/16 of January 4, 2016 introducing a new foreign exchange auction.

[14] A delegation from Guinea led by the finance minister and the central bank governor visited Washington in November 2015 to finalize the discussions on the modalities for reviving the ECF-supported program.

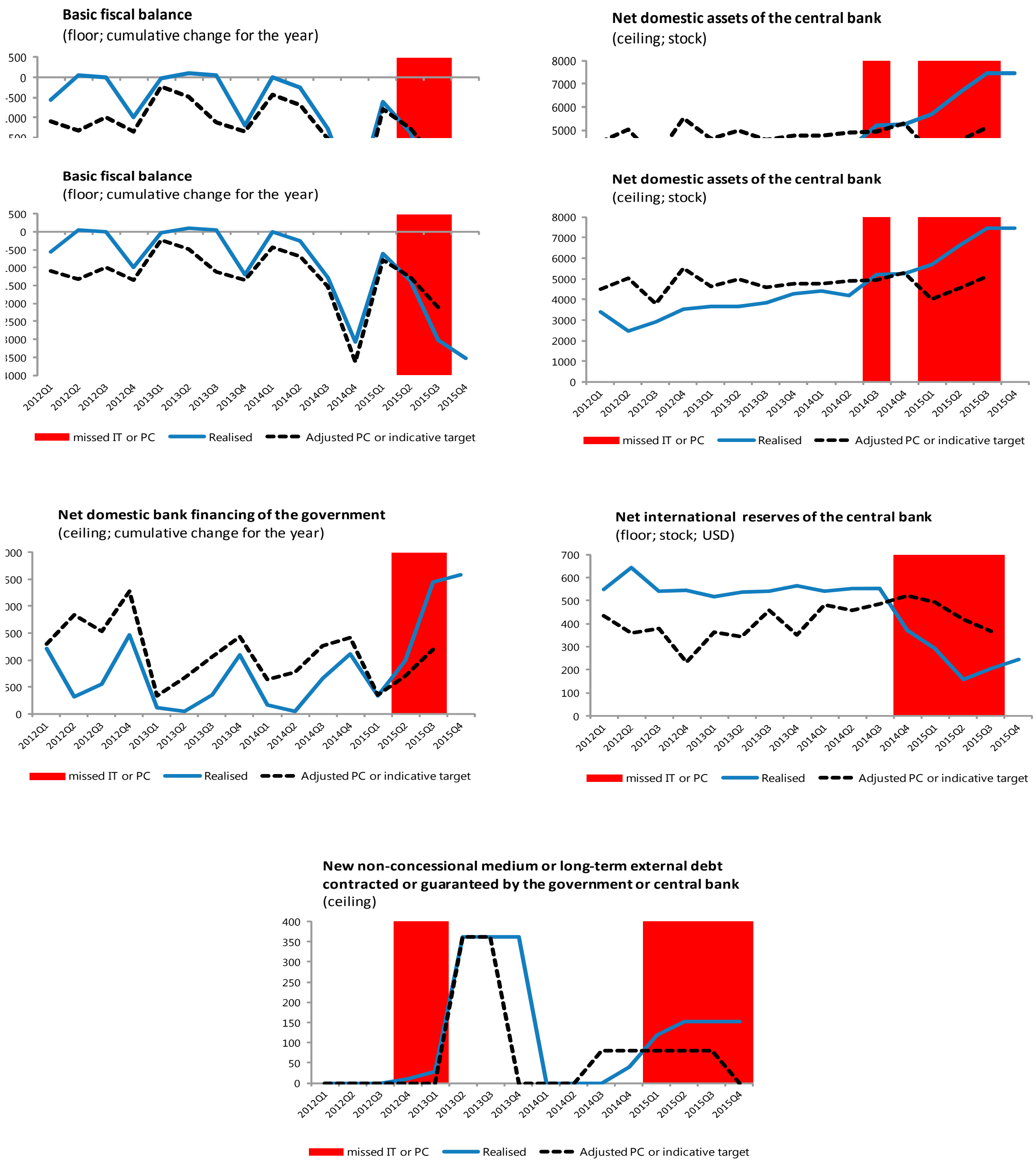
technical level to close the 2015 projected financing gap without increasing central bank advances and domestic arrears from their end-October levels as per the letter of intent for the request for extension of the arrangement (prior action) and reduce the central bank's sales of foreign exchange to allow the exchange rate to depreciate and safeguard its international reserves (MEFP ¶ 11). These goals were achieved through expenditure restraint during the last two months of 2015. To alleviate the pressures on the budget and the BCRG's net international reserves, the authorities restructured, cancelled, or rescheduled to 2016 and beyond an amount of $270 million (3¾ percent of GDP) of guarantees normally falling due during the last quarter of 2015 (Text Table 2). However, priority spending continued to be executed according to plans.

Text Table 2. Guinea: Guarantees Restructured or Cancelled

	Sectors	Number of guarantees	Financial impact (million of US$)
Restructured	Transportation; Electricity	2	93.1
Cancelled	Roads; Electricity; other services	4	177.3
Total	...	6	270.3

Source: Central Bank of the Republic of Guinea

Figure 3. Guinea: Program Performance



Sources: Guinean authorities; IMF staff estimates.

ECONOMIC OUTLOOK AND POLICY DISCUSSIONS: PUTTING THE PROGRAM BACK ON TRACK

A. Short-Term Economic Outlook and Risks

12. Policy discussions took place amid a highly uncertain short-term outlook. While the Ebola outbreak is over, its negative economic effects are projected to persist in the short term. The recent large swings in commodity prices and the communal elections scheduled in 2016 add to economic uncertainty. Compared to the fifth ECF review, the projected rebound in activity for 2016 has been revised downward to 4 percent (MEFP ¶ 10), because of the protracted presence of Ebola, limited room for fiscal impulse, and the impact of lower commodity prices on megaprojects like Simandou.[15] Gold production is projected to contract further, reflecting the decline in gold prices, while production of diamonds would stall. However, the mining sector is still projected to rebound on the back of an ambitious production plan of the new bauxite company *Société Minière de Boké*. Electricity production should continue to grow, albeit at a much slower pace. The end of Ebola and the return of expatriates in the country should boost manufacturing, construction, and services. An uptick in inflation to 8.5 percent at end-2016 is projected from the depreciation of the Guinean franc, as the impact of the cut in fuel pump prices in early 2015 vanishes (Box 4).[16]

[15] Rio Tinto posted in February 2016 the following announcement of its decision to impair the value of the Simandou project. "*The Simandou project partners are currently finalizing an integrated Bankable Feasibility Study (BFS) for the mine, port and infrastructure elements of the project, which is scheduled to be submitted to the Government of Guinea in May 2016. Given uncertainties associated with funding of the infrastructure, coupled with the volatility of the current and near-term outlook for commodity prices, the Group has undertaken a review of the carrying value of the asset and determined a non-cash impairment charge of $1,118 million (net of non-controlling interests and tax)*". The implications of this decision on the project remain however unclear.

[16] Some 2016 fiscal measures, including a two-percentage point increase in the VAT rate, the reduction of some subsidies, and to a lesser extent the increase in the telecommunication taxes will also contribute to upward price pressures.

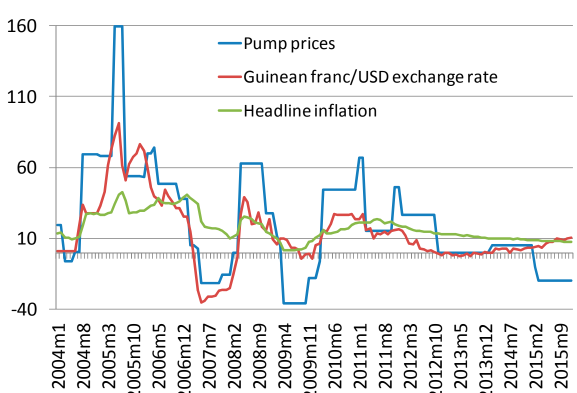
Box 4. Guinea: Net Inflation Pass-Through of Exchange Rate and Fuel Price Changes

The box aims to shed some light on the net impact on inflation of some exchange rate depreciation in the context of subdued demand and lower oil prices in Guinea.

Figure 1 shows that inflation and changes in exchange rate and pump prices are closely related over time. This is confirmed by a regression explaining the growth rate of the consumer price index by the growth rates of the exchange rate and of the domestic fuel price, controlling for other determinants of inflation like international oil prices and broad money supply (Table 1).[1] The results show that a 10 percent depreciation of the exchange rate is significantly associated with an increase in inflation of 1.5 percentage point over the same quarter, while a decline in pump prices of 10 percent translates into a 1 percentage point reduction in inflation.

Based on end-December 2015 data and policies envisioned for the remainder of the year, the program end-2016 inflation objectives remain achievable. Inflation declined steadily to 7.3 percent in December, thanks to a 20 percent decline in pump prices, and despite an annual 10.6 percent depreciation of the official exchange rate. Going forward, the authorities envision implementing fully the fuel automatic pricing mechanism. This could trigger incremental declines of up to 10 percent by end-2016, thus an impact on inflation of up to 1 percentage point. The recent depreciation of the official and of the bureaus exchange rates could add about 1 percentage point to inflation in the coming months. In total, prices would increase but remain within single digits in 2016, as envisioned in the revised program. These results allay somewhat the authorities' concern that the exchange rate depreciation envisioned in the program would lead to significantly higher-than-programmed inflation.

Figure 1. Year-on-Year Changes in CPI, GNF/USD Exchange Rate, and Pump Prices (Percent)



Text Table 1. Regression Analysis of the Pass-Through to Inflation

	Dep. variable: ΔLog(CPI)
ΔLog(Exchange Rate)	0.15***
	(3.29)
ΔLog(Pump Prices)	0.10**
	(2.60)
ΔLog(Inter. Oil Prices)	0.02
	(1.60)
ΔLog(M2)$_{-1}$	0.14*
	(1.96)

Note: OLS estimates over 1996Q2-2015Q4. Constant term included but not reported. Robust *t*-stats (using Newey-West standard errors) are shown in parentheses. ***, **, *, denote significativity at the 1, 5, and 10 percent levels, respectively.

[1] Unit root tests suggest that all variables are integrated of order one (i.e. are non-stationary in levels but are stationary in first difference) while the Johansen (1988) trace test indicates the presence of several cointegration relationships. In line with results reported here, the estimation of a VECM does not show any positive impact on inflation of the lagged growth rates of the pump prices or of the exchange rate but only of current quarter's changes in these variables. Results are qualitatively similar when controlling for the growth rate of credit-financed public spending or a measure of the output gap.

13. Macroeconomic policies for 2016 aim to improve reserves coverage to three months of imports, and keep inflation within single digit figures as envisioned in the 2015 ECF-supported program. The program projections are anchored on a sustainable 2016 budget and on the unification of the exchange rate through a more flexible mechanism. Monetary policy will be kept on hold until after an assessment of the impact of the fiscal adjustment strategy on economic activity, reserves, and inflation.

B. Fiscal Strategy in 2016: Restore Sustainability and Domestic Buffers

14. The 2016 budget envisions a significant broad-based fiscal contraction. The government submitted to Parliament on December 18th a fully-financed and sustainable 2016[17] budget in line with the revised program (prior action; MEFP ¶11–15) with limited recourse to domestic financing. The basic fiscal deficit is projected to decrease from 7.1 percent of GDP in 2015 to 0.4 percent in 2016, on the back of improved revenue (2.5 percent of GDP) and spending cuts (4.2 percent of GDP of domestically financed expenditures). The 2016 budget includes a package of revenue-enhancing measures with a revenue impact of over 2 percent of GDP (prior action). The measures include new policy and administrative changes, the full-year impact of measures adopted in the 2015 revised budget, and the impact of higher economic growth and exchange rate unification. The fiscal adjustment limits the recourse to commercial bank financing and allows for the gradual reimbursement of the 2015 central bank advances and of domestic arrears.

Text Table 3. Guinea: Revenue Measures in the 2016 Budget

Measures	GNF (billion)	% of GDP
Tax policy measures	1,049.6	1.9
- Telecoms measures	438.7	0.8
- Increase in the VAT rate	296.0	0.5
- Other VAT measures	140.0	0.2
- Royalties new mining company	45.6	0.1
- Excises and new stamp duty	67.0	0.1
- Upward revision of custom values	62.3	0.1
Nontax measures	200.0	0.4
Administrative measures	115.0	0.2
Other measures	55.0	0.1
Total	1,419.6	2.5

Source: Guinean authorities.

[17] The 2016 budget was approved by Parliament on January 16, 2016.

15. The ambitious revenue projections reflect bold tax policy and administrative measures (MEFP ¶ 13). Revenue is projected to increase from 17.9 percent of GDP in 2015 to 20.4 percent of GDP in 2016. This rebound to pre-Ebola levels despite soft commodity prices is due to several measures (Text Table 3), including the increase from 18 percent to 20 percent in the VAT rate, the extension of the VAT to flour and cooking oil,[18] the increase in alcohol and tobacco excises, the upward revision of the commercial value of imported used cars and of goods imported by land, etc. In addition, the full-year impact of the 1 GNF per minute tax on phone communications (roughly 20 percent of communications costs) introduced in late 2015 is estimated to yield significant revenue in 2016. On the administrative side, staff advised the authorities in the formulation of a plan to tap 0.2 percent of GDP in additional revenue by addressing under-invoicing of imports. Budget grants are projected to exceed 2015 levels because of the disbursements of the World Bank ($40 million) and European Union (€12 million) originally planned in 2015.

16. Domestically-financed spending is projected to decline by 4.2 percent of GDP in 2016 despite a higher interest bill from larger deficits in 2014–15 and the full year impact of the 2015 wage increase (MEFP ¶ 14)**.** Measures to reduce current expenditure include (i) across-the-board cuts on all functions (transportation, furniture, supplies, etc.) to save 1.7 percent of GDP on goods and services; (ii) improved governance at the electricity company and the impact of lower oil prices to save 1.9 percent of GDP; and (iii) the exclusion from the public payroll of all workers not identified in the context of the 2015 biometric census of public workers (prior action) that helped limit the increase in the wage bill. Domestically-financed investment will be reduced by 1.4 percent of GDP by: winding down some projects started in 2015 (e.g., street lamps); postponing all new projects to after 2016; renegotiating some projects guaranteed by the central bank (see Box 2), and cutting by 0.6 percent of GDP domestically-financed investment by earmarking the execution of some projects to financing expected from Abu-Dhabi through the creation of a Special Allocation Budget (BAS) in the 2016 finance law.

17. The fiscal contraction will allow least recourse to commercial bank credit and the partial repayment of the 2015 central bank advances (MEFP ¶ 15)**.** Commercial bank financing will be limited to 0.3 percent of GDP, while the authorities plan to tap about 0.2 percent of GDP in idle savings of government agencies. This will provide ample room for a healthy increase in commercial bank credit to the private sector and for the partial reimbursement (½ percent of GDP) of the 2015 central bank advances and of arrears (0.3 percent). External financing (1.9 percent of GDP) include budget loans (0.7 percent of GDP from a Congolese loan and the balance from the World Bank) which cover the amortization of foreign debt (1.0 percent of GDP).

[18] The authorities suspended the implementation of this measure in mid-February 2016 in the context of negotiations with unions that launched a general strike to demand cuts in fuel prices and salary increases to alleviate the impact of the fiscal adjustment on workers' living conditions. The government proposed new measures, including the collection of tax arrears from identified companies, to fully recoup the lost revenue. More permanent measures will be sought in 2017.

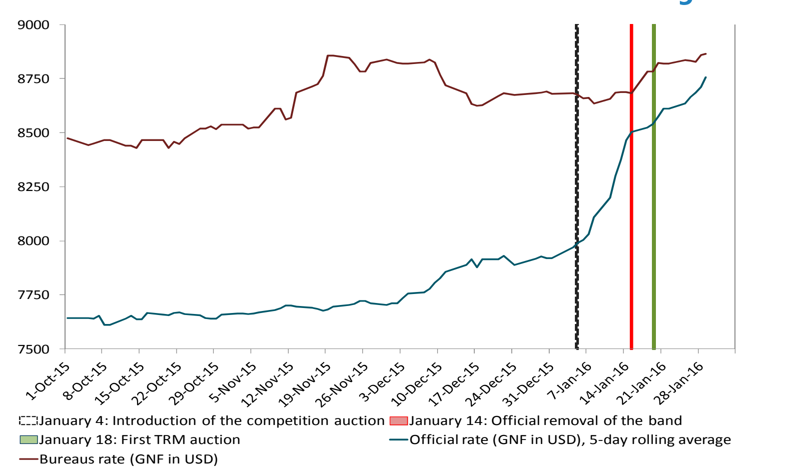
C. Monetary and Exchange Rate Policy: Rebuild External Buffers

18. The BCRG's key objective in 2016 is to sustain an increase in its gross reserves to 3 months of imports (MEFP ¶ 16–17). Higher exchange rate flexibility, Fund balance of payments support, increased budget support from donors (including the African Development Bank, the European Union and the World Bank), and the fiscal adjustment are expected to contribute to the gradual strengthening of reserve buffers.

19. Reserve money is projected to increase at a rate lower than nominal GDP in 2016 despite the strengthening of the central bank's net foreign assets. This assumes a tight monetary policy stance, as the authorities keep the reserve requirement rate unchanged and increase gradually the interest rate on the BCRG's liquidity management instrument to reduce FX pressures. Under the fiscal retrenchment envisioned in the baseline projections, commercial bank liquidity will however be enough to finance a robust increase in private sector credit (excluding to companies that benefited from central bank guarantees in 2015). The BCRG will monitor closely inflation and stands ready to adjust the stance of monetary policy if inflation increases to double digits territory. In case a recalibration of economic policy mix is required, monetary policy could be adjusted down the road once the exchange rate and fiscal policy adjustment have consolidated. The authorities have agreed to consult with staff before deciding on any changes in the monetary policy stance.

20. The BCRG will ensure the exchange rate remains unified at a level consistent with its objective for international reserves. The BCRG has implemented in January 2016 recommendations of the IMF (MCM) technical assistance mission of December 2015 to improve exchange rate flexibility (prior action) and to unify the official and bureaus' rates.[19] The reforms include: (i) changes in the BCRG's FX intervention policy; (ii) the elimination of the band that limited the fluctuations in the official exchange rate to ±4 percent; and (iii) the introduction of a new facility to mop up domestic liquidity and support the exchange rate adjustment. Since the introduction of the new mechanism, the official exchange rate has depreciated by about 12 percent (Text Figure 1), and the BCRG has reduced FX sales in line with projected foreign exchange inflows and the targeted

Text Figure 1. Recent Reforms of the Foreign Exchange Market and Evolution of the Official and Bureaus Market Exchange Rates



[19] Since 2011 the exchange rate market was segmented with the coexistence of different exchange rates applied by the banking system (including the central bank) and exchange bureaus.

level of reserves. The BCRG will continue to adjust the interest rate on its monetary operation notes (TRM) to adjust the composition of commercial banks liquidity and influence their net demand for FX to levels consistent with the BCRG intervention possibilities. It will continue to allow the exchange rate to adjust freely to reflect market developments and its objective for international reserves.

21. The update safeguards assessment of the BCRG is substantially complete and saw limited progress in strengthening the safeguards framework since the 2012 assessment. The situation is further exacerbated by the recent issuance by the BCRG of guarantees to commercial banks at the request of the government. This underscores the need to strengthen the autonomy of the BCRG through amendments to the BCRG Law (MEFP ¶ 18). In addition, the lack of an international accounting framework and weak internal controls continue to compromise the transparency and accountability of the central bank. Staff advised the authorities to address the BCRG's weak accounting controls including through the preparation of a report on all suspense accounts identified by auditors. However, the priority should be to implement IFRS, increase oversight of internal controls, and continue the verification of program monetary data at test dates by the external auditors. In that regard, the statutes of the BCRG will be amended by June 2016 to ban guarantees to private entities and ensure compliance with the statutory limits on central bank advances to the treasury. The Ministry of Finance and the BCRG will sign by end-March 2016 a Memorandum of Understanding that sets up the conditions to repay the 2015 advances within the next 6 years.

22. The BCRG will continue to closely monitor the health of the financial system (MEFP ¶ 17)**.** The three banks that did not complete the recapitalization program have requested extensions, and are under close scrutiny from the central bank. Staff encouraged the authorities to prepare action plans in case they fail to meet the capital standards. Staff also encouraged the authorities to implement the recommendations of AFRITAC West technical assistance regarding banking supervision. In particular, the BCRG should revise its forbearance policy to breaches to prudential regulations. Risk-based supervision should also be introduced more swiftly. Institutional reforms to strengthen the directorate of banking supervision might be needed to deliver these results.

D. External Sector and Debt Management: Address Vulnerabilities

23. The external current account deficit is projected to improve further in 2016, to 13.1 percent of GDP. Exports are projected to rise on the back of increased bauxite production from SMB. The fall in imports reflects mainly a cutback in public investment and the impact of the exchange rate depreciation. Transfers would increase sharply owing to a rise in official transfers and a decline in outward transfers for medical treatment abroad as confidence in local medical centers begins to improve. With a pickup in mining sector FDI and other private inflows, the overall balance would move into surplus and international reserves are expected to be rebuilt to 3 months of imports by end-2016.

24. Guinea's debt dynamics remain sustainable but near-term vulnerability has increased. A new DSA (*see Supplement* 1) indicates that Guinea continues to face a moderate risk of external debt distress, However, given the sharp rise in total public debt, reflecting the recent loan guarantees to local banks and the rise in the government's overdraft at the BCRG, the debt service burden[20] in the short term has increased significantly. It will be important to carefully monitor the accumulation of new debt to avoid a rapid increase in the burden of debt service given limited budget flexibility and the need to preserve priority spending.

25. The authorities remain committed to ensuring that debt remains at sustainable levels. To this end, with the resumption of technical assistance in 2015, several measures to strengthen debt management are nearing completion, including a National Public Debt Policy Statement, a manual of operational procedures in the debt department, and a medium-term debt strategy (2015–19). In addition, the government has requested further technical assistance to carry forward these reforms and render them effective. They have also requested TA from AFRITAC to improve the programming of domestic debt issuance. It will be important for these reforms to be fully effective so that they can ensure a better coordination and management of debt, in particular through the National Committee for Public Debt (CNDP), to ensure all new government and central bank borrowing and guaranteed borrowing is in line with the statement on national public policy and fully monitored to ensure it is sustainable. In this context the central bank will revise its statutes to ban the issuance of guarantees for private sector loans (¶ 21).

26. The government intends to give priority to concessional external loans and grants.[21] In line with the Fund's policy on debt limits the revised program includes a continuous PC on the nominal level of new contracted non-concessional external debt which is proposed to be set at zero starting from the date of the completion of the combined sixth and seventh reviews (MEFP Table 1); effectively the PC remains unchanged. The authorities have also prepared a borrowing plan (contracting basis) for 2016 (MEFP ¶ 28, MEFP Table 4) including the sources and uses of the planned financing.

E. Structural Reform Priorities: Finalize the Program's Reform Agenda

27. Completion of the structural reform agenda of the ECF program (MEFP ¶ 19–25) **would help achieve its macroeconomic objectives and put Guinea on a stronger footing for the medium term.** While past delays in reform implementation owes in part to the presence of Ebola, there is now a need to finalize the structural reform agenda under the ECF program in 2016 to support the economic recovery.

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

[21] The authorities contracted a non-concessional external loan (about $79 million) in January 2015, as provided for under the program, to finance the extension and rehabilitation of the electricity network between the Kaleta hydroelectric dam and Conakry.

- Measures in the PFM area (MEFP ¶ 20–21) should focus on improving investment budgeting and reducing unorthodox spending procedures, and improving the transparency of the budgetary process and its monitoring. The authorities should adopt by end-March the conclusion of the audit of large contracts in 2015 and adopt a plan to enforce existing public procurement processes.
- On public sector reforms (MEFP ¶ 23), the authorities should swiftly adopt a plan for the reform of the civil service and the public administration based on the results of the biometric census. The plan should include a strategy to improve the visibility of changes to public sector compensations and strict enforcement of regulations for hiring in the public sector.
- The long-delayed mining sector reforms to reduce uncertainty in the sector should be finalized swiftly, including the review of mining contracts, the implementing regulations of the mining code, and the enablers for large mining projects (MEFP ¶ 24).
- Priorities in the energy sector (MEFP ¶ 25) include the finalization of a tariff study and the introduction of meters for customers of the electricity company. The authorities should also conduct an exhaustive census of user connections to the electricity grids, and adopt a plan to improve the commercial performance of EDG. It will be important to ensure that initiatives to strengthen energy infrastructure are consistent with debt sustainability (see attached DSA).

F. Medium-Term Challenges: Building Resilience Through the Post-Ebola Recovery Plan

28. The authorities' ambitious post-Ebola recovery plan (US$2.3 billion) could underpin strong medium-term growth, but it is significantly under-financed. The medium-term economic recovery is contingent on large public spending to rehabilitate the health sector, strengthen infrastructure, and scale up the social safety net. The authorities foresee a large growth dividend from productivity improvements facilitated by investments in human and physical capital. Agriculture is expected to grow by more than 5 percent on average in the medium term on the back of the ongoing reforms, while electricity production experienced a large increase with the operation of the hydroelectric power plant Kaleta since July 2015. However, rapid growth in these sectors will provide limited revenue[22] to cover the recovery plan's estimated financing gap (US$1.3 billion). Staff stressed the need to focus the plan in light of these concerns and the limited space for large additional debt.

29. Expenditure priorities should be aligned with the recovery plan, and other supportive measures put in place. The recent fiscal policy slippages have added to medium-term financing gaps and debt, and impaired budget flexibility. Expenditure rationalization measures should address

[22] Electricity subsidies would increase with the production of electricity until the reform of the governance of the sector and of the electricity company is finalized.

increases in spending on goods and services and on subsidies to free space for more social spending. Addressing Guinea's low absorptive capacity and lack of transparency in procurement processes would help unlock more donor support.[23]

30. New growth and financing opportunities could come from mining sector projects (Box 5). However, Guinea faces a fundamental shift in its outlook, now that commodity prices are expected to remain relatively low for a prolonged period. The challenge is to accelerate and deepen mining sector reforms to reduce uncertainty and increase investor appetite. Key measures should include the finalization of the review of mining contracts and starting operations of the newly established one-stop shop for large mining projects (MEFP ¶24).

Box 5. Guinea: Mining Sector Prospects

Expanding production at existing mines, developing new projects, and a supportive institutional setting would allow Guinea to leverage its large mineral wealth to reduce poverty and exit fragility. But, the end of the commodity super-cycle, along with shocks (Ebola), and structural bottlenecks could weigh on the sector's prospects going forward. Advances in the structural reform agenda would allow Guinea to limit the effects of these shocks.

Guinea has over one quarter of the world's bauxite reserves, the largest unexploited world-class iron ore deposit in the world (Simandou), and considerable gold and diamonds reserves. Yet, Guinea's share of world production is well below its share of reserves. The development of the mining sector has been hindered by high levels of political risk and structural bottlenecks, such as low levels of human capital, and the lack of adequate infrastructure and supportive institutional settings. Nevertheless, the macroeconomic stabilization gains of the past years, and the positive price environment for Guinea's main commodity exports in 2012 heralded an increase in investors' appetite for developing the sector, and several projects were planned. The project pipeline includes investments of about $41 billion dollars in the bauxite, alumina, and iron ore sectors that would imply the creation of more than 19,000 jobs and significant government revenue.

However, the onset of some projects and the coming on-stream of others projects has been pushed forward several times. To unlock government revenue and facilitate growth recovery, the authorities should focus their efforts on measures to ensure the main projects envisioned are implemented. Key measures include stabilizing the legal environment (mining code implementing regulations and review of mining contracts), and accelerating the starting of operations of the new one-stop show for large projects.

Guinea: Summary of Main Mining Sector Projects

Company	Value (USD millions)	Jobs	Sector	Timeline	Revised timeline
SIMFER (Simandou)	20,000	3,000	Iron ore	2018	2023-24
China Powers Investments	6,000	3,500	Bauxite/Alumina	2019	Delays expected
Guinea Alumina Corporation	5,200	1,500	Alumina	2017	Delays expected
Bellzone (Kalia)	4,500	3,500	Iron Oore	2019	Delays expected
COBAD S. A.	4,000	2,500	Bauxite/Alumina	2017	Delays expected
Compagnie des Bauxites de Guinée	1,300	2,328	Bauxite	2018	2018
Société Minière de Boké	200	3,000	Bauxite	2016	2016
Total	41,200	19,328			

Source:Guinean authorities.

[23] The mission reached out to donors to assess prospects for sustained assistance to Guinea in the near term. Donors stressed the need to address the impediments outlined above.

PROGRAM MONITORING, FINANCING, AND RISKS

31. The authorities request the completion of the sixth and seventh reviews under the ECF arrangement, waivers for the nonobservance of PCs, extension of the arrangement and re-phasing of disbursements.

- The request for waivers relates to the nonobservance of the continuous PC on new non-concessional external medium or long term-debt, and the end-2014 PC on net international reserves. The authorities also request waivers for the nonobservance of the end-June 2015 PCs on the basic fiscal balance, net domestic financing of the government, net domestic assets of the central bank, and net international reserves of the central bank, as well as for the nonobservance of the continuous PC on non-introduction of MCP (MEFP ¶ 30). To support their request for waivers for the missed PCs on the central bank NIR and NDA, the basic fiscal balance, and the net domestic bank financing, the authorities have completed all the prior actions for the sixth and seventh reviews (MEFP Table 2) to strengthen fiscal sustainability and improve the central bank net international reserves. They have also cancelled or restructured about 1/3 of the stock of guarantees, and started the audits of the procurement contracts. To support the waiver for the missed continuous PC on nonconcessional medium- or long-term external debt, the authorities have committed to adopting by end-March 2016 the national debt policy to strengthen debt management and have requested IMF technical assistance to improve the programming and monitoring of debt issuance. To support the request for waiver for the nonobservance of the continuous PC on the non-introduction or modification of MCP, the BCRG has now committed to ensure that exchange rates of accepted bids at the auction remain within ±2 percent (LOI ¶ 4) thereby removing the MCP.
- The authorities request the disbursement of SDR18.36 million (8.6 percent of quota) upon completion of the sixth and seventh reviews (MEFP ¶ 32), an extension of the ECF arrangement to end-October 2016, as well as a re-phasing of disbursements (MEFP ¶ 31) through the introduction of an additional eighth review to provide for the disbursement of the remaining amount of available Fund resources (8.6 percent of quota, SDR18.36 million) under the ECF arrangement.
- Proposed quantitative PCs for end-June 2016 test date for the eighth review, and end-March indicative targets, and structural benchmarks are annexed to the authorities MEFP.

32. Capacity to repay the Fund is adequate. The total amount of credit outstanding from the Fund once all disbursements under the ECF arrangement are made will be 83.6 percent of quota (SDR 179.51 million). Repayments to the Fund would begin in 2019 and rise thereafter but would be low relative to exports of goods and services. While the accompanying debt sustainability analysis points to a high and increasing debt service burden over the next few years this begins to decline by the time of the onset of payments to the Fund.

33. Risks to the program are tilted to the downside. The first source of uncertainty relates to the feasibility of the fiscal adjustment, given the political pressures during an election year. Staff will assess revenue performance in the first two months of the year and advise the authorities on contingency measures, in case some of the revenue measures meet resistance and fail to be implemented successfully. In addition, staff will discuss the implementation of the fiscal adjustment strategy in the context of the eighth review of the ECF, and provide advice on contingency measures to keep the program on track in case the revenue projections fail to materialize. Second, a more conservative outlook for commodity prices would weigh on mining sector growth, by delaying ongoing and prospective projects, such as the large Simandou iron-ore mine. On the upside, the end of the Ebola epidemic should boost growth, in particular in the mining sector, and improve the implementation of reforms with the full resumption of technical assistance in the country. The Risk Assessment Matrix (Table 10) presents these risks and possible policy responses.

A. Review of Financing Assurances and Statistical Issues

34. The program is fully financed through end-2016. The bulk of the financing need is expected to be met by external support, as domestic financing contributes a less important share than during the Ebola years. All multilateral institutions have now delivered HIPC and MDRI relief, and most bilateral agreements with official creditors have been signed except for non-Paris Club creditors, most of which have not yet responded to the government's invitation to open discussions. Staff encouraged the authorities to reach collaborative agreements with private creditors to resolve outstanding arrears, in line with the Fund's lending into arrears policy; staff is of the view that the authorities are indeed making a good faith effort to resolve these arrears. The residual balance of payments financing need is expected to be covered by the remaining IMF disbursements under the ECF arrangement.

35. Statistical issues and technical assistance needs. Data provision is broadly adequate for monitoring program performance, although real sector statistics are incomplete, and published with long delays. Guinea will continue to be one of the main recipients of Fund technical assistance, which will focus on national accounting, medium-term fiscal frameworks and debt strategy, natural resource taxation, PFM, and exchange rate management among others. The authorities will also seek technical assistance to improve the management and accounting of contingent liabilities.

STAFF APPRAISAL

36. Guinea's economic situation and short-term economic prospects remain subdued. The negative economic effects of the Ebola epidemic, increased sociopolitical uncertainty and the more conservative outlook for commodity prices have translated into a significant retrenchment of economic growth and weakened domestic and external buffers. Risks to the outlook are mainly on the downside.

37. Performance under the ECF arrangement has weakened but the authorities are making efforts to put their program on track. Fiscal and monetary policy in 2014 was kept in line with available noninflationary financing and helped meet most program targets and objectives. However, the end-2014 PC on net international reserves of the central bank and the continuous PC on new nonconcessional medium or long-term debt and most end-June 2015 PCs were missed, owing to the issuance of central bank guarantees and higher demand for foreign exchange linked to accommodative policies. The implementation of structural benchmarks continued to suffer delays from Ebola-related pressures on capacity. However, the authorities have taken very strong adjustment measures to bring the program back on-track. These measures include a drastic fiscal adjustment and a profound reform of the exchange rate mechanism to improve the role of market forces and safeguard reserves.

38. Staff supports the 2016 budget. In line with the objectives of the program, the adjustment represents a sizable realignment of policies with available financing through a balanced set of revenue and expenditure measures. However, implementation will face many challenges. Containing investments and salaries will likely create disappointment in the population and the public service; and EDG's performance will be crucial to remain within the adopted transfer and subsidies envelope. On the revenue side, the increase in the VAT rate is a very difficult measure, and many administrative initiatives might meet with strong resistance. Prompt execution of donor financing as early as possible in the year is crucial to prevent additional pressure on resources and possible damaging short-term expedients. In this context, reimbursing some of the 2015 central bank advances will remain a key objective, and fulfilling it a clear indicator of the implementation success.

39. Staff welcomes the authorities' decision to address the impacts of the central bank's guarantees of private bank loans, and encourages them to keep the focus of monetary policy on price stability by strengthening the independence of the central bank. This will ensure a better allocation of private bank financing and limit risks to the central bank's balance sheet. It will also reduce the encumbrance of net international reserves posed by these guarantees. Staff encourages the authorities to take measures to ensure such guarantees are no longer extended by the central bank. Measures include amendments to the central bank law to explicitly forbid such guarantees. Continued PFM improvements will also enhance the quality of the government signature and reduce the need for central bank guarantees. In particular, such measures should focus on improving investment budgeting and reducing unorthodox spending procedures, and be supported by targeted anti-corruption measures to address potential breaches in the procurement process. Debt policy and management should also be strengthened to improve the monitoring of debt and limit contingent liabilities, and ensure that all new borrowing and guaranteed borrowing is in line with the statement on national public policy and fully monitored to ensure it is sustainable. Enhancements to government statistics will help monitor contingent liabilities.

40. The move to enhance the role of market forces in the determination of the exchange rate is welcome. The adoption of the recommendations of the December 2015 IMF technical assistance to inform revisions to the foreign exchange auction process, as well as other changes to reduce the spread between the bureaus exchange market and the official exchange rates is a step in the right direction that will allow Guinea to better face the challenges posed by the less supportive international environment for its main exports. The integration of the foreign exchange market will also foster financial deepening.

41. Staff recommends completion of the sixth and seventh reviews and the disbursement of an amount equivalent to SDR18.36 million under the ECF arrangement and of the financing assurances review, and the extension of the ECF arrangement. Based on the corrective measures taken (¶31), staff supports the authorities' request for waivers for nonobservance of the continuous PCs on new non-concessional medium or long-term external debt and on non-introduction of a multiple currency practice, of the end-December 2014 PC on net international reserves, as well as for the nonobservance of four of the end-June 2015 PCs. Staff supports the authorities' request for a seventh disbursement under the ECF arrangement of SDR18.36 million upon completion of the sixth and seventh reviews, and the re-phasing of the remaining disbursement to after the completion of the eighth review. The extension of the arrangement will allow staff to verify that the implementation of the adjustment policies have brought the program back on track and provide enough time for the next disbursement under the ECF arrangement.

Table 1. Guinea: Key Economic and Financial Indicators, 2013–18

	2013	2014		2015		2016	2017	2018
		Prog.[1]	Est.	Prog.[2]	Est.	Projections		
	Annual percentage change, unless otherwise indicated							
National account and prices								
GDP at constant prices	2.3	2.4	1.1	-0.3	0.1	4.0	5.4	5.9
GDP deflator	4.6	7.4	9.8	8.1	6.6	8.2	9.6	6.1
GDP at market prices	7.0	10.1	11.0	7.8	6.7	12.6	15.5	12.3
Consumer prices (average)								
Average	11.9	10.1	9.7	9.1	8.2	7.9	8.0	6.7
End of period	10.5	9.4	9.0	9.7	7.3	8.5	7.5	6.0
External sector								
Exports, f.o.b. (US$ terms)	-31.6	-6.5	4.8	6.8	-4.4	5.6	5.4	6.7
Imports, f.o.b. (US$ terms)	-0.7	-1.9	11.4	-2.2	-13.0	-14.0	29.8	14.3
Average effective exchange rate (depreciation -)								
Nominal index	2.9	...	1.1	...	6.0	...	...	...
Real index	12.2	...	8.5	...	12.5	...	...	...
Terms of trade	-22.9	-1.4	5.7	27.6	29.8	20.1	1.5	-2.2
Money and credit								
Net foreign assets [3]	-0.3	-8.8	-8.3	-9.9	-11.0	6.2	...	...
Net domestic assets[3]	14.4	14.9	20.6	21.5	31.2	4.8	...	...
Net claims on government [3]	10.2	11.1	7.5	9.4	17.2	-0.9	...	...
Credit to non-government sector [3]	9.7	10.4	13.7	12.7	10.8	5.7	...	...
Reserve money	15.7	5.2	14.5	-9.8	2.6	8.1	...	...
Broad money (M2)	14.1	6.1	12.3	11.6	20.3	11.0	...	...
Interest rate (short-term T-bill)	9.8	...	9.8	...	11.5	...	...	...
Percent of GDP, unless otherwise indicated	Percent of GDP, unless otherwise indicated							
Central government finances								
Total revenue and grants	20.2	23.9	22.3	23.4	19.4	24.3	24.5	25.0
Revenue	18.7	18.7	18.2	20.7	17.9	20.3	20.3	20.7
Of which: Non-mining revenue	14.5	14.6	14.3	17.1	14.8	17.1	17.0	17.3
Grants	1.5	5.2	4.1	2.7	1.5	4.0	4.2	4.4
Total expenditure and net lending	25.5	29.8	26.5	33.6	28.5	25.6	25.0	26.0
Current expenditure	16.4	17.2	17.9	20.5	18.5	16.0	15.4	15.2
Of which: Interest payments	1.2	1.1	1.3	1.1	1.1	1.7	1.2	1.0
Capital expenditure and net lending	9.0	12.2	8.4	12.6	10.0	9.5	9.5	10.8
Overall budget balance								
Including grants	-6.6	-5.9	-4.2	-10.1	-8.9	-1.3	-0.5	-1.0
Excluding grants	-8.8	-11.2	-8.3	-12.9	-10.4	-5.3	-4.7	-5.4
Basic fiscal balance	-4.2	-5.5	-6.5	-6.6	-7.1	-0.4	-0.3	-0.7
National accounts								
Gross capital formation	20.4	13.5	9.3	10.3	10.1	20.6	33.7	41.5
Savings	-6.5	-4.7	-16.4	-6.5	-12.3	7.5	8.9	11.4
Current account balance								
Including official transfers	-26.8	-18.1	-25.7	-16.7	-22.4	-13.1	-24.8	-30.1
Excluding official transfers	-27.3	-19.7	-27.4	-18.1	-22.6	-14.5	-26.2	-31.6
Overall balance of payments	0.5	-1.7	-0.9	-6.6	-5.2	1.6	-0.2	2.1
Memorandum items:								
Exports, goods and services (US$ millions)	1,400.8	1,468.1	1,468.5	1,651.2	1,407.0	1,507.6	1,589.8	1,695.5
Imports, goods and services (US$ millions)	2,874.4	2,701.7	3,058.3	2,648.5	2,717.7	2,440.1	3,364.1	4,062.6
Overall balance of payments (US$ millions)	29.0	-117.8	-61.7	-475.3	-347.3	105.6	-13.7	155.0
Net foreign assets of the central bank (US$ millions)	448.9	358.9	453.4	201.9	161.2	259.5	309.0	504.9
Gross available reserves (months of imports)[4]	2.8	3.7	3.6	3.1	2.4	3.0	3.0	3.0
External public debt, incl. IMF (percent of GDP)	22.2	27.6	25.8	32.9	25.7	28.4	29.3	...
Total public debt, incl. IMF (percent of GDP)	36.4	42.0	40.8	47.9	44.6	44.7	42.8	...
Nominal GDP (GNF billions)	42,356	47,388	46,995	50,084	50,147	56,448	65,218	73,245

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

[1] Program as established for the RCF purchase request.

[2] Projections and program as established for the 5th ECF Review.

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

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

Table 2a. Guinea: Fiscal Operations of the Central Government, 2014–16[1]
(Billions of Guinean Francs; unless otherwise indicated)

	2014		2015									2016			
	Dec.		Mar.		Jun.		Sep.		Dec.			Mar.	Jun.	Sep.	Dec.
	Prog.[2]	Act.	Prog.[3]	Act.	Prog.[3]	Act.	Prog.[3]	Act.	Init. Proj.[3]	RFL[4]	Est.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	11,328	10,465	2,630	2,107	5,946	5,027	8,827	7,564	11,729	12,188	9,749	3,200	7,556	10,773	13,714
Revenue	8,843	8,537	2,151	2,008	4,969	4,612	7,706	7,087	10,356	10,352	8,988	2,406	5,798	8,729	11,472
Mining sector	1,451	1,348	282	298	676	809	1,031	1,233	1,392	1,505	1,558	349	908	1,389	1,814
Non-mining sector	6,931	6,711	1,811	1,595	4,144	3,576	6,382	5,315	8,578	8,421	7,021	1,951	4,604	6,884	9,023
Direct taxes	1,530	1,382	290	205	849	809	1,269	1,134	1,608	1,437	1,376	266	1,034	1,413	1,650
Indirect taxes	5,401	5,328	1,520	1,390	3,295	2,767	5,113	4,182	6,970	6,984	5,645	1,685	3,571	5,471	7,373
Taxes on goods and services	3,468	3,343	1,072	937	2,267	1,870	3,492	2,789	4,715	4,949	3,824	1,135	2,465	3,793	5,133
Taxes on international trade	1,932	1,985	448	453	1,028	897	1,621	1,393	2,255	2,034	1,821	550	1,105	1,678	2,241
Non-tax revenue	461	478	58	114	149	227	293	538	386	427	409	107	285	456	635
Grants	2,485	1,928	479	99	976	415	1,121	477	1,372	1,835	761	794	1,758	2,044	2,242
Project grants	1,765	320	182	0	309	67	453	120	705	350	249	214	1,000	1,286	1,429
Budget support	720	845	298	0	668	89	668	89	668	978	89	580	758	758	813
Of which: Ebola (coordination account)	595	249	0	0	0	0	0	0	0	0	0	0	0	0	0
Other disbursed Ebola aid	...	763	...	99	...	259	...	268	...	508	423	0	0	0	0
Expenditures and net lending	14,132	12,443	3,683	2,666	7,693	6,351	12,130	11,384	16,808	15,284	14,286	3,682	8,379	11,642	14,476
Current expenditures	8,168	8,415	2,423	1,819	4,800	4,147	7,403	6,970	10,287	9,677	9,283	2,416	4,416	6,794	9,032
Primary current expenditures	7,630	7,819	2,311	1,710	4,564	3,988	7,014	6,689	9,744	9,114	8,741	2,084	3,890	6,025	8,056
Wages and salaries	2,355	2,370	610	583	1,304	1,230	2,115	1,986	2,947	2,890	2,721	771	1,541	2,443	3,279
Goods and services	3,194	3,368	1,286	744	2,325	1,683	3,459	2,718	4,740	3,966	3,313	834	1,390	2,085	2,779
Ebola-related	595	892	790	76	1,168	223	1,472	272	1,613		464				
Subsides and transfers	2,081	2,081	416	383	935	1,075	1,440	1,984	2,056	2,257	2,707	479	959	1,498	1,997
Interest on debt	538	596	112	110	237	159	389	281	543	563	542	332	526	769	977
Domestic debt	434	504	65	71	170	105	279	171	415	415	433	165	329	494	659
External debt	104	92	47	39	66	54	110	110	128	148	109	168	197	275	318
Capital expenditure	5,800	3,939	1,211	846	2,796	2,112	4,581	4,322	6,327	5,487	4,990	1,250	3,930	4,788	5,383
Domestically financed	3,213	3,165	488	846	1,392	1,783	2,332	3,122	3,280	2,842	3,290	886	2,205	2,557	2,893
Capital transfers	30	31	11	0	23	18	37	35	48	52	47	0	22	43	58
Externally financed	2,557	743	711	0	1,381	311	2,213	1,165	3,000	2,645	1,653	365	1,702	2,189	2,432
Net lending and restructuring expenditures	164	89	48	0	97	92	145	93	194	120	13	15	33	61	61
Adjustment measures	...	...	...	0	...	0	...	0	...	0	0	0	0	0	0
Basic fiscal balance[5]	-2,628	-3,070	-773	-619	-1,276	-1,373	-2,101	-3,022	-3,324	-2,139	-3,535	-743	-682	-451	-254
Percent of GDP	-5.5	-6.5	-1.5	-1.2	-2.5	-2.7	-4.2	-6.0	-6.6	0	-7.1	-1.3	-1.2	-0.8	-0.4
Overall balance[6]															
Excluding grants	-5,289	-3,900	-1,532	-636	-2,723	-1,743	-4,424	-4,304	-6,452	-4,932	-5,235	-1,276	-2,581	-2,914	-3,004
Including grants	-2,804	-1,972	-1,053	-537	-1,747	-1,328	-3,303	-3,828	-5,079	-3,097	-4,474	-481	-823	-870	-762
Financing	1,902	1,972	765	537	1,460	1,328	2,400	3,828	3,435	3,097	4,474	481	823	870	762
Domestic financing	1,318	1,052	289	297	585	963	880	2,642	1,536	752	3,013	-135	-186	-249	-301
Bank financing	1,162	1,104	394	341	794	996	1,194	2,449	1,394	1,170	2,580	-35	-89	-202	-155
Central bank	1,162	1,081	394	246	394	814	394	1,725	394	170	1,806	-35	-122	-269	-305
Commercial banks	0	23	0	95	400	183	800	724	1,000	1,000	774	0	32	67	150
Nonbank financing	156	-52	-104	-43	-209	-34	-313	194	142	-418	433	-100	-97	-47	-147
Privatization revenue	0	0	0	0	0	0	0	0	560	0	0	0	0	0	0
Borrowing/Amortization of domestic debt (net)	-284	-101	-71	-36	-143	-73	-214	-105	-285	-158	-150	0	0	0	-115
Change in arrears	5	45	-38	-9	-75	38	-113	297	-150	-150	296	-100	-147	-147	-147
Exceptional revenue	0	0	0	0	0	0	0	0	560	0	0	0	0	0	0
Fond de développement	n.a.	n.a.	...	...	...	...	...	...	...	...	...	0	50	100	100
Other	1	4	4	1	9	1	13	1	17	0	287	0	0	0	15
External financing (net)	584	920	476	239	875	365	1,520	1,185	1,899	2,345	1,461	616	1,009	1,119	1,063
Drawings	1,065	1,254	530	270	1,072	514	1,759	1,315	2,295	2,565	1,674	763	1,315	1,516	1,616
Project	792	424	530	0	1,072	245	1,759	1,045	2,295	2,295	1,404	150	702	903	1,003
Program	273	830	0	270	0	270	0	270	0	270	270	613	613	613	613
Amortization due	-492	-419	-54	-37	-198	-189	-240	-207	-396	0	-388	-147	-306	-397	-553
Debt relief[7]	889	33	57	0	57	35	57	35	1,079	1,546	96	0	0	0	811
Change in arrears (- = reduction)[7]	-878	52	-57	7	-57	5	-57	43	-1,079	-1,351	79	0	0	0	-811
Financing gap	902	0	288	0	288	0	903	0	1,644	0	0	0	0	0	0
Possible financing (incl. debt relief)	902	...	288	0	288	0	903	0	1,644	0	0	0	0	0	0
World Bank	...	...	...	...	...	...	...	...	...	...	0	0	0	0	0
UE												0	0	0	0
IMF	290	...	288	...	288	...	288	...	288	...	0	0	0	0	0
Other financing (Abou Dhabi and Saudi Arabia)	...	...	...	...	...	...	...	...	...	...	...	0	0	0	0
Ebola-related donor pledges	217	...	...	...	...	...	615	...	1,357	...	...	0	0	0	0
Other/Adjustment measures	395	...	...	...	...	...	...	...	...	...	...	0	0	0	0
Memorandum items:															
Nominal GDP	47,388	46,995	50,084	50,147	50,084	50,147	50,084	50,147	50,084	50,147	50,147	56,448	56,448	56,448	56,448

Sources: Guinean authorities, Fund staff estimates and projections.

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

[2] Program as established for the RCF purchase request.

[3] Projections and program as established for the 5th ECF Review.

[4] Revised Finance Law.

[5] Revenue minus expenditure excluding interest on external debt and foreign-financed investment.

[6] Overall balance excluding grants is on commitment basis. Overall balance including grants also includes cash adjustments.

[7] For 2014 and 2015 (projected), debt relief is on outstanding loans fully in arrears owed to non-Paris club official and commercial creditors.

Table 2b. Guinea: Fiscal Operations of the Central Government, 2013–18[1]

(Percent of GDP; unless otherwise indicated)

	2013	2014		2015			2016				2017	2018
		Dec.		Dec.			Mar.	Jun.	Sep.	Dec.	Projections	
		Prog.[2]	Act.	Init. Proj.[3]	RFL[4]	Est.	Proj.	Proj.	Proj.	Proj.		
Total revenue and grants	20.2	23.9	22.3	23.4	24.3	19.4	5.7	13.4	19.1	24.3	24.5	25.0
Revenue	18.7	18.7	18.2	20.7	20.6	17.9	4.3	10.3	15.5	20.3	20.3	20.7
Mining sector	3.5	3.1	2.9	2.8	3.0	3.1	0.6	1.6	2.5	3.2	3.3	3.4
Non-mining sector	14.5	14.6	14.3	17.1	16.8	14.0	3.5	8.2	12.2	16.0	16.2	16.5
Direct taxes	3.5	3.2	2.9	3.2	2.9	2.7	0.5	1.8	2.5	2.9	3.1	3.2
Indirect taxes	11.0	11.4	11.3	13.9	13.9	11.3	3.0	6.3	9.7	13.1	13.2	13.2
Taxes on goods and services	6.9	7.3	7.1	9.4	9.9	7.6	2.0	4.4	6.7	9.1	9.2	9.3
Taxes on international trade	4.0	4.1	4.2	4.5	4.1	3.6	1.0	2.0	3.0	4.0	4.0	4.0
Non-tax revenue	0.7	1.0	1.0	0.8	0.9	0.8	0.2	0.5	0.8	1.1	0.8	0.8
Grants	1.5	5.2	4.1	2.7	3.7	1.5	1.4	3.1	3.6	4.0	4.2	4.4
Project grants	1.1	3.7	0.7	1.4	0.7	0.5	0.4	1.8	2.3	2.5	2.8	2.9
Budget support	0.4	1.5	1.8	1.3	1.9	0.2	1.0	1.3	1.3	1.4	1.4	1.4
Of which: Ebola (coordination account)	...	1.3	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	...	...
Other disbursed Ebola aid	...	...	1.6	...	1.0	0.8	0.0	0.0	0.0	0.0	...	...
Expenditures and net lending	25.5	29.8	26.5	33.6	30.5	28.5	6.5	14.8	20.6	25.6	25.0	26.0
Current expenditures	16.4	17.2	17.9	20.5	19.3	18.5	4.3	7.8	12.0	16.0	15.4	15.2
Primary current expenditures	15.3	16.1	16.6	19.5	18.2	17.4	3.7	6.9	10.7	14.3	14.2	14.1
Wages and salaries	5.0	5.0	5.0	5.9	5.8	5.4	1.4	2.7	4.3	5.8	5.8	5.8
Goods and services	5.9	6.7	7.2	9.5	7.9	6.6	1.5	2.5	3.7	4.9	5.0	5.1
Ebola-related	...	1.3	1.9	3.2	...	0.9	...	...	...	...	...	...
Subsides and transfers	4.4	4.4	4.4	4.1	4.5	5.4	0.8	1.7	2.7	3.5	3.4	3.2
Interest on debt	1.2	1.1	1.3	1.1	1.1	1.1	0.6	0.9	1.4	1.7	1.2	1.0
Domestic debt	1.0	0.9	1.1	0.8	0.8	0.9	0.3	0.6	0.9	1.2	1.0	0.8
External debt	0.2	0.2	0.2	0.3	0.3	0.2	0.3	0.3	0.5	0.6	0.3	0.3
Capital expenditure	9.0	12.2	8.4	12.6	10.9	10.0	2.2	7.0	8.5	9.5	9.5	10.8
Domestically financed	5.2	6.8	6.7	6.5	5.7	6.6	1.6	3.9	4.5	5.1	5.4	6.5
Capital transfers	0.0	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.1	0.1	0.0	0.0
Externally financed	3.8	5.4	1.6	6.0	5.3	3.3	0.6	3.0	3.9	4.3	4.2	4.3
Net lending & restructuring expenditure	0.0	0.3	0.2	0.4	0.2	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Basic fiscal balance[5]	-2.8	-5.5	-6.5	-6.6	-4.3	-7.1	-1.3	-1.2	-0.8	-0.4	-0.3	-0.7
Overall balance[6]												
Excluding grants	-6.8	-11.2	-8.3	-12.9	-9.8	-10.4	-2.3	-4.6	-5.2	-5.3	-4.7	-5.4
Including grants	-5.3	-5.9	-4.2	-10.1	-6.2	-8.9	-0.9	-1.5	-1.5	-1.3	-0.5	-1.0
Financing	5.1	4.0	4.2	6.9	6.2	8.9	0.9	1.5	1.5	1.3	-0.5	0.4
Domestic financing	2.3	2.8	2.2	3.1	1.5	6.0	-0.2	-0.3	-0.4	-0.5	-1.3	-1.0
Bank financing	2.6	2.5	2.3	2.8	2.3	5.1	-0.1	-0.2	-0.4	-0.3	-0.5	-0.4
Central bank	2.3	2.5	2.3	0.8	0.3	3.6	-0.1	-0.2	-0.5	-0.5	-0.5	-0.4
Commercial banks	0.3	0.0	0.0	2.0	2.0	1.5	0.0	0.1	0.1	0.3	0.0	0.0
Nonbank financing	0.1	0.3	-0.1	0.3	-0.8	0.9	-0.2	-0.2	-0.1	-0.3	-0.9	-0.6
Borrowing/Amortization of domestic debt (net)	0.5	-0.6	-0.2	-0.6	-0.3	-0.3	0.0	0.0	0.0	-0.2	-0.9	-0.7
Change in arrears	-0.4	0.0	0.1	-0.3	-0.3	0.6	-0.2	-0.3	-0.3	-0.3	1.4	1.4
Exceptional revenue	0.0	0.0	0.0	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fond de développement	...	...	...	...	...	...	0.0	0.1	0.2	0.2	...	...
Other	0.0	0.0	0.0	0.0	0.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0
External financing (net)	2.8	1.2	2.0	3.8	4.7	2.9	1.1	1.8	2.0	1.9	0.9	1.5
Drawings	3.6	2.2	2.7	4.6	5.1	3.3	1.4	2.3	2.7	2.9	2.5	2.4
Project	3.0	1.7	0.9	4.6	4.6	2.8	0.3	1.2	1.6	1.8	1.4	1.4
Program	0.6	0.6	1.8	0.0	0.5	0.5	1.1	1.1	1.1	1.1	1.1	1.0
Amortization due	-0.8	-1.0	-0.9	-0.8	0.0	-0.8	-0.3	-0.5	-0.7	-1.0	-1.6	-0.9
Debt relief[7]	...	1.9	0.1	2.2	3.1	0.2	0.0	0.0	0.0	1.4	0.0	0.0
Change in arrears (- = reduction)[7]	0.1	-1.9	0.1	-2.2	-2.7	0.2	0.0	0.0	0.0	-1.4	0.0	0.0
Financing gap	-0.0	1.9	0.0	3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.9	0.6
Possible financing (incl. debt relief)	...	1.9	...	3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
World Bank	...	...	...	...	...	0.0	0.0	0.0	0.0	0.0	...	...
UE	...	...	...	...	...	...	0.0	0.0	0.0	0.0	...	...
IMF	...	0.6	...	0.6	...	0.0	0.0	0.0	0.0	0.0	...	...
Autres financements (Abou Dabi et Arabie Saoudite)							0.0	0.0	0.0	0.0		
Ebola-related donor pledges	...	0.5	...	2.7	...	...	0.0	0.0	0.0	0.0	...	...
Other/Adjustment measures	...	0.8	...	...	...	...	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
Nominal GDP	42,356	47,388	46,995	50,084	50,147	50,147	56,448	56,448	56,448	56,448	65,218	73,245

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

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

[2] Program as established for the RCF purchase request.

[3] Projections and program as established for the 5th ECF Review.

[4] Revised Finance Law.

[5] Revenue minus expenditure excluding interest on external debt and foreign-financed investment.

[6] Overall balance excluding grants is on commitment basis. Overall balance including grants also includes cash adjustments.

[7] For 2014 and 2015 (projected), debt relief is on outstanding loans fully in arrears owed to non-Paris club official and commercial creditors.

Table 3a. Guinea: Central Bank and Deposit Money Banks Accounts, 2013–16[1]

(Billions of Guinean Francs; unless otherwise indicated)

	2013	2014		2015								2016			
		Dec.		Mar.		Jun.		Sep.		Dec.		Mar.	Jun.	Sep.	Dec.
		Prog.[2]	Est.	Prog.[3]	Act.	Prog.[3]	Act.	Init. Proj.[3]	Est.	Init. Proj.[3]	Est.	Proj.	Proj.	Proj.	Proj.
Central bank															
Net foreign assets	3,163	2,513	3,277	2,573	3,097	2,132	2,183	1,780	1,419	1,430	1,290	1,602	1,743	2,303	2,303
Net domestic assets	3,815	5,318	5,244	4,048	5,667	4,628	6,604	5,109	7,437	5,389	7,449	7,414	7,329	7,183	7,148
Domestic credit	4,462	5,910	5,395	4,453	5,751	4,846	6,639	5,240	7,339	5,634	7,469	7,435	7,350	7,203	7,169
Claims on central government (net)	4,397	5,849	5,341	4,378	5,701	4,772	6,396	5,165	7,224	5,559	7,353	7,319	7,234	7,087	7,052
Of which: to the Treasury (PNT1)	4,566	6,017	5,546	4,546	5,875	4,940	6,566	5,334	7,400	5,728	7,507	7,472	7,387	7,241	7,206
Claims on private sector	50	46	46	57	47	57	112	57	114	57	115	115	115	115	115
Liabilities to deposit money banks (-)	0	0	0	0	0	1	130	2	0	4	0	0	0	0	0
Claims on other public sector	15	15	7	18	3	18	1	18	2	18	2	2	2	2	2
Other items, net (assets +)	-647	-592	-151	-405	-84	-218	-35	-131	98	-245	-21	-21	-21	-21	-21
Reserve money	6,978	7,830	8,521	6,620	8,764	6,760	8,787	6,889	8,857	6,820	8,739	9,016	9,072	9,485	9,450
Currency outside banks	4,052	4,159	4,323	4,921	4,517	4,848	4,842	4,658	5,224	4,617	5,178	5,145	5,201	5,441	5,680
Bank reserves	2,508	3,254	3,790	1,180	3,770	1,493	3,495	1,911	3,228	1,983	3,096	3,406	3,406	3,579	3,305
Deposits	2,095	2,802	3,153	1,877	3,228	1,734	2,954	1,797	2,592	1,662	2,392	2,702	2,701	2,875	2,601
Required reserves	1,720	1,857	1,988	1,563	1,880	1,451	2,023	1,552	2,101	1,573	2,160	2,184	2,208	2,314	2,420
Excess reserves	376	945	1,165	314	1,348	282	931	245	492	89	231	518	493	561	181
Cash in vaults of deposit banks	413	452	636	303	542	159	540	115	636	320	704	704	704	704	704
Private sector deposits	418	418	408	519	476	419	450	319	404	219	465	465	465	465	465
Deposit money banks															
Net foreign assets	1,345	823	128	1,378	332	1,385	842	1,392	494	1,399	502	523	544	565	585
Bank reserves	2,508	3,254	3,790	1,180	3,770	1,493	3,495	1,911	3,228	1,983	3,096	3,406	3,406	3,579	3,305
Deposits at the central bank	2,095	2,802	3,153	1,877	3,228	1,734	2,954	1,797	2,592	1,662	2,392	2,702	2,701	2,875	2,601
Cash in vaults of deposits banks	413	452	636	303	542	159	540	115	636	320	704	704	704	704	704
Claims on central bank	0	0	0	0	0	0	-130	0	0	0	0	0	0	0	0
Domestic credit	6,093	7,457	7,925	8,802	8,102	9,197	8,771	9,602	9,476	10,205	9,966	9,765	9,883	10,275	11,115
Credit to the government (net)	1,908	1,908	1,942	1,908	2,014	2,308	2,102	2,708	2,312	2,908	2,457	2,457	2,490	2,524	2,608
Claims on public enterprises	90	90	62	79	149	89	111	99	80	109	40	41	42	44	45
Claims on the private sector	4,096	5,459	5,921	6,816	5,939	6,800	6,559	6,795	7,084	7,189	7,469	7,267	7,351	7,707	8,462
Other items, net (assets +)	-1,349	-2,248	-1,902	-1,595	-1,759	-1,707	-1,739	-1,820	-1,527	-1,933	-1,563	-1,563	-1,563	-1,563	-1,563
Liabilities to the private sector (deposits)	8,598	9,286	9,941	9,766	10,444	10,367	11,239	11,085	11,671	11,654	12,001	12,131	12,269	12,856	13,442
Memorandum items:															
Net foreign assets of the central bank (US$ million)	451	359	453	368	421	305	289	254	184	202	161	200	218	260	260
Net international reserves (GNF billion)	3,950	3,299	3,993	3,379	3,118	2,938	3,118	2,586	2,102	2,236	1,956	2,265	2,379	3,045	3,045
Net international reserves (US$ million)	564	461	552	482	431	419	291	369	285	319	244	283	297	343	343

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

[1] End of period.

[2] Program as established for the RCF purchase request.

[3] Projections and program as established for the 5th ECF Review.

Table 3b. Guinea: Monetary Survey, 2013–16[1]

(Billions of Guinean Francs; unless otherwise indicated)

	2013	2014		2015								2016			
		Dec.		Mar.		Jun.		Sep.		Dec.		Mar.	Jun.	Sep.	Dec.
		Prog.[2]	Obs.	Prog.[3]	Est.	Prog.[3]	Est.	Init. Proj.[3]	Est.	Init. Proj.[3]	Est.	Proj.	Proj.	Proj.	Proj.
Net foreign assets	4,490	3,335	3,404	3,951	3,429	3,517	3,025	3,172	1,913	2,830	1,793	2,125	2,287	2,867	2,888
Net domestic assets	8,578	10,527	11,267	11,255	12,009	12,117	13,507	12,890	15,386	13,661	15,852	15,617	15,649	15,894	16,699
Domestic credit	10,553	13,366	13,320	13,255	13,852	14,043	15,281	14,842	16,815	15,839	17,435	17,200	17,233	17,478	18,283
Claims on central government	6,305	7,756	7,283	6,285	7,714	7,079	8,498	7,873	9,536	8,467	9,811	9,776	9,723	9,611	9,660
Claims on public enterprises	105	105	70	97	152	107	112	117	81	126	41	43	44	45	47
Claims on private sector	4,144	5,505	5,967	6,872	5,986	6,857	6,671	6,852	7,198	7,246	7,583	7,381	7,465	7,821	8,577
Other items, net (assets +)	-1,975	-2,840	-2,053	-2,000	-1,843	-1,926	-1,774	-1,952	-1,429	-2,178	-1,584	-1,584	-1,584	-1,584	-1,584
Broad money (M2)	13,068	13,862	14,672	15,206	15,438	15,634	16,532	16,063	17,299	16,491	17,644	17,741	17,936	18,762	19,587
Currency	4,052	4,159	4,323	4,921	4,517	4,848	4,842	4,658	5,224	4,617	5,178	5,145	5,201	5,441	5,680
Deposits	9,016	9,703	10,349	10,285	10,921	10,786	11,690	11,404	12,075	11,873	12,466	12,596	12,734	13,321	13,907
	(Year-on-year change in percent of beginning-of-period M2, unless otherwise indicated)														
Memorandum items:															
Net foreign assets	-0.3	-8.8	-8.3	-4.1	-4.9	-7.4	-6.1	-10.1	-11.6	-12.7	-11.0	-8.4	-4.5	5.5	6.2
Of which: central bank	1.9	-4.8	1.0	-4.4	0.6	-7.8	-6.2	-10.4	-11.6	-13.1	-13.5	-9.7	-2.7	5.1	5.7
Net domestic assets	14.4	14.9	20.6	20.5	20.2	27.1	29.5	33.0	32.2	38.9	31.2	23.4	13.0	2.9	4.8
Of which: central bank	6.9	7.8	7.3	-1.9	9.5	2.5	18.2	6.2	15.5	8.4	15.0	11.3	4.4	-1.5	-1.7
Domestic credit	19.9	21.5	21.2	20.7	20.5	26.7	34.1	32.8	31.4	40.4	28.0	21.7	11.8	3.8	4.8
Net claims on government	10.2	11.1	7.5	-0.1	9.0	5.9	17.0	12.0	18.7	16.5	17.2	13.4	7.4	0.4	-0.9
Credit to the private sector	9.7	10.4	14.0	20.9	11.3	20.8	16.7	20.7	12.7	23.7	11.0	9.0	4.8	3.6	5.6
Broad money (M2)	14.1	6.1	12.3	16.4	15.4	19.6	23.4	22.9	20.7	26.2	20.3	14.9	8.5	8.5	11.0
Reserve money (annual percentage change)	15.7	5.2	14.5	-12.4	18.2	-9.2	22.3	-7.4	6.7	-8.3	2.6	2.9	3.2	7.1	8.1
Commercial bank credit to the private sector															
(Annual percentage change)	35.4	33.3	44.5	28.0	33.9	27.7	49.5	27.6	32.9	35.0	26.1	22.3	12.1	8.8	13.3
Money multiplier (M2/reserve money)	1.8	1.8	1.7	2.3	1.8	2.3	1.9	2.3	2.0	2.4	2.0	2.0	2.0	2.0	2.1
Velocity (GDP/average M2)	3.5	3.5	3.4	3.2	3.5	3.1	3.3	5.1	3.1	3.2	3.0	3.1	3.2	3.1	3.0
Velocity (GDP/M2, EOP)	3.3	3.4	3.2	3.3	3.2	3.2	3.0	3.1	2.9	3.0	2.8	2.9	3.1	3.0	2.9
Consumer prices (Annual percentage change, EOP)	10.5	9.4	9.0	8.4	8.5	9.3	8.4	9.2	7.9	9.9	7.3	7.5	8.1	8.2	8.5
Real GDP (Annual percentage change)	2.3	2.4	1.1	...	...	...	...	...	...	-0.3	0.1	...	...	...	4.0
Nominal GDP (Annual percentage change)	8.7	10.1	11.0	...	...	...	...	...	...	7.8	6.7	...	...	...	12.6

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

[1] End of period.

[2] Program as established for the RCF purchase request.

[3] Projections and program as established for the 5th ECF Review.

Table 4. Guinea: Balance of Payments, 2013–18

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

	2013	2014		2015		2016	2017	2018
		Prog.[1]	Est.	Prog.[2]	Est.		Projections	
Exports, f.o.b.	1,297	1,338	1,360	1,584	1,300	1,372	1,446	1,543
Mining products	1,119	1,215	1,178	1,420	1,133	1,210	1,319	1,401
Other	178	123	182	164	167	162	127	142
Imports, f.o.b.	-2,139	-1,972	-2,382	-1,870	-2,072	-1,782	-2,313	-2,644
Food products	-291	-305	-300	-353	-270	-249	-261	-274
Other consumption goods	-306	-315	-315	-330	-285	-285	-305	-329
Petroleum products	-358	-460	-541	-264	-406	-224	-292	-343
Intermediate and capital goods	-1,184	-892	-1,227	-924	-1,111	-1,023	-1,454	-1,697
Of which: Imports for large mining projects	-87	-113	-16	-26	-12	-49	-353	-540
Services trade balance	-632	-600	-568	-711	-538	-523	-907	-1,267
Services exports	104	131	108	67	107	136	144	152
Services imports	-735	-730	-676	-778	-645	-658	-1,051	-1,419
Of which: Imports for large mining projects	-55	-133	-22	-28	-26	-82	-417	-743
Income balance	-440	-397	-288	-475	-262	-190	-210	-176
Of which: Interest on public debt	-10	-15	-13	-19	-15	-37	-18	-20
Transfers	268	402	159	275	70	262	273	314
Of which:								
Net private transfers	242	299	39	179	58	167	173	207
Official transfers	26	103	120	95	12	95	100	107
Current account								
Including official transfers	-1,645	-1,228	-1,718	-1,198	-1,503	-860	-1,711	-2,230
Excluding imports for large mining projects	-1,503	-983	-1,680	-1,144	-1,465	-729	-942	-947
Excluding official transfers	-1,671	-1,331	-1,839	-1,293	-1,515	-955	-1,811	-2,336
Capital account [3]	79	267	61	191	79	182	209	233
Public transfers	67	252	46	101	33	166	193	216
Financial account	939	843	799	532	626	784	1,489	2,151
Public (medium and long-term)	169	82	119	271	172	124	62	108
Project-related loans	183	113	60	328	187	117	95	105
Program financing	35	39	118	0	36	71	75	72
Amortization due	-49	-70	-60	-57	-52	-64	-109	-70
Public (short-term)	0	0	0	0	0	0	0	0
Direct and other private investment (net)	131	111	68	70	85	335	1,303	1,994
Of which: Large mining projects	481	328	48	68	52	275	1,191	1,857
Private short-term	639	651	612	191	369	325	124	50
Errors and omissions	657	0	797	0	451	0	0	0
Overall balance	29	-118	-62	-475	-347	106	-14	155
Financing	-29	-11	62	160	347	-156	-51	-199
Change in net official reserves	-34	-13	50	160	387	-156	-51	-199
Of which:								
Fund repayments	0	...	0	0	30	0	0	0
Change in gross official reserves (- = increase)	-61	-13	-47	160	291	-156	-51	-199
Change in arrears (- = reduction) [4]	4	-125	7	-154	11	-94	0	0
Debt relief [4]	1	127	5	154	13	94	0	0
Financing gap	0	129	0	315	0	51	65	44
Ebola-related donor pledges	...	31	...	196	...	0	...	...
World Bank	...	...	...	...	0	0	...	...
EU					0	0		
Other financing (Abou Dhabi and Saudi Arabia)	...	...	...	...	...	0	...	...
Adjustment measures	...	56	...	...	0	0	65	44
Expected Fund disbursement	0	41	0	119	0	51	0	0
Memorandum items:								
Current account balance (percent of GDP)								
Including official transfers	-26.8	-18.1	-25.7	-16.7	-22.4	-13.1	-24.8	-30.1
Excluding imports for large mining projects	-24.5	-14.5	-25.1	-16.0	-21.9	-11.1	-13.6	-12.8
Excluding official transfers	-27.3	-19.7	-27.4	-18.1	-22.6	-14.5	-26.2	-31.6
Overall balance (percent of GDP)	0.5	-1.7	-0.9	-6.6	-5.2	1.6	-0.2	2.1
Exports-GDP ratio (percent)	22.9	21.7	21.9	23.1	21.0	22.9	23.0	22.9
Imports-GDP ratio (percent)	-46.9	-39.9	-45.7	-37.0	-40.6	-37.1	-48.7	-54.9
Gross available reserves (US$ millions)	705	717	752	635	461	617	669	867
Gross available reserves (months of imports)	2.8	3.7	3.6	3.1	2.4	3.0	3.0	3.0
Nominal GDP (US$ millions)	6,130	6,770	6,699	7,155	6,696	6,574	6,915	7,404
National currency per US dollar (avg.)	6,910	7,000	7,015	7,000	7,489	...	...	...

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

[1] Program as established for the RCF purchase request.

[2] Projections and program as established for the 5th ECF Review.

[3] Includes CCR debt relief to cover debt service falling due to the Fund in 2017-2019 ($30.2 million).

[4] For 2015 projected clearance of outstanding debt arrears to non-Paris Club official creditors and commercial creditors through debt relief.

Table 5. Guinea: Performance Criteria (PC) and Indicative Targets, ECF Arrangement, 2014–16[1]

(Billions of Guinean Francs; unless otherwise indicated)

	2014				2015											2016	
	Dec.				Mar.				Jun.				Sep.			Mar.	Jun.
	PC	Adj. PC [1]	Act.	Status	Indicative Targets	Adj. IT	Act.	Status	PC	Adj. PC	Act.	Status (Prel.)	Indicative Targets	Act.	Act. Status	Proposed IT	Proposed PC
Quantitative performance criteria																	
Basic fiscal balance (floor; cumulative change for the year)	-2,628	-3,637	-3,070	Met	-773	-794	-619	Met	-1,276	-1,272	-1,373	Not Met	-2,101	-3,022	Not Met	-743	-682
Net domestic assets of the central bank (ceiling; stock)	5,318	5,277	5,244	Met	4,048	3,997	5,667	Not Met	4,628	4,536	6,604	Not Met	5,109	7,437	Not Met	7,414	7,329
Net domestic bank financing of the government (ceiling; cumulative change for the year)	1,452	1,412	1,104	Met	394	344	341	Met	794	702	996	Not Met	1,194	2,449	Not Met	-135	-186
Net international reserves of the central bank (floor; stock); US$ million [2]	516	522	372	Not Met	482	493	292	Not Met	419	417	157	Not Met	369	205	Not Met	248	256
New non-concessional medium or long-term external debt contracted or guaranteed by the government or central bank (ceiling); US$ million [3,4,9]	80	80	40	Not Met [5]	80	80	119	Not Met [6]	80	80	152	Not Met [7]	80	152	Not Met [7]	0	0
Stock of outstanding short-term external debt contracted or guaranteed by the government or the central bank (ceiling); US$ million [4]	0	0	0	Met	0	0	0	Met	0	0	0	Met	0	0	Met	0	0
New external arrears (ceiling) [4]	0	0	0	Met	0	0	0	Met	0	0	0	Met	0	0	Met	0	0
Indicative targets																	
Expenditure in priority sectors (floor) [8]	4,706	...	4,717	Met	1,252	...	1,268	Met	2,616	2,616	2,121	Not Met	4,124	2,461	Not Met	1,252	2,849
Memorandum items:																	
New concessional external debt contracted or guaranteed by the government or central bank, cumulative US$ million	...	...	...		...	...	...		...	...	...		...	...		780	780
Reserve money	7,830	...	8,521		6,620	...	8,764		6,760	...	8,787		6,889	8,857		9,016	9,072
Net external assistance	1,003	...	2,012		196	...	300		404	...	381		317	354		1,193	1,371
of which, Ebola-related grants and loans	595	...	763		...	...	99		...	...	259		...	268		...	...
Change in the float	5	...	45		-38	...	13		-75	...	35		-113	290		-100	-147

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

[1] Definitions and adjustors are included in the Technical Memorandum of Understanding (TMU).

[2] Calculated using program exchange rates.

[3] External debt contracted or guaranteed other than with a grant element equivalent to 35 percent or more, calculated using a discount rate based on the OECD commercial interest rates. Excludes borrowing from the IMF.

[4] Continuous performance criterion.

[5] Corresponds to the issuance of the first tranche (EUR35 million) of a EUR65 million guarantee on a non-concessional loan for the Kankan-Kissidougou road project.

[6] Corresponds to the issuance of the first tranche (EUR35 million) of a EUR65 million guarantee on a non-concessional loan for the Kankan-Kissidougou road project and of a EUR79 million new debt to finance the Kaleta hydroelectric dam - Conakry transmission line project.

[7] Corresponds to the issuance of a EUR65 million guarantee on a non-concessional loan for the Kankan-Kissidougou road project and of the EUR79 million new debt to finance the Kaleta hydroelectric dam - Conakry transmission line project.

[8] Priority sectors include education, health, agriculture, energy, justice, social affairs, and public works (as defined in the TMU).

[9] The ceiling for 2014 is tied to new debt to finance the Kaleta hydroelectric dam - Conakry transmission line project.

Table 6. Guinea: External Assistance, Program Arrears, Exceptional Mining Revenue, and the Float, 2014–16
(Billions of GNF, cumulative from the beginning of the fiscal year)

	2014			2015								2016
	Dec.			Mar.		Jun.		Sep.		Dec.		Dec.
	Prog.	Act.	Diff.	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Est.	Proj.
Net external assistance [1]	1,003	2,012	1,009	196	300	404	381	317	354	143	460	555
Budget support	993	1,676	682	298	270	668	358	668	358	668	358	1,426
Grants	720	845	125	298	0	668	89	668	89	668	89	813
Loans	273	830	557	0	270	0	270	0	270	0	270	613
Ebola-related grants and loans	595	763	168	...	99	...	259	...	268	...	423	0
External debt service	-596	-511	85	-101	-76	-264	-243	-350	-317	-524	-497	-871
Interest	-104	-92	12	-47	-39	-66	-54	-110	-110	-128	-109	-318
Principal	-492	-419	74	-54	-37	-198	-189	-240	-207	-396	-388	-553
Net change in non-program arrears and debt relief	11	85	74	0	7	0	7	0	45	0	175	0
Net change in non-program arrears	-878	52	930	-57	7	-57	5	-57	43	-1,079	79	-811
Debt relief	889	33	-856	57	0	57	2	57	2	1,079	96	811
Program arrears	0	0	0	0	0	0	0	0	0	0	0	0
Exceptional mining revenue	435	0	-435	0	0	0	0	0	0	560	0	0
Change in the float	5	45	40	-38	13	-75	35	-113	290	-150	296	-147

Sources: Guinean authorities and IMF staff calculations.

[1] For 2014 corrected for an incorrect sign on interest payments at the time of the RCF request.

GUINEA

Table 7. Guinea: External Financing Requirements and Sources, 2013–16

(Millions of U.S. Dollars)

	2013	2014	2015		2016
	Est.	Est.	Proj.	Est.	Proj.
1. Gross financing requirements	1,766	1,923	1,253	1,219	1,254
External current account deficit	1,671	1,839	1,293	1,515	955
Capital account balance [1]	-12	-15	-90	-16	-16
Debt amortization	49	60	57	52	64
Change in arrears, net [2]	-4	-7	154	-11	94
Gross reserves accumulation	61	47	-160	-291	156
IMF Repayments [3]	0	0	0	-30	0
2. Available financing	1,738	1,827	938	1,219	1,203
Foreign direct investment, net [4]	770	680	260	454	660
Identified disbursements	311	345	524	269	449
Grants	92	166	196	45	261
Project	67	46	101	33	166
Program	26	120	95	12	95
Loans	218	179	328	223	188
Project	183	60	328	187	117
Program	35	118	0	36	71
Other flows	657	797	0	454	0
Debt relief [2,3]	1	5	154	43	94
HIPC completion point debt cancellation [2]					
3. Residual financing	28	96	315	0	51
ECF and RCF disbursement	28	96	119	0	51
Ebola-related donor pledges [5]				0	
Additional financing/Adjustment measures	…	…	…	…	0

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

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

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

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

[4] Includes private short-term capital flows.

[5] World Bank financing and residual rounding error explains difference with balance of payments Table 4.

Table 8. Guinea: Indicators of Capacity to Repay the IMF, 2015–26[1]

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Actual	Projections										
Fund obligations based on existing credit												
Credit outstanding	142.79	142.79	142.79	142.79	139.84	111.61	78.87	47.97	24.40	4.51	0.00	0.00
Percent of quota[2]	133.32	66.66	66.66	66.66	65.28	52.11	36.82	22.39	11.39	2.11	0.00	0.00
Repayment of principal	21.40	0.00	0.00	0.00	2.95	28.23	32.74	30.91	23.56	19.89	4.51	0.00
Charges and interest	0.00	0.00	0.00	0.00	0.29	0.25	0.19	0.12	0.06	0.02	0.00	0.00
Fund obligations from prospective drawings under the ECF												
Credit outstanding	0.00	36.72	36.72	36.72	36.72	36.72	34.89	27.54	20.20	12.86	5.51	0.00
Percent of quota[2]	0.00	17.14	17.14	17.14	17.14	17.14	16.29	12.86	9.43	6.00	2.57	0.00
Repayment of principal	0.00	0.00	0.00	0.00	0.00	0.00	1.84	7.34	7.34	7.34	7.34	5.51
Charges and interest	0.00	0.00	0.00	0.00	0.09	0.09	0.09	0.08	0.06	0.04	0.02	0.00
Total obligations based on existing and prospective credit												
Credit outstanding	142.79	179.51	179.51	179.51	176.56	148.33	113.76	75.51	44.60	17.37	5.51	0.00
Percent of quota[2]	66.66	83.80	83.80	83.80	82.43	69.25	53.11	35.25	20.82	8.11	2.57	0.00
Percent of gross foreign available reserves	43.34	40.18	37.24	28.71	28.76	18.48	12.79	7.09	3.81	1.21	0.35	0.00
Repayment of principal	21.40	0.00	0.00	0.00	2.95	28.23	34.58	38.25	30.91	27.23	11.86	5.51
Charges and interest	0.00	0.00	0.00	0.00	0.38	0.35	0.28	0.20	0.12	0.06	0.02	0.00
Total payments to the IMF	0.00	0.00	0.00	0.00	3.33	28.57	34.86	38.45	31.03	27.30	11.88	5.51
Percent of exports of goods and services	0.00	0.00	0.00	0.00	0.26	2.06	2.36	2.45	1.19	0.59	0.19	0.08
Percent of external public debt service	0.00	0.00	0.00	0.00	3.93	19.16	21.58	22.92	18.33	15.72	8.12	4.03
Memorandum items:												
Disbursements	45.14	36.72										
Exports of goods and services, US$ millions	1,407.0	1,507.6	1,589.8	1,695.5	1,811.2	1,931.3	2,060.4	2,188.0	3,640.3	6,497.7	8,508.6	10,102.6

Sources: Guinean authorities; and IMF staff projections.

[1] PRGT interest waived through end-2016. RCF interest set at zero percent and no longer subject to biannual Board reviews. The following rates are assumed beyond 2016: projected interest charges between 2017 and 2018 are based on 0/0.25/0.25 percent per annum for the ECF, SCF, and ESF, respectively, and beyond 2018 0.25/0.5/0.25 percent per annum. Includes debt relief under the CCR.

[2] Guinea's quota increased on February 11, 2016 from SDR107.1 million to SDR214.2 million.

Table 9. Guinea: Financial Soundness Indicators, 2010–15
(End of period, except otherwise indicated)

Concept	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Sep-15
Capital Adequacy						
Total bank regulatory capital to risk-weighted assets	17.0%	14.6%	18.2%	15.6%	17.3%	17.0%
Percentage of banks greater or equal to 10 percent	100.0%	83.3%	92.3%	93.0%	93.0%	100.0%
Share of these banks/total banking system assets	*100.0%*	*58.8%*	*98.5%*	*94.5%*	*94.2%*	*100.0%*
Percentage of banks below 10 and above 6 percent minimum	0.0%	16.7%	7.7%	7.0%	7.0%	0.0%
Share of these banks/total banking system assets	*0.0%*	*41.2%*	*1.5%*	*5.0%*	*5.8%*	*0.0%*
Percentage of banks below 6 percent minimum	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Total capital (net worth) to assets	7.8%	8.2%	11.6%	11.8%	12.5%	12.0%
Asset Quality						
Non-performing loans to total loans	5.9%	3.2%	4.8%	6.5%	4.1%	6.5%
Non-performing loans net of provision to capital	2.5%	3.5%	3.5%	11.2%	12.6%	13.8%
FX loans to total loans	36.0%	48.1%	22.6%	23.1%	28.1%	28.9%
Earnings and Profitability						
Net income to average assets (ROA)	2.0%	2.5%	2.2%	2.2%	1.8%	1.4%
Net income to average capital (ROE)	35.1%	41.3%	28.8%	27.8%	21.2%	17.3%
Non interest expense to gross income	14.0%	24.5%	57.9%	93.1%	133.8%	194.9%
Personnel expense to gross income	22.0%	18.5%	20.7%	21.1%	21.1%	21.2%
Non interest income to gross income	48.0%	55.7%	91.1%	124.8%	164.7%	221.7%
Expenses/Income	29.6%	26.5%	29.1%	31.5%	30.5%	29.2%
Liquidity						
Liquid assets to total assets	75.9%	69.0%	67.3%	62.3%	56.6%	49.2%
Liquid assets to short-term liabilities	86.1%	74.1%	77.4%	72.5%	67.1%	62.8%
Loan/deposits	24.6%	38.1%	38.0%	45.7%	56.4%	57.9%
Liquid assets/total deposits	91.4%	91.1%	85.5%	80.6%	74.8%	69.5%
Sensitivity to market/FX risk						
Foreign exchange liabilities/total liabilities	22.0%	28.0%	33.0%	26.5%	23.2%	24.4%
Foreign currency deposits/official reserves	89.0%	36.0%	55.0%			

Table 10. Guinea: Risk Assessment Matrix (RAM)

Sources of Risks	Relative Likelihood	Impact If Realized	Policy Response if Materialized
Persistent dollar strength as a result of tighter or more volatile global financial conditions	**High**	**Medium** Competitiveness could be further hampered and strain reserve buffers.	Advance the structural reform agenda to remove bottlenecks and allow greater exchange rate flexibility
Structurally weak growth in key advanced and emerging economies	**High** (AEs) **Medium** (EMEs)	**High** Investment in large-scale mining projects (iron ore, bauxite) would likely be delayed, lowering medium-term growth prospects.	Intensify structural reform and efforts to improve the business climate to promote investment in non-mining sectors. Allow the exchange rate to play a shock absorbing role
Heightened risk of fragmentation/state failure/security dislocation in the Middle East and some countries in Africa	**Medium**	**Medium** Deterioration of the domestic security situation. Large-scale investment projects would likely be postponed. Progress out of fragility would be in doubt.	Intensify structural reform to remove bottlenecks to growth. Fiscal policy to focus on revenue mobilization, and efficient delivery of public services
Deterioration of the domestic socio-political and security situation	**Medium**	**High** Investment and growth would be negatively affected, poverty would risk increasing; development of natural resources sector would be delayed. Program implementation could weaken, and adoption of key structural reforms could be postponed. Macroeconomic stability would be at risk.	Refocus reform on areas less sensitive to socio-political environment. Aim to maintain fiscal control
Prolonged and uncontained Ebola epidemic	**Low**	**High** Additional to the human toll, investor sentiment and consumer confidence would deteriorate further. Investments in large-scale mining projects would be delayed further, lowering growth prospects.	Intensify structural reform. Fiscal accommodation should remain within the limits of available financing, and focus on priority sector spending

Table 11a. Guinea: Original Schedule of Disbursements and Timing of Reviews Under the ECF Arrangement[1]

Percent of quota[2]	Millions of SDRs	Date of Availability	Condition for Disbursement
8.571	18.360	February 24, 2012	Executive Board approval of the three-year arrangement under the ECF.
8.571	18.360	August 15, 2012	Observance of all relevant performance criteria, including the performance criteria for June 2012 and completion of the first review under the ECF.
8.571	18.360	February 15, 2013	Observance of all relevant performance criteria, including the performance criteria for December 2012 and completion of the second review under the ECF.
8.571	18.360	August 15, 2013	Observance of all relevant performance criteria, including the performance criteria for June 2013 and completion of the third review under the ECF.
8.571	18.360	February 15, 2014	Observance of all relevant performance criteria, including the performance criteria for December 2013 and completion of the fourth review under the ECF.
21.071	45.135	August 15, 2014	Observance of all relevant performance criteria, including the performance criteria for June 2014 and completion of the fifth review under the ECF.
8.571	18.360	February 15, 2015	Observance of all relevant performance criteria, including the performance criteria for December 2014 and completion of the sixth review under the ECF.
8.571	18.360	September 30, 2015	Observance of all relevant performance criteria, including the performance criteria for June 2015 and completion of the seventh review under the ECF.
81.071	173.655	Total	

Source: IMF staff.

[1] As approved at the time of the fifth review under the ECF (see IMF Country Report No. 15/39, February 2015)

[2] All quota percentages are presented to reflect the new Guinea's quota under the 14th General Quota Review; SDR amounts remain the same except for the rephased amounts for the 6th and 7th reviews.

Table 11b. Guinea: Proposed Schedule of Disbursements and Timing of Reviews Under the ECF Arrangement, 2012–16[1]

Percent of quota[2]	Millions of SDRs	Date of Availability	Condition for Disbursement
8.571	18.360	March 5, 2012 [1]	Disbursed following Executive Board approval of the three-year arrangement under the ECF.
8.571	18.360	October 5, 2012 [1]	Disbursed following Executive Board completion of the first review under the ECF.
8.571	18.360	May 30, 2013 [1]	Disbursed following Executive Board completion of the second review under the ECF.
8.571	18.360	February 26, 2014 [1]	Disbursed following Executive Board completion of the third review under the ECF.
8.571	18.360	August 11, 2014 [1]	Disbursed following Executive Board completion of the fourth review under the ECF.
21.071	45.135	February 18, 2015 [1]	Disbursed following Executive Board completion of the fifth review under the ECF.
4.286	9.180	February 15, 2015	Observance of all relevant performance criteria, including the performance criteria for December 2014 and completion of the sixth review under the ECF.
4.286	9.180	September 30, 2015	Observance of all relevant performance criteria, including the performance criteria for June 2015 and completion of the seventh review under the ECF.
8.571	18.360	August 15, 2016	Observance of all relevant performance criteria, including the performance criteria for June 2016 and completion of the eighth review under the ECF.
81.071	173.655	Total	

Source: IMF staff.

[1] Actual disbursement date.

[2] All quota percentages are presented to reflect the new Guinea's quota under the 14th General Quota Review; SDR amounts remain the same except for the rephased amounts for the 6th and 7th reviews.

Appendix I. Letter of Intent
Republic of Guinea

Conakry, March 1, 2016

MINISTRY OF THE ECONOMY
AND FINANCE

CENTRAL BANK OF THE
REPUBLIC OF GUINEA

To:
Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C., 20431
United States of America

Subject: Letter of Intent on Economic and Financial Policies

Madame Managing Director,

1. This Sixth Supplement to the Memorandum of Economic and Financial Policies reviews the implementation of the program supported by an arrangement under the IMF's Extended Credit Facility (ECF) during the second half of 2014 and 2015, and describes our policies for 2016. It also reviews the implementation of the government's commitments under the Rapid Credit Facility (RCF) and the cancellation of debt under the Catastrophe Containment and Relief (CCR) Trust to improve the support to low-income countries hit by a public health disaster.

2. Our country has been hit by several shocks that have undermined our economic performance in recent years. First and foremost, the Ebola epidemic, which appeared in early 2014 and claimed thousands of lives, has adversely affected all the sectors of our economy. The efforts of the government and its partners helped eradicate the disease, with the last case recorded on November 17, 2015, some six weeks before the World Health Organization formally declared the end of the epidemic in Guinea. The effects of the Ebola virus disease were exacerbated by the impact on our economy of the fall in commodity prices and the uncertainty relating to the October 2015 presidential elections. As a result, there was a sharp slowdown in economic growth in 2014 and 2015. Despite strong agricultural output, economic growth was close to zero owing to the slowdown in mining investment and the effects of travel restrictions on the services sectors.

3. These shocks, coupled with our efforts to limit their effects on both the economy and the population upset the implementation of the ECF-supported program. We have met most of the performance criteria (PCs) at end-December 2014, but several of the end-June 2015 PCs were missed

mainly because of the impact of the guarantees issued by the central bank to support our ambitious public investment program aimed at boosting growth and containing the effects of Ebola on the population. We continue to experience delays in implementing our structural reform agenda, partly because of difficulties in obtaining the required technical assistance. Despite these difficulties, we have already recruited a management partner for the state-owned electricity company and eliminated ghost workers from the public payroll after the civil service biometric census. Further, in November 2015 we started a three-month round of inspections to verify the physical presence of civil servants in government offices.

4. We are requesting waivers for the nonobservance of the performance criteria at end-2014 on the net international reserves of the central bank and for the performance criteria at end-June 2015 on the basic fiscal balance, net domestic assets of the central bank, domestic bank financing of the government, net international reserves of the central bank, and the continuous performance criterion on new medium- and long-term non-concessional external debt. Our request for waivers is based on the difficult measures that we have already taken to achieve the program's objectives in 2016. These measures include the adjustment planned in the 2016 budget, the reform of the exchange rate determination mechanism and the discontinuation of the gold purchasing program. We have also started the audit of large public procurement contracts that benefited from central bank guarantees. Moreover, the Central Bank charter is to be revised by end-June 2016 to explicitly ban the issuance of Central Bank guarantees to private entities, and we intend to continue our efforts to strengthen public debt management. We also request a waiver for the nonobservance of the continuous PC on the non-introduction or modification of multiple currency practices (MCP) in connection with the MCP that arose from the absence of a mechanism in the multi-price foreign exchange auctions implemented since last January to ensure that exchange rates of accepted bids at the auction do not deviate by more than 2 percent. The BCRG will ensure that exchange rates of accepted bids at the auction remain within ±2 percent of each other.

5. The economic outlook is positive and growth is set to rebound to 4 percent in 2016. The recovery will be driven by new mining sector production and by the government's continued efforts to raise agricultural productivity. The end of the Ebola epidemic will facilitate the development of the services and manufacturing sectors, which will also benefit from the full year impact of increased electricity production from the Kaleta dam. The economic recovery is nevertheless expected to be gradual given the time necessary to resume the operations suspended because of the Ebola epidemic. Further, it will be largely dependent on the existence of a calm sociopolitical environment to foster the return of private investment as well as the implementation of the policies envisaged by the government to maintain macroeconomic stability. The government is determined to continue implementing its ECF-supported program in 2016. We have approved a budget that maintains the fiscal deficit in line with available financing and we have also reformed the mechanism for determining the exchange rate. These policies will make it possible to maintain single digit inflation levels and improve the reserve coverage of imports to three months. In keeping with our commitments under the RCF, and in the context of debt relief under the Catastrophe Containment and Relief Trust, we have created a special budget account (BAS) to channel the resources for Ebola-related spending. The World Bank and the African Development Bank are evaluating the use of the resources committed to the fight against Ebola. We intend to continue making progress on structural reforms in public financial management, the business climate, and the electricity and mining sectors. The impact of the shocks and of our policies aimed at boosting growth and meeting the program objectives has led to a financing gap of USD 112 million for 2016, that is 1.7 percent of GDP.

6. Based on the progress made and the measures taken to achieve the objectives of the ECF-supported program in 2016, we request approval of the sixth and seventh reviews of the program and, in that context, a disbursement of SDR 18.36 million equivalent to 8.6 percent of our quota. Access to Fund resources should act as a catalyst for our donors and lenders, will boost our international reserves and cover part of the balance of payments financing needs resulting from these exogenous shocks.

7. The government requests an extension of the ECF arrangement to end-October 2016, as well as a re-phasing of the remaining disbursements under the arrangement. The extension of the arrangement will allow time to assess the implementation of the program at end-June 2016 and for the last disbursement under the ECF arrangement. We also request that the disbursement originally planned for the seventh program review be delayed until after the approval of the eight review of the ECF program by the IMF Executive Board. To assess the implementation of the program in the context of the eighth review, we propose indicative targets for end-March 2016 and performance criteria for end-June 2016. Total IMF support in 2016 should cover approximately 22 percent of the projected balance of payments financing needs.

8. The government remains of the opinion that the policies and measures described in the Memorandum of Economic and Financial Policies are appropriate to meet the program objectives. Nevertheless, it will take all additional measures that may be necessary to achieve this goal. The government will consult IMF staff with regard to the adoption of such measures, either on its own initiative or at the request of the Managing Director of the Fund, before taking these measures, or before any changes in the policies set forth in this Letter of Intent, in accordance with IMF policy on such consultations. The government undertakes not to introduce measures or policies that would exacerbate Guinea's balance of payment problems and to provide the IMF with any information required to monitor the implementation of the measures and the achievement of the program objectives.

9. In accordance with our policy of transparency in government operations, we authorize the publication of this letter, the Memorandum of Economic and Financial Policies, and the Technical Memorandum of Understanding, as well as the IMF staff report on the Sixth and Seventh reviews of the Fund's ECF-supported program.

Sincerely yours.

________/s/________________	____________/s/______________
Malado Kaba	Lounceny Nabé
Minister of Economy and Finance	Governor of the Central Bank of the Republic of Guinea

Attachments: Sixth Supplement to the Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Attachment I: Guinea: Sixth Supplement to the Memorandum of Economic and Financial Policies

March 1, 2016

RECENT DEVELOPMENTS AND PROGRAM IMPLEMENTATION

1. **Economic developments in 2014 and 2015 were dominated by the effects of the Ebola epidemic**. Since its appearance in the Guinea Forest Region in December 2013, the epidemic has affected 3,351 people and killed 2,083 as of November 25, 2015. It has affected 26 prefectures and the five municipalities of Conakry, including areas with high agricultural potential. With the assistance of our partners, we eradicated the disease as of mid-November and the World Health Organization declared the end of the Ebola epidemic in Guinea on December 29, 2015. In addition to the Ebola epidemic, the economic context was marked by the decline in commodity prices and political uncertainty related to the preparations for the October 2015 presidential elections.

2. **Economic activity slowed considerably in 2014 and 2015 due to these exogenous shocks**. The slowdown in growth recorded in 2014 continued in 2015 with an estimated growth rate of 0.1 percent, despite robust growth in agricultural production. The sluggish economic growth reflects the decline in mining production and services, including hotels and restaurants. Inflation has continued to fall, reaching 7.3 percent at end-December 2015 as a result of the combined effect of increased agricultural production and reduced external demand for our agricultural products because of the closure of the borders of certain countries in 2014 and the effects of the decline in oil prices in February 2015. After significant deterioration in 2014 associated with the effects of the Ebola epidemic, the external current account improved in 2015, primarily due to a decline in the volume of imports reflecting the slowdown in growth, despite the significant increase in bank loans and imports related to public investment projects. However, the overall balance of payments has deteriorated and our foreign exchange reserves, estimated at 3.6 months of imports at end-2014, have fallen to 2.3 months of imports at end-2015.

3. **Performance in the implementation of the ECF program has deteriorated owing to external shocks and our policies for limiting their impact on the economy**:

- We met all the performance criteria (PCs) at end-2014 except for the PC on the central bank's net international reserves and the continuous PC on new nonconcessional medium- or long-term debt. For end-June 2015, due to shortfalls in revenue and foreign currency inflows linked to the Ebola epidemic and to the impact of the acceleration of public investments backed by central bank guarantees, we were able to meet only the PC on external arrears and the continuous PC on the stock of outstanding short-term external debt. We also missed the continuous PC on the non-introduction of multiple currency practice (MCP) in the context of the adoption of a new instruction to reform the exchange rate determination mechanism.

- Structural reforms have advanced despite some delays. With the assistance of the World Bank group, on June 19, 2015 we recruited the private partner for the management of EDG (structural benchmark at end-March 2015) which began operations in September 2015. The government adopted and implemented the recommendations from the review of the role of the SOGUIPAMI (structural benchmark at end-February 2015) with the February 12, 2015 signature of a decree clarifying the roles of the SOGUIPAMI. Production of the administrative accounts for 2011–13 (structural benchmark at end-April 2015) was delayed until December 2015. We produced in December the management accounts for these years. Progress on other structural benchmarks of the program was limited because of difficulties in mobilizing technical assistance. However, we made progress on bringing budgetary and accounting management into compliance with the Budget Framework Law (LORF): from now on, the National Council for the Regulation of Post and Telecommunications will adopt the budget and accounts of the ARPT, while the Patrimoine Bâti Public (Public Building Agency) will receive budgetary appropriations commensurate with its operating expenses, thus putting an end to the use of revenues generated by their activities without the authorization of a budget law.

4. The budget deficit in 2015, which was larger than projected in the revised budget law, was financed through the recourse to significant domestic financing.

- The basic balance deteriorated from -6.5 percent of GDP in 2014 to -7.1 percent of GDP in 2015, or nearly 3 percentage points of GDP more than in the revised budget despite our efforts to keep current expenditures at 2014 levels. This deviation reflects revenue shortfalls (2¾ percent of GDP) primarily due to keeping fuel pump prices 20 percent below the level envisioned in the revised budget and customs revenue shortfalls linked to lower cement imports following the start of production by largely tax exempt domestic plants. Moreover, domestically-financed investment could not be kept at the level projected in the revised budget because of guarantees from the central bank (BCRG), which significantly reduced budgetary flexibility. Public works contracts signed by the government and covered partially or totally by the BCRG guarantees amounted to 15.2 percent of GDP, of which 3.8 percent of GDP were executed as of end-December 2015.
- Given the shortfall in external budget support, we increased recourse to domestic financing, which reached 5.5 percent of GDP, more than twice the 2014 level. This domestic financing consisted primarily of central bank advances (3.6 % of GDP) linked to the guarantees and the issuance of short-term bills and medium-term bonds (1.5% of GDP) by the treasury. The government also had to seek financing from a mining company (0.5% of GDP) and accumulated domestic arrears (0.5% of GDP).

5. We have implemented several measures to improve fiscal transparency and debt management. We completed the administrative arrangements of the BAS for Ebola. The BAS benefited from the unspent 2014 Ebola financing (GNF 153.9 billion), which—with additional financing of GNF 423.1 billion—financed expenditure of GNF463.7 billion as of end-December 2015. World Bank and African Development Bank resources executed through the BAS were subject to a financial evaluation. The manual of procedures for debt management has been finalized and is operational since December 2015 thanks to technical assistance, including training, from the EU and others. We have started the audit, by a reputable foreign firm, of the procurement contracts that benefited from BCRG's guarantees.

6. The primary objective of our monetary policy has been to support fiscal policy, including the public investment program. We lowered the required reserves ratio from 20 percent to 18 percent and the BCRG's policy rate from 13 percent to 11 percent on February 25, 2015. The reduction in the reserve requirement ratio freed resources for credit to the economy and helped to mobilize bank financing for the ambitious infrastructure construction program. Despite the easing of monetary policy, the interest rate on Treasury bills increased to an average of 10.5 percent, reflecting higher demand for public financing, which has dried up the banks' liquidity despite increased deposits. In addition to monetary policy actions, the BCRG has issued guarantees to companies involved in the realization of public infrastructures. These garantees have allowed banks to grant loans to these companies.

7. Exogenous shocks to the economy and the guarantees issued by the BCRG weighed on its international reserves and the exchange rate in 2015. With the suspension of various mining projects and the difficulties faced by artisanal gold miners in exporting their output, the supply of foreign exchange on the market dwindled and the banks' net foreign exchange assets decreased from US$150 million at end-March 2014 to US$62.8 million at end-December 2015. In addition, the demand for foreign currency increased due to increased imports related to efforts to combat Ebola and the public investment program supported by the BCRG's guarantees. In order to contain depreciation of the Guinean franc as a result of these pressures, the BCRG increased its foreign currency sales on the market, significantly depleting its international reserves, despite its program to purchase gold from artisanal gold miners. The Guinean franc depreciated by 9.7 percent against the dollar and the premium on the bureaus increased, reaching a peak of nearly 15 percent, despite the widening of the band around the MIC exchange rate from +/- 3 percent to +/- 4 percent on May 14, 2015.

8. Despite the implementation of a recapitalization plan for the commercial banks, the financial system's soundness indicators have deteriorated somewhat. Given the BCRG's guarantees, some banks have assumed commitments not commensurate with the level of their capital base. As a result, their net foreign assets fell to US$10 million at end-October 2015, reflecting the increasing scarcity of foreign currency on the banking market to finance imports. The number of exemptions from prudential regulations granted by the BCRG has increased significantly. As of end-September 2015, a listing of high-risk banks points to 24 cases where the prudential standard was exceeded (involving 11 of the 16 banks in operation), 19 of which are covered by exemptions. The exemptions frequently result in violations of liquidity and exchange standards, for which a de facto exemption is also granted.

9. The external auditor has certified the BCRG's financial statements for 2014 without qualification, and end-June 2015 monetary program data. Its opinion on the end-2014 financial statements reflects the impact of the guarantees issued by the BCRG on its balance sheet. However, the auditor noted it was unable to be present at the physical count of cash in the vaults due to the Ebola epidemic, which delayed the audit work and made it more difficult. The external auditor has confirmed on February 15, 2016 the program data for end-June 2015. The auditor recommended improvements in the accounting of off-balance sheet transactions.

MACROECONOMIC OUTLOOK

10. The outlook for 2016 and the medium term is positive and will allow us to strengthen the BCRG's international reserves and keep inflation at single digit levels while increasing growth and reducing poverty.

- After two years of economic downturn, growth is projected to rebound to 4 percent in 2016. Agriculture is expected to continue to grow, thanks to intensified use of fertilizers and irrigation. Mining sector growth should reach 5.7 percent thanks to the ambitious production plan of the Boké Mining Company, which began operations in 2015. There should also be renewed activity in the manufacturing, construction, and services sectors with the end of political uncertainty and the return of mining project expatriates. Inflation should increase slightly, from 7.3 percent at end-2015 to 8.5 percent with the fading away of the impact of the cut in fuel prices in February 2015, the convergence of the official and bureaus exchange rates, and the effect of some tax measures including the increase in the VAT rate of 2 percentage points and the widening of the base for telecommunications taxes. The external current account deficit should fall to 17.0 percent of GDP, allowing the BCRG's international reserves to increase to at least three months of imports.
- Growth is expected to increase to about 6 percent over the medium term (2017–21) thanks to the return of investors, including in the mining sector, and to policies considered in our post-Ebola recovery plan. This plan aims to improve physical and human capital by rehabilitating our health system and building infrastructures to stimulate our growth potential. The plan complements and extends our poverty reduction strategy (PRSP III, 2013–15) and our five-year 2011–15 plan, pending completion of forthcoming national planning documents. Its pillars are: (i) the strengthening of human and institutional capacities; (ii) the promotion of accelerated, diversified, and sustainable growth; (iii) the development of growth-supporting infrastructures; and (iv) the strengthening of access to basic social services and households' resilience. However, financing for the plan, estimated to cost US$2.6 billion, is not fully secured as yet.

11. To achieve these objectives, we have already adopted economic policies intended to correct the macroeconomic imbalances that arose in 2015. First, we closed the 2015 financing gap without increasing central bank advances and domestic arrears from their end-October 2015 level as per the letter of intent for the request for extension of the arrangement (prior action). Moreover, the government tabled on December 18 2015 a draft budget law for 2016 consistent with our revised program (prior action) to the National Assembly which approved it on January 16, 2016, and the BCRG has implemented the recommendations from the IMF (MCM) technical assistance mission to improve exchange rate flexibility (prior action) through in-depth reforms of the exchange rate determination mechanism, which has already made it possible to almost totally eliminate the exchange premium on the bureaus market. This reform has allowed the BCRG to significantly reduce its levels of intervention in the foreign exchange market to preserve our international reserves. The BCRG also decided to cease gold purchases given their effects on excess liquidity in local currency and the exchange rate and to maintain a diversified portfolio of reserves consistent with the policy on the investment of its reserves.

FISCAL POLICY

12. We will reduce the budget deficit significantly to limit recourse to financing from commercial banks and to strengthen the central bank's reserves. The measures contemplated in the budget will make it possible to attain a basic fiscal balance of -0.4 percent of GDP, or a budgetary contraction of 6¾ percent of GDP compared to 2015. Budget financing needs will thus be limited to 1.3 percent of GDP and will be covered primarily by grants and budgetary loans and concessional budgetary loans, with domestic financing allocated primarily for the gradual reimbursement of advances granted by the central bank to the public treasury in 2015 and for reducing the accumulation of arrears to the domestic private sector. The 2016 budget aims at strengthening priority expenditures, including health expenditures, while reinforcing the government's solvency, the central bank's foreign exchange reserves, and its capacity to implement an independent monetary policy.

13. Revenues are projected at 24.4 percent of GDP, including 20.4 percent in tax and non-tax revenues, 1.4 percent in budgetary grants, and 2.5 percent in project grants. The strong growth in tax and non-tax revenues compared to 2015 (+2.5 percent of GDP) is due on the one hand to the return of economic growth and the full-year effect of some taxes introduced during the second half of 2015 and on the other hand to the adoption of a package of revenue-enhancing measures with a revenue impact of over 2 percent of GDP in 2016 (prior action). These notably include: (1) increasing the VAT rate from 18 percent to 20 percent (0.5 percent of GDP); (2) extending the VAT to flour and edible oils (+0.2 percent of GDP); (3) raising excise taxes on tobacco, alcohol, and vehicles (0.1 percent of GDP); (4) updating the reference values on imported used vehicles and imports by land (0.1 percent of GDP); (5) increasing some service costs on registrations and the new biometric passports (0.4 percent of GDP); and (6) administrative measures related to taxes (0.3 percent of GDP). The administrative measures are primarily based on cross-checks of declared sales and imports. Some preliminary calculations indicate under-reporting of at least 27 percent of GDP for a subset of only 58 importers. An action plan was designed and has the full support of the highest authorities. Budgetary grants are also expected to increase by 1.2 percent of GDP compared to the 2015 projection, due in particular to disbursements originally scheduled in 2015 from the European Union and the World Bank.

14. We will keep expenditures to 25.7 percent of GDP, **including 21.4 percent financed with domestic resources**. This involves a sharp downsizing (3.8 percent of GDP) of domestically financing expenditures compared to 2015. This reduction is due to the disappearance of most expenditure related to combating Ebola and to the elections (1.8 percent of GDP) and additional measures totaling a net level of 1.9 percent of GDP. The wage bill is expected to increase to 5.8 percent of GDP primarily due to the full-year effect of the 2015 increase in salaries, and the recruitment of 1,000 health workers, 4,372 educational staff, 631 police officers, and 1,193 forest rangers (+0.6 percent of GDP), the effect of which could not be offset by excluding from the public payroll all workers not identified in the context of the 2015 biometric census of public workers (prior action). Expenditures for government operations (goods and services, fuel, service vehicles, furniture, etc.) will be reduced by 1.7 percent of GDP, and transfers by 1.9 percent of GDP due to the reduction of the EDG subsidy. Investment expenditures will also fall by 1.5 percent of GDP (from 6.6 percent of GDP in 2015 to 5.1 in 2016 – including only 1.7 percent of GDP on guarantees, following reschedulings and cancellations). Part of the reduction (0.6 percent of GDP) results from transferring some projects from the domestically financed to the foreign financed part of the budget and creating a special appropriations budget (BAS) to subject the execution of these projects to the receipt of an Abu Dhabi grant.

15. The budgetary adjustment will make it possible to reduce outstanding debt owed to the central bank. With nearly zero net external non-project financing and issues from commercial banks of 0.2 percent of GDP, the government will reimburse the BCRG for part (½ percent of GDP) of its 2015 advances and will reduce arrears to the private sector (0.3 percent of GDP). Reimbursement of the central bank's 2015 advances will be spread over six years based on a payment schedule established in February 2016 by agreement of the parties, with conditions similar to those in the domestic financial market. The reduction of the fiscal deficit will facilitate the central bank's implementation of its monetary policy.

MONETARY AND FOREIGN EXCHANGE POLICY

16. The BCRG's priority for 2016 remains to strengthen international reserves, while supporting economic activity. Fiscal contraction is expected to help contain inflationary pressures and keep inflation below 10 percent. The pressures arising from exchange rate depreciation should be offset by the decline in prices on world markets, particularly for petroleum products. In this context, the BCRG will keep the required reserve ratio at its current level until the end of the first six months. With reform of the foreign exchange rate determination mechanism introduced in January 2016, the BCRG will more precisely modulate bank liquidity in Guinean francs thanks to the use of monetary regulation securities, which will initially help to develop a dual foreign exchange market where the BCRG is not the only entity offering foreign exchange. The BCRG will also ensure that the settlement rates for transaction in the new FX market remain within a band of ±2 percent.

17. Several other measures are considered to strengthen the effectiveness of monetary policy instruments and the financial sector. The BCRG will introduce a second refinancing window to strengthen money market operations (end-March 2016) and will establish in 2016 with the technical and financial assistance of the World Bank, a Credit Information System to support risk analysis by the banks and improve the distribution of credit. The BCRG will make sure that the banks that have not increased their capital base to comply with the minimum level of capital of GNF 100 billion do so by end-June 2016. A new insurance code will be adopted in May 2016 to improve supervision of the sector and meet international standards. We will introduce an action plan for a national strategy to improve financial inclusion by end-May 2016 and a draft law on microfinance in line with international standards in 2017.

18. The BCRG will continue the reforms suggested by the safeguards assessment. We will strengthen the transparency of our annual financial statements by clarifying in these documents the nature of the risks associated with financial assets and liabilities and by providing more information on loans to the government, including the type and quality of guarantees. We will implement the recommendations of the external auditor regarding weak accounting controls, including the preparation of a report on all suspense accounts identified by the auditors. The government will adopt by April 2016 a draft revision of the BCRG's statutes to prohibit it from issuing guarantees for the private sector. The BCRG and the ministry of finance will sign a memorandum of understandings by end-March 2016 on the reimbursement of the central bank advances to the treasury in 2015 based on market conditions prevailing at the time of signature. Based on IMF technical assistance, we will sign a memorandum with the government by end-March 2016 specifying the need to recapitalize the BCRG as well as the methods (including a schedule) for this recapitalization, taking into account budgetary cost and the need to ensure the financial and operational flexibility of the BCRG.

STRUCTURAL REFORMS

19. The government will finalize the structural reform program and ensure the effective implementation of measures already taken. The key measures seek to finalize the reform of the mining sector and rehabilitate the electricity sector while increasing its output. In addition, we will adopt new measures to strengthen public procurement and the independence of the central bank so as to limit risks to the budget and the central bank's balance sheets based on contingent liabilities. The effective implementation of reforms already undertaken, particularly in the area of public finances, requires accelerated user training, for which we request support from our partners.

Public finance management

20. We will finalize the ECF program measures and implement new measures to limit contingent liabilities. We have rescheduled the benchmarks and other unmet structural measures, with a new timetable clarifying interim steps to prevent new delays.

- Compliance of budgetary and accounting management of public agencies with LORF provisions (**structural benchmark as of end-March 2015, rescheduled for August 2016**) will be achieved through the following steps: (i) adoption of the implementing decree of the law on the governance of public enterprises by end-March 2016; and (ii) survey of public enterprises by end-June 2016, prior to alignment of their statutes (the port authority, OGP, the central pharmacy, the Sotragui, the SNAPE, the University Gamal Abdel Nasser of Conakry, the Mining Fund). Stakeholders affected by these new provisions should be gradually trained so as to ensure the effectiveness of the reform.
- To approve a timetable for clearing domestic arrears, differentiating arrears for the 2011–13 budget years from those for the 2005–10 budget years by end-September 2015 (**structural benchmark as of end-June 2015, rescheduled for April 2016**), on March 31, 2016 the government will validate the report from the consultant recruited with support from the French Development Agency in June 2015.

21. The other structural measures to be implemented in the area of public finance management include:

- Publication of the audit of public procurement contracts that benefited from central bank guarantees by end-August 2016. The conclusions of the report will help us formulate and adopt by end-July 2016 a plan to ensure the full enforcement of the new procurement code.
- Preparation of new budget documents in view of the transfer to the LORF environment by end-June 2016.
- Preparation of new directives for the production of the TOFE in line with the IMF's 2001 government financial statistics manual by end-June 2016.

- Production of management accounts and budget control laws for exceptional years (2005–10) based on Mali's example by end-May 2016.
- Effective implementation of the new VAT credit reimbursement mechanism and adoption by May 2016 of a multiyear program to repay arrears agreed upon with the mining companies.

22. Poverty Reduction Strategy (PRS): We will extend the new PRSP III of 2013–15 until 2017. This document's guidelines should be consistent with those of the next National Development Plan (NDP) and based on the conclusions of the 2013 and 2014 annual reports on implementation of the PRS III.

Civil service

23. We expect to advance the reform of the administration and civil service through the following actions:

- Adopt a civil service reform plan, based on the results of the biometric survey and the action plan for the program to reform the State and modernize the government (PREMA) (**structural benchmark at end-March 2015, rescheduled for August 2016**).
- Finalization of the Ongoing Physical Monitoring operation in all units by February 2016.
- Distribution of biometric cards to civil servants by April-May 2016, following installation of electronic tallying machines in the ministries in December 2015.
- Purging of registries (for retirees and contractual workers) by June 2016.
- Establishment of a permanent system of control of staffing, structures, and the enforcement of laws and regulations on the organization and operation of public service units and on human resource management (ongoing action).

Mining sector

24. We will finalize the environment for development of large mining projects as well as implementing regulations for the mining code. By end-May 2015 we will set up the Permanent Secretariat (SP) of the Technical Committee (CT) tasked with supporting the Interministerial Committee for the Monitoring of Integrated Mining Projects (CISPMI), the role of which is to facilitate and accelerate administrative procedures required for the effective and rapid implementation of these integrated mining projects. The Strategic Committee (CS) will approve a new timetable for completion of the work by end-March 2016. This timetable will also specify the resources required for its completion, which the budget will provide to the CT. The completion of the mining code's implementing regulations will take longer than anticipated. Our new timetable approved by the Technical Support Committee for the Council of Economic and Reform Coordination (CCER) anticipates completion by end-March 2016.

Energy sector

25. Our endeavors will focus on the smooth execution of our seven priority projects with the common objective of ensuring sustainable supply and the quality of electrical services. The main goal of the management contract negotiated for a period of four years is to improve the company's technical, commercial, and financial performance in line with the performance contract between the EDG and the government. To support the management contract, we will complete a rate study during the first half of 2016. However, given the increased production of electricity with the startup of the Kaleta dam, we will implement during the first half of 2016 a 25 percent rate increase, anticipated since 2013. For upcoming projects in the energy sector, including the Souapiti dam construction project, the government will communicate to the IMF any information relative to the financing and the construction of the projects.

PROGRAM FINANCING

26. The government considers the financing requirements of the 2016 program to be fully covered. The budget deficit has been reduced and kept to the level of available financing. Most financing will come from external sources, given reduced use of domestic financing. With all of the Paris Club and multilateral creditors having signed, the other partners could sign bilateral agreements for debt relief under the heavily indebted poor country (HIPC) initiative in the near future. In addition, the government held discussions on debt relief with non Paris Club official creditors. However, many of these have not yet responded to our requests for discussion. The government has also invited commercial creditors to open up discussions to clear arrears in line with the IMF's policy on lending into arrears, including through debt reduction, but several have not responded as yet. IMF disbursements under the ECF arrangement will cover residual balance of payment financing needs.

27. With technical assistance from the IMF, the World Bank, and the European Union, the government will adopt the following measures to strengthen debt management.

- The national government debt policy is expected to be adopted by the CCER by end- March 2016. AFRITAC assistance will also be mobilized to improve quality in the government's issuance of domestic debt securities.
- The medium-term debt strategy (MTDS) is expected to be complete before end-April 2016, with technical assistance from the IMF, the World Bank and the EU. The main objectives are to establish guidelines for future government financing operations by incorporating the measurement of costs and risks, and to develop the financial market. The strategy will include the introduction of medium-term instruments (2- and 3- year bonds by 2019) and an external debt policy based on concessional financing.

28. The government will continue to give priority to concessional external loans and grants. Consistent with the IMF's new policy on debt limits, the government has prepared an external borrowing plan for 2016 (Table 4). Under this debt plan, the government wishes, for the record, to sign up for the amount of US$780.1 million in 2016. The government reserves the right to revise this plan during the next ECF review**.**

PROGRAM MONITORING

29. The government will persevere with its efforts to upgrade the statistical system to ensure the regular production and supply of good quality statistical data. The national accounts for 2006 to 2011 were adopted and distributed in March 2015. The production of national accounts for 2012 (final version) and 2013 (provisional) is planned for end-March 2016 using 2010 as the base year. The government will request IMF technical assistance to develop a range of economic indicators to be monitored as part of the Status Report on the Economy, as well as a methodology for performing annual growth estimates using monthly indicators. Program monitoring will be continued by new committees planned in this context (*Conseil de Coordination Economique et des Réformes* CCER, Technical Support Committee, *Cellule Technique de Suivi des Programmes* CTSP), which are now operational.

30. The government requests waivers for the missed performance criteria at end-December 2014 on the central bank's net international reserves, and end-June 2015 on the basic fiscal balance, the net domestic assets of the central bank, the domestic bank financing of the government, the net international reserves of the central bank, as well as for the inobservance of the continuous performance criterion on new nonconcessional medium- or long-term external loans contracted or guaranteed by the government or the central bank**.** Our request for waivers is based on the measures we have taken to adjust our budget, reduce risks for the central bank's net international reserves by reforming the exchange rate determination mechanism and abandoning the gold purchase program, and our commitment to revise the central bank's statutes to explicitly prohibit the issuance of guarantees and to complete the structural reform program supported by the ECF program by the end of the third quarter of 2016.

31. We request the extension of the ECF arrangement to end-October 2016 and a re-phasing of the disbursements. We request the introduction of an eighth review of the program to evaluate performance in the implementation of the program during the first half of 2016. In this context, the extension of the ECF arrangement until end-October 2016 will allow the time necessary to proceed with the eighth review of the program.

32. The government requests a disbursement of SDR18.36 million under the ECF equivalent to 8.6 percent of our quota as part of the sixth and seventh reviews. We request rescheduling of the disbursement amount originally provided for the seventh review after approval of the eighth review of the program by the IMF Executive Board. Total IMF support in 2016 will reach US$52 million; it should cover approximately 22 percent of the financing requirement for 2016.

33. The program will be reviewed semiannually by the IMF Executive Board on the basis of quantitative performance criteria and indicators and structural benchmarks (Tables 1–3 attached). These indicators are defined in the attached Technical Memorandum of Understanding (TMU, Attachment II). The eighth program review, based on the performance criteria at end-June 2016 should be completed on or after August 15, 2016.

34. During the program period, the government undertakes to adopt, in consultation with IMF staff, any new financial or structural measures that may prove necessary for the program's success. The government undertakes to provide to the IMF all the information necessary for monitoring implementation of program measures and the achievement of program objectives.

Table 1. Guinea: Performance Criteria and Indicative Targets, ECF 2014–16[1]

(Billions of Guinean francs, unless otherwise indicated)

	2014				2015			
	Dec.				Mar.			
	PC	Adj. PC [1]	Act.	Status	Indicative Targets	Adj. IT	Act.	Status
Quantitative performance criteria								
Basic fiscal balance (floor; cumulative change for the year)	-2,628	-3,637	-3,070	Met	-773	-794	-619	Met
Net domestic assets of the central bank (ceiling; stock)	5,318	5,277	5,244	Met	4,048	3,997	5,667	Not Met
Net domestic bank financing of the government (ceiling; cumulative change for the year)	1,452	1,412	1,104	Met	394	344	341	Met
Net international reserves of the central bank (floor; stock); US$ million [2]	516	522	372	Not Met	482	493	292	Not Met
New non-concessional medium or long-term external debt contracted or guaranteed by the government or central bank (ceiling); US$ million [3, 4, 9]	80	80	40	Not Met [5]	80	80	119	Not Met [6]
Stock of outstanding short-term external debt contracted or guaranteed by the government or the central bank (ceiling); US$ million [4]	0	0	0	Met	0	0	0	Met
New external arrears (ceiling) [4]	0	0	0	Met	0	0	0	Met
Indicative targets								
Expenditure in priority sectors (floor) [8]	4,706	...	4,717	Met	1,252	...	1,268	Met
Memorandum items:								
New concessional external debt contracted or guaranteed by the government or central bank, cumulative US$ million	...	...	...		...	...	...	
Reserve money	7,830	...	8,521		6,620	...	8,764	
Net external assistance	1,003	...	2,012		196	...	300	
of which, Ebola-related grants and loans	595	...	763		...	...	99	
Change in the float	5	...	45		-38	...	13	

	2015							2016	
	Jun.				Sep.			Mar.	Jun.
	PC	Adj. PC	Act.	Status (Prel.)	Indicative Targets	Act.	Act. Status	Proposed IT	Proposed PC
Quantitative performance criteria									
Basic fiscal balance (floor; cumulative change for the year)	-1,276	-1,272	-1,373	Not Met	-2,101	-3,022	Not Met	-743	-682
Net domestic assets of the central bank (ceiling; stock)	4,628	4,536	6,604	Not Met	5,109	7,437	Not Met	7,414	7,329
Net domestic bank financing of the government (ceiling; cumulative change for the year)	794	702	996	Not Met	1,194	2,449	Not Met	-135	-186
Net international reserves of the central bank (floor; stock); US$ million [2]	419	417	157	Not Met	369	205	Not Met	248	256
New non-concessional medium or long-term external debt contracted or guaranteed by the government or central bank (ceiling); US$ million [3, 4, 9]	80	80	152	Not Met [7]	80	152	Not Met [7]	0	0
Stock of outstanding short-term external debt contracted or guaranteed by the government or the central bank (ceiling); US$ million [4]	0	0	0	Met	0	0	Met	0	0
New external arrears (ceiling) [4]	0	0	0	Met	0	0	Met	0	0
Indicative targets									
Expenditure in priority sectors (floor) [8]	2,616	2,616	2,121	Not Met	4,124	2,461	Not Met	1,252	2,849
Memorandum items:									
New concessional external debt contracted or guaranteed by the government or central bank, cumulative US$ million	...	...	...		...	...		780	780
Reserve money	6,760	...	8,787		6,889	8,857		9,016	9,072
Net external assistance	404	...	381		317	354		1,193	1,371
of which, Ebola-related grants and loans	...	...	259		...	268		...	...
Change in the float	-75	...	35		-113	290		-100	-147

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

[1] Definitions and adjustors are included in the Technical Memorandum of Understanding (TMU).

[2] Calculated using program exchange rates.

[3] External debt contracted or guaranteed other than with a grant element equivalent to 35 percent or more, calculated using a discount rate based on the OECD commercial interest rates. Excludes borrowing from the IMF.

[4] Continuous performance criterion.

[5] Corresponds to the issuance of the first tranche (EUR35 million) of a EUR65 million guarantee on a non-concessional loan for the Kankan-Kissidougou road project.

[6] Corresponds to the issuance of the first tranche (EUR35 million) of a EUR65 million guarantee on a non-concessional loan for the Kankan-Kissidougou road project and of a EUR79 million new debt to finance the Kaleta hydroelectric dam - Conakry transmission line project.

[7] Corresponds to the issuance of a EUR65 million guarantee on a non-concessional loan for the Kankan-Kissidougou road project and of the EUR79 million new debt to finance the Kaleta hydroelectric dam - Conakry transmission line project.

[8] Priority sectors include education, health, agriculture, energy, justice, social affairs, and public works (as defined in the TMU).

[9] The ceiling for 2014 is tied to new debt to finance the Kaleta hydroelectric dam - Conakry transmission line project.

Table 2. Guinea: Structural Benchmarks under the ECF-Supported Program, 2014			
Measure	**Date**	**Status of Execution**	**Macroeconomic Rationale**
Structural benchmarks			
Adopt the draft law on public entities to make it consistent with the new Budget Framework Law (LORF) and the General Regulations on Fiscal Management and Public Accounting (RGGBCP)	End-September 2014	Not met. Implemented on December 15, 2014	Limit the risks for the government budget and strengthen central control over external public debt
Transfer the accounts of autonomous public entities to the Treasury Single Account at the BCRG	End-September 2014.	Not met. Rescheduled	Ensure the integrity of the budget and improve cash management
Adopt and implement the recommendations of the study on the role of the SOGUIPAMI and its relationship with public administration	End-September 2014	Not met. Rescheduled	Keep the government's mining sector assets under government control, protect government revenues, and limit financial risks
Adopt, in consultation with donors, a new budget nomenclature, including a functional classification	End-September 2014	Not met. Implemented on October 9, 2014	Improve the monitoring of poverty reduction efforts.
Produce management and administrative government accounts for 2011–2013	End-December 2014	Not met. Only management accounts produced. Reformulated and rescheduled	Improve public financial management and transparency
Adopt a civil service reform plan, based on the results of the ongoing biometric survey and the action plan for the program to reform the State and modernize the government (Haut Commissariat à la Reforme de l'Etat et la Modernisation de l'Administration - HCREMA).	End-December 2014	Not met. Plans validated with the technical and financial partners and civil society in November 2014. Rescheduled	Restrain the wage bill and improve the productivity of public administration
Recruit a management partner for EDG with the assistance of the World Bank and the International Finance Corporation (IFC)	End-December 2014	Not met. Rescheduled	Improve power supply and reduce fiscal risks
Approve a timetable for clearing domestic payment arrears, distinguishing between arrears from budget years 2011–13 and those from 2005–10	End-December 2014	Not met. Rescheduled	Support the Guinean private sector and enhance government credibility

Table 3. Guinea: Prior Actions and Structural Benchmarks under the ECF-Supported Program, 2015–16

Measure	Date	Status of Execution	Macroeconomic Rationale
Prior Actions			
Submission to Parliament of a 2016 budget in line with the revised program	December 16, 2015	Met.	Ensure budgetary sustainability
Exclusion from the public payroll of all workers not identified in the context of the 2015 biometric census of public workers	December 21, 2015	Met. Ministerial decree 2015/6552/MFPREMA/IGAP/DNGC/DGCE	Ensure budget sustainability
Adoption of a package of revenue-enhancing measures with a revenue impact of at least 2 percent of GDP in 2016	Included in the 2016 budget	Met.	Ensure budgetary sustainability
Close the 2015 financing gap without increasing central bank advances and domestic arrears from their end-October 2015 level as per the letter of intent for the request for extension of the arrangement	End-December 2015	Met.	Preserve budgetary sustainability and the central bank's reserves
Implement the recommendations from the IMF (MCM) technical assistance mission of December 2015 to improve exchange rate flexibility	January 2016	Instruction BCRG 0056/DGCC/DCH/16 of January 4th, 2016	Strengthen the role of the market in exchange rate determination
Structural Benchmarks			
Adopt and implement the recommendations from the study on the role of the SOGUIPAMI and its relationship with public administration	End-February 2015	Met. Decree signed on February 12, 2015	Maintain control of the government's mining assets, protect government revenues, and limit financial risks
Bring budget and accounting management of government agencies benefiting from revenues allocated into compliance with the provisions of the LORF and the RGGBCP	End-March 2015	Not met. Rescheduled to August 2016	Ensure the integrity of the government's budget and improve its cash management
Adopt a civil service reform plan, based on the results of the ongoing biometric survey and the action plan for the program to reform the State and modernize government	End-March 2015	Not met. Rescheduled to August 2016	Restrain the wage bill and improve the productivity of public administration
Recruit a management partner for EDG with the assistance of the World Bank and the IFC	End-March 2015	Not met. Done on June 19, 2015	Improve power supply and reduce fiscal risk
Produce administrative accounts for 2011–13	End-April 2015	Not met. Done on December 17, 2015	Improve public financial management and transparency
Approve a timetable for clearing domestic payment arrears, distinguishing between arrears from budget years 2011–13 and budget years 2005–10	End-June 2015	Not met. Rescheduled to April 2016	Support the Guinean private sector and improve government credibility

Table 4. Guinea: Summary of External Borrowing Program, 2016[1]

	2016
	(Millions of U.S. Dollars)
Sources of debt financing	**780.3**
Concessional Debt[2]	**780.3**
Multilateral Debt	468.1
Bilateral Debt	312.2
Non-Concessional[3]	**0.0**
Use of amounts borrowed	**780.3**
Budgetary Assistance	32.0
Infrastructure (roads, bridges, etc)	270.4
Water and Energy	384.6
Agriculture	40.3
Social (education, health, etc)	43.0
Other	10.0

Source: Guinean authorities.

1/ New government loans contracted or guaranteed.

2/ Debt for which the grant element exceeds a floor of 35 percent.

3/ Debt with a positive grant element below the established floor.

Attachment II: Guinea: Technical Memorandum of Understanding

March 1, 2016

INTRODUCTION

1. **This memorandum of understanding sets out the understandings between the Guinean authorities and staff of the International Monetary Fund (IMF)** regarding the definitions of the quantitative performance criteria and indicative targets for the program supported under the ECF, as well as the nature of the data to be reported to the IMF.

2. **The quantitative performance criteria, indicative targets, and cut-off dates** are detailed in Table 1 of the Sixth Supplement to the Memorandum of Economic and Financial Policies.

KEY DEFINITIONS

3. **Unless otherwise indicated, the government is defined as the central government of the Republic of Guinea,** and does not include local governments, the Central Bank of the Republic of Guinea (BCRG), or any other public entity with autonomous legal personality, including administrative public entities (*établissements publics administratifs*).

A Quantitative Performance Criteria

4. **The basic fiscal balance is the difference between government revenue, excluding grants, and basic government expenditures.** Definitions of the bolded terms above are consistent with the definitions in the government fiscal operations table (TOFE), which are described in Section E below.

5. **Net domestic assets (NDA) of the BCRG are defined as the difference between reserve money (defined below) and net foreign assets (NFA) of the BCRG**. NFA are equal to the difference between the gross foreign assets of the BCRG, including foreign assets that are not part of reserve assets, and foreign liabilities of the BCRG (in other words, NDA = Reserve Money - NFA, based on the BCRG balance sheet).

6. **Domestic bank financing of the government, or net domestic bank credit to the government from banks, comprises**: (i) central bank financing of the Treasury, that is, the change in the net position of the Treasury with the central bank (NTP1), including the C2D account, the accounts for exceptional resources, such as the Special Investment Fund (SIF) and the accounts opened in the name of the National Coordination against the Ebola Epidemic, but excluding changes in the net position of "satellite" government accounts with the central bank (PNT2); and ii) commercial bank financing of the Treasury, which includes changes in the stock of Treasury bills held by banks, but excludes changes in the net position of "satellite" government accounts held in commercial banks.

7. Net international reserves (NIR) of the BCRG are, by definition, equal to the difference between the reserve assets of the BCRG (that is, the external assets readily available to and controlled by the BCRG in accordance with the sixth edition of the IMF's Balance of Payments Manual) and the foreign exchange liabilities of the BCRG to residents and nonresidents (including the foreign exchange deposits of the local banks with the BCRG and off-balance-sheet liabilities). The foreign exchange liabilities do not include long-term liabilities, such as SDR allocations. In the context of the program, the gold holdings of the BCRG will be valued at the price of gold in effect on December 30, 2015 (US$1,060.0000 per ounce) for the first half of 2016, and on June 30, 2016 for the second half of 2016. For the test dates, the U.S. dollar value of the other reserve assets and foreign exchange liabilities will be calculated using the program exchange rates in effect, namely: for the first half of 2016, the exchange rates in effect on December 31, 2015 between the U.S. dollar and the Guinean franc (GNF8,003.7445/US$), the SDR (US$1.38573/SDR), the euro (US$1.0887/EUR), and other countries as published in *International Financial Statistics*; for the second half of 2016, the exchange rates in effect on June 30, 2016 between the currencies published in *International Financial Statistics*.

8. Medium- and long-term external debt contracted or guaranteed by the government or the central bank is defined as the amount of external debt (see subsection C below) contracted by the government or the central bank for a period of one year or more during the period under review. A debt is considered concessional if its grant element is at least 35 percent of the net present value (NPV). The NPV of the debt is calculated with a discount of 5 percent.[1] This definition does not apply to financing granted by the IMF.

9. Short-term external debt contracted or guaranteed by the government or the central bank is defined as the stock as of a specific date of external debt contracted or guaranteed by the government or the central bank with an initial contractual maturity of less than one year. Excluded from this definition for the purposes of the program are normal import-related suppliers' credits and foreign currency deposits at the central bank.

10. New external arrears of the government or the BCRG include all external 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 obligation that has not been paid within 30 days after falling due is considered as a "program" arrear. Arrears not to be considered arrears for the performance criteria, or "non-program" arrears, are defined as: (i) arrears accumulated on the service of an external debt for which there is a request for rescheduling or restructuring; and/or (ii) the amounts subject to litigation which are not considered as arrears for the performance criteria. They are defined as "non-program" arrears.

11. The float is the flow of expenditures accepted by the Treasury but that are not yet paid. The net change in the float is the difference between the accumulation and the payments.

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

B. Indicative Targets and Memorandum Items

12. Expenditure in priority sectors, an indicative target for the program, **includes** spending under Title 2 (wages and salaries), Title 3 (goods and services), Title 4 (transfers and subsidies), and Title 5 (domestically financed investment) by the Ministries of (i) Justice; (ii) Agriculture; (iii) Fisheries and Aquaculture; (iv) Livestock; (v) Public Works and Transport; (vi) Urban Planning, Housing, and Construction; (vii) Health and Public Hygiene; (viii) Social Affairs, Advancement of Women, and Children; (ix) Pre-University Instruction and Civic Education; (x) Labor, Technical Education, and Vocational Training; (xi) Higher Education and Scientific Research; (xii) Literacy and Promotion of National Languages; and (xiii) Energy and Environment. This expenditure also includes spending under Title 6 (financial investment and capital transfers) by the Ministry of Health and Public Hygiene as well as utility charges for water, electricity, and telephone (Title 3) of all these ministries. However, they exclude spending under Title 4 (transfers and subsidies) of the Ministry of Higher Education and Scientific Research.

13. Reserve money comprises: (i) deposits from local banks and the private sector at the BCRG (including bank reserve requirements) denominated both in Guinean francs and in foreign currencies; (ii) Guinean francs in circulation; and (iii) Guinean francs in the vaults of local banks. The amounts in foreign currencies will be converted to Guinean francs at the program exchange rate (as defined above in the paragraph on net international reserves).

C External Debt

14. The term "external debt" is understood as specified in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt in the IMF agreements.[2] External debt is defined on the basis of the residence of the creditor. For purposes of the program, "debt" will be understood to mean current, that is, not contingent, liabilities, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments designed to cover the amortization and/ or interest resulting from the contract will release the obligor from principal or interest liabilities incurred under the contract. External debt may take a number of forms, primarily:

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

[2] See "Guidelines on Performance Criteria with Respect to Foreign Debt in the IMF agreements" approved by IMF Executive Board Decision No. 6230-(79/140), as amended, including by Executive Board Decision No. 14416-(09/91), with effect from December 1, 2009.

- suppliers' credits, that is, contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and
- leases, that is, arrangements giving the lessee the right to use the property for periods of time that are generally shorter than the total expected service life of the property, without transfer of ownership, while the lessor retains title to the property. For the purposes of this directive, 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 payment necessary to cover the operation, repair, or maintenance of the property.

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

16. The government and the central bank agree not to contract or guarantee any nonconcessional external debt on the terms defined in paragraphs 8 and 9 above, with the exception of debt in the form of rescheduling and those specified in paragraph 17 below. To this end, the government undertakes to consult with IMF staff on the terms and concessionality of all proposed new loan agreements before contracting or guaranteeing any external debt.

17. The performance criterion relating to new nonconcessional medium-term external debts includes a provision in 2014 for the financing of a project for the expansion, rehabilitation, and modernization of the electricity network between the site of the Kaleta hydroelectric dam and the city of Conakry. The amount stipulated under this provision is US$80 million. The government will inform Fund staff in advance before contracting a loan to finance this project and will provide details on the loan terms as well as a summary of this project to be financed and its profitability, including an independent assessment.

D Adjustments to Program Performance Criteria

18. The program's quantitative targets are calculated on the basis of projected amounts of (1) net external assistance; (2) the net change in "program" arrears; and (3) the net change in the float. For program purposes, net external assistance is defined as the difference between:
(a) cumulative budgetary assistance (grants and loans), the impact of debt relief granted by external creditors, and the net change in "non-program" arrears; and (b) cumulative payments of external debt service due after relief, for loans on which debt relief is secured. The net change in "program" arrears represents the cumulative "program arrears" in respect of the current debt maturity dates, less the cumulative cash payments to pay down these arrears.

Guinea: External Assistance, "Program" Arrears, Exceptional Mining Revenue, and Float, 2014–16

(Billions of Guinean francs, cumulative from the beginning of the fiscal year)

	2014			2015								2016
	Dec.			Mar.		Jun.		Sep.		Dec.		Dec.
	Prog.	Act.	Diff.	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Est.	Proj.
Net external assistance [1]	1,003	2,012	1,009	196	300	404	381	317	354	143	460	555
Budget support	993	1,676	682	298	270	668	358	668	358	668	358	1,426
Grants	720	845	125	298	0	668	89	668	89	668	89	813
Loans	273	830	557	0	270	0	270	0	270	0	270	613
Ebola-related grants and loans	595	763	168	…	99	…	259	…	268	…	423	0
External debt service	-596	-511	85	-101	-76	-264	-243	-350	-317	-524	-497	-871
Interest	-104	-92	12	-47	-39	-66	-54	-110	-110	-128	-109	-318
Principal	-492	-419	74	-54	-37	-198	-189	-240	-207	-396	-388	-553
Net change in non-program arrears and debt relief	11	85	74	0	7	0	7	0	45	0	175	0
Net change in non-program arrears	-878	52	930	-57	7	-57	5	-57	43	-1,079	79	-811
Debt relief	889	33	-856	57	0	57	2	57	2	1,079	96	811
Program arrears	0	0	0	0	0	0	0	0	0	0	0	0
Exceptional mining revenue	435	0	-435	0	0	0	0	0	0	560	0	0
Change in the float	5	45	40	-38	13	-75	35	-113	290	-150	296	-147

Sources: Guinean authorities and IMF staff calculations.

[1] For 2014 corrected for an incorrect sign on interest payments at the time of the RCF request.

19. The floor for NIR, the ceilings on NDA of the BCRG and bank financing of the government, and the floor for the basic fiscal balance will be adjusted if net external assistance, the net change in "program" arrears, exceptional mining revenues, and/or the net change in the float differ from the projected amounts.[3]

20. Adjustments for net external assistance:

- *If net external assistance exceeds program forecasts*, the floor for the basic fiscal balance will be adjusted downward by an amount equal to the surplus external assistance (allowing the entire surplus to be used for supplementary expenditures). The floor for NIR and the ceilings on NDA of the BCRG and bank financing of the government will not be adjusted.
- *If net external assistance is below program forecasts*, the floor on NIR will be adjusted downward by 80 percent of the shortfall, and the ceilings for NDA of the BCRG and bank financing of the government will be adjusted upward by 80 percent of the shortfall. The floor for the basic fiscal balance will be adjusted upward by 20 percent of the shortfall (requiring a fiscal adjustment equivalent to 20 percent of the shortfall).

21. Adjustments related to the net change in "program" arrears:

- *If the net change in "program" arrears exceeds program projections,* the floor for NIR will be adjusted upward by an amount equal to the surplus net change in arrears. The ceilings on NDA of the BCRG and bank financing of the government will be adjusted downward by an amount equal to the surplus net change in arrears. The floor for the basic fiscal balance will not be adjusted.

[3] Any surpluses or shortfalls will be calculated using the program exchange rate.

- *If the net change in "program" arrears is below program projections,* the floor on NIR will be adjusted downward by 80 percent of the difference, and the ceilings for NDA of the BCRG and bank financing of the government will be adjusted upward by 80 percent of the difference. The floor for the basic fiscal balance will be adjusted upward by 20 percent of the difference (requiring a fiscal adjustment equivalent to 20 percent of the difference).

22. Adjustments related to the net change in the float:

- *In the event that the net change in the float exceeds the projected amounts under the program,* the ceilings on NDA of the BCRG and bank financing of the government will be adjusted downward by an amount equal to the excess.

E. Definitions for the TOFE

23. Government revenue includes tax and nontax revenues. It does not include external grants, the proceeds from privatizations, or exceptional mining revenues (the latter two being recorded as financing by agreement of the parties). Tax and nontax revenues are defined, on a cash basis, in accordance with Section IV.A.I of the 1986 edition of the IMF's *Government Finance Statistics Manual (GFS)*, using the following categories. For tax revenue, the main categories are taxes on income, profit, and dividends (Title 1); taxes on property (Title 2); taxes on international trade (Title 3), including import duties, export duties (*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 business tax (TAF), the tax on telecommunications, taxes on petroleum products, and export taxes on mining products, including taxes on mining products, taxes on diamonds, and the tax on precious metals. Other tax revenues (Title 5) include stamp taxes and registration fees. Tax receipts also include the taxes borne by the government for the purchase of externally financed capital goods. Nontax revenue consists of royalties and dividends (excluding revenue from the sale of telephone licenses), administrative duties and fees, and fines and forfeitures (Title 6), other nontax revenue (Title 7), including incidental revenues, and capital revenues (Title 8). Capital revenues include the proceeds from the sale of government assets, but exclude privatization proceeds.

24. Government expenditure is measured at the stage of acceptance by the Treasury, regardless of the execution procedure followed. In the case of both the regular procedure and simplified procedures, expenditures are accepted by the Treasury immediately after the payment order is issued. In the case of delegated spending authority or payments without prior issuance of a payment authorization, the Treasury accepts the expenditure at the time that payment is ordered and in such cases no expenditure is recorded on the basis of the adjusting payment orders (*mandatements de régularisation*) when the adjustment to a payment order basis is done. Government expenditure includes all expenditure of the central government, including subsidies and transfers to autonomous public entities, and loans granted or on-lent by the government to public enterprises and other sectors of the economy, net of repayments on such loans.

25. Basic expenditures is defined as total fiscal expenditure, less expenditures on interest on the external debt and expenditure financed by external grants or loans or by counterpart funds.

26. External financing comprises: (i) disbursements of external loans; (ii) principal owed on government external debt net of amortization; (iii) relief and rescheduling of government external debt; and (iv) the net change in external arrears (interest and principal, to be shown separately).

F. Data to be Reported for Program Monitoring Purposes

27. The information on implementation and/or execution of the structural benchmarks under the program (as specified in Table 5 of the Supplement) will be reported to the IMF's African Department within two weeks of the planned date of their collection and/or implementation. The status of the implementation of other structural measures included in the program will be transmitted within 30 days of the end of each month.

28. The authorities will report the information summarized in Table 1 below to the IMF's African Department by the deadlines set in this table. Except as otherwise indicated, the data take the form discussed between the authorities and the IMF. The authorities undertake to supply any additional information requested by Fund staff for program monitoring purposes.

Table 1. Guinea: Data to be Reported for Program Monitoring			
Type of data	**Table/Report**	**Frequency**	**Deadline**
Financial and monetary data	Central bank balance sheet, consolidated commercial bank balance sheet, monetary survey (at the current exchange rate as well as at the program exchange rate)	Monthly	30th of the month for previous month's data
	Detailed net treasury position (NTP) and net government position (NGP)	Monthly	30th of the month for previous month's data
	Interest rates and stock of government and central bank securities (BDT and TRM)	Monthly	30th of the month for previous month's data
	Prudential indicators for commercial banks	Quarterly	One month after the end of the quarter
	Foreign exchange budget	Monthly	30th of the month for previous month's data
Fiscal data	Status report, including a detailed statement of revenue, expenditure, and cash flow operations	Monthly	30th of the month for previous month's data
	Monthly report of the high-level committee on budgetary revenue monitoring	Monthly	15th of the month for previous month's data
	General Treasury balances	Monthly	30th of the month for previous month's data
	Cash flow plan	Monthly	30th of the month for previous month's data
	Government Fiscal Operations Table (TOFE)	Monthly	30th of the month for previous month's data
	Use of exceptional mining revenues	Quarterly	30th of the month after the end of the quarter
	Execution of budgetary expenditures from HIPC resources and other priority expenditures	Monthly	30th of the month for previous month's data
	Balance of current expenditures, VAT credits to be refunded, and domestic debt arrears	Monthly	30th of the month for previous month's data
	Nonbank financing, indicating operations in Guinean francs and those in foreign currencies	Monthly	30th of the month for previous month's data

Table 1. Guinea: Data to be Reported for Program Monitoring (continued)

Type of data	Table/Report	Frequency	Deadline
Real sector data and prices	Consumer price index, Conakry	Monthly	30th of the month for previous month's data
	National accounts	Annual	Summary estimates: three months after the end of the year
Balance of payments data	Imports by use and exports by major products, trade balance	Quarterly	Three months after the end of the quarter
	Price and volume indices of imports and exports	Quarterly	Three months after the end of the quarter
	Consolidated balance of payments estimates	Annual	Summary estimates: six months after the end of the year
External debt	Debt service due before and after debt relief	Monthly	30th of the month for previous month's data
	Debt service paid	Monthly	30th of the month for previous month's data
	Debt service reconciliation table.	Monthly	30th of the month for previous month's data
	End-of-month outstanding debt and stock of daily debt service outstanding (after relief) and unpaid, stock of daily arrears according to the program definition	Monthly	30th of the month for previous month's data
	Drawings on new loans	Monthly	30th of the month for previous month's data.
External grants and loans	Disbursements	Quarterly	30th of the last month of the quarter for previous quarter's data

INTERNATIONAL MONETARY FUND

GUINEA

March 3, 2016

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

Prepared By

African Department
(In Consultation with Other Departments)

CONTENTS

RELATIONS WITH THE FUND

(As of January 31, 2016)

Membership Status: Joined: September 28, 1963 Article VIII

General Resources Account:	**SDR Million**	**%Quota**
Quota	107.10	100.00
Fund holdings of currency	107.03	99.93
Reserve Tranche Position	0.08	0.07

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	102.47	100.00
Holdings	145.48	141.98

Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
RCF Loans	26.78	25.00
ECF Arrangements	116.02	108.33

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Feb 24, 2012	Dec 31, 2015	173.66	136.94
ECF [1/]	Dec 21, 2007	Dec 20, 2010	69.62	24.48
ECF [1/]	May 02, 2001	May 01, 2004	64.26	25.70

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

	Forthcoming				
	2016	2017	2018	2019	2(
Principal				0.00	28.
Charges/Interest	0.00	0.00	0.00	0.29	0
Total	0.00	0.00	0.00	3.24	28

Implementation of HIPC Initiative:

	Enhanced
I. Commitment of HIPC assistance	Framework
Decision point date	Dec 2000
Assistance committed	
by all creditors (US$ Million)[3/]	639.00
Of which: IMF assistance (US$ million)	36.01
(SDR equivalent in millions)	27.80
Completion point date	Sep 2012
II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	27.80
Interim assistance	11.30
Completion point balance	16.49
Additional disbursement of interest income[4/]	7.45
Total disbursements	35.25

[1] Formerly PRGF.

[2] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

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

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

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

Implementation of Catastrophe Containment and Relief (CCR):

Date of Catastrophe	Board Decision Date	Amount Committed (SDR million)	Amount Disbursed (SDR million)
N/A	Mar 18, 2015	21.42	21.42

Decision point: Point at which the IMF and the World Bank determine whether a country qualifies for assistance under the HIPC Initiative and decide on the amount of assistance to be committed.

Interim assistance: Amount disbursed to a country during the period between decision and completion points, up to 20 percent annually and 60 percent in total of the assistance committed at the decision point (or 25 percent and 75 percent, respectively, in exceptional circumstances).

Completion point: Point at which a country receives the remaining balance of its assistance committed at the decision point, together with an additional disbursement of interest income as defined in footnote 2 above. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

Safeguards Assessment

An update of the 2012 Safeguards Assessment of the Central Bank of the Republic of Guinea (BCRG) is currently underway in the context of the RCF approved in September 2014. The 2012 assessment found that risks of misuse and misreporting remained high. To mitigate risks to the program, staff proposed, inter alia, that: (i) the Board of the BCRG approve an investment policy and guidelines for the management of international reserves (approved on June 13, 2014 as a Prior Action for the 4th Review of the ECF); (ii) external auditors continue to verify monetary data; (iii) the BCRG publish audited annual financial statements within statutory deadlines; and (iv) the BCRG adopt and implement internationally-recognized financial reporting standards. These measures are needed in the short run, but equally important are steps to exercise better oversight on controls and to strengthen the autonomy of the central bank. The BCRG is working towards the implementation of these and other Safeguards Assessment recommendations.

Exchange Rate Arrangement

Guinea's exchange rate arrangement is classified as a managed float system with no predetermined path, after an interruption of the system during 2009–10; the *de facto* arrangement is classified as *other managed* as of February 5, 2016. The system includes a multiple currency practice as the value of the official rate lags the weighted average commercial bank rate on which it is based by one day. The Central Bank of the Republic of Guinea (BCRG) intervenes twice a week through a multi-price foreign exchange auction market with active commercial banks. The BCRG regularly publishes information regarding foreign exchange market interventions.

Article IV Consultation

The last Article IV consultation was concluded by the Executive Board on February 24, 2012.

Technical Assistance 2011–16

Calendar Year 2011

Provider	Main topic	Dates
AFW	Needs assessment (fiscal, real, financial sectors)	Feb 2011
Fiscal affairs		
FAD	Stocktaking and update of PFM strategy	Apr-May 2011
AFW	PFM capacity building	April 2011
AFW	Revenue Administration	April 2011
FAD	Diagnostic Revenue Administration	May 2011
AFW	PFM capacity building	May 2011
AFW	Customs administration	May 2011
AFW	Tax arrears management and other tax administration issues	May-June 2011
FAD	PFM: Budget Execution	Aug-Sep 2011
AFW	PFM: Chart of public accounts implementation	Sep 2011
AFW	Customs: strengthening of human resources management	Oct 2011
FAD	Tax policy: general and mining	Oct 2011
AFW	Public Debt	Oct-Nov 2011
AFW	Tax arrears and other tax administration issues	Nov 2011
AFW	PFM capacity building	Nov 2011
FAD	PFM: legal framework, installation of resident advisor	Nov-Dec 2011
FAD	FAD resident advisor to the Treasury	Dec 2011-Mar 2013
Monetary and Capital Markets		
AFW	Banking supervision	Feb 2011
AFW	Banking supervision	Mar-Apr 2011
MCM	Foreign Exchange Management	Jul 2011
AFW	Banking supervision and regulation	Oct-Nov 2011
Statistics		
AFW	National accounts	Feb 2011
AFW	Public finance statistics	Mar 2011
AFW	National accounts	Apr 2011
AFW	Real Sector Statistics/Assistance with 1993 SNA implementation	Jul 2011
AFW	Real Sector Statistics/National Accounts implementation	Dec 2011

Source: IMF staff.

Calendar Year 2012

Provider	Main topic	Dates
Fiscal affairs		
FAD	Government accounting, chart of accounts, budget organic law.	February 2-15, 2012
FAD	Mining and General tax policy	February 9-10, 2012
FAD	Cash management plan, Treasury Single Account, commitment plan, budget organic law, chart of accounts.	March 3-15, 2012
FAD	Mining tax policy	April - May 2012
AFW	Treasury management	May - June 2012
AFW	Customs administration	June 14-25, 2012
FAD	Legal framework of public financial management	June - July, 2012
FAD	Mining tax policy	July 1-14, 2012
FAD	Mining tax policy	September 1-10, 2012
FAD	Agreement on central bank advances	September 3-14, 2012
FAD	Legal framework of public financial management	October 1-15, 2012
FAD	Public expenditure	October 1-14, 2012
AFW	Customs administration	November 14-23, 2012
FAD	Public expenditure	December 1-21, 2012
AFW	Tax administration	December 12-23, 2012
FAD	Public financial management (resident advisor)	2012-2013
Legal		
LEG	Legal drafting assistance on mining taxation	August 30-September 11, 2012
Monetary and Capital Markets		
AFW	Bank Supervision and Regulation	January 2012
MCM	Central Banking (resident advisor)	Feb 2012-Feb 2013
AFW	Bank Supervision and Regulation	February 2012
AFW	Bank Supervision and Regulation	March 2012
AFW	Bank Supervision and Regulation	September 2012
AFW	Bank Supervision	Oct-Nov 2012
Statistics		
AFW	Real sector statistics, national accounts	Feb-Mar 2012
STA	Balance of payments	Mar-Apr 2012
AFW	National accounts	September 2012
STA	Migration to GFSM 2001	September 2012
AFW	National accounts	November 2012

Source: IMF staff.

Calendar Year 2013

Provider	Main topic	Dates
Fiscal Affairs		
FAD	Manual on budget execution (1/2)	January 28-February 15, 2013
FAD	Budget preparation framework (1/2)	January 29-February 1, 2013
FAD	TSA implementation (follow up)	February 6-15, 2013
FAD	Budget preparation framework (2/2)	March 4-8, 2013
FAD	PEFA assessment	March 20-April 3, 2013
FAD	Extrabudgetary entities framework	April 29-May 3, 2013
FAD	Manual on budget execution (2/2)	April 15-26, 2013
FAD	Public financial management	April 8-19
FAD	PEFA dissemination and reform strategy	May 15-22, 2013
FAD	Tax administration	June 17- 28, 203
FAD	Public financial management	September 2-13, 2013
FAD	VAT credit refund in the mining sector	November 18-22, 2013
FAD	Customs Administration	December 9-13, 2013
FAD	Public financial management	December 9-20, 2014
FAD	Public financial management (Resident advisor)	2013
Money and Capital Markets		
AFW	Bank Supervision and Regulation in Guinea	February 4-22, 2013
AFW	Analysis of Debt Portfolio	April 8-19, 2013
AFW	Bank Supervision	May 13-24, 2013
AFW	Bank Supervision	December 1-13, 2013
AFW	Bank Supervision and Regulation in Guinea	December 2-13, 2013
MCM	Central Banking (Resident advisor)	2013
Legal		
LEG	Central Banking Legislation	March, 2013
Statistics		
AFW	Migration to GFSM 2001	April 8-19, 2013
AFW	National accounts	May 13-24, 2013
AFW	Government finance statistics	May 22-31, 2013

Source: IMF staff.

Calendar Year 2014

Provider	Main Topic	Dates
Fiscal Affairs		
FAD	Fiscal forecasting and budgeting	February 10-24, 2014
FAD	VAT refund mechanisms for the mining sector and PFM governance	January 29 - February 6, 2014
Monetary and Capital Markets		
MCM	Reserve Management	January 30 - February 7, 2014
AFW	Bank Supervision	March 3-14, 2014
MCM	Central Banking Resident Advisor	2013 - 2014
Statistics		
AFW	National Accounts	January 6-17, 2014
STA	Financial Soundness Indicators	April 14-18, 2014

Source: IMF Staff

Calendar Year 2015

Provider	Main Topic	Dates
Fiscal Affairs		
FAD	PFM Strategy and MT Framework	February 3 - 12, 2015
FAD	Budget Classification	February 16 - 25, 2015
FAD	Fiscal Governance of Parastatals and Natural Resources	February 3 - 10, 2015
FAD	JSA7 Project Inception	June 3 - 16, 2015
AFW	PFM Strategy	July 27 - August 7, 2015
AFW	Tax Administration	September 21 - October 2, 2015
Monetary and Capital Markets		
AFW	Bank Supervision	June 1 -12, 2015
AFW	Bank Supervision	November 11 - December 4, 2015
MCM	FX Market Development and Liquidity Management	November 30 - December 10, 2015
Statistics		
AFW	Government Finance Statistics	November 14 - 25, 2015

Source: IMF Staff

Calendar Year 2016

Provider	Main Topic	Dates
Fiscal Affairs		
FAD	Natural Resource Management	January 13 - 26, 2016
FAD	SOEs and Fiscal Risks	January 13 - 24, 2016
FAD	Revenue Administration	March 1 - 14, 2016 [1]
AFW	PFM Resident Advisor	March 3 - 18, 2016 [1]
FAD	Natural Resource Management	March 3 - 18, 2016 [1]
FAD	Natural Resource Management	April 4 - 10, 2016 [1]
AFW	Customs	April 18 - , 2016 [1]
FAD	PFM Resident Advisor	2016 -2017
Monetary and Capital Markets		
AFW	Debt Management	February 2 - March 4, 2016
MCM	Monetary and FX Operations	March 9 - 22, 2016
AFW	Bank Supervision	March 14 - 25, 2016
Statistics		
AFW	National Accounts Compilation	February 2 - 19, 2016
AFW	Government Finance Statistics	March 14 - 18, 2016

Source: IMF Staff

[1] Planned.

JOINT WORLD BANK-FUND MATRIX

(As of February 2016)

Title	Products	Expected delivery date
World Bank work program in the next 12 months	**Operations**:	
	Mineral Advisory Facility	Ongoing
	Social Safety Nets Project	Q2 2016
	Health Services Project	Q2 2016
	Budget Support Lending (DPO)	Q2 2016
	Economic and Sector Work:	
	Public Expenditure Review (revenue mobilization, public investment management, state-owned enterprises, domestic debt)	Q2 2016
	Mobile Phone Survey of Socio-Economic Impact of Ebola	Q1 2016
	Technical assistance/other analytical:	
	Boosting budget execution	Ongoing
	Economic and Poverty Monitoring	Ongoing
	Support on EITI implementation	Ongoing
IMF work program in the next 12 months	**Program**:	
	Sixth and Seventh reviews under the ECF	March 2016
	Article IV Consultation	June 2016
	Eight review under the ECF	September 2016
	Technical Assistance:	
	Mining and general tax policy	Ongoing
	Public financial management	Ongoing
	Monetary and exchange rate policy	Ongoing
	Banking supervision	Ongoing
	National and fiscal accounts, balance of payments	Ongoing
Fund requests to the Bank	Audit of public investment projects Assessment of the electricity reform plan and budgetary implications Update of poverty analysis Assessment of the major project to build a dam using a PPP framework Assessment of reforms in agriculture and the budget implications Information sharing on the financing of the large iron ore project	Ongoing Ongoing Ongoing Ongoing Ongoing
Bank requests to Fund	Regular updates on macro-economic and fiscal projections Consultations on program structural benchmarks Surveillance of fiscal impact of mining sector reforms	Ongoing Ongoing Ongoing
Joint Bank-Fund products	Debt Sustainability Analysis Joint Bank-Fund Support for Medium-Term Debt Strategy	Q1 2016 Q3 2016

RELATIONS WITH THE AFRICAN DEVELOPMENT BANK, 2011–15

(As of February 2016)

1. The Bank's Country Strategy Paper (CSP) 2012–16, approved by the Board on March 1, 2012, focuses on two pillars: (i) economic and financial governance, and (ii) infrastructure for development. Under the first pillar, the Bank will assist in building public financial management capacity, improving governance in the extractive sector and strengthening the central government's budget. Under the second pillar, the Bank will contribute to reducing the power generation gap and further developing transport infrastructure. The mid-term review of the CSP, which was delayed due to the Ebola crisis, started during the second half of February 2016. This provided an opportunity for dialogue on the Bank's support to Guinea through the implementation of the PRSP, taking into account the fight against Ebola, the socio-economic recovery process, and outcomes of the Abu Dhabi Conference for the period 2015 to 2017. The Bank and Guinea's authorities agreed to extend the end of the CSP from 2016 to 2017 and to maintain the two pillars. They agreed also that the Bank will support the development of the agricultural sector and the value chain program Guinea intends to develop in the coming months, targeting sector reforms (including land reform), entrepreneurship and business management (including youth), and financing (credit and guarantees).

2. Lending operations: During the donor and investment conference in Abu Dhabi, AfDB announced UA 163 million ($250 million) additional resources in targeted support to the country's development program during the 2014–16 period through the mobilisation of all its financial and technical assistance instruments/vehicles. In 2017, the Bank will conduct in close coordination with the IMF a Debt Sustainability Analysis to assess whether Guinea can access the Bank's ADB window to finance key infrastructure projects. The 2017 Indicative Operational Program (IOP) will be fully financed in 2017 if the analysis results in increased access to the ADB window.

3. In the governance sector, the Bank has already approved a budget support allocation of UA20 million in 2011 and support of UA 2.5 million through the Fragile State Facility (FSF). In addition, the Bank restructured some non-performing projects and reallocated UA 7.5 million to an economic governance project in 2011. This was to improve the country's public finance management while supporting the reforms aimed at enhancing governance, especially in the extractive sector. The FSF support also covers public administration capacity building, particularly in statistics and strategic planning. At the end of 2013 the Bank approved an institutional support project of UA 11.4 million focused on improving governance in mining contract management and on enhancing public investment and project management. A budget support operation (UA 12 million) targeting the private sector environment and PPPs frameworks, governance (mining, PFM, and public investment management) was approved by the board in end-June 2014 and UA 6.39 million was disbursed end-December 2014. The Bank intends to submit to board approval by end-June 2016 an urgent budget support operation (UA 10.5 million) targeting public financial management and the business climate. In addition, the Bank intends to submit for Board approval a capacity building project aimed at scaling-up and enhancing the government capacity to manage the Simandou Mining project (mining one stop shop, local content policy, communities, etc.). By end 2016 the Bank will support two small dedicated capacity building operations targeting: (i) budget management for UA 2 million (revenue generation and fiscal space); and (ii) Central Bank (BCRG) for UA 2 million. The Agricultural project the Bank intends to support in 2017 for at least UA 10 million at the beginning of the program will target the governance of the sector, entrepreneurship (including youth), and financing issues (credit and guarantees).

4. **In the energy sub-sector**, two projects were signed at the end of 2013 and began implementation in 2014. The first project is the second Conakry Electrical Networks Rehabilitation and Extension Project (PREREC.2) for UA 11 million. The second project is the Côte d'Ivoire-Liberia- Sierra Leone-Guinea power regional interconnection project for UA 40.2 million that will see the construction of 1,360 km of 225 kV transmission lines and 12 sub-stations. In 2015, the Bank approved the financing the interconnection project of the Gambia River Basin Development Organization (OMVG) involving the construction of a dam and a 240 MW hydro-power plant at Kaleta already financed by the government with a loan from China. Implementation of these three projects will result in: (i) an increase in the average electricity access rate; (ii) a reduction in the kWh generating cost; (iii) a reduction in the number of power outages; (iv) the creation of temporary and permanent jobs; and (v) a reduction in greenhouse gas emissions. Contingent on the resource mobilisation strategy, the Bank is working on financing for the Guinee-Mali interconnection project, which could be submitted to the Board approval in 2017.

5. **In the transport sub-sector**, the Board approved in December 2014 the road development and Transport Facilitation Programme within the MRU including the road Danané (Côte d'Ivoire)-Frontier of Guinea and from the frontier to N'zoo-Lola (Guinea). This road is part of a regional project including these key roads: Zantiébougou-Kolondiéba-Kadiana-Frontier of Côte d'Ivoire (140 km) linking Bamako to Abidjan and San-Pédro through the axe Tengréla-Boundiali-Séguéla-Daloa; and Duekoué-Guiglo-Bloléquin-Toulepleu-Frontier of Liberia. These roads are part of the Transafrican Dakar-Abidjan-Lagos road. The Bank intends also to co-finance in 2017 with the European Union a road program including the Coyah-Farmoriah-Pamelap road towards Sierra Leone, the Boké (Guinea)-Quebo (Guinea-Bissau) road, which is part of the ECOWAS Regional Transport Programme, and the feasibility studies for the Kankan-Mandiana-Odiene road. Because of their integrative role, construction of these roads is in line with the New Partnership for Africa's Development (NEPAD) Short-Term Action Plan, whose core objective is to have interstate roads without any impediment to the free movement of goods and persons.

6. **Support to private sector operations.** During the 2014–17 period, the Bank will support specific private sector operations with high and transformative impact. At the request of the government, AfDB envisages to contribute to efforts to mobilise resources for financing the infrastructure part of the Simandou mining project. In this regard, AfDB intends to provide an A loan of about UA 200 million equivalent to about USD 300 million which will leverage at least a USD 700 million billion loan. Africa50 will also contribute to the financing of this project at a later stage. AfDB intends to provide an A loan of about USD 100 million for financing part of the Global Alumina Bauxite project. AfDB will also support capacity building and provide technical assistance in order to allow the government to fulfil its commitment pertaining to the implementation of the Simandou project.

7. Non-lending operations: To deepen the analysis and understanding of the country's main challenges and fuel strategic reflexion, the Bank will help the government finalize in 2015, and in collaboration with UNDP, an economic and sector works (ESWs) on (i) private sector profile and (ii) local taxation. The Bank will enhance its dialogue and provide specific technical assistance on PPP (PPP law and PPP Unit) and on mining sector governance. The Bank will also continue to support implementation of PRSP (direct support to CTSP and SP-SRP in charge of coordinating the monitoring of the implementation of economic reforms programs and the PRSP), post-Abu Dhabi commitments implementation, and the link between macroeconomic/budget framework sector policies and the public investment plan. The Bank will continue its support through the FSF programme to the National Statistics Development Strategy (NSDS) and the conduct of the Third General Population and Housing Census (RGPH-III).

8. Trust Funds: In addition to the ADF and FSF allocations, the Bank could mobilize supplementary resources from the ADB private sector window (including enclave operations in the mining sector infrastructure), and the Trust Fund resources to finance complementary operations in the sectors covered in the 2012–16 Country Strategy Paper (CSP) and that are important for the country's development. For example, through the Rural Water Supply and Sanitation Initiative, a strategy could be prepared in that area. Other instruments also available are the Partial Risk Guarantee Instrument, the Global Environment Fund, and the Africa Carbon Facility and Green Fund.

9. Response to the Ebola crisis. The AfDB has adopted a regional approach to address the Ebola crisis. In April 2014, the Bank provided an emergency support of USD 2 million UA equivalent to USD 3 million grant to support Mano River Union (MRU) countries affected namely Guinea, Liberia and Sierra Leone. In July 2014, the AfDB approved a UA 40 million equivalent to USD 60 million grant for countries fighting against Ebola. In October 2014 the AfDB approved UA 100 million sector budget support in order to support the three most affected countries. AfDB approved also in October 2014 a UA 7.7 million Technical Assistance Capacity Building Programme to support the national and foreign health workers programs. The total Bank's support for Guinea amounts to UA 35 million (USD 52 million) and aims to help the government enhance the immediate response but also structure a medium to long term plan. The AfDB will support the government's 2015-2017 post-Ebola recovery plan by accelerating the execution of planned projects and mobilizing additional resources for new operations/projects.

10. African Development Bank and Fund staff collaboration: sharing of information on the ECF-supported program, the macroeconomic situation, the budget, progress in structural reform, planned missions, and mission reports.

Table 1. Guinea: ADF 13 (2011–16) and FSF Operations Programming
(UA million)

Lending Operations					
	Year	**ADF/ADB 12/13**	**FSF (Pillar III)**	**Regional & Other Funds**	**Total**
Pillar I –Economic and Financial Governance Support					
Budget support	2011	20.0			20.0
Targeted support	2011		2.5		2.5
Budget support	2014/15	12.0			12.0
Capacity building (Mining One-Stop Shop and Simandou)	2016	6.0	2.0		8.0
Targeted support for capacity building (PFM, revenue mobilization, business climate)	2016		2.0		2.0
Agriculture (Governance, entrepreneurship, and financing)	2017	10.0			10.0
Sub-Total		**48.0**	**8.5**		**56.5**
Pillar II –Infrastructure Support (Energy, Transport, etc.)					
CLSG Interconnection (electricity)	2013	16.0		24.2	40.2
Rehabilitation of electric power networks	2013	11.0			11.0
Institutional support project - Public investment management and mining	2013	11.4			11.4
Mano River Union road (CI-Liberia, linked to Mali)	2014	13.1		20.3	33.3
OMVG	2015	20.0		30.0	50.0
Coyah-Farmoriah-Pamelap road including a study for the Kankan-Mandiana-Odiene project	2017	33.0		21.0	54.0
Boké-Quebo road	2017	33.0		21.0	54.0
Rural water supply	2017	10.0		5.0	15.0
Guinea-Mali interconnection (energy)	2017	35.0			35.0
Sub-Total		182.5		121.5	303.9
Total		**230.5**	**8.5**	**121.5**	**360.4**
Economic and Sector Work					
Study on financial sector reforms	2013		x		
Private sector profile	2015		x		
Guinea Vision 2035	2016		x		
Local taxation	2015		x		
PPP law	2016		x		

MILLENNIUM DEVELOPMENT GOALS[1]

	1990	1995	2000	2005	2014	2014 Sub-Saharan Africa	2015 MDG Target
Goal 1: Eradicate extreme poverty and hunger							Halve
Employment to population ratio, 15+, total (%)	69	69	70	70	*71*	*65*	
Employment to population ratio, ages 15-24, total (%)	52	52	52	53	*54*	*47*	
GDP per person employed (constant 1990 PPP $)	...	...	...	...	...	...	
Income share held by lowest 20%	*3*	*5*	...	6	...	...	
Malnutrition prevalence, weight for age (% of children under 5)	...	...	29	23	...	...	13
Poverty gap at $1.90 a day (2011 PPP) (%)	63	19	*26*	*24*	...	...	...
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	92	49	*62*	*60*	...	...	...
Vulnerable employment, total (% of total employment)	...	...	...	...	...	...	...
Goal 2: Achieve universal primary education							100
Literacy rate, youth female (% of female ages 15-24)	...	*13*	..	*30*	...	...	100
Literacy rate, youth male (% of males ages 15-24)	...	*44*	...	*34*	...	...	
Persistence to last grade of primary, total (% of cohort)	47	...	...	74	...		100
Primary completion rate, total (% of relevant age group)	20	19	31	55	*62*	*69*	100
Total enrolllment, primary (% net)	26	...	45	65	*75*	*77*	100
Goal 3: Promote gender equality and empower women							100
Proportion of seats held by women in national parliament (%)	...	...	9	19	22	22	100
Ratio of female to male primary enrollment (%)	45	51	67	80	*85*	*93*	100
Ratio of female to male secondary enrollment (%)	32	*33*	*35*	50	...	*86*	
Ratio of female to male tertiary enrollment (%)	9	*7*	...	23	*44*	*73*	
Share of women employed in the non-agricultural sector (% of total non-agr. emp.)	...	...	...	...	...	...	
Goal 4: Reduce child mortality							>75% reduction
Immunization, measles (% of children ages 12-23 months)	35	61	42	51	52	73	
Mortality rate, infant (per 1,000 births)	141	122	103	85	63	58	
Mortality rate, under 5 (per 1,000)	238	206	170	137	97	86	78
Goal 5: Improve maternal health							
Births attended by skilled health staff (% of total)	...	...	...	38	...	...	
Maternal mortality ratio (modeled estimate, per 100,000 live births)	1,040	964	976	695	*688*	560	>75% reduction
Contraceptive prevalence (% of women ages 15-49)	...	2	6	9	...	...	
Goal 6: Combat HIV/AIDS, malaria and other diseases							Halt/reverse
Incidence of tuberculosis (per 100,000 people)	249	250	228	210	*177*	...	Halt/reverse
Prevalence of HIV, female (% ages 15-24)	1	1	1	1	1	2	Halt/reverse
Prevalence of HIV, male (% ages 15-24)	0	1	0	0	0	1	Halt/reverse
Prevalence of HIV, total (% ages 15-49)	1	2	2	2	2	5	Halt/reverse
Tuberculosis case detection rate (%, all forms)	13	18	27	34	*54*	*51*	Halt/reverse
Goal 7: Ensure environmental sustainability							
CO2 emissions (kg per PPP $b of GDP)	0	0	0	0	...	...	
CO2 emissions (metric tons per capita)	0	0	0	0	...	...	
Forest area (% of land area)	30	29	28	27	*26*	*26*	
Improved sanitation facilities (% of population with access)	8	11	13	15	20	29	57
Improved water source (% of population with access)	52	58	63	68	77	67	72
Marine protected areas (% of territorial waters)	...	...	4	...	...	...	
Net ODA received percapita (current US$)	48	53	17	21	*43*	*50*	
Goal 8: Develop a global partnership for development							
Debt service (PPG and IMF only, % of exports, excluding workers' remittances)	20	24	15	13	4	*5*	
Internet users (per 100 people)	0	0	0	1	2	19	
Telephone lines (per 100 people)	0	0	0	0	...	...	
Fertility rate, total (births per woman)	7	6	6	6	*5*	*5*	
Other goals and indicators							
GNI per capita, Atlas method (current US$)	430	470	380	340	470	1709	
GNI, Atlas method (current US$ billions)	3	4	3	3	6	1665	
Gross capital formation (% of GDP)	25	21	20	20	14	22	
Life expectancy at birth, total (years)	50	52	51	53	*56*	*57*	
Literacy rate, adult total (% of people, ages 15 and above)	...	*21*	*30*	...	...	...	
Population, total (millions)	6	8	9	10	12	*948*	
Trade (% of GDP)	65	46	53	70	81	62	

Sources: Millenium Development Goals Database, November 2015.

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

STATISTICAL ISSUES

(As of March 1, 2016)

Guinea: Statistical Issues Appendix	
I. Assessment of Data Adequacy for Surveillance	
General: Data provision is broadly adequate for surveillance with some key data shortcomings in national accounts and fiscal statistics.	
National Accounts: Real sector statistics are incomplete, and published with insufficient timeliness to support economic policymaking. Statistics on economic activities are published less frequently and less regularly; the monthly bulletin of the Guinean economy is trying to include the limited available macroeconomic variables. Monthly surveys of mining, industrial and agricultural production are produced with delays. A series based on 1993 SNA was released in August 2014 along with brief analyses on main aggregates and methodological notes. Following AFRITAC West's recommendation, the National Institute of Statistics plans to implement the 2008 SNA with 2015 as new benchmark year. Employment and population statistics are published on an annual frequency.	
Price Statistics: The monthly consumer price index (CPI), which only covers Conakry, is published in a timely manner with 2002 as base year.	
Government Finance Statistics: The Ministry of Economy and Finance compiles comprehensive monthly budgetary central government data on a cash basis for revenue, and on commitment and cash basis for expenditure based on a national presentation not comparable to international standards. The last Government Finance Statistics (GFS) technical assistance (TA) mission found that public finance reforms are progressing slowly in Guinea, with most progress in the adoption of the new budget nomenclature and the new State's chart of accounts. The current compilation methodology of the government operations tables (TOFE) needs to be modernized, which is currently reconciled with budgetary execution and financing data. The production of the TOFE based on GFSM 2001/2014 will require the use of the data outside the general accounting system, as it lacks comprehensiveness and timeliness. Cash-based general accounts must also be improved along with the gradual implementation of accrual accounting. Implementation of these reforms will require new IT systems, training and manuals. The data produced by the debt office is of fair quality, although it does not yet include the financing of new infrastructural projects. Data on extra-budgetary units, local government and central government investments in public and private corporations is available, but will need to be assessed from a GFS perspective. Complete accounts for the social security funds sub-sector of good quality are also available.	
Monetary and Financial Statistics: Central Bank and deposit money bank accounts as well as the monetary survey are compiled and shared with the African Department on a monthly basis, for the purposes of program monitoring. Some delays have been experienced with commercial banks data, which still needs to be improved. Coordination between the Central Bank and the Ministry of Economy and Finance is improving, reducing discrepancies between monetary and fiscal data. However, the ongoing migration to a new accounting system at the Central Bank has led to frequent data changes and to delays in the provision of monetary statistics. Monetary data used to assess program performance are certified by an independent external auditor on a regular basis. Monetary and financial sector data reports to the Statistics Department (STA) experience significant delays, and the latest available data corresponds to June 2012. In January 2014, STA provided TA to the BCRG to start reporting monetary data using the recommended standardized report forms (SRFs).	
Financial Sector Surveillance: Financial Soundness Indicators (FSI) are consolidated on a quarterly basis by the Central Bank. Guinea does not report FSIs to STA.	
External Sector Statistics: The Central Bank compiles annual Balance of Payments and International Investment Position statistics in line with the fifth edition of the *Balance of Payments Manual (BPM5)*. Although the quality of external sector statistics (ESS) has improved since 2008, the central bank does not take advantage of all data sources within to compile the ESS. A balance of payments survey has been implemented with a response rate of over 75 percent.	
II. Data Standards and Quality	
Guinea participates in the General Data Dissemination System, but the metadata have not been updated since 2003.	No data ROSC is available.

Table of Common Indicators Required for Surveillance
(As of March 1, 2016)

	Date of Latest Information	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	03/01/2016	03/01/2016	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	12/31/2015	01/26/2016	M	M	M
Reserve/Base money	12/31/2015	01/26/2016	M	M	M
Broad Money	12/31/2015	01/26/2016	M	M	M
Central Bank Balance Sheet	12/31/2015	01/26/2016	M	M	M
Consolidated Balance Sheet of the Banking System	12/31/2015	01/26/2016	M	M	M
Interest Rates[2]	12/31/2015	01/26/2016	M	M	M
Consumer Price Index	12/31/2015	01/25/2016	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] - General Government[4]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3] - Central Government	12/31/2015	01/31/2016	M	M	M
Stocks of Central Government and Central Government - Guaranteed Debt[5]	12/31/2014	04/24/2015	A	A	A
External Current Account Balance	09/30/2015	12/31/2015	Q	NA	A
Exports and Imports of Goods and Services	09/30/2015	12/31/2015	Q	NA	A
GDP/GNP	12/31/2011	3/1/2014	A	A	A
Gross External Debt	12/31/2015	02/24/2016	A	A	A
International Investment Position	NA	NA	NA	NA	NA

[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, and domestic bank and non-bank financing.
[4] The general government consists of the central government (budgetary and extra-budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Not Available (NA).

INTERNATIONAL MONETARY FUND

GUINEA

March 3, 2016

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

Approved By
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Prepared by the International Monetary Fund and the International Development Association

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

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

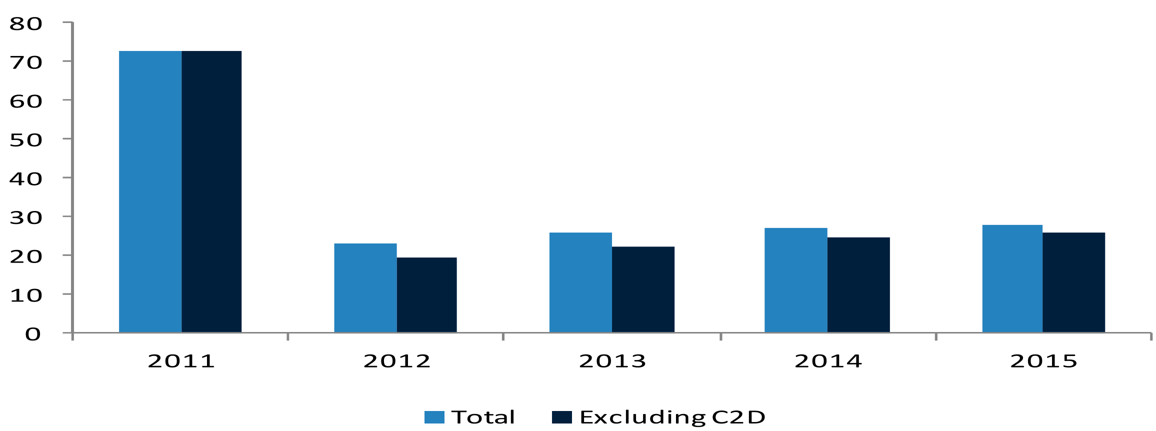
[2] The DSA was prepared jointly by the staff of the IMF and Bank, in collaboration with the authorities of Guinea. The 2015 DSA can be found in Country Report No. 15/39, Supp. 2, 01/28/15.

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

BACKGROUND

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

Figure 1. Guinea: Stock of External Public Debt, 2011-15
(in percent of GDP)



Sources: Guinean authorities, IMF Staff calculations.

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

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

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

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

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

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

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

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

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

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

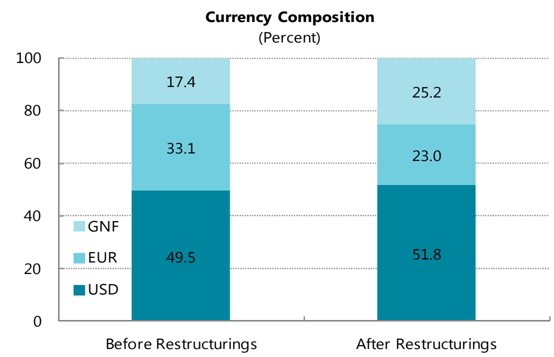
At the request of the Ministry of Finance, the central bank (BCRG) issued guarantees during 2014 and 2015 to local and foreign banks on behalf of 12 local and foreign private companies executing public works contracts to help them secure commercial bank loans. The total value of the public works contracts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

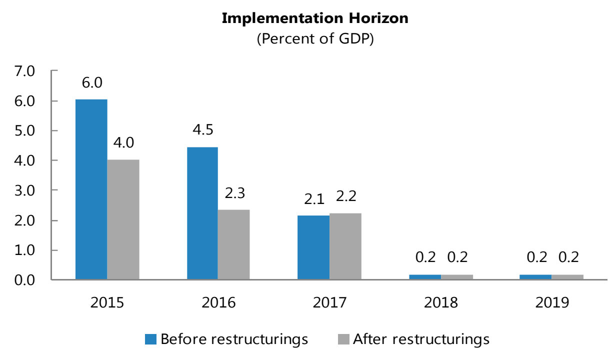
Text Table. Guarantees of Public Works Contracts

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

Source: Guinean authorities, IMF staff estimates.

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





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

Sources: Guinean authorities, IMF staff estimates.

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

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

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

UNDERLYING ASSUMPTIONS

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

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

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

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

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

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

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

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

Box 2. Guinea: Macroeconomic Assumptions for 2015–36

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

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

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

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

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

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

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

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

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

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

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

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

[3] Includes publicly guaranteed external borrowing.

DEBT SUSTAINABILITY ANALYSIS

A. External Debt

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

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

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

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

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

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

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

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

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

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

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

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

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

B. Total Public Debt

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

CONCLUSION

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

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

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

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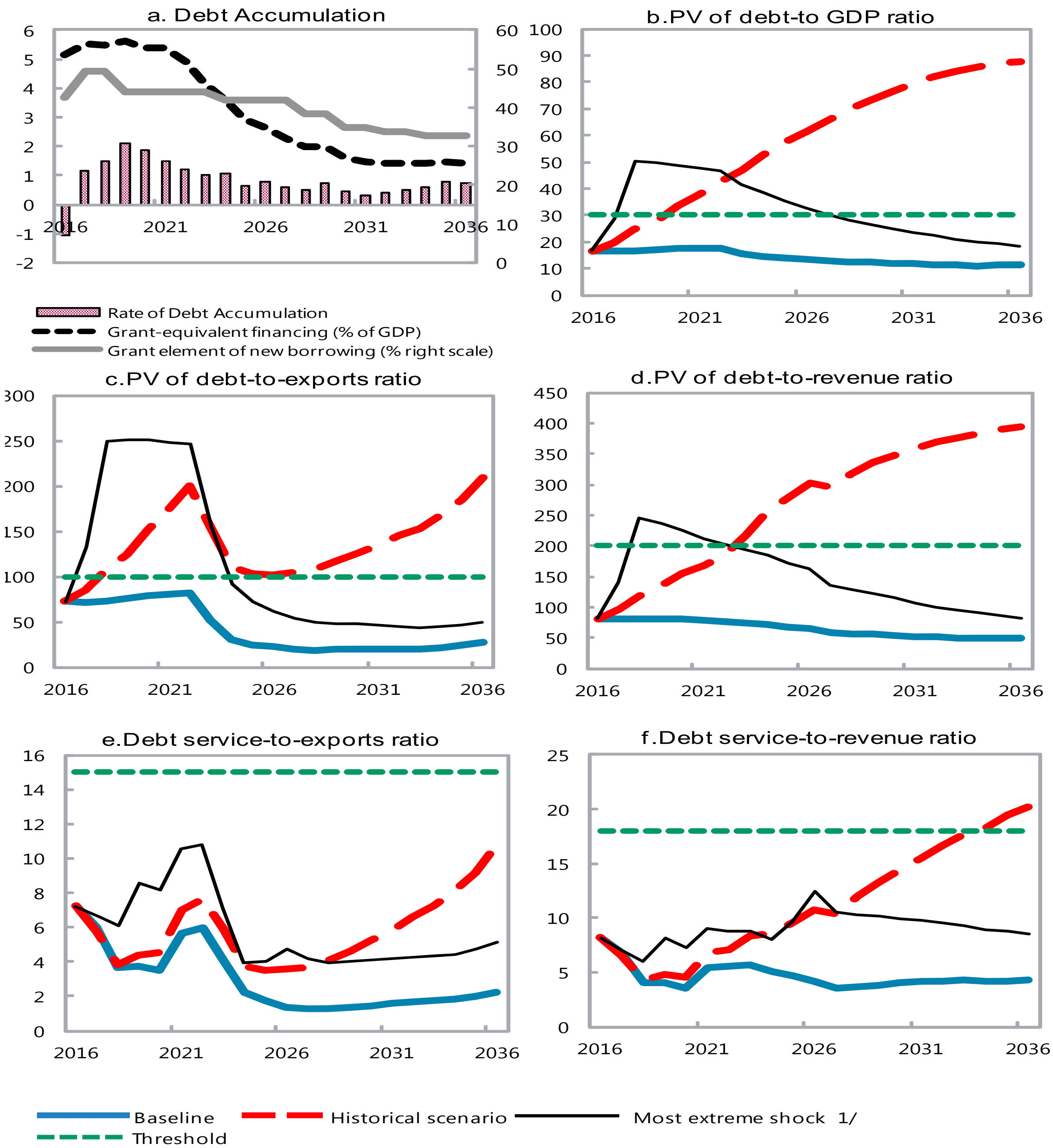
[15] In the budget, payments related to the guarantees which helped pre-finance project spending are recorded under investment budget as project expenditures.

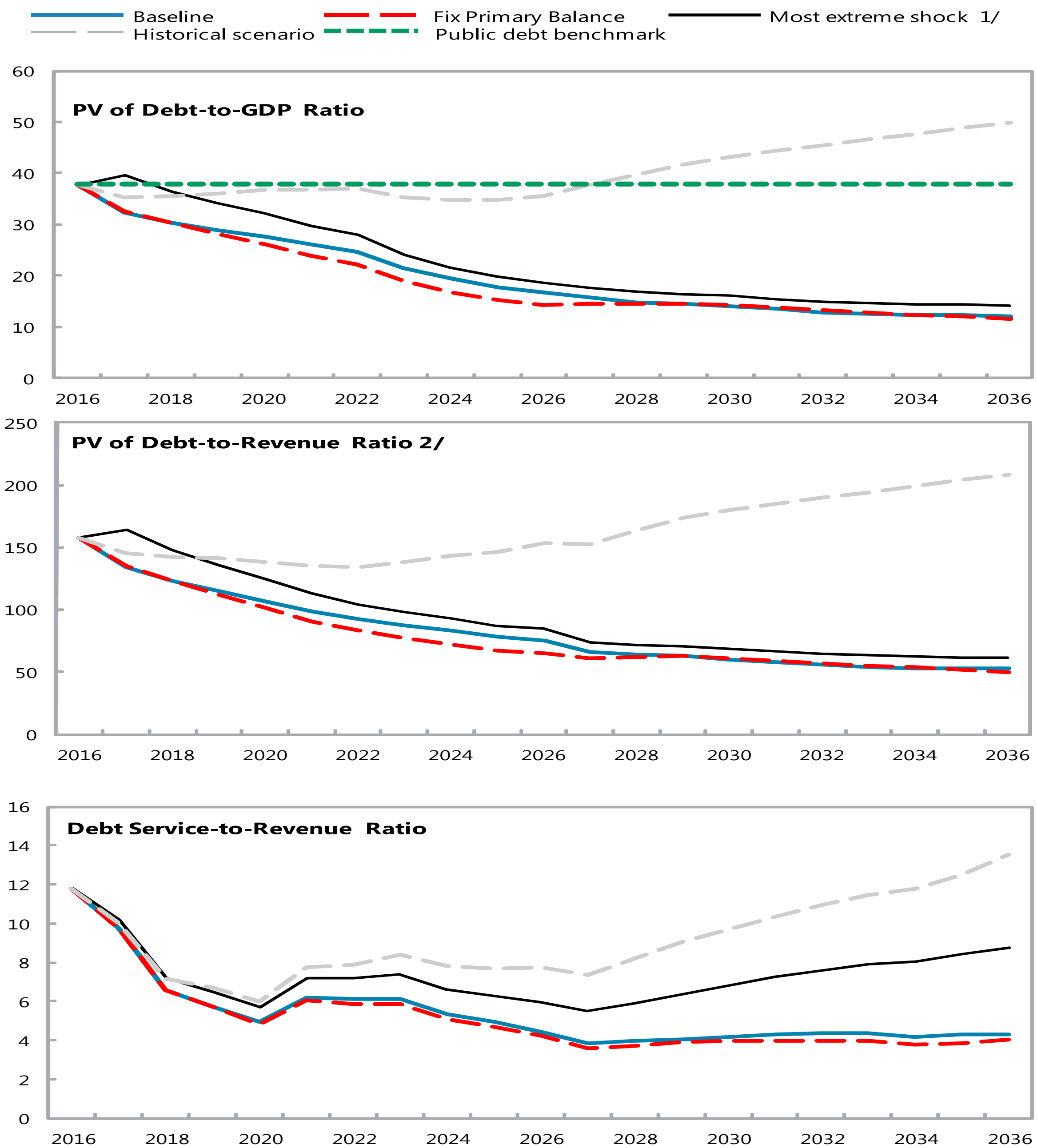
Figure 2. Guinea: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2016–36[1]/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2026. In figure b. it corresponds to a Combination shock; in c. to a Combination shock; in d. to a Combination shock; in e. to a Combination shock and in figure f. to a Combination shock

Figure 3. Guinea: Indicators of Public Debt Under Alternative Scenarios, 2016–36 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2026.

2/ Revenues are defined inclusive of grants.

Table 3a. Guinea: External Debt Sustainability Framework, Baseline Scenario, 2013–36 1/
(Percent of GDP, unless otherwise indicated)

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

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that PV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
7/ Defined as grants, concessional loans, and debt relief.
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

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

(Percent)

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

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

(Percent)

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

Sources: Country authorities; and staff estimates and projections.

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

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

(Percent of GDP, unless otherwise indicated)

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

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Revenues excluding grants.

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

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

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

(Percent)

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

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

Statement by Ngueto Tiraina Yambaye, Executive Director for Guinea and Siradiou Bah, Senor Advisor to Executive Director

March 14, 2016

I. INTRODUCTION

Our Guinean authorities would like to express their appreciation to the Executive Board, Management and for the continuous support Guinea has benefitted in implementing the ECF-supported program. The Guinean authorities highly value the timely assistance they have received from the Fund in their relentless efforts to fight the Ebola epidemic. The Fund's support through the RCF, CCR trust and access under the ECF has been instrumental in maintaining macroeconomic stability and mobilizing the assistance of donors and development partners. Guinea has now been declared Ebola free by the World Health Organization, and the authorities will intensify their reform efforts but will need the continuous assitance of development partners.

The population and economy of Guinea have been severely hit by the Ebola epidemic. From its appearance in December 2013 to the last case recorded in November 2015, over 3,300 people were affected by the disease of which 2,083 died and the economic activity slowed considerably. Indeed, the economic slowdown experienced in 2014 continued in 2015 with a growth rate of less than 1 percent. In addition to Ebola and its severe adverse effects, the Guinean economy was also hit by the sharp decline in commodity prices and political uncertainty in the run up to October 2015 presidential elections.

These shocks have negatively impacted the implementation of the ECF-supported program. Indeed, while most of the performance criteria set for end-December 2014 were met, several PCs of the end-June 2015 were missed due mainly to the impact of guarantees issued by the central bank to support the authorities' efforts to contain the effects of the Ebola crisis and the public investment aimed at maintaining growth. Notwithstanding delays in implementing structural reforms, progress was made with the recruitment of a management partner for the electricity company (EDG) and the civil service biometric census to eliminate ghost workers from the public payroll.

On the non observance of the continuous performance criterion on new medium and long term non concessional external debt, the authorities, in their letter to the Managing Director, explained the circumstances that led to the misreporting and provided information on the corrective actions taken and prevent the reappearance of such a situation. The authorities acknowledged the guaranteeing of the new non concessional external debt and explained that it was mainly due to the failures of coordination of administrative and human resources in the difficult context of the fight against the Ebola epidemic. On the corrective measures, the authorities will further enhance the sharing information with Fund staff notably on external debt matters. The actions taken include: preparing the amendments to the Central Bank law to forbid guarantees to private entities which will be submitted to the National Assembly by April 2016; strengthening the monitoring of new external loans and guarantees; improving the enforcement of the public procurement code and implementing several measures to strengthen debt management to ensure that all new public debt remains consistent with the Public Debt Policy. Moreover, the authorities have restructured, cancelled and transferred to the treasury a portion of the existing guarantees.

Based on the remedial actions taken by the authorities and given that Guinea's risk of debt remains moderate, our Guinean authorities request a waiver for non observance of the continuous performance criterion on the ceiling on new medium-and long-term non concessional external debt contracted or guaranteed by the central government or by the Central Bank (BCRG).

The Guinean authorities remain committed to the ECF-supported program with a view to continue implementing sound polices and reforms enabling the country to achieve higher and sustained economic growth. In this regard, they are requesting an extension of the ECF arrangement to end-October 2016 to allow time to assess the implementation of the program at end-June 2016 and rephrasing of the remaining disbursement under the arrangement. The authorities also request waivers of nonobservance of performance criteria at end-2014 and at end-June 2015. Their request for waivers is based on the measures they have already taken to achieve the program objectives for 2016 notably the fiscal adjustment planned in the 2016 budget, the reform of the exchange rate determination mechanism and the discontinuation of the gold purchasing program. In addition, they have started the audit of public procurement contracts that benefitted from Central Bank guarantees and the revision of the Central Bank act on the issuance of Central Bank guarantees to the private sector.

II. Recent Economic Developments

Economic developments were dominated in 2014 and 2015 by the Ebola epidemic which in addition to the loss of lives and country isolation has reversed the socioeconomic gains recorded under the implementation of the ECF-supported program started in 2012. In addition, international prices of commodities in particular bauxite, gold, iron ore, coffee declined significantly, and affected all sectors of the economy, such that economic activity slowed down significantly. Despite this difficult context, political tensions eased with the successful organization of the presidential election on October 11, 2015 and a new government was appointed early January 2016.

To address the impact of the shocks Guinea has experienced, the authorities increased public investment and took steps to ease commercial banks' liquidity. As results the basic fiscal deficit increased to 7.1 percent of GDP in 2015. The foreign exchange reserves fell to 2.3 months of imports at end-2015 from 3.6 months in 2014. However, inflation has continued to fall reaching

7.3 percent at end-December 2015 and the current account improved in 2015 due mainly to a decline in imports reflecting the slowdown in growth. In this situation, the implementation of the ECF-supported program and meeting original objectives fully became difficult. Nevertheless, the authorities have remained committed to its objectives. To this end, they have requested an extension of the ECF arrangement to end-October 2016 and a re-phasing of the remaining disbursements under the arrangement.

III. Policies and Reforms for 2016

The authorities aim at implementing in 2016 appropriate fiscal and monetary policies and step up the implementation of structural reforms. After two years of economic slowdown, growth is projected to rebound to 4 percent in 2016 and increase to about 6 percent over the medium-term. Continued growth of agriculture, thanks to intensified use of fertilizers and irrigation, the return of investors, notably in the mining sector, the full use of the Kaleta hydroelectric dam capacity and the implementation of the post-Ebola recovery plan will help achieve these objectives. Inflation will be kept within single digit figures. The Central Bank international reserves will be increased to cover 3 months of imports of goods and services.

Fiscal Policy

Our Guinean authorities will continue their efforts to reduce significantly the budget deficit while limiting the financing from the banking system. The 2016 budget is fully financed and in line with the revised program. It aims at strengthening priority expenditures, reinforcing the government's solvency and the Central Bank's reserves. In particular, the basic fiscal balance will be reduced to -0.4 percent of GDP. On the revenue side, the authorities have adopted a package of revenue-enhancing measures which includes: (i) increasing the VAT rate from 18 to 20 percent; (ii) extending the VAT to flour and edible oils; (iii) raising excise taxes on tobacco, alcohol and vehicles (iv) updating the reference values on imports by land (v) increasing some service costs on registrations and (vi) administrative measures related to taxes.

With regard to expenditures, they will be kept at 25. 7 percent of GDP with a sharp downsizing of domestically financed spending. Measures to reduce the public spending include:
(i) across-the-board cuts on all outlays on goods and services; (ii) improved governance at the electricity company and thanks to the impact of lower oil prices save almost 2 percent of GDP; and (iii) the exclusion from the public payroll of all workers non identified in the context of 2015 biometric census. Moreover, the authorities plan to wind down some projects started in 2015; postpone all new projects to after 2016; renegotiate some projects guaranteed by the Central Bank. These measures will lead to lest recourse to commercial banks credit and allow for partial repayment of the 2015 Central Bank advances. The reduction of the fiscal deficit will also facilitate the central bank's implementation of its monetary policy and provide room for a healthy increase in commercial bank credit to the private sector.

The authorities welcome the recent debt sustainability analysis (DSA) that concludes that Guinea continues to face a moderate risk of debt distress although debt vulnerabilities have increased. They agree that sound macroeconomic policies and prudent debt management will be needed to maintain a sustainable external position. In this regard, the authorities are committed to rely on concessional sources of external financing. They will strengthen debt management by enhancing the capacity to execute a prudent borrowing policy and manage contingent risks. To this end, the national Public Debt Policy statement, a manual of operational procedures in the debt department and a medium-term strategy for 2015–19 will be effectively operational. The coordination and management of debt will be further enforced through the National Committee for Public Debt.

Monetary and Financial Policies

Monetary policy will aim at containing inflation and increasing the central bank's international reserves while supporting economic activity. The fiscal contraction envisaged for 2016 will help contain inflationary pressures and keep inflation in single digits. The Central Bank introduced in January 2016 a reform in the determination of the foreign exchange rate to modulate bank liquidity in Guinean francs through the use of monetary regulation securities.

The Central Bank plans to strengthen the effectiveness of its monetary instruments by introducing a second refinancing window to enhance the money market. Under the World Bank's assistance, a Credit Information System will be established to support risks analysis by the banks and improve the distribution of credit. In addition, the Central Bank will continue implementing the reforms recommended by the safeguards assessment and the authorities will adopt by April 2016 a draft revision of its status prohibiting the issuance of guaranties for the private sector.

Structural Reforms

The authorities are determined to step up their efforts to finalize the implementation of their structural reform program with a view to create a more conducive environment for business and investment. Under the public finance management, measures to limit contingent liabilities will be enforced notably the compliance of budgetary and accounting management of public agencies with LORF provisions. A timetable for clearing domestic arrears for the 2005–10 budgets will be approved by April 2016. The authorities also intend to make further progress in the reform of the administration and civil service to contain the wage bill and modernize and enhance the public administration. With regard to the mining sector, the environment to develop large mining projects and ensure effective implementation of the mining code will be further improved with the strengthening of the Interministerial Committee for the Monitoring of Integrated Mining Projects (CISPMI) whose role is to facilitate and accelerate administrative procedures required for a rapid implementation of mining projects. Our authorities are cognizant of the important role of the energy sector in the efforts to boost growth and improve the living standards of the population. In this regard, they have successfully built the Kaleta hydroelectric dam to produce more than 200 megawatt. In addition, they have signed a management contract to improve the electricity company (EDG) technical, commercial and financial performance. The authorities plan also to develop other priority projects while ensuring the sustainability of their financing as well as the external public debt.

IV. Conclusion

In 2014 and 2015, Our Guinean authorities have implemented the ECF-supported program in a difficult environment. This environment has adversely impacted on the program performance. Despite this situation, the authorities remain strongly committed to continue implementing, under the ECF-supported arrangement, the needed policies and reforms to foster higher and sustained growth, alleviate poverty and preserve the macroeconomic stability. They are hopeful that their ongoing efforts will continue to be supported by the Fund and the international community. Therefore, we would greatly appreciate Directors support for our Guinean authorities' efforts by granting the requested waivers and extension and completing the sixth and seventh reviews under the ECF-arrangement.