December 2004
IMF Country Report No. 04/392

Guinea: 2004 Article IV Consultation—Staff Report; Staff Statement; and Public Information Notice on the Executive Board Discussion

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2004 Article IV consultation with Guinea, the following documents have been released and are included in this package:

- the staff report for the 2004 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **May 23, 2004**, with the officials of Guinea on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on August 4, 2004.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a staff statement of **August 27, 2004** updating information on recent developments.

- a Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during its August 27, 2004 discussion** of the staff report that concluded the Article IV consultation.

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

Ex-Post Assessment of Longer-Term Program Engagement
Joint Staff Assessment of the Poverty Reduction Strategy Paper Progress Report
Poverty Reduction Strategy Paper Progress Report
Statistical Appendix

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

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

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INTERNATIONAL MONETARY FUND

GUINEA

Staff Report for the 2004 Article IV Consultation

Prepared by the Staff Representatives for the 2004 Consultation with Guinea

Approved by Siddharth Tiwari and Mark Plant

August 4, 2004

- **The discussions on the 2004 Article IV consultation were conducted in Conakry during May 11-23, 2004**, in parallel with World Bank and African Development Bank missions. The staff team consisted of Mr. van den Boogaerde (head), Ms. Nkusu, Mr. Blavy, Ms. Babihuga (all AFR), Mr. Verreydt (WHD) and Ms. Hotobah-During (Staff Assistant-AFR). It was assisted by Mr. Jones, the resident representative in Guinea, and Mr. Barry, the resident economist.

- **The Guinean representatives included** Mr. Madikaba Camara, Minister of Economy and Finance; Mr. Mohamed Daffé, Governor of the Central Bank of the Republic of Guinea; Mr. Eugène Camara, Minister of Planning; and several other Ministers and senior officials. The mission met also with the Minister Secretary-General at the Presidency, members of the National Assembly, the financial and business community, representatives of NGOs, the donor community, and the press.

- **Guinea has accepted the obligations under Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement**. Nonetheless, over the past year, the authorities have intensified multiple currency practices.

- **In December 2000, Guinea reached the decision point** and was eligible for debt relief under the enhanced HIPC Initiative, and started to receive interim assistance. However, owing to poor performance under the PRGF-supported program, interim assistance from Paris Club members, the Fund, and the African Development Bank was suspended in 2003.

- **At the conclusion of the previous Article IV consultation on July 16, 2003**, Directors expressed concern that expansionary fiscal, accommodative monetary policies, and an inflexible exchange rate policy aggravated macroeconomic imbalances, raised inflation, and lowered international reserves. They urged the restoration of fiscal and monetary discipline and a deepening of structural reforms to foster economic growth and reduce poverty.

- **Guinea's political and security situation remains uncertain and fragile**. President Conté was reelected in December 2003 for a new seven-year term, in elections boycotted by the opposition and criticized by most observers. A new government team was formed in March 2004, but the new Prime Minister resigned on April 30, citing difficulties in implementing reforms. On the security front, concerns remain over the instability in the region, especially in Liberia and Côte d'Ivoire, and the continued presence in Guinea of armed Liberian ex-rebel fighters.

- **Guinea's relations with the IMF and the World Bank are summarized in Appendices I and II and statistical issues are discussed in Appendix III**. Statistics are weak in Guinea, with major deficiencies in balance of payments, national accounts, price, and external debt data. Progress has been made in recent years, including with technical assistance from the Fund and AFRITAC-West, but further improvements are needed.

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EXECUTIVE SUMMARY

Guinea's economic situation worsened in 2003 as GDP growth slowed down, reflecting exogenous shocks, inconsistent macroeconomic policies, and a significant decline in investment. Lax fiscal and accommodating monetary policies led to accelerating inflation. A continued de facto fixing of the official exchange rate resulted in a widening spread between the official and the parallel exchange rates and a loss in reserves. Progress on structural reforms also slowed down. Macroeconomic instability impaired poverty reduction efforts.

Important downside risks cast a shadow on the outlook for 2004 and the emergency program adopted in March 2004 will be insufficient to ease inflationary pressures. Growth is expected to remain relatively weak, at around 2.6 percent. In addition to rigorous fiscal policy and a tighter monetary policy, liberalizing the exchange rate and advancing structural measures are key to restoring a sound macroeconomic environment.

The medium-term framework should include sustained reform efforts to secure strong growth and poverty reduction, as the ex-post assessment report highlights. The report stresses the need for: (i) commitment at the highest level of government to a long-term development strategy, (ii) early and decisive progress in implementing structural reforms, (iii) improving governance, and (iv) setting realistic macroeconomic objectives.

With sound policies, the staff and the authorities agreed that the economy could return to a growth path of 5 percent by 2006, in line with the objectives of the poverty reduction strategy (PRS). Fiscal policies would increase revenue collection, gear expenditures toward social outlays, and strengthen public expenditure management, while monetary policy would strive to control inflation. The exchange rate would remain market-determined. An acceleration of structural reforms—including improving basic infrastructure, addressing governance issues, enhancing financial intermediation, and advancing privatization and trade liberalization—would promote private sector-led growth

The authorities finalized their first PRS progress report following a participatory process involving civil society. While Guinea remained committed to its PRS and progress was noted in social sectors, in particular education and health, sustained strong growth will be needed to achieve the goals of the strategy. The more realistic revised macroeconomic framework is a welcome step in that direction.

The absence of a mechanism to prevent the rates in the official and parallel exchange markets from diverging by more than 2 percent and the recent administrative allocation of foreign exchange have given rise to a new multiple currency practice (MCP). The staff do not recommend Board approval of Guinea's MCP.

I. RECENT DEVELOPMENTS

Guinea: Core Indicators, 2000 - 2003 (In percent of GDP, unless otherwise specified)	2000	2001	2002	2003
Real GDP at 1996 market prices (annual percent change)	1.9	4.0	4.2	1.2
Consumer prices (average, annual percent change)	6.8	5.4	3.0	12.9
Total revenue and grants	13.2	14.7	13.8	13.2
Current expenditure	9.3	11.6	12.2	12.9
Primary balance	2.5	0.6	0.0	-1.6
External current account (incl. transfers)	-6.4	-2.7	-4.3	-3.3
Broad money (annual percent change)	23.4	14.8	19.2	35.3
Reserve money (annual percent change)	17.0	11.0	18.3	27.4
Gross int. reserves (US$ billions)	150.3	208.4	170.0	138.3

1. **Guinea's economic situation worsened in 2003, with real GDP growth slowing and inflation accelerating**. Real GDP grew by 1.2 percent, relative to an average of about 4 percent during 2001–02 (Tables 1 and 2, Figure 1), due to a fall in agriculture growth, as well as a decline in manufacturing output and construction activities owing to the continued electricity outages and shortage of water and cement. Moreover, an uncertain business climate during the run-up to the presidential elections led to a sharp decline in private investment to about 6 percent of GDP compared with over 9 percent during 2001–02 (Table 3). Owing in large part to rapid growth in broad money, the 12-month rate of inflation (CPI-based) reached 14.8 percent in December 2003 (from 6.1 percent in December 2002).

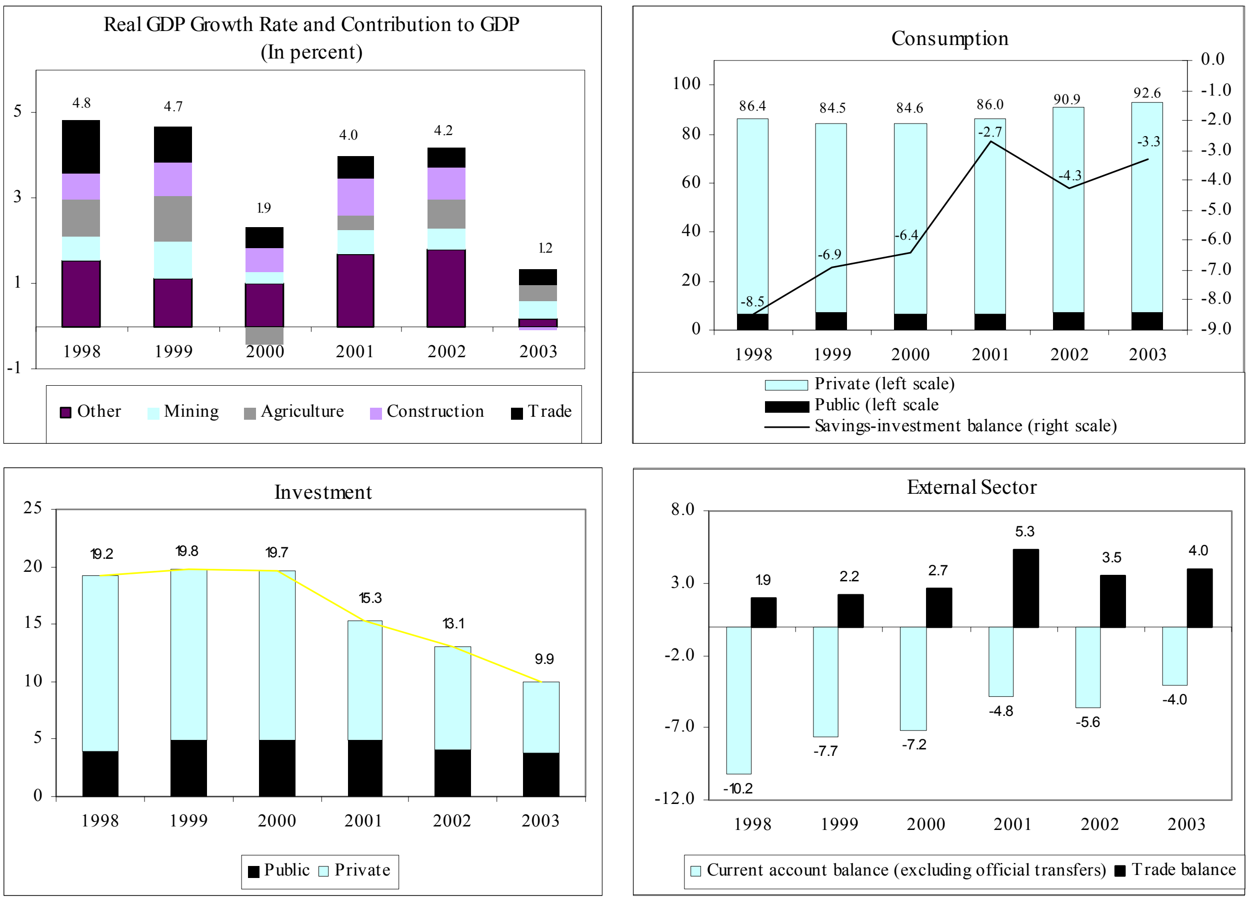
2. **These unsatisfactory developments moved Guinea to the bottom of regional economic performance** (Box 1).[1] On average between 1998 and 2002, Guinea outperformed the West African Economic and Monetary Union (WAEMU) and West African Monetary Zone (WAMZ) member countries. However, in 2003, Guinea became the worst performer in the regional context, except for higher average inflation in WAMZ countries due to the rapid price increases in Ghana.

3. **Economic performance is expected to remain weak in 2004**. Real GDP growth is projected at around 2.6 percent, in light of the poor economic performance during the first quarter of the year and the lags for the more rigorous policy to translate into an economic recovery. In May 2004, inflationary pressures eased somewhat, to 9.4 percent year-on-year, owing to temporary factors, including an unsustainable freeze on domestic petroleum product prices.

[1] See also West African Economic and Monetary Union—Recent Economic Developments and Regional Policy Issues of June 30, 2004 (www.imf.org).

Figure 1. Guinea: Real Sector Developments, 1998–2003

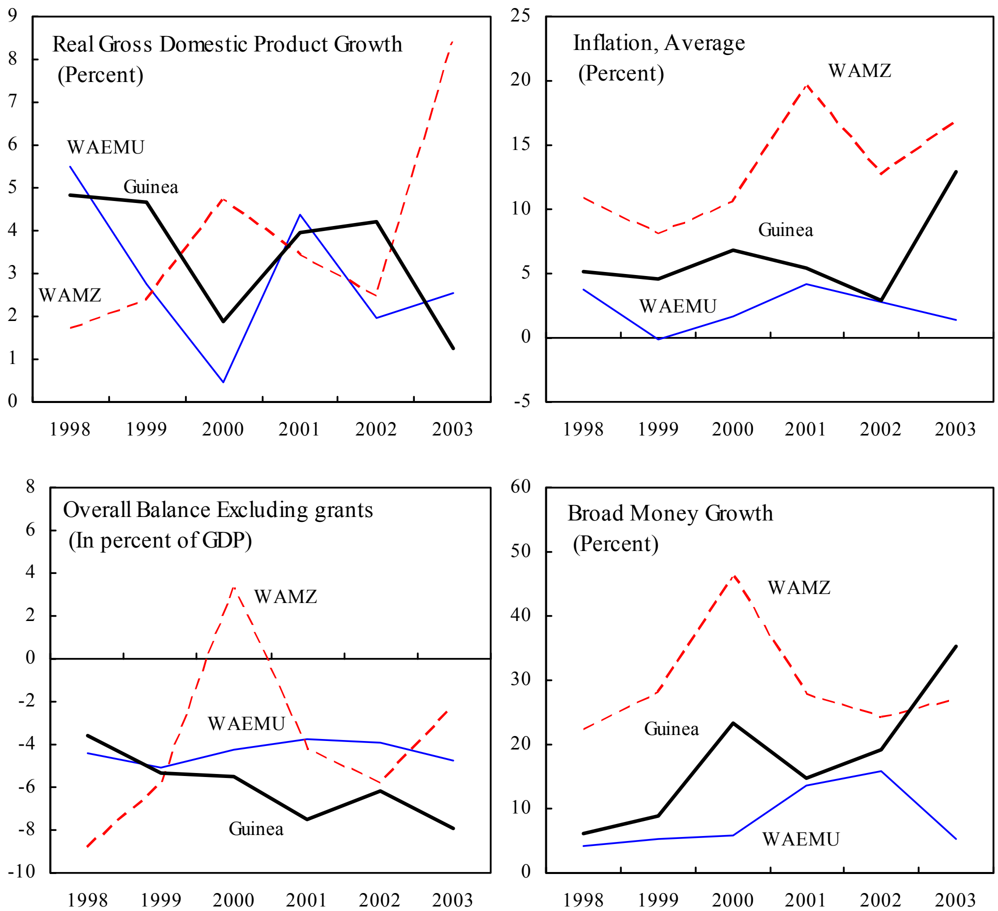
(In percent of GDP, unless otherwise indicated)



Sources: Guinean authorities; and staff estimates.

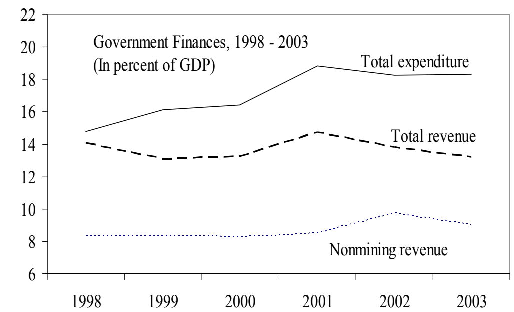
Box 1. Guinea: WAEMU and WAMZ—Selected Economic Indicators, 1998-2003

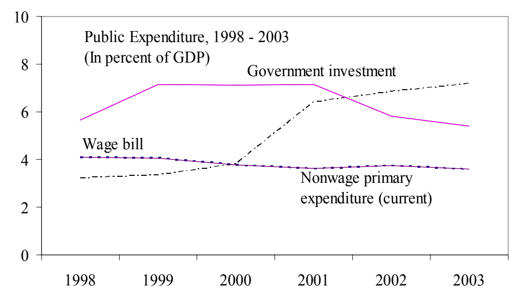
	1998	1999	2000	2001	2002	2003
Real gross domestic product growth (in percent)						
Guinea	4.8	4.7	1.9	4.0	4.2	1.2
WAEMU	5.5	2.7	0.5	4.4	2.0	2.6
WAMZ	1.7	2.4	4.7	3.4	2.5	8.4
Inflation, average (in percent)						
Guinea	5.1	4.6	6.8	5.4	3.0	12.9
WAEMU	3.7	-0.1	1.6	4.2	2.7	1.4
WAMZ	10.8	8.0	10.6	19.6	12.6	16.8
Central government balance excluding grants, in percent of GDP						
Guinea	-3.6	-5.3	-5.5	-7.5	-6.2	-7.9
WAEMU	-4.4	-5.1	-4.3	-3.8	-3.9	-4.8
WAMZ	-8.8	-5.9	3.3	-4.3	-5.8	-2.2
Broad money growth (in percent)						
Guinea	6.1	8.8	23.4	14.8	19.2	35.3
WAEMU	4.2	5.3	5.8	13.6	15.7	5.2
WAMZ	22.1	27.9	46.0	27.7	24.2	27.0



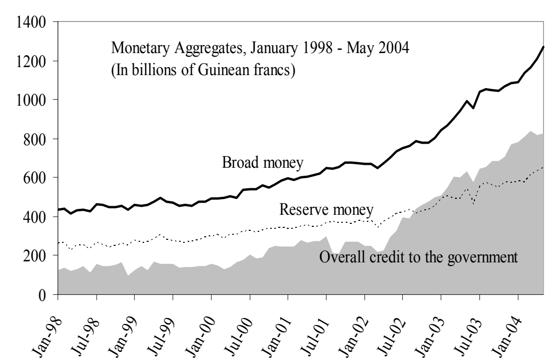
Source: World Economic Trends in Africa; Guinean authorities; and staff estimates.

4. **Fiscal policy slippages persisted in 2003 and little progress was made in the first quarter of 2004**. A one percent of GDP revenue shortfall, coupled with a 1½ percent of GDP overrun in current spending,[2] led to a widening of the fiscal deficit (commitment basis, including grants) to 5.1 percent of GDP from 4.4 percent in 2002 (Table 4). In the absence of external budgetary assistance, this deficit was financed by an accumulation of arrears and by increased borrowing from the banking system. The 2004 budget envisaged a tightening of fiscal policy (a primary surplus of 2.1 percent of GDP) and reduced borrowing from the banking sector. However, budget implementation in the first quarter of 2004 was poor. Revenue registered a 0.6 percent of annual GDP shortfall due to poor collection efforts and use of an overvalued exchange rate to value imports. The shortfall was accommodated by expenditure curtailment covering domestically-financed investment and nonwage spending in the social sectors.



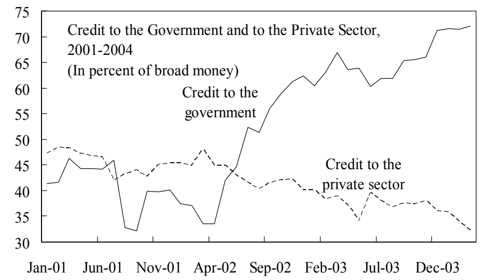


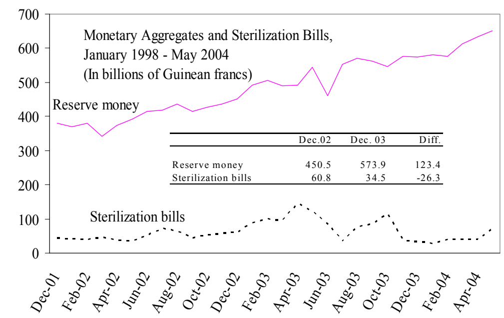
5. **Monetary policy was highly expansionary in 2003 and the first quarter of 2004.** With a limited use of T-bills, the substantial government deficit was, to a large extent, financed by central bank credit. Moreover, the issuance of sterilization bills was inadequate to control bank liquidity and, accordingly, reserve and broad money increased



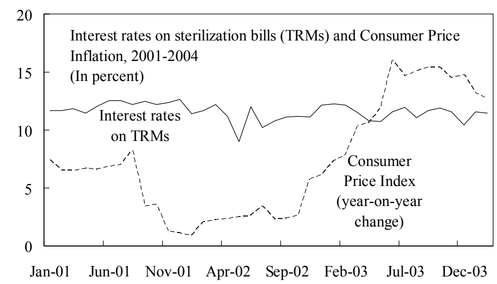
[2] Defense accounted for about 50 percent of the overruns, which the authorities attributed to the need to reinforce border security to prevent rebel incursions from unstable neighboring countries. The balance included spending associated with the run-up to the December 2003 presidential elections. There was an almost 0.5 percent of GDP shortfall in nonwage current spending in social sectors.

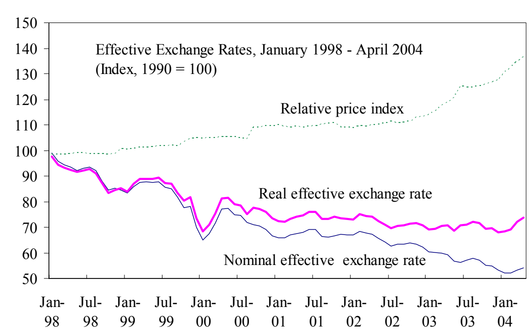
significantly, reaching 27.4 percent and 35.3 percent, respectively, at end 2003 (Table 5). In the absence of external budgetary assistance, the net foreign assets of the central bank declined and were negative at end-December 2003, at US$ -10.4 million. Real interest rates were negative for most of the year, reflecting a wait-and-see attitude from commercial bank managers, who believed that the recent rapid pick-up in inflation would be reversed soon and were wary of the impact of higher (deposit and lending) rates on their profit margins. In the first quarter of 2004, there was a further loss in net official reserves and rapid increase in credit to the government. Reserve money increased by 25 percent on a twelve-month basis to March 2004.





6. **The financial sector indicators reveal that the banking sector in Guinea has remained relatively sound, in spite of the deterioration of the macroeconomic environment** (Table 6). The main banking soundness ratios for the seven banks operating in Guinea have remained above prudential limits, except for the ratio of risk concentration. The large exposure to the government is a risk to the banking system, even though the government so far has remained current on its obligations. Large excess liquidity in the banking system, reflecting the lack of lending opportunities outside a few large corporate clients, suggests that the crowding out of the private sector by government borrowing is limited. The share of nonperforming loans in the total loan portfolio has remained stable at around 30 percent over the last three years, reflecting continued weaknesses in the judicial system. Because of reinforced supervision, provisioning of nonperforming loans improved from 83.7 percent in December 2003 to 86.6 percent in March 2004. The foreign exchange exposure of domestic banks is low, limiting the direct risk of the financial sector being destabilized by exchange rate variations.





7. **The authorities continued to de facto peg the official exchange rate of the Guinean franc against the US dollar**. The official rate depreciated only marginally until July 2004. The spread between the official and parallel exchange rates remained above 20 percent during the second half of 2003 and widened further to around 25 percent by mid-2004. Notwithstanding the stickiness of the official rate, during the 12-month period ended April 2004, the nominal effective exchange rate depreciated on average by 11.8 percent, largely because of the depreciation of the US dollar against the euro.[3] The real effective exchange rate depreciated by only 0.4 percent reflecting the acceleration in inflation.

8. **The external current account deficit (excluding official transfers) narrowed to 4 percent of GDP in 2003,** from 5.6 percent in 2002 (Figure 1, Table 7). This narrowing is mainly due to a decline in imports of intermediate and capital goods associated with the sharp fall in investment. This more than offset a fall in exports, reflecting the continued downward trend of bauxite shipments, notwithstanding increased shipments of alumina and diamonds.[4] Foreign direct investments fell to very low levels because mining and other investments were deterred by corruption and bureaucratic inefficiency. There was a near absence of official budgetary support because of donor discontent with policy implementation and governance issues. Reflecting the above-mentioned factors, as well as an overvaluation of the official exchange rate, gross international reserves of the central bank[5] dropped to US$138 million (1.5 months of imports) at end-2003 compared with US$170 million at end-2002. External arrears at end-2003 amounted to US$18 million and increased further in early 2004.[6]

9. **Progress in the structural reform area slowed down**. On the fiscal front, the authorities prepared the draft legislation for the adoption of WAEMU's common external tariff (CET). They continued their efforts to better monitor government cash-flow by closing most of the extra budgetary accounts and transferring all non-project accounts from deposit money banks to the central bank. In the monetary area, the banking and microfinance laws have not yet been adopted, and the computerization of the banks' accounting plan was not

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[3] Countries in the euro area and the West African Monetary Union account for over 60 percent of Guinea's trade.

[4] The large rise in diamonds exports is believed to reflect a better recording of these exports since the introduction in 2003 of national export certificates in line with the 2002 UN Resolution on Conflict Diamonds.

[5] There is a question mark over the degree of liquidity of official reserves, given the difficulties Guinea has had recently in meeting its debt service obligations. This matter would be clarified by implementing the safeguards assessment mission's recommendations.

[6] Guinea has a record of being in short-term arrears to the Fund, which has worsened recently, with 11 occurrences since the beginning of 2004.

completed, although most of the background actions were implemented. The recapitalization of the only bank in difficulty is still pending. While progress has been made toward adoption of international accounting standards, there were further delays in the implementation of the main recommendations of the safeguards assessment mission (special audit of the central bank's reserves, set up of an audit committee, and financial audit of the central bank).

10. **The authorities finalized their first PRSP progress report in April 2004, following a participatory process involving civil society**. They provided an update of the medium-term macroeconomic framework underlying the strategy in June 2004. The report notes that while Guinea was able to make progress in the social sectors, the deterioration in the macroeconomic environment has significantly impaired the achievement of the PRS targets.

II. Report on the Discussions

A. The Ex-Post Assessment Report[7]

11. The main conclusion of the Ex-Post Assessment (EPA) report is that Guinea has not yet been able to sustain consistent implementation of a long-term development strategy. The main lessons are the need for: (i) ensuring ownership and commitment at the highest level of government at the onset of any program; (ii) encouraging early and decisive progress in raising fiscal revenue and implementing structural reforms; (iii) paying more attention to poor governance; and (iv) setting realistic macroeconomic objectives and incorporating ex ante contingency plans as a precautionary cushion should new risks materialize. These lessons guided the policy discussions with the authorities on the way forward. The authorities were in agreement with the main thrust and conclusions of the EPA, except for small reservations.[8] They recognized that Guinea must change its behavior and persevere in its adjustment efforts.

B. Immediate Policy Challenges and Outlook for 2004

12. **The staff and the authorities agreed that the continued pursuit of past policies would result in a worsening of the economic situation**. The authorities indicated that their immediate challenge was to strengthen policy implementation to slow down inflation and

[7] See Ex-Post Assessment Report of July 7, 2004 (www.imf.org).

[8] They indicated that increases in fiscal revenue would come only gradually given the large role of the informal sector in economic activity, and that the slow pace of structural reforms under the second PRGF (2001-04) was partly due to limited progress in terms of increased production and employment generation from the first wave of reforms. Also, they suggested that in assessing performance, the Fund pay greater attention to country-specific considerations, notably the hostile regional environment that Guinea had faced.

normalize relations with donors to facilitate access to the much needed external finance that would help advance the implementation of the poverty reduction strategy.

13. **Cognizant of the urgent need to take corrective measures and reflecting their desire to reengage more meaningfully with the Fund, the authorities adopted an emergency recovery program in March 2004**. Key elements of the package are: cuts in expenditure;[9] respecting rigorously the expenditure commitment procedures; improving revenue collection by curtailing exemptions and strengthening fiscal administration; and tightening monetary policy. The authorities emphasized that it would be very difficult to make up for the revenue shortfall of the first quarter. Under the circumstances, the original 2004 budget was revised to extend the revenue shortfall and the spending curtailment to the year as a whole, albeit with defense spending exceeding earlier projections. The authorities indicated that the fiscal adjustment underpinning the revised budget represented the maximum they could accommodate in the short run without hampering the government's ability to provide minimal public services. The overall deficit (commitment basis, including grants) would be limited to 2.6 percent of GDP.

14. **The mission acknowledged the difficulty of realizing short-term adjustments beyond what is currently envisaged and encouraged the authorities to persevere in implementing their emergency program**. It indicated that, while the implementation of such a program will be a step in the right direction, it would not be sufficient to ease inflationary pressures as initially envisaged.[10] The mission urged the authorities to pursue the strict expenditure control implemented since April and to ensure that unprogrammed resources that may become available be used to reduce government indebtedness to the banking sector.[11] Also, the mission and the authorities agreed that monetary policy should be significantly tightened by active open market operations and ensuring that the budget deficit is financed through issuance of treasury bills, as this would avoid the direct expansion of base money by way of central bank advances to the government.

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[9] Including a curtailment of nonwage spending on social sectors.

[10] The mission and the authorities estimated that to get inflation on a clear downward path in 2004, base money growth should not exceed 10 percent, implying a bank financing of the budget deficit limited to 1.2 percent of GDP. Considering the currently projected deficit and the need to reduce external payment arrears to normalize relations with donors, this would entail financing more than half the deficit by the nonbank sector or reducing the deficit itself by more than one half. The former is very unlikely and the latter is not realistic.

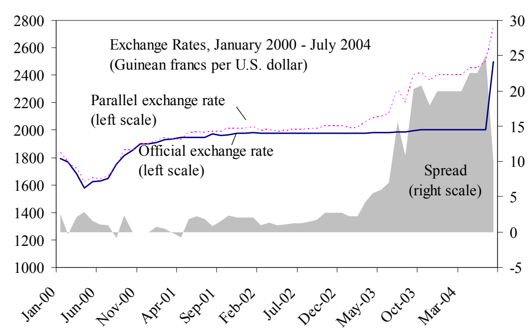
[11] Such resources could come from a better-than-envisaged revenue performance or from privatization receipts.

15. **In light of the problems highlighted above, economic performance in 2004 is projected to be weaker than envisaged at the time of the 2003 Article IV consultation**.[12] Real GDP growth at 2.6 percent is only half the rate projected earlier. The envisaged fiscal consolidation is reflected in a slower growth in broad money.[13] However, end-2004 inflation is expected to rise somewhat reflecting the pass-through of the exchange rate depreciation (including through the upward adjustment of administered prices). The external current account excluding grants is projected to narrow further to 3.7 percent of GDP as a low investment rate continues to subdue imports. Owing to the lack of external budgetary assistance and the low private capital flows, official reserves would decline further to 1.2 months of imports, from 1.5 months in 2003.

C. Exchange Rate Policy

16. **The staff indicated that the rationing of foreign exchange with regard to imports and the use of multiple exchange rates constitute a new exchange restriction and a new MCP, and that it would not recommend Board approval of such practices**.[14] The lack of a mechanism to prevent the rates in the official and the parallel markets from diverging by more than 2 percent constitutes an MCP subject to IMF jurisdiction under Article VIII. Since mid-2003, the government actions—(i) limiting the availability of foreign exchange in the official market to particular categories of importers and (ii) with respect to other importers, tolerating commercial banks to finance those imports at negotiated exchange rates which diverged by more than 2 percent from the official exchange rate—have given rise to new exchange restrictions and a new MCP subject to Fund approval under Article VIII.

17. **There was agreement between the staff and the authorities that the de facto fixed exchange rate was inappropriate as it resulted in a large parallel market premium and an overvaluation of the official rate.** The parallel foreign exchange market has existed in Guinea for a long time, albeit as an illegal market up to 1995. Changes that followed the legalization of foreign currency trading outside the



[12] Country Report No. 03/250; 8/14/03.

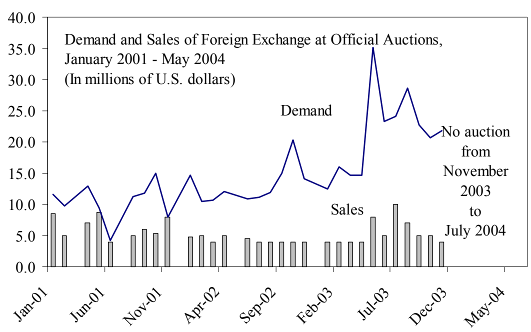
[13] Given limited external financing and negative non-bank domestic financing, the fiscal deficit is expected to be financed mostly through bank credit, including central bank advances.

[14] The authorities administratively allocated foreign exchange to finance rice and petroleum products imports, and allowed banks to finance other priority imports at negotiated exchange rates in between the official and parallel rates.

organized banking sector include the introduction of the foreign exchange auction system in 1999. During 1999–2002, in the absence of government interference with a free determination of the official rate at auctions, the official rate generally tracked the parallel market.[15] Since 2003, while market forces have led to a gradual depreciation of the parallel market rate in light of the deteriorating macroeconomic environment, the government de facto fixed the official rate and, in early 2004, introduced a rationing of foreign exchange with regard to imports. Accordingly, excess demand in the official market spilled over into the parallel one, and the spread between the parallel and official rates widened markedly by mid-2004. Under the circumstances, the staff is of the view that the observed parallel market premium—of almost 25 percent by mid-2004— is broadly indicative of the overvaluation of the official rate.

18. **The staff urged the authorities to adopt a more flexible exchange rate and to abandon the administrative allocation of foreign exchange with regard to imports**. It indicated that such a system provides a cushion against Guinea's vulnerability to exogenous shocks—terms of trade and other real shocks. In a similar vein, the staff indicated that an administrative allocation of foreign exchange distorts resource allocation. In sum, the staff stressed that a more liberalized and flexible exchange rate system would serve Guinea better.

19. **The authorities agreed that a more flexible exchange rate system was necessary.**[16] However, they feared that liberalization could lead to a speculative rapid depreciation of the Guinean franc. The staff argued that the best guarantee of market participants' confidence in the currency is the credibility of public policies. It also indicated that an overvalued exchange rate would hurt competitiveness, which is already adversely affected by structural and institutional



[15] With an estimate of at least 70 percent of foreign exchange transactions channeled into the parallel market owing to the limited use of formal mechanisms in Guinea, this market, which functions free of government intervention, largely reflects market conditions. Except for a few spikes, the divergence between the parallel and the official exchange rates was generally 2 percent, indicating that structural factors did not affect the parallel market premium significantly.

[16] On July 14, 2004, in the first foreign exchange auction to be held since November 2003, the official rate depreciated by 20 percent.

weaknesses. The staff argued forcefully, in line with MFD technical assistance recommendations, that the authorities move to a more flexible exchange rate system.[17]

D. Way Forward

20. **The authorities stressed that normalizing Guinea's relations with the Fund and other donors was important to the implementation of their development strategy.** They expressed their determination to take all the actions called for to enter into a track-record SMP as soon as possible. There was agreement between the authorities and the staff that entering into an SMP would imply going beyond short-term fiscal tightening and notably include:

- Disciplined implementation of the fiscal and monetary tightening;
- Adoption of a floating exchange rate system, with the rate determined through interbank trading and the central bank disseminating indicative rates;
- Immediate implementation of the long overdue three critical measures recommended by the 2002 safeguard assessment mission to limit the vulnerabilities in the central bank's financial reporting and internal control system;[18] and
- Strong commitment to structural reforms in key areas, notably to prepare the adoption of the WAEMU's CET and restructure the public utility enterprises to alleviate the shortages in electricity and water supply.

E. Medium-Term Prospects and Challenges

21. **The medium-term challenge facing the authorities is to set the country on a path of sustainable growth and poverty reduction**. The staff and the authorities agreed that the pursuit of past policies would lead to a further drop in investment and per capita real GDP growth, exacerbating the vulnerabilities of the Guinean economy (Box 2). In the absence of external assistance, bank financing of the fiscal deficit would lead to continued significant monetary expansion and higher inflation. In this context, the discussions focused on policies and reforms needed to promote macroeconomic stability, enhance policy credibility, and

[17] The May 2004 MFD technical assistance mission proposed the abandonment of the present auction system (MED), which is unable to provide an indicator of the true value of the Guinean franc, because it attracts only small amounts and increases the scarcity of foreign currencies in the banking system and the holding of export receipts in offshore accounts.

[18] The mission expressed concern to the authorities about the rapid increase in the "other items (net)" item in the central bank balance sheet, for which the authorities were not able to provide a full explanation.

create conditions for increased private investment, broad-based economic growth, and poverty reduction.

22. **The staff and the authorities concurred that improved macroeconomic management and an acceleration of reforms would generate faster growth, though still insufficient to meet the Millennium Development Goals** (Table 8). The adoption of sound policies—assuming improved security in the region and larger donor support—could allow the economy, after a transition period (2004-05), to return to a growth path of 5 percent beginning in 2006, with inflation falling back to single digits from 2006 onward (Figure 2). Decisive progress in implementing reforms could improve the private savings rate from about 7.7 percent of GDP in 2003 to above 10 percent in 2007. With renewed confidence and a rekindling of foreign direct investment, particularly in the mining sector, gross domestic investment could rise from 10 percent of GDP in 2003 to 15½ percent in 2007, driven by the private sector. However, the staff and the authorities agreed that achieving the MDGs would require a more ambitious macroeconomic performance and more financial resources than envisaged in the current medium-term framework.

Box 2. Guinea: Risks and Vulnerabilities

Four main vulnerabilities are key concerns for the short- and the medium-term:

- ***Political vulnerabilities and private investment variations***: political instability and/or regional insecurity could hinder a rebound in economic activity. Fear of social unrest may delay necessary reforms, notably in the area of exchange rate and price policies, while the fight against corruption may encounter resistance from vested interests. In this context, investors may adopt a wait-and-see attitude.

- ***Lack of diversification***: the large share of agriculture in GDP makes growth highly dependent on climatic conditions; the economy's dependence on the mining sector makes it highly vulnerable to downturns in the world market for minerals; and the economy is also vulnerable to fluctuations in oil prices as it imports all of its petroleum products.

- ***Possible shortfalls in donors' support***: with Guinea's deteriorating economic performance and in the absence of a program with the Fund, budgetary and HIPC support will remain limited. Also, if it continues to experience difficulties to make timely debt service payments, a number of donors will continue to suspend their project assistance.

- ***Balance sheet vulnerabilities***: the domestic debt of the government has increased sharply, from 4.5 percent of GDP in 2000 to 12.2 percent at end-2003. Though still low by regional standards, there is a risk of crowding out other expenditure, and that the central bank may refrain from issuing the needed volume of T-bills in the fear of an upward adjustments in interest rates that would increase debt service further.

Fiscal policy

23. **The authorities agreed that implementation of a sound fiscal policy stance reflecting the priorities of the poverty reduction strategy was crucial to their medium-term strategy**. The staff emphasized that a key aspect of such a stance was to entrench discipline in public finances and break with the unsteady policy implementation of the past several years and the authorities concurred. Assuming greater government efforts on both the revenue and the expenditure fronts, the staff and the authorities projected a 0.8 percentage point of GDP decline in the overall fiscal deficit (commitment basis, excluding grants) during 2004–07, predicated on an increase in revenue that outweighs the increase in spending.

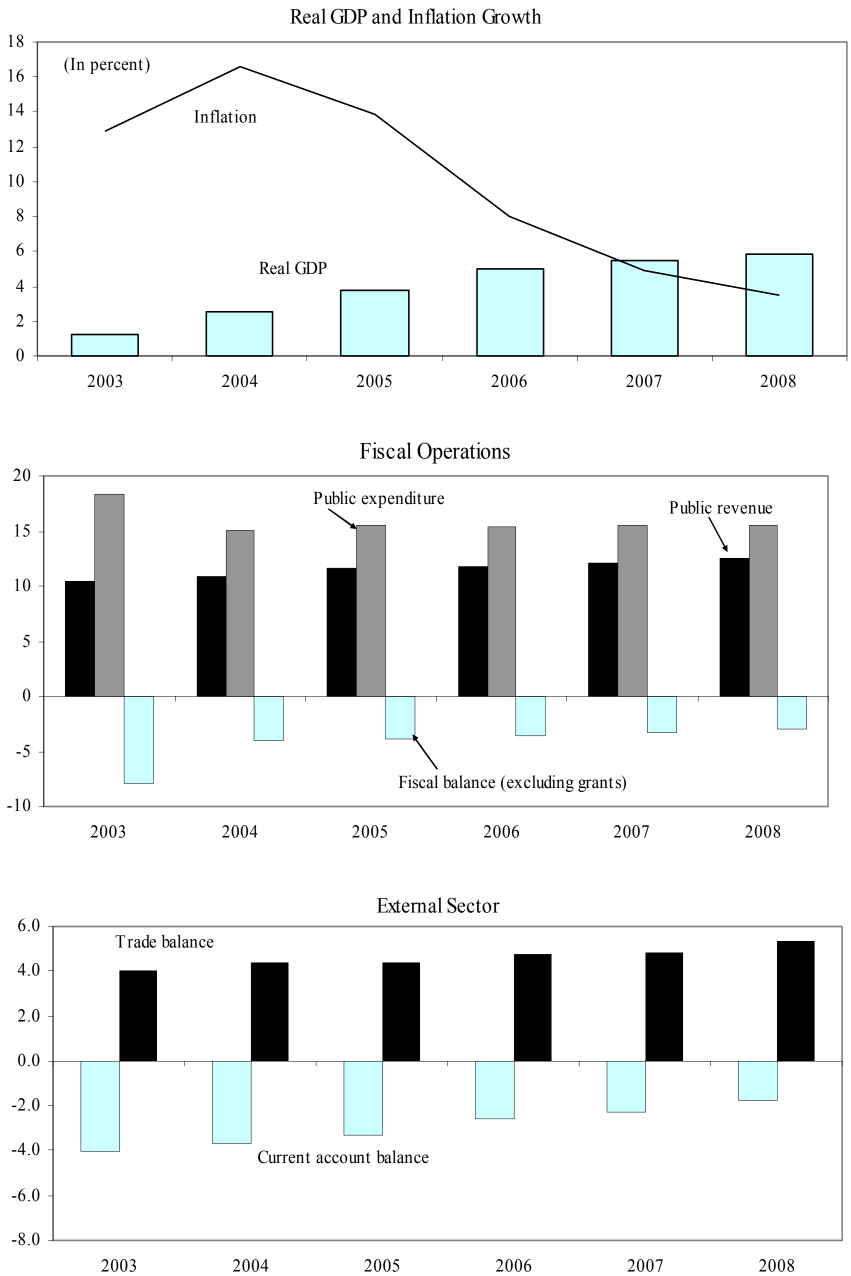
24. **Revenue is projected to increase by 1.2 percent of GDP over 2004–07**, driven by collections from the nonmining sector. Increasing revenue collection would hinge on a strengthening of tax administration, progress in the fight against corruption, and the implementation of the WAEMU's CET. The latter would, while encouraging regional trade, simplify the taxation of trade so as to reduce discretionary and rent-seeking actions.[19] The mission also urged the authorities to fully implement the specific revenue enhancement measures recommended by the 2003 public expenditure review (PER) and the May 2004 FAD technical assistance mission.

25. **Expenditure policy is geared toward raising development and social outlays while curtailing other expenditures**. In that regard, the medium-term budget framework envisages that a greater share of spending would be allocated to social sectors. In particular, current nonwage primary spending on social sectors is projected to increase by almost 0.6 percent of GDP between 2004 and 2007, while total primary current spending would increase by only 0.3 percent of GDP over the same period. Overall, the primary balance is projected to increase only marginally as part of the revenue increase would be absorbed by higher domestically-financed development spending.[20]

[19] The 2002 FAD technical assistance mission indicated that the main benefit of the adoption of the WAEMU's CET would be the simplification of Guinea's tariff system. It projected the positive revenue impact to amount to 0.4 percent of GDP by 2005, mostly from the suppression of ad hoc exemptions. In light of this, the projected revenue increase over the medium-term is quite conservative.

[20] As the primary balance path encompasses an almost 1 percentage point of GDP increase in domestically-financed investment during 2004-07, its steadiness is not at odds with the projected almost 1 percent of GDP increase in government savings over the same period.

Figure 2. Guinea: Medium-Term Framework (Policy Adjustment Scenario), 2003–08
(In percent of GDP, unless otherwise indicated)



Source: Fund staff projections.

26. **The staff emphasized and the authorities agreed that, to benefit the poverty reduction agenda, the increased spending on social programs should be coupled with an improved public expenditure management system**. This should encompass greater transparency in budget execution and a better tracking of spending, including at the decentralized levels where most poverty reduction expenditures are executed. In particular, the staff encouraged the authorities to improve the management of the externally-funded part of the development budget to ensure that it reflects the priorities of the poverty reduction strategy. The authorities indicated that some donors do not facilitate the planning and tracking of development expenditure as they make direct transfers to decentralized services or pay suppliers abroad, forcing the government to record commitments ex-post.[21] The mission and the authorities also concurred that implementation of the measures recommended by the PER would be key to improving expenditure management to benefit the social sectors. Such measures include a tighter control of the budget share of wages through the reduction of staff in the central services, an inclusion in the medium-term expenditure framework of budget ceilings for defense spending and the introduction of a more transparent review process for such spending, and the introduction of more robust procedures for the transfer of funds to the local levels and for improved controls by the General Finance Inspectorate.

Monetary and financial policies

27. **The staff and the authorities concurred that keeping inflation under control should be the primary focus of monetary policy over the medium term.** The authorities indicated that the central bank would stop accommodating the Treasury and would pursue an active liquidity management, based on the recommendations made by MFD technical assistance missions. The staff pointed out that the capacity of the central bank to absorb liquidity through its auctions—to which only commercial banks subscribe—is limited because of the composition of reserve money.[22] The staff therefore encouraged the central bank to foster better bank intermediation and to promote the sale of treasury bills to the nonbank sector, which would also help to absorb liquidity outside the banking sector.

28. **While Guinea's banking sector appears relatively sound, the staff stressed the need for continuous efforts to enforce supervisory rules**. The authorities replied that prompt action will be taken for the rapid adoption of the new banking law and the law on

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[21] The difficulty in tracking externally financed development expenditures has created problems in determining the public investment item in the national accounts.

[22] On a monthly average in the first quarter of 2004, currency accounted for 87 percent of reserve money.

microfinance.[23] Concerning the strengthening of the supervisory capacity of the central bank, they noted difficulties in recruiting qualified experts for bank supervision.

External sector policies and debt

29. **Guinea's external accounts could improve markedly over the medium term**, provided that the envisaged foreign direct investments in the mining sector are undertaken starting in 2005 and that measures are implemented to diversify the export base, notably to respond to the growing regional demand for agricultural products. To help achieve this goal, the staff pointed to the benefits of further trade liberalization—notably through the full implementation of the WAEMU's CET in 2005—and limiting government interference in the regulation of the export sector,[24] combating corruption and streamlining bureaucracy. Liberalization efforts would also facilitate the introduction of the reciprocal trade opening under the EU's Economic Partnership Agreement[25] and taking full advantage of the Africa Growth and Opportunity Act (AGOA).[26]

Medium-Term Balance of Payments

	2004	2005	2006	2007
External current account balance (excl. official transfers) (in percent of GDP)	-3.7	-3.3	-2.6	-2.3
Gross official reserves (in months of imports)	1.2	1.5	2.8	3.9
	(Annual changes in percent)			
Exports	1.2	5.6	9.3	9.3
Imports	0.0	7.0	8.1	9.1

Source: staff projections.

30. **Guinea's external debt burden is projected to remain heavy, unless the country can benefit from full HIPC debt relief.** Since Guinea reached the decision point in 2000, its

[23] In the area of microfinance, the four major institutions that currently operate in the sector have been accredited by the central bank, and on-site audits are undertaken since 2003. A strengthening of the central bank supervisory capacity is still needed to ensure adequate surveillance of the sector.

[24] The World Bank is helping to foster trade through its support under the Integrated Trade Framework.

[25] An impact study prepared by the EU in April 2004 convincingly highlights the large adjustment that the Guinean economy may face because of the Economic Partnership Agreement, including an important revenue loss from tariff collections on Guinean imports form the EU in the absence of rebalancing tax and tariff revenues.

[26] So far, Guinea has not yet taken advantage of AGOA. However, interest among the government and the local community remains high. The AGOA action committee has identified several products that would be AGOA-export worthy, including shea butter, fresh fruit, artisanal goods, and textiles. The staff encourages progress in this area, noting the role FDI has played in countries that have benefited more from AGOA than Guinea.

external debt indicators have deteriorated owing mainly to lower-than-projected exports. The staff and the authorities concurred that in light of Guinea's limited foreign exchange reserves and the suspension of interim debt relief under the HIPC Initiative by some creditors, the difficulties the country has been experiencing in servicing external debt would continue, unless the country gains access to more of the HIPC relief it qualified for at the decision point.[27] Against this background, the authorities reasserted their determination to improve policy implementation and deepen reforms to facilitate resumption of external assistance and the attainment of completion point under the HIPC. While encouraging the authorities in their endeavor, the staff indicated that the completion point could be reached at best in late 2005/early 2006 after meeting all the completion point triggers,[28] the rigorous policy implementation under an SMP, and a satisfactory track record in the form of completion of one review under a new PRGF-supported program covering a period of policy implementation of at least six months. The authorities indicated that the envisaged timing of the completion point would be costly to the implementation of their poverty reduction strategy and emphasized their need to enter into an SMP as soon as possible.

31. **The authorities indicated that they will pursue efforts toward regional integration**. They reaffirmed their commitment to adopt the WAEMU's CET in January 2005 and to adhere to the WAMZ monetary union when it will be launched on July 1, 2005, despite the deterioration of Guinea's performance with regard to the convergence criteria of the WAMZ (Box 3). The staff encouraged the authorities on their planned adoption of the CET, which would result in reducing Guinea's trade restrictiveness index from 3 to 2. However, the staff expressed skepticism about the benefit of joining the monetary union, in light of the lack of progress toward economic convergence with other WAMZ member countries, and the difficulties Guinea might encounter to adjust to asymmetric exogenous shocks in the envisaged monetary union.

Governance

The mission emphasized the need for the authorities to make significant progress in the fight against corruption. There was progress on two HIPC Initiative completion point triggers on governance, with the publication of the 2002 progress report of the Anti-Corruption Committee (CNLC) and the launching of the bids for the auditing of the government procurement contracts.[29] Nevertheless, the mission expressed concerns that the change in the status of the CNLC from being an independent structure under the Presidency

[27] The DSA presented in Appendix IV indicates that the debt relief Guinea qualified for at the decision point would reduce the country's stock of debt to sustainable levels.

[28] Most of which have already been met. For more details, see Box 6 in Country

Report No. 03/250, 8/14/03.

[29] The bids are due to be opened on July 30, 2004.

to being part of a new Ministry, may impair its independence and effectiveness in the fight against corruption. The authorities assured the mission that the change in the reporting channels was intended to reinforce the power of the CNLC by giving it a say within the government.

Box 3. Guinea's Position Relative to the Convergence Criteria for the Second Monetary Zone in West Africa (WAMZ)

The convergence criteria established for the new monetary zone are divided into four primary and six secondary criteria:

Criterion	Regional Objective	Status in Guinea at End-2002	Status in Guinea at End-2003
Primary criteria			
Budget deficit (Commitment basis; in percent of GDP)	< 4.0 percent by 2002	-6.2	-7.9
Inflation (end-of-period; in percent)	≤ 3 percent by 2003	6.1	14.8
Central bank financing of budget deficit (percent)	≤ 10 percent of previous year's tax receipts by 2003	26.5	17.2
International reserves (months of imports)	≥ 4	2.3	1.5
Secondary criteria			
Domestic arrears	No new accumulation and reduction of existing stock	Met	Not met
Tax revenue/ GDP (percent)	≥ 20	9.8	9.0
Wage bill/tax revenue	≤ 35	38.3	39.9
Real exchange rate	Broad stability	-2.3	-0.5
Interest rates	Positive real interest rates	Met	Not met
Self-financed investment/tax revenue (percent)	≥ 20	12.7	14.4

32. **The authorities attributed the delays in the adoption of the reforms pertaining to the judicial system to the electoral agenda in 2003**. They indicated that the regulation governing the special statute of magistrates was adopted by the Council of Ministers, and the

effective implementation of legislation pertaining to the reorganization of the judiciary will be undertaken this year.

III. Statistical and Technical Assistance Issues

33. **Notwithstanding the efforts made in recent years to improve statistics, problems remain in the areas of public finances, the real sector, balance of payments, and external debt** (Appendix III). Some of the weaknesses in the fiscal area should be alleviated by the closure of most non-project extra budgetary accounts, the use of a computer-based budget monitoring system, and the consolidation of all government cash flows under a unified accounting framework. Weaknesses in real sector statistics relate to the data quality, as well as coverage**.** The launch of a new consumer price index in March 2004 should improve price statistics, and the authorities indicated that they will continue to use the improved methodology for GDP accounting. Notwithstanding some progress after two technical assistance missions from Debt Relief International, debt statistics remain weak because of lax recordkeeping, insufficient coordination among government entities, and inadequately trained personnel.

34. **The authorities identified capacity-building needs in the areas of real sector statistics, monetary policy formulation, and public debt management**. The World Bank will continue to provide assistance under the Capacity Building for Service Delivery project. The staff encouraged the authorities to continue implementing the recommendations of previous technical assistance missions and to work closely with the West Africa Regional Technical Assistance Center (West AFRITAC) to address capacity-building needs.

IV. The PRSP Progress Report

35. The mission discussed the PRSP progress report, including the revised medium-term macroeconomic framework underlying the strategy, and the content of the Joint Staff Assessment (JSA).[30] The JSA indicates that the progress report could have benefited from (i) a better analysis of the sources of growth; (ii) taking account of up to date poverty indicators; and (iii) a list of measures to correct the strategy in areas where objectives were missed. The authorities concurred with these observations and indicated that they will be taken into account in next year's progress report.

V. Staff Appraisal

36. **Policy implementation was very weak in 2003**. The government's expansionary fiscal stance, its continued de facto control of the official exchange rate, and the absence of progress in the structural reform area, weakened economic performance. Economic growth was very low and savings and investment declined sharply. In the absence of external

[30] PRSP Progress Report and Joint Staff Assessment report; 7/15/04 (www.imf.org)

budgetary assistance, the increasing fiscal deficit was financed by an accumulation of arrears and an increased recourse to bank financing. The resulting monetary overhang has been associated with accelerating inflation, harmful to the poor.

37. **Multiple currency practices were intensified in 2003 and the first half of 2004.** As indicated in the last Article IV consultation report (Country Report No. 03/250, 8/14/03), the lack of a mechanism to prevent the rates in the official and the parallel markets from diverging by more than 2 percent constitutes an MCP. The measures introduced in 2003 consisting in an administrative allocation of foreign exchange have given rise to new exchange restrictions and a new MCP subject to Fund approval under Article VIII. Since the authorities have not yet set a clear timetable for eliminating these practices, the staff does not recommend the approval of these MCPs. The staff welcomes the depreciation of the official rate that took place in July 2004, which brings it more in line with market levels, but recommends abandoning the present auction system and moving toward a floating exchange rate determined through interbank trading.

38. **The government's emergency recovery program adopted in March 2004 is a step in the right direction but is not sufficient to put the economy back onto a solid growth trajectory**. The program proposes a substantial tightening of policies, albeit not sufficient to bring about a desired rapid decline in inflation. Cognizant of the difficulty in realizing short-term fiscal adjustments beyond what is currently envisaged, initiating a track-record SMP would require that the emergency program has started to bear fruit, is vigorously pursued, and augmented with decisive action on adopting a floating exchange rate system and implementing the long delayed recommendations of the 2002 safeguards assessment mission, and initiating urgently needed structural reforms.

39. **The medium-term prospects will depend on continued political will to adopt and steadily pursue sound, pro-growth, and poverty reducing policies**. The staff welcomes the cautious growth assumptions underlying the revised macroeconomic framework of the PRSP, but achieving these targets will require strong commitment to implement the structural reform agenda so as to elicit the appropriate supply response. It encourages the government to consider an even more ambitious reform agenda to accelerate growth further and help achieve the Millennium Development Goals. In particular, the staff urges the authorities to rapidly restructure the public utility enterprises to alleviate the shortages in electricity and water supply, to tackle the operational difficulties in the mining sector, and to promote export diversification. Also, the staff urges the authorities to rapidly and forcefully step up the fight against corruption and show determined progress in reforming the judicial system.

40. **The risks to successful policy reform are significant**. They include political and security tensions, lack of diversification of the economy, shortfalls in donors' support, and balance sheet vulnerabilities linked to the growing domestic debt. The staff urges the government to demonstrate unwavering commitment to sound policies, resist pressures from entrenched interests, and improve institutions to resolutely move the reform agenda forward.

41. **The cornerstone to improving macroeconomic performance and reducing domestic debt is the implementation of much tighter fiscal policies**. This will require continuation and reinforcement of the fiscal tightening undertaken since April. For the medium-term, achieving a sound fiscal policy will depend critically on improving revenue performance, containing defense spending, and on keeping nonproductive outlays to a strict minimum to free up resources to bolster domestically financed investment and social outlays. The staff calls on the government to fully implement the WAEMU's CET in 2005, to adopt the measures proposed by the recent FAD technical assistance mission on fiscal administration, and to continue strengthening the customs administration to enhance revenue. It also encourages the government to implement the recommendations of the 2003 public expenditure review to increase the efficiency of spending.

42. **The staff encourages the central bank to focus monetary policy on its primary objective of containing inflation**. Given the monetary overhang, liquidity management needs to become much more proactive, based on the recommendations of MFD technical assistance missions. The central bank should stop accommodating the Treasury and finance the government through the issuance of treasury bills. The central bank should also continue to strengthen bank supervision and push for the adoption of the revised banking and microfinance laws by Parliament.

43. **Sustaining external accounts will require implementing structural reforms and lessening interventionist policies in order to diversify the export base**. Regarding external debt, it will be important for the government to pursue its reforms efforts so as to eventually regain access to more of the HIPC Initiative relief it qualified for at the decision point, without which debt will remain unsustainable. In this regard, the authorities should endeavor to eliminate external debt arrears to normalize relations with donors.

44. **Guinea's statistical data remain weak and needs to be improved to strengthen surveillance**. The staff calls on the authorities to pursue the improvements already underway, notably by drawing on the technical assistance from STA, West AFRITAC, and donor agencies.

45. **It is proposed that the next Article IV consultation be held on the standard 12-month cycle**.

Table 1. Guinea: Selected Economic and Financial Indicators , 2002-07

	2002	2003	2004	2005	2006	2007
		Est.		Proj.		
	(Annual percentage change, unless otherwise indicated)					
Income						
GDP at constant prices	4.2	1.2	2.6	3.8	5.0	5.5
GDP at current prices	7.1	13.7	19.2	15.6	11.9	12.0
GDP deflator	2.8	12.3	16.2	11.4	6.6	6.2
Consumer prices						
Average	3.0	12.9	16.6	13.8	8.0	4.9
End of period	6.1	14.8	18.0	10.5	6.0	4.0
External sector						
Exports, f.o.b. (in U.S. dollar terms)	-2.0	2.3	1.2	5.6	9.3	9.3
Imports, f.o.b. (in U.S. dollar terms)	6.1	-3.0	0.0	7.0	8.1	9.1
Terms of trade						
Percentage change	2.3	-2.9	-4.0	3.4	0.9	1.7
Average effective exchange rates (depreciation -)						
Nominal index	-3.3	-11.3	...	...	...	...
Real index	-2.3	-2.7	...	...	...	...
Money and credit						
Net foreign assets 1/	-11.9	-9.4	-4.6	...	...	...
Net domestic assets 1/	31.2	44.7	24.6	...	...	...
Net claims on government (net) 1/	34.2	34.0	19.1	...	...	...
Credit to nongovernment sector 1/	3.5	8.6	2.9	...	...	...
Broad money	19.2	35.3	20.0	...	...	...
Reserve money	18.3	27.4	13.7	...	...	...
Treasury bill rate (end-of-period)	13.3	14.1	...	...	...	...
Velocity (GDP/average 2 year-end M2)	8.6	7.7	7.2	...	...	...
	(In percent of GDP)					
Central government finances						
Total revenue and grants	13.8	13.2	12.4	13.3	13.5	13.7
Of which: nonmining revenue	9.8	9.0	9.1	9.8	10.0	10.3
Current expenditure	12.2	12.9	9.8	9.8	9.5	9.5
Capital expenditure and net lending 2/	6.0	5.5	5.2	5.8	5.9	6.0
Overall budget balance						
Including grants (commitment)	-4.4	-5.1	-2.6	-2.2	-2.0	-1.8
Excluding grants (commitment)	-6.2	-7.9	-4.1	-3.9	-3.6	-3.3
Primary balance	0.0	-1.6	1.6	1.6	1.7	1.7
Gross investment	13.1	9.9	10.5	11.5	13.4	15.5
Government (fixed capital formation)	4.0	3.8	3.6	4.0	4.1	4.2
Nongovernment	9.1	6.2	6.9	7.5	9.3	11.3
Domestic savings	9.1	7.4	8.6	9.7	12.1	14.4
Government	1.5	-0.3	3.2	3.7	3.9	4.1
Nongovernment	7.7	7.7	5.4	6.0	8.2	10.3
External current account balance						
Including official transfers	-4.3	-3.3	-2.9	-2.3	-1.7	-1.4
Excluding official transfers	-5.6	-4.0	-3.7	-3.3	-2.6	-2.3
Overall balance of payments	-2.6	-2.6	-1.8	0.1	0.9	0.8
	(In percent of export earnings)					
External public debt	387.9	420.9	399.3	360.7	316.5	275.1
Memorandum items:	(In millions of U.S. dollars; unless otherwise indicated)					
Exports f.o.b.	708.5	724.5	733.0	774.3	846.6	925.3
Imports f.o.b.	596.2	578.1	578.1	618.9	669.1	729.8
External current account (including official transfers)	-136.8	-119.2	-102.7	-83.6	-62.6	-58.3
Overall balance of payments	-83.7	-93.7	-62.4	4.3	33.0	33.6
Gross official reserves (in months of imports)	2.3	1.5	1.2	1.5	2.8	3.9
Gross reserves (in percent of broad money)	41.9	25.2	17.2	...	...	...
Nominal GDP (in billions of Guinean francs)	6,340	7,210	8,595	9,935	11,122	12,462

Sources: Guinean authorities; and staff estimates and projections.

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

2/ Includes expenditure for restructuring.

Table 2. Guinea: Gross Domestic Product at Current Prices by Demand Components, 2002-07

	2002	2003	2004	2005	2006	2007
		Est.		Proj.		
			(In billions of Guinean francs)			
GDP at market prices	6,340.3	7,209.8	8,595.0	9,935.1	11,122.3	12,462.1
Consumption	5,760.4	6,679.0	7,854.5	8,969.0	9,778.4	10,666.6
Public	477.5	539.2	480.8	627.6	699.4	779.7
Private	5,282.9	6,139.8	7,373.7	8,341.4	9,079.0	9,886.9
Investment	831.3	714.6	906.8	1,142.5	1,490.7	1,931.8
Fixed capital formation	817.6	710.9	905.6	1,141.8	1,490.4	1,931.7
Government	254.9	270.6	311.1	399.1	457.9	520.5
Other sectors	562.7	440.3	594.5	742.7	1,032.5	1,411.2
Change in stocks	13.7	3.7	1.2	0.7	0.4	0.2
Foreign balance	-251.4	-183.8	-166.2	-176.3	-146.8	-136.3
Exports of goods and nonfactor services	1,550.9	1,587.4	1,983.8	2,403.0	2,798.0	3,171.3
Imports of goods and nonfactor services	1,802.3	1,771.2	2,150.0	2,579.3	2,944.8	3,307.7
			(In percent of GDP)			
GDP at market prices	100.0	100.0	100.0	100.0	100.0	100.0
Consumption	90.9	92.6	91.4	90.3	87.9	85.6
Public	7.5	7.5	5.6	6.3	6.3	6.3
Private	83.3	85.2	85.8	84.0	81.6	79.3
Investment	13.1	9.9	10.5	11.5	13.4	15.5
Fixed capital formation	12.9	9.9	10.5	11.5	13.4	15.5
Government	4.0	3.8	3.6	4.0	4.1	4.2
Other sectors	8.9	6.1	6.9	7.5	9.3	11.3
Change in stocks	0.2	0.1	0.0	0.0	0.0	0.0
Foreign balance	-4.0	-2.5	-1.9	-1.8	-1.3	-1.1
Exports of goods and nonfactor services	24.5	22.0	23.1	24.2	25.2	25.4
Imports of goods and nonfactor services	28.4	24.6	25.0	26.0	26.5	26.5
Domestic savings	9.1	7.4	8.6	9.7	12.1	14.4
Government	1.5	-0.3	3.2	3.7	3.9	4.1
Nongovernment	7.7	7.7	5.4	6.0	8.2	10.3
Gross national savings	8.9	6.6	7.6	9.2	11.7	14.1
Saving-investment balance	-4.3	-3.3	-2.9	-2.3	-1.7	-1.4
m.i. Current account	-4.3	-3.3	-2.9	-2.3	-1.7	-1.4

Sources: Guinean authorities; and staff estimates and projections.

Table 3. Guinea: Gross Domestic Product at Constant 1996 Prices by Sectors, 2002-07

	2002	2003	2004	2005	2006	2007
		Est.		Proj.		
			(In billions of 1996 Guinean francs)			
GDP at factor cost	4,716.0	4,782.6	4,899.8	5,074.6	5,310.2	5,588.9
Primary sector	900.6	926.3	964.0	1,003.0	1,055.4	1,109.5
Agriculture	581.9	598.8	626.1	654.5	694.8	735.2
Livestock	171.1	177.9	183.7	189.4	196.3	204.7
Fisheries	37.1	37.9	39.1	40.3	41.6	43.0
Forestry	110.5	111.6	115.2	118.9	122.7	126.6
Secondary sector	1,533.9	1,539.9	1,584.1	1,646.7	1,721.8	1,811.1
Mining	801.2	822.0	836.5	859.6	883.9	910.7
Manufacturing	200.9	192.8	196.6	203.5	213.7	226.5
Water, electricity	29.1	27.5	28.4	29.8	31.6	33.8
Construction	502.7	497.7	522.6	553.9	592.7	640.1
Tertiary sector	2,281.6	2,316.4	2,351.8	2,424.9	2,533.0	2,668.3
Trade	1,248.3	1,267.0	1,286.1	1,328.5	1,391.3	1,475.0
Transport	281.1	283.9	287.6	296.2	308.0	323.4
Administration	257.0	260.9	263.5	270.1	278.2	286.5
Other	495.1	504.6	514.6	530.1	555.5	583.3
Indirect taxes	207.3	201.8	212.6	230.1	259.4	285.8
GDP at market prices	4,923.3	4,984.3	5,112.4	5,304.8	5,569.6	5,874.8
			(Annual percent change)			
GDP at factor cost	3.4	1.4	2.5	3.6	4.6	5.2
Primary sector	5.1	2.9	4.1	4.0	5.2	5.1
Agriculture	5.9	2.9	4.5	4.5	6.2	6.4
Livestock	3.9	4.0	3.2	3.1	3.7	4.3
Fisheries	3.6	2.3	3.0	3.1	3.3	3.4
Forestry	3.0	1.0	3.2	3.2	3.2	3.2
Secondary sector	4.7	0.4	2.9	4.0	4.6	5.2
Mining	2.9	2.6	1.8	2.8	2.8	3.0
Manufacturing	6.0	-4.0	2.0	3.5	5.0	6.0
Water, electricity	3.0	-5.5	3.0	5.0	6.0	7.0
Construction	7.3	-1.0	5.0	6.0	7.0	8.0
Tertiary sector	2.0	1.5	1.5	3.1	4.5	5.3
Trade	1.8	1.5	1.5	3.3	4.7	6.0
Transport	2.1	1.0	1.3	3.0	4.0	5.0
Administration	2.5	1.5	1.0	2.5	3.0	3.0
Other	2.0	1.9	2.0	3.0	4.8	5.0
Indirect taxes	24.9	-2.7	5.9	6.8	9.3	7.5
GDP at market prices	4.2	1.2	2.6	3.8	5.0	5.5

Sources: Guinean authorities; and staff estimates and projections.

Table 4. Guinea: Financial Operations of the Government, 2002-07

	2002	2003		2004	2005	2006	2007
		Proj.	Est.	Proj.			
	(In billions of Guinean francs)						
Revenue and grants	876.9	1121.9	952.7	1070.0	1325.2	1497.0	1701.4
Revenue	763.9	835.3	754.1	939.5	1153.6	1311.3	1509.7
Mining sector	145.4	114.3	105.9	159.6	177.0	195.4	223.6
Non mining sector	618.5	721.0	648.2	779.9	976.6	1115.9	1286.2
Direct taxes	94.9	113.7	102.4	127.6	162.6	182.0	203.9
Indirect taxes	452.4	541.1	497.0	601.5	749.2	861.3	1000.9
Goods and services	313.2	371.4	347.9	420.1	522.1	593.5	685.6
International trade	139.1	169.7	149.1	181.3	227.2	267.8	315.3
Nontax revenue	71.3	66.2	48.9	50.8	64.8	72.6	81.3
Grants	113.0	286.6	198.6	130.5	171.5	185.6	191.7
Project	76.6	220.5	154.3	77.4	91.3	100.8	107.7
Program	0.3	4.5	4.5	0.0	0.0	0.0	0.0
HIPC	36.1	61.6	39.8	53.1	80.3	84.8	84.0
Total expenditures and net lending	1157.4	1357.4	1322.5	1290.1	1542.9	1717.0	1926.8
Current expenditures	776.1	812.1	929.0	841.8	969.5	1060.8	1184.0
Primary current expenditures	670.8	675.3	776.4	665.9	787.6	875.8	992.6
Salary and Wage	236.9	248.6	258.6	278.9	306.8	337.5	365.3
Goods and services	209.9	213.2	254.5	142.5	260.8	292.0	336.3
Transfers and subsidies	224.0	213.5	263.2	244.5	220.0	246.3	291.0
Interest on debt	105.3	136.8	152.7	175.9	181.9	185.0	191.3
Domestic debt	31.2	54.0	69.2	75.8	84.1	90.0	96.3
External debt	74.1	82.8	83.4	100.1	97.7	95.0	95.0
Capital expenditure	368.9	536.6	390.6	446.3	569.2	651.5	737.8
Domestically financed	78.4	111.6	93.1	131.3	197.9	241.3	299.6
Externally financed	290.5	425.0	297.5	315.0	371.3	410.2	438.2
Net lending	4.4	4.5	1.4	0.9	0.9	1.1	1.3
Restructuring expenditures	7.9	4.2	1.5	1.1	3.3	3.5	3.7
Primary balance 1/	2.3	39.8	-118.2	140.3	163.9	189.5	212.4
Overall balance, commitments basis							
Excluding grants	-393.4	-522.1	-568.4	-350.6	-389.3	-405.7	-417.1
Including grants	-280.4	-235.5	-369.8	-220.1	-217.8	-220.0	-225.4
Change in arrears	-52.4	-4.1	43.4	-45.5	0.0	0.0	0.0
Domestic 2/	-49.5	-4.1	34.3	-34.3	0.0	0.0	0.0
Interest on external debt	-2.9	0.0	9.1	-11.2	0.0	0.0	0.0
Change in float	...	20.0	11.4	37.0	0.0	0.0	0.0
Adjustment for balances of public administrations	-26.8	-26.3	-16.0	-8.0	0.0	0.0	0.0
Overall balance, cash basis	-359.6	-245.9	-331.0	-236.6	-217.8	-220.0	-225.4

Table 4. Guinea: Financial Operations of the Government, 2002-07 (concluded)

	2002	2003		2004	2005	2006	2007
		Proj.	Est.		Proj.		
	(In billions of Guinean francs)						
Financing	365.6	245.9	369.5	236.6	162.0	71.2	71.7
Domestic financing	261.1	168.5	311.3	164.8	128.2	27.2	28.4
Banking financing	230.3	139.8	272.1	206.4	128.2	27.2	28.4
Central bank	164.2	37.8	111.5	80.0	-5.0	-65.0	-65.0
of which HIPC account	-6.1	9.2	-44.3	33.3	-27.1	-40.6	-45.9
Other banks	66.2	102.0	160.6	126.4	133.2	92.2	93.4
Nonbank financing	30.8	28.7	39.2	-41.6	0.0	0.0	0.0
External financing	104.5	77.3	58.2	71.8	33.8	44.0	43.3
Drawings	215.8	216.3	165.2	237.6	280.1	309.4	330.5
Projects	213.9	204.5	143.2	237.6	280.1	309.4	330.5
Program	1.9	11.8	22.1	0.0	0.0	0.0	0.0
Amortization due	-191.1	-267.6	-247.6	-262.1	-322.4	-355.0	-379.8
Traditional rescheduling obtained	55.1	117.2	91.6	90.3	87.8	89.6	92.6
Debt relief HIPC	28.1	22.2	28.1	0.0	0.0	0.0	0.0
Forbearance debt service Paris Club	0.0	0.0	0.0	44.0	0.0	0.0	0.0
Change in amortization arrears	-1.7	0.0	26.9	-33.0	0.0	0.0	0.0
Debt repurchase	-1.7	-10.6	-6.0	-5.0	-11.7	0.0	0.0
Errors and omissions / Financing gap	-6.1	0.0	-38.5	0.0	55.8	148.8	153.7
Memorandum items:	(In percent of GDP; unless otherwise indicated)						
Nonwage current expenditure in priority sectors (in billions of Guinean francs) 3/	100.7	112.0	81.6	82.2	147.4	162.4	194.9
Nonwage current expenditure in priority sectors 3/	1.6	1.6	1.1	1.0	1.5	1.5	1.6
Revenue and grants	13.8	15.5	13.2	12.4	13.3	13.5	13.7
Revenue	12.0	11.6	10.5	10.9	11.6	11.8	12.1
Mining	2.3	1.6	1.5	1.9	1.8	1.8	1.8
Nonmining	9.8	10.0	9.0	9.1	9.8	10.0	10.3
Expenditures and net lending	18.3	18.8	18.3	15.0	15.5	15.4	15.5
Primary current expenditures	10.6	9.4	10.8	7.7	7.9	7.9	8.0
Wage bill	3.7	3.4	3.6	3.2	3.1	3.0	2.9
Capital expenditure	5.8	7.4	5.4	5.2	5.7	5.9	5.9
Primary balance	0.0	0.6	-1.6	1.6	1.6	1.7	1.7
Overall balance, commitments basis							
Including grants	-4.4	-3.3	-5.1	-2.6	-2.2	-2.0	-1.8
Excluding grants	-6.2	-7.2	-7.9	-4.1	-3.9	-3.6	-3.3
Overall balance, cash basis	-5.7	-3.4	-4.6	-2.8	-2.2	-2.0	-1.8
Nominal GDP (in billions of GNF)	6340.3	7215.7	7209.8	8595.0	9935.1	11122.3	12462.1

Sources: Guinean authorities; and staff estimates and projections.

1/ Revenue minus noninterest expenditure, excluding foreign-financed investment projects.

2/ Comprises changes in check float and changes in expenditure commitments unpaid during a period of no more than 90 days beyond which they become arrears.

3/ Includes outlays financed by resources from the enhanced HIPC Initiative.

Table 5. Guinea: Monetary Survey, 2002-04

	2002	2003				2004			
		March	June	Sept.	Dec.	March	June	Sept	Dec.
							Proj.		
	(In billions of Guinean francs, unless otherwise indicated)								
Central bank									
Net foreign assets	52.1	-10.8	30.6	2.1	-20.5	-34.8	-29.8	-50.0	-70.3
(in millions of U.S. dollars)	26.4	-5.5	15.5	1.1	-10.4	-17.4	-12.1	-20.4	-28.3
Net domestic assets	398.4	501.0	431.4	560.0	594.4	647.7	636.9	679.9	723.1
Domestic credit	392.7	474.4	390.7	491.7	529.0	549.4	538.6	581.6	624.8
Government, net	414.2	536.1	437.6	544.0	525.7	552.5	552.4	574.7	605.7
Of which: gold revaluation claims	17.6	55.4	55.4	55.4	55.4	55.4	55.4	55.4	55.4
Public enterprises	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Private sector	26.6	29.3	29.7	29.6	33.5	33.4	33.3	33.1	33.0
Liabilities to deposit money banks (-)	-50.7	-93.6	-79.3	-84.6	-32.9	-39.2	-49.8	-29.0	-16.6
Of which: sterilization bills (-)	-60.8	-95.3	-85.8	-86.0	-34.5	-41.0	-52.9	-32.1	-18.2
Other items, net (assets +)	5.7	26.6	40.7	68.3	65.4	98.3	98.3	98.3	98.3
Reserve money	450.5	490.2	462.0	562.1	573.9	612.9	607.1	629.9	652.8
Currency outside banks	349.8	401.0	392.6	456.0	478.1	500.9	524.6	548.3	572.0
Bank reserves	97.2	84.3	64.5	104.5	93.1	108.2	79.1	78.5	78.2
Deposits	78.4	68.8	44.7	78.9	77.4	84.7	58.0	59.8	61.9
Required reserves	24.8	27.6	30.9	32.7	33.3	36.4	37.6	38.7	40.0
Excess reserves	53.5	41.2	13.8	46.2	44.1	48.4	20.5	21.1	21.8
Cash in till	18.8	15.4	19.8	25.6	15.8	23.4	21.0	18.7	16.3
Private sector deposits	3.6	4.9	4.9	1.6	2.7	3.9	3.5	3.1	2.7
Deposit money banks									
Net foreign assets	69.5	76.2	79.9	70.6	66.8	91.8	100.4	94.3	66.5
Bank reserves	97.2	85.2	64.5	104.5	93.1	95.8	79.1	78.5	78.2
Deposits at the central bank	78.4	68.8	44.7	78.9	77.4	72.4	58.0	59.8	61.9
Cash in till	18.9	16.4	19.8	25.6	15.8	23.4	21.0	18.7	16.3
Claims on central bank	50.7	93.6	79.3	84.6	32.9	34.5	49.8	29.0	16.6
Of which: sterilization bills	60.8	95.3	85.8	86.0	34.5	41.0	52.9	32.1	18.2
Domestic credit	389.9	400.8	495.1	514.7	606.2	631.8	648.3	681.9	764.8
Credit to the government	84.9	68.0	138.6	142.9	245.4	288.3	288.3	305.4	371.8
Claims	115.0	97.6	177.8	187.9	285.9	327.9	322.9	342.2	412.3
Deposits	30.1	29.6	39.2	45.0	40.5	39.6	34.5	36.7	40.5
Claims on public enterprises	10.0	9.9	7.9	7.1	3.9	0.0	1.3	2.6	3.9
Claims on the private sector	295.1	322.9	348.5	364.7	356.9	343.6	358.7	373.9	389.0
Other items, net (assets +)	-159.8	-158.5	-161.0	-181.6	-196.6	-192.4	-194.8	-179.6	-192.4
Liabilities to the private sector (deposits)	447.6	497.4	557.7	592.8	602.5	661.6	682.8	704.1	725.3

Table 5. Guinea: Monetary Survey, 2002-04 (concluded)

	2002	2003				2004			
		March	June	Sept.	Dec.	March	June	Sept	Dec.
							Proj.		
	(In billions of Guinean francs, unless otherwise indicated)								
Monetary survey									
Net foreign assets	121.6	65.4	110.5	72.7	46.3	57.0	70.6	44.3	-3.8
Net domestic assets	679.4	837.9	844.7	977.7	1,037.0	1,109.3	1,090.5	1,182.2	1,303.8
Domestic credit	833.4	968.9	965.1	1,091.1	1,168.2	1,220.4	1,187.0	1,263.5	1,406.2
Credit to the government	499.1	604.1	576.2	686.9	771.2	840.7	840.8	880.2	977.6
Claims on public enterprises	12.6	12.6	10.6	9.8	6.6	2.7	4.0	5.3	6.6
Claims on the private sector	321.7	352.2	378.2	394.4	390.4	377.0	392.0	407.0	422.0
Other items, net (assets +)	-154.1	-130.9	-120.3	-113.4	-131.1	-111.1	-96.5	-81.3	-102.4
Broad money (M2)	801.0	903.4	955.2	1,050.4	1,083.3	1,166.3	1,210.9	1,255.4	1,300.0
Currency	349.8	401.0	392.6	456.0	478.1	500.9	524.6	548.3	572.0
Deposits	451.2	502.3	562.7	594.4	605.2	665.4	686.3	707.1	728.0
Of which: foreign currency deposits	120.3	138.6	160.8	161.0	157.9	178.1	179.1	184.5	190.0
Memorandum items:	(Year-on-year change in percent of beginning-of-period broad money, unless otherwise indicated)								
Net foreign assets	-11.9	-24.2	-14.0	-11.9	-9.4	-4.9	-3.7	-6.1	-4.6
Net domestic assets	31.2	63.2	44.1	45.2	44.7	24.4	22.7	31.2	24.6
Domestic credit	37.7	66.5	43.3	39.5	41.8	23.6	20.5	27.5	22.0
Net claims on government	34.2	59.5	33.8	31.2	34.0	24.4	24.4	28.1	19.1
Credit to nongovernment sector	3.5	7.0	9.5	8.2	7.8	-0.1	1.3	2.7	2.9
Broad money	19.2	39.0	30.1	33.4	35.3	19.5	23.6	27.7	20.0
Velocity (GDP/average M2)	8.6	...	8.0	7.6	7.7	...	...	...	7.2
Commercial bank credit to the private sector (annual percentage change)	1.1	8.1	22.0	19.1	20.9	6.4	2.9	2.5	9.0
Reserve money (annual percentage change)	18.3	43.3	11.5	35.5	27.4	25.0	31.4	12.0	13.7

Sources: Guinean authorities; and staff estimates and projections.

Table 6. Guinea: Financial Soundness Indicators for the Banking Sector, 1999 - 2003

(In percent, unless otherwise indicated)

	Prudential limits	1999	2000	2001	2002	2003
Capital Adequacy						
Net capital (average, in GNF billion)*	GNF 5 billion 1/	...	...	4.8	9.2	8.7
Regulatory capital to risk-weighted assets*	8% (10% 2/)	...	...	11.6	24.1	20.6
Loans larger than 15 percent of capital to regulatory capital*	Eight times capital	...	...	20.6	17.3	19.3
Number of loans larger than 25 percent of capital*	0	...	...	3.4	2.1	2.6
		(In number of banks respecting the prudential ratio)				
Net capital (average, in GNF billion)*	GNF 5 billion 1/	...	4	5	5	6
Regulatory capital to risk-weighted assets*	8% (10% 2/)	...	3	4	7	7
Loans larger than 15 percent of capital to regulatory capital*	Eight times capital	...	4	5	7	7
Number of loans larger than 25 percent of capital *	0	...	1	2	3	5
Asset composition and quality						
Sectoral distribution of loans to total loans						
Trade		58.6	60.7	59.7	59.9	53.9
Construction, public works		8.7	7.7	8.1	8.8	10.0
Agriculture and texiles		8.0	7.3	6.9	5.8	5.1
Business services		7.8	7.7	9.2	10.0	8.5
Other manufacturing industries		4.2	5.6	7.2	7.1	14.7
Transport		2.7	2.6	2.8	3.2	3.2
Other sectors 3/		10.1	8.5	6.1	5.3	4.7
Maturity distribution of loans to total loans						
Total credit utilized		74.0	68.1	68.1	64.7	72.1
Short term		60.8	57.5	59.5	57.3	60.1
Medium term		11.7	10.2	8.5	7.1	11.8
Long term		0.6	0.4	0.1	0.3	0.1
Guarantees and liabilities		26.0	31.9	31.9	35.3	27.9
Quality of loan portfolio						
Unpaid loans to total loans 4/		...	28.5	31.1	29.4	31.5
NPLs to total loans		...	25	27.7	25.7	28.0
Coverage of NPLs		...	83.2	87.6	88.5	83.7
Liquidity						
Liquid assets to short-term liabilities*	70% (100% 2/)	...	...	164.5	286.6	142.9

Source: BCRG.

* Included in the prudential regulation of the BCRG.

1/ The minimum regulatory net capital was GNF 2 billion before March 2002.

2/ Corresponds to the new prudential ratios, effective in June 2003.

3/ Includes exploitation of natural resources; extraction and production of minerals; energy and water production; and nonbu

4/ NPLs + frozen credits + nonimputed values.

Table 7. Guinea: Balance of Payments, 2002-09
(In millions of U.S. dollars; unless otherwise indicated)

	2002	2003	2004	2005	2006	2007	2008	2009
		Est.			Proj.			
Merchandise trade balance	112.4	146.4	154.9	155.4	177.5	195.4	233.8	277.8
Exports, f.o.b.	708.5	724.5	733.0	774.3	846.6	925.3	1,014.0	1,098.9
Of which: mining products	619.9	624.8	629.4	658.4	725.9	795.2	873.6	947.5
Imports, f.o.b.	-596.2	-578.1	-578.1	-618.9	-669.1	-729.8	-780.3	-821.0
Food products	-119.5	-112.9	-108.3	-122.9	-123.3	-133.3	-143.1	-151.3
Other consumption goods	-97.0	-102.1	-89.9	-92.6	-99.1	-96.9	-105.3	-119.6
Petroleum goods	-89.9	-96.5	-108.8	-102.8	-99.1	-93.2	-99.2	-112.3
Intermediate and capital goods	-289.8	-266.6	-271.1	-300.7	-347.7	-406.5	-432.7	-437.8
Services trade balance	-239.6	-238.9	-222.7	-218.6	-226.7	-239.8	-261.5	-281.8
Services exports	76.7	74.8	76.7	86.7	92.8	106.3	108.6	102.7
Of which: transport	8.9	6.7	6.8	7.2	7.9	8.6	9.4	10.2
Services imports	-316.3	-313.7	-299.4	-305.3	-319.5	-346.0	-370.1	-384.5
Of which: transport	-107.4	-93.7	-86.2	-88.6	-92.0	-98.9	-104.1	-104.1
Income balance	-38.0	-31.7	-39.9	-32.2	-28.9	-28.1	-28.4	-28.5
Of which: dividend payments	-1.2	-0.8	-1.7	-1.5	-1.5	-1.5	-1.6	-1.6
interest on public debt 1/	-37.5	-42.0	-40.8	-35.0	-31.9	-30.9	-30.9	-30.9
Transfers	28.4	5.1	4.9	11.8	15.6	14.1	12.3	9.3
Of which: net private transfers	-15.3	-22.7	-22.4	-22.8	-18.9	-19.4	-19.9	-21.2
official transfers	25.5	7.8	5.7	5.8	6.0	6.2	6.4	6.6
HIPC Initiative assistance (multilat.)	18.3	20.0	21.7	28.8	28.5	27.3	25.8	23.9
Current account								
Including public transfers	-136.8	-119.2	-102.7	-83.6	-62.6	-58.3	-43.8	-23.2
Excluding public transfers	-180.5	-147.0	-130.1	-118.2	-97.1	-91.8	-76.0	-53.7
Capital account	38.8	77.7	31.6	32.7	33.8	35.0	36.3	37.5
Public transfers (project grants)	38.8	77.7	31.6	32.7	33.8	35.0	36.3	37.5
Financial account	43.7	-22.8	8.7	55.2	61.8	56.9	106.5	76.9
Public (medium and long term)	12.5	-41.5	-10.0	-9.8	-8.2	-3.1	26.5	35.4
Project-related loans	108.3	72.1	97.0	105.8	110.9	120.4	129.7	136.9
Program financing	1.0	11.1	0.0	0.0	0.0	0.0	0.0	0.0
Amortization due 1/	-96.8	-124.7	-107.0	-115.5	-119.2	-123.6	-103.2	-101.5
Direct and other private investment (net)	31.2	18.7	18.7	65.0	70.0	60.0	80.0	41.5
Errors and omissions	-29.3	-29.3	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-83.7	-93.7	-62.4	4.3	33.0	33.6	98.9	91.3

Table 7. Guinea: Balance of Payments, 2002-09 (concluded)
(In millions of U.S. dollars; unless otherwise indicated)

	2002	2003	2004	2005	2006	2007	2008	2009
		Est.	Proj.					
Financing	83.7	93.7	62.4	-24.3	-114.5	-115.1	-180.4	-170.7
Change in net official reserves	43.8	15.3	25.7	-55.8	-144.6	-145.2	-210.6	-188.9
Of which: Net use of Fund resources	5.4	-16.4	-22.5	-21.0	-19.4	-20.7	-17.5	-8.4
Changes in arrears and government assets (net)	-2.3	18.1	-18.1	0.0	0.0	0.0	0.0	0.0
Forbearance debt service Paris Club	0.0	0.0	18.0	0.0	0.0	0.0	0.0	0.0
Debt relief	42.1	60.3	36.9	31.5	30.1	30.1	30.2	18.2
Of which: HIPC Initiative assistance (Cologne terms)	14.2	14.1	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing gap	0.0	0.0	0.0	20.0	81.5	81.5	81.5	79.4
Memorandum items:								
Current account-GDP ratio (in percent)								
Including public transfers	-4.3	-3.3	-2.9	-2.3	-1.7	-1.4	-1.0	-0.5
Excluding public transfers	-5.6	-4.0	-3.7	-3.3	-2.6	-2.3	-1.7	-1.2
Overall balance	-2.6	-2.6	-1.8	0.1	0.9	0.8	2.3	2.0
Exports-GDP ratio (in percent)	24.5	22.0	23.1	24.2	25.2	25.4	25.7	26.1
Imports-GDP ratio (in percent)	-28.4	-24.6	-25.0	-26.0	-26.5	-26.5	-26.4	-26.2
External medium-and long-term public debt	3045.6	3364.1	3233.3	3106.0	2972.8	2838.1	2402.3	2303.5
In percent of GDP	94.9	92.7	106.4	96.8	81.9	80.9	67.5	61.7
Debt-service ratio 2/	9.0	12.5	11.1	11.9	11.4	11.1	8.1	6.6
Gross reserves	170.0	138.3	90.2	125.0	250.2	374.7	585.3	748.2
In months of imports of the following year	2.3	1.5	1.2	1.5	2.8	3.9	5.7	7.0

Sources: Guinean authorities; and staff estimates and projections.
1/ Including debt-service payments on publicly guaranteed debt.
2/ In percent of exports of goods and nonfactor services.

Table 8. Guinea: Millennium Development Goals

	1990	1995	2001	2002	2010 Target 1/
Goal 1. Eradicate extreme poverty and hunger					
Target 1: Halve between 1990 and 2015, the proportion of people whose income is less than one dollar a day.					
1. Population below US$ 1 a day (percent)	..	40.3	..	..	30
2. Poverty gap ratio at US$ 1 a day (percent)	..	..	..	..	..
3. Share of income or consumption held by poorest 20 percent (percent)	..	6.4	..	..	..
Target 2: Halve, between 1990 and 2015, the proportion of people suffering hunger					
4. Prevalence of child malnutrition (percent of children under 5)	..	..	33	..	..
5. Population below minimum level of dietary energy consumption (percent)	40	..	32	..	..
Goal 2. Achieve universal primary education					
Target 3: Ensure that, by 2015, children will be able to complete a full course of primary schooling					
6. Net primary enrollment ratio (percent of relevant age group)	..	36.5	47	..	100
7. Percentage of cohort reaching grade 5	58.8	54.1	84.4	..	..
8. Youth literacy rate (percent age 15-24)	..	..	..	..	..
Goal 3. Promote gender equality and empower women					
Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education by 2015					
9. Ratio of girls to boys in primary and secondary education (percent)	43.1	48.6	..	75.4	..
10. Ratio of young literate females to males (percent ages 15-24)	..	..	..	..	..
11. Share of women employed in the nonagricultural sector (percent)	..	..	..	..	..
12. Proportion of seats held by women in the national parliament (percent)	..	7	9	9	..
Goal 4. Reduce child mortality					
Target 5: reduce by two-thirds between 1990 and 2015, the under-five mortality rate					
13. Under-five mortality rate (per 1,000)	240	208	169	..	70
14. Infant mortality rate (per 1,000 live births)	145	129	109	105.3	50
15. Immunization against measles (percent of children under 12-months)	35	61	52	..	..
Goal 5. Improve maternal health					
Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.					
16. Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	1200	..	..	200
17. Proportion of births attended by skilled health personnel	30.5	..	34.8	..	..
Goal 6. Combat HIV/AIDS, malaria and other diseases					
Target 7: Halt by 2015, and begin to reverse, the spread of HIV/AIDS					
18. HIV prevalence among females (percent ages 15-24)	..	..	1.4	..	..
19. Contraceptive prevalence rate (percent of women ages 15-49)	2	..	6.2	..	..
20. Number of children orphaned by HIV/AIDS	..	..	30000	..	..

Table 8 Guinea: Millennium Development Goals (concluded)

	1990	1995	2001	2002	2010 Target 1/
Target 8: Halt by 2015, and begin to reverse, the incidence of malaria and other major diseases					
21. Prevalence of death associated with malaria	..	..	..	..	..
22. Share of population in malaria risk areas using effective prevention and treatment	..	..	..	..	..
23. Incidence of tuberculosis (per 100,000 people)	..	..	270.4	..	..
24. Tuberculosis cases detected under DOTS (percent)	..	38	40	..	..
Goal 7. Ensure environmental sustainability					
Target 9: Integrate the principles of sustainable development into policies and programs. Reverse the loss of environmental resources					
25. Forest area (percent of total land area)	29.6	..	28.2	..	..
26. Nationally protected areas (percent of total land area)	..	0.7	0.7	0.7	..
27. GDP per unit of energy use (PPP $ per kg oil equivalent)	..	..	..	..	..
28. CO2 emissions (metric tons per capita)	0.2	0.2	0.2	..	..
29. Proportion of population using solid fuels	..	..	..	..	..
Target 10: Halve by 2015 proportion of people without access to safe drinking water					
30. Access to improved water source (percent of population)	45	..	..	64.3	100
Target 11: Achieve by 2020 significant improvement for at least 100 million slum dwellers					
31. Access to improved sanitation (percent of population)	55	..	58	..	..
32. Access to secure tenure (percent of population)	..	..	..	..	..
Goal 8. Develop a Global Partnership for Development 2/					
Target 16: Develop and implement strategies for productive work for youth.					
45. Unemployment rate of population ages 15-24 (total)					
Female	..	..	..	..	..
Male	..	..	..	..	..
Target 17: Provide access to affordable essential drugs					
46. Proportion of population access with access to affordable essential drugs	..	..	..	..	..
Target 18: Make available new technologies, especially information and communications					
47. Fixed line and mobile telephones (per 1,000 people)	..	1.5	10.1	..	15
48. Personal computers (per 1,000 people)	..	1.4	4	..	..

Sources: World Bank; and Fund staff estimates.

1/ The target reported corresponds to the authorities' own objectives in the PRSP.

2/ Targets 12-15 and indicators 33-44 are excluded because they can not be measured on a country specific basis. These are related to official development assistance, market access, and the HIPC initiative.

Guinea: Relations with the Fund
(As of May 31, 2004)

I. Membership Status: Joined on September 28, 1963; Article VIII

II. General Resources Account:

	SDR million	Percent of Quota
Quota	107.10	100.00
Fund holdings of currency	107.03	99.93
Reserve position in Fund	0.08	0.07

III. SDR Department:

	SDR million	Percent of Allocation
Net cumulative allocation	17.60	100.00
Holdings	0.01	0.05

IV. Outstanding Purchases and Loans:

	SDR million	Percent of Quota
Poverty Reduction and Growth Facility (PRGF) arrangements	86.11	80.41

V. Financial Arrangements:

Type	Approval date	Expiration date	Amount approved (SDR million)	Amount drawn (SDR million)
PRGF[31]	05/02/2001	05/01/2004	64.26	25.70
ESAF/PRGF	01/13/1997	01/12/2001	70.80	62.94
ESAF	11/06/1991	12/19/1996	57.90	46.32

VI. Projected Payments to the Fund (without HIPC Assistance)
(SDR million; based on existing use of resources and present holdings of SDRs):

	Overdue May 31, 2004	Forthcoming				
		2004	2005	2006	2007	2008
Principal	1.16	9.64	14.20	13.09	13.98	11.83
Charges/interest		0.57	0.65	0.58	0.51	0.45
Total	1.16	10.21	14.85	13.67	14.49	12.27

[31] The PRGF went off track as of end-December 2002.

Projected Payments to the Fund (with Board-approved HIPC Initiative Assistance) (SDR million; based on existing use of resources and present holdings of SDRs):

	Overdue May 31, 2004	Forthcoming 2004	2005	2006	2007	2008
Principal	1.16	9.64	14.20	13.09	13.98	11.83
Charges/interest		0.57	0.65	0.58	0.51	0.45
Total	1.16	10.21	14.85	13.67	14.49	12.27

VII. Implementation of HIPC Initiative:

A. Commitment of HIPC assistance	Enhanced Framework
Decision point date	12/20/2000
Assistance committed by all creditors (US$ million) [1]	545.00
Of which: IMF assistance (US$ million)	31.40
(SDR equivalent in millions)	24.24
Completion point date	Floating

B. Disbursement of IMF assistance (SDR million)	
Amount disbursed to the member	5.17
Interim assistance	5.17
Completion point balance	0.00
Additional disbursement of interest income [2]	0.00
Total disbursements	**5.17**

[1] 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.

VIII. Safeguards Assessments:

An on-site safeguards assessment of the BCRG was completed on July 11, 2002; it concluded that substantial risks existed in the central bank's external audit mechanism, financial reporting framework, and system of internal controls. The authorities have yet to implement all the corrective actions recommended.

IX. Exchange Arrangements:

Guinea has a de jure managed floating exchange rate with no preannounced path, which has been reclassified as a de facto peg because of the central bank's de facto fixing of the exchange rate. The official exchange rate of the Guinean franc is determined monthly in the auction market for foreign exchange at the central bank. However, due to a lack of liquid foreign exchange, no auctions were held between late 2003 and July 2004, and the official rate of the Guinean franc remained at GF 2,000 per U.S. dollar. An auction was held on July 14, 2004, with the rate depreciating to GF 2,500 per U.S. dollar; at the auction held on July 21, 2004, the official rate remained unchanged. Commercial banks are, in principle, free to buy and sell foreign exchange at any rate. The lack of a mechanism to prevent the rates in the official and parallel markets from diverging by more than 2 percent and the administrative allocation of foreign exchange to finance specific imports give rise to multiple currency practice.

X. Article IV Consultation:

Guinea is on the 12-month cycle. The last consultation was concluded by the Executive Board on July 16, 2003.

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[2] 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.

XI. Technical Assistance:[32]

Department	Purpose	Timing
FAD	Advise on customs reform.	March 1999
FAD/resident advisor	Assist on treasury management.	January-June 1999
FAD/resident advisor	Advise on customs reform.	Sep. 1999-Oct. 2000
FAD	Advise on introduction of West African Economic and Monetary Union (WAEMU) common external tariff.	September 2002
FAD	Advise on tax administration	June 2004
MFD/resident advisor	Advise the governor of the BCRG.	1998-2000
MFD	Advise on monetary operations	June 21-30, 2000
MFD	Examine foreign exchange auctions system at the BCRG.	October 10-24, 2000
MFD	Advise on liquidity forecasting, review foreign exchange operations, and advise on supervisory framework for microfinance institutions.	End-November 2001
MFD	Advise on liquidity management	Nov.-Dec. 2002
MFD	Advise on bank supervision.	March 2003
MFD	Advise on bank liquidity management, exchange operations, and supervision	May 2004
STA	Examine the overall compilation of real sector statistics.	March 2000
STA	Review the coverage of the monetary Statistics, as well as data collection and compilation practices.	November 2000

XII. Resident Representatives:

Mr. Jones has been Resident Representative since July 2003.

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

Guinea: Relations with the World Bank Group

Partnership in Guinea's Development Strategy

1. Guinea's development strategy is laid out in the government's poverty reduction strategy paper (PRSP), which was endorsed by the Executive Board of the Bank on July 25, 2002. The PRSP rests on three main pillars: first, to sustain faster economic growth and create income-earning and employment opportunities, particularly for the rural poor; second, to increase and extend access to basic services; and third, to improve governance and strengthen institutional and human capacity. The PRSP builds on the groundwork of Guinea's poverty reduction policies as formulated in the "Guinea—Vision 2010" document of December 1996 and the interim PRSP of 2000.

2. The World Bank is taking the lead in the policy dialogue and areas of structural reforms, including banking sector restructuring; privatization; administrative decentralization; capacity building; sector programs in the priority areas of health, education, rural development, and road maintenance; and the anticorruption program. Overall, noticeable improvement has been made in the above-mentioned areas; however, in the judicial sector and utilities sector (telecommunications, electricity, and water), progress has been slow.

Bank Group Strategy

3. The current Country Assistance Strategy (CAS 2004-06) for Guinea was approved by the Board in June 2003. The CAS presents three scenarios. In the high-case scenario, the Bank would increase budget support through the PRSC and provide project financing to the power and water sectors. The PRSC would provide an adequate time frame and resources for tackling medium- and long-term reforms in the key areas of decentralization, governance, and divestiture. In the base case, the CAS would support those aspects of the PRSP approved by the authorities in March 2002 and prepare the way for a new relationship with the development partners based on a gradual phasing in of programmatic lending, leading to more efficient allocation and utilization of external aid. Finally, the low-case scenario assumes government is unable to make significant progress in resolving key macroeconomic, fiscal and governance issues. Any assistance would be limited to safeguarding the progress achieved in the priority sectors, vital to poverty reduction. There would be no budget support nor infrastructure financing.

4. IDA provided a fourth Structural Adjustment Credit (SAC IV) to Guinea in 2001, which is designed to support the country's poverty reduction strategy in the areas of public expenditure management, governance, and public goods delivery to the poor. The SAC IV has had a satisfactory impact on the country's macroeconomic performance in the medium term. The credit was disbursed in one tranche (US$50 million) on the grounds that, despite the lack of any external budget support for a two-year period, Guinea had kept its economy

broadly on track and had demonstrated commitment to the program reforms with regard to public expenditure management, governance, and the decentralization of basic service delivery. The adjustment program supported by SAC IV paved the way for programmatic lending to support the government's poverty strategy and, to a large extent, prepared the ground for preparation of a Poverty Reduction Support Credit (PRSC), originally scheduled for FY04, on the assumption of continuing sound macroeconomic performance and implementation of the reform program. However, macroeconomic management began to deteriorate seriously in mid-2002 and the Fund's PRGF program went off track in December 2002. Key contributing factors were: overspending related to security outlays, a highly expansionary fiscal stance, a lax monetary policy and fixing of the exchange rate leading to rising inflation and a serious decline in gross reserves. A wavering commitment to sound macroeconomic policies, slow progress in governance and risks to political stability, combined with exogenous risks – lower prices for bauxite and other commodities against a backdrop of regional instability – suggest that GDP growth in 2003 will only reach 2.1 percent. Given this continuing poor macroeconomic performance, Guinea may be considered as currently reflecting the CAS' low-case scenario. Consequently, the Bank's support will be limited to protecting the sectors vital to poverty reduction.

5. As of June 29, 2004, the IDA has approved 62 credits for Guinea, of which four were in the transport and infrastructure sector; eight in the energy, water, and telecommunications sector; five in strengthening the country's management capability [Technical Assistance / Economic Management], six in financing rural sector development; four in the urban sector; three in the health sector; four in the education sector; three in mining sector development; four in structural adjustment; four in the financial sector; and one in private sector development. The total value of these projects amounts to about US$1,420 million equivalent, of which US$1,287 million has been disbursed. During the period FY98-04, the Board approved two adjustment operations (Public Expenditure Management Adjustment Credit and the Fourth Structural Adjustment Credit) and six investment operations: the Village Community Support Program, the Capacity Building for Service Delivery Program, the Microfinance LIL, the Pre-Service Teacher Education LIL, the Urban Project, and the Population and Reproductive Health Project. In July 2001, the Fourth Structural Adjustment Credit (US$50 million), the Education-for-All Project (US$70 million), and the Rural Electrification LIL (US$5 million) were approved. The Bank's current portfolio in Guinea reflects the priorities of the PRSP. It comprises eight projects totaling US$204.3 million, of which US$20.3 million is in the form of a grant, and US$132.2 million remains undisbursed. The Education for All Program, the Multisectoral HIV/AIDS Program and the Decentralized Rural Electrification Project will be implemented throughout the CAS period. The non lending program includes fiduciary assessment; a public expenditure review (PER); analysis of public finance management and audit systems; a cross-cutting assessment of Guinea's social, structural, and sector development under the PRSP; and Bank/Fund collaborative work on social impact analysis.

6. Under the current low-case CAS scenario, the proposed World Bank lending program for FY04-06 will support a second Health Sector Project (US$15 million) in FY04, a second

Village Community Support Program (US$35 million) in FY05, and a second Capacity Building for Service Delivery Program (US$10 million) in FY 06.

Bank-Fund Collaboration in Specific Areas

7. The IMF and World Bank staffs maintain a collaborative relationship in supporting the government's structural reforms. As part of its overall assistance to Guinea through lending, country analytic work, and technical assistance, the Bank supports policy reforms in the following areas in collaboration with the Fund.

Public Expenditure Management

8. Improvements in public expenditure management have been one of the top priorities of the Guinean government since 1996. The Bank, the Fund, and other donors have worked closely together to provide the government the needed support for institutional and policy reforms. While the Fund is leading the dialogue on tax policy, the Bank is focusing on strategic resource allocation and operational efficiency of public expenditures. To enhance strategic resource allocation and operational efficiency, the Bank has assisted the government in the preparation of the medium-term expenditure framework (MTEF) and is supporting the strengthening and opening up of the budget process as well as the allocation of resources to pro-poor priority areas at the decentralized level. A Country Procurement Assessment Review (CPAR) was undertaken in 2002 while in 2003 a Public Expenditure Review (PER), managed by the Bank, was conducted with strong government ownership, extensive consultation of beneficiaries and development partners and in close collaboration with the Fund and the AfDB. The PER was complemented by a full CFAA which gave close attention to public expenditure management systems, to the auditing of public finances and to related governance issues

Poverty and Social Impact Analysis

9. The Bank and Fund's respective Guinea country teams are currently discussing the Poverty and Social Impact Analysis. It is envisaged that a few selected areas may be analyzed over the coming years. These might cover: an analysis of the impact on social output indicators of government spending in health and education, an assessment of the impact of the adoption of the Common External Tariff of the West African Economic and Monetary Union (WAEMU) on the taxation of basic consumer goods, an assessment of the impact of exchange rate flexibility on consumer prices, a social impact analysis of trade reforms, and an analysis of the impact of taxation on growth and income distribution. The selection of the few reforms to analyze will be based on the importance of the expected poverty and social impacts of each reform, the prominence of the issue in the government's agenda, the timing and urgency of the reform, and the level of national debate surrounding the reform. The 2003 household survey should be completed as soon as possible so that the key determinants of poverty and their interdependency be identified, making it possible to track poverty impact over time.

Public Service Reform and Improved Service Delivery

10. In recent years, the government of Guinea, with the support of the Bank and other donors, has launched a number of major initiatives to improve performance and to foster greater accountability, transparency, and integrity in the public sector. These include (i) the Public Finance Management Reform Program; and (ii) the National Anti-Corruption Strategy and Action Plans for Guinea. Among these reforms, the public service reform program plays a central role, since its objective is to improve accountability, transparency, and resource management for service delivery. The program is closely linked with other major reforms in public finance and decentralization. Cooperation between the Bank and the Fund covers those areas where public sector reform has a direct impact on fiscal stability and public sector financial management.

Trade Reforms

11. The Bank and the Fund also are working together closely to assist Guinea in establishing a pro-growth trade framework. While the Fund has taken the lead in reforms in the tariff regime, the Bank is trying to foster trade through the Integrated Trade Framework. The Bank is also involved in a dialogue on trade reforms in the context of the WAEMU at the regional level.

World Bank Contact Person: Mr. Ezzeddine Larbi (Phone: 458-2996).

Guinea: Financial Relations With the World Bank Group—
Statement of Loans and Credits
(As of June 29, 2004; in millions of U.S. dollars)

IBRD and IDA Operations Portfolio

Closed Projects 54

IBRD/IDA*

Total disbursed (active)	86.65
Of which: has been repaid	0.00
Total disbursed (closed)	1,200.38
Of which: has been repaid	218.95
Total disbursed (active + closed)	1,287.02
Of which: has been repaid	218.95
Total undisbursed (active)	132.24
Total undisbursed (closed)	0.09
Total undisbursed (active + closed)	132.33

Active Projects

		Original Amount in US$ Million			
Project ID	Project Name	**Fiscal Yr.**	**IBRD**	**IDA**	**Undisb**
P049716	Capacity Building for Service Delivery	2000		19.0	13.5
P050046	Education for All Project	2002		70.0	62.1
P074288	Guinea: Decentralized Rural Electrification	2003		5.0	5.3
P050732	Village Community Support Program	1999		22.0	4.4
P073378	Multi-Sectoral Aids Project (MAP)	2003		20.3	19.5
P001075	Third Water Supply	1997		50.0	19.9
P001074	Urban III	1999		18.0	7.5
Overall Result*		**Result**		**204.3**	**132.2**

IFC and MIGA Program, FY2000–2004

	2001	2002	2003	2004
IFC Approvals (US$m)	0.00	0.00	0.00	0.00
Sector (%)				
Investment Instrument (%)				
MIGA Guarantees (US$m)	**51.46**	**39.41**	**17.49**	**17.49**

Guinea: Statistical Issues

12. Although improvements have been made in recent years in the availability of detailed government finance data, serious statistical problems remain, particularly in the compilation of real sector and balance of payments statistics. Changes in the financial system in recent years have affected the quality of data for deposit money banks. A law on statistics that organizes the institutional setting for producing statistics at a decentralized level was approved in 1995. However, neither the National Council of Statistics, responsible for coordinating the production of statistics, nor a technical committee responsible for providing recommendations on the statistical program—both created under the new law—seem to have improved the quality of statistics.

13. Guinea is participant to the General Data Dissemination System (GDDS) and its metadata were first posted on the Dissemination Standard Bulletin Board (DSBB) on December 12, 2003.

14. Economic and financial data provided to the Fund are generally adequate for program monitoring, although problems with the internal consistency of fiscal data and their consistency with monetary data are frequently encountered.

Real sector statistics

15. Statistics on the real sector are weak and incomplete. Only the consumer price index (CPI) is published on a regular basis, while other statistics are published irregularly, not widely distributed, and are often not reliable. There is no regular survey on mining and industrial production, nor are there statistics on employment and population.

16. After extensive work in 1990–93 to build a solid database for the national accounts, the authorities, with technical assistance from the World Bank, produced final national accounts tables for 1986 to 1988 and provisional data for 1990 and 1991; an input-output table was produced for 1990. A comprehensive household survey was prepared for 1994. Provisional national accounts were produced for 1992–96, but they do not use fully the results of the household survey and have serious shortcomings. The Ministry of Planning and Cooperation prepared updates of macroeconomic data and projections on the basis of the 1994 national accounts before it was eliminated in June 2000 and some of its functions allocated to the Ministry of Finance. In October 2000, the authorities presented final national accounts for 1995–96, and provisional accounts for 1997–98. All national accounts data were significantly revised on that occasion. A program to reinforce the national accounts is being undertaken with the technical assistance of the regional statistical office (AFRISTAT) and the Gesellschaft für Technische Zusammenarbeit (GTZ). The work is expected to lead to the production of input-output matrices on an annual basis.

17. The consumer price index for Conakry is available on a monthly basis, with a one-month lag. Export prices are estimated on the basis of information supplied directly by

the mining companies, while import prices are based on a weighted average of partner countries' export prices. Exchange rates are reported monthly.

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

19. In March 2000, a STA mission presented detailed recommendations on how to improve real sector statistics. The mission identified the lack of a budget for the compilation of current statistics and poor professional training as the main causes of the statistical system's weakness. Guinea has developed an action plan to address these weaknesses, but financial resources for many of these measures remain to be identified.

Balance of payments statistics

20. The authorities have implemented some of the recommendations made by a balance of payments statistics mission in May 1995. Notably, coverage of trade in services, private transfers, and capital flows has been expanded by surveying service providers and large companies on an annual basis. However, the survey is not comprehensive, and there are no sanctions for nonresponse. In view of the difficulties encountered with the compilation of annual statistics, the mission's recommendation to compile data on a quarterly basis has not yet been implemented.

21. Merchandise trade statistics are reported in the standard Harmonized System of Customs Classification, net of imports by diplomats and transit trade. In spite of the technically advanced method of presentation, the data are clearly inconsistent with actual developments in the country. Some of these inconsistencies may be due to smuggling, as exports of gold and diamonds are subject to modest export taxes and imports are subject to import duties. However, the trade statistics also report significant exports of aluminum products, which, according to the Ministry of Mining and Energy, are not produced in the country. Thus, these data are substantially adjusted prior to publication.

22. The balance of payments statistics also affect national accounts data. The national accounts are based on trade data that include transit trade and imports by diplomats, and thus overestimate the openness of the economy. However, the national accounts use estimates of trade in services, which are well below those estimated on the basis of the surveys conducted by the central bank. The authorities have requested additional technical assistance from STA for balance of payments statistics.

23. However, since December 2002, the authorities have not reported monthly data on international reserves to the IMF Statistics Department.

Government finance statistics

24. Comprehensive monthly central government budgetary data are compiled by the Ministry of Finance on a cash basis for revenue and on commitment and cash bases for expenditure. AFR receives preliminary data within 15 days and main final data within one month. Budgetary data are often not internally consistent. Consolidated central government operations data come from the Treasury.

25. The budget includes the bulk of all government operations, although it excludes a number of "satellite" accounts that are not directly incorporated in the budget. There are also significant differences between the national definition of general government and that provided by the *Government Finance Statistics Manuals (GFSM)*. Moreover, autonomous funds, such as the Road Fund, are only partly incorporated in the budget. For the Road Fund, the largest autonomous fund, 100 percent of resources are "committed" through the budget and transferred from the budget to the fund. Actual disbursements are made at the Road Fund's discretion (monitored, however, through its account at the central bank). The fuel tax is not expressly earmarked for the Road Fund, but it is received by the general budget and transferred to the Road Fund through the budget.

26. The latest data published in the *GFS Yearbook* are for 1999. Guinea does not report fiscal data for publication in *International Financial Statistics (IFS)*.

Monetary accounts statistics

27. Monthly data on monetary authorities, deposit money banks, and interest rates are available. Developments and changes in the financial system during the last few years, including the liquidation and restructuring of some banks, are not fully reflected in the monetary statistics, owing to problems of data collection, the classification of instruments, and the sectorization of economic activities. A monetary and financial statistics mission visited Conakry in the second half of November 2000 to review the coverage of the monetary statistics, as well as data collection and compilation practices. The mission summarized its main findings and recommendations in a report and action plan left with the authorities. The authorities have made good progress in taking the measures the report proposed. In particular, efforts are being made to strengthen the commercial banks' reporting practices, especially the classification of nonperforming loans.

28. Beginning 2001, the authorities undertook regular reporting of monetary data for publication in *IFS*. However, the timeliness of monetary data reporting has been uneven since 2003. The most recent data for the monetary authorities and the deposit money banks that will be published in the August 2004 edition of the *IFS* refer to December 2003.

Guinea: Core Statistical Indicators
(As of May 31, 2004)

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/GNP	External Debt
Date of latest observation	3/31/04	2/28/04	2/28/04	2/28/04	2/28/04	3/12/04	2/31/04	2003	2003	4/30/04	2003	12/31/03
Date received	4/05/04	4/05/04	4/05/04	4/05/04	4/05/04	3/30/04	4/05/04	5/15/04	5/15/04	6/5/04	5/15/04	5/15/04
Frequency of data 1/	M	M	M	M	M	M	M	A	A	M	A	Q
Frequency of reporting 1/	M	M	M	M	M	M	M	A	A	M	A	Q
Source of data 2/	BCRG	BCRG	BCRG	BCRG	BCRG	BCRG	MEF	Fund Mission	Fund Mission	MEF	MEF	MEF
Mode of reporting 3/	C/M	C/M	C/M	C/M	C/M	M	C/M	V	V	C/M	V	M/V
Confidentiality 4/	U	U	U	U	U	U	U	U	U	U	U	U
Frequency of Publication 1/	M	M	M	M	M	M	M	A	A	M	A	Q

1/ D = daily; W = weekly ; M = monthly; Q = quarterly; A = annual.
2/ BCRG = Central Bank of the Republic of Guinea; MEF = Ministry of Economy and Finance; MOP = Ministry of Planning.
3/ C = cable or facsimile; M = mail; V = staff visits/missions.
4/ U = unrestricted.

Guinea: Debt Sustainability Analysis

1. **At end 2003, Guinea's external public debt amounted to US$3.4 billion in nominal terms, including arrears**. Of this total, 62 percent is owed to multilateral creditors, and the quasi-totality of the remainder to bilaterals. The Paris Club accounts for almost 70 percent of the debt owed to bilaterals. After full use of traditional debt relief mechanisms, the stock of debt at end–2003 is reduced to US$2.5 billion. Nominal debt service due was US$146 million in 2002 and US$184.2 million in 2003. After taking into account the different Paris Club rescheduling agreements and the interim assistance under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative, debt service to be paid in these two years was US$88 million and US$103 million, respectively. In 2003, the amount actually paid was US$85 million because of an accumulation of arrears of US$18 million.

2. **At the time Guinea reached its decision point under the HIPC Initiative in December 2000, its stock of debt was reduced substantially**. The NPV of debt-to-exports ratio after full use of traditional debt relief mechanisms was estimated at 219 percent at end-1999 and projected to decline to 166 percent by end–2003. With HIPC debt relief of US$545 million in NPV terms, this ratio was reduced to 150 percent at end 1999 and 133 percent at end-2003, and was expected to remain under the 150 percent threshold throughout the projection period. Since then, there have been changes in key variables affecting the NPV of debt-to-exports ratio. These changes are taken into account in the new projections.

3. **Projections under the baseline scenario assume the implementation of sound macroeconomic policies** to correct the imbalances of the past couple of years as described in section II, C of the staff report. Real GDP growth is projected to average 5 percent of GDP during 2005–09 and 7 percent afterwards as new private investment comes on board, reforms and policies allowing.[33] The scenario also critically depends on regional security, climatic conditions, and by the evolution of bauxite, alumina, and gold prices. The overall fiscal balance is projected to record deficits until 2015. The external current account is projected to improve gradually and to become roughly balanced after 2015.

4. **On external debt, the baseline projections assume, as at the decision point, full use of traditional debt relief mechanisms in the computation of the NPV of debt and borrowing on concessional terms for all new loan disbursements**. Based on the policies and assumptions indicated above, Guinea's external debt ratios would remain at unsustainable levels, as defined under the debt-to-exports criteria. At end–2003, the NPV of debt-to-exports ratio would be 201.4 percent compared with 166 percent estimated for the same year at the decision point. The increase is explained by a 2 percentage point decline in

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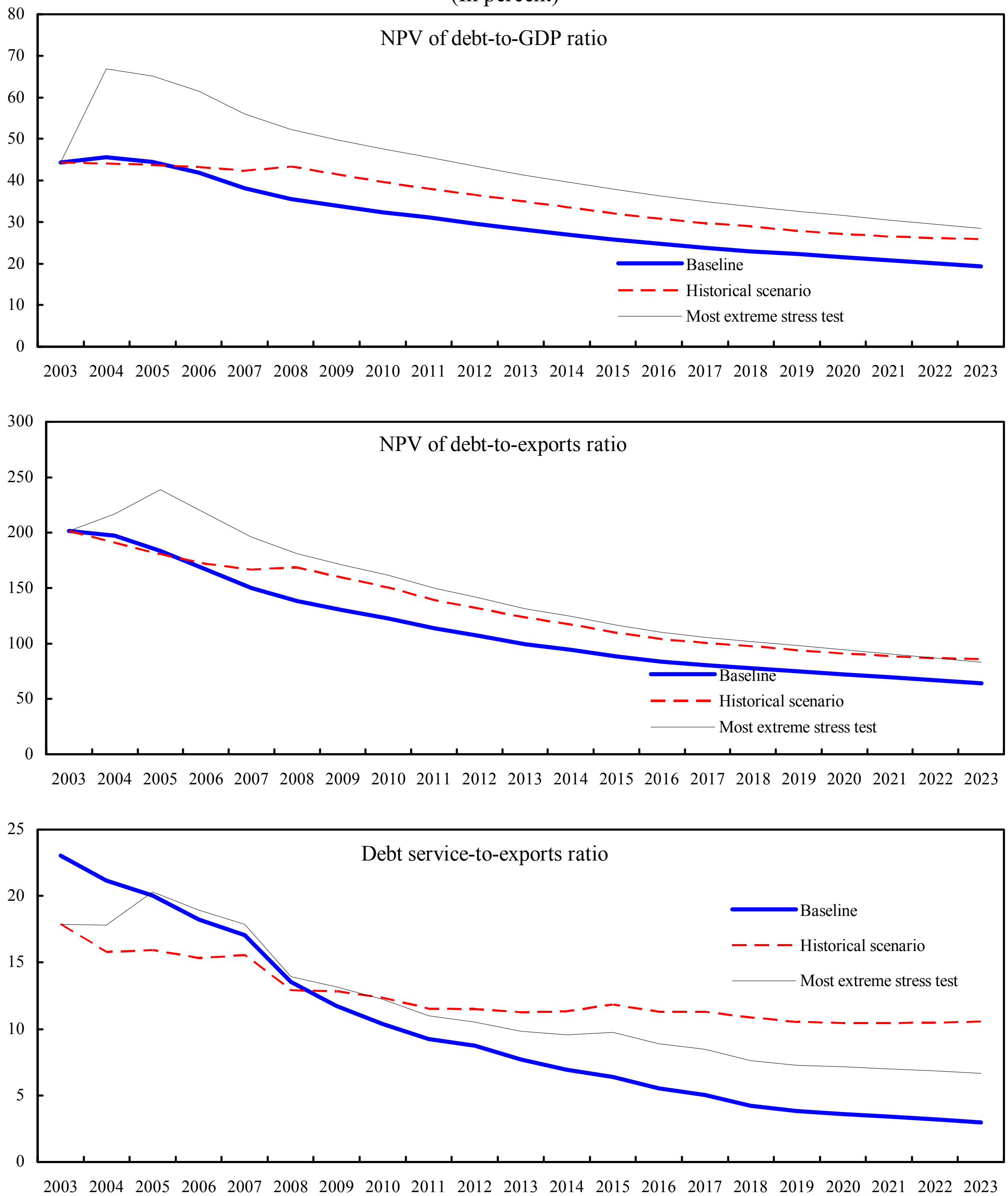
[33] In Guinea's PRSP Report of July 3, 2002 (www.imf.org), annual real GDP growth was targeted to reach 10 percent by 2010. The current projections take into account the setback resulting from bad policies during 2002/03 and delays to date in the implementation of structural reforms.

the discount rate—from over 7 percent to 5 percent—and by an almost 30 percent shortfall in exports.

5. **The DSA indicates that the HIPC debt relief Guinea qualified for at the decision point would reduce the country's debt burden to sustainable levels**, provided that the authorities persevere with the implementation of appropriate policies to bring down domestic debt servicing costs and that the residual financing gaps from 2005 onward be financed at highly concessional terms. Although the NPV of debt-to-exports has deteriorated compared with projections made at the decision point, an unchanged HIPC debt relief of US$545 million in NPV terms would reduce Guinea's NPV of debt-to-exports ratio below the threshold of 150 percent. In particular, the end-2003 NPV of debt-to-exports ratio would be reduced to about 133 percent. Nonetheless, Guinea remains vulnerable to policies and exogenous shocks that affect output and exports.

6. **The sensitivity analyses indicate that Guinea's debt indicators would worsen if key variables such as real GDP and export growth were to be affected by adverse shocks**. In an alternative scenario that assumes that key variables remain at their historical averages from 2004 onward, the NPV of debt-to-exports ratio is higher than in the baseline scenario from 2006 onward. The difference reaches almost 31 percentage points in 2008. As the bound tests indicate, when the growth of exports is assumed to remain—from 2004 onward—permanently one standard deviation below their historical averages, the deterioration in the NPV of debt-to-exports ratio is, not surprisingly, even more substantial.

Figure 1. Guinea: Indicators of Public and Publicly Guaranteed External Debt
Under Alternative Scenarios, 2003-2023
(In percent)



Source: Staff projections and simulations.

Table 1. Guinea: External Debt Sustainability Framework, Baseline Scenario, 2000-2023 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical	Standard	Estimate					Projections		
				Average	Deviation 6/						2003-08		2009-23
	2000	2001	2002			2003	2004	2005	2006	2007	Average	2023	Average
External debt (nominal) 1/	**89.7**	**91.1**	**82.0**			**68.9**	**68.8**	**65.2**	**59.6**	**52.5**		**11.8**	
o/w public and publicly guaranteed (PPG)	89.7	91.1	82.0			68.9	68.8	65.2	59.6	52.5		11.8	
Change in external debt	6.1	1.4	-9.2			-13.0	-0.1	-3.6	-5.7	-7.0		-0.6	
Identified net debt-creating flows	18.2	6.5	0.7			3.3	3.3	2.1	2.3	2.9		7.2	
Non-interest current account deficit	**5.5**	**1.3**	**5.3**	**5.4**	**1.5**	**3.5**	**4.5**	**5.4**	**6.4**	**6.7**		**8.1**	9.6
Deficit in balance of goods and services	4.3	1.3	4.0			2.5	1.9	1.8	1.3	1.1		-0.3	
Exports	23.6	26.6	24.5			22.0	23.1	24.2	25.2	25.4		30.2	
Imports	27.9	27.9	28.4			24.6	25.0	26.0	26.5	26.5		29.9	
Net current transfers (negative = inflow)	-0.3	-1.7	-0.9	0.4	1.3	-0.1	-0.1	-0.3	-0.4	-0.3		0.4	0.2
Other current account flows (negative = net inflov	1.6	1.7	2.2			1.1	2.7	4.0	5.5	5.9		8.0	
Net FDI (negative = inflow)	**1.5**	**1.9**	**-1.0**	**-0.3**	**1.2**	**-0.5**	**-0.5**	**-1.8**	**-1.9**	**-1.5**		**-0.4**	-0.6
Endogenous debt dynamics 2/	**11.2**	**3.2**	**-3.7**			**0.3**	**-0.6**	**-1.5**	**-2.2**	**-2.3**		**-0.5**	
Contribution from nominal interest rate	1.8	1.1	1.2			1.2	1.2	1.0	0.9	0.8		0.3	
Contribution from real GDP growth	-1.8	-3.7	-3.6			-0.9	-1.8	-2.6	-3.1	-3.0		-0.8	
Contribution from price and exchange rate chang	11.1	5.8	-1.2			…	…	…	…	…		…	
Residual (3-4) 3/	**-12.1**	**-5.1**	**-9.8**			**-16.3**	**-3.4**	**-5.7**	**-7.9**	**-9.9**		**-7.8**	
o/w exceptional financing	-0.6	-2.3	-1.2			-2.2	-0.5	-0.9	-0.8	-0.7		0.0	
NPV of external debt 4/	...	...	50.9			44.3	45.6	44.4	41.9	38.1		19.4	
In percent of exports	...	...	208.2			201.4	197.4	183.7	166.6	149.9		64.2	
NPV of PPG external debt	**...**	**...**	**50.9**			**44.3**	**45.6**	**44.4**	**41.9**	**38.1**		**19.4**	
In percent of exports	...	...	208.2			201.4	197.4	183.7	166.6	149.9		64.2	
Debt service-to-exports ratio (in percent)	24.6	20.0	18.6			23.0	21.2	20.0	18.2	17.0		3.0	
PPG debt service-to-exports ratio (in percent)	24.6	20.0	18.6			23.0	21.2	20.0	18.2	17.0		3.0	
Total gross financing need (billions of U.S. dollars)	0.4	0.3	0.3			0.3	0.3	0.3	0.3	0.4		1.0	
Non-interest current account deficit that stabilizes debt r	-0.6	-0.1	14.5			16.6	4.6	9.0	12.0	13.7		8.7	
Key macroeconomic assumptions													
Real GDP growth (in percent)	1.9	4.0	4.2	4.3	19.6	1.2	2.6	3.8	5.0	5.6	3.6	7.1	6.7
GDP deflator in US dollar terms (change in percent)	-11.7	-6.1	1.4	-3.2	5.8	11.7	-5.8	-2.2	-0.1	2.8	1.3	0.1	-0.3
Effective interest rate (percent) 5/	1.9	1.2	1.4	1.6	0.4	1.6	1.7	1.5	1.4	1.4	1.5	2.4	2.1
Growth of exports of G&S (US dollar terms, in percent)	-1.9	10.1	-2.9	-0.2	6.5	1.8	1.3	6.3	9.1	9.8	5.7	7.7	7.4
Growth of imports of G&S (US dollar terms, in percent)	-3.7	-2.1	7.4	0.8	58.8	-2.3	-1.6	5.3	7.0	8.8	3.5	7.2	7.2
Grant element of new public sector borrowing (in percei	...	...	...	...	...	56.9	56.9	56.9	56.9	56.9	56.9	56.9	56.9
Memorandym item:													
Nominal GDP (billions of US dollars)	3.1	3.0	3.2			3.6	3.5	3.6	3.7	4.1		11.1	

Source: Staff simulations.

1/ Includes both public and private sector external debt.
2/ Derived as $[r - g - \rho(1+g)]/(1+g+\rho+g\rho)$ 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. do
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 fro
4/ Assumes that NPV of private sector debt is equivalent to its face value.
5/ Current-year interest payments devided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 2. Guinea: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2003-23
(In percent)

	Estimate	Projections						
	2003	2004	2005	2006	2007	2008	**2013**	2023
	NPV of debt-to-GDP ratio							
Baseline	44	46	44	42	38	36	**28**	19
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2004-23 1/	44	44	44	43	42	43	**35**	26
A2. New public sector loans on less favorable terms in 2004-23 2/	44	46	46	44	41	39	**35**	31
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2004-05	44	45	44	42	38	35	**28**	19
B2. Export value growth at historical average minus one standard deviation in 2004-05 3/	44	46	47	45	41	38	**30**	20
B3. US dollar GDP deflator at historical average minus one standard deviation in 2004-05	44	47	49	47	42	40	**31**	22
B4. Net non-debt creating flows at historical average minus one standard deviation in 2004-05 4/	44	47	48	45	41	39	**31**	21
B5. Combination of B1-B4 using one-half standard deviation shocks	44	46	49	46	42	39	**32**	21
B6. One-time 30 percent nominal depreciation relative to the baseline in 2004 5/	44	67	65	61	56	52	**41**	28
	NPV of debt-to-exports ratio							
Baseline	201	197	184	167	150	138	**99**	64
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2004-23 1/	201	191	181	172	166	169	**124**	86
A2. New public sector loans on less favorable terms in 2004-23 2/	201	201	190	176	162	153	**124**	103
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2004-05	201	197	184	167	150	138	**99**	64
B2. Export value growth at historical average minus one standard deviation in 2004-05 3/	201	217	239	217	196	181	**132**	83
B3. US dollar GDP deflator at historical average minus one standard deviation in 2004-05	201	197	184	167	150	138	**99**	64
B4. Net non-debt creating flows at historical average minus one standard deviation in 2004-05 4/	201	203	198	180	163	150	**109**	69
B5. Combination of B1-B4 using one-half standard deviation shocks	201	211	225	205	185	171	**124**	78
B6. One-time 30 percent nominal depreciation relative to the baseline in 2004 5/	201	197	184	167	150	138	**99**	64
	Debt service ratio							
Baseline	23	21	20	18	17	14	**8**	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2004-23 1/	18	16	16	15	16	13	**11**	11
A2. New public sector loans on less favorable terms in 2004-23 2/	18	16	17	16	15	12	**9**	8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2004-05	18	16	17	15	14	11	**8**	5
B2. Export value growth at historical average minus one standard deviation in 2004-05 3/	18	18	20	19	18	14	**10**	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2004-05	18	16	17	15	14	11	**8**	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2004-05 4/	18	16	17	15	15	11	**8**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	18	17	19	18	17	13	**9**	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2004 5/	18	16	17	15	14	11	**8**	5
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	57	57	57	57	57	57	**57**	57

Source: Staff projections and simulations.

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 flo
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 th
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 afte 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.

Statement by the IMF Staff Representative
August 27, 2004

1. This statement reports on information that has become available since the staff report was issued. It does not change the thrust of the staff appraisal.

2. Year-on year inflation has been trending down, from double digits during most of 2003, to 9.8 percent in June 2004 (Figure 1). As efforts to stabilize the economy are very recent, the decline appears to be driven by seasonal factors.

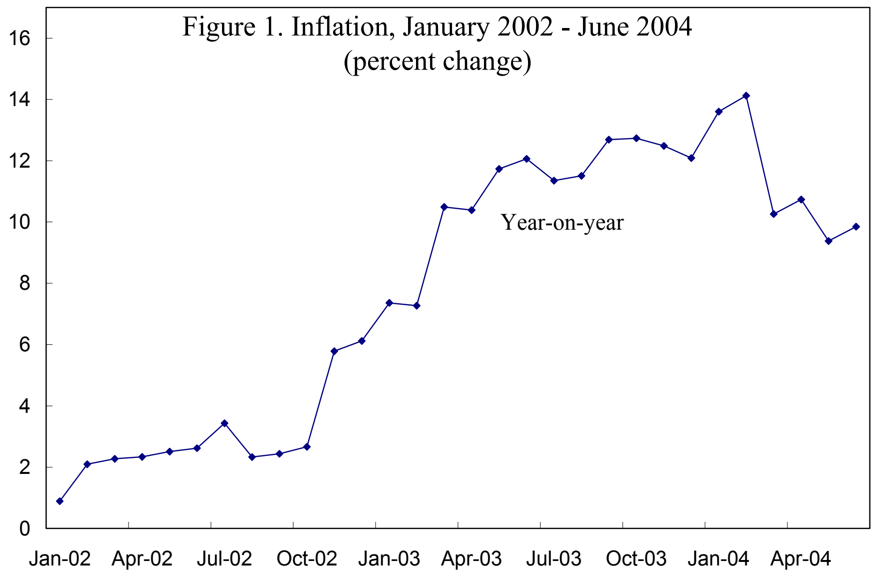
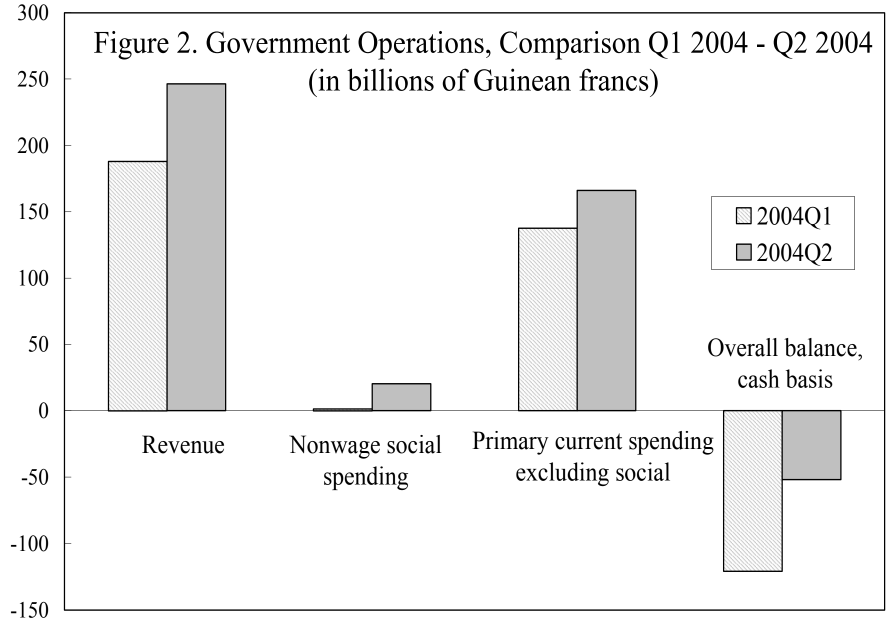


Figure 1. Inflation, January 2002 - June 2004
(percent change)

3. **Performance in the fiscal area was mixed** (Figure 2). Reflecting commendable efforts in the collection of nonmining revenue, overall revenue in the second quarter of 2004 was about 30 percent higher than in the first quarter. Nonetheless, for the first semester, total revenue was slightly below target, owing essentially to lower-than-projected mining revenue. On the expenditure side, there was a significant acceleration of social spending in the second quarter compared with the first quarter, albeit commitments fell short of projections. However, there were spending overruns, driven by domestically-financed investment and transfers. Accordingly, the fiscal deficit exceeded projections by 0.4 percent of GDP, and was financed by higher-than-projected arrears accumulation and recourse to bank financing.



Fiscal Developments (In billions of Guinean francs, cumulative)				
	2004			
	March		June	
	Proj.	Est.	Proj.	Est.
Revenue	241.4	188.0	437.9	434.2
o/w non mining revenue	199.0	155.1	362.5	369.3
Total expenditure	335.7	281.1	615.5	636.6
o/w current nonwage social spending	13.9	1.5	30.1	21.8
Primary balance (in percent of GDP)	0.3	0.3	0.8	0.5
Overall bal. (incl. grants), cash basis	-91.5	-120.9	-136.7	-172.8
(In percent of GDP)	-1.1	-1.4	-1.6	-2.0

4. **Broad money grew by 37.9 percent over the 12-month period ended June 2004, largely driven by the banking system's credit to the government**. The central bank has stepped up the use of sterilization bills to control liquidity, but the impact has been limited because of the large financing needs of the government. The net foreign assets of the central bank improved slightly, though remaining negative.

5. **The authorities have taken important steps to improve exchange rate management**. In light of the staff's recommendation that the de facto fixing of the official exchange rate be stopped and that the exchange rate be more flexible, the central bank resumed foreign exchange auctions in July, allowing the official rate to depreciate by 25 percent. The parallel market premium, which reached 25 percent in June, has since been reduced to almost 10 percent.

6. **The government has adjusted retail prices of rice and petroleum products, in light of the rising world prices and the depreciation of the Guinean franc**. The official price of rice was increased by 51 percent and the prices of petroleum products by about 70 percent. The cost of public transportation, which remained unchanged for a long time, has been increased proportionately to the petroleum price increase, exacerbating the hardships faced by a significant share of the population. To offset this, the government has announced a doubling of the transportation allowance for civil servants.

7. **The government made efforts in the second quarter of 2004 to contain the accumulation of external arrears**, despite the continued lack of external budgetary assistance. Arrears accumulated in 2003 amounted to US$18 million, as indicated in the staff report. On a net basis, US$11.2 million were accumulated in the first quarter of 2004, and an additional US$8 million in the second quarter, bringing the total arrears outstanding at end-June 2004 to almost US$37 million.

8. In **the authorities' effort to normalize relations with donors**, a government delegation met with officials of the European Union (EU) in Brussels in late July, and presented a memorandum outlining steps envisaged by the Guinean government to address outstanding issues that have strained Guinea's relations with the EU since mid-2002. In particular, the memorandum highlights steps the government envisage to promote human rights and democracy, including by restoring the political dialogue, liberalizing the media, and organizing free and transparent municipal elections in 2005 and legislative elections in 2007. An EU assessment mission will visit Conakry in coming months. A positive assessment could reopen access to 8^{th} and 9^{th} FED resources.

INTERNATIONAL MONETARY FUND
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October 3, 2004

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

IMF Concludes 2004 Article IV Consultation with Guinea

On August, 27, 2004, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Guinea.[1]

Background

In 2003, Guinea's economic situation deteriorated on account of exogenous conditions, as well as poor macroeconomic management and the lack of progress in key structural areas. Annual real GDP growth slowed down from 4.2 percent in 2002 to an estimated 1.2 percent, owing mostly to a reduction in manufacturing output caused by frequent outages in the supply of electricity and water, a reduction in construction, and a poor crop season caused by unfavorable rainfalls. With the ensuing pressures on food prices, the 12-month rate of inflation (CPI-based) reached 14.8 percent in December 2003 (from 6.1 percent in December 2002), owing to a combination of lax liquidity management and excessive bank financing of a higher-than-projected government deficit. The overall fiscal deficit (excluding grants) widened to 7.9 percent from 6.2 percent of GDP in 2002, reflecting weaknesses in revenue mobilization and expenditure overruns, notwithstanding a 0.5 percent of GDP shortfall in social spending. The wider deficit coupled with the lack of external budgetary assistance led to an accumulation of payment arrears both domestic and external. The external current account deficit (excluding official transfers) declined by over 1½ percentage points of GDP mostly because imports of intermediate and capital goods were subdued by an unfavorable investment climate

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. This PIN summarizes the views of the Executive Board as expressed during the August 27, 2004 Executive Board discussion based on the staff report.

associated with uncertainties during the run up to the December 2003 presidential elections and continued institutional weaknesses.

The government continued its de facto fixing of the exchange rate, keeping the Guinean franc/US dollar exchange rate broadly stable notwithstanding rising inflation. Market pressures were reflected in a widening of the parallel market premium to over 20 percent, from roughly 2 percent in 2002. The scarcity of foreign exchange in official channels exacerbated. This, coupled with the lack of external budgetary assistance, led to a decline in Guinea's gross official reserves to 1½ months of imports, from 2.3 months of imports in 2002.

In the structural reform area, progress was mixed. On the fiscal front, the authorities took actions that strengthened treasury management and implemented some of the preparatory measures for the adoption of the common external tariff of the West African Economic and Monetary Union. In the monetary area, there were further delays in the submission to parliament of the draft banking and microfinance laws. There were further delays also in implementing key measures meant to strengthen the central bank reporting and audit systems and improve the transparency of its operations. In the public enterprise area, there was no progress toward the urgently needed reform of the public utilities, whose poor operations continue to adversely affect economic activity.

The outlook for 2004 is plagued by poor performance in the first quarter of the year and by important downside risks, exogenous as well as policy-related. Assuming no deterioration in exogenous conditions—terms of trade, climate, and security—economic performance will be contingent upon the government's resolve to implement the emergency recovery program it adopted in March 2004. Under the assumption that this program will be implemented, real GDP growth is projected to accelerate somewhat to 2.6 percent, owing mostly to improved agricultural output and a slight pick up in the secondary sector. However, the annual average rate of inflation is projected to increase further to almost 16½ percent as the government's reliance on the banking system to finance its cash deficit would lead to a further monetary expansion.

As part of the Article IV consultation, an assessment of the Fund's Longer-term program engagement in Guinea was prepared by the staff and discussed with the authorities.[2] The assessment concludes that under the last two arrangements covering 1997–2004, Guinea made very limited progress. It highlights that the programs' objectives of reducing financial imbalances and promoting higher private sector-led growth have not been attained and that Guinea's performance has been well below the country's great potential. It underscores the importance of strengthening ownership and commitment to programs' objectives so as to sustain a steady implementation of good macroeconomic policies and implement key structural measures to unlock the country's growth potential and reduce poverty.

[2] Such assessments are required for members with longer-term program engagement. Guinea has had arrangements with the Fund almost continuously since 1986, including four extended arrangements (1987–90, 1991–96, 1997–2001, and 2001–04) and two stand-by arrangements (1986 and 1987).

Executive Board Assessment

Executive Directors welcomed the emergency economic recovery program adopted by the authorities in March 2004 following the serious deterioration of Guinea's economic situation in 2003. However, Directors considered that this package alone would not be sufficient to put the economy back onto a solid growth trajectory, bring about a significant reduction in inflation, and restore foreign exchange rey stressed that initiating a staff-monitored program would require evidence theserves. While recognizing the difficulty in realizing the needed short-term fiscal adjustments, that the emergency program is restoring fiscal and monetary discipline, as well as the adoption of a floating exchange rate system, the implementation of the long delayed recommendations of the 2002 safeguards assessment mission, and the initiation of urgently needed structural reforms.

Directors emphasized that fiscal consolidation remains the cornerstone to improving macroeconomic performance and reducing domestic debt. They indicated that achieving a sound fiscal policy will depend critically on improving revenue performance, containing defense spending, and keeping nonproductive outlays to a strict minimum to free up resources to bolster domestically financed investment and social outlays.

Directors agreed that the central bank should stop accommodating the expansionary policies of the government, and should instead focus monetary policy on its primary objective of containing inflation. They emphasized that the sizeable monetary overhang calls for much more proactive liquidity management, including open market operations to contain money supply growth and limit inflationary pressures. They also advised that treasury bills should replace central bank advances as the preferred instrument of budget financing. Directors noted that financial indicators suggest that good progress has been achieved in improving the soundness of the banking sector. However, they encouraged the authorities to continue strengthening bank supervision and to push for the adoption of the revised banking and microfinance laws.

Directors expressed concern that the de facto pegging of the Guinean franc to the US dollar since late 2002 and the administrative allocation of foreign exchange had introduced substantial distortions in the economy. They regretted the multiple currency practice arising from the absence of a mechanism to prevent the rates in the official and parallel exchange markets from diverging by more than two percent. Directors welcomed the depreciation of the official rate that took place since July 2004, and the authorities' objective of adopting a floating exchange rate determined through interbank trading to eliminate the multiple currency practice. They encouraged the authorities to make effective use of technical assistance to help achieve this objective as soon as possible.

Directors underlined that economic reform over the medium term in Guinea faces serious risks and challenges. Political instability and regional insecurity, lack of economic diversification, possible shortfalls in donors' support, and a growing domestic debt were of particular concern. Directors emphasized that strong political will to adopt and steadily pursue a sound, pro-growth, and poverty reducing reform agenda will be critical to help achieve the Millennium Development Goals. They urged the authorities to accelerate the pace of reforms in the public enterprise sector, including through privatization. Efforts to boost private sector opportunities by improving the business climate and diversifying the economy were also favored. In particular, Directors stressed the need to rapidly restructure the public utility enterprises to alleviate shortages in electricity and water supply, and tackle operational difficulties in the mining sector. In addition, they urged the authorities to rapidly and forcefully step up the fight against corruption and show determination in reforming the judicial system. In this regard, Directors stressed the importance of ensuring the independence of the Anti-Corruption Commission.

Directors underlined the importance of trade diversification to improve the external accounts over the medium term. In that regard, they welcomed the authorities' commitment to regional integration and the steps taken to prepare for the introduction of the common external tariff (CET) of the West African Economic and Monetary Union, noting that the CET would simplify Guinea's tariff system and enhance trade liberalization. However, Directors noted that progress toward joining the West African Monetary Zone (WAMZ) is hindered by the lack of economic convergence with other WAMZ member countries and Guinea's vulnerability to asymmetric shocks.

Directors expressed serious concerns over the difficulties Guinea has experienced in servicing its external debt and over the country's heavy external debt burden, noting the suspension of interim debt relief under the HIPC Initiative and Guinea's limited foreign exchange reserves. They urged the authorities to eliminate external debt arrears and normalize relationships with creditors, and in this regard they welcomed in particular the renewed dialogue with the EU. Directors also stressed that decisive action is needed to reverse the recurring pattern of late payments to the Fund. Further, they underlined the importance for the government to pursue its reform efforts to eventually regain access to the HIPC Initiative relief it qualified for at the decision point in 2000.

Directors commended the efforts to advance the poverty reduction agenda notwithstanding the difficult economic environment, as discussed in Guinea's first annual progress report of its Poverty Reduction Strategy Paper (PRSP-PR). However, the urgent correction of macroeconomic imbalances is needed to achieve sustained poverty reduction and to shield the social sector from budgetary cuts. They also called for using more recent poverty data to update social indicators and supported the finalization of the integrated household survey.

Directors observed that, notwithstanding the efforts made in recent years to improve Guinea's statistical apparatus, data deficiencies remain in the areas of public finance, the real sector, balance of payments, and external debt statistics. They encouraged close collaboration with the international donor community, including the IMF's West Africa Technical Assistance Center, to strengthen the statistical database and, more broadly, to address capacity-building needs.

Directors welcomed the opportunity to review Guinea's performance under Fund-supported programs since 1986 by means of an Ex Post Assessment of Longer-Term Program

Engagement. Despite progress in stabilizing the economy during the decade through 1995, subsequent economic performance was undermined by domestic policy weaknesses, political uncertainty, and regional instability. Going forward, Directors noted that the ongoing macroeconomic imbalances and structural problems in the core areas of the Fund's expertise warranted continued Fund engagement. However, they considered that any discussion on a new PRGF-supported program should be preceded by successful adherence to a staff-monitored program, building on the authorities' emergency economic recovery program. These reform efforts should address the current macroeconomic imbalances and advance structural reforms in key areas in close cooperation with the World Bank. Directors stressed the need to ensure ownership and commitment at the highest political level, to base any future program on realistic assumptions of growth, revenue, and official finance, and to include ex-ante contingency plans to ease adjustment should key assumptions turn out to be overly optimistic.

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Guinea: Selected Economic Indicators, 2000-04

	2000	2001	2002	2003 Est.	2004 Proj.
	(Annual percentage changes)				
Domestic economy					
Changes in real GDP	1.9	4.0	4.2	1.2	2.6
Changes in consumer prices (annual average)	6.8	5.4	3.0	12.9	16.6
	(In millions of U.S. dollars; unless otherwise specified)				
External economy					
Exports, f.o.b.	666.6	722.8	708.5	724.5	733.0
Imports, f.o.b.	583.3	561.9	596.2	578.1	578.1
Current account balance, excluding official transfers	-225.6	-145.8	-180.5	-147.0	-130.1
(in percent of GDP)	-7.2	-4.8	-5.6	-4.0	-3.7
Capital and financial account balance	33.5	84.3	82.4	54.9	40.3
Gross official reserves	150.3	208.4	170.0	138.3	90.2
(in months of imports of goods and nonfactor services)	2.1	2.7	2.3	1.5	1.2
Debt service (including to the Fund) 1/	9.6	12.1	9.0	12.5	11.1
Change in real effective exchange rate (in percent) 2/	-10.1	-3.0	-2.3	-2.7	...
	(In percent of GDP, unless otherwise indicated)				
Financial variables					
Government revenue	10.9	11.3	12.0	10.5	10.9
Domestic primary balance 3/	2.5	0.6	0.0	-1.6	1.6
Overall fiscal balance (commitment basis, excluding grants)	-5.5	-7.5	-6.2	-7.9	-4.1
Velocity (GDP/average M2)	10.3	9.4	8.6	7.7	7.2
Interest rate 4/	...	13.4	13.3	14.1	...

Sources: Guinean authorities; and IMF staff estimates and projections.
1/ In percent of exports of goods and nonfactor services.
2/ Increasing figures indicate an appreciation.
3/ Domestic revenue minus noninterest expenditure excluding externally-financed development outlays.
4/ Treasury bill rate, in percent; end-of-period.