

**Guinea: 2002 Article IV Consultation, First Review Under the Poverty Reduction and Growth Facility, Requests for Waiver of Performance Criteria, Second-Year Program Under the Poverty Reduction and Growth Facility, and for Additional Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries—Staff Report; Staff Statement; Public Information Notice and News Brief 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 a combined discussion of the 2002 Article IV consultation with Guinea and the first review under the Poverty Reduction and Growth Facility, requests for waiver of performance criteria, second-year program under the Poverty Reduction and Growth Facility, and for additional interim assistance under the enhanced Initiative for Heavily Indebted Poor Countries, the following documents have been released and are included in this package:

- the staff report for the combined 2002 Article IV Consultation, first review under the Poverty Reduction and Growth Facility, requests for Waiver of Performance Criteria, second-year program under the Poverty Reduction and Growth Facility, and for additional interim assistance under the enhanced Initiative for Heavily Indebted Poor Countries, prepared by a staff team of the IMF, following discussions that ended on **May 23, 2002**, 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 July 10, 2002.** 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 **July 24, 2002** updating information on recent economic developments.
- a Public Information Notice and News Brief, **summarizing the views of the Executive Board as expressed during its July 24, 2002, discussion** of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.

The document(s) listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Guinea\*  
Memorandum of Economic and Financial Policies by the authorities of Guinea\*  
Statistical Appendix  
Technical Memorandum of Understanding\*  
\*May also be included in Staff Report

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GUINEA

**Staff Report for the 2002 Article IV Consultation, the First Review Under the Poverty Reduction and Growth Facility, Requests for Waiver of Performance Criteria, Second-Year Program Under the Poverty Reduction and Growth Facility, and for Additional Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries**

Prepared by African Department

(In consultation with the Legal, Monetary and Exchange Affairs, Policy Development and Review, Statistics, and Treasurer's Departments)

Approved by Donal Donovan and Masood Ahmed

July 10, 2002

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- The discussions on the 2002 Article IV consultation and the first review of the Poverty Reduction and Growth Facility (PRGF) arrangement were initiated in Washington in November 2001, and continued in Conakry during November 26-December 6, 2001, and May 1-15, 2002. The last round of discussions, including the negotiation of the second annual program under the PRGF, was concluded in Washington on May 23, 2002.
- The staff team for the November-December mission consisted of Mr. Harris (head), Ms. Nkusu, Mr. Ossié, and Ms. Kanyabutembo, (Assistant) (all AFR). For the May 2002 mission, the staff team consisted of Mr. Harris (head), Ms. Nkusu, Mr. Ossié, Ms. Yontcheva (all AFR), and Mr. Matson (Assistant, HRD). Mr. Nascimento, the Fund's Resident Representative in Guinea, participated fully in the missions, as did Mr. Larbi of the World Bank. Messrs. M'baye and Charaf-Eddine took part in the discussions during the May mission for the European Union and the African Development Bank, respectively. Two advisors to the Executive Director for Guinea joined the discussions: Mr. Ismael during the November-December 2001 mission and Mr. Pinto-Moreiro during the May 2002 mission.
- The Guinean representatives in these discussions included Mr. Sidimé, the Prime Minister; Mr. Camara, Minister of Economy and Finance; Mr. Bah, Governor of the Central Bank of the Republic of Guinea; and other senior officials. Members of the mission were also received by President Conté.
- A three-year arrangement under the PRGF, in an amount equivalent to SDR 64.26 million (60 percent of quota) was approved on May 2, 2001. The first loan, in an amount equivalent to SDR 12.852 million was disbursed soon thereafter. Guinea reached its decision point under the enhanced HIPC Initiative and was declared eligible for interim assistance by the Executive Boards of the Fund and the World Bank on December 20 and 22, 2000, respectively.
- In addition to the review, the present staff report presents Guinea's new annual program covering the period from July 2002 to June 2003. If the disbursements under the arrangement are made as requested, Guinea's outstanding use of Fund resources would rise from SDR 98.1 million (91.6 percent of quota) at end-March 2002 to SDR 102.6 million (95.8 percent of quota) at end-March 2003.
- The Executive Board concluded the 2000 Article IV consultation on December 20, 2000. At that time Executive Directors stressed the need to establish a sound policy environment conducive to sustained economic growth. They underscored the importance of continued fiscal consolidation and a durable improvement in revenue mobilization. They commended the authorities on reestablishing the momentum of structural reforms, noted the ambitious agenda of monetary reforms, welcomed actions taken to step up the fight against corruption, and encouraged the authorities to continue with the restructuring of the banking sector. They urged the authorities to implement the public enterprise restructuring and privatization program, and to take action to enhance the legal and regulatory frameworks. Directors noted the considerable progress made with respect to the poverty reduction strategy, and the planned completion of the full PRSP by end-2001. They welcomed the authorities' intention to use the additional resources made available through interim assistance under the enhanced HIPC Initiative for poverty-related spending.

## **EXECUTIVE SUMMARY**

### **Background**

- The first review of the three-year PRGF arrangement approved on May 2, 2001 has been delayed in order to give the authorities time to rectify weaknesses in program execution during a four-month consolidation period by meeting specified revenue and expenditure targets set for that period. In the attached letter of intent, the Guinean authorities present the results of this consolidation effort, request waivers for the nonobservance of performance criteria at end-September 2001, request the Fund's support under the PRGF for the second annual program, and seek additional interim assistance under the enhanced HIPC Initiative.

### **Recent economic and financial developments**

- Output growth in 2001 is estimated at 3.6 percent, up from 2.1 percent in 2000, reflecting the gradual recovery of activity after the disruptions caused by the border conflict that persisted from September 2000 through the second quarter of 2001 (see table below). Average inflation declined from 6.8 percent in 2000 to 5.4 percent in 2001, as import price increases were moderate and the depreciation of the Guinean franc slowed. The external current account deficit, including official transfers, narrowed from 7.4 percent of GDP in 2000 to 3.7 percent of GDP in 2001, as imports of equipment and capital goods were subdued.
- The primary fiscal surplus was 0.7 percent of GDP in 2001, compared with 0.8 percent in the program, owing to higher-than-expected defense-related outlays, combined with revenue weaknesses and shortfalls in external assistance. The overall deficit was 3.5 percent of GDP, and the additional financing requirement was covered by greater recourse to central bank credit.

### **Performance under the 2001/02 program**

- Macroeconomic performance under the program in 2001 was mixed. Most quantitative performance criteria and benchmarks at end-September 2001 relating to the public finances were missed (see Table 1, Appendix I), although the expenditure compression did allow the observance of the criterion on the primary balance. Greater-than-expected recourse to bank credit to finance the fiscal deficit complicated the execution of the monetary program, although net credit to the government was within the adjusted program ceiling. Broad money expanded by 14.8 percent over the year, while private sector credit rose only moderately, by 4.3 percent of beginning-of-period broad money. Reserve money expansion exceeded the program limit, and the increase in the net foreign assets of the central bank fell short of the program benchmark.
- On the structural front, the implementation of public finance and monetary measures was broadly satisfactory, although some were implemented with delays. However, the performance criterion at end-September 2001 on the establishment of a repayment plan for the verified stock of domestic payments arrears was missed, and the implementation of the public enterprise restructuring and privatization program was disappointing.
- In the circumstances, the staff and the authorities reached understanding on a four-month consolidation plan aimed at preserving the broad program objectives. Monthly targets for revenue and expenditure and the adoption of key measures in the public enterprise sector were

set as prior actions for Board consideration of the review. Performance during the consolidation period has been sufficiently strong for staff to recommend proceeding with the review.

Selected Economic and Financial Indicators, 2000-04

	2000	2001		2002	2003	2004
		Prog.	Rev. Est.	Projections		
		(Annual percentage changes)				
Real GDP	2.1	3.3	3.6	4.2	4.9	5.2
Consumer price index (average)	6.8	9.6	5.4	3.6	3.5	3.0
Broad money	23.4	8.5	14.8	8.1	...	...
		(In percent of GDP)				
Primary fiscal balance	2.6	0.8	0.7	2.1	1.6	1.8
Overall budget balance						
Including grants	-3.2	-3.2	-3.5	-2.5	-4.3	-4.1
Excluding grants	-5.6	-8.6	-7.6	-6.4	-7.5	-7.4
External current account balance						
Including grants	-7.4	-2.6	-3.7	-6.9	-9.0	-8.0

Sources: Guinean authorities; and staff estimates and projections.

### The PRSP process

- The full PRSP was completed on schedule in December 2001 and adopted by the government in mid-January 2002. The implementation phase was inaugurated at a national workshop on May 6-7, 2002. The integrated household budget-consumption survey was launched late last year and is expected to be completed by the end of 2002. The authorities are extending their macroeconomic projection model to include specific modules on the priority sectors, with a view to projecting, analyzing, and measuring the impact of the poverty reduction effort.
- The medium-term macroeconomic framework underpinning the PRSP is consistent with that of the initial PRGF-supported program approved in May 2001, and has not yet been adjusted to take into account the latest revisions to the macroeconomic framework undertaken with the May 2002 staff mission. This revised macroeconomic framework forms the basis of the authorities' program implementation for 2002 and underpins the revised PRGF-supported program. The authorities' implementation schedule for the PRSP calls for a consultation with donors to determine the amount and timing of external support for the PRSP implementation, followed by renewed consultation with regional stakeholders to set implementation priorities within the binding constraint of the available domestic and external resources. The macroeconomic framework of the PRSP will then be modified to reflect these constraints and the latest evaluation of the macroeconomic environment, and the revised framework will be presented in the annual progress report by the first quarter of 2003. The PRGF-supported program will then be aligned with this new framework.

### **The program for 2002/03**

- Total revenue is projected to increase by 18 percent in 2002 to 12.6 percent of GDP, reflecting administrative and other reform measures already under way or being prepared. Overall spending is projected at 19 percent of GDP, with priority sector spending increasing by 4 percent over budgeted levels in 2001. The primary fiscal surplus is expected to improve from 0.7 percent of GDP in 2001 to 2.1 percent in 2002, while the overall deficit, on a commitment basis (excluding grants), is projected to decrease to 6.4 percent of GDP from 7.6 percent in 2001. With the repayment in early 2002 of all external arrears accumulated and the planned reduction of domestic arrears, the cash deficit is expected to be 3.0 percent of GDP, compared with 3.8 percent in 2001. Notwithstanding the limited external resources available in 2002, net bank credit to the government would decrease by 3.5 percent of beginning-of-period broad money.
- On the structural front, the program emphasizes further improvements in the areas of public finance and monetary policy. Regarding fiscal policy, the focus will be on further raising efficiency in revenue mobilization and expenditure management, while monetary reforms aim to bring bank supervision standards closer to compliance with the Basel Core Principles, as well as to improve liquidity forecasting and management and establish an appropriate framework for the supervision of microfinance institutions. The program provides for further progress in reforming the civil service and social security; restructuring and privatizing public enterprises; and continuing the administrative and financial decentralization process. Moreover, the external debt management unit is being revamped, and a timetable has been established for completing the various steps in the judicial follow-up to the cases of corruption investigated by the Anticorruption Committee.

### **Issues raised in the staff appraisal**

The staff appraisal focused on the following issues:

- The need to maintain a consistent revenue mobilization effort and further improve budget management through a better allocation of resources and greater transparency in budget execution and accountability. In pursuing fiscal decentralization, the authorities should emphasize training for local-level officials, so as to ensure adherence to budgetary procedures and, thus, the efficiency of spending.
- The need to ensure the timely completion of the restructuring of the two small banks; to press ahead with the strengthening of banking supervision, in order to bring it closer into compliance with international standards; and to further improve liquidity forecasting and management. Moreover, additional efforts should be made to improve the supply of foreign exchange on the official market.
- The needs to strengthen the capacity at the local level to design, implement, and monitor inputs and outputs of poverty reduction programs.
- The need to vigorously fight corruption, and to ensure that the justice system deals firmly and transparently with all cases of corrupt practices. A fundamental reform of the justice system should also be launched without delay to help create an atmosphere conducive to private sector activity and investment.

- The need to proceed with public enterprise restructuring and privatization in a timely fashion, so as to minimize their cost to the budget and reduce bottlenecks to private sector development. The authorities should also complete the planned preliminary studies of civil service reform, so as to move to the implementation stage as soon as possible.

## I. INTRODUCTION

1. In a letter to the Managing Director, dated July 8, 2002, and in the accompanying memorandum of economic and financial policies (MEFP) (Appendix I, Attachment I), the government of Guinea describes the implementation of its economic and financial program for the period through end-March 2002, supported by the Fund under the Poverty Reduction and Growth Facility (PRGF). It requests waivers for the nonobservance of some performance criteria at end-September 2001 and presents the second annual program—extending from July 2002 through June 2003—for which it requests Fund support, as well as additional interim assistance under the enhanced Initiative for Heavily Indebted Poor Countries Initiative (HIPC). Guinea's adjustment effort continues to receive support from the World Bank Group and other donors. Guinea's relation with the Fund and the World Bank Group are summarized in Appendices II and III, respectively.

## II. RECENT DEVELOPMENTS AND PROGRAM IMPLEMENTATION

### A. Political Situation

2. The security situation and the tensions along Guinea's borders have eased considerably since the imposition of UN sanctions against Liberia in May 2001 and the stabilization of the situation in Sierra Leone. This easing has allowed for a gradual repatriation from Guinea of a large number of refugees and the return of internally displaced local populations.

3. Political developments in 2001 were dominated by a national referendum, held on November 11, 2001, that amended the constitution to remove the previous limits on the age of presidents and the number of mandates allowed.<sup>1</sup> The legislative elections, originally scheduled for December 2000 and delayed by one year, were further delayed to allow more time for their preparation and the participation of the opposition, and were finally held at end-June 2002.

### B. Macroeconomic Developments

4. In the first half of 2001, economic and financial performance in Guinea was adversely affected by external and domestic factors that weakened performance under the PRGF-supported program. The border conflict in late 2000 and the first half of 2001 led to a significant destruction of the economic and social infrastructure in the affected border regions and a considerable internal displacement of the population.

5. Notwithstanding the adverse conditions, **real GDP growth** in 2001 is estimated at 3.6 percent, compared with 3.3 percent projected under the program (Table 3 and Figure 1). This stronger growth performance reflects the gradual resumption in the second half of the year of normal trade and agricultural production in regions affected by the border conflict and a pickup in housing construction that more than compensated for the moderate impact of the slowing

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<sup>1</sup> The referendum was financed in large part by contributions in cash and kind from the local business community.

world economy (Table 4). **Gross domestic investment** remained stable at about 22 percent of GDP, while a sharp decline in the private consumption rate led to an increase in gross domestic savings to 20.4 percent of GDP in 2001 from 16.9 percent in 2000 (Table 5). **Annual average inflation** was 5.4 percent, compared with the 9.6 percent anticipated in the program, as lower import prices and a more moderate depreciation of the currency than expected, as well as the pickup in food crop production, lessened inflationary pressures (Figure 2).

6. The **external current account** deficit (excluding grants) narrowed from 8.2 percent of GDP in 2000 to 5.2 percent of GDP in 2001, in part because imports of capital and equipment goods were subdued (Table 8).<sup>2</sup> The capital and financial account surplus improved in 2001, reflecting a significant increase in capital grants and in program loans.<sup>3</sup> The overall balance of payments registered a deficit of about 1.6 percent of GDP. Debt rescheduling more than covered the deficit, allowing an increase in net official reserves.

7. The official **nominal exchange rate** for the year as a whole depreciated by 3.4 percent, compared with 10 percent in 2000. The slowdown in the rate of depreciation reflected the attempts of the Central Bank of the Republic of Guinea (BCRG) to counteract inflationary pressures.<sup>4</sup> The parallel market premium often moved outside the +/- 2 percent band, especially in the second semester (Figure 4), owing to foreign exchange market pressures. The **real effective exchange rate** appreciated by 0.8 percent over the 12-month period to December 2000 but depreciated by an annual average of 2.4 percent for the year 2001 as a whole (Figure 3). By this measure, Guinea did not experience a significant loss of external competitiveness in 2001.<sup>5</sup>

8. As indicated in the last Article IV consultation report (EBS/00/257, 6/12/2000), owing to the absence of a mechanism to prevent the rates in the official and parallel markets from diverging by more than 2 percent, Guinea's exchange arrangement constitutes a **multiple currency practice** subject to IMF jurisdiction under Article VIII. Since the authorities have not yet set a clear timetable for introducing such a formal mechanism, **the staff does not recommend the approval of the multiple currency practice.**

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<sup>2</sup> Including grants, the deficit narrowed from 7.4 percent of GDP to almost 3.7 percent, as current public transfers increased sharply in the context of debt relief.

<sup>3</sup> The increase in capital grants reflects project financing and interim debt relief under the enhanced HIPC Initiative, while the higher program loans correspond to the disbursement of the World Bank's SAC IV, and a new structural adjustment credit from the African Development Bank.

<sup>4</sup> With the relative shortage of foreign exchange in the official market through August 2001, the BCRG lengthened the frequency of auctions to about once a month from once a week.

<sup>5</sup> Nonmining export receipts nonetheless declined by about 11 percent in U.S. dollar terms in 2001, reflecting the adverse effects of the security situation on trade with neighboring countries, as well lower export prices for coffee and other commodity exports.

### C. Program Implementation

9. The program for 2001/02 (April-March) focused on continuing the process of fiscal consolidation; it built on progress in the previous two years in strengthening expenditure management and improving its composition, but placed particular emphasis on improving revenue mobilization. This was to be achieved through a reduction of the pervasive exemptions, a gradual extension of the tax base to cover previously untaxed activities, including in the informal sector, and greater administrative efficiency, particularly at customs. Monetary policy aimed at maintaining low, single-digit inflation through use of the central bank's reserve money target and improved liquidity management. Structural reforms concentrated on further improvements in budget management and expenditure control; fiscal decentralization; the initiation of key civil service and judicial reforms, and the strengthening of governance.

10. **Performance under the program through end-September 2001 was mixed.**<sup>6</sup> Three quantitative performance criteria and most of the benchmarks in the public finances were missed (see Appendix I, Table 1). The compression in nondefense expenditures, including in priority sectors, did allow the observance of the criterion on the primary balance. However, the tight cash-flow situation, owing in part to delays in disbursement of expected external assistance, complicated the execution of the monetary program. The net foreign assets of the central bank increased but fell short of the level set as a performance criterion for end-September 2001. Moreover, in August 2001 the central bank contracted a short-term nonconcessional loan from a foreign commercial bank, thus contravening the relevant continuous performance criterion. On the structural front, the implementation of measures envisaged in the public finance and the monetary areas was broadly satisfactory. However, the structural performance criterion on the adoption by end-September 2001 of a repayment plan for the verified stock of domestic payments arrears was missed, and the implementation of the public enterprise restructuring and privatization program was disappointing.

#### Public finance

11. **The overall fiscal deficit (on a commitment basis and excluding grants) widened from 5.6 percent of GDP in 2000 to 7.6 percent in 2001**, compared with the 8.6 percent of GDP projected in the program (Table 6). At 11.5 percent, the revenue-to-GDP ratio fell short of the program target of 13.2 percent, reflecting weaknesses in the mobilization of indirect taxes, in particular the value-added tax (VAT), petroleum taxation, and customs receipts; shortfalls in mining sector receipts, owing to lower-than-anticipated export volumes and prices; and continued administrative inefficiencies and corrupt practices, as well as ad hoc exemptions granted in the last quarter of 2001. Moreover, nontax revenue reached only 56 percent of the program target, as the contributions of public enterprises to external debt-service payments made

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<sup>6</sup> The discussion in this section is limited to program implementation relative to the performance targets for end-September 2001, on which the first review was initially based. The actual outcome through the end of 2001 is discussed in more detail in the following subsections.

on their behalf by the government, as well as receipts from fishing and telecommunications licenses and lottery games were much lower than anticipated.

12. Total expenditure and net lending was 19.1 percent of GDP in 2001, nearly 3 percentage points of GDP lower than programmed (Box 1). Mounting security concerns in the first half of the year led to overruns in defense outlays of 0.5 percentage point of GDP. In response to these overruns and the revenue shortfall, the authorities curtailed other expenditures, including in priority sectors—nonwage expenditure commitments in the priority sectors amounted to only 57 percent of the budget allocations by the end of the year. This curtailment enabled them to meet the primary balance performance criterion, despite the tight cash-flow situation. Capital spending also was some 2 percentage points of GDP lower than programmed.

13. There was an accumulation of new external payments arrears at end-December 2001, as some scheduled payments were made with a few weeks' delay in January 2002. The deficit was financed by the rescheduling on Cologne terms of debt service due to Paris Club creditors and by recourse to domestic bank financing well above the program ceiling.

Box 1. Guinea: Selected Fiscal and Monetary Indicators, 2001		
	Prog.	Est.
In percent of GDP		
Revenue	13.2	11.5
Expenditure and net lending	21.9	19.1
Defense outlays	1.7	2.2
Overall fiscal deficit	8.6	7.6
Annual percentage change		
Broad money growth	8.5	14.8
Credit to the private sector	8.0	9.0

14. **Monetary expansion slowed markedly in 2001.** The annual growth rate of broad money fell to 14.8 percent in 2001 from 23.4 percent the year before, but was still well above the targeted rate of 8.5 percent (Table 7). Reserve money expanded by 11 percent despite the

central bank's attempts to absorb excess bank liquidity through most of the year.<sup>7</sup> The net domestic assets of the banking increased somewhat, compared with the sharp decline programmed, owing to the government's greater-than-expected recourse to central bank credit to finance the deficit. The central bank's net foreign assets doubled to almost US\$62 million following disbursements of multilateral external budgetary assistance in the second half of the

<sup>7</sup> The BCRG mopped up GF 20 billion in bank liquidity through net sales of its bills (*Titres de Régulation Monétaire*—TRM) and repurchase agreement operations. Reflecting its interventions, the TRM rate rose from 12.5 percent at end-2000 to 13.4 percent in December 2001.

year and of interim debt relief under the HIPC Initiative, but this amount still fell well short of the program target. Credit to the private sector grew by 9 percent over the year, in part to support the recovery in economic activity, and bank liquidity expanded steadily, with the excess reserve ratio rising from 5.4 percent in 2000 to 8.4 percent at end-2001.

15. The consolidation of the Guinean banking system continued in 2001, despite a slight worsening in the quality of the loan portfolio. The share of nonperforming loans in the overall portfolio of the four largest banks rose from 21.8 percent in 2000 to 22.4 percent in 2001, reflecting both the stringent application of provisioning requirements and the continuing difficulties in loan recovery caused by the weaknesses in the judiciary and legal infrastructure.<sup>8</sup> Nonetheless, restructuring efforts continued, and banks improved their compliance with prudential norms (Box 2), with the exception of two small banks undergoing restructuring.

### **Structural reforms**

16. Progress in the area of **structural reforms** in 2001 was mixed (see Appendix I, Attachment I, and Table 2). Monetary reforms were completed largely on schedule. The restructuring plans put forward by the two banks in difficulty have been approved; the liquidation of the microfinance institution *Crédit Mutuel de Guinée* (CMG) has been launched; and an action plan for transforming the *Crédit Rural de Guinée* (CRG) into a specialized financial institution has been adopted.<sup>9</sup>

17. **Headway was made in the public finance reform agenda**, with the exception of the establishment of a timetable for the settlement of the government's domestic payments arrears, a performance criterion for end-September 2001.<sup>10</sup> On the expenditure side, with the assistance of the World Bank (see Box 3), most of the envisaged measures have been undertaken.<sup>11</sup> The government presented the administrative and management accounts for 1998 and 1999 to the

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<sup>8</sup> Notwithstanding these four banks' efforts to increase charge-offs (GF 13 billion in 2001), their combined provisioning as a percent of nonperforming loans worsened by almost 6 points to 88 percent at end-2001.

<sup>9</sup> The setting up of the CRG entailed the transformation of government loans and subsidies—on-lent to the CRG Project—into a subordinated debt to be assumed by the new CRG and a government equity participation of 10-15 percent.

<sup>10</sup> The inventory of the outstanding stock of arrears was completed at midyear for all debts with the exception of the cross debts to the major public enterprises, but the finalization of the repayment plan was delayed pending further progress in the restructuring plans for the key public utility enterprises. This also delayed progress in implementing the recommendations of the audits of the key public utility firms completed in 2000.

<sup>11</sup> Most of these measures on the expenditure side are covered by the World Bank's fourth structural adjustment credit (SAC IV) or are part of the program of reforms agreed on with the European Union (EU) as a result of the audit of the use of EU resources conducted in 2000.

**Box 2. Guinea: Key Indicators of Prudential Situation of Banking Sector and Structure of Portfolio Credits of Commercial Banks, 2000-01**

(The number of banks (out of a total of seven) that comply with minimum regulatory requirements)

	Net Own Capital	Solvability	Liquidity Ratio	Concentration of Risk Ratio	Credit to Bank Management Ratio 1/	Division of Risk Ratio
	(GF 2 billion min. (quarterly))	(8 percent min. (quarterly))	(70 percent max. (quarterly))	(8 times net own capital max. (quarterly))	(5 percent max. (quarterly))	(30 percent max. (quarterly))
Dec. 1999	5	6	7	4	2	1
Mar. 2000	4	3	7	4	2	1
June 2000	4	3	6	5	2	1
Sep. 2000	4	4	6	5	2	1
Dec. 2000	4	3	7	4	2	1
Mar. 2001	5	5	7	4		2
June 2001	5	4	7	5		2
Sep. 2001	5	5	7	4		1
Dec. 2001	5	4	7	5		2

Source: BCRG.

1/ All of the loans concerned were contracted before the introduction of this limit and are being repaid normally.

**Structure of Portfolio Credits of the Commercial Banks, 2000-01**  
(In billions of Guinean francs, unless otherwise indicated)

	2000				2001			
	Mar.	June	Sep.	Dec.	Mar.	June	Sep.	Dec.
1. Total credit outstanding	282.8	277.7	284.7	288.7	297.5	292.8	291.4	302.7
2. Performing credits	207.9	198.1	205.6	211.7	215.0	206.0	199.9	213.3
<i>Of which: nonimputed values (NIV)</i>	5.2	4.6	4.5	5.2	5.1	4.9	5.1	5.2
3. Frozen credits	4.5	5.6	5.2	4.9	5.2	3.6	5.7	4.9
4. Doubtful and contentious loans	16.9	17.5	15.8	12.1	15.1	11.9	12.0	10.4
5. Provisions	53.6	56.4	58.2	60.0	62.2	71.3	72.9	73.5
6. Nonperforming claims (4+5)	70.5	73.9	74.0	72.1	77.3	68.2	84.9	83.9
7. Unpaid loans (NIV+3+4+5)	80.1	84.2	83.6	82.2	87.6	76.7	94.6	93.6
<b>Ratios (in percent)</b>								
<b>For all commercial banks</b>								
Ratio of unpaid loans to total loan portfolio (7/1)	28.3	30.3	29.4	28.5	29.4	27.6	32.7	31.0
Ratio of potential problem loans (6/1)	24.9	26.6	26.0	25.0	26.0	24.6	29.3	27.8
Ratio of coverage of potential problem loans (5/6)	76.1	76.3	78.6	83.2	80.5	82.6	85.9	87.6
<b>For the four largest commercial banks</b>								
Ratio of unpaid loans to total loan portfolio (7/1)	23.5	25.6	24.8	23.7	24.5	25.2	27.3	25.4
Ratio of potential problem loans (6/1)	20.7	22.5	21.9	20.9	21.8	22.8	24.0	22.4
Ratio of coverage of potential problem loans (5/6)	83.9	83.7	86.9	93.3	89.5	84.5	84.1	87.2

Source: BCRG, Direction Générale de l'Inspection and Direction des Banques.

Chamber of Accounts of the Supreme Court, as planned; the Reconciliation Law for the 1998 fiscal year was adopted by the National Assembly in mid-June 2001; and a program for strengthening the capacity of the Chamber of Accounts has been put in place. With regard to revenue, reforms have been partially implemented (Appendix I, Attachment I, Tables 2 and 4). The Ministry of Finance has completed operational audits of the tax and customs directorate, and similar studies of the treasury and the budget office are under way. Operational recommendations drawn from these audits will be implemented during 2002-03.

18. The **administrative decentralization** process began in 2001 with a pilot project transferring the budgetary allocations for health and education to two prefectures. Its gradual extension to cover other administrations is expected to begin before end-2002 as the training of staff at the local level proceeds.

19. However, the **public enterprise restructuring and privatization** program did not advanced as well as expected, as the revision of the institutional, regulatory, and judicial framework for private participation in the public utility companies was not completed as programmed.<sup>12</sup> As a result, the financial situation of the public utility enterprises deteriorated further, adversely affecting the government finances. On the positive side, a new privatization law was adopted and a special privatization unit created, as planned.

20. In the area of **civil service reform**, two laws have been adopted by the National Assembly, modifying the general statutes of the civil service. They will permit the introduction of a merit-based remuneration and advancement system, and more flexibility in the geographical and functional redeployment of civil servants.<sup>13</sup> The authorities will soon begin a study aimed at formulating a new approach to contractual employment within the public sector. An actuarial study of the social security system was launched with external assistance in late 2001 as the first step toward an overhaul of the entire system.

21. Finally, in the area of **governance**, the Anticorruption Committee (CNLC) continued to investigate allegations of fraud and embezzlement.<sup>14</sup> By end-2001, CNLC had completed its survey of public opinion on the scope of corruption in Guinea and presented the findings; it has

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<sup>12</sup> Moreover, the departure of the foreign management partners in the electricity and water companies has further complicated the necessary restructuring of these enterprises.

<sup>13</sup> However, the decrees needed for these two laws to take effect have not yet been adopted.

<sup>14</sup> Four such cases were submitted to the Ministry of Justice for prosecution, but there has as yet been no effective follow up.

### Box 3. Guinea: Structural Reforms Supported by the World Bank

Structural reforms under the PRGF-supported program were limited to revenue mobilization and the strengthening of internal and external control of budget execution, in the public finance area, and to monetary reforms and banking supervision and restructuring. Public expenditure management, as well as the public enterprise reform strategy, judicial reform, and specific governance-related issues, were covered by the World Bank in the context of its SAC IV.

#### Public expenditure management

Most of the measures foreseen under SAC IV have been initiated, although some delays have been encountered:

- **Budget execution.** Current spending and transfers in the priority sectors in 2001 were well below the budgeted amounts (see above). The shortfall was effectively made up by March 2002 under the consolidation plan.
- **Treasury management.** A program is being implemented to create a central accounting agency and to move to daily registration of all spending transactions, thereby allowing the consolidated treasury balance to be produced within 15 days of the end of each month.
- **Reconciliation Law.** See Fund program measures. A plan for strengthening the Chamber of Accounts is being developed and the human and financial resources of the chamber have been increased.
- **Expenditure-tracking system.** Further development of the system, including its extension to cover decentralized spending by local administrations (*délégations de crédits*) is under way. Training programs for spending administrators at the local level have been set up.
- **Procurement.** A special treasury account has been created at the central bank to finance the ex post audits of procurement contracts above a certain value, and the schedule of sanctions for infractions has been established. Terms of reference for the auditing companies have been prepared, and the tender for bids has been issued. A set of regulations applicable to procurement contracts on the local level was included in the 2002 Budget Law.
- **Budget preparation.** A new medium-term expenditure framework has been prepared as the basis for the priority sector allocations in the new budget.
- **Review of public expenditure in health and education.** The terms of reference for the review were completed at end-March 2002.

#### Divestiture strategy

- **Privatization framework.** The new Privatization Law has been adopted, and a special privatization unit has been created. The coordinator of the unit has been nominated, and a public communications expert has been hired. A special account has been created at the central bank to finance the social component of the privatization operations. There remains to be created the Strategic Privatization Committee, charged with overseeing the entire privatization strategy.
- **Privatizations and liquidations.** The planned liquidation of eight public enterprises has yet to begin. Moreover, the approach to be taken in the electricity, water and telecommunications enterprises has still to be defined, and the situation has been complicated by the abrupt departure of the foreign partners managing the electricity and water companies. However, the first two phases of the action plan for the electricity sector proposed by the World Bank and the *Agence française de développement* (AFD) have been implemented, and a consultant was engaged at end-May 2002 to provide a study on the approach to be taken in the water sector.

also finalized its draft National Anticorruption Strategy<sup>15</sup> and prepared concrete action plans in six key areas, based on the results of the opinion survey. These areas were increases in state efficiency; improvements in administrative efficiency; the justice system; the private sector; civil society; and the media.

<sup>15</sup> Sectoral workshops with ministries and representatives of civil society and the media will be initiated after the legislative elections at end-June 2002, and the final national anticorruption strategy will be validated at a national forum, tentatively scheduled for September.

#### D. Performance Under the Consolidation Program

22. In view of weaknesses in revenue mobilization and in priority sector spending, the December 2001 mission agreed with the authorities to delay the presentation of the first PRGF review, in order to give them time to improve performance under a **four-month consolidation program**. In the context of the four-month consolidation program, understandings were reached on monthly targets for revenue and expenditure **to be met as a prior condition for the Executive Board's consideration of the first review**. With no new external financing expected in the first quarter of 2002, meeting these objectives required further recourse to domestic bank financing—given the favorable inflation performance in 2001, the mission considered this to be an acceptable trade-off that would facilitate reestablishing the momentum of the PRSP process. A key element in strengthening revenue would be collecting overdue taxes and restructuring the major public utilities. To boost the reform momentum, the adoption of key measures in the public enterprise sector, identified by a joint World Bank/Agence française de développement (AFD) mission in October 2001, was set as a prior action for Board consideration of the review.

23. **Fiscal performance under the consolidation program has been satisfactory** (see Appendix I, Attachment I, and Table 3). Overall revenue at end-March 2002 exceeded the cumulative monthly targets,<sup>16</sup> reflecting measures taken to stop revenue "leakages" and collect overdue taxes. Moreover, a series of administrative reforms of the tax and customs directorates has been put in place that is expected to strengthen performance further during the course of 2002.<sup>17</sup> On the expenditure side, by end-March 2002 the authorities had fully caught up on the priority spending not committed at end-2001.<sup>18</sup> However, with the exception of some wage payments to teachers, no priority spending was financed with HIPC Initiative resources, which remained largely unused in the special BCRG account.<sup>19</sup> Overall spending during the first three months of the year was considerably higher than expected, as the government paid overdue charges of foreign embassies, made large one-off pension payments, regularized financial

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<sup>16</sup> At end-March total revenues were GF 184.5 billion, 5 percent above the cumulative benchmark.

<sup>17</sup> See para. 28, and Box 4 below.

<sup>18</sup> On a commitment basis. The resources were transferred to the accounts of the spending ministries, but actual payments were somewhat below the level of commitments, owing to some difficulties that the authorities experienced in accelerating payment orders while remaining consistent with budget execution procedures, which have been strengthened to improve spending efficiency.

<sup>19</sup> It was agreed that the catching up on priority expenditures from 2001 in the first quarter of 2002 would be funded using own resources. This would leave the HIPC Initiative resources available for the higher level of budgeted spending in the priority sectors in 2002. Use of these resources requires the special authorization of the Minister of Finance and is registered in special lines in the budgetary nomenclature.

relations with domestic suppliers, including the public utilities,<sup>20</sup> settled overdue obligations to international organizations, and made scholarship payments. These payments were initially expected to have been spread out through the year. There were also some unexpected security-related cash operations. The primary fiscal balance at end-March was broadly as expected, owing to the strong revenue performance and lower-than-anticipated domestically financed capital spending.

24. On the **structural front, progress was largely positive** (see Appendix I, Attachment I, and Table 4). Many of the fiscal measures envisaged for the consolidation period have been implemented, while others are at various stages of advancement, including the strengthening of the internal control and audit of budget implementation (for which a technical assistance request has been addressed to the European Union). The repayment schedule for the verified stock of domestic payments arrears was adopted by the government in March 2002. The first two stages of the action plan proposed by the World Bank and the AFD in the electricity sector were adopted as planned, and the government has signed and issued the contract to prepare a study of possible options for the water sector.

### **III. REPORT ON THE DISCUSSIONS AND POLICIES FOR 2002/03**

#### **A. Growth and Macroeconomic Prospects**

25. The projection for growth for 2002 has been revised downward to 4.2 percent compared with 5.4 percent under the original medium-term program, notwithstanding an expected expansion of primary sector activity. This revision reflects the impact of less favorable terms of trade on the mining sector and lower incomes on trade and other services (Figure 5).<sup>21</sup> Average consumer price inflation is projected at 3.6 percent because of the continuation of a prudent monetary policy stance and the impact of good agricultural output on food prices. The external current account deficit (excluding grants) would widen from 5.2 percent of GDP in 2001 to 8.6 percent of GDP in 2002, reflecting primarily a deterioration of the trade balance compared with 2001.<sup>22</sup> The deterioration is due in part to the significantly higher capital goods imports linked to the large-scale mining sector projects, which are financed by private capital inflows (see section D and Box 7 below).

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<sup>20</sup> The government settled in March 2002 the remaining amounts due for the consumption of public utilities in 2001 and has begun making regular monthly advance payments for current consumption.

<sup>21</sup> The impact of the global economic slowdown on Guinea in 2002 is expected to be relatively minor. Export and tax receipts from bauxite and alumina may decline, owing to lower demand and the problems experienced by the airline industry since the events of September 11, 2001, and the demand for diamonds has softened somewhat.

<sup>22</sup> Including grants, the deficit would widen from 3.7 percent of GDP in 2001 to 6.9 percent in 2002.

## B. Fiscal Policy

26. The successful implementation of the consolidation program has reestablished the momentum of fiscal adjustment. A series of revenue measures has been initiated that would contribute to a fiscal adjustment that is broadly similar to that of the original program (see Box 4), although the levels of revenue and expenditure have been revised.

27. The 2002 program projects an increase of 1.4 percent of GDP in the primary surplus, based on an improvement in revenue performance that exceeds the projected increase in primary expenditure. Capital spending is projected to rise to 8 percent of GDP from 7.3 percent in 2001. The deficit, on a commitment basis (and excluding grants), would decrease to 6.4 percent of GDP from the 7.6 percent recorded a year before.

28. The projected increase in overall revenues to 12.6 percent of GDP in 2002 primarily reflects measures to improve revenue collection and broaden the tax base. These include the implementation of key recommendations of the operational audits of the customs and tax directorate pertaining to the observance of rules and procedures; the recovery of taxes owed by key public enterprises and importers, based on investigations made by the tax administration

### Box 4. Guinea: Additional Fiscal Measures for 2002

**Customs administration** (April-December 2002). The authorities will take the following measures:

- Issue manuals of procedures and eliminate special clearance procedures granted to the informal sector (*régime spécial de dédouanement forfaitaire*).
- Transfer gradually the revenue collection function of the preshipment inspection company (SGS) back to customs and introduce a single clearance procedure through a one-step window to modernize customs.
- Computerize customs (introduction of the SYDONIA ++ software).
- Rationalize the workforce (e.g., discontinue temporary contractual agents, "volunteers," "auxiliaries," "interns," etc.).
- Approve the new Statute of Customs Officers setting forth the proper reclassification of personnel in the civil service hierarchy, job qualification and recruiting standards, training procedures, an adequate incentive system (e.g., incentive fund, risk allowance, etc.), and sanctions.
- Improve work conditions by providing resources funded with a computer fee (GF 10,000 per declaration) and higher administrative fee (raised from 0.9 percent to 1.1 percent of f.o.b. value).
- Establish a quarterly schedule for the recovery of the identified amounts of customs revenues lost to fraud (GF 10 billion at end-2001) and initiate judicial proceedings against those involved.

**Tax administration** (April 2002-March 2003): The authorities will identify—and broaden—the existing tax base, streamline exemptions, and reorganize the tax administration by taking the following measures:

- Set up an annual plan for broadening the tax base by putting in place a computerized system of monitoring large taxpayers, as well as legal exemptions.
- Within each division of the tax directorate, separate the activity of tax notification from that of tax collection, and centralize all activities of tax collection under the authority of the Receveur National des Impôts (RNC); and verification/control/investigations under a new specialized division of the tax directorate.
- Rationalize the size of the workforce by removing "ghost workers" from the personnel file, enforcing sanctions against corrupt tax agents (e.g., through dismissal), and establishing a core of well-trained and well-paid professional staff.
- Adopt a Statute of Tax Personnel setting forth adequate financial incentives, strict sanctions, a training and career plan, etc.
- Adopt a computerization plan.
- Only about one fourth of publicly registered enterprises are subject to the VAT file tax declarations. Establish a list of these enterprises to be updated quarterly and transmitted to the Minister of Finance for verification.

and the Anticorruption Committee; the elimination of the ad hoc tax and customs exemptions introduced in the last quarter of 2001; ongoing random tax audits of large enterprises; and the agreement with two major public enterprises on monthly payment schedules for their tax obligations. In this context, indirect tax receipts are expected to increase by almost 30 percent over the 2001 level.<sup>23</sup>

29. Overall expenditure in 2002 is forecast to remain at 19 percent of GDP in spite of rising capital expenditure, especially domestically financed investment, and the catching up on priority spending from 2001, in addition to higher priority sector allocations for 2002.<sup>24</sup> To improve spending performance in priority sectors, the authorities plan to reinforce the decentralization of budget execution, further improve budget management, and actively use the monthly forward-looking cash-flow plan to match expenditures and cash revenue.

30. The government has adopted a repayment plan for the settlement of the stock of domestic arrears verified at end-December 2001 (equivalent to 0.7 percent of GDP). Under this plan, part of this debt (amounting to GF 30 billion) will be settled by bond issuance and the balance by compensation against overdue tax obligations of the concerned creditors. The cash deficit is projected to narrow to 3 percent of GDP in 2002, from 3.8 percent in 2001. Net external financing, as well as debt rescheduling, is expected to cover the cash deficit and allow the government to reduce its indebtedness to the banking system.

### C. Monetary and Financial Sector Policies

31. In 2002, **monetary policy will continue to aim at controlling the rate of inflation**, maintaining it at about 3.6 percent on an annual average basis, and at building up net official reserves. Broad money is projected to grow by 8.1 percent. This expansion reflects above all an increase in private deposits in the banking system, as private confidence in the commercial banks rises as a result of their restructuring, as well as the effect of the extension of the banking network in the provinces.<sup>25</sup> The net domestic assets of the banking system are projected to increase by 3.6 percent of beginning-of-period broad money. The net domestic assets of the central bank, however, would contract by over 11 percent, as the government reduces its indebtedness to the central bank by over 13 percent, compared to end-December 2001 (and by

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<sup>23</sup> Details of the specific measures implemented or planned in the areas of tax and customs administration are presented in Box 4 and in the memorandum of economic and financial policies (MEFP) (Appendix I, Attachment I, Tables 4 and 6).

<sup>24</sup> Nonwage spending on priority sectors (excluding the amounts carried over from 2001 to 2002) is budgeted at GF 99.3 billion, or 1.5 percent of GDP, compared with GF 72.3 billion percent in the budget for 2001, of which 0.6 percent is to be financed by HIPC Initiative resources.

<sup>25</sup> Part of the 10.6 percent rise in overall deposits is due to an expected increase in foreign currency deposits, resulting from the liberalization in September 2001 of the conditions governing such deposits held by private residents.

more than a quarter since the peak at end-March 2001). The net foreign assets of the central bank are projected to increase by some US\$7 million, based on debt service requirements and expected inflows of foreign assistance. Reserve money, by contrast, is programmed to decline by 3.7 percent over the year, as commercial banks draw down their excess reserves at the central bank, in part in order to purchase treasury bills issued to finance part of the government deficit, as well as to expand credit to the private sector, which is expected to increase by over 9 percent in anticipation of a pickup in economic activity. To improve overall liquidity management, the BCRG has drawn up an action plan that includes enhancement of bank liquidity forecasting and coordination with the government's cash-flow position, based on the recommendations from the December 2001 MAE technical assistance mission. As the uncertain timing of foreign exchange auctions had unfavorably affected banks' liquidity management, the central bank decided at the beginning of the year to hold the auction regularly on the first Wednesday of every month.<sup>26</sup>

32. In the area of **bank supervision and restructuring**, the BCRG will pursue its efforts to strengthen the position of the banking system and ensure that all banks observe prudential norms, and that the restructuring of the two small banks is completed expeditiously. Further regulatory and supervisory reforms are planned, aimed at complying with the Basel Core Principles by 2004 that draw on a program jointly designed by the central bank and MAE.<sup>27</sup> The BCRG intends to put in place an adequate regulatory framework to supervise microfinance institutions—a law governing such institutions is under preparation.

33. Finally, in 2002, the authorities plan to submit to Parliament a draft of the revised Banking Law, issue regulations governing the misuse of checks, strengthen the database of outstanding bank credit (Centrale des Risques), and create a database on debtors' payment performance (Centrale des Incidences de Paiements). Moreover, the Accounting Plan for financial institutions will be finalized in consultation with the Professional Bankers' Association.

#### **D. External Sector**

34. In 2002, the current account deficit is projected to deteriorate by over 3 percent of GDP. Guinea's external terms of trade in 2002 are projected to be weaker than expected at the time that the three-year PRGF program was approved, although they would improve slightly from 2001 on account of a small pickup in world aluminum prices. Imports are projected to increase, reflecting primarily increased demand for petroleum products and capital goods, particularly linked to the start of the mining sector projects (see paragraph 39 and Box 7). The capital and financial account balance is expected to improve, owing to an increase in direct investment and other

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<sup>26</sup> Although the commercial banks made the point in discussions that the predictability of the auctions since February 2001 facilitated their liquidity management, they indicated that a biweekly frequency could be preferable. They also noted that the TRM and treasury bill auctions should follow the foreign exchange auction, so as to reduce the need to hold "precautionary" liquidity for foreign exchange purchases.

<sup>27</sup> The BCRG has already begun implementing a bank supervision action plan based on the recommendations of a recent Fund technical assistance mission.

private capital that compensates for a decline in net official assistance. The overall balance of payments is projected to deteriorate slightly.

35. As regards the exchange rate, the central bank has reasserted its commitment to a freely functioning foreign exchange market (Box 5). The monetary authorities indicated that shortages of foreign exchange in the official market had compelled the central bank to reduce the frequency of the auctions during 2001, although the official exchange rate had remained broadly market determined.<sup>28</sup> They also agreed to take steps to increase the supply of foreign exchange through official channels, based on recommendations of the December 2001 technical assistance mission from MAE.<sup>29</sup>

#### **Box 5: Guinea: The Foreign Exchange Market in Guinea**

The foreign exchange market in Guinea is composed of the following:

- a foreign exchange auction market, in which the seven commercial banks, authorized foreign exchange bureaus, and the central bank participate; and
- an unofficial parallel market among unauthorized agents who transact primarily in foreign banknotes, but who also effect transfers through off-shore accounts.

Transactions in foreign banknotes are also conducted by the commercial banks and the foreign exchange bureaus.

The official foreign exchange auction market is managed by the central bank, which offers the available supply of foreign exchange for sale in lots of US\$100,000. Each bank can make multiple bids for the foreign exchange at varying prices, the number of bids limited only by the number of lots on offer. The official exchange rate is determined according to a single marginal or cutoff price—the lots are assigned in decreasing order of the price proposed until the total volume on offer has been exhausted, with the price of the last assignment becoming the official rate that prevails until the next auction. Given the banks' lack of confidence in each other, there are no interbank transactions in foreign exchange between auctions (although these are authorized), and there often arises a differential with respect to the parallel market rate, which, in the latter half of 2001, occasionally exceeded the range of 2 percent.

The supply of foreign exchange to the official market consists of the payment of taxes and the surrender of foreign exchange earnings by mining sector companies, export receipts from other sectors of the economy, and official and private transfers, as well as occasional injections of foreign exchange by public and parapublic enterprises. The parallel market is primarily fed by informal exports of gems and precious metals, as well as other export transactions.

Given the general shortage of foreign exchange on the official market, the central bank in 2001 progressively lengthened the interval between auctions from the initial weekly rhythm to once per month in an effort to increase the volume offered at each auction and thus reduce the pressure on the exchange rate. Nonetheless, although the depreciation of the official rate was moderate throughout the year, the bid-to-cover ratio declined continuously, indicating a rising volume of unsatisfied demand. However, the rate of dispersion of the bid prices, as well as the gap between the maximum and minimum price bid, has also fallen continuously over the period, indicating that bidding is not purely competitive, and that the bidders seem to be knowledgeable about market conditions.

<sup>28</sup> The main sources of foreign exchange on the official market are the export receipts of the major mining companies; foreign exchange surrendered by public enterprises; and disbursements of external assistance.

<sup>29</sup> See MEFP, para. 32.

### **E. Medium-Term Macroeconomic Prospects**

36. The key macroeconomic objectives for the medium term have been revised to reflect (i) an increase in output growth from 3.6 percent in 2001 to an average of 5.2 percent during 2002–05; (ii) a decline in annual average inflation from 5.4 percent in 2001 to 3 percent by 2005; and (iii) an overall fiscal deficit (on a commitment basis and including grants) that remains at an annual average of 3.6 percent of GDP over the four-year period ending in 2005, notwithstanding increased spending in priority sectors. A key factor driving growth over the medium term will be the development of agriculture and fisheries, which together account for over 15 percent of GDP, and are the main source of rural employment and income. Agriculture and rural development are two of the main pillars of the poverty reduction strategy, supported by policies to develop rural roads, promote access to microcredits, and develop an appropriate infrastructure for the collection and distribution of perishable goods. Gross domestic investment is projected to rise from 22 percent in 2001 to 30 percent of GDP by 2005, reflecting primarily the major private investment projects in the mining sector, as well as increased government spending on the social and economic infrastructure in the context of the poverty reduction strategy.

37. The medium-term fiscal framework has been revised to take into account the latest projections of growth and the external accounts, as well as the actual outturn in 2001 and progress in implementing the fiscal reforms envisaged in the initial program. Compared to the original PRGF-supported program approved in May 2001, the growth projections have been lowered from an average of 5.9 percent to 5.2 percent over the period 2002-04. Average inflation is projected to decline to 3 percent by 2004, compared to 2.8 percent in the original program. The projections of the external current account deficit (excluding grants) are now considerably higher than in the initial program, averaging 8.7 percent as against 5.1 percent during 2002-04, reflecting the inclusion in the projections of the capital imports linked to the mining sector projects. Finally, the overall fiscal deficit (excluding grants) is about one percentage point of GDP higher than initially programmed in 2003-04, owing to a downward revision of revenue projections and the adjustment of the expenditure projections to take account of the more precise estimates of the costs of various poverty reduction programs presented in the full PRSP (Box 6).

38. The overall macroeconomic framework of the full PRSP remains that of the initial program. The implementation schedule established by the authorities foresees a process of consultations with donors to determine the likely volume and timing of financial commitments in support of the strategy, followed by another round of regional consultations with civil society to establish implementation priorities consistent with the binding constraints of the available external and domestic resources. On this basis, a new macroeconomic framework of the PRSP, modified to be consistent with these financing constraints and with the latest evaluation of the macroeconomic environment, will be

### Box 6. Guinea: Medium-Term Fiscal Adjustment

The medium-term fiscal projections of the initial program foresaw a substantial increase in overall revenues (from 13.2 percent of GDP in 2001 to 15.3 percent in 2004), based in part on the gradual reduction of exemptions and significant improvements in nontax revenue, including fishing and telecommunications licenses, and revenues from the public enterprise sector. Overall expenditures were slated to remain largely unchanged over the period 2001-04, producing a modest improvement in the primary surplus, while reducing the overall deficit by over 2 percentage points of GDP.<sup>1</sup>

Under the revised projections, the medium-term internal fiscal adjustment effort is somewhat more pronounced than that set out in the initial program, as the primary surplus is now projected to increase by over 1 percentage point of GDP by 2004, compared with 0.4 percent in the initial program. However, the composition of this adjustment, and the levels of revenue and expenditure relative to GDP in the revised medium-term projections are considerably different. While revenues register the same relative improvement over the period, their level relative to GDP is considerably lower as a result of (i) the disappointing revenue outturn of 2001, including the impact of the weakening financial situation of the public enterprises on nontax revenues; (ii) the less favorable prospects for mining sector revenues; and (iii) the lack of progress toward a significant reduction in exemptions. Similarly, expenditures in the revised program now increase by 1.8 percent of GDP over the period, instead of remaining relatively stable as in the initial program, reflecting the incorporation into the projections of considerably higher current outlays in the priority sectors in the context of the PRSP.<sup>2</sup>

Nonetheless, although the overall cash deficit is larger than initially programmed, after taking account of identified financing, the residual financing gap is much smaller than in the initial program, and could largely be financed by program grants, without much recourse to additional loans.

Medium-Term Fiscal Adjustment  
(In percent of GDP)

	2001		2002		2003		2004		2005
	Init. Prog.	Est.	Init. Prog.	Rev. Prog.	Init. Prog.	Rev. Prog.	Init. Prog.	Rev. Prog.	Proj.
Primary fiscal balance	0.8	0.7	1.3	2.1	1.6	1.6	1.2	1.8	2.0
Overall revenues (excl. grants)	13.2	11.5	13.9	12.6	14.6	13.1	15.3	13.5	14.2
Mining sector	3.1	2.9	3.3	2.6	3.1	2.7	3.5	2.8	3.1
Nonmining sector	10.1	8.6	10.6	10.0	11.5	10.4	11.8	10.7	11.1
Overall expenditure	21.9	19.1	20.7	19.0	20.8	20.6	21.7	20.9	20.8
Total current expenditure	12.1	11.6	11.2	10.8	11.4	11.0	12.1	11.2	11.2
<i>Of which: wages</i>	3.8	3.7	3.7	3.7	3.7	3.6	3.8	3.5	3.5
Investment spending 1/	9.8	7.5	9.5	8.2	9.4	9.6	9.6	9.7	9.6
Overall balance									
On commitment basis, incl. grants	-3.2	-3.5	-1.3	-2.5	-0.8	-4.3	-1.3	-4.1	-3.5
On commitment basis, excl. grants	-8.6	-7.6	-6.8	-6.4	-6.3	-7.5	-6.4	-7.4	-6.5
On cash basis	-3.4	-3.8	-1.4	-3.0	-1.0	-4.3	-1.3	-4.1	-3.5
External public debt	116.0	107.0	108.6	97.3	99.2	88.6	90.8	80.2	71.8

1/ Includes net lending and restructuring costs.

<sup>1</sup> The improvement in the overall deficit also reflected a sharp increase in grants (from 2.4 percent of GDP in 2001 to 5.1 percent in 2004), almost entirely owing to the treatment of debt relief under the HIPC Initiative as grants. The level of grants in the revised program is considerably lower (declining from 4.2 percent of GDP in 2001 to 3.3 percent in 2004), as the interim assistance from Paris Club creditors is now treated as a financing item below the line and projections for project-related grants are much lower.

<sup>2</sup> This increase in current spending reflects in part a better estimation of the recurrent costs of the higher investment spending programmed over the medium term resulting from the ongoing preparation of a consistent medium-term expenditure and overall fiscal framework. The increase in priority sector spending within a lower overall spending envelope also reflects the rapid reduction of defense-related outlays in 2002-03 following the normalization of the security situation.

presented in the annual PRSP program report in the first quarter of 2003, and the PRGF-supported program will be aligned with this framework at the time of the third review.<sup>30</sup>

39. External developments will continue to be dominated by changes in Guinea's external terms of trade, new foreign direct investment (FDI) in the mining sector (Box 7) and the needed progress toward the adoption after 2004 of the common external tariff (CET) of the West African Economic and Monetary Union (WAEMU) in the context of a simplified trade regime. In addition to external terms of trade developments,<sup>31</sup> the medium-term balance of payments outlook remains dependent on the rhythm of financial inflows related to the mining sector projects. The external current account deficit (excluding official transfers) is expected to deteriorate over the medium term from 8.6 percent of GDP in 2002 to 10.5 percent in 2005, as imports linked to the major mining sector projects and to the implementation of the poverty reduction strategy increase. As most of the imports for the mining projects would be financed by foreign private capital, the overall balance of payments would improve from a deficit of 1.6 percent of GDP in 2001 to a deficit of 1.3 percent of GDP in 2005. Staff noted that the dependency of Guinea's external accounts on a few mining sector products would deepen with the implementation of the large-scale investment projects, and underscored the importance of diversifying the composition of exports. The authorities concurred, noting that two of the principal sources of projected growth over the medium term, agriculture and fisheries, could also be developed as alternative sources of exports receipts, particularly within the subregion.

#### **F. External Debt Management, External Financing, and Capacity to Repay the Fund**

40. A mission from Debt Relief International provided technical assistance in early June 2002 to strengthen the external debt management unit and contribute to a more accurate tracking of both the debt service due and the savings generated by the interim HIPC Initiative relief. The authorities are reorganizing and strengthening the external debt service division of the Ministry of Finance, using longer-term technical assistance. The five bilateral rescheduling accords that remain to be signed in the context of the May 2001 Paris Club rescheduling agreement are expected to be completed during June–July 2002.<sup>32</sup>

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<sup>30</sup> The authorities have spelled out this procedure in letters to the Managing Director of the Fund and the President of the World Bank (issued as supplements to the full PRSP). In these letters, they also indicate their intention to orient their financial operations in 2002 on the approved budget and the most recent revision of the macroeconomic framework, which underpins the second annual PRGF-supported program.

<sup>31</sup> Based on the latest 2002 World Economic Outlook projections and on export sales contracted by the time of the latest mission, Guinea's external terms of trade are expected to rise over the medium term.

<sup>32</sup> The deadline for completing these accords has been extended by the Paris Club Secretariat from November 2001 to September 2002.

**Box 7. Guinea: Medium-Term Impact of Investment in the Mining Sector**

A salient feature of Guinea's medium-term growth strategy is the almost 5 percent increase in the investment ratio, from 25.8 percent of GDP in 2002 to 30.2 percent in 2005. This increase is driven mainly by foreign direct investment in the mining sector (iron, bauxite, and gold), accompanied by investment in railways and in infrastructure. The total capital inflow related to megaprojects in the mining sector amounts to US\$315 million during the four-year period ending in 2005.

The immediate impact of the surge in investment on the economy is a deterioration of the trade balance, as a large amount of capital inflow will be spent on imports of capital and intermediate goods; meanwhile, exports do not start until 2005. Accordingly, the contribution to economic growth and to revenue mobilization is lagged.

<b>Impact of megaprojects in the mining sector</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Increase in FDI (millions of U.S. dollars)	15	75	100	125
Additional mining exports (millions of U.S. dollars)	0	5	5	60
Share of megaprojects in total investment (in percent)	0.0	6.2	8.5	10.8
<b>Memorandum items:</b>				
Gross investment rate (in percent of GDP)	25.8	27.4	27.9	30.2
<i>Of which: central government</i>	8.0	9.4	9.5	9.6

41. The program for 2002 projects a financing gap of US\$91 million after identified financing from the European Union, the African Development Bank, and bilateral donors. This gap is expected to be covered by debt relief from Paris Club creditors under the May 2001 rescheduling arrangement and interim HIPC Initiative debt relief from multilateral donors. The authorities are requesting from the Fund additional interim assistance to cover part of principal repayments falling due during May 1, 2002-March 31, 2003.

42. Over the period 2001-05, debt service to the Fund expressed in percent of exports of goods and nonfactor services would increase from almost 1.5 percent in 2001 to a peak of 2.2 percent in 2003, before falling back to 1.5 percent in 2005, while total outstanding credit would decline from 14.7 percent in 2001 to 10.3 percent in 2005 (Table 2). The projected level of gross foreign reserves, together with the authorities' commitment to carry on the implementation of strong economic and financial policies, is expected to allow Guinea to meet its financial obligations to the Fund in a timely manner.

**G. Regional Issues**

43. Guinea's trade restrictiveness is currently rated at 3 on a 10-point scale (1 indicating complete openness and 10 indicating complete restrictiveness). Its most-favored-nation (MFN) tariff stands at 16.4 percent, as opposed to the 13.2 percent average for all Fund member countries. Guinea does not apply nontariff barriers. The planned introduction of the CET of the WAEMU is expected to reduce the average tariff by about 2 percent, thereby

improving Guinea's ranking on the trade restrictiveness scale from 3 to 2 (i.e., a high degree of openness), by the end of program period.<sup>33</sup>

44. The mission discussed with the authorities the progress made toward meeting the convergence criteria established for the second monetary zone among Economic Community of West African States (ECOWAS) members, which has been proposed for implementation in 2003. While reiterating their commitment to the project at the highest political level, the authorities noted that Guinea, although unlikely to be able to meet all the primary criteria by the 2003 deadline (see Box 8), would continue to make best efforts to meet the criteria. Key measures already taken to strengthen revenue mobilization, reduce the stock of central bank credit to the government, and increase foreign reserves are consistent with this goal. The authorities also confirmed their intention to complete a study of the impact of the introduction of the CET of the WAEMU in Guinea with IMF technical assistance as soon as possible.<sup>34</sup> Moreover, the Guinean authorities have agreed, together with Senegal and Mali, to a program of cross-border initiatives (*Programme d'Initiatives Transfrontalières* – PIT) aimed at facilitating the use of ECOWAS customs documents in trade flows among the three countries, reducing the regulatory constraints impeding the movement of persons and goods, and creating a permanent consultative committee on integration to analyze problems pertaining to economic integration within the group.<sup>35</sup>

#### H. Structural Reforms and Governance

45. The mission encouraged the authorities to maintain their efforts to pursue and strengthen structural reforms. These efforts would involve, in the area of the public finances, further improvement of the expenditure-tracking and treasury management systems; training of budget managers at the lower levels of administration to accompany the ongoing decentralization; and the further strengthening of the internal and external control and audit of budget execution. The mission stressed, in particular, the possible risks to budgetary

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<sup>33</sup> Since the last Article IV consultation in early 2001, Guinea has completely liberalized the conditions for foreign currency accounts held by all residents and nonresidents in the domestic banking system (in September 2001), following the liberalization of conditions for such accounts held by the foreign exchange bureaus in November 2000. On August 24, 2001, the central bank also issued an instruction that it would refrain from conducting foreign exchange repurchase operations with commercial banks facing liquidity problems, which it had occasionally done in the past without a standard contract. A ban on exports of logs was imposed on October 12, 2001 for environmental reasons.

<sup>34</sup> An FAD technical assistance mission in this area originally programmed for September 2001, was postponed, owing to the events of September 11, 2001, and has been rescheduled to August-September 2002.

<sup>35</sup> The commitments to the second monetary zone and the PIT are considered in the full PRSP as an axis of macroeconomic policy aimed at fostering high and sustained growth.

discipline inherent in fiscal decentralization if appropriate budgetary procedures and control mechanisms were not put in place at the local administrative levels. The authorities underscored their intention to strengthen the monitoring systems for budget execution and in particular, the implementation of the recommendations of a recent World Bank mission on tracking poverty-related expenditures.

46. Similarly, the mission observed that the laws adopting the general statutes of the civil service were a good first step toward creating a modern, flexible, and efficient civil service. The authorities now needed to prepare carefully the implementation of a merit-based remuneration and advancement system to ensure that it facilitated the needed recruitment and retention of staff. This reform needed to be complemented by determined efforts to rehabilitate the social security system, in view of the foreseeable increase in public and private sector retirements over the next few years.

47. In the area of monetary policy, the central bank intended to implement fully the new supervisory framework for the microfinance sector and ensure that the more rigorous bank auditing standards were scrupulously observed. It would also complete the implementation of the recommendations of the 1999 external audit of the central bank.<sup>36</sup>

48. **The public enterprise restructuring and privatization program remains a key element** of the structural reform agenda. The joint mission urged the authorities to accelerate both the restructuring of public utility companies, whose deteriorating financial situation undermined the revenue effort and prevented the development of an economic infrastructure conducive to private sector investment and more rapid growth, and the planned liquidation of 11 other enterprises. The authorities noted that the abrupt departure of the private management partners in the electricity and water companies in mid-2001 had required the implementation of interim solutions; however, they reiterated their commitment to the overall program, pointing to the adoption of the new privatization law and the creation of a privatization unit. The first two phases of the four-phase reform plan for the electricity sector proposed by the World Bank and the AFD had also been completed and a consultant hired to develop an approach for the water sector.

49. The mission observed that the sharply improved mobilization of revenue performance in the first quarter of 2002 could in part be attributed to the heightened awareness of the problem of corruption and of the priority assigned to the anticorruption effort at the highest

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<sup>36</sup> A TRE mission conducted the second phase of the safeguards assessment during April–May 2002 (see MEFP, para. 33 and Appendix II).

**Box 8. Guinea's Position Relative to the Convergence Criteria for the Second Monetary Zone in West Africa**

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-2001
<b>Primary criteria</b>		
Budget deficit (commitment Basis; in percent of GDP)	< 4.0 percent by 2002	4.0 percent
Inflation (annual average)	≤ 5 percent in 2001 and ≤ percent % by 2003	5.4 percent
Central bank financing of budget deficit	≤ 10 percent of previous year's tax receipts by 2003	42.1 percent
International reserves	≥ 4 months of imports	3 months
<b>Secondary criteria</b>		
Domestic arrears	No new accumulation and reduction of existing stock	Met (0.3 percent of GDP)
Tax revenue/ GDP	≥ 20 percent	9.9 percent
Wage bill/tax revenue	≤ 35 percent	38.5 percent
Real exchange rate	Broad stability	-2.4 percent
Interest rates	Positive real interest rates	Met
Self-financed investment/tax revenue	≥ 20 percent	6 percent

Clearly, an improvement in the tax revenue-to-GDP ratio would greatly facilitate observance of the other revenue-related measures. For example, a tax ratio in 2001 of only 12 percent of GDP would have reduced the ratio on central bank financing of the deficit from 42 percent to 37 percent, without any change in the underlying stock, and the ratio on the wage bill would have fallen from 38.5 percent to under 32 percent, which is within the ceiling. A less tight cash-flow position would also have facilitated the avoidance of new domestic arrears and the programmed reduction in the existing stock.

political levels.<sup>37</sup> It encouraged the government to continue strengthening the fight against corruption and to support the vigorous investigation of alleged cases of corruption by the Anticorruption Committee. The authorities concurred with the mission on the importance of firm sanctions in proven cases of corruption, and agreed that the justice system should take up promptly cases referred to it by the CNLC. An action plan has been established to

<sup>37</sup> On December 21, 2001, the President of the Republic gave a major televised speech in which he committed the resources of the government to the fight against corruption and pledged full support for the efforts of the Anticorruption Committee. Following the speech, the directors of all the key divisions in the Ministry of Finance were replaced.

complete the judicial treatment of these cases, and to develop a full-fledged judicial reform strategy, that could be supported by the World Bank.<sup>38</sup>

### **I. The PRSP, Social Policies, and the HIPC Initiative**

50. The full PRSP was completed on schedule, adopted by the Council of Ministers in January 2002, and presented to the parliament in February 2002. The degree of participation of the population and donors in setting out the priorities and policies of the PRSP was high.<sup>39</sup> All of the measures foreseen to provide an appropriate framework for the use of the HIPC Initiative resources have been taken, including, in June 2001, the setting up of a special HIPC Initiative account at the central bank, and the introduction of two new budget lines for current and capital spending in priority sectors financed by the HIPC Initiative resources. The next steps include the formulation of action plans and the organization of roundtables with donors on the financing of the sectoral programs, as well as of the overall poverty reduction strategy, in the third quarter of 2002, and another round of regional consultations with the populations will be held to set implementation priorities.

51. The centerpiece of the authorities' efforts to improve the analysis of the impact of their poverty reduction policies is the integrated household budget-consumption survey, which was launched with World Bank assistance in late 2001. This survey, which is to be completed by the end of 2002, will update and extend the existing sociodemographic databases compiled through earlier surveys.<sup>40</sup>

52. Moreover, with the assistance of the Gesellschaft für Technische Zusammenarbeit (GTZ), the authorities are in the process of extending their macroeconomic projection model to include specific modules on agriculture and other primary sector activity, and on government spending in the priority sectors. The latter module, in place since late November 2001, is expected to allow a link to be established between government activity in these sectors and the quantified objectives of the PRSP in terms of the projected development of key social indicators, such as average income, access to basic services, life expectancy, etc. A submodule on spending in the primary education sector has already been integrated; this allows the monitoring of spending in the sector and, for example, the analysis of the improvements in the rate of school enrollment. A new "demographic" module has also been in use since November 2001 that allows the monitoring of key demographic outcome

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<sup>38</sup> Both the anticorruption effort and steps to strengthen the administration of justice are treated in the poverty reduction strategy paper, with concrete actions and measurable outcome indicators identified.

<sup>39</sup> The joint mission was invited to participate in the final validation event, held in Conakry on December 3, 2001, and in the national forum on the implementation of the PRSP, held during May 6-7, 2002.

<sup>40</sup> A pilot survey of a restricted sample of households was completed in March 2002.

indicators identified in the PRSP. Under this module, the calculation of the impact of government spending and other measures is based on their effect on key population groups, for example, women, school-age children, etc. This work will be complemented by the preparation of a social accounting matrix, providing the basis for a more precise analysis of the social impact of the measures being implemented under the program. Existing poverty maps have been updated and included in the full PRSP, and World Bank financing has been obtained to create a web-based "Live Data Base" that brings together all available economic, financial, monetary, and sociodemographic statistics.

#### IV. STATISTICAL AND TECHNICAL ASSISTANCE ISSUES

53. Notwithstanding the continuous improvements in recent years, some problems remain in the area of government finance, real sector, and balance of payments statistics. Data are generally adequate for program monitoring, although frequent problems are encountered with the internal consistency of fiscal data and their consistency with monetary data. Satisfactory progress has been made in implementing the action plan for improving monetary statistics—a plan based on recommendations of an STA technical assistance mission.

#### V. PROGRAM MONITORING

54. In light of the slippages observed in the implementation of the 2001 program under the semiannual review schedule and the associated interruption of the reform momentum, the staff and the Guinean authorities have proposed a **shift to a quarterly review schedule for the second annual program**, in order to encourage a steadier program implementation. This shift would also provide the staff and the Board with the means to monitor performance more closely and quickly take into account any unexpected developments that could undermine the realization of the program's objectives.

55. Accordingly, implementation of the second annual program would be monitored by the same quarterly quantitative benchmarks and performance criteria as in the first annual program (Appendix I, Attachment I, and Table 5). However, four reviews of the second-year performance would be scheduled, based on performance at end-September 2002, end-December 2002, end-March 2003, and at end-June 2003. Structural conditionality will be limited to the area of the public finances and monetary policy, as measures of progress in the ongoing reform programs in both areas (Box. 10). Other areas of structural reform of relevance to the PRGF-supported program, particularly public enterprise privatization and judicial reform are part of the World Bank's SAC IV conditionality and are not taken up in the Fund-supported program to avoid overlap. Nonetheless, adequate progress in all areas of structural reform will be necessary for the completion of the quarterly reviews.

**Box 9. Guinea: Triggers for the Floating Completion Point Under the Enhanced HIPC Initiative**

Area/Measures	Status
<p>Poverty reduction</p>	
<ul style="list-style-type: none"> <li>• Prepare through a participatory process of a full-fledged PRSP considered by the World Bank/Fund Boards as appropriate and one progress report showing satisfactory implementation of the full PRSP.</li> </ul>	<p>The final PRSP was adopted in January 2002. The first annual progress report will be completed in the first quarter of 2003.</p>
<ul style="list-style-type: none"> <li>• Improve the poverty database and monitoring capacity by preparing a living standards measurement survey that will include establishment of poverty lines and indicators based thereon, and the establishment of a poverty-monitoring system involving key stakeholders.</li> </ul>	<p>An integrated household survey was launched in November 2001 and should be completed by the first half of 2003.</p>
<p>Macroeconomic and structural reforms</p>	
<ul style="list-style-type: none"> <li>• Maintain a stable macroeconomic environment, as evidenced by satisfactory performance under a program supported by an arrangement under the PRGF.</li> </ul>	<p>The first review and the request for the second annual program under the PRGF are to be considered by the Fund's Executive Board in July 2002.</p>
<ul style="list-style-type: none"> <li>• Implement legislation for microcredit institutions.</li> </ul>	<p>Draft legislation on the regulatory framework was prepared in December 2001 and should be adopted by September 2002.</p>
<p>Governance and anticorruption</p>	
<ul style="list-style-type: none"> <li>• Make publicly available a one-year progress report (showing resources and activities) of the Anticorruption Committee.</li> </ul>	<p>Completed for 2001.</p>
<ul style="list-style-type: none"> <li>• Implement procedures to audit large (over GF 100 million) government procurement contracts.</li> </ul>	<p>The terms of reference for the audits and the audit fund have been put in place. The audits are expected to commence in the course of fiscal year 2002.</p>
<p>Education</p>	
<ul style="list-style-type: none"> <li>• Increase gross enrollment rate for primary school students from 56 percent in 1999 to 62 percent in 2001 and to 71 percent in 2002, of which the gross enrollment rate of girls should be 40 percent in 1999, 51 percent in 2001 and 60 percent in 2002.</li> </ul>	<p>Objectives met for 2001.</p>
<ul style="list-style-type: none"> <li>• Increase the number of new primary school teachers hired by at least 1,500 per year for each year until the HIPC Initiative completion point.</li> </ul>	<p>Not available.</p>
<p>Health</p>	
<ul style="list-style-type: none"> <li>• Increase immunization rates for children under 1 year of age, in percent (for DTP3: diphtheria, tetanus, pertussis) from 45 percent in 2000 to 50 percent in 2001, and to 55 percent in 2002.</li> </ul>	<p>Objectives met for 2001.</p>
<ul style="list-style-type: none"> <li>• Improve the percentage of pregnant women benefiting from at least 1 prenatal consultation from 70 percent in 2000 to 80 percent in 2001 and 85 percent in 2002</li> </ul>	<p>Objectives met for 2001.</p>

**Box 10. Guinea: Structural Conditionality in the Second Annual Program**

The program foresees the establishment of structural conditionality:

Three structural benchmarks criteria have been set:

- Establishment of a computerized connection between the treasury's accounts and the computerized expenditure-tracking system by end-December 2002);
- adopting off-site inspection rules for the supervision of microfinance institutions (by end-September 2002); and
- defining a package of measures to fight money laundering (end-March 2003).

Also, three structural performance criteria have been set:

- updating the taxpayers' file of the tax directorate (end-September 2002);
- launching the audit of the 2001 balance sheets of all enterprises that have filed claims for VAT credits but have not been subject to a tax audit for the past three years (by end-September 2002); and
- issuing instructions and regulations governing prudential ratios for commercial banks to bring them closer in line with international standards (by end-December 2002).

**VI. STAFF APPRAISAL**

56. Revenue shortfalls and defense expenditure overruns adversely affected performance under the 2001 program, leading to an unsustainable compression of priority sector spending. Nevertheless, the authorities' maintained overall macroeconomic stability, despite the pressures on the monetary aggregates emanating from the tight budget situation. The staff commends the authorities for their successful efforts to reestablish the program's momentum under the consolidation period, which allowed the discussions for the first review of the three-year PRGF program to be completed.

57. The staff urges the authorities to maintain a consistent revenue mobilization effort and to continue to improve budget management through better allocation of resources and greater transparency in budget execution and accountability. Resources appear to have been effectively transferred to the local administrations, thereby greatly increasing their capacity to implement poverty reduction policies. The authorities should continue in this vein, accentuating the ongoing training program for local-level officials, so as to ensure the observance of budgetary procedures and thus the efficiency of spending on the local level.

58. The authorities implemented all structural measures regarding the financial sector envisaged under the PRGF arrangement. The staff urges the monetary authorities to ensure that the restructuring efforts under way regarding the two small banks, in particular the recapitalization phase, move forward without delay; to press ahead with the implementation of the banking supervision plan; and to finalize their action plan to further improve liquidity forecasting and management. Moreover, further efforts are needed to improve the supply of foreign exchange on the official market, and to encourage the shift from the parallel market to the formal market.

59. The authorities have begun preparation of an action plan to improve the tracking of poverty-related expenditure in the context of a unified budget focused on poverty reduction. The staff urges them to finalize the plan and then to adhere to the set deadlines. The authorities should also ensure that the decentralized entities that hold delegated authority to implement most of the poverty reduction programs have the capacity for designing, implementing, and monitoring inputs and outputs of these programs, and that appropriate budgetary procedures, including reporting and control mechanisms, are put in place to ensure that fiscal decentralization does not undermine budgetary discipline.

60. The staff welcomes the government's efforts to combat corruption and its support for the actions undertaken by the National Anticorruption Committee. However, it urges the authorities to ensure that the justice system deals firmly and transparently with identified perpetrators of corrupt practices, so as to send an unambiguous message that the government is very serious about stamping out corruption. A fundamental reform of the justice system should also be launched without delay, both as a key element of the poverty reduction strategy and as an essential factor in creating an atmosphere conducive to private sector activity and investment.

61. The public enterprise restructuring and privatization program has not proceeded as initially anticipated. The staff urges the authorities to continue working closely with the World Bank to ensure that public enterprises, in particular public utility companies, are restructured or privatized in a timely fashion, so as to minimize their cost to the budget and increase their contribution to the poverty reduction effort. The government's decision to resume monthly payments to the public utility enterprises for its consumption of these utilities was an important step in the right direction, but further efforts would be needed to ensure that the enterprises effectively transfer to the treasury the amounts collected for the VAT and withheld income taxes. In the area of civil service reform, the staff welcomes the adoption of laws that allow for greater flexibility in human resource management and the introduction of a merit-based remuneration and advancement system. The staff encourages the authorities to enact the enabling decrees and complete the planned preliminary studies so as to move to the implementation stage as soon as possible.

62. On monetary integration, the staff noted the challenge that Guinea was facing in adhering to the timetable for complying with the convergence criteria of the West African Monetary Zone (WAMZ). Nonetheless, the staff encourages the authorities to make as much progress as possible toward meeting these criteria, as this would further strengthen Guinea's individual economic performance. The staff also welcomes the authorities' intention to examine the likely impact of introducing the common external tariff to Guinea, in view of its potentially positive impact on Guinea's trade within the subregion.

63. The staff believes that Guinea's exchange rate system serves the economy well and has allowed the country to maintain broadly its external competitiveness. However, it urges the authorities to take steps to further improve the functioning of the exchange rate auction and thereby eliminate the persistent spread between the official and parallel market rates, and the resultant multiple currency practice.

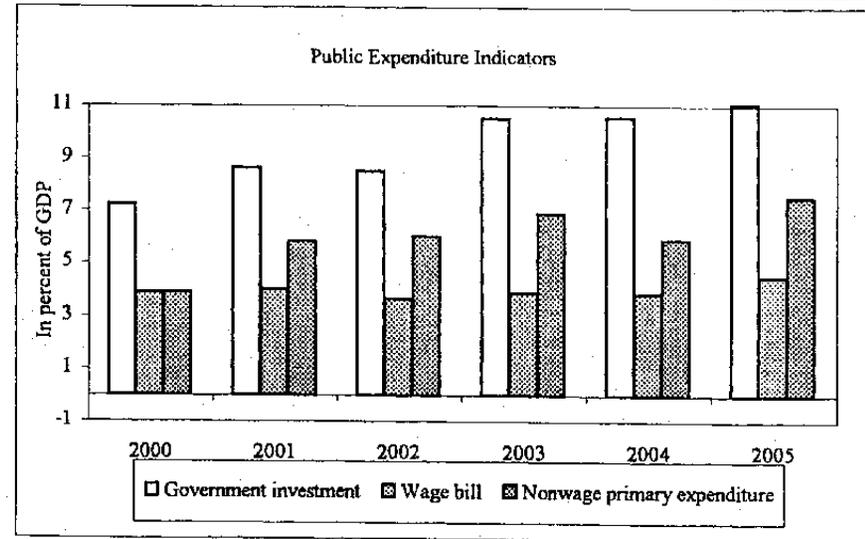
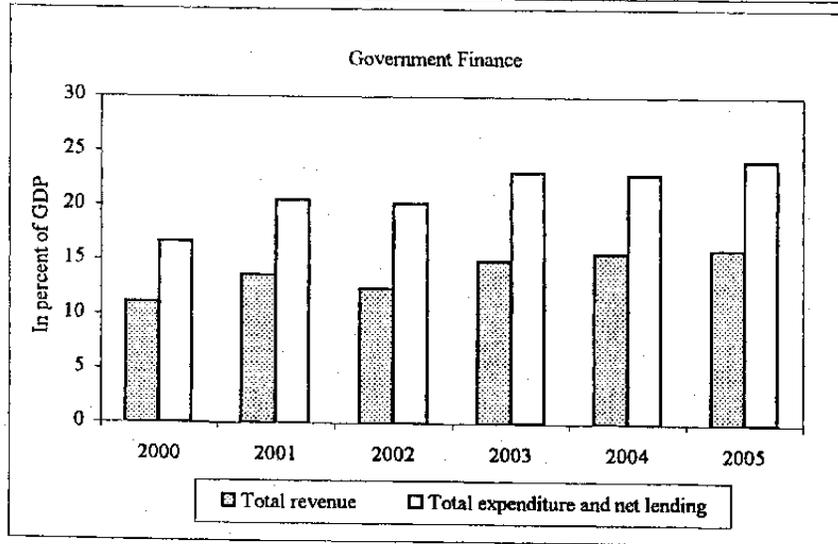
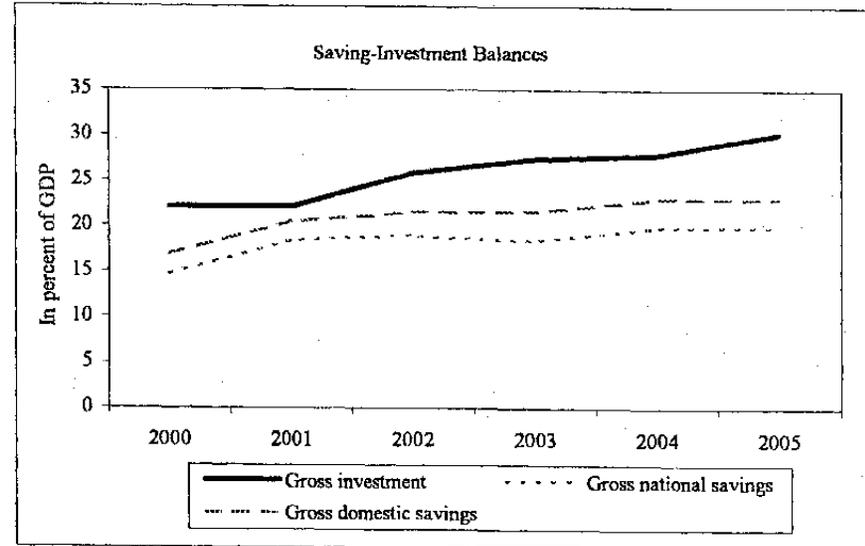
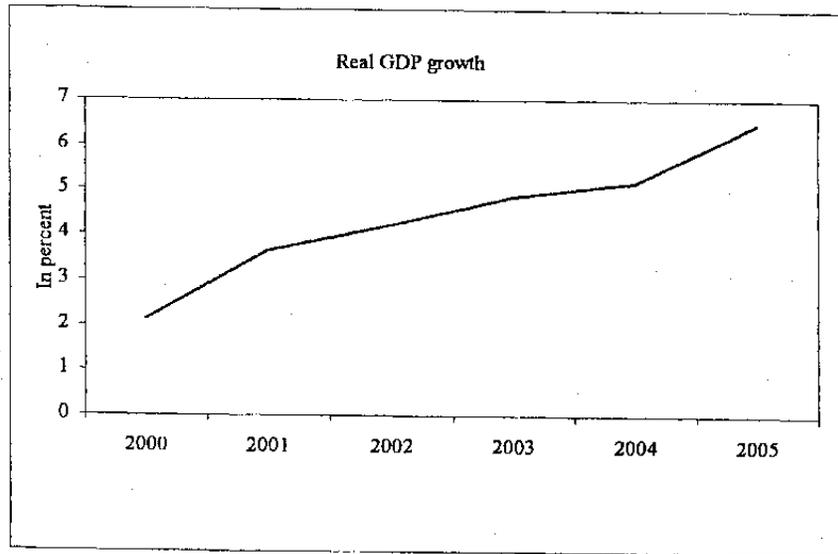
64. The authorities have completed the full PRSP through a commendably broad participatory process. They have also established a clear implementation schedule, including a procedure of donor consultations and the prioritization of poverty-reducing programs based on a clear identification of available domestic and external resources. The staff encourages the authorities to adhere to their implementation schedule and to complete the necessary updating of the macroeconomic framework underpinning the PRSP. This should be rendered fully consistent with the available financing constraints and with an updated evaluation of the macroeconomic environment. The updated framework will facilitate the alignment of the PRGF-supported program with the PRSP and ensure their full consistency.

65. On the basis of the measures the authorities implemented to meet the targets set under the consolidation plan, their commitment to poverty reduction, and the objectives and policies contained in the 2002/03 program, the staff supports the authorities' request for waivers for the end-September 2001 performance criteria that were not observed and recommends that the Executive Board complete the first review of the three-year PRGF arrangement. The staff also considers that the progress registered in early 2002 and the measures foreseen to further strengthen program implementation provide a justification for Guinea's request for additional interim debt relief under the enhanced HIPC Initiative from the Fund. Satisfactory assurances continue to be in place concerning the assistance to be provided under the enhanced HIPC Initiative by Guinea's other creditors.

66. The implementation of the proposed economic and financial program faces certain risks. Some of these are exogenous—such as the probability of future terms of trade shocks, or of a new outbreak of border conflicts. Other possible pitfalls can be averted by taking determined policy action to overcome the resistance of vested interests to necessary change, address the underlying causes of past policy slippages, and strengthen governance. The emphasis placed on administrative decentralization, as a means of enhancing service delivery and overall efficiency, should be strengthened, particularly in the context of the poverty reduction strategy.

67. It is recommended that the next Article IV consultation with Guinea be held on the 24-month cycle, subject to the provisions of the decision on consultation cycles approved on July 15, 2002.

Figure 1. Guinea: Selected Economic and Financial Indicators, 2000-05 1/  
(In percent of GDP, unless otherwise indicated)



Sources: Guinean authorities; and staff estimates and projections.  
1/ 2002-05 are projections.

# Monetary Indicators, 1993-2002

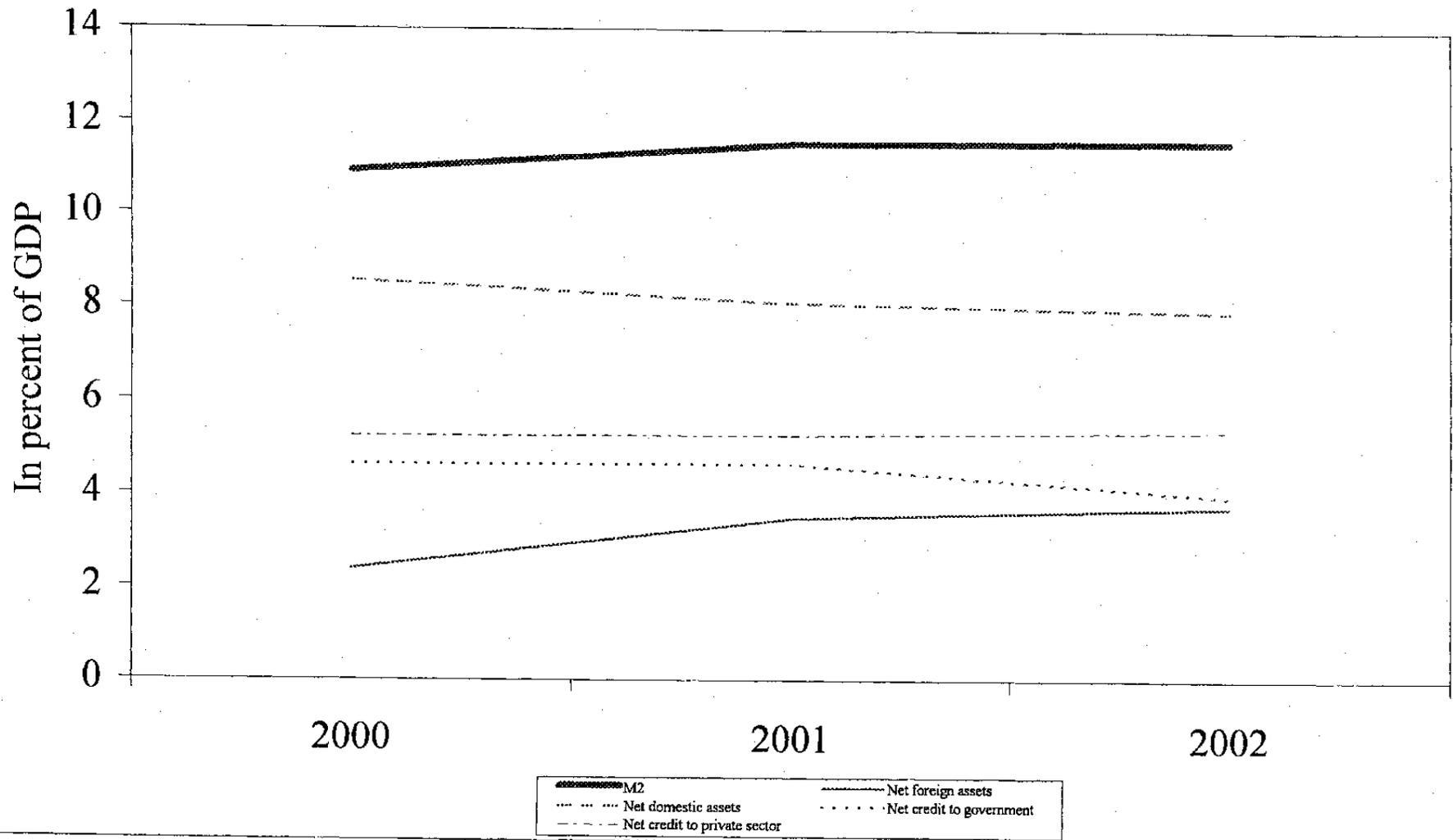
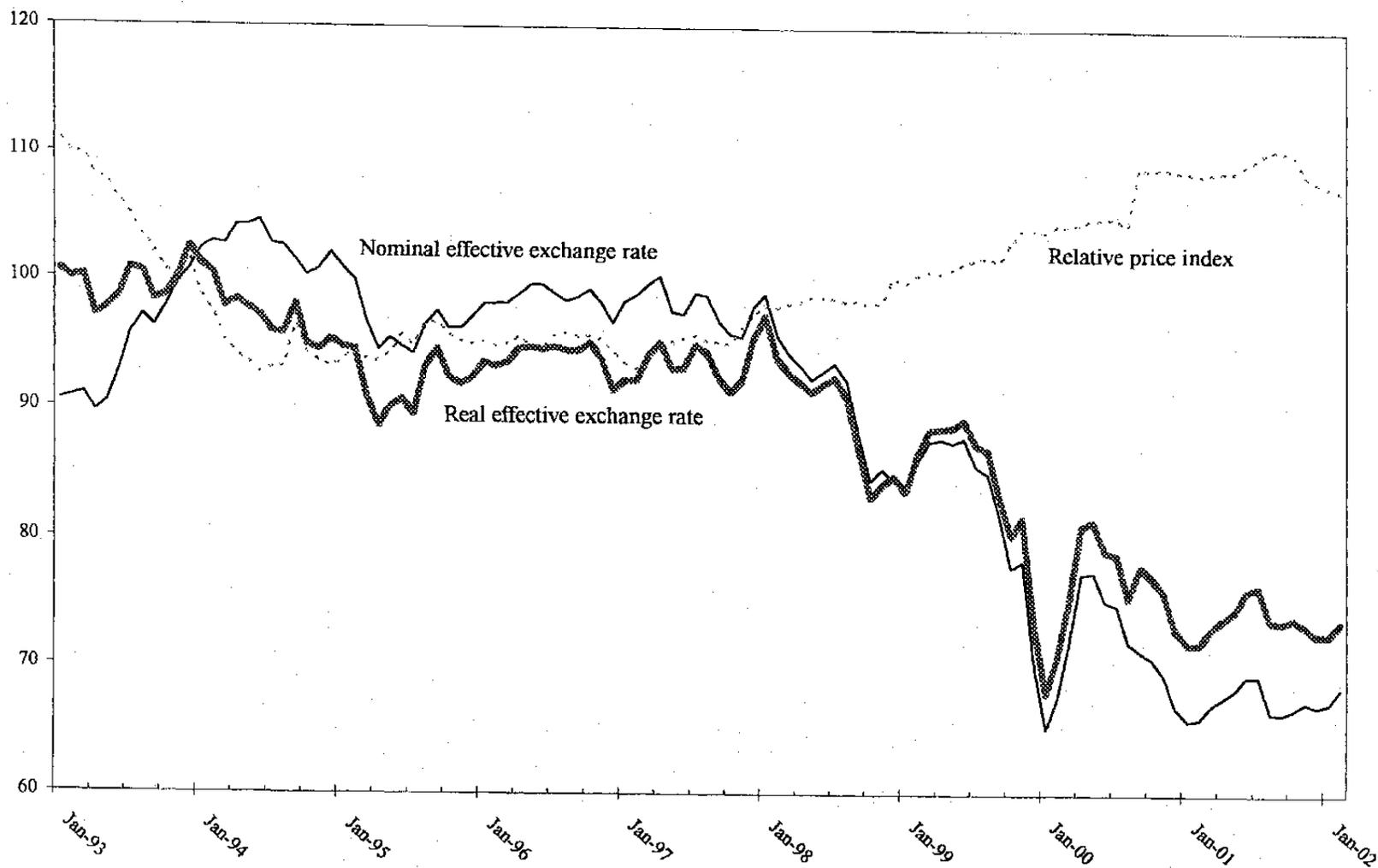
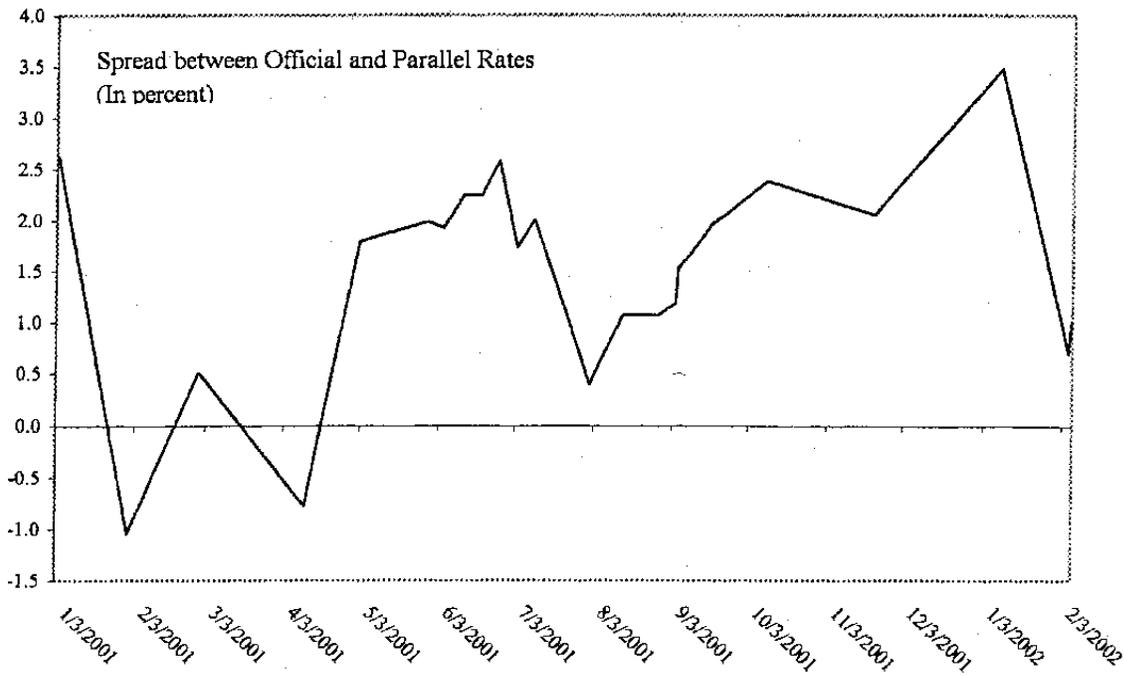
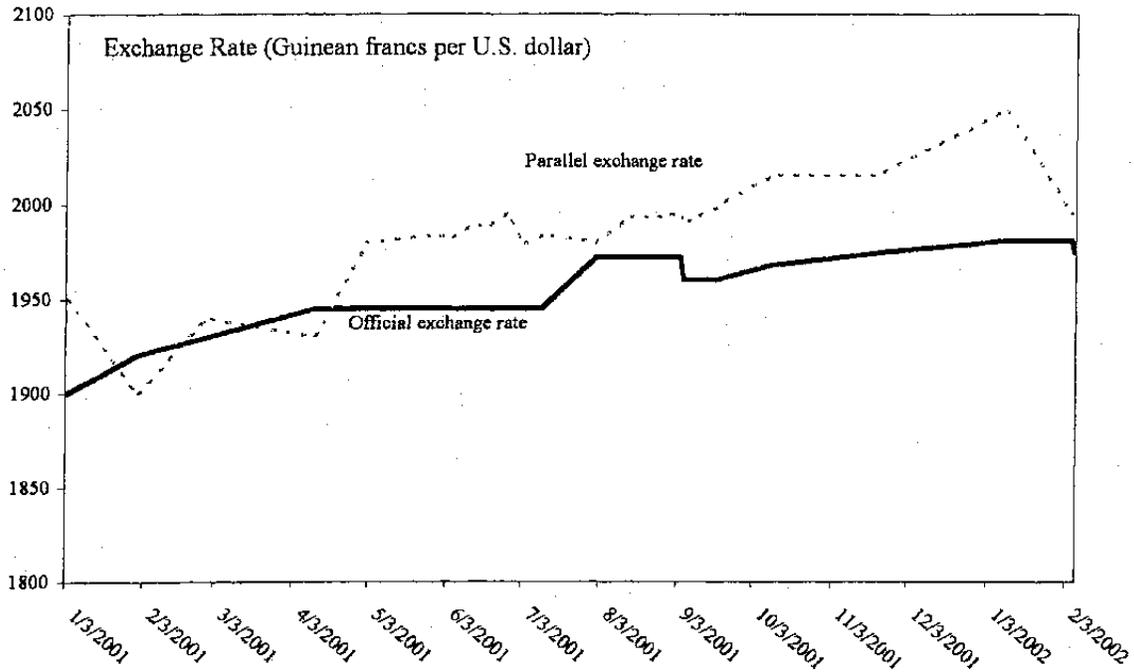


Figure 3. Guinea: Effective Exchange Rates, January 1990-February 2002  
(Index, 1990 = 100)



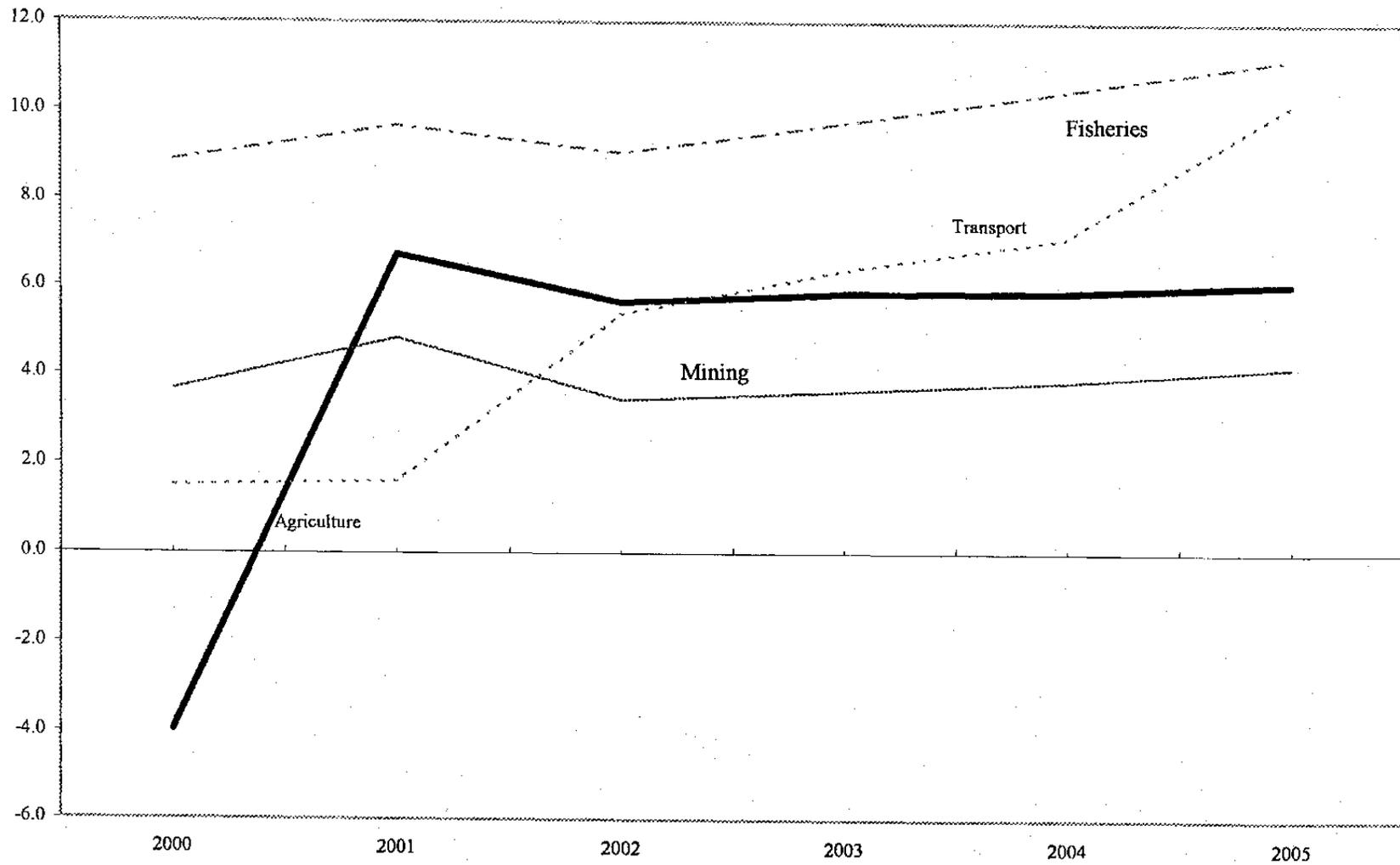
Source: IMF, Information Notice System (INS).

Figure 4. Guinea: Official and Parallel Exchange Rates  
January 2001-February 2002



Sources: Guinean authorities; and staff estimates.

Figure 5. Guinea: Contribution of Selected Sectors to GDP Growth, 2000-2005  
 (Annual changes in percent)



Sources: Guinean authorities; and staff estimates and projections.

Table 1. Guinea: Proposed Schedule of Disbursement  
under the Three-Year PRGF Arrangement, 2001-04 1/

Date	Amount	Conditions Necessary for Disbursement 2/
May 2, 2001	SDR 12.852 million	Board approval of new three-year PRGF arrangement
July 24, 2002	SDR 12.852 million	Observance of the performance criteria for September 30, 2001 and completion of the first review under the arrangement.
December 15, 2002	SDR 4.82 million	Observance of the performance criteria for September 30, 2002 and completion of the second review under the arrangement.
March 15, 2003	SDR 4.82 million	Observance of the performance criteria for December 30, 2002 and completion of the third review under the arrangement.
June 15, 2003	SDR 4.82 million	Observance of the performance criteria for March 31, 2003 and completion of the fourth review under the arrangement.
September 15, 2003	SDR 4.82 million	Observance of the performance criteria for June 30, 2003 and completion of the fifth review under the arrangement.
March 15, 2004	SDR 6.426 million	Observance of the performance criteria for December 31, 2003 and completion of the sixth review under the arrangement.
September 15, 2004	SDR 6.426 million	Observance of the performance criteria for June 30, 2004 and completion of the seventh review under the arrangement.

1/ The authority intend to request, at a later stage under the three-year PRGF arrangement, an extension of the arrangement to allow for the disbursement of the final loan under the arrangement.

2/ Other than the generally applicable conditions under the Poverty Reduction and Growth Facility (PRGF) arrangement.

Table 2. Guinea: Indicators of Fund Credit and Debt Servicing, 1999-2005

	1999	2000	2001	2002	2003	2004	2005
	(In percent)						
Outstanding Fund credit/quota 1/	86.6	80.9	89.5	100.0	102.5	100.3	87.1
Outstanding Fund credit/GDP 1/	3.7	3.7	4.1	4.3	4.1	3.8	3.1
Outstanding Fund credit/exports 1/ of goods and nonfactor services	17.5	15.6	14.7	15.4	15.1	12.8	10.3
Debt service to the Fund/total debt service on public and public-guaranteed debt	7.0	6.6	7.5	7.4	8.5	11.7	11.9
Debt service to the Fund/gross official reserves	4.1	6.2	5.8	4.5	5.6	5.9	5.3
Debt-service ratio on public and public-guaranteed debt 2/	16.7	19.6	19.8	18.2	20.5	16.5	14.0
Memorandum items:	(In millions of SDRs)						
Exports of goods and nonfactor services	530.8	557.0	652.6	695.2	726.1	838.0	908.9
Total Fund credit outstanding	92.7	86.6	95.9	107.0	109.8	107.5	93.3
Total debt service on public and public guaranteed debt	88.7	109.0	129.1	126.7	149.0	138.6	127.4
<i>Of which:</i> IMF	6.2	7.2	9.7	9.4	12.7	16.2	15.1
Gross official reserves	151.2	115.4	165.9	210.3	228.8	273.3	283.5
Nominal GDP	2,531.4	2,322.9	2,348.4	2,516.5	2,660.9	2,820.4	3,052.1

Sources: IMF, Treasurer's Department; and staff estimates and projections.

1/ Outstanding Fund credit includes Structural Adjustment Facility/Enhanced Structural Adjustment Facility loans and outstanding purchases at year-end.

2/ Debt service in percent of exports of goods and nonfactor services.

Table 3. Guinea: Selected Economic and Financial Indicators, 2000-2005

	2000	2001		2002		2003		2004		2005 Proj. 2/
		Prog. 1/	Est. 2/	Prog. 1/	Proj. 2/	Prog. 1/	Proj. 2/	Prog. 1/	Proj. 2/	
(Annual percentage change; unless otherwise indicated)										
<b>Income</b>										
GDP at constant prices	2.1	3.3	3.6	5.4	4.2	5.7	4.9	6.5	5.2	6.5
GDP at current prices	11.4	10.9	8.8	10.7	7.6	11.1	10.2	11.2	10.4	9.9
GDP deflator	9.1	7.4	5.0	5.3	3.2	5.4	5.1	4.7	5.0	3.2
<b>Consumer prices</b>										
Average	6.8	9.6	5.4	4.2	3.6	3.0	3.5	2.8	3.0	3.0
End of period	7.2	9.4	1.1	3.2	4.0	3.8	3.5	2.0	3.0	3.0
<b>External sector</b>										
Exports, f.o.b. (in U.S. dollar terms)	4.9	11.5	9.7	10.6	4.7	8.1	4.7	9.3	16.7	9.2
Imports, f.o.b. (in U.S. dollar terms)	4.3	16.7	-3.7	6.6	14.4	6.7	12.3	8.1	13.0	18.6
Terms of trade										
Percentage change	-7.8	-3.8	8.0	7.6	0.5	5.5	1.3	3.6	3.6	4.5
<b>Average effective exchange rates (depreciation -)</b>										
Nominal index	-3.5	...	-5.9	...	...	...	...	...	...	...
Real index	0.8	...	-2.4	...	...	...	...	...	...	...
<b>Money and credit</b>										
Net foreign assets 3/	-4.8	25.4	12.6	...	4.5	...	...	...	...	...
Net domestic assets 3/	28.2	-16.9	2.1	...	3.6	...	...	...	...	...
Government (net) 3/	21.5	-13.0	3.7	...	-3.5	...	...	...	...	...
Nongovernment 3/	5.0	4.0	4.3	...	4.2	...	...	...	...	...
Broad money	23.4	8.5	14.8	...	8.1	...	...	...	...	...
Reserve money	17.0	5.3	11.0	...	-3.7	...	...	...	...	...
Interest rate 4/	7.5	7.5	7.5	...	...	...	...	...	...	...
Velocity (GDP/average year-end M2)	10.1	9.3	9.3	...	9.0	...	...	...	...	...
(In percent of GDP)										
<b>Central government finances</b>										
Total revenue and grants	13.5	18.7	15.7	19.4	16.5	20.0	16.3	20.4	16.8	17.3
Of which: nonmining revenue	8.4	10.1	8.6	10.6	10.1	11.4	10.4	11.9	10.7	11.1
Current expenditure	9.4	12.1	11.8	11.2	10.8	11.4	11.0	12.1	11.2	11.2
Capital expenditure and net lending 5/	7.3	9.8	7.3	9.5	8.0	9.4	9.4	9.6	9.5	9.6
Overall budget balance										
Including grants (commitment)	-3.2	-3.2	-3.5	-1.3	-2.5	-0.8	-4.3	-1.3	-4.1	-3.5
Excluding grants (commitment)	-5.6	-8.6	-7.6	-6.8	-6.4	-6.3	-7.5	-6.4	-7.4	-6.6
Primary balance	2.6	0.8	0.7	1.3	2.1	1.6	1.6	1.2	1.8	2.0
Gross investment	22.1	24.2	22.1	23.9	25.8	24.0	27.4	24.1	27.9	30.2
Government 6/	7.2	9.4	7.3	9.1	8.0	9.2	9.4	9.4	10.2	10.7
Nongovernment	14.9	14.8	14.8	14.8	17.8	14.7	18.0	14.7	17.7	19.5
Domestic savings	16.9	21.2	20.4	21.9	21.5	22.4	21.6	23.2	23.0	23.0
Government	3.4	2.8	1.3	4.0	3.6	4.3	3.6	4.2	3.8	4.3
Nongovernment	13.5	18.4	19.1	17.9	17.9	18.1	18.0	19.0	19.2	18.7
External current account balance										
Including official transfers	-7.4	-2.6	-3.7	-2.6	-6.9	-1.9	-9.0	-1.3	-8.0	-10.3
Excluding official transfers	-8.2	-6.7	-5.2	-6.1	-8.6	-4.9	-9.2	-4.2	-8.2	-10.5
Overall balance of payments	-1.9	-2.8	-1.6	-2.5	-1.4	-1.3	-2.0	-0.3	-0.4	-1.3
(In percent of export earnings)										
External public debt 7/	443.9	376.9	385.1	344.7	352.2	321.5	324.8	294.9	272.1	243.4
(In millions of U.S. dollars; unless otherwise indicated)										
Exports 8/	666.6	774.5	731.3	856.2	765.9	925.7	801.8	1,011.7	935.4	1,021.7
Imports 8/	583.3	648.1	561.9	690.6	642.6	716.8	721.9	796.2	815.8	967.2
External current account (including official transfers)	-226.4	-76.0	-110.5	-83.6	-216.3	-66.3	-301.0	-49.2	-282.9	-395.8
Overall balance of payments	-58.3	-80.4	-46.5	-79.4	-44.3	-44.2	-66.4	-10.4	-14.7	-49.5
Net foreign assets (central bank)	28.5	98.4	60.7	...	67.1	...	98.2	...	161.6	177.4
Gross official reserves (in months of imports)	2.0	2.6	2.5	2.6	2.9	2.7	2.9	2.8	2.9	2.9
Gross reserves (in percent of broad money)	48.3	78.9	61.3	...	73.1	...	...	...	...	...
Nominal GDP (in billions of Guinean francs)	5,351.5	5,915.4	5,822.9	6,564.4	6,263.0	7,313.5	6,899.6	8,151.1	7,616.2	8,368.3

Sources: Guinean authorities; and staff estimates and projections.

1/ Program numbers for 2001 onward refer to those contained in EBS/01/57.

2/ Assuming debt relief under the Enhanced HIPC Initiative.

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

4/ Minimum annual rate on bank savings deposits, at end of period.

5/ Includes expenditure for restructuring.

6/ Fixed capital formation.

7/ Including debt owed to the Fund and to the Baltic countries, Russia, and other countries of the former Soviet Union.

8/ Merchandise trade figures only.

Table 4. Guinea: Gross Domestic Product at Constant 1996 Prices by Sectors, 2000-2005

	2000	2001	2002	2003	2004	2005
(In billions of 1996 Guinean francs)						
GDP at factor cost	4,397.2	4,555.1	4,730.3	4,950.5	5,215.7	5,559.1
Primary sector	800.7	846.9	892.9	943.2	997.1	1,056.8
Agriculture	514.7	549.3	580.5	614.6	650.9	690.7
Livestock	156.0	161.5	170.2	179.4	189.1	199.3
Fisheries	32.6	35.8	39.0	42.8	47.3	52.6
Forestry	97.4	100.3	103.3	106.4	109.8	114.3
Secondary sector	1,403.3	1,479.0	1,550.7	1,638.5	1,742.4	1,875.9
Mining	764.5	801.4	829.1	862.0	897.7	938.5
Manufacturing	179.7	189.6	200.9	211.9	226.1	246.5
Water, electricity	27.5	28.3	29.1	30.0	31.8	33.7
Construction	431.6	459.7	491.6	534.6	586.8	657.2
Tertiary sector	2,193.3	2,229.2	2,286.7	2,368.8	2,476.2	2,626.4
Trade	1,201.7	1,219.2	1,242.9	1,281.5	1,332.7	1,406.0
Transport	270.3	274.6	289.4	307.9	329.9	363.4
Administration	249.3	250.8	257.0	264.7	273.1	281.3
Other	472.0	484.7	497.3	514.7	540.5	575.6
Indirect taxes	164.0	172.2	196.1	214.9	217.0	225.9
GDP at market prices	4,561.2	4,727.3	4,926.4	5,165.4	5,432.7	5,785.0
(Annual percentage change)						
GDP at factor cost	2.3	3.6	3.4	4.2	4.9	6.5
Primary sector	-1.0	5.8	5.8	5.0	5.1	5.4
Agriculture	-4.0	6.7	5.7	5.9	5.9	6.1
Livestock	4.2	3.5	5.4	5.4	5.4	5.4
Fisheries	8.9	9.7	9.1	9.7	10.5	11.2
Forestry	4.5	3.0	3.0	3.0	3.2	4.1
Secondary sector	4.8	5.4	4.8	5.7	6.3	7.7
Mining	3.7	4.8	3.5	3.7	3.9	4.2
Manufacturing	7.0	5.5	6.0	5.5	6.7	9.0
Water, electricity	3.5	3.0	3.0	3.0	6.0	6.0
Construction	6.0	6.5	7.0	8.8	9.8	12.0
Tertiary sector	1.9	1.6	2.6	3.6	4.5	6.1
Trade	1.9	1.5	2.0	3.1	4.0	5.5
Transport	1.5	1.6	5.4	6.4	7.1	10.2
Administration	1.3	0.6	2.5	3.0	3.2	3.0
Other	2.7	2.7	2.6	3.5	5.0	6.5
Indirect taxes	-1.4	5.0	13.9	9.6	1.0	4.1
GDP at market prices	2.1	3.6	4.2	4.9	5.2	6.5

Sources: Guinean authorities; and staff estimates and projections.

Table 5. Guinea: Gross Domestic Product at Current Prices by Demand Components, 2000-2005

	2000	2001	2002	2003	2004	2005
(In billions of Guinean francs)						
GDP at market prices	5,351.5	5,822.9	6,263.0	6,899.6	7,616.2	8,368.3
Consumption	4,447.8	4,634.2	4,917.7	5,410.2	5,864.3	6,444.5
Public	316.6	349.0	366.2	431.2	465.2	547.9
Private	4,131.2	4,285.2	4,551.6	4,978.9	5,399.1	5,896.6
Investment	1,181.8	1,285.6	1,616.6	1,891.4	2,123.9	2,529.0
Fixed capital formation	1,135.8	1,238.6	1,604.5	1,888.2	2,123.0	2,528.6
Government	386.6	423.4	502.1	646.8	773.9	895.8
Other sectors	749.2	815.2	1,102.4	1,241.4	1,349.2	1,632.8
Change in stocks	46.0	47.0	12.1	3.2	0.8	0.4
Foreign balance	-278.2	-96.9	-271.3	-401.9	-372.0	-605.2
Exports of goods and nonfactor services	1,283.2	1,618.1	1,730.2	1,882.8	2,263.0	2,492.0
Imports of goods and nonfactor services	1,561.4	1,715.0	2,001.6	2,284.7	2,635.0	3,097.3
(In percent of GDP)						
GDP at market prices	100.0	100.0	100.0	100.0	100.0	100.0
Consumption	83.1	79.6	78.5	78.4	77.0	77.0
Public	5.9	6.0	5.8	6.3	6.1	6.5
Private	77.2	73.6	72.7	72.2	70.9	70.5
Investment	22.1	22.1	25.8	27.4	27.9	30.2
Fixed capital formation	21.2	21.3	25.6	27.4	27.9	30.2
Government	7.2	7.3	8.0	9.4	10.2	10.7
Other sectors	14.0	14.0	17.6	18.0	17.7	19.5
Change in stocks	0.9	0.8	0.2	0.0	0.0	0.0
Foreign balance	-5.2	-1.7	-4.3	-5.8	-4.9	-7.2
Exports of goods and nonfactor services	24.0	27.8	27.6	27.3	29.7	29.8
Imports of goods and nonfactor services	29.2	29.5	32.0	33.1	34.6	37.0
Domestic savings	16.9	20.4	21.5	21.6	23.0	23.0
Gross national savings	14.7	18.4	18.9	18.4	19.9	19.9

Sources: Guinean authorities; and staff estimates and projections.

Table 6. Guinea: Financial Operations of the Central Government, 2000-2005

	2000	2001		2002	2003	2004	2005
		Prog	Est.				
(In billions of Guinean francs)							
Revenue and grants	719.8	1103.8	912.8	1033.9	1121.9	1282.0	1,451.0
Revenue	594.5	782.9	670.2	791.2	904.0	1028.8	1,188.8
Mining sector	146.4	184.5	166.6	160.7	183.7	216.0	262.6
Non mining sector	448.1	598.4	503.6	630.6	720.3	812.7	926.3
Direct taxes	58.3	70.4	78.1	88.2	99.7	110.1	121.0
Indirect taxes	216.8	285.4	362.5	469.7	539.3	614.4	708.3
<i>Of which: petroleum tax</i>	47.2	79.0	72.8	81.9	92.6	98.6	106.7
International trade	119.1	130.6	114.0	148.3	166.3	182.3	233.6
Nontax revenue 1/	53.9	112.0	63.1	72.7	81.3	88.3	97.0
Grants	125.3	320.9	242.6	242.7	217.9	253.3	262.2
Oriented	125.3	159.6	159.6	109.4	132.6	164.2	171.7
Others	0.0	...	3.2	34.9	0.0	0.0	0.0
HIPC assistance (Paris Club/Cologne terms) 2/ 9/	0.0	8.2	39.8	27.1	30.9	29.7	28.2
HIPC assistance (Multilateral)	0.0	77.1	40.1	51.3	54.4	59.4	62.3
Humanitarian assistance	0.0	75.0	0.0	0.0	0.0	0.0	0.0
Expenditures and net lending	893.0	1292.8	1113.8	1192.5	1421.8	1591.7	1,741.5
Current expenditures	504.0	713.1	684.7	676.4	761.5	850.4	935.4
Primary current expenditures	414.2	600.3	595.0	570.4	649.6	742.2	835.2
Wage bill	206.2	227.5	215.1	232.3	246.8	266.6	292.9
Goods and services	97.6	160.3	246.1	153.7	197.4	237.5	260.9
Transfers and subsidies	97.6	212.4	246.1	153.7	197.4	237.5	260.9
Interest on debt	89.8	112.8	89.6	105.9	111.8	108.2	100.2
Domestic	13.9	16.4	27.5	21.1	26.0	26.0	23.6
External 3/	73.9	96.4	62.1	84.8	85.8	82.2	76.5
Investment expenditures	386.6	557.3	423.4	502.1	646.8	724.1	803.4
Domestically financed	41.6	115.4	34.7	87.1	144.0	151.3	182.6
Externally financed	345.0	442.0	388.7	415.0	502.8	572.8	620.7
Net lending	2.4	2.0	1.3	2.0	2.1	2.2	2.7
Bank restructuring 7/	0.0	20.4	4.5	12.0	11.5	15.0	0.0
Primary balance 8/	138.7	44.8	40.5	133.6	110.5	135.3	171.0
Overall balance, commitments basis							
Including grants	-173.2	-189.0	-201.0	-158.6	-299.9	-309.6	-290.4
Excluding grants	-298.5	-509.9	-443.6	-401.3	-517.7	-562.9	-532.6
Excluding mining revenue	-319.6	-694.4	-367.6	-319.2	-483.6	-525.7	-553.0
Change in arrears	-38.0	-10.0	-4.4	-31.9	0.0	0.0	0.0
Domestic 4/	-43.3	-4.6	-4.1	-31.9	0.0	0.0	0.0
Interest on external debt 5/	5.4	-5.4	-0.3	0.0	0.0	0.0	0.0
Adjustment for cash balances in bank	10.9	...	-13.9	0.0	0.0	0.0	0.0
Overall balance, cash basis	-200.3	-199.0	-221.3	-190.5	-299.9	-309.6	-290.4
Financing	200.3	-111.8	221.3	190.5	215.3	254.5	254.8
Domestic	89.9	-74.7	16.2	25.6	-74.8	-19.0	-70.0
Bank financing	105.5	-76.1	21.8	-24.0	-65.9	-10.0	-50.0
<i>Of which: HIPC special account</i>	...	...	-5.6	23.3	0.1	0.0	0.0
Nonbank financing	-15.6	1.4	-5.6	49.6	-8.9	-9.0	-20.0
External	110.4	-37.1	205.0	164.9	290.1	273.4	324.8
Drawing	224.3	229.1	346.5	317.5	440.2	408.5	449.0
Projects	221.2	229.1	229.1	305.6	370.2	408.6	449.0
Program	3.1	0.0	117.4	12.0	70.0	0.0	0.0
Amortization on external debt 3/	-140.0	-262.7	-234.1	-207.2	-267.6	-248.2	-231.2
Change in amortization arrears (- reduction) 5/	26.1	0.0	0.5	-0.5	0.0	0.0	0.0
Debt repurchase 6/	0.0	-3.5	-1.6	0.0	0.0	0.0	0.0
Rescheduling obtained 9/	0.0	0.0	93.8	35.0	117.5	113.0	107.0
Financing gap	0.0	310.9	0.0	0.0	84.6	55.1	35.6
Memorandum items:	(In percent of GDP, unless otherwise specified)						
Revenue and grants	13.5	18.7	15.7	16.5	16.3	16.8	17.3
Revenues	11.1	13.2	11.5	12.6	13.1	13.5	14.2
Mining	2.7	3.1	2.9	2.6	2.7	2.8	3.1
Nonmining	8.4	10.1	8.6	10.1	10.4	10.7	11.1
Expenditures and net lending	16.7	21.9	19.1	19.0	20.6	20.9	20.8
Primary expenditures	7.7	12.1	10.2	9.1	9.4	9.7	10.0
Wage bill	3.9	3.8	3.7	3.7	3.6	3.5	3.5
Public investment	7.2	9.4	7.3	8.0	9.4	5.5	9.6
Primary balance 8/	2.6	0.8	0.7	2.1	1.6	1.8	2.0
Overall balance, commitments basis							
Including grants	-3.3	-3.2	-3.5	-2.5	-4.3	-4.1	-3.5
Excluding grants	-5.6	-8.6	-7.6	-6.4	-7.5	-7.4	-6.6
Overall balance, cash basis	-3.7	-3.4	-3.8	-3.0	-4.3	-4.1	-3.5
GDP (in billions of Guinean francs; current market prices)	5,351.5	5,915.4	5,822.9	6,263.0	6,899.6	7,616.2	8,368.3

Sources: Guinean authorities; and staff estimates and projections.

1/ The program for 2001 included payment by public enterprises for debt service relief under the HIPC Initiative in an amount of GF 21.8 billion.

2/ Excluding GF 21.8 billion of repayment by public enterprises which are counted in nontax revenue.

3/ For the external debt service and change in external arrears refer to cash obligations only (after debt relief), excluding debt to Russia. For 2001 onwards, external debt service refers to debt service due.

4/ Changes in outstanding domestic arrears and in the float between expenditure commitments and cash payments.

5/ Payments to the Paris Club in 2000 were based on the terms of the 1997 rescheduling, which expired in 1999.

6/ Domestic contribution to the repurchase of the Italian debt.

7/ Includes expenditure for restructuring.

8/ Revenue minus noninterest expenditure (excluding net lending, bank restructuring, and foreign-financed capital expenditure).

9/ The difference between debt relief on Cologne terms and that on Naples terms is registered as grants under the heading HIPC assistance Paris Club/Cologne terms.

Table 7. Guinea: Monetary Survey, 2000-2002

	2000	2001								2002			
		March	June	Sept.		Dec.		March	June	Sept.	Dec.		
				Prog.	Outturn	Prog.	Outturn					Est.	Proj.
(In billions of Guinean francs, unless otherwise indicated)													
<b>Central bank</b>													
Net foreign assets	53.6	60.7	60.2	198.8	146.4	207.8	119.9	133.8	80.1	105.6	135.6		
(in millions of U.S. dollars)	27.9	31.5	31.0	93.2	74.7	98.4	61.6	67.7	40.5	52.9	67.2		
Net domestic assets	289.7	291.2	291.6	169.7	220.7	150.7	261.1	208.4	282.4	256.5	231.3		
Domestic credit	241.8	264.8	257.9	137.8	177.2	130.8	227.5	170.8	250.7	234.8	219.1		
Government (net)	252.5	285.1	288.9	192.6	204.1	180.0	249.7	186.7	252.3	211.5	216.1		
Of which: gold revaluation claims	17.7	17.6	17.6	17.6	17.6	17.6	17.6	17.6	17.6	17.6	17.6		
Public enterprises	5.8	5.8	6.2	5.4	6.0	5.2	6.0	6.4	5.8	5.8	5.7		
Private sector	5.4	6.6	5.8	4.9	7.6	4.7	12.9	13.9	7.6	7.5	7.3		
Claims on deposit money banks	-22.0	26.4	33.7	-65.1	43.5	-59.1	-41.2	-36.2	-15.0	10.0	-10.0		
Of which: sterilization bills (-)	-30.0	-36.0	-46.3	-73.1	-44.0	-67.1	-44.3	-47.0	-45.3	-45.3	-45.3		
Other items, net (assets +)	48.0	26.4	33.7	31.9	43.5	19.9	33.6	37.6	31.7	21.7	12.2		
Reserve money	343.3	351.9	351.8	368.5	367.2	358.4	381.0	342.2	362.5	362.1	366.9		
Currency outside banks	285.2	301.6	302.0	318.5	302.1	292.5	310.1	291.4	307.0	319.0	326.2		
Bank reserves	36.5	47.5	43.1	43.8	58.7	61.9	64.3	46.2	33.5	40.1	37.7		
Deposits	30.2	39.5	35.5	35.6	47.6	53.6	50.0	33.9	23.1	32.1	29.7		
Required reserves	15.3	16.3	17.2	16.8	18.9	18.6	19.5	19.5	20.6	21.6	21.8		
Excess reserves	14.9	23.2	18.3	18.9	28.7	35.0	30.5	14.4	23.9	10.5	7.9		
Cash in till	6.3	8.0	7.6	8.2	11.1	8.3	14.3	12.3	8.0	8.0	8.0		
Private sector deposits	21.7	2.8	6.7	6.2	6.4	4.0	6.6	4.6	3.0	3.0	3.0		
<b>Deposit money banks</b>													
Net foreign assets	74.2	58.6	67.7	71.1	63.6	69.0	81.8	89.2	96.0	96.0	96.0		
Bank reserves	36.5	47.5	39.4	43.8	58.7	61.9	56.9	37.4	54.9	42.5	40.1		
Deposits at the central bank	30.2	39.5	31.8	35.6	47.6	53.6	42.6	25.1	44.5	32.1	29.7		
Cash in till	6.3	8.0	7.6	8.2	11.1	8.3	14.3	12.3	10.4	10.4	10.4		
Liabilities to central bank (-)	21.0	28.0	40.2	65.1	39.1	59.1	39.5	34.8	15.0	-10.0	10.0		
Of which: sterilization bills	30.0	36.0	46.3	29.3	44.0	29.3	44.3	47.0	45.3	45.3	45.3		
Domestic credit	269.3	276.1	268.9	269.5	285.3	293.6	311.5	329.6	346.1	353.5	355.9		
Credit to the government	-5.1	-7.0	-14.7	-5.1	5.6	-5.1	19.5	30.9	44.0	38.6	29.5		
Claims	18.0	16.8	8.6	18.0	28.4	18.0	47.0	60.3	69.5	64.1	55.0		
Deposits	23.1	23.8	23.3	23.1	22.8	23.1	27.5	29.4	25.5	25.5	25.5		
Claims on public enterprises	0.2	0.1	0.1	0.2	0.1	0.2	0.1	0.1	0.1	0.1	0.1		
Claims on the private sector	274.2	282.9	283.5	274.5	279.7	298.5	292.0	298.6	302.0	314.8	326.3		
Other items, net (assets +)	-122.4	-114.8	-103.7	-145.0	-102.9	-145.0	-134.6	-137.0	-135.0	-90.0	-105.0		
Liabilities to the private sector (Deposits)	278.6	295.5	312.6	304.6	343.9	338.6	355.1	354.0	377.0	392.0	397.0		
										0.0			
<b>Monetary survey</b>													
Net foreign assets	127.8	119.3	127.9	270.0	210.1	276.8	201.7	223.0	176.1	201.6	231.6		
Net domestic assets	457.6	480.5	493.3	359.4	442.2	358.4	470.1	427.0	508.9	512.4	494.6		
Domestic credit	533.0	573.6	569.7	472.4	503.1	483.5	580.2	536.6	612.2	580.7	587.4		
Credit to the government	247.4	278.1	274.2	187.5	209.7	174.9	269.2	217.6	296.3	250.1	245.6		
Claims on public enterprises	6.0	5.9	6.3	5.5	6.1	5.4	6.1	6.5	5.9	5.9	5.8		
Claims on the private sector	279.6	289.5	289.3	279.4	287.3	303.2	304.9	312.5	309.6	322.3	333.6		
Other items, net (assets +)	-75.4	-93.1	-76.4	-113.1	-60.9	-125.1	-110.1	-109.6	-103.3	-68.3	-92.8		
Broad money (M2)	585.4	599.8	621.3	629.3	652.3	635.2	671.8	650.0	685.0	714.0	726.2		
Currency	285.2	301.6	302.0	318.5	302.1	292.5	310.1	291.4	305.0	319.0	326.2		
Deposits	300.3	298.3	319.3	310.8	350.3	342.6	361.7	358.6	380.0	395.0	400.0		
Of which: foreign currency deposits	85.6	80.5	98.4	90.1	105.7	95.9	106.5	107.6	110.2	114.6	116.0		
<b>Memorandum items:</b>				(In percent of beginning-of-period broad money, unless otherwise indicated)									
Net foreign assets	-4.8	-7.0	-5.0	18.8	8.6	25.4	12.6	15.4	7.2	-1.3	4.5		
Net domestic assets	28.2	24.4	19.4	-16.8	6.8	-16.9	2.1	-8.0	2.3	10.4	3.6		
Domestic credit	26.5	27.1	20.1	-11.0	5.4	-9.1	8.1	-5.5	6.3	11.5	0.7		
Net claims on government	21.5	25.2	16.6	-10.9	3.1	-13.0	3.7	-9.0	3.3	6.0	-3.6		
Credit to nongovernment sector	5.0	27.4	20.2	-0.1	5.5	3.9	4.3	-5.6	3.0	5.2	4.2		
Broad money	23.4	17.4	14.4	7.5	15.4	8.5	14.8	7.5	9.5	9.2	8.1		
Velocity (GDP/average M2)	10.1	...	...	...	...	9.7	9.3	...	...	...	9.0		
Credit to the nongovernment sector (annual change)	9.0	4.0	7.6	1.8	4.8	8.0	8.9	7.9	6.8	11.9	9.2		
Reserve money (annual change)	17.0	23.3	9.1	12.0	11.6	5.3	11.0	-2.8	3.0	-1.4	-3.7		

Sources: Guinean authorities; and staff estimates and projections.

Table 8. Guinea: Balance of Payments, 2000-2005

	2000	2001		2002	2003	2004	2005
		Prog	Est.				
(In millions of U.S. dollars; unless otherwise indicated)							
Merchandise trade balance	83.3	126.3	169.4	123.3	79.9	119.6	54.5
Exports, f.o.b.	666.6	774.5	731.3	765.9	801.8	935.4	1,021.7
Of which: mining products	570.6	611.5	644.8	675.8	706.4	828.5	913.4
Imports, f.o.b.	-583.3	-648.1	-561.9	-642.6	-721.9	-815.8	-967.2
Food products	-106.2	-124.3	-104.7	-116.1	-115.4	-127.1	-138.2
Other consumption goods	-87.4	-100.2	-83.0	-93.4	-105.0	-108.2	-120.3
Petroleum goods	-81.5	-82.2	-87.9	-107.3	-107.6	-108.3	-115.6
Intermediate and capital goods	-308.3	-341.4	-286.3	-325.8	-393.9	-472.2	-593.1
Services trade balance	-242.5	-214.5	-219.1	-259.4	-273.8	-292.2	-331.5
Services exports	68.0	125.1	99.5	102.4	106.7	114.5	118.7
Of which: transport	15.6	52.8	25.8	27.0	28.3	33.0	36.0
Services imports	-310.5	-339.6	-318.6	-361.8	-380.5	-406.7	-450.2
Of which: transport	-137.7	-136.7	-143.6	-164.2	-184.5	-198.1	-223.1
Income balance	-77.6	-98.3	-91.7	-103.9	-103.4	-101.0	-102.0
Of which: dividend payments	-8.4	-7.7	-45.6	-46.4	-46.8	-47.3	-49.7
interest on public debt 1/	-55.0	-49.0	-31.9	-42.6	-41.4	-38.1	-35.0
Transfers	10.5	110.5	31.0	23.7	-3.7	-9.3	-16.9
Net private transfers	-15.0	-10.0	-12.9	-29.2	-9.2	-14.9	-22.7
Official transfers	25.5	120.4	43.8	52.9	5.5	5.7	5.8
Current account							
Including public transfers	-226.4	-76.0	-110.5	-216.3	-301.0	-282.9	-395.8
Excluding public transfers	-251.9	-196.4	-154.3	-269.2	-306.5	-288.5	-401.7
Capital account	71.7	183.7	122.9	94.3	105.1	117.5	120.0
Private transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public transfers (project grants)	71.7	183.7	81.9	54.9	64.0	76.2	78.6
Debt cancellation	0.0	0.0	41.0	39.3	41.1	41.3	41.4
Financial account	-38.2	-4.4	-0.3	72.8	147.8	210.7	376.4
Public (medium-and-long term)	11.3	-16.6	57.7	54.5	49.5	74.4	115.1
Project-related loans	126.6	113.2	117.6	153.3	178.6	189.6	220.9
Program financing	1.8	0.0	60.3	5.1	0.0	0.0	0.0
Amortization due 1/	-117.1	-129.8	-120.2	-104.0	-129.1	-115.2	-105.8
Of which: Russia and China 1/	-23.2	-36.2	...	...	...	...	...
Public (short-term)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Direct and other private investment (net)	-47.2	12.2	-58.0	18.3	85.0	91.2	126.3
Private short-term	-2.3	0.0	0.0	5.0	-5.0	-15.0	-15.0
Errors and omissions	134.6	0.0	-58.5	0.0	0.0	0.0	0.0
Overall balance	-58.3	-80.4	-46.5	-44.3	-66.4	-14.7	-49.5
Financing	58.3	-73.2	46.5	21.0	25.6	-11.0	33.1
Change in net official reserves	43.3	-70.5	-32.3	-6.4	-31.1	-63.4	-15.8
IMF (net)	-4.6	12.1	2.8	-10.9	-14.6	-19.1	-17.8
Other reserves (net)	48.0	-82.6	-35.1	4.5	-16.4	-44.3	2.0
Changes in arrears and government assets (net) 2/	18.0	-2.7	0.1	-0.2	0.0	0.0	0.0
Debt relief	0.0	0.0	78.5	27.6	56.7	52.4	49.0
Residual financing gap	0.0	153.6	0.0	23.3	40.8	25.6	16.3
Memorandum items:							
Current account-GDP ratio (in percent)							
Including public transfers	-7.4	-2.6	-3.7	-6.9	-9.0	-8.0	-10.3
Excluding public transfers	-8.2	-6.7	-5.2	-8.6	-9.2	-8.2	-10.5
Overall balance	-1.9	-2.8	-1.6	-1.4	-2.0	-0.4	-1.3
Exports of GNFS-GDP ratio (in percent) 3/	24.0	30.8	27.8	27.6	27.3	29.7	29.8
Imports of GNFS-GDP ratio (in percent) 3/	-29.2	-33.8	-29.5	-32.0	-33.1	-34.6	-37.0
Gross reserves (in millions of U.S. dollars)	150.3	226.2	208.4	262.9	286.5	342.6	356.0
In months of imports (GNFS) 3/	2.0	2.6	2.5	2.9	2.9	2.9	2.9

Sources: Guinean authorities; and staff estimates and projections.

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

2/ Technical arrears to the Paris Club; payments to the Paris Club in 2000 were based on the terms of the Paris Club rescheduling of 1997 that expired at the end of 1999.

3/ GNFS=goods and nonfactor services.

Table 9. Guinea: Social Development Indicators, 1990 and 1999

	1990		1999 1/	
	Guinea	Average for Sub-Saharan Africa	Guinea	Average for Sub-Saharan Africa
GNP per capita (in current U.S. dollars)	440	540	530	480
Life expectancy (in years)	44	50	54	51
Infant mortality (per 1,000 births)	136	100	98	91
Urban population (in percent of total population)	26	28	30	33
Urban population with access to safe water (in percent)	55 2/	47 2/	65	49
Illiteracy (in percent of population aged 15 and higher)	76	50	64	42
Gross primary enrollment (in percent of school-age population)	29	76	56	77
Male	50	83	68	88
Female	19	68	40	71

Sources: Government of Guinea, Poverty Reduction Strategy Paper, and World Bank, *World Development Indicators*, 1999 (all other data, except illiteracy rates for Guinea, which are taken from various *World Development Reports*).

1/ 1999 or latest available statistics.

2/ 1993 data, as 1990 data are not available.

Conakry, July 8, 2002

Mr. Horst Köhler  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431  
U.S.A.

Dear Mr. Köhler:

1. The attached memorandum of economic and financial policies describes economic results under the first annual program supported by the three-year arrangement under the Poverty Reduction and Growth Facility (PRGF), which the Executive Board of the Fund approved on May 2, 2001. It presents also the objectives and policies that the government of Guinea intends to pursue in the context of a second annual program covering the period July 2002-June 2003, supported by the same three-year arrangement. To facilitate the achievement of these objectives and the implementation of these policies, the government hereby requests the second loan under the PRGF arrangement in an amount equivalent to SDR 12.852 million (12 percent of quota).
2. The government of Guinea requests through this letter waivers for the nonobservance of three quantitative performance criteria (the floor on the net foreign assets of the central bank; and the ceiling on the outstanding stock of short-term external debt contracted or guaranteed by the government or the central bank at end-September 2001; and the continuous criterion on outstanding external payments arrears), as well as for the nonobservance of the structural performance criterion at end-September 2001 on the adoption by the Ministry of Economy and Finance of a repayment plan for domestic payments arrears. This latter measure was completed in March 2002. The government of Guinea also requests additional interim assistance under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC Initiative) in the amount of SDR 2.746 million to cover debt-service payments to the Fund falling due from the date of approval to June 30, 2003.
3. The government bases this request on the observance at end-September 2001 of four of the seven quantitative performance criteria and two of the three structural performance criteria; on the successful implementation of the consolidation program covering the period January - April 2002, as described in the attached memorandum; and on the completion of all the prior actions for consideration of the review by the Executive Board of the Fund.
4. The government of Guinea will provide the Fund with such information as the Fund requests in connection with the progress made in implementing the economic and financial policies and in achieving the objectives of the program as set out in the attached memorandum.

5. The government of Guinea believes that the policies and measures set out in the attached memorandum are adequate to achieve the objectives of its program; however, it stands ready to take any further measures that may become appropriate for this purpose. During the course of the second annual program under the PRGF, the government will consult with the Managing Director on the adoption of any measures that could be appropriate, at the initiative of the government or whenever the Managing Director requests such a consultation. Moreover, after the period of the PRGF arrangement and for as long as Guinea has outstanding financial obligations to the Fund arising from loans under the arrangement, the government will consult with the Fund from time to time, at the initiative of the government or whenever the Managing Director requests consultation, on Guinea's economic and financial policies.

6. The government of Guinea will conduct with the Fund three reviews of the second annual program supported by the three-year arrangement, the first not later than December 2002, the second not later than end-March 2002, and the third not later than end-June 2003 at the latest.

7. The government of Guinea consents to the Fund's publication of this letter, the memorandum of economic and financial policies for 2002, the technical memorandum of understanding, and the staff report for the 2002 Article IV consultation and the first review under the PRGF.

Sincerely yours,

/s/

Ibrahima Chérif BAH  
Governor of the Central Bank of Guinea

/s/

Cheick Ahmadou CAMARA  
Minister of Economy and Finance

Attachment: Memorandum of Economic and Financial Policies

**Memorandum of Economic and Financial Policies  
of the Government of Guinea for July 2002 to June 2003**

**I. INTRODUCTION**

1. Since 1985, Guinea has undertaken an ambitious program of financial and structural reforms aimed at promoting the rational development of its economic potential while reducing internal and external imbalances within the framework of a market-based economic system. These efforts have covered all economic and financial sectors and have been supported by the IMF through a Stand-by Arrangement, two arrangements under the Structural Adjustment Facility (SAF), two arrangements under the Enhanced Structural Adjustment Facility (ESAF), and an arrangement under the Poverty Reduction and Growth Facility (PRGF).

2. Although this financial support allowed Guinea to make considerable progress in restoring macroeconomic equilibrium, it has not contributed effectively to the reduction of poverty, primarily because of the burden of the largely multilateral external public debt, as well as other unfavorable factors. Thus, owing to continued adjustment efforts in the area of the public finances and structural reforms, as well as in monetary policy, on the one hand, and the formulation of its poverty reduction strategy paper (PRSP), on the other, the government of Guinea is benefiting from an arrangement under the PRGF covering the period May 2001 to May 2004.

**II. IMPLEMENTATION OF THE PROGRAM**

3. The implementation of the first annual program supported by the PRGF, covering the period from April 1, 2001 to March 31, 2002, was heavily influenced during the first six months by exogenous factors, primarily the insecurity on the borders and the sharp rise in the price of petroleum products. These phenomena put considerable pressure on budgetary expenditure, particularly as regards security outlays, following the aggressions on the southern borders, and a compression of spending in the social sectors. However, to correct for slippages relative to some of the targets of the program for end-September 2001, the government successfully implemented measures under a consolidation program during the period January-April 2002 to ensure the reestablishment of the program's momentum.

4. The execution of the budget was thus characterized by (i) a marked shortfall and a delay in the mobilization of external financing; (ii) shortfalls in domestic revenues, including nontax revenues, primarily owing to the effects of the rebel attacks on economic activity, as well as to cases of embezzlement, fraud, and tax evasion; (iii) a considerable increase in security-related spending; and (iv) a slight compression of other spending, coupled with a delay in the execution of spending in the priority sectors.

5. As of December 31, 2001, priority sector spending financed by the Initiative for Heavily Indebted Poor Countries (HIPC Initiative) resources totaled only GF 1.97 billion,

compared with a projection of GF 108 billion. This situation was due to (i) the delay in the rescheduling of Guinea's debt by the Paris Club, which took place on May 15, 2001, five months after the beginning of the budget year; (ii) the nonmobilization of the transfers expected from the public enterprises on account of debt service due to Paris Club creditors; (iii) delays related to public procurement procedures and contract negotiations, and the seasonality of certain projects in the priority sectors (road maintenance and well construction); and (iv) the weakness of the structures and support procedures for budgetary decentralization. Based on these results, the budget projections for the rest of the year were revised within the framework of the program's objectives.

6. In the area of the public finances, the implementation of structural measures was satisfactory. Among the measures taken were the production of the administrative and management accounts for the fiscal years 1998 and 1999. The adoption of a repayment plan for domestic payments arrears, planned for September 30, 2001 was completed only in March 2002. However, an inventory of these arrears was completed by September 2001.

7. All the planned measures in the area of money and credit were carried out, including the increase in the minimum capital of banks from GF 2 billion to GF 5 billion; the extension of banking supervision rules to accounting firms through the establishment of a complementarity between their auditing activities and those of the central bank; and the increased accountability of the administrators, managers, and shareholders of credit institutions with regard to internal controls. The Central Bank of the Republic of Guinea (BCRG) also liberalized the conditions governing foreign currency deposits held by residents in the banking system. Moreover, the planned reforms to improve the conduct of monetary policy, strengthen the health of the banking system, and create a coherent framework for monetary statistics were fully implemented.

8. Despite efforts to mobilize revenues, important shortfalls occurred at the end of 2001, compromising not only the objective of reducing the government's debt to the banking system but also the realization of social sector spending, for which substantial resources had been mobilized from donors.

9. At end-December 2001, overall domestic revenue totaled GF 670.2 billion, as against a revised target of GF 700.3 billion, a shortfall of GF 30.1 billion. Total expenditures, excluding external financing, amounted to GF 706.7 billion at end-December 2001, compared with the target of GF 794.8 billion, a reduction of GF 88.1 billion. This contraction primarily affected the priority sectors and investment spending, despite the savings in the amortization of the external debt.

10. In view of the slippages at end-November 2001, and, more particularly, given the uncertainty surrounding resource mobilization and the level of actual spending in the priority sectors, the government, in close collaboration with the staffs of the IMF and the World Bank, embarked upon a consolidation program covering a four-month period from December 2001 to March 2002. This program aimed at correcting the slippages while consolidating the positive results achieved by continuing the efforts in the areas of: (i) catching up on priority

spending; (ii) regularizing financial relations between the government and its domestic creditors; and (iii) reducing the government's debt to the banking system.

11. In the framework of the poverty reduction strategy adopted by the government, all the economic measures aim at meeting the indicators set out in the PRSP. This memorandum sets out the achievements of the consolidation program, and describes the policies and actions to be taken for the rest of 2002 and through the end of the PRGF arrangement.

### III. IMPLEMENTATION OF THE MEASURES FORESEEN AT END-MARCH 2002

12. Monthly revenue reached 106.8 percent of projections at end-March 2002. The consolidation program's targets were exceeded by GF 8.9 billion, as revenue reached GF 184.5 billion, versus a target of GF 175.6 billion. This good performance resulted from the improvement in tax collection by the tax administration, as well as from the measures presented in the table of the consolidation plan (Appendix I, Attachment I, Table 3 and 4).

13. Current expenditure reached GF 158.9 billion, compared with the projected level of GF 124.4 billion, an excess of GF 34.5 billion corresponding to an acceleration of priority sector outlays of some GF 24 billion and compatible with attaining the performance indicator objectives of the PRSP. There was also GF 11 billion in compensations linked to the settlement of cross debts between the state and the public enterprises.

14. As for the reforms to be carried out in the electricity sector, the stages of the action plan foreseen for end-March 2002 by the government (phases 0 and 1) were fully implemented. These included (i) the confirmation of the privatization strategy, of the present level of electricity tariffs, and of the intention to eliminate fraud in the sector and limit exonerations in the payment of electricity; (ii) the adoption and implementation of an action plan for the Société Guinéenne d'Electricité (SOGEL); (iii) the fusion of SOGEL and the Énergie Électrique de la Guinée (ENERGUI); (iv) the update of the independent arbitration procedure for commercial disputes; (v) the preparation of a plan for the independent verification of electricity consumption; and (vi) the institution of a special policing unit.

15. With regard to the domestic payments arrears, restructuring accords have been signed with creditors whose claims are not subject to dispute. A part of these debts has been settled by the issue of government bonds that have been guaranteed by the central bank to facilitate their discounting by commercial banks. The reimbursement of the value-added tax (VAT) credits due to the mining companies has begun, with 25 percent of the amounts cleared thus far.

16. With a view to improving the collection of the public enterprises' tax obligations, the advance payment system agreed on with the Électricité de Guinée (EDG) and with the Société des Eaux de Guinée (SEG) has been extended to cover the telecommunications company (SOTELGUI), which has paid a part of the taxes due to the state in the current year on this basis.

17. New repayment schedules have been concluded and signed with the enterprises concerned with the reimbursement of on-lent loans, taking account of their cash-flow situation.

18. Other measures linked to the fourth structural adjustment credit (SAC IV) were also carried out as programmed. These included, among other things, the formulation and approval of the full PRSP prepared through an exemplary participatory approach, which was adopted by the government and presented to the National Assembly during the last budgetary session, and the full catching up of the shortfall in spending in the priority sectors in 2001.

19. At end-March 2002, total effective spending in the priority sectors as part of the catch-up plan totaled GF 23.9 billion, as against GF 27.6 billion programmed, an execution rate of 86.5 percent. Of this total, the execution of spending commitments from the 2001 budget year reached GF 15.5 billion, while those for the 2002 budget year were GF 8.4 billion. In addition to these outlays, total spending commitments of GF 31.9 billion were made, of which GF 20.5 billion represented current spending in the priority sectors, and GF 11.4 billion in capital spending to rehabilitate schools, rebuild rural roads, and improve the supply of potable water in rural areas. Of the current spending, GF 10.5 billion was transferred to the local administrations on account of the Ministries of Preuniversity Education and of Health.

20. This considerable effort to catch up on priority sector spending led to a stock of net bank credit to the treasury estimated at GF 217.6 billion at end-March 2002, as against GF 197.1 billion projected in the consolidation program, that is, a deviation of GF 20.5 billion.

21. The primary balance reached GF 35.8 billion, or 0.5 percent of GDP at end-March 2002, as against the program target of GF 56.3 billion, or 0.9 percent of GDP).

22. Taking into account that some quantitative and structural performance criteria were not met, the government of Guinea request waivers for the nonobservance of (i) at the end-September 2001, the floor on the net foreign assets of the central bank; (ii) also at end-September 2001, the ceiling on the outstanding stock of short-term external debt contracted or guaranteed by the government or the central bank; (iii) the continuous ceiling on the outstanding stock of external payments arrears, and (iv) the adoption by the Ministry of Economy and Finance of a repayment plan for domestic payments arrears (structural criterion).

**IV. THE ECONOMIC AND FINANCIAL PROGRAM FOR 2002  
AND THE REALIZATION OF THE OBJECTIVES OF THE SECOND YEAR  
OF THE PRGF – JULY 2002 TO JUNE 2003**

23. The program of the government of Guinea for 2002 aims at a growth rate of 4.2 percent, with growth of 5.8 percent in the rural sector; an inflation rate, as measured by the consumer price index, of 4 percent; and a deficit of the external current account of the

balance of payments (including official transfers) of some 6.9 percent of GDP. The tax ratio is projected at 12.6 percent, with a ratio of current spending to GDP of 10.7 percent and a ratio of public investment to GDP of 8 percent.

24. This program, conceived after the finalization of the PRSP, which is the sole framework for the orientation of public policy, should allow the government to meet all the objectives agreed on with its partners in the framework of the PRGF arrangement. The policy of the government is articulated around three essential pillars:

- the acceleration of economic growth, with larger income opportunities made available for the poor through support for rural development, the development of basic infrastructure, support for the mining sector through the promotion of the megaprojects of private investors, and support for the tourism sector and for artisanal production through the implementation of a sectoral development plan;
- the development of, and equitable access to, basic social services;
- the improvement of governance, and the strengthening of institutional capacities and the participatory process.

#### **A. Public Finance**

25. In the area of public finances, the budget submitted to the National Assembly in mid-February 2002 is based on a considerable effort to mobilize domestic resources and to allocate them on the basis of the intersectoral and intrasectoral priorities defined in the strategy. These efforts will allow not only the attainment of the quantitative objectives set for the financial administrations but also the financing of eventual deficits during the implementation of the program.

26. Overall revenue is projected to increase from 11.5 percent of GDP in 2001 to 12.6 percent in 2002, while current expenditure would decrease from 11.7 percent of GDP to 10.7 percent despite the increase in allocations to the priority sectors, financed in part by interim debt relief under the enhanced HIPC Initiative. Domestically financed capital spending is projected to expand considerably from the extremely low level of 2001 to reach 1.3 percent of GDP in 2002. As a result, the primary surplus is projected to rise from 0.7 percent of GDP in 2001 to 2.1 percent in 2002. In spite of the planned increase in capital expenditure and net lending, the overall deficit (on a commitment basis, and excluding grants) is expected to reach 6.4 percent of GDP, compared with 7.6 percent in 2001. Based on the planned reduction in domestic payments arrears, the cash deficit is projected at 3 percent of GDP, a decrease of 0.8 percentage points over the previous year.

27. The mobilization of revenues will take place largely through (i) the expansion of the tax base; (ii) the strengthening of tax controls and procedures for liquidation and collection; (iii) the interdiction of all tax and customs exemptions beyond those specified in the codes and special conventions; (iv) the setting of quantitative targets and performance criteria for the financial administrations and other revenue-generating services; (v) the centralization of

all government receipts in an account of the treasury; (vi) the recovery of all claims from the previous and earlier fiscal years; (vii) the reimbursement of amounts embezzled from the state; and finally, (viii) the strengthening of the fight against fraud and tax evasion.

28. The envisaged revenue-enhancing measures follow on the administrative steps taken during the consolidation period. As concerns the National Tax Directorate, a series of measures has been put in place to strengthen the large enterprise unit and the tax audit division. The measures aim to (i) monitor more closely exemptions to the tax code; (ii) update and maintain the files on taxpayers; (iii) better define and widen the tax base; (iv) reinforce the verification of tax declarations, inter alia, by auditing the 2001 balance sheets of all enterprises which have requested the reimbursement of VAT credits, but which have not been subject to an audit during the past three years; (v) deepen the training of agents; and (vi) extend the computerization of the tax services. At the Customs Directorate, emphasis will be placed on reconciling the statistical data of the Customs Directorate, the preshipment inspection company (SGS) and the Port of Conakry to improve the assessment of the taxable base; suspending special regimes; introducing a customs valuation office; and enacting a series of measures to improve computerization, training, and the statutes of customs agents. In both directorates, the measures chosen are drawn in part from the conclusions of operational audits that were commissioned by the Ministry of Finance at end-December 2001, as well as the technical assistance reports of the French Customs Directorate on reducing customs fraud and improving the handling of disputed cases. Finally, as concerns tax controls, the measures foreseen include, in particular, the organization and implementation of a financial control system for decentralized spending; the strengthening and rationalization of control procedures over public spending; the internal reorganization of the financial control office and its procedures; and the training of personnel.

29. On the expenditure side, measures aim to extend the devolution of spending authority to all priority sectors and all administrative regions and prefectures; to devolve responsibility for establishing and executing public procurement contracts; and to improve the quality of spending by respecting budget and accounting procedures. Further measures include the systematization of physical inventories; the strengthening of the effective control over services rendered; improvement of the transparency in the management of public funds through the respecting of public procurement procedures; and finally, management of the budget aimed at maintaining macroeconomic equilibrium. Moreover, an action plan has been put in place to strengthen the Division of Tax Audits; this plan foresees the extension of the documentary and physical verifications of enterprise balance sheets for 2001; a program of audits of informal sector activity; the monitoring of recruitment; and the continuing professional training of personnel. To avoid the catching-up phenomenon, these measures will be applied to improve the execution of priority sector spending.

30. With regard to the financing of the budget, the policies aim to avoid the accumulation of new domestic arrears and to respect the repayment plan adopted by the government in March 2002 for these arrears, which amounted to GF 41 billion at end-2001, so as to support private sector activity. Under this plan, a part of these debts, amounting to GF 30 billion, has been securitized, and the balance has been retired through compensation. Moreover, the

authorities will continue to reduce the treasury's debt to the domestic banking system, encourage nonbank financing, and limit external borrowing to concessional sources. Notwithstanding the probable delay in the mobilization of certain external resources initially expected in 2002, the treasury will reimburse GF 33.9 billion to the BCRG, thus reducing the pressure on bank liquidity and reversing the tendency of the last two years. Part of the financing requirement will be covered by further treasury bill auctions at varying maturities and the issue of new bonds and debentures; these issues should constitute an attractive local currency instrument for saving, and thus attenuate the strong demand for foreign exchange on the official market.

### **B. Monetary and Credit Policy**

31. The central bank will continue to implement a prudent monetary policy in order to ensure the efficient management of bank liquidity and meet the 2002 inflation objective of 4 percent. The centerpiece of this policy will be the reduction of net bank credit to the government, which expanded by 3.7 percent of beginning-of-period broad money in 2001, owing to the need to finance the larger-than expected government deficit. Broad money growth will thus be kept to 8.1 percent in 2002 (compared with the expansion of 14.8 percent registered in 2001). This policy will be implemented through the use of the existing indirect instruments (monetary regulation bills and flexible interest rates, etc.) in order to maintain firm control over the evolution of reserve money and bank liquidity. In this context, the projection of liquidity will be improved by implementing certain measures recommended by a technical assistance mission from the IMF's Monetary and Exchange Department. The net domestic assets of the banking system are projected to expand by 3.6 percent in 2002, notwithstanding the GF 23.6 billion reduction in net credit to the government. Net credit to the private sector is expected to expand moderately. With relatively little new external financing expected in 2002, the net foreign assets of the central bank are projected to increase only moderately, by the equivalent of US\$5.6 million.

32. Moreover, as concerns the official foreign exchange auction market, the authorities will make sure that the receipts from exports of precious metals are subject to the same foreign exchange repatriation obligation as other mining exports, so as to increase the supply of foreign exchange on the official market. The central bank will consider the possibility of increasing the frequency of the foreign exchange auctions and will refrain from any intervention in the market aimed at stabilizing the rate of the Guinean franc.

33. The central bank has received a mission from the IMF's Treasurer's Department that analyzed the implementation of central bank safeguard clauses. The mission proposed a series of measures to strengthen financial reporting at the BCRG, with a view to bringing it into conformity with international bank accounting standards. In this sense, the BCRG will formally decide by September 2002 to prepare its financial reports on the basis of the International Accounting Standards (IAS), and to create an internal audit committee (composed in part of accounting experts independent of the BCRG) to carry out regular assessments of the bank's accounting reports. In this context, it will proceed with the training of its agents responsible for internal auditing through foreign institutions, such as the Central

Bank of West African States (BCEAO), the Bank of Central African States (BEAC), and the Bank for International Settlements (BIS). In the same spirit of moving toward conformity with international norms, the central bank will issue instructions and regulatory texts modifying the prudential ratios applied to the banks to bring them closer to the Basel Core Principles.

## **V. STRUCTURAL REFORMS**

### **A. The Public Enterprises**

34. The reform strategy adopted by the government aims at removing the structural obstacles that hinder private sector activity and at increasing the efficiency of public services and the equitable access of the population to them. A key factor in this strategy is reducing the financial burden of the parapublic sector on the state budget, improving the development perspectives of the concerned enterprises by regularizing their financial relations with the state, and finally, ensuring private sector participation in their reform. The government has already reached agreement with the large enterprises on fixed monthly payments for the government's consumption of water, electricity, and telecommunications, and for the transfer of taxes collected by the enterprises on behalf of the government, which are to be regularized at the end of each month. This interim system ensures a better cash-flow situation of the enterprises and prevents the accumulation of cross arrears between the state and the enterprises. In addition, the government intends to achieve the full regularization of its financial relations with these enterprises. For this reason, the envisaged reforms in the water and electricity sectors will be continued and completed in accordance with our privatization strategy and the modalities and plans to be agreed on with the partners in these sectors. The reforms in the electricity sector will continue in the framework of the agreement with the World Bank and the Agence française de développement (AFD). In the water sector, the government will provide notification of the contracts as soon as possible to the consultant selected to prepare a strategic study of this sector of the contracts. Moreover, in the telecommunications sector, a strategy was elaborated and codified in a declaration of sectoral policy in the first quarter of 2002. This strategy foresees the creation by end-December 2003 of a legal and regulatory framework that favors private investment in the sector; the obligatory interconnection between the networks of authorized operators; and the creation and implementation of a regulatory institution. Prior to the finalization by the end of the 2002 of the study, already under way, of the regulatory institution, no telecommunications licenses will be renewed.

### **B. Public Procurement**

35. A program composed of several elements to strengthen the institutional and regulatory framework of public procurement is under preparation. It includes the ex post audit of public contracts; an analytical review of procurement contract procedures; the regulation of contracts of local authorities; the imposition of sanctions in cases of violation of procurement regulations; and the introduction of a consultative committee on public

procurement. This strengthening is part of the process of administrative and financial devolution and decentralization begun in 2001. Drawing on the success of the pilot program that transferred responsibility for education and health spending in the prefectures of Conakry and Kindia to the local authorities, financial devolution will be gradually extended to the other prefectures starting in 2002, accompanied by a training program for agents at the local level aimed at ensuring the proper execution of spending and the respect of budgetary rules. Moreover, public procurement up to a value of GF 100 million will be authorized from now on at the prefectural level, and for contracts up to GF 300 million at the level of governorships.

### **C. The Civil Service**

36. Two new laws governing the civil service, prepared in close consultation with the trade unions and other civil society representatives, were approved by the National Assembly in April 2001. These laws aim at modernizing the statutes of the civil service, introducing a system of merit-based remuneration and advancement, and giving the civil service ministry greater flexibility in the management of civil service personnel. The decrees applying these laws are being prepared and will be promulgated before end-2002, following a public information campaign. The authorities intend to conduct two studies with bilateral external assistance—one, to be completed by end-September 2002, on rationalizing the system of contractual public employment, and the other on the implementing of an appropriate system of merit-based remuneration and advancement.

### **D. The Social Security System**

37. The National Social Security Fund (CNSS) has been implementing a restructuring program based on the recommendations of its recent audit. The program has allowed the new management to finalize the accounts for the financial years 1999 and 2000, put an end to the continued deterioration of the financial situation of the fund, and considerably reduce the stock of pension and other arrears. The program will continue in 2002 with an acceleration of the computerization of its operations, for which foreign financing is being sought. Moreover, an actuarial study financed by the United Nations Development Program (UNDP) has been initiated by the International Labor Organization, with a view to establishing the parameters of an overhaul of the entire social security system in Guinea. This is essential to resolving the structural deficit of the CNSS and ensuring that it can fulfill its defined role in the poverty reduction strategy. While awaiting the results of this assessment, the government and the CNSS will by end-September 2002 determine the stock of arrears on contribution payments owed by the state on account of retired workers in public enterprises that have been privatized or liquidated, and will decide on the reimbursement of these arrears, the financial effect of which will be included in the 2003 budget.

### **E. The Anticorruption Effort**

38. Good governance and the fight against corruption are a priority of both the government's policy and the poverty reduction strategy. The National Anti-Corruption

Committee (CNLC) has conducted a survey of public perceptions of corruption in Guinea and has prepared a National Anti-Corruption Strategy, which is to be validated at a national forum by end-December 2002. The statutes of the CNLC were adopted in January 2002 and will be promulgated as soon as possible, in order to allow it to begin a public information and awareness campaign and to begin the implementation of action plans in six key areas. The CNLC will continue its investigations into allegations of corruption and will present its conclusions to the Ministry of Justice for judicial follow-up.

#### **F. Justice Reform**

39. The government is fully aware of the fundamental importance of a well-performing justice system, both for the success of the poverty reduction strategy and for the creation of an environment conducive to business. Thus, the Ministry of Justice has finalized an action plan with a firm timetable for the different steps in handling the corruption cases submitted by the CNLC, and it will prepare by end-December 2002 a reform strategy that sets out the priorities for the reform of the Guinean justice system. A key element will be the application of the acts of the Organization for the Harmonization of Business Law in Africa (OHADA) Treaty, which was ratified by the National Assembly in April 2002. In the context of preparing this strategy, the government will also reflect on how to ensure the integrity and independence of the magistracy, including through the system of remuneration for magistrates and other judicial personnel.

#### **G. External Debt Management**

40. External debt management continues to be a problem for the Guinean administration, despite certain improvements in the last few years. Given the importance in the context of the enhanced HIPC Initiative of ensuring full control over debt service and the flows of interim HIPC Initiative assistance, the government has decided to make fully operational before end-June 2002 the new debt-management structure and to provide the assigned workers with appropriate training, with technical assistance from Debt Relief International. Following this assistance, the government has committed itself to providing the staff of the IMF with monthly tables detailing debt service due, paid, and rescheduled, by creditor and currency, as well as updated quarterly projections. The full set of tables for each month will be submitted by the fifteenth of the following month, beginning in July 2002.

#### **H. The PRSP Process**

41. In accordance with the schedule established in the interim PRSP, the draft full PRSP was finalized in December 2001 and presented to a national validation forum. The full PRSP was adopted by the government in January 2002 and presented to the National Assembly in February 2002. A national implementation workshop was held in Conakry on May 6-7, 2002, and roundtables will be organized during the third quarter of the year to discuss with development partners the mobilization of financing for the overall strategy and the sectoral policies. The authorities will continue to allocate the resources freed by debt relief under the

enhanced HIPC Initiative only to the priority sectors and to further strengthen the monitoring of these resources.

42. At the same time, the government is continuing its efforts to improve the sociodemographic statistics, so as to better target the policies and measures and assess their impact on the population. An integrated household budget-consumption survey has been launched with the support of the World Bank, and a pilot survey of a restricted sample of households was completed in March 2002. With the support of the German Development Cooperation, the authorities intend to complete by end 2002 the extension of their macroeconomic projection model to include specific modules covering the priority sectors and public spending in these sectors. This will allow a better projection of the social impact of the overall poverty reduction effort and a balancing of budget allocations among the priority sectors to meet the quantified targets of the PRSP.

## VI. PROGRAM MONITORING

43. The implementation of the program will be monitored by indicative benchmarks and quantitative performance criteria at end-September 2002, end-December 2002, end-March 2003, and end-June 2003, as well as by structural benchmarks and performance criteria, as presented in Tables 5 and 6. The quarterly quantitative performance criteria include (i) a floor on the central government primary balance; (ii) a ceiling on net credit to the government; (iii) a ceiling on reserve money; (iv) a floor on net foreign assets of the central bank; (v) a ceiling on new nonconcessional medium- or long-term external debt contracted or guaranteed by the government or the central bank; (vi) a ceiling on outstanding stock of short-term debt contracted or guaranteed by the government or the central bank. There is also a continuous ceiling on outstanding external payments arrears. The definitions of the variables followed by these benchmarks and criteria remain those set out in the technical memorandum of understanding annexed to the letter of intent for first annual program. The implementation of the program and the outturn relative to the program's targets will be subject to four reviews, based on the quarterly results indicated in the tables; these will take place before end-December 2002, end-March 2003, and end-June 2003, and end-September 2003, respectively.

44. Three measures will serve as structural benchmarks: (i) for end-December 2002, the establishment of a computerized connection between the treasury's accounts and the computerized expenditure-tracking system; (ii) for end-September 2002, the adoption of off-site inspection rules for the supervision of microfinance institutions; and (iii) for end-March 2003, the definition of a package of measures to fight money laundering. The program includes also three structural performance criteria: (i) for end-September 2002, updating the taxpayers' file of the National Tax Directorate; (ii) for end-September 2002, launching the audit of the 2001 balance sheet of all enterprises not subject to a tax audit for the last three years that have filed for VAT credit; and (iii) for end-December 2002, issuing instructions and regulations governing prudential ratios for commercial banks, in order to bring them closer in line with international standards.

45. As prior actions for consideration of the report on the first review under the PRGF arrangement by the Fund's Executive Board, the government of Guinea has done the following:

- met the fiscal and monetary targets for end-March 2002 set out in the consolidation program described in paragraphs 10, 12, and 13 above;
- fully implemented phases 0 and 1 of the action plan for the electricity sector set out in paragraph 14 above;
- formally adopted the domestic arrears repayment plan, a structural performance criterion not observed at end-September 2001;
- presented definitive monthly tables indicating the amounts of external debt service due, paid and rescheduled, by creditor and currency, as well as the accumulation or repayment of arrears on this debt service, from January 2001 through March 2002;
- notified the consultant selected to prepare a strategic study of the water sector of the conditions of the contract.

The third, fourth, and fifth disbursements under the PRGF arrangement will be conditioned on the observance of performance criteria for end-September 2002, and end-December 2002, and end-March 2003 respectively, as identified above and in Tables 5 and 6, as well as on the conclusion of the second, third, and fourth reviews.

46. During the period of the second annual program under the PRGF arrangement, the Guinean government will not introduce new or intensify existing exchange restrictions, introduce or modify any multiple currency practice, impose or intensify import restrictions for balance of payments reasons, or conclude bilateral payments agreements that are inconsistent with Article VIII of the Fund's Articles of Agreement.

Table 1. Guinea: Quantitative Performance Criteria and Benchmarks  
Under the Three-Year PRGF Arrangement, 2001

	Mar. 2001	June 2001		September 2001			December 2001		
	Prog. est.	Indicative Benchmark	Outturn	Prog. Perf. Criteria	Adj. Prog.	Outturn	Indicative Benchmark	Adj. Prog.	Outturn
	(In billions of Guinean francs)								
Central government primary balance (floor) 1/	27.2	-9.0	52.0	-7.1	-7.1	57.6	33.6	33.6	42.5
Net bank credit to the government (ceiling) 2/ 3/	14.4	-63.9	26.7	-8.9	-27.2	-37.7	-17.8	-53.2	20.5
Reserve money (ceiling) 4/	346.9	362.1	351.8	368.5	368.5	367.2	358.4	358.4	381.0
	(In millions of U.S. dollars; end of period)								
Net foreign assets of the central bank (floor) 5/ 6/ (in millions of U.S. dollars)	21.3	71.0	31.0	93.2	113.1	74.7	98.4	125.1	60.7
New nonconcessional medium- or long-term external debt contracted or guaranteed by the government or the central bank 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outstanding stock of short-term external debt contracted or guaranteed by the government or the central bank 7/	0.0	0.0	3.3	0.0	0.0	16.3	0.0	0.0	16.4
Outstanding external payments arrears (ceiling) 7/	0.0	0.0	2.5	0.0	0.0	1.0	0.0	0.0	2.6
	(In billions of Guinean francs, unless otherwise specified; end of period)								
Central government nonmining revenue 3/ 9/	127.8	296.5	249.3	449.6	449.6	384.6	598.6	598.6	504.9
Of which: customs revenue 2/ 8/	82.7	171.8	162.2	260.6	260.6	251.1	358.7	358.7	326.6
Central government noninterest current expenditure 1/ 2/ 9/	136.5	285.5	265.4	449.6	449.6	423.3	600	600	583.1
Current public expenditure in priority sectors 9/ 10/	17.1	35.2	13.9	56.1	56.1	33.8	97.9	97.9	62.9
Repayment of domestic arrears 2/ 8/	6.8	0.5	0.6	-0.6	-0.6	12.9	-4.5	-4.5	17.8
Memorandum item:									
Nonproject external financial assistance (in millions of U.S. dollars) 8/	2.2	57.8	1.6	74.9	74.9	50.7	84.9	84.9	61.0

1/ On a commitment basis, the domestic primary balance is defined as the difference between total revenue (excluding grants) and noninterest domestic expenditure (excluding foreign-financed capital expenditure).

2/ Excluding government paper issued as counterpart of the revaluation of the stock of gold.

3/ To be adjusted downward/upward for any cash settlement of domestic arrears lower/higher than indicated.

4/ For purposes of the program, during 2001 gold valued at the U.S. dollar price agreed for end-December 2000.

5/ To be adjusted upward for any new accumulation of external payments arrears or cash settlement of such arrears inferior to the program's projections.

6/ Excluding commercial credits.

7/ Cumulative from the beginning of the respective calendar year of the test date.

8/ Excluding arrears under negotiation with creditors, monitored on a continuous basis.

9/ Does not constitute a performance criterion for end-September 2001.

10/ Priority sectors are defined to include public health, education, road maintenance, justice, rural development, urban planning, and social affairs. The precise definition of these expenditures is contained in the annexed technical memorandum of understanding (Appendix I, Attachment II).

Table 2. Guinea: Structural Measures

Measures	Status	Comments
<b>Public finances</b>		
Implementation of the customs reform program.	2001-03	Continuous
Implementation of the recommendations of the tax audits of four key public enterprises.	2001-03	Delayed
Reduction of tax exemptions.	2001-03	In process
Production of administrative and management accounts ( <i>comptes administratifs et de gestion</i> ) for the 1998 and 1999 fiscal years.*	September 2001	Completed
Strengthening of internal control and audit of budget execution (financial inspectorate).	December 2001	Delayed
Strengthening of the Accounting Office of the Supreme Court.	2001-02	In process
Consolidation of public accounts.	September 2001	In process
Adoption by the Ministry of Economy and Finance of a repayment plan for domestic payments arrears.*	September 2001	Completed March 2002
<b>Monetary reforms</b>		
Introduction of central bank bills with a 14-day maturity.	September 2001	Completed
Elimination of the central bank guarantee for interbank transactions.	April 2001	Completed
Liberalization of the conditions of foreign exchange accounts of residents in domestic commercial banks (other than foreign exchange bureaus).	December 2001	Completed
Completion of study on the operation of the foreign exchange auction.**	June 2001	Completed
Introduction of a revised regulatory framework governing foreign exchange swap transactions between the central bank and the commercial banks.	June 2001	Completed
Initiation of monthly publication of a central bank information and statistical bulletin.	July 2001	Completed
Creation of a central bank website containing the monetary database.	September 2001	Completed
<b>Banking supervision and restructuring</b>		
Adoption of a regulatory framework providing for an adequate audit of banks.*	September 2001	Completed
Submission to the Banking Committee ( <i>Comité des Agréments</i> ) of a proposal for increasing the minimum capital requirement from GF 2 billion to GF 5 billion.	June 2001	Completed
Revision of the banking law, along with several application measures, to require all banks to hold their social capital in Guinean francs.	June 2001	Completed
Adoption of strengthened regulations concerning the refinancing of banks under restructuring that are illiquid but solvent.	June 2001	Completed
Decision on the provisional administration of banks under restructuring.**	June 2001	Completed
Announcement by the Ministry of Economy and Finance of the liquidation of the <i>Crédit Mutuel de la Guinée</i> .	April 2001	Completed
Adoption of an action plan for transforming the <i>Crédit Rural de la Guinée</i> into a specialized financial institution.	July 2001	Completed
Adoption of the institutional and informational framework for microfinance institutions necessary for their prudential supervision by the central bank.	December 2001	Completed

Notes: \* = performance criterion for end-September 2001; \*\* = structural benchmarks.

Table 3. Guinea: Fiscal Targets of the Consolidation Program;  
January-March 2002

(In billions of Guinean francs, unless otherwise indicated)

	January		February		March	
	Prog.	Real	Prog.	Real	Prog.	Real
Revenue	55.4	60.6	111.2	117.3	175.7	184.5
Expenditure	88.0	72.4	155.5	153.9	228.4	275.3
Current expenditure	51.3	43.4	84.0	95.6	124.4	158.8
<i>Of which: in priority sectors</i>	6.7	3.9	10.6	11.0	19.5	26.4
Capital expenditure	34.8	29.0	69.6	58.3	102.1	116.1
<i>Of which: in priority sectors</i>	4.8	0.0	9.5	0.0	11.9	11.7
Change in domestic arrears	-0.9	-11.5	-3.9	-12.3	-15.0	7.5
Bank financing	0.6	-18.2	-12.2	-16.9	-24.5	-51.6
Central bank	-4.0	-31.1	-25.0	-24.6	-32.3	-75.0
HIPC Initiative special account	4.6	0.0	12.8	-5.2	7.8	12.1
Commercial banks	0.0	13.0	0.0	13.0	0.0	11.4
Primary fiscal balance	8.1	34.8	27.4	56.6	74.9	70.1
Overall fiscal balance						
Including grants	-17.1	-3.1	-19.7	-12.7	-4.7	-56.2
Excluding grants	-32.7	-11.8	-44.4	-36.6	-52.8	-90.8

Table 4. Guinea: Measures Under the Consolidation Plan, December 2001-March 2002

Measures	Timing	Status	Comments
<b>Public finance</b>			
Take stock of all tax obligations outstanding from previous year.	December 2001	Completed	Each administration has established the amounts due, and recovery brigades have been sent out.
Take stock of all ad hoc exemptions granted in 2001. Starting December 2001, annul these exemptions.	December 2001	Completed in January 2002	
Take stock of cross debts between the government and public enterprises, with a view to setting up a settlement plan (e.g., by compensation or bonds issuance).	December 2001	Completed in March 2002	
Put in place a more detailed procedure for a monthly ad hoc tax audit by the National Tax Directorate on a sample of the largest taxpayers. Monthly report will be transmitted to the Fund's Resident Representative.	December 2001	Completed with delays	Draft of second and third reports provided in May.
Starting in January 2002, extend monthly payment system to the telecommunications company (SOTELGUI).	January 2002	Completed	
Provide the status of the collection of revenues from rental income and agree on an amount to be transferred to the treasury.	December 2001	Completed	
Take stock of and reschedule amounts due on retroceded loans to public enterprises and the proceeds of a Japanese grant retroceded to private operators.	December 2001	Completed	25 percent of amount due of GF 4.4 billion was paid in March 2002. Balance to be settled by June 2002.
Establish action plan to strengthen local capacity.	2002	Training courses have begun	
Sign accords on settlement of domestic arrears (part of repayment plan), including VAT credit reimbursements.	December 2001	Partially completed for VAT in March 2002	25 percent of VAT credit due was settled in March.
Apply administrative and penal sanctions to individuals and enterprises convicted in cases of fraud. Ministry of Finance will redouble efforts to recover the amounts lost to fraud.	March 2002	Not completed	GNF 1.6 billion recovered thus far, and the cases of several individuals from the administration and from enterprises have been brought to the attention of the Ministry of Justice.
<b>Monetary policy</b>			
Transmission to the Fund Staff of the action plan adopted by the Council of Ministers in August 2001 on transformation of the Crédit Rural de Guinée (CRG) into a financial institution.	January 2002	Completed	

Table 5 Guinea: Quantitative Performance Criteria and Benchmarks  
Under the Three-Year PRGF Arrangement, 2002-03

	2002	2002-03				
	March Est.	June 2002 Indicative target	Sep. 2002 Performance criteria	Dec. 2002 Performance criteria	Mar. 2003 Indicative target	June 2003 Indicative target
(In billions of Guinean francs, otherwise specified)						
Central government primary balance (floor) 1/ 2/	42.7	64.7	83.5	119.7	21.9	54.2
Net bank credit to the government (ceiling) 3/ 4/	-51.6	26.9	-19.9	-23.9	-0.2	-9.7
Reserve money (ceiling)	342.2	362.5	362.1	366.9	369.4	374.3
(In millions of U.S. dollars; end of period)						
Net foreign assets of the central bank (floor) 5/ 6/ 7/	67.7	40.5	52.9	67.2	72.0	83.6
New nonconcessional medium- or long-term external debt contracted or guaranteed by the government or the central bank 2/	0.0	0.0	0.0	0.0	0.0	0.0
Outstanding stock of short-term external debt contracted or guaranteed by the government or the central bank 2/ 7/	0.0	0.0	0.0	0.0	0.0	0.0
Outstanding external payments arrears (ceiling) 2/ 8/	11.9	0.0	0.0	0.0	0.0	0.0
(In billions of Guinean francs; unless otherwise specified; end of period)						
Central government nonmining revenue 2/ 9/	147.1	299.4	448.8	630.6	180.0	367.2
<i>Of which: customs revenue 2/ 9/</i>	87.4	187.4	286.7	403.7	113.9	229.8
Central government noninterest current expenditure 2/ 9/	136.3	284.7	425.5	570.4	156.5	320.7
Current public expenditure in priority sectors 9/ 10/	12.9	10.7	17.9	15.6	17.9	20.0
Change in domestic arrears (a "-" sign indicates repayment) 2/ 9/	7.3	-26.6	-28.3	-31.9	0.0	0.0
Memorandum item:						
Nonproject external financial assistance (in millions of US dollars) 9/	1.1	0.0	23.3	33.9	0.0	23.3

1/ On a commitment basis; the domestic primary balance is defined as the difference between total revenue (excluding grants) and noninterest domestic expenditure (excluding foreign-financed capital expenditure).

2/ Cumulative from the beginning of the respective calendar year of the test date.

3/ Excluding government paper issued in counterpart of the revaluation of the stock of gold.

4/ To be adjusted downward/upward for any cash settlement of domestic arrears lower/higher than indicated.

5/ For purposes of the program, during 2002 gold will be valued at the U.S. dollar price established for end-December 2001.

6/ To be adjusted upward for any new accumulation of external payments arrears, or cash settlement of such arrears inferior to the program's projections.

7/ Excluding commercial credits, and changes in deposits from international bodies and institutions.

8/ Excluding arrears under negotiation with creditors, monitored on a continuous basis.

9/ Does not constitute a performance criterion.

10/ Priority sectors are defined to include public health, education, road maintenance, justice, rural development, urban planning, and social affairs. The precise definition of these expenditures is contained in the Technical Memorandum of Understanding.

Table 6. Guinea: Structural Measures  
(\*\* = Performance Criterion)  
(\* = Structural Benchmarks)

	Test Date
I. PUBLIC FINANCES	
1. Customs administration department:	
- Survey customs personnel	Done
(i) Elaborate a manual of procedure for the customs administration and define job descriptions for each staffing position	On-going
(ii) Pursue the work under way for the adoption of the statute of customs personnel	On-going
2. Tax administration department	
- Strengthen the large tax payers unit by :	Continuous
(i) improving the management of tax payers files and the follow-up of delinquent tax payers	September 2002**
(ii) updating the tax payers' file quarterly starting from	Continuous
- Define a minimum turnover for large enterprises and follow these closely	Continuous
- Strengthen tax audit procedures and guide by:	Continuous
(i) improving the synergy and liaison between the investigation and research division, the tax payers' file management division and the tax audit division	June 2002
(ii) setting up a database for the investigation and research division	September 2002
- Strengthen the accounting network by setting up a single procedure for the handling and management, by type of taxes, of overdue tax obligations	
- Follow-up enterprises benefiting from exemptions of preferential tax regimes by:	June 2002
(i) updating quarterly beneficiaries' file, following up on these enterprises compliance with their obligations, and quantifying budgetary revenues forgone	On-going
(ii) verifying beneficiaries' compliance with their obligations, and eliminating unjustified exemptions	
- Strengthen documentation by:	End June 2002
(i) updating and disseminating the tax payers' guide	March 2003
(ii) elaborating the general tax code by merging and updating all tax laws and regulations	
3. Treasury's department	
- Link Treasury's accounts to the computerized expenditure-tracking system	December 2002*
- Close all dormant extra-budgetary accounts	June 2002
- Consolidate all public accounts in a single Treasury account	September 2002
- Recover all tax claims in dispute from previous fiscal years	January 2003
- Begin audit of the 2001 balance sheet of all enterprises not having been subject to a tax audit for the last three years, and having filed for VAT credit	September 2002**
- Issue an instruction from the finance ministry prohibiting the recording of spending commitments in the computerized expenditure-tracking system for any given month after the 5 <sup>th</sup> day of the following month	June 2002
4. Department of debt and public investment	
- Make the external debt unit operational	June 2002
- Produce external debt statistics on a monthly basis showing debt service: due, paid, rescheduled, and arrears if it is the case, and transfers of HIPC debt relief to the HIPC account at the Central Bank	Monthly, from May 2002

II. MONETARY REFORMS, BANKING SUPERVISION AND RESTRUCTURING	
5. Strengthen banking supervision by : - Issuing instructions and regulations governing prudential ratios so as to bring them closer in line with international standards (Basel Core Principles) - Concluding agreements to exchange information with foreign banking supervisors	End-December 2002** End-December 2002
6. Revise the banking law and submit it to Parliament	April 2003
7. Define and put in place the newly restructured banking supervision directorate	June 2002
8. Regarding banks' accounting plan: - Finalize volume 3 - Computerize the plan	October 2002 December 2002
9. Define a package of measures to fight money laundering	March 2003*
10. Regarding supervision of micro-finance institutions: - Elaborate prudential ratios - Put in place off site inspection rules - Define a methodology for on-site inspections	June 2002 September 2002* October 2002
11. Implement recommendations of MAE technical assistance mission of December 2001 on improving liquidity management and forecasting.	End December 2002

## GUINEA

### **Technical Memorandum of Understanding on Definitions and Modalities of the Built-In Contingency Mechanism for the Adjustment of Quantitative Performance Criteria and Benchmarks Under the Second Annual Program Under the PRGF Arrangement**

#### **I. INTRODUCTION**

1. This memorandum sets out the understandings between the Guinean authorities and staff of the International Monetary Fund regarding the definitions of the quantitative performance criteria and benchmarks for the program supported by the PRGF arrangement, the built-in contingency mechanism, and the related reporting requirements.

#### **II. DEFINITIONS**

##### **A. External Debt**

2. The size and rate of growth of external indebtedness are important factors in the design of a program for a country, especially one benefiting from HIPC Initiative assistance like Guinea. For purposes of the program, "debt" will be understood to mean current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debt can take a number of forms, the primary ones being the following:

- **Loans.** Advances of money to the obligor by the lender on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);
- **Suppliers' credits.** Contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and
- **Leases.** Arrangements under which property is provided that the lessee has the right to use for one or more specified period(s) of time, which are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of this memorandum, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of

the agreement, excluding those payments that cover the operation, repair, or maintenance of the property.

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

#### **B. Concessionality of External Debt**

4. Debt is considered concessional if it has a grant element equivalent to 35 percent or more using the available currency-specific commercial interest reference rate (CIRR) and following the methodology set out in staff paper SM/96/86 (4/8/96) and approved by the IMF Executive Board on April 15, 1996.

#### **C. External Debt Performance Criteria**

5. The performance criterion on the outstanding stock of short-term external debt contracted or guaranteed by the government or by the central bank covers outstanding external debt with original maturity of one year or less. The performance criteria on new nonconcessional medium- or long-term external debt contracted or guaranteed by the government or the central bank covers external debt with original maturity of more than one year; this performance criterion applies not only to "debt" as defined in this memorandum, but also to commitments contracted or guaranteed for which value has not been received.

#### **D. Cash Relief from External Debt Rescheduling**

6. For the purpose of the program, the only debt relief that will be subject to the contingency mechanism described below is one that leads to an effective reduction in programmed debt service. This excludes debt relief given on debt that has been in drawn-out rescheduling/restructuring negotiations with non-Paris Club creditors and for which no debt service has been paid in the past year, for example, debts to be considered under the debt-and-debt-service-reduction operation with commercial creditors, and for which no provision in debt service has been explicitly made in the fiscal program (except for up-front costs).

#### **E. Domestic Arrears**

7. Domestic arrears are the unstructured domestic debt contracted by the government vis-à-vis the nonbank sector. Unstructured debt is defined as debt that has not yet been subject to an agreement, cash payment, or securitization. Its major components are wage and salary debt; commercial debt; rental debt; debt arising from indemnities and expropriations; tax or customs benefits, allowances, or overcollections payable to third parties; and debt under the social plans associated with public enterprise restructuring. For the purpose of the program, the change in domestic arrears is defined as the sum of (i) payments made for earlier fiscal years (technical lag) for which commitments or payment orders have already been issued; (ii) the accumulation of obligations during the year as a result of the difference

between actual obligations and payments; (iii) the change in checks outstanding/payables, or the reduction or accumulation attributable to payment orders covered by checks issued during the year; and (iv) the reduction in obligations through the issue of securities in respect of committed expenditure.

#### **F. Net Claims of the Banking System on the Government**

8. Net claims of the banking system on the government comprise the stock of all outstanding claims on the government (loans, advances, and all other government debt instruments, such as government securities with initial maturities of over 30 days) less all deposits held by the government with the banking system.

#### **G. Domestic Debt**

9. The domestic debt includes all current—and unconditional—obligations arising from a contractual agreement concluded or guaranteed by the Guinean government, with a resident partner, as the counterpart to an interest that may take the form of assets (including cash) or services and by virtue of which the obligor must subsequently make one or several payments in the form of assets (including cash) or services in repayment of the principal and/or interest arising from the contractual obligation.

#### **H. Primary Balance of the Budget**

10. The primary budget balance (commitment basis) is calculated as total government revenue, excluding foreign grants and privatization proceeds (counted as financing), less noninterest expenditure, excluding foreign-financed investment expenditure.

#### **I. Central Government Expenditure in Priority Sectors**

11. The priority sectors include public health, education, the road infrastructure, justice, rural development (agriculture, fisheries, livestock, and village-level water resources), town planning, and social affairs. For the purpose of the program, expenditure in priority sectors shall include spending under Title 3 (operations) and Title 4 (interventions and transfers), excluding universities.

#### **J. External Arrears**

12. External arrears of the government or the BCRG consist of all overdue debt-service obligations (i.e., payments of principal and interest) arising in respect of loans contracted or guaranteed by the government or the BCRG, unpaid penalties or interest charges associated with these arrears. Thus defined, external arrears amounted to US\$2.285 million at end-December 2001.

### **K. Government**

13. Unless otherwise noted, the government is meant to include the central government. Local governments are excluded from the definition of government.

### **L. Government Revenue**

14. Government revenue includes tax, nontax revenue, and capital revenue. Tax and nontax revenue are defined in accordance with *Government Finance Statistics (GFS)* 1986, section IV.A.1. The Ministry of Economy and Finance will report total revenue to the IMF on a monthly basis and within 10 days of the end of each month using the following categories. For tax revenue, the main categories are taxes on income, profit and capital gains (Title 1); taxes on property (Title 2); taxes on international trade (Title 3), including import duties, the export duty (droit fiscal de sortie), the surtax on consumption, the liquidation levy (redevance de liquidation) and penalties related to international trade; taxes on goods and services (Title 4), including general sales taxes value-added taxes on domestic sales and on imports, the single tax on vehicles (TUV), the TAF, taxes on petroleum products, and (export) taxes on mining products, including the tax on mining products, taxes on diamonds, and taxes on precious metals. Other tax revenue includes stamp taxes and revenue from recording taxes. Tax receipts also incorporate the taxes assumed by the State. Nontax revenue is defined as property income, including dividends, revenue from fishing licenses, revenue from the sale of telephone licenses, revenue from the rental of infrastructure, revenue for services rendered, administrative duties and fees and other receivables, including payments for the Minusil. For the purpose of the program, capital revenue includes revenue from the sale of fixed assets, excluding revenue from privatization, (which is presented as a separate item) and includes repayment of loans by public enterprises.

15. For the purpose of the program, nonmining revenue is defined as the sum of (i) taxes on revenue and profits (Title 1) minus the income tax paid by mining companies; (ii) taxes on property (Title 2); other tax receipts (Title 5); (iii) taxes on goods and services minus the proceeds from taxes on mining products (Title 4, Chapter 42); taxes on international trade (Title 3).

### **M. Public Accounts with the BCRG and Primary Banks**

16. The attached Table 2 defines the public accounts, which determine the net treasury position (NTP) vis-à-vis the Central Bank of the Republic of Guinea (BCRG) and the primary banks. The NTP excludes all accounts of nongovernmental organizations (NGOs), public enterprises, and public establishments with the BCRG and the primary banks, with the exception of those of the National Social Security Fund (CNSS), as well as pilgrimage accounts. For the purpose of the program, the NTP covers all accounts of the central government, as well as certain operations against counterpart fund accounts with the BCRG, except project accounts denominated in foreign exchange. The list of accounts making up the NTP for the purpose of the program is provided in the attached Table 3.

17. In order to reflect the accounting lag between commitments and cash disbursements in the case of the imprest accounts of government administration (*comptes de régies*), of these of the republic institutions, and of decentralized accounting officers, the government flow of funds table (TOFE) includes an adjustment item. The list of accounts making up this adjustment item is provided in the attached Table 4.

#### **N. Privatization Receipts**

18. For the purpose of this memorandum, privatization receipts will be understood to mean all monies received by the government through the sale or concessioning of a public company, organization, or facility to a private company or companies, organization(s), or individual (s). To the extent possible, receipts should be presented on gross basis; if costs are incurred in the sale or concessioning, they should be recorded separately as expenditure.

#### **O. Net Foreign Assets**

19. Net foreign assets include the official reserves of the central bank net of external obligations valued at the following fixed exchange rates that prevailed on December 31, 2001, i.e., US\$1 = € 1.117. They comprise holdings of monetary gold, the reserve position in the International Monetary Fund, SDR holdings, and short- and long-term foreign assets, net of external obligations. They exclude the amounts pledged or otherwise encumbered.

#### **P. Central Bank Money**

20. Central bank money comprises bank reserves and deposits of the private sector with the central bank, as well as cash in circulation.

### **III. MODALITIES OF THE BUILT-IN CONTINGENCY MECHANISM FOR THE ADJUSTMENT OF QUANTITATIVE PERFORMANCE CRITERIA AND BENCHMARKS**

21. In view of uncertainties about program financing, the program contains built-in contingency mechanisms for the adjustment of the quantitative criteria and benchmarks relating to the ceilings on the increase in the net claims of the banking system on the central government (performance criterion).

#### **A. Deviations from Programmed External Assistance and Reductions in Domestic Arrears**

22. The quantitative performance criteria and benchmarks will be adjusted (i) upward for a shortfall in exceptional external financing (i.e., program financing and external debt relief) up to an amount equivalent to 75 percent of the shortfall, not to exceed US\$25 million); and (ii) downward for the full amount of any excess in external assistance (i.e., program financing and external debt relief).

23. For the purpose of the program, the criterion on net domestic credit to the government will be adjusted by the amount of any net accumulation of domestic arrears.

24. For the purpose of the program, the banking system's outstanding claims on the government will be adjusted downward by the amount of government securities held by the public prior to December 31, 2001 and discounted with the banking system during 2002.

#### **B. Program Exchange Rate**

25. Amounts denominated in SDRs will be converted to U.S. dollars at the fixed exchange rate of US\$1.273 per SDR, and converted into Guinean francs at exchange rates agreed with the authorities. IMF liabilities, which are included in the definition of net foreign assets, will be valued at projected exchange rates. Any deviations in those amounts will lead to a full upward or downward adjustment, as appropriate, in the valuation of the stock of IMF liabilities at the central bank.

#### **IV. REPORTING REQUIREMENTS**

26. The authorities will send the data in Table 1 to the Fund within the time limits set out in that table 1. Barring any indication to the contrary, the data will take the form mutually agreed by the authorities and the IMF. The authorities will supply the Fund with any additional information that the Fund requests in connection with monitoring performance under the program on a timely basis. In the event of any accumulation of external arrears, the government will so inform Fund staff immediately.

Table 1. Guinea: Data Reporting Requirements

Category of Data	Table/Report	Frequency	Deadline
Financial and monetary data	Central bank balance sheet, consolidated commercial bank, balance sheet, monetary survey.	Monthly	15th of the month for the previous month
	Interest rates.	Monthly	15th of the month for the previous month
Fiscal data	HIPC Initiative Central Bank of Republic of Guinea account transactions.	Monthly	15th of the month for the previous month
	Detailed Net Treasury Position (NTP) and Net Government Position (NGP).	Monthly	10 th of the month for the previous month
	Table of indicators ( <i>tableau de bord</i> ), including details on revenues, expenditures, financing, and cash-flow operations.	Monthly	10th of the month for the previous month
	Treasury balances ( <i>balances générales du Trésor</i> ).	Monthly	10 th of the month for the previous month
	Cash-flow plans ( <i>plan de trésorerie</i> ).	Monthly	10th of the month for the previous month
	Monthly government financial operations table (TOFE).	Monthly	15th of the month for the previous month
	Monthly expenditure reports by ministries in expenditure circuit ( <i>chaîne des dépenses</i> ).	Monthly	10th of the month for the previous month
Real sector data	HIPC Initiative spending plans and budget execution.	Monthly	15th of the month for the previous month
	Consumer price index, Conakry.	Monthly	10th of the month for the previous month
Balance of payments data	National accounts.	Annual	Summary estimates: six months after the end of year
	Imports by use and exports by major product, trade balance.	Monthly	25th of the month for the previous month
	Price and volume indices of imports and of exports. Consolidated estimates of the balance of payments.	Quarterly Annual	One month after end of quarter Summary estimates: six months after the end of year
External debt	Debt service due before and after debt relief.	Monthly	15th of the month for the previous month
	Cash debt service paid.	Monthly	15th of the month for the previous month
	Debt service reconciliation table ("access table").	Monthly	15th of the month for the previous month
	Stock of outstanding debt and arrears.	Monthly	15th of the month for the previous month
	Drawings on new loans.	Monthly	15th of the month for the previous month
External grants and loans	Disbursements.	Monthly	15th of the month for the previous month
	Monthly transfer of HIPC debt relief to the HIPC account of the central bank ( <i>compte générique</i> )	Monthly	15th of the month for the previous month

Table 2. Guinea: Classification of Public Accounts with the BCRG/Commercial Banks

Category	Financing	Holder(s)	BCRG Classification		Analytical Code
			Heading(1)	Series No. (2)	
State Central government	Government budget	Individual and special accounting officers	Central government	41-11	0
	Government budget	Decentralized government accountants	Central government	41-11, 41-21 A	1
	Government budget	Administrations, ministries, and public agencies	Central government	41-11	2
	Government budget	Republican institutions	Central government	41-11	3
	Government budget	Projects/programs	Central government	41-11, 41-12, 41-13	4
	Government and other budgets	CAS, assistance funds (special operations with earmarked resources)	Central government	41-11	5
Decentralized governments	Local budgets	Accounting officers of decentralized governments	Local government	41-21, 41-21 A	6
Counterpart funds	Various external donors	Counterpart funds	Counterpart funds	41-24, 41-25, 49-18	7
Public agencies	Government subsidy and own resources	CNSS	Nonfinancial public enterprises	41-31 and 41-32	8

Table 3. List of Accounts Included in the TOFE Adjustment Item

Account No.	Name of Account	Date Opened	Purpose	Signing Authority
41-11-009	Institute for Linguistic Research (national languages)	12/5/91	Institute operations	Minister of Education, Institute Director
41-11-010	"Monts Nimba" Scientific Research Station [Imprest] Fund	3/2/99	Scientific research	"Monts Nimba" Director
41-11-014	Applied Biology and Research Station [Imprest] Fund	3/2/99	Institute operations	Director Chief DA
41-11-015	Labé Environmental Documentation Center	3/2/99	Center operations	Center Director
41-11-017	Bossou Environmental Research Institute [Imprest] Fund	3/2/99	Institute operations	Institute Director
41-11-100	Office of the President of the Republic (PRG)/Palais des Nations	n/a	Unit operations	n/a
41-11-103	Monchon Project	6/13/1989	Project operations	Minister, Project Director
41-11-109	National Islamic League [Imprest] Fund	1992	League operations	Secretary General, Chief of Staff, Director of Administrative and Financial Affairs (DAAF)
41-11-118	Dixinn Treasury Communal Receipts	4/26/1991	Government budget	Communal Mayor, Communal Receiver
41-11-120	Matoto Treasury Communal Receipts	4/26/1991	Government budget	Communal Mayor, Communal Receiver
41-11-126	National Literacy Service	10/13/1989	Service operations	Secretary of State
41-11-154	National Geology Laboratory	4/17/1990	Laboratory operations	Minister, Secretary General, C/CAB, National Director
41-11-155	Water Energy Ministry [Imprest] Fund	4/26/1999	Imprest fund	Minister, DA [Director of Administration?]
41-11-164	Conakry Disinfection Project		Project operations	n/a
41-11-174	Rural Credit Project	8/29/1990	Project operations	Director, National Coordinator

Table 3. List of Accounts Included in the TOFE Adjustment Item

Account No.	Name of Account	Date Opened	Purpose	Signing Authority
41-11-178	Children's Health and Nutrition Project	8/31/1990	Project operations	Nutrition Institute Director, Chief SAAF
41-11-180	Permanent Agricultural Statistics System	9/14/1990	Program operations	Director, Manager
41-11-195	Referendum Organization Fund	10/8/1990	Org. of Referendum on 1990 Constitution	Min. Interior & Decentralization, Min. Justice
41-11-199	COUC/UC/FDC/CEE management capacity building	6/9/1994	Project operations	Rector, Manager/DAAF
41-11-201	Urbanization and Housing Ministry Imprest Fund	7/28/1994	Ministry operations	n/a
41-11-204	Support for Village Actions	1/30/1991	Project operations	Manager
41-11-208	Ministry National Defense [Imprest] Fund	3/7/1991	Ministry operations	Minister, Manager
41-11-217	DAAF/MERS	4/8/1991	Imprest fund	Minister, DAAF
41-11-224	Donka Hospital Rehabilitation Fund	5/29/1991	Unit operations	Minister, Project Chief
41-11-225	Project and Technical Cooperation Service	6/6/1991	Service operations	Minister, Director
41-11-229	Administrative Development Center (CPA)	6/20/1991	Center operations	Director General, Manager
41-11-235	Ministry of Justice Imprest Fund	3/28/1991	Ministry operations	Secretary General, DAAF
41-11-237	Ministry of Employment/ Civil Service Imprest Fund	12/7/1994	Ministry operations	Manager, Financial Unit
41-11-240	Restructuring Post & Telecommunications	8/3/1995	Program operations	Director, DAAF
41-11-249	DAAF Min. Tourism and Hotels	4/28/1998	Ministry operations	n/a
41-11-274	Sovereignty expenditures/PRG	n/a.	Sovereignty expenditures	n/a
41-11-279	National Educational Institute	5/8/1986	Institute operations	Minister, Director General

Table 3. List of Accounts Included in the TOFE Adjustment Item

Account No.	Name of Account	Date Opened	Purpose	Signing Authority
41-11-285	National Directorate of the Economy Support Project	9/15/1999	Project operations	National Director, Chief Summary Section
41-11-288	Government Procurement Board	9/15/1999	Board operations	National Director
41-11-289	Infant and Maternal Health	1/31/1987	Project operations	Minister, DAAF, WHO Official
41-11-294	Police	n/a	n/a	n/a
41-11-302	Cité des Nations	9/7/92	Imprest fund	Secretary General
41-11-303	National Fisheries Science Center	1992	Center operations	Director General, SAF [?]
41-11-306	Guinean Topography and Cartography Institute		Institute operations	Minister, Director General
41-11-309	Customs Mobile Brigade Imprest Fund	2/11/1993	Imprest fund	National Director Customs
41-11-311	Tourism Development Promotion Fund	1993	Tourism Promotion	Minister Tourism
41-11-325	Administration and Control of Large Projects/ Operations	4/19/96	Administration operations	General Manager, DAAF
41-11-329	Technical and Cultural Cooperation Agency	6/11/1996	Agency operations	DA Foreign Affairs, EST [?]
41-11-330	Army HQ	8/1/96	HQ operations	Chief of Staff
41-11-331	Office of Prime Minister	8/8/96	Office operations	Prime Minister, DAAF
41-11-332	Ministry of Finance Imprest Fund	10/10/1996	Ministry operations	DAAF
41-11-333	Office of the President of the Rep. Imprest Fund	10/7/96	Ministry operations	Secretary General PRG, DAAF
41-11-334	Ministry of Energy and Natural Resources Imprest Fund	10/11/1996	Ministry operations	Manager
41-11-335	Ministry of National Education Imprest Fund	10/7/96	Ministry operations	Manager

Table 3. List of Accounts Included in the TOFE Adjustment Item

Account No.	Name of Account	Date Opened	Purpose	Signing Authority
41-11-337	Vocational Training and Technical Education Ministry Imprest Fund	10/7/96	Ministry operations	Minister, DAAF
41-11-339	Ministry of Transport Imprest Fund	10/7/96	Ministry operations	Chief of Staff, DAAF
41-11-340	Private Sector and Industry Promotion Ministry Imprest Fund	9/27/1996	Ministry operations	Secretary General, DAAF
41-11-341	Ministry of Territorial Administration Imprest Fund	10/14/1996	Ministry operations	Chief of Staff, Manager
41-11-343	Ministry of Communications Imprest Fund	10/14/1996	Ministry operations	Manager
41-11-344	Ministry of Agriculture, Livestock and Forestry Imprest Fund	10/3/1996	Ministry operations	Minister, DA
41-11-345	Ministry of Social Affairs and the Promotion of Women Imprest Fund	10/16/1996	Ministry operations	Minister, DAAF
41-11-347	Ministry of Fisheries Imprest Fund	10/10/1996	Ministry operations	Secretary General, DAAF
41-11-353	Receiver for Taxes/ Large Enterprises	3/10/97	VAT credit refunds	National Director, Special Receiver for Taxes
41-11-355	High Chancellery of the Ordre National du Mérite	3/12/97	Chancellery operations	High Chancellor, DAAF
41-11-356	Economic and Social Development Project (PADES)	6/10/97	Project operations	National Coordinator, Accountant
41-11-361	Economic and Social Council	7/10/1997	IGF operations	President, Admin. And Financial Officer
41-11-362	National Directorate of the Treasury Imprest Fund	7/21/1997	Directorate operations	Manager
41-11-369	Ministry of Security Imprest Fund	11/12/1997	Ministry operations	Minister, Manager
41-11-371	National Tourism Office Imprest Fund	11/24/1997	Office operations	Director General, Manager

Table 3. List of Accounts Included in the TOFE Adjustment Item

Account No.	Name of Account	Date Opened	Purpose	Signing Authority
41-11-374	Road Maintenance [Imprest] Fund	12/31/1997	Imprest Fund	National Director, Roads Investment
41-11-375	Miscellaneous Remuneration Inspectorate General Armed Forces	12/27/1998	Payment of Remuneration	Minister of Defense, Quartermaster General
41-11-376	National Portfolio Directorate Imprest Fund	1/28/1998	Directorate operations	National Portfolio Director
41-11-382	<i>Billeteur</i> , Ministry of Pre-University Education (MEPU)	7/1/1998	Payment of Ministry salaries by <i>billetage</i>	DAAF, MEPU <i>billeteur</i>
41-11-383	"Centenaire du Souvenir" (centennial)	7/24/1998	Organizing committee operations	Manager
41-11-385	Education Project III/FAD	9/10/1998	Counterpart National Budget	Manager/MEPU
41-11-386	Education Project I & II/OPEC	9/10/1998	Counterpart National Budget	Manager/MEPU
41-11-390	Construction Donka Hospital Center	1/5/1999	Subsidy	Minister Public Health, DAAF
41-11-392	Technical and Scientific University Documentation & Research Center (CEDUST) [Imprest] Fund	3/11/1999	Center operations	CEDUST Director
41-11-394	Treasury Bearer Certificates	n/a	Bearer certificates	n/a
41-11-395	Military Supply Center	n/a	Center operations	n/a
41-11-397	Public Lighting [Imprest] Fund	7/25/2000	Imprest Fund	National Directorate of the Treasury
41-11-398	Local Government Renovation Project	10/19/2000	Renovation former National Social Security Fund	National Director of the Treasury, National Director of Investments
41-11-450	State Property Imprest Fund	1/28/1999	Directorate operations	Director, PBP
41-11-451	Agricultural Exports Promotion Umbrella Project	3/14/2000	Project operations	Director, DAAF

Table 3. List of Accounts Included in the TOFE Adjustment Item

Account No.	Name of Account	Date Opened	Purpose	Signing Authority
41-11-457	Military Engineering Battalion Imprest Fund	3/29/2000	Imprest Fund	Commandant, Treasurer
41-11-459	Institutional Capacity-Building Program	5/5/2000	Program operations	Program Administrator, CCAF
41-11-460	Legislative & Communal Elections	5/17/2000	Imprest Fund	MATD/MEF Advisor
41-11-461	School Exams Min. Pre-University Education and Civic Education 99/00	5/22/2000	Imprest Fund	DAAF, Accounting & Finance Unit Inspector
41-11-462	School Exams Min. Technical Education & Training	5/22/2000	Imprest Fund	DAAF, Accountant
41-11-463	Restoration Conakry Central Mosque	5/24/2000	Imprest Fund	Secretary General/MEF, Secretary General/Islamic League, DAAF
41-11-464	Anti-Corruption Committee	6/13/2000	Imprest Fund	Coordinator
41-11-466	National Directorate of Financial Control Imprest Fund	7/6/2000	Imprest Fund	National Director of Financial Control, Manager
41-11-467	Gender & Development Umbrella Program	11/2/2000	Program operations	Coordinator, Accountant
41-11-696	State Secretariat for Cooperation Imprest Fund	11/22/2000	Department operations	Secretary of State, Chief of DAAF
41-11-760	State Inspectorate General Imprest Fund	11/14/2000	IGF operations	State Inspector General, Accounting/Financial Unit Inspector
41-11-763	Ministry of Youth & Sports Imprest Fund	5/21/1992	Ministry operations	Minister, DAAF
41-11-766	State Inspectorate General Imprest Fund	n/a	n/a	n/a
41-11-805	Roads Engineering Imprest Fund	12/3/1999	Road maintenance	Minister, BATA Commandant
41-11-815	Roads Fund Special Account	9/6/1989	Road maintenance	National Director of Road Maintenance, DAAF

Table 3. List of Accounts Included in the TOFE Adjustment Item

Account No.	Name of Account	Date Opened	Purpose	Signing Authority
41-11-817	Ratoma Communal Revenues	n/a	Government budget	Mayor, Receiver General of the Treasury
41-11-822	Dubr�ka Prefectural Treasury	5/17/1991	Government budget	Treasurer
41-11-826	Second Urban Project	2/2/1994	Project operations	Minister of Territorial Administration, Minister of Economy & Finance
41-11-830	National Assembly	9/12/1995	Assembly operations	Speaker, Admin. and Financial Officer
41-11-833	Securities Exchange Project	6/2/1999	Project operations	Project Chief
41-11-836	Works for Opening of Cross-Country Roads	11/20/1989	Imprest Fund	National Director, Manager
41-11-838	"Plaidoyer" Project	10/13/1999	Project operations	Coordinator
41-11-857	National Agricultural Extension Service	7/31/1990	Service operations	Director General, DAAF
41-11-859	National Forestry Project	7/31/1990	Project operations	National Director, Accountant
41-11-861	State Judicial Agency	10/27/1993	Agency operations	State Judicial Agent, Manager
41-11-866	National Communications Council	1/13/1993	Council operations	President, DAAF
41-11-867	Supreme Court	1/26/1993	Court operations	President, DAAF
41-11-876	State Judicial Agency Imprest Fund	11/18/1993	Fund operations	State Judicial Agent, Manager
41-11-879	Ministry of Planning Imprest Fund	10/7/1996	Ministry operations	Manager
41-11-910	Ecomog Participation Fund	2/16/1991	Government subsidy to West African troops	Minister of Economy & Finance, Minister of Security
41-11-913	Kaloum Communal Revenues	4/26/1991	Government budget	Receiver General of the Treasury
41-11-915	Matam Communal Revenues	4/26/1991	Government budget	Receiver General of the Treasury
41-11-916	Garafiri Project	8/9/1993	Project operations	Director General, Advisor, Administrative Unit

Table 3. List of Accounts Included in the TOFE Adjustment Item

Account No.	Name of Account	Date Opened	Purpose	Signing Authority
41-11-927	IDRC 100116 "MESRS" (Higher Education)	9/23/1999	Program operations	MESRS Advisor, Accountant
41-11-934	Program Monitoring Committee	11/2/1999	Committee operations	National Director of the Treasury, Advisor to Central Bank of the Republic
41-11-935	S.E.N.A.R.E.C. (Capacity-Building)	12/16/1999	Unit operations	Advisor to Prime Minister
41-11-962	Kindia Development & Architecture Documentation Center Imprest Fund	8/29/1991	Center operations	Chief of Center
41-11-964	Education Interim Budget	8/29/1991	Program operations	Project Director, National Director, Cooperation
41-11-969	HQ Navy	10/14/1991	Unit operations	Chief of Staff
41-11-972	Ministry Foreign Affairs Imprest Fund	11/14/1991	Ministry operations	DAAF, Accountant
41-11-988	1992 Census	5/11/1992	Project operations	Minister
41-11-989	FOUTA DJALLON Rural Development Project	7/9/1997	Project operations	Coordinator, Manager
41-11-995	National Directorate of Public Investment Imprest Fund	7/17/1992	Directorate operations	DAAF
41-12-055	National Development Information and Documentation Center (CENDID)	5/29/1989	Center operations	Center Director
41-12-923	National Directorate of Scientific and Technical Research	7/7/2000	Directorate operations	National Director of Scientific Research
41-12-072	Conakry Main Treasury	1985	Government budget	Governor, Senior Treasurer
41-21A-108	DPE Mandiana			
41-21A-110	Education Inspectorate General			
41-21A-113	Kouroussa Prefectural Treasury			

Table 3. List of Accounts Included in the TOFE Adjustment Item

Account No.	Name of Account	Date Opened	Purpose	Signing Authority
41-21A-118	Customs Revenue Treasury			
41-21A-119	DPE Kankan			
41-21A-120	DPE Kouroussa			
41-21A-202	Labé Prefectural Treasury			
41-21A-206	Customs Revenue FD			
41-21A-212	Labé Main Treasury			
41-21A-215	Labé DPE			
41-21A-302	Koundara Treasury			
41-21A-303	Boké Prefectural Treasury			
41-21A-304	Boké Main Treasury			
41-21A-401	N'zérékoré Prefectural Treasury			
41-21A-404	N'zérékoré IRE			
41-21A-405	N'zérékoré Main Treasury			
41-21A-406	Yomou Prefectural Treasury			
41-21A-413	Coffee Sector Rehabilitation			
41-21A-501	Mamou Main Treasury			
41-21A-502	Faranah Main Treasury			
41-21A-601	Kindia Main Treasury			

Table 3. List of Accounts Included in the TOFE Adjustment Item

Account No.	Name of Account	Date Opened	Purpose	Signing Authority
41-31-153	General Agency for the Completion of Public Works in Favor of Employment in Guinea	8/4/2000	Agency operations	President

Table 4. List of Accounts Included in the TOFE Adjustment Item

Order No.	Account No.	Name of Account	Classification Codes		Date Opened	Purpose	Signing Authority
			Cat.	NTP			
3	41-11-009	Institute for Linguistic Research (national languages)	2	NTP & NGP	12/5/91	Institute operations	Minister of Education, Institute Director
4	41-11-010	"Monts Nimba" Scientific Research Station Imprest Fund	2	NTP & NGP	3/2/99	Scientific research	"Monts Nimba" Director
7	41-11-014	Applied Biology and Research Station Imprest Fund	2	NTP & NGP	3/2/99	Institute operations	Director Chief DA
8	41-11-015	Labé Environmental Documentation Center	2	NTP & NGP	3/2/99	Center operations	Center Director
10	41-11-017	Bossou Environmental Research Institute Imprest Fund	2	NTP & NGP	3/2/99	Institute operations	Institute Director
26	41-11-100	Office of the President of the Republic (PRG)/Palais des Nations	2	NTP & NGP	n/a	Unit operations	n/a
31	41-11-109	National Islamic League Imprest Fund	2	NTP & NGP	6/14/1905	League operations	Secretary General, Chief of Staff, Director of Administrative and
39	41-11-118	Dixinn Treasury Communal Receipts	1	NTP & NGP	4/26/1991	Government budget	Communal Mayor, Communal Receiver
41	41-11-120	Matoto Treasury Communal Receipts	1	NTP & NGP	4/26/1991	Government budget	Communal Mayor, Communal Receiver
45	41-11-126	National Literacy Service	2	NTP & NGP	10/13/1989	Service operations	Secretary of State
64	41-11-154	National Geology Laboratory	2	NTP & NGP	4/17/1990	Laboratory operations	Minister, Secretary General, C/CAB, National Director
65	41-11-155	Water Energy Ministry Imprest Fund	2	NTP & NGP	4/26/1999	Imprest fund	Minister, DA [Director of Administration?]
84	41-11-178	Children's Health and Nutrition Project	4	NTP & NGP	8/31/1990	Project operations	Nutrition Institute Director, Chief SAAF
100	41-11-199	COUC/UC/FDC/CEE management capacity building	4	NTP & NGP	6/9/1994	Project operations	Rector, Manager/DAAF
102	41-11-201	Urbanization and Housing Ministry Imprest Fund	2	NTP & NGP	7/28/1994	Ministry operations	n/a
108	41-11-208	Ministry National Defense [Imprest] Fund	2	NTP & NGP	3/7/1991	Ministry operations	Minister, Manager
108	41-11-208	Ministry of National Defense Imprest Fund		NTP & NGP	3/7/1991	Ministry operations	Minister, Manager
115	41-11-217	DAAF/MERS	2	NTP & NGP	4/8/1991	Imprest fund	Minister, DAAF
120	41-11-225	Project and Technical Cooperation Service	4	NTP & NGP	6/6/1991	Service operations	Minister, Director
126	41-11-235	Ministry of Justice Imprest Fund	2	NTP & NGP	3/28/1991	Ministry operations	Secretary General, DAAF
139	41-11-249	DAAF Min. Tourism and Hotels	2	NTP & NGP	4/28/1998	Ministry operations	n/a
151	41-11-288	Government Procurement Board	2	NTP & NGP	9/15/1999	Board operations	National Director
163	41-11-302	Cité des Nations	2	NTP & NGP	9/7/92	Imprest fund	Secretary General

Table 4. List of Accounts Included in the TOFE Adjustment Item

Order No.	Account No.	Name of Account	Classification Codes		Date Opened	Purpose	Signing Authority
			Cat.	NTP			
170	41-11-309	Customs Mobile Brigade Imprest Fund	2	NTP & NGP	2/11/1993	Imprest fund	National Director Customs
179	41-11-325	Administration and Control of Large Projects/ Operations		NTP & NGP	4/19/96	Administration operations	General Manager, DAAF
186	41-11-332	Ministry of Finance Imprest Fund	2	NTP & NGP	10/10/1996	Ministry operations	DAAF
187	41-11-333	Office of the President of the Republic Imprest Fund	2	NTP & NGP	10/7/96	Ministry operations	Secretary General PRG, DAAF
188	41-11-334	Ministry of Energy and Natural Resources Imprest Fund	2	NTP & NGP	10/11/1996	Ministry operations	Manager
189	41-11-335	Ministry of National Education Imprest Fund	2	NTP & NGP	10/7/96	Ministry operations	Manager
191	41-11-337	Vocational Training and Technical Education Ministry Imprest Fund	2	NTP & NGP	10/7/96	Ministry operations	Minister, DAAF
193	41-11-339	Ministry of Transport Imprest Fund	2	NTP & NGP	10/7/96	Ministry operations	Chief of Staff, DAAF
194	41-11-340	Private Sector and Industry Promotion Ministry Imprest Fund	2	NTP & NGP	9/27/1996	Ministry operations	Secretary General, DAAF
195	41-11-341	Ministry of Territorial Administration Imprest Fund	2	NTP & NGP	10/14/1996	Ministry operations	Chief of Staff, Manager
197	41-11-343	Ministry of Communications Imprest Fund	2	NTP & NGP	10/14/1996	Ministry operations	Manager
198	41-11-344	Ministry of Agriculture, Livestock and Forestry Imprest Fund	2	NTP & NGP	10/3/1996	Ministry operations	Minister, DA
199	41-11-345	Ministry of Social Affairs and the Promotion of Women Imprest Fund	2	NTP & NGP	10/16/1996	Ministry operations	Minister, DAAF
201	41-11-347	Ministry of Fisheries Imprest Fund	2	NTP & NGP	10/10/1996	Ministry operations	Secretary General, DAAF
213	41-11-362	National Directorate of the Treasury Imprest Fund	2	NTP & NGP	7/21/1997	Directorate operations	Manager
219	41-11-369	Ministry of Security Imprest Fund	2	NTP & NGP	11/12/1997	Ministry operations	Minister, Manager
221	41-11-371	National Tourism Office Imprest Fund	2	NTP & NGP	11/24/1997	Office operations	Director General, Manager
223	41-11-374	Road Maintenance Imprest Fund	4	NTP & NGP	12/31/1997	Imprest Fund	National Director, Roads Investment
225	41-11-376	National Portfolio Directorate Imprest Fund	2	NTP & NGP	1/28/1998	Directorate operations	National Portfolio Director
257	41-11-457	Military Engineering Battalion Imprest Fund	2	NTP & NGP	3/29/2000	Imprest Fund	Commandant, Treasurer
262	41-11-463	Restoration Conakry Central Mosque	2	NTP & NGP	5/24/2000	Imprest Fund	Secretary General/MEF, Secretary General/Islamic League, DAAF
263	41-11-464	Anti-Corruption Committee	2	NTP & NGP	6/13/2000	Imprest Fund	Coordinator

Table 4. List of Accounts Included in the TOFE Adjustment Item							
Order No.	Account No.	Name of Account	Classification Codes		Date Opened	Purpose	Signing Authority
			Cat.	NTP			
265	41-11-466	National Directorate of Financial Control Imprest Fund	2	NTP & NGP	7/6/2000	Imprest Fund	National Director of Financial Control, Manager
269	41-11-696	State Secretariat for Cooperation Imprest Fund	2	NTP & NGP	11/22/2000	Department operations	Secretary of State, Chief of DAAF
270	41-11-760	State Inspectorate General Imprest Fund	2	NTP & NGP	11/14/2000	IGF operations	State Inspector General, Accounting/Financial Unit Inspector
271	41-11-763	Ministry of Youth & Sports Imprest Fund	2	NTP & NGP	5/21/1992	Ministry operations	Minister, DAAF
274	41-11-766	State Inspectorate General Imprest Fund	2	NTP & NGP	n/a	n/a	n/a
279	41-11-805	Roads Engineering Imprest Fund	2	NTP & NGP	12/3/1999	Road maintenance	Minister, BATA Commandant
285	41-11-815	Roads Fund Special Account	2	NTP & NGP	9/6/1989	Road maintenance	National Director of Road Maintenance, DAAF
299	41-11-830	National Assembly	3	NTP & NGP	9/12/1995	Assembly operations	Speaker, Admin. and Financial Officer
302	41-11-833	Securities Exchange Project	4	NTP & NGP	6/2/1999	Project operations	Project Chief
305	41-11-836	Works for Opening of Cross-Country Roads	4	NTP & NGP	11/20/1989	Imprest Fund	National Director, Manager
307	41-11-838	"Plaidoyer" Project	4	NTP & NGP	10/13/1999	Project operations	Coordinator
317	41-11-866	National Communications Council	3	NTP & NGP	1/13/1993	Council operations	President, DAAF
318	41-11-867	Supreme Court	3	NTP & NGP	1/26/1993	Court operations	President, DAAF
325	41-11-876	State Judicial Agency Imprest Fund	2	NTP & NGP	11/18/1993	Fund operations	State Judicial Agent, Manager
328	41-11-879	Ministry of Planning Imprest Fund	2	NTP & NGP	10/7/1996	Ministry operations	Manager
357	41-11-962	Kindia Development & Architecture Documentation Center Imprest Fund	2	NTP & NGP	8/29/1991	Center operations	Chief of Center
365	41-11-972	Ministry Foreign Affairs Imprest Fund	2	NTP & NGP	11/14/1991	Ministry operations	DAAF, Accountant
377	41-11-995	National Directorate of Public Investment Imprest Fund	2	NTP & NGP	7/17/1992	Directorate operations	DAAF
428	41-21A-108	DPE Mandiana	4	NTP & NGP			

**Guinea: Relations with the Fund**

(As of May 31, 2002)

**I. Membership Status: Joined 09/28/1963; Article VIII**

<b>II. General Resources Account:</b>	<u>SDR million</u>	<u>%Quota</u>
Quota	107.10	100.00
Fund holdings of currency	107.03	99.93
Reserve position in Fund	0.08	0.07

<b>III. SDR Department:</b>	<u>SDR million</u>	<u>%Allocation</u>
Net cumulative allocation	17.60	100.00
Holdings	1.45	18.25

<b>IV. Outstanding Purchases and Loans:</b>	<u>SDR million</u>	<u>%Quota</u>
ESAF/PRGF arrangements	95.86	89.50

**V. Financial Arrangements:**

<u>Type</u>	<u>Approval date</u>	<u>Expiration date</u>	<u>Amount approved (SDR million)</u>	<u>Amount drawn (SDR million)</u>
PRGF	05/02/2001	05/01/2004	64.26	12.85
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 Obligations to Fund (SDR million; based on existing use of resources and present holdings of SDRs):**

	<u>Overdue</u> <u>03/31/2002</u>	<u>Forthcoming</u>				
		<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Principal		6.50	11.70	15.20	14.20	13.10
Charges/interest		0.70	0.80	0.70	0.60	0.60
Total		7.20	12.50	15.90	14.80	13.70

**VII. Implementation of HIPC Initiative:**

Commitment of HIPC assistance	Enhanced <u>framework</u>
Decision point date	12/20/2000
Assistance committed (NPV terms) <sup>1</sup>	End-1999
Total assistance (US\$ million)	545.00
<i>Of which:</i> Fund assistance (SDR million)	24.24
Completion point date (expected)	Floating (June 2003)
Delivery of Fund assistance (SDR million)	
Amount disbursed	2.42
Interim assistance	2.42
Completion point <sup>2</sup>	...
Amount applied against member's obligations (cumulative)	2.47

**VIII. Safeguards Assessments:**

Under the Fund's safeguards assessment policy, the Banque Centrale de la Republique de Guinée (BCRG) is subject to a full safeguards assessment with respect to the three-year PRGF arrangement approved May 02, 2001, which is scheduled to expire on May 1, 2004. An off-site assessment of the BCRG was completed on May 17, 2001. The assessment concluded that high risks may exist in external audit mechanism, financial reporting framework, and internal controls system and recommended an on-site assessment. TRE conducted an on-site assessment in May 2002. The authorities have provided their comments on the draft report which is in the process of being finalized.

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<sup>1</sup> Net Present Value terms at the completion point under the original framework; and NPV terms at the decision point under the enhanced framework.

<sup>2</sup> Under the enhanced HIPC Initiative, the nominal amount of assistance disbursed will include an additional amount corresponding to interest on amounts committed but not disbursed during the interim period, calculated using the average return (during the interim period) on the investment of resources held by, or for, the benefit of the PRGF-HIPC Trust.

**IX. Exchange Arrangements:**

Guinea has a floating exchange rate. The official exchange rate of the Guinean franc is determined weekly in the auction market for foreign exchange at the central bank. On June 30, 2002, the official rate of the Guinean franc was GF 1976 per U.S. dollar. Commercial banks and foreign exchange bureaus are free to buy and sell foreign exchange at any rate.

**X. Article IV Consultation:**

Guinea is on the regular 12-month cycle; the last consultation was concluded by the Executive Board on December 20, 2000 (EBS/00/257; 12/6/00).

**XII. Technical Assistance:**

Department	Purpose	Timing
FAD	<ul style="list-style-type: none"> <li>Advise on customs reform</li> </ul>	March 1999
FAD/Resident Advisor	<ul style="list-style-type: none"> <li>Assist on treasury management</li> </ul>	January-June 1999
FAD/Resident advisor	<ul style="list-style-type: none"> <li>Advise on customs reform</li> </ul>	Sep. 1999-Oct. 2000
FAD	<ul style="list-style-type: none"> <li>Advise on introduction of WAEMU common external tariff.</li> </ul>	August/September 2002
MAE/Resident advisor	<ul style="list-style-type: none"> <li>Advise the Governor of the BCRG</li> </ul>	1998-2000
MAE	<ul style="list-style-type: none"> <li>Advise on monetary operations</li> </ul>	June 21-30, 2000
MAE	<ul style="list-style-type: none"> <li>Examine foreign exchange auction system at the BCRG.</li> </ul>	October 10-24, 2000
MAE	<ul style="list-style-type: none"> <li>Advise on liquidity forecasting, review foreign exchange operations, and advise on supervisory framework for microfinance institutions.</li> </ul>	End-November 2001
STA	Examine the overall compilation of real sector statistics.	March 2000
	Review the coverage of the monetary statistics as well as data collection and compilation practices.	November 2000

**XIII. Resident Representatives:**

The Resident Representative is Mr. Jean Claude Nascimento.

## **Guinea: Relations with the World Bank Group**

(As of April 07, 2002)

27. The main thrust of the World Bank's country assistance strategy for fiscal year 98-00 (CAS 1997) was to improve governance and institutional capacity, to enhance service delivery for poverty reduction, and to promote broadly based and equitable growth with a focus on the rural sector. Although progress against the base case indicators of the CAS 1997 has been slower than expected, Government remains committed to the reform agenda and has recently taken actions to improve its performance. The next CAS will be elaborated on the basis of the priorities set in the full PRSP. During the interim period, Bank-supported activities in Guinea will involve completing the program set out in the 1997 CAS, as well as addressing two urgent emerging issues: the HIV/AIDS epidemic and the reconstruction needs arising from the refugee/internally displaced persons (IDP) issue. Bank activities would also utilize the ongoing enhanced HIPC initiative and PRSP process to support reforms to address poverty reduction issues more rapidly and effectively with particular emphasis on governance, fighting corruption and the social sectors.
28. As of March 31, 2002, total World Bank commitments to Guinea amounted to US\$1,380.4 million, of which US\$1211.1 million had been disbursed. The Bank's active portfolio in Guinea comprises 14 projects, totaling US\$ 343.9 million, of which US\$172.0 million is not disbursed. During FY 1998-01, the Board has approved one adjustment operation (Public Expenditure Management Adjustment Credit) and six investment operations: the Village Community Support Program, the Capacity Building for Service Delivery Program, the Micro finance LIL, the Pre-service Teacher Education LIL, the Urban project and the Population and Reproductive Health project. In July 2001, the Board has approved the Fourth Structural Adjustment Credit (US\$50 million) and the Education-for-All project (US\$70 million).
29. Others projects under the interim program in FY02-03 are: the Rural Electrification LIL (US\$5 million); the Reconstruction Project (US\$10 million); the HIV/AIDS operation (US\$10 million), the Judicial Capacity Building Project (US\$10 million) and the Mining LIL (US\$5 million). The non-lending program includes fiduciary assessment; analysis management systems and cross-cutting assessment of Guinea's social, structural and key sectoral development under PRSP work, sectoral programs and Bank/Fund collaborative work on social impact analysis.
30. The IFC's portfolio in Guinea currently consists of projects in the mining sector, hotels, financial markets, agribusiness, schools, general manufacturing, and services. IFC is discussing a possible undertaking in an integrated aluminum plant and eventually the expansion of Friguia's refining capacity. MIGA's outstanding portfolio in Guinea consists of nine contracts of guarantee in the agribusiness and manufacturing sectors, representing US\$46.5 million, and has recently approved guarantees to cover investors in

Friguia alumina plant. There are two active applications for Guinea for a total investment potential in excess of US\$500 million in the power and transport sectors.

31. Government has requested MIGA's assistance in developing national strategies for agribusiness and tourism sector promotion.

Guinea: Status of Bank Group Operations  
IBRD Loans and IDA Credits in the Operations Portfolio  
As of April 07, 2002

Closed projects: 50

Active Projects

Project Name	Fiscal Year	Original Amount in US\$ Millions				
		IBRD	IDA	GE	Cancl. Undisb.	
AGR EXPORT PROMOTION	1993	0.0	20.8	0.0	0.0	6.0
CAPACITY BUILDING SD	2000	0.0	19.0	0.0	0.0	14.2
EQUITY AND SCHOOL IM	1995	0.0	42.5	0.0	0.0	6.8
HEALTH/NUT.SCTR.	1994	0.0	24.6	0.0	0.0	1
HIGHER EDUCATION MAN	1996	0.0	6.6	0.0	0.0	0.6
EDUCATION FOR ALL	2002	0.0	70.0	0.0	0.0	70.0
MICROFINANCE	1998	0.0	5.0	0.0	0.0	5.0
SAC IV	2002	0.0	50.0	0.0	0.0	0.6
POP & REPROD HEALTH	1999	0.0	11.3	0.0	0.0	2.4
PRE-SRV TEACHER EDUC	1999	0.0	4.1	0.0	0.0	0.2
THIRD WATER SUPPLY	1997	0.0	50	0.0	0.0	38.4
URBAN III	1999	0.0	18.0	0.0	0.0	12.2
VILLAGE COMMUNITY SUPPORT PROGRAM	1999	0.0	22.0	0.0	0.0	14.5
	Result	0.0	343.9	0.0	0.0	172.0

	Active Projects	Closed Projects	Total
Total disbursed (IBRD and IDA)	171.9	1,039.6	1211.1
<i>Of which: repaid</i>	0.0	182.7	182.7
Total now held by IBRD and IDA	343.9	867.2	1211.1
Amount sold	0.0	0.0	0.0
<i>Of which: repaid</i>	0.0	0.0	0.0
Total undisbursed	172	0.0	172

Guinea: Statement of IFC's Held and Disbursed Portfolio As of January, 31 2002 (In U.S. dollars millions)									
FY Approval	Company	Held				Disbursed			
		Loan	Equity	Quasi	Partic	Loan	Equity	Quasi	Partic
1998	SEF Agro	0.11	0.00	0.00	0.00	0.11	0.00	0.00	0.00
1993/98	SGHI	0	0	0.38	0.00	0	0	0.38	0.00
	Total portfolio:	0.11	0	0.38	0.00	0.11	0	0.38	0.00

### Guinea: Statistical Issues

1. Although improvements have been made in recent years in the availability of detailed government finance data, serious problems remain, in particular in the compilation of real sector statistics and in 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.

2. Data are generally adequate for program monitoring, although frequent problems are encountered with the internal consistency of fiscal data and their consistency with monetary data.

#### Real sector statistics

3. Statistics on the real sector are quite weak and incomplete. Only the consumer price index (CPI) is published on a regular basis, with other statistics published on an irregular basis; in addition, they are 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.

4. After extensive work in 1990-93 to build a solid database for the national accounts, with technical assistance from the World Bank, the authorities produced final national accounts tables for the years 1986 to 1988 and provisional data for the years 1990 and 1991; an input-output table was produced for the year 1990. A comprehensive household survey was prepared for the year 1994. Provisional national accounts were produced for the year's 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 data for the years 1995-96, and provisional ones for the years 1997-98. All national accounts data were significantly revised on that occasion. A program to reinforce the national accounts is being carried 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.

5. The CPI for Conakry is available on a monthly basis, with an 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 weekly.

6. 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.

7. In March 2000, an 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 still need to be identified.

#### **Balance of payments statistics**

8. The authorities have implemented some of the recommendations made by a balance of payments statistics mission in May 1995. Notably, coverage of trade in services, private transfers, and capital flows has been expanded by surveying service providers and large companies on an annual basis. However, the survey is not comprehensive, and there is no penalty for noncompliance. 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.

9. Merchandise trade statistics are reported in the standard Harmonized System of Customs Classification, net of imports by diplomats and transit trade. In spite of the technically advanced method of presentation, the presented 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, the data are substantially adjusted prior to publication.

10. The balance of payments statistics also affect the 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.

#### **Government finance statistics**

11. Comprehensive monthly budgetary data are compiled by the Ministry of Finance on a cash basis for central government revenue and on commitment and cash bases for central government expenditure; the AFR staff receives preliminary data within 15 days and main final data within one month. Estimates for consolidated central government operations are made on the basis of treasury data. Budgetary data are often not internally coherent.

12. The government budget includes the bulk of all government spending, although there are a number of well-identified "satellite" accounts that are not directly incorporated in the

budget. There are also considerable differences between the Government Finance Statistics' (GFS) definition of general government and the general government sector. 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 funds 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 at the Road Fund, but it is transferred to the general fund, and allocated to the Road Fund through the budget.

13. Guinea replied last to the *GFS Yearbook* questionnaire in 1999 and does not report government statistics for publication in International Financial Statistics (IFS).

#### **Monetary accounts statistics**

14. Monthly data on monetary authorities, deposit money banks, and interest rates are available. Data for the monetary authorities and the deposit money banks through December 2001 have been published in *IFS*. 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 practices, especially the classification of nonperforming loans. In 2001, the authorities commenced regular reporting of monetary data to STA but further improvement in timeliness is still needed.

**Guinea: Core Statistical Indicators**  
(As of May 15, 2002)

	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/G NP	External Debt
Date of latest observation	3/31/02	3/31/02	3/31/02	3/31/02	3/31/02	5/01/02	4/30/02	12/31/01	12/31/01	4/31/02	12/31/01	12/31/01
Date received	5/06/02	5/06/02	5/06/02	5/06/02	5/06/02	5/02/02	5/06/02	5/02/02	5/02/02	5/02/02	5/02/02	05/02
Frequency of data 1/	W	M	M	M	M	M	M	A	A	M	A	Q
Frequency of reporting 1/	W	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/	D	M	M	M	M	M	M	M	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.

**Statement by the IMF Staff Representative  
July 24, 2002**

The staff would like to report briefly to Executive Directors on Guinea's compliance with the prior actions for Board consideration of the first PRGF review, and on program implementation since the negotiation of the second annual PRGF-supported program in May 2002.

**Prior actions**

The prior actions for Board consideration of the First Review were set out in Paragraph 454 of the Memorandum of Economic and Financial Policies (Appendix I, Attachment I) of the staff report. They comprised:

- Meeting the fiscal and monetary targets for end-March 2002 set out in the consolidation program, including the catching up of priority sector expenditure;
- Fully implementing phases 0 and 1 of the action plan for the electricity sector;
- Formally adopting the domestic arrears repayment plan, a structural performance criterion not observed at end-September 2001;
- The submission of definitive monthly tables on external debt service covering the period January 2001 through March 2002; and
- Notification to the consultant selected to prepare a strategic study of the water sector of the conditions of the contract.

The first three conditions were met prior to the negotiation of the second annual program, and the final two in late June 2002 and at end-May 2002, respectively. In a letter to the Managing Director dated July 12, 2002, the Minister of Finance of Guinea formally confirmed that all these measures had been taken.

**Program Implementation Since May 2002**

Program implementation since May 2002 has been mixed. The 12-month rate of inflation at end-May was 2.5 percent, and average annual inflation slowed from 3.7 percent in April 2002 to 3.4 percent in May. Although concrete data are not available, the rise in private sector credit and the opening of new bank letters of credit to finance imports seem to indicate that the recovery of private sector activity is continuing. The exchange rate has remained broadly stable, and the parallel market premium was 1.2 percent at the last auction on July 3.

The fiscal stance weakened in May-June. Revenues were somewhat lower than expected, in part due to an unexpected administrative problem at the Customs, but expenditures jumped sharply, reflecting the planned outlays for security based on existing contracts, contributions to international organizations, and goods and services, as well as the start-up of major donor financed projects and the government's contribution to the liquidation of the microfinance institution CMG and to the recapitalization of a commercial bank. Most of this additional spending was foreseen in the budget but was expected to be spread out over the year. The cumulative deficit through end-May was GF 40 billion (0.6 percent of GDP) higher than programmed, and was financed largely by recourse to domestic bank credit. This led to a

sharp increase in reserve money. Annual broad money growth is estimated at 18.4 percent, compared to the annual program target of 8 percent.

On the structural front, the central bank has issued the instructions for the prudential supervision of microfinance institutions; the terms of reference for the study of contractual employment in the civil service are being prepared; the treasury has closed all dormant accounts at the central bank; and an action plan for the reorganization of the external debt unit has been drawn up with external technical assistance.

Finally, the legislative elections delayed since November 2000 were held peacefully on June 30, despite the boycott by some opposition parties, with the majority party winning 85 of 114 seats.



INTERNATIONAL MONETARY FUND

*Public Information Notice*

EXTERNAL  
RELATIONS  
DEPARTMENT

Public Information Notice (PIN) No.04/43  
April 23, 2004

International Monetary Fund  
700 19<sup>th</sup> Street, NW  
Washington, D. C. 20431 USA

## **IMF Concludes 2002 Article IV Consultation with Guinea**

On July 24, 2002, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Guinea.<sup>1</sup>

### **Background**

In 2001, Guinea continued its implementation of a comprehensive program of economic stabilization and financial reforms. Economic performance was influenced by adverse external conditions, including insecurity along Guinea's borders in the first half of the year, and by weaknesses in revenue mobilization. The global economic slowdown in late 2001 had only a marginal impact on Guinea's economic performance.

Real GDP growth accelerated to an estimated 3.6 percent in 2001, from 2.1 percent in 2000, on account of increased agricultural production, the gradual resumption of trade in areas affected by the regional conflict, and a pickup in housing construction. The annual average inflation rate declined to 5.4 percent in 2001 from 6.8 percent in 2000, reflecting prudent monetary management, the positive impact of the rebound in agricultural output on food prices, and lower import prices. The overall fiscal deficit widened to 7.6 percent in 2001 from 5.6 percent of GDP in 2000, as revenue weaknesses persisted. The higher deficit was financed in part by additional recourse to domestic bank credit. There was a significant reduction in domestic arrears. The external current account deficit (excluding official transfers) narrowed to 5.2 percent of GDP in 2001 from about 8.2 percent of GDP in 2000, in part because imports of capital and equipment goods were subdued.

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<sup>1</sup> 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.

The Guinean franc depreciated by 3.4 percent against the US dollar compared with a 10 percent depreciation in 2000. Guinea's gross official reserves represented almost 2.5 months of imports of goods and nonfactor services. Significant progress was made in structural reforms, in particular in the monetary and public finance areas. However, the implementation of the public enterprise restructuring and privatization program has been sluggish.

The authorities have prepared a full Poverty Reduction Strategy Paper (PRSP) in a participatory and consultative process that drew on the contributions of numerous stakeholders, including civil society and Guinea's development partners. The authorities are expected to proceed this year with further refinements such as costing of programs, the definition of more precise targets, and a better prioritization of policies in line with resource availability.

### **Prospects for 2002**

For 2002, real GDP growth is projected to accelerate to 4.2 percent, but it is lower than the 5.4 percent projected earlier, in part on account of the impact of a less favorable global economic environment. Annual inflation is projected to decelerate further to 3.6 percent. The authorities' fiscal program projects an 18 percent increase in government revenue, bringing it to 12.6 percent of GDP. Overall expenditure is projected to remain at 19 percent of GDP, although allocations to priority sectors are considerably higher. The overall deficit is projected at 6.4 percent of GDP. The external current account deficit is projected to widen, reflecting increased imports of capital and equipment goods linked in part to major investment projects in the mining sector. The authorities intend to deepen structural reforms in a broad range of areas, including fiscal decentralization, civil service, liquidity management, public enterprise restructuring, and bank supervision.

### **Executive Board Assessment**

Executive Directors agreed with the thrust of the staff appraisal. They noted Guinea's improved growth and balance of payments performance in 2001, and commended the authorities for their efforts to maintain macroeconomic stability despite adverse external conditions, in particular, the disruption caused by the border conflict.

Directors expressed concern, however, regarding fiscal slippages in 2001 that stemmed from significant revenue shortfalls, and higher-than-programmed spending on defense. Directors observed that these slippages led to expenditure cuts in priority sectors, which—while helping contain the fiscal deficit—resulted in a distribution of expenditure that did not advance the poverty reduction objectives of the PRGF-supported program.

Directors emphasized that restoring a sound fiscal position is essential for achieving the objectives of the PRGF-supported program. In this context, Directors expressed concern with the ongoing difficulties in tax administration, as well as the concentration of expenditure, most of which were planned for later in the year, in the first half of 2002. They agreed that corrective efforts should center on broadening the tax base by phasing out tax exemptions, recovering arrears, and making more determined efforts to tackle administrative inefficiencies in the revenue agencies. Directors considered—particularly

in light of the ongoing fiscal decentralization—that it is essential that budget management, reporting, and accountability is strengthened at both the central and local government levels. They welcomed the work underway to strengthen the framework of government procurement, and urged the authorities to support fully the steps being taken to improve debt management, as well as the monitoring of flows of assistance under the enhanced HIPC Initiative.

Directors agreed that attaining a sound fiscal position would depend on intensifying efforts to implement the structural reform agenda contemplated in the PRGF-supported program. The main priority is to avoid further delays in the restructuring of the public enterprises so as to improve their efficiency, minimize their cost to the budget, and facilitate their privatization. It is also necessary to proceed with the reforms that aim at modernizing the civil service, allowing greater flexibility in managing civil servants, and shifting to merit-based pay.

Directors noted the efforts to enhance the conduct of monetary policy in 2001 through steps to improve forecasting of bank liquidity and the government's cash flow. They indicated that the effectiveness of monetary policy would be increased further by strengthening the financial system, and encouraged the authorities to complete the restructuring of two small banks, supervise the microfinance institutions more closely, and begin to implement the action plan aimed at complying with the Basel Core Principles. Directors welcomed the steps being taken against money laundering and the financing of terrorism, and urged the authorities to implement fully the U.N. resolutions in these areas.

Directors noted the authorities' commitment to a freely functioning foreign exchange market, which has helped preserve Guinea's external competitiveness. In view of the continued shortage of foreign exchange in the official market, the importance of ensuring that the exchange rate determined in the auctions is sufficiently flexible as to clear the market was underscored.

In the area of governance, Directors welcomed the work of the Anticorruption Committee in finalizing the draft National Anticorruption Strategy and in bringing cases of suspected corruption to the attention of the government. They emphasized that tackling corruption required pursuing these cases promptly, and moving ahead with reforms of the justice system, which would also help promote investment and private sector development.

A number of Directors emphasized that, despite initiatives over several years, faster progress needed to be made in addressing poverty. Directors, however, welcomed the adoption of the full PRSP by the government in January 2002, and they expressed the hope that the national consensus on the poverty strategy, together with the results of the ongoing household budget-consumption survey, would constitute important first steps in renewed efforts in this area.

Directors welcomed the authorities' commitment to regional integration and trade liberalization and their intention to introduce the common external tariff (CET) of the West African Economic and Monetary Union (WAEMU). They also commended

Guinea's efforts to meet the convergence criteria for the proposed second monetary zone among West African states.

Directors noted that deficiencies remain in real sector, balance of payments, and external debt statistics, despite some recent improvements. They encouraged the authorities to further strengthen Guinea's statistical apparatus, which is essential for the monitoring of poverty indicators.

It is expected that the next Article IV consultation with Guinea will be held on the 24-month cycle, subject to the provisions of the decision on consultation cycles approved on July 15, 2002.

**Public Information Notices (PINs)** are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

Guinea: Selected Economic Indicators, 1998-2002

	1997	1998	1999	2000	2001 est.	2002 Proj.
	(Annual changes in percent)					
Domestic economy						
Changes in real GDP	5.0	4.8	4.6	2.1	3.6	4.2
Changes in consumer prices (period average)	1.9	5.1	4.6	6.8	5.4	3.6
	(In millions of U.S. dollars, unless otherwise indicated)					
External economy						
Exports, f.o.b.	629.5	653.0	635.7	666.6	731.3	765.9
Imports, f.o.b.	543.2	583.3	559.4	583.3	561.9	642.6
Current account balance, excluding official transfers (in percent of GDP)	-274.2 -7.2	-364.7 -10.2	-288.6 -8.3	-251.9 -8.2	-154.3 -5.2	-269.2 -8.6
Capital and financial account balance	388.7	321.4	244.0	70.5	122.6	172.0
Gross official reserves (in months of imports of goods and nonfactor services)	225.3 2.6	248.0 3.1	207.5 2.8	150.3 2.0	208.4 2.5	262.9 2.9
Debt service (including to the Fund) 1/	25.6	19.3	16.7	19.6	19.8	18.2
Change in real effective exchange rate (in percent) 2/	-0.7	-3.5	-13.7	0.8	-2.4 ...	
	(In percent of GDP, unless otherwise indicated)					
Financial variables						
Government revenue	11.5	11.2	10.8	11.1	11.5	12.6
Domestic primary balance 3/	3.0	3.0	2.4	2.6	0.7	2.1
Velocity (GDP/average M2)	10.9	10.5	10.6	10.1	9.3	9.0
Interest rate 4/	5.5	5.5	7.5	7.5	7.5 ...	

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/ Excluding external aid.

4/ Minimum annual rate on bank savings deposits.

**NEWS  BRIEF**

FOR IMMEDIATE RELEASE

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News Brief No. 02/75  
FOR IMMEDIATE RELEASE  
July 25, 2002

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

**IMF Completes In Principle First Review of Guinea's PRGF Program, Approves In Principle US\$17 Million Tranche, and US\$3.6 Million in Additional Interim HIPC Assistance**

The Executive Board of the International Monetary Fund (IMF) has completed the first review of Guinea's economic performance under the program supported by the Poverty Reduction and Growth Facility (PRGF) arrangement. The decision will become effective after the World Bank Executive Board's review of Guinea's Poverty Reduction Strategy Paper (PRSP) today. Upon effectiveness of the IMF's Board decision, Guinea will be able to draw SDR 12.85 million (about US\$17 million) from the IMF.

Guinea was also granted in principle SDR 2.75 million (about US\$3.6 million) in additional interim assistance under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC) to cover debt service payments falling due to the Fund through June 30, 2003. Release of this assistance is also contingent on the World Bank's review of the PRSP. Guinea reached its decision point under the enhanced HIPC Initiative in December 2000.

Guinea's three-year PRGF arrangement was approved on May 2, 2001 (see [Press Release No. 01/21](#)) for a total amount of SDR 64.26 million (about US\$86 million). So far, Guinea has drawn SDR 12.85 million (about US\$17 million) under the PRGF arrangement from the IMF.

The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs will in time be based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners, and articulated in a PRSP. This is intended to ensure that each PRGF-supported program is consistent with a comprehensive framework for

macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent, and are repayable over 10 years with a 5½-year grace period on principal payments.

Following the Executive Board discussion, Eduardo Aninat, Deputy Managing Director and Acting Chairman, said:

"Guinea's economic performance in 2001 under the 2001/02 PRGF-supported program was mixed, reflecting, in part, adverse external conditions that affected economic activity, in particular the worsening security situation along Guinea's borders in the first half of the year, as well as slippages in policy implementation. Economic activity recovered in the second half of the year, as the security situation stabilized, inflation decelerated, and the external current account deficit narrowed.

"On the fiscal front, however, weaknesses in revenue mobilization contributed to budgetary pressures. Also, cuts in nondefense expenditure in 2001, in response to a tight cash-flow situation, helped to limit the fiscal deficit, but the cuts in priority sectors did not advance the pro-poor objectives of the program.

"Owing to the slippages in program implementation, the first review under the PRGF was delayed to allow the authorities time to take corrective measures during a consolidation period from January-April 2002. However, the fiscal situation remains fragile, and fiscal consolidation, which is the key to attaining Guinea's broader macroeconomic and poverty reduction goals, will require a durable improvement in revenue mobilization and expenditure management. Recent steps to broaden the tax base and strengthen administrative efficiency should be intensified, and the authorities are encouraged to continue to improve budgetary management through a better allocation of resources and greater transparency in budget execution and accountability.

"The conduct of monetary policy under the program was complicated by the tight fiscal position, but the authorities have continued to improve the use of their indirect instruments of monetary policy. They are encouraged to continue in this vein, and to further strengthen the management of bank liquidity, as well as improve the functioning of the exchange rate system.

"Some progress was made in implementing structural reforms in the public finances and the financial sector, but the public enterprise restructuring and divestiture program has lagged. The authorities are urged to accelerate reforms in this area, in close collaboration with the World Bank, and to adhere to the plans for deepening reforms in the areas of the civil service, administrative decentralization, bank restructuring, and financial sector supervision. They are

also encouraged to pursue vigorously planned reforms in the justice system, and step up the fight against corruption.

"The authorities are to be commended for Guinea's recently completed PRSP. The authorities are encouraged to further refine the targets and indicators of the PRSP, strengthen monitoring mechanisms, and establish clear priorities among the different poverty reduction programs, taking into account available domestic and external resources. Moreover, they are urged to continue to make efforts to meet the completion point triggers under the HIPC Initiative," Mr. Aninat said.

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