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# Guinea: 2005 Article IV Consultation and Staff-Monitored Program—Staff Report; Staff Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Guinea

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2005 Article IV consultation and staff-monitored program with Guinea, the following documents have been released and are included in this package:

- the staff report for the 2005 Article IV consultation and Staff-Monitored Program, prepared by a staff team of the IMF, following discussions that ended on September 13, 2005, with the officials of Guinea on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 2, 2005. 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 December 23, 2005 updating information on recent developments.

- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its December 23, 2005 discussion of the staff report that concluded the Article IV consultation.

- a statement by the Executive Director for Guinea.

The document listed below has been or will be separately released.

Selected Issues Paper and Statistical Appendix

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

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

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INTERNATIONAL MONETARY FUND

GUINEA

**Staff Report for the 2005 Article IV Consultation and Staff-Monitored Program**

Prepared by the African Department

(In consultation with the Finance, Fiscal Affairs, Legal, Money and Financial Systems, Policy Development and Review, and Statistics Departments)

Approved by David Nellor and Mark Plant

December 2, 2005

- Discussions on the 2005 Article IV consultation and first staff assessment under the staff-monitored program (SMP) were held in Conakry during August 31-September 13, 2005. The mission team comprised Messrs. de la Piedra (head), Nsengiyumva, Gorbanyov, and Dudine (all AFR). It was assisted by Mr. Jones, the IMF Resident Representative in Guinea, and the resident mission's economist, Mr. Barry. Messrs. Gnandou and Engelke (World Bank) attended the meetings as well.
- The mission met with Prime Minister Diallo; the Minister of Economy and Finance, Mr. Camara; the Governor of the Central Bank (BCRG), Mr. Daffé; and other senior officials and representatives of the private sector, civil society, and the press.
- The last Article IV was concluded on August 27, 2004 (Country Report No. 04/392). The SMP, covering April 2005-March 2006, was approved by IMF management at end-May 2005 (Country Report No. 05/222).
- Guinea adopted a floating exchange rate regime on March 1, 2005, and has accepted the obligations under Article VIII, sections 2, 3, and 4, of the IMF's Articles of Agreement. Guinea has unified and liberalized the interbank foreign exchange market. This eliminated a multiple currency practice arising from the potential divergence of the official auction rate and the interbank market rate by more than 2 percent and an exchange restriction arising out of the administrative practice limiting participation in official auctions to financing transactions for rice and petroleum imports. However, Guinea maintains another multiple currency practice arising from the potential divergence of the official reference rate and the interbank market rate of more than 2 percent.
- Appendix I contains the authorities' Letter of Intent and Memorandum of Economic and Financial Policies. Guinea's relations with the Fund and the World Bank group are summarized in Appendix II and III, respectively. Appendix IV discusses statistical issues, and the debt sustainability analysis, prepared jointly with the World Bank, is presented in Appendix V.

Contents Page

Appendixes

## EXECUTIVE SUMMARY

- **Guinea's economic performance has deteriorated in recent years largely as a result of a weaker policy framework and against a background of mounting regional insecurity and low prices for its key commodity exports.** Economic growth has slowed to about 2.5 percent, inflation has accelerated to about 30 percent, international reserves have fallen to less than one month of imports, and the external public debt has risen to almost 100 percent of GDP and is unsustainable.

- **In early 2005, a new economic team tightened financial policies and took the initial steps toward unification and liberalization of the foreign exchange market.** IMF management approved a staff-monitored program (SMP), covering April 2005-March 2006, in support of the authorities' stabilization and reform efforts.

- **Real GDP growth will recover moderately in 2005 but little progress is expected in reducing inflation.** The modest improvement in real GDP growth to 3 percent reflects a rebound in agricultural activity as well as stronger growth in the construction and mining sectors. Inflation, while edging down, is expected to be about 28 percent at end-2005, well above the government's objective of less than 19 percent. Gross international reserves are expected to increase from 0.8 to 1.3 months of imports during 2005.

- **Guinea's immediate challenge is to stabilize the economy and particularly to bring inflation down to single digits.** With progress on macroeconomic stabilization, the objectives of higher growth and poverty reduction call for action in three areas:

    - Establishing economic institutions, particularly on the budget and central bank operations, that can cope with the cyclical nature of the mining sector and sustain macroeconomic stability.

    - Securing debt sustainability including through reaching the HIPC completion point and the MDRI.

    - Promoting private sector development through structural reform to strengthen public services provision, develop infrastructure, and address legal and governance issues.

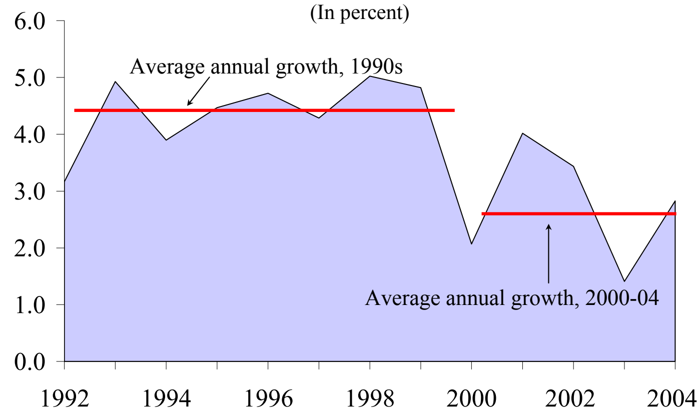
- **With regard to the SMP,** Guinea met all end-June quantitative targets and structural benchmarks, except for the accumulation of central bank net foreign assets and the introduction of a new multiple currency practice. In the attached Letter of Intent and Memorandum of Economic and Financial Policies (MEFP), the authorities lay out additional measures to help ensure that the program remains on track.

## I. Background and Policy Challenges

### A. Background

1. **Following a decade of relatively strong growth, Guinea's economic performance weakened beginning in 2000.** During the 1990s, growth averaged about 4.5 percent a year as buoyant commodity prices allowed Guinea to reap the benefits of its natural resource base. With a tightening of financial policies over the decade, inflation reached single digits by the late 1990s. Since 2000, however, growth has slowed to an average rate of about 2.5 percent a year (Figure 1);[1] at the same time, inflation accelerated to about 28 percent by 2004.

Figure 1. Guinea: Annual Real GDP Growth, 1992-2004
(In percent)




Source: Guinean authorities; and IMF staff estimates.

2. **Guinea's disappointing economic performance since 2000 reflects a weaker policy framework.** The fiscal deficit, which averaged just over 3 percent of GDP in the second half of the 1990s, rose to an average of 4.8 percent of GDP in 2000-04. Government revenues from the mining sector dropped, reflecting a decline in commodity export prices, and in particular bauxite—Guinea's most important export.[2] In addition, a heightened level of regional insecurity[3] and a considerable number of refugees in Guinea put pressure on government outlays.[4]

3. **Monetary policy became highly accommodative of the weakened fiscal stance, while the exchange regime became more rigid.** After adopting a floating exchange rate regime in 1994 and allowing the exchange rate to depreciate by almost 30 percent, the authorities took a series of measures from late 1999 through 2002 that reduced exchange rate flexibility and led to the development of a parallel market.[5] This change in the exchange rate

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[1] For a detailed analysis of Guinea's growth performance, see the accompanying Selected Issues Paper.

[2] The share of mining sector revenue in total government revenue declined from an average of about 40 percent during the first half of the 1990s to an average of about 20 percent during 2000-04 as mining sector revenue dropped by 2.5 percentage points of GDP.

[3] According to one proxy index, regional insecurity in the first four years of this decade is almost double that of the last four years of the 1990s (see Selected Issues Paper on growth issues).

[4] The impact on government outlays is difficult to estimate given the opacity in public accounting.

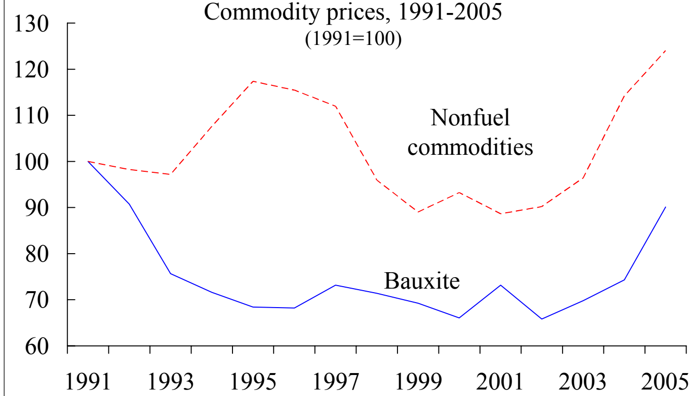
[5] The authorities adopted a flexible exchange rate regime in October 1994 and created an interbank market for foreign exchange. The central bank introduced a system of foreign exchange auctions in late 1999 and used

(continued)

regime, together with the loss in the terms of trade, contributed to a deterioration in central bank foreign assets, which declined from an average of 2.7 months of imports during the second half of the 1990s to 1.8 months of imports during 2000-04. External public debt increased to an unsustainable level of about 100 percent of GDP, and external arrears started to accumulate.

4. **Guinea's external accounts also worsened—a trend which began in the 1990s.** The decline in bauxite prices was a key factor in explaining this deterioration. Bauxite accounts for about half of Guinea's exports.[6] The price of bauxite declined in the early 1990s and did not start recovering until the early 2000s (Figure 2); it is estimated that the current account deficit would have been about 2.5 percentage points of GDP lower on average during 1995-2001 if the price of bauxite had remained at its 1991-92 nominal level.[7]

Figure 2. Bauxite Price Index and Nonfuel Commodity prices, 1991-2005
(1991=100)




Source: IMF, World Economic Outlook, various years.

5. **Reflecting the deteriorating policy and economic environment, foreign assistance to Guinea declined.** Guinea reached the decision point under the Heavily Indebted Poor Countries (HIPC) Initiative in 2000, which strengthened the fiscal outlook. However, official assistance fell from an average of 3.7 percent of GDP in the late 1990s to 0.6 percent of GDP in 2004. Owing to Guinea's poor performance under the last program supported under the Poverty Reduction and Growth Facility (PRGF), Paris Club members, the IMF, and the African Development Bank suspended their interim HIPC assistance in 2003.

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moral suasion to limit the depreciation of the auction market exchange rate. A de facto peg of the official exchange rate was re-established in late 2002. For a more detailed discussion, see the accompanying Selected Issues Paper on exchange rate and competitiveness issues.

[6] Although much of Guinea's population is engaged in agriculture, exploitation of its rich endowments of bauxite, iron and precious metals, accounting for 85 percent of exports, has driven economic growth.

[7] The nominal price of bauxite in 2002 was 35 percent below the price in 1991. It has recovered in the past three years but still stands 10 percent below its level in 1991.

6. **Against this background, Guinea's performance in reducing poverty and improving social indicators has been mixed.** One of the poorest countries in Africa, Guinea ranks 156 out of 177 countries on the 2005 UNDP Human Development Index (see text table). The incidence of poverty declined between the mid-1990s and the early 2000s, but has increased in recent years as economic performance deteriorated; according to national data, poverty declined from 62 percent of households in 1994 to 49 percent in 2002, but increased to an estimated 52 percent in 2005.[8] Overall access to social services has improved—for example, in the area of education the net primary enrollment ratio is now 60 percent; however, the quality of education and health care still needs to be improved. In the area of health, the government is focusing on arresting the spread of HIV/AIDS, whose rate remains relatively low but shows signs of rising.

GDP per Capita and Human Development Index (HDI)

| | HDI Rank /1 (2005) | Nominal GDP Per Capita, in U.S. dollars (2004) | Growth of Real GDP Per Capita, Annual Average (1995 - 2004) |
|---|---|---|---|
| Guinea | 156 | 422.5 | 1.1 |
| Gambia, The | 155 | 272.5 | 0.9 |
| Ghana | 138 | 434.7 | 1.9 |
| Guinea-Bissau | 172 | 177.0 | -3.4 |
| Mali | 174 | 404.7 | 2.3 |
| Nigeria | 158 | 499.9 | 1.2 |
| Senegal | 157 | 733.7 | 2.0 |
| Sierra Leone | 176 | 201.6 | -1.6 |
| Memorandum item: | | | |
| Sub-Saharan Africa | | 727.0 | 1.7 |

Sources: UN, Human Development Report, 2005; and IMF.

1/ Rank out of 177 countries.

## B. Policy Challenges

7. **Guinea's policy challenges remain considerable.**[9] At this juncture, the main challenge is to achieve macroeconomic stability, by adopting a fiscal and monetary policy stance consistent with bringing inflation down to single digits. Thus, broadening the revenue base, strengthening expenditure management, and reinforcing the central bank's ability to ensure the smooth operation of the foreign exchange market and manage monetary instruments are critical. Such improvements will support Guinea's efforts to reach the HIPC completion point and the Multilateral Debt Relief Initiative (MDRI) and take advantage of debt relief, which will help bring about a sustainable debt position. Although the natural resource sector will continue to be the engine of economic growth over the medium term, there is a need to diversify the export base of the economy, improve the business environment, strengthen public infrastructure, and enhance the operation of public utilities.

[8] According to United Nations data on the status of the Millennium Development Goals (Table 8), the proportion of the population in Guinea living on less than one U.S. dollar a day fell from 40 percent in 1995 to 27 percent in 2001 (more recent data are unavailable).

[9] Boxes 1 and 2 contain summaries of the 2004 Article IV recommendations and the main conclusions of the 2004 ex-post assessment (EPA), respectively.

**Box 1. Guinea: 2004 Article IV Recommendations and the Authorities' Response**

**The last Article IV consultation with Guinea was concluded on August 27, 2004 (Country Report No. 04/392).** Executive Directors emphasized the importance of fiscal consolidation to achieve faster growth and lower inflation as well as the need for a more proactive liquidity management stance. They cautioned the central bank not to accommodate expansionary fiscal policies. They expressed concern that the pegging of the exchange rate and the administrative allocation of foreign exchange prevalent at the time had introduced substantial distortions into the economy. Directors also had serious concerns about Guinea's difficulties in servicing its external debt, its heavy external debt burden, and its limited foreign exchange reserves. They commended Guinea's efforts to advance the poverty reduction agenda but emphasized that Guinea had to correct the macroeconomic imbalances to achieve sustained poverty reduction.

**The Guinean authorities took steps to address many of the issues raised by Executive Directors.** In particular, they tightened fiscal and monetary policies, reformed the foreign exchange market, and initiated contacts with external creditors to regularize the arrears situation. At the same time, the authorities continued to implement their poverty reduction agenda. Based on these efforts, IMF management approved a staff-monitored program covering April 2005-March 2006.

**Box 2. Guinea: Main Conclusions of the 2004 Ex-Post Assessment**

**The ex-post assessment (EPA) of Guinea's performance under IMF-supported programs was concluded in 2004 (Country Report No. 04/377).** It concluded that a lack of ownership at the highest level of government and weak policies contributed to Guinea's failure to implement a successful long-term development strategy. In particular, the EPA highlighted the lax fiscal policy stance and accommodative monetary policy in Guinea. In addition, important structural reforms, including in tax and customs administration and the civil service, remained to be completed. On the positive side, the EPA noted the country's progress in improving financial sector soundness, downsizing the civil service, and increasing spending on education and health care. The EPA's main recommendations were to:

- enhance ownership, to be demonstrated by decisive action in implementing structural reform in key areas such as governance, the utility sector, and the judiciary system;
- raise fiscal revenue by eliminating tax and customs exemptions;
- reduce corruption and improve governance;
- develop contingency plans in annual programs; and
- integrate poverty-reduction programs into the budget.

# II. Recent Economic Developments and Outlook

## A. Recent Economic Developments

8. **Guinea's economic performance in 2004 was lackluster.** Real GDP growth increased to 2.7 percent from just 1.2 percent growth in 2003, reflecting a pickup in agriculture, construction, and manufacturing activities, which more than offset weakening mining sector activity. However, consumer price inflation accelerated from 15 percent in 2003 to 28 percent, while the deficit in the external current account widened from 4 percent of GDP in 2003 to nearly 6 percent of GDP and was mostly financed through an accumulation of external arrears.[10] Given this economic performance, Guinea failed to meet the primary convergence criteria of the West Africa Monetary Zone for the second consecutive year (Figure 3).

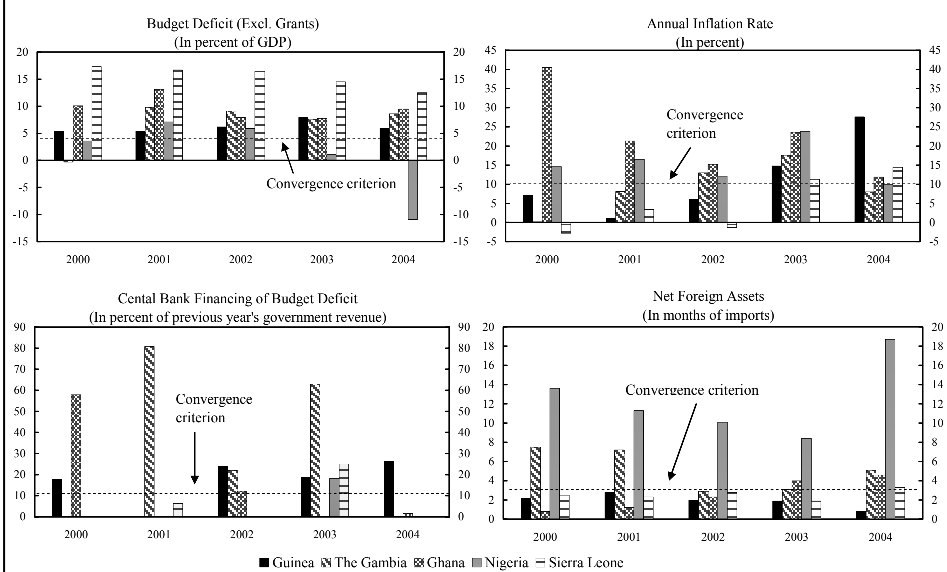
Selected Macroeconomic Indicators, 2002-06
(Period average, unless noted otherwise)

| | 2002 | 2003 | 2004 | 2005<br>Proj. | 2006<br>Proj. |
|---|---|---|---|---|---|
| Real GDP growth (% change) | 4.2 | 1.2 | 2.7 | 3.0 | 5.0 |
| Inflation ( % change) 1/ | 6.1 | 14.8 | 27.6 | 27.9 | 8.7 |
| Real effective exchange rate (% change) | -2.3 | -4.3 | -5.7 | ... | ... |
| Terms of trade (% change) | 2.4 | -2.4 | -16.8 | -11.0 | -3.0 |
| Broad money (% change) 1/ | 19.2 | 35.3 | 37.0 | 33.6 | 10.5 |
| Current account balance (excl. grants, % of GDP) | -5.6 | -4.1 | -5.8 | -4.6 | -4.5 |
| Foreign reserves (in months of imports) 1/ | 2.3 | 1.2 | 0.8 | 1.3 | 1.6 |
| NPV of external debt to exports 1/ | 208.2 | 192.4 | 191.5 | 173.9 | 174.1 |
| Debt service ratio (% of XGS) | 18.6 | 22.6 | 23.6 | 20.5 | 20.3 |

1/ End of period.

[10] Data for the current account of the balance of payments have been updated on the basis of revised information provided by the authorities. The current account deficit, excluding official transfers, is now estimated at 5.8 percent of GDP in 2004, compared with 4.2 percent of GDP estimated at the time of the preparation of the SMP.

Figure 3: West Africa Monetary Zone: Convergence Criteria




Source: West Africa Monetary Institute; and IMF staff estimates.

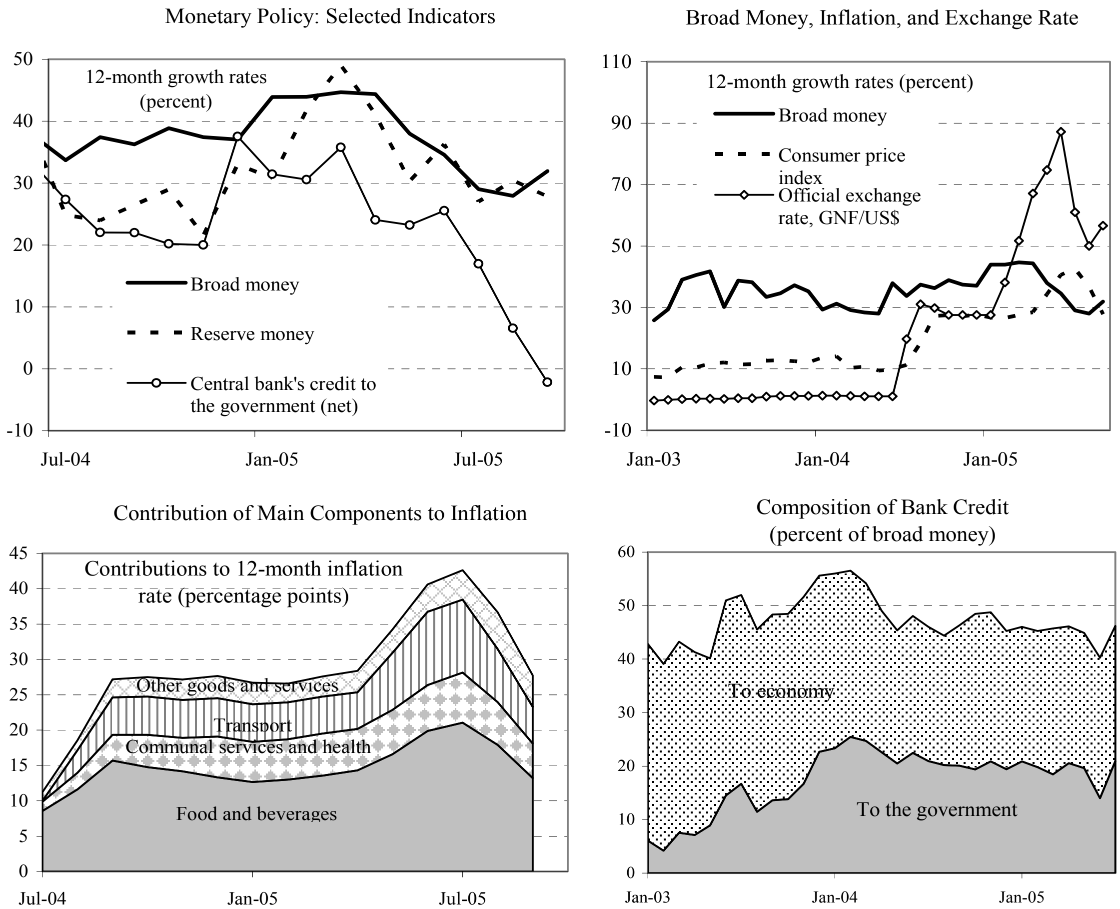
9. **The disappointing macroeconomic performance in 2004 reflected the continued weakness of the policy framework.** Although there was some tightening of fiscal policy, higher-than-budgeted defense spending and interest outlays prevented the authorities from reaching their fiscal targets for the year. The overall fiscal deficit (excluding grants), which had reached 9 percent of GDP in 2003, was still almost 6 percent of GDP in 2004. At the same time, monetary policy continued to accommodate the needs of the government, leading to an expansion in broad money of over 35 percent for the second consecutive year.

10. **In 2005, the authorities tightened fiscal policy and abandoned the accommodative stance of monetary policy.** Reflecting a significant contraction of expenditures, the fiscal primary balance improved from a deficit of almost ½ percent of GDP in 2004 to a surplus of over 2 percent of GDP by June 2005, while at the same time the overall fiscal deficit (excluding grants) came down from almost 6 percent of GDP in 2004 to 0.2 percent of GDP by June 2005. As a result, net central bank credit to the government increased by just over 1 percent of reserve money in the first half of 2005, compared with 10 percent of reserve money in the same period of 2004.

11. **As part of their new policy stance, the authorities took the first steps to unify and liberalize the foreign exchange market,** abandoning the system of rationing foreign exchange through official auctions, liberalizing foreign exchange operations, and publishing a reference exchange rate based on market quotes.[11] Foreign exchange market reforms have

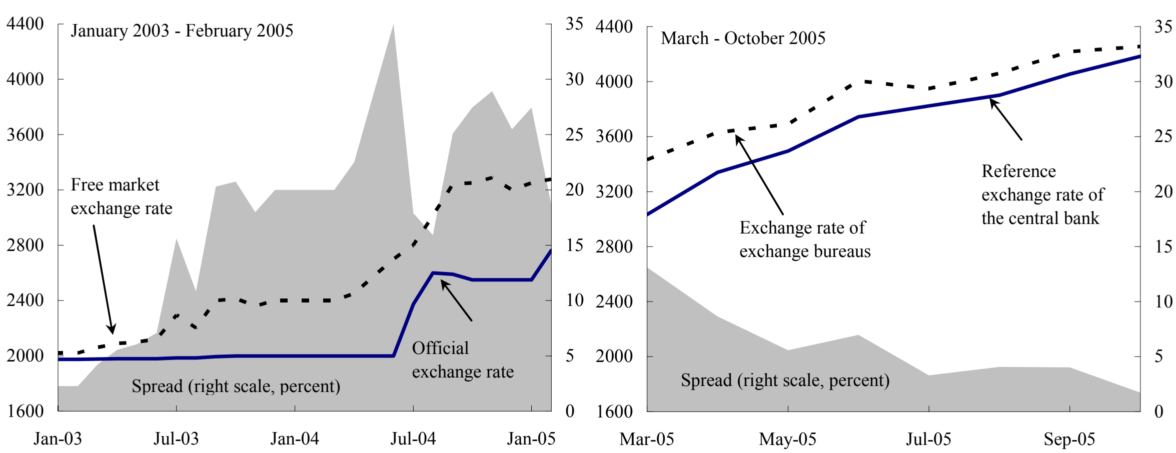
[11] Currently, the reference exchange rate is calculated as a simple average and published weekly.

Figure 4. Guinea: Monetary Developments




Source: Guinean authorities; and IMF staff estimates

Figure 5. Guinea: Exchange Rates Before and After the Market Unification Reform
(Guinean francs per U.S. dollar, unless otherwise indicated)



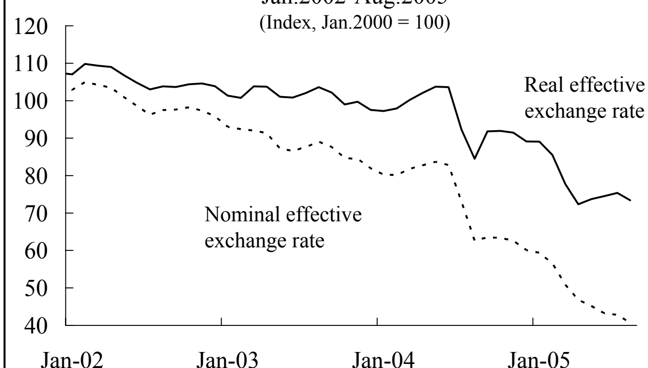

Source: Central Bank of Guinea (BCRG).

largely—although not fully—eliminated multiple currency practices.[12] The official foreign exchange auctions—which stood at the heart of a dual foreign exchange market and were Guinea's primary multiple currency practice—were suspended in March 2005. The new unified foreign exchange market includes both banks and authorized exchange bureaus, and the official exchange reference rate is calculated as an average of all reported exchange rates.[13]

12. **Following the liberalization of the foreign exchange market, the Guinean franc depreciated faster than expected but the pace of depreciation has slowed since mid-July.** The gap between the exchange rates at the commercial banks and those at the exchange bureaus shrank to less than 5 percent by mid-2005 and to about 2 percent by October 2005, from 25-30 percent in early 2005. By removing institutional constraints that limited the accumulation of foreign assets and the depreciation of the national currency, exchange market liberalization led to the release of pent-up demand for foreign currency assets, evidenced by the buildup in the foreign exchange position of local banks. The slowing of the depreciation of the Guinean franc in the past few months and the narrowing of exchange rate differentials between banks and exchange bureaus indicate that this pent-up demand has now been largely satisfied.

13. **Staff estimates suggest that the recent nominal depreciation of the Guinean franc, amounting to about 38 percent since end-February 2005, has brought the real exchange rate close to its underlying equilibrium rate.** [14] External competitiveness indicators show that the real effective exchange rate was about 20 percent overvalued at the end of 2004 and that a nominal depreciation of about 25 percent was needed to bring the real exchange rate back to its equilibrium level.[15]

Figure 6. Guinea: Effective Exchange Rate, Jan.2002-Aug.2005
(Index, Jan.2000 = 100)




Source: Guinean authorities; and IMF staff estimates.

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[12] Owing to the weekly publication of the official reference rate, the daily interbank rate can deviate from the official rate by more than 2 percent thereby giving rise to a multiple currency practice (MCP). The MCP can be eliminated by moving to a daily calculation of the reference rate based on the intra-day weighted average interbank market rates.

[13] A cash-based informal parallel market is still in operation, but it is not officially recognized. The central bank at times buys foreign exchange from certain exporters, but does so through the commercial banks.

[14] The real effective exchange rate depreciated by 15 percent during the first eight months of 2005.

[15] A pass-through coefficient of 0.25 of nominal currency depreciation to consumer prices is assumed. See the accompanying Selected Issues Paper on competitiveness and the equilibrium exchange rate.

14. **The banking sector remains relatively sound and profitable, although some prudential ratios are not satisfied by all banks (Table 6).** The ratio of nonperforming loans (NPLs) to total assets declined from 26 percent in 2004 to about 22 percent at end-June 2005, a relatively low figure by regional standards, and provisions cover over 97 percent of NPLs. However, in mid-2005 the capital adequacy ratios of two banks dipped below the 10 percent prudential limit. Commercial bank credit to the private sector remains weak; at 23 percent of total bank assets, it is less than banks' credit to the government, which represents about 28 percent of their total assets. The government recently privatized part of its stake in the largest national bank, reducing its share in the bank's capital from 38 percent to 15 percent.

15. **To support the authorities' stabilization and reform efforts, IMF management approved, at end-May 2005, a staff-monitored program (SMP) for April 2005-March 2006.** The new government economic team that was appointed in late 2004 appears committed to the SMP, and this is helping to increase political ownership of the program (Box 3 describes the objectives and performance under the SMP).

**Box 3. Guinea: Performance Under the Staff-Monitored Program**

**The SMP aims to restore macroeconomic stability and, through structural reform, to lay the groundwork for renewed growth, debt sustainability, and poverty reduction.** Its objectives for 2005 are to reach real GDP growth of 3 percent, predicated on a rebound in the mining, trade, and service sectors, reduce year-end consumer price inflation to below 19 percent, and increase gross central bank reserves by the equivalent of one-third of a month of imports.

**The authorities expressed their commitment to achieving the objectives of the SMP.** In the attached Letter of Intent and MEFP (Appendix I), they outline the additional policy measures necessary to ensure achievement of the quantitative indicative targets and structural benchmarks during the remaining period of the program.

**All end-June quantitative targets under the SMP were met, except for the accumulation of central bank net foreign assets.** Fiscal revenue targets were achieved and expenditure commitments were kept under control as programmed. The overall fiscal balance (cash basis) reached a surplus of 0.2 percent of GDP in the first half of the year, compared with a deficit of 1 percent of GDP under the program, and the government was able to reduce the level of domestic financing. Reserve money expansion, which had reached 49 percent on a 12-month basis by March 2005, dropped to 36 percent by end-June. The net foreign assets of the central bank expanded by US$13.4 million in the first half of 2005, but remained US$3.6 million short of the amount needed to meet the SMP target (see Table 2 of the MEFP).

**The authorities also made important progress on structural reforms, meeting all end-June structural benchmarks under the SMP, except the continuous benchmark on refraining from introducing new multiple currency practices.** In March 2005, the initial steps to liberalize the foreign exchange market, a prior action for the SMP, were implemented; however, a multiple currency practice remains arising from the potential spread of more than 2 percent between interbank market spot rates and the central bank's reference rate. Regarding fiscal reform, the WAEMU common external tariff was adopted and reforms in the customs and tax administrations and in public expenditure management advanced as expected. Finally, action plans to reduce fraud and enhance the efficiency of the water and electricity sectors were adopted.

## B. Short-Term Outlook

16. **Real GDP growth is projected to reach 3 percent in 2005 and progress is expected in reducing inflation.** The strengthening in real GDP growth reflects a pickup in agriculture, construction, and mining activity. Inflation is expected to drop from a high of 43 percent (on a 12-month basis) in July 2005 to 28 percent by end-2005, compared with the authorities' objective of less than 19 percent for the year. The inflation overrun in 2005 reflects mainly the effects of the higher-than-expected depreciation of the Guinean franc and the higher-than-programmed increase in domestic petroleum prices in May 2005 (Box 4).

**Box 4. Guinea: Factors Contributing to the Inflation Overrun in 2005**

**Despite Guinea's tightening of fiscal and monetary policies in 2005, inflation will fall by less than envisaged, owing mostly to the faster-than-expected currency depreciation and higher-than-programmed increase in domestic petroleum prices in May 2005.** The government raised petroleum prices by 55 percent in May instead of 40 percent as programmed, in an effort to recoup earlier financial losses and forestall further price adjustments. The Guinean franc depreciated, in domestic currency terms, by 50 percent in the first eight months of the year compared with 25 percent in the authorities' program. Based on pass-through coefficients reflecting data for Guinea and similar countries, the additional increase in petroleum prices explains about 2.7 additional percentage points in measured inflation, and the faster depreciation of the currency—reflected in the inflation level through its impact on the prices of the food and transportation components of the consumer price index—explains about 6.3 percentage points. These two factors account for an increase of 9 percentage points in the inflation rate, which is about the same as the expected overrun with respect to the authorities' objectives for 2005.

Contributions to Inflation Overrun at End-August 2005
(In percent, unless noted otherwise)

| | |
|---|---|
| Additional contribution of petroleum prices | |
| = (b - a ) * c | 2.7 |
| a. Programmed price increase in May | 40 |
| b. Actual | 55 |
| c. Pass-through coefficient | 0.18 |
| Additional pass-through from exchange rate | |
| = (b - a ) * c | 6.3 |
| a. Programmed depreciation for H1 2005 | 25 |
| b. Actual | 50 |
| c. Pass-through coefficient | 0.25 |
| Total | 9.0 |

17. **The external current account deficit is expected to narrow in 2005 by just over 1 percentage point of GDP, to about 4.6 percent of GDP**. The overall balance is expected to improve from a deficit of 2.5 percent of GDP in 2004 to a surplus of 0.1 percent of GDP in 2005. Although rising international prices have inflated the oil import bill in 2005, the prices of bauxite and alumina also have risen, boosting the value of exports, and the rapid depreciation of the currency during the year has dampened non-oil imports. Gross central bank international reserves are expected to increase to 1.3 months of imports during 2005.

18. **The authorities have taken decisive action to tighten the stance of fiscal policy in 2005.** On the revenue side, the strengthening of the tax and customs administrations was pursued, ad-hoc exemptions were eliminated, and a new external tariff system was put in place. On the expenditure side, nonpriority outlays were contained, despite the pressures arising from the larger-than-expected currency depreciation. As a result, the primary balance is expected to improve from a deficit of 0.4 percent of GDP in 2004 to a surplus of 3 percent of GDP in 2005 and of 3.6 percent of GDP in 2006. The overall budget deficit (excluding grants) is expected to improve from about 6 percent of GDP in 2004 to 2 percent of GDP in 2005 and 1.2 percent of GDP in 2006.

Central Government Finance, 2002-06
(In percent of GDP)

| | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| | | | | Proj. | Proj. |
| Revenue and grants | 13.8 | 13.2 | 11.4 | 12.8 | 13.4 |
| Revenue | 12.0 | 10.5 | 10.4 | 12.0 | 12.7 |
| Mining | 2.3 | 1.5 | 1.9 | 2.9 | 3.5 |
| Nonmining | 9.8 | 9.0 | 8.5 | 9.1 | 9.2 |
| Expenditure and net lending | 18.3 | 19.4 | 16.3 | 14.0 | 13.9 |
| Primary current expenditure | 10.6 | 10.9 | 8.8 | 7.5 | 7.4 |
| Capital expenditure | 5.8 | 6.3 | 4.9 | 4.1 | 4.1 |
| Primary balance | 0.0 | -2.6 | -0.4 | 2.9 | 3.6 |
| Overall balance, incl.grants | -4.4 | -6.1 | -4.9 | -1.2 | -0.5 |
| Overall balance, excl. grants | -6.2 | -8.9 | -5.9 | -2.0 | -1.2 |
| Bank financing | 3.6 | 3.8 | 2.7 | 0.8 | 1.1 |
| Change in arrears | -0.9 | 1.1 | 1.5 | -0.4 | -0.8 |

19. **Reflecting the tightening of fiscal policy, monetary policy will be less expansionary in 2005.** The expansion of reserve money (on a 12-month basis) is expected to decline from a high of 49 percent at end-March 2005 to 28 percent by end-2005, and further to 9 percent by end-2006. Broad money expansion in 2005 will remain somewhat faster than programmed, owing to the higher-than-expected depreciation of the exchange rate coupled with the increased dollarization of assets.

Selected Monetary Aggregates, 2003-2006
(Annual percentage change, unless otherwise indicated)

| | 2003 | 2004 | 2005 | | | 2006 |
|---|---|---|---|---|---|---|
| | | | March | June | Dec. | |
| | | | | | Proj. | Proj. |
| Broad money | 35.3 | 37.0 | 44.7 | 34.6 | 33.6 | 10.5 |
| Reserve money | 27.4 | 33.0 | 49.0 | 36.3 | 27.7 | 8.8 |
| Net bank claims on government 1/ | 34.0 | 22.2 | 19.0 | 7.7 | 6.6 | 8.1 |
| Central bank 1/ | 13.9 | 18.2 | 16.9 | 11.3 | -2.8 | 0.9 |
| Other banks 1/ | 20.0 | 4.0 | 2.0 | -3.6 | 9.4 | 7.2 |
| Net foreign assets of the central bank (in millions of U.S. dollars) | -33.4 | -29.6 | -22.7 | -16.2 | 12.0 | 37.4 |

1/ Year-on-year change in percent of beginning-of-period broad money.

20. **The savings-investment balance is expected to improve in 2005, mainly as a result of the significant adjustment of government finances.** Domestic savings, which contracted as a proportion of GDP in 2003-04, is expected to increase by about 2½ percentage points of GDP in 2005, reflecting a substantial rise in government savings and the effects of the real depreciation of the currency.[16] Mainly as a result of continued investment in the mining sector, private investment is expected to increase in 2005, as it did

[16] Despite the effects of the real depreciation of the currency, private sector savings are expected to decline slightly in 2005 (by about ½ percent of GDP), as economic agents cope with a situation of high inflation and reduced resource transfers from the public sector as fiscal adjustment took hold.

in 2004. Total investment is expected to expand somewhat more slowly, as the efforts to tighten fiscal policy will cause government investment to fall as a proportion of GDP in 2005.

21. **Over the medium term, if the authorities are successful in stabilizing the macroeconomic environment and deepening structural reform, growth would strengthen and inflation would decline.** Real growth would increase gradually from 3 percent in 2005 to 6 percent in 2008, through an increase in private sector investment (mainly in the mining sector),[17] faster growth in the trade and services sector, and improved overall economic efficiency generated by structural reform and public investment in critical infrastructure. Average inflation would decelerate to single digits in 2006 and central bank gross foreign exchange reserves would reach a level equivalent to 2½ months of imports by 2008.

Guinea: Medium-Term Projections, 2005-08
(In percent of GDP, unless otherwise indicated)

| | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|
| GDP at constant prices 1/ | 2.7 | 3.0 | 5.0 | 5.4 | 6.1 |
| Consumer price index (end of period) 1/ | 27.6 | 27.9 | 8.7 | 5.0 | 5.0 |
| Broad money 1/ | 37.0 | 33.6 | 10.5 | 13.4 | 12.1 |
| Investment | 10.9 | 12.0 | 13.2 | 14.5 | 15.4 |
| Public | 3.9 | 3.2 | 3.3 | 3.2 | 3.4 |
| Private | 6.9 | 8.8 | 10.0 | 11.2 | 12.0 |
| Government revenue | 10.4 | 12.0 | 12.7 | 13.3 | 13.5 |
| Government expenditure | 16.3 | 14.0 | 13.9 | 14.0 | 14.2 |
| Government primary balance | -0.4 | 2.9 | 3.6 | 3.9 | 3.9 |
| Overall fiscal deficit, excluding grants | -5.9 | -2.0 | -1.2 | -0.7 | -0.7 |
| External current account deficit 2/ | -5.8 | -4.6 | -4.5 | -3.3 | -2.7 |
| External public debt | 82.4 | 97.7 | 99.0 | 94.1 | 88.2 |
| Gross reserves in months of imports | 0.8 | 1.3 | 1.6 | 2.0 | 2.5 |

1/ Annual change in percent.
2/ Excluding official transfers.

22. **The medium-term outlook, however, remains vulnerable to political conditions in Guinea.** Although at present the political situation in Guinea has stabilized and progress under the SMP has shored up the position of the prime minister and his reform policies within the government, domestic and regional issues leave the situation fragile. Nationwide municipal elections have been set to take place on December 18, 2005; the election campaign has so far remained tense but calm. On the regional front, lingering instability in neighboring countries could exacerbate the refugee and security situation in border regions of Guinea.

## III. Report on the Discussions

23. **The authorities and the staff broadly agreed on the policy agenda.** Discussions focused on the measures required to maintain tight fiscal policies, strengthen the functioning of the foreign exchange market, and improve central bank liquidity management, with a view to further stabilizing the exchange rate and reducing inflation. The mission also discussed the government's structural reform agenda, which aims to strengthen the environment for the private sector and expand access to public services.

[17] A few large-scale mining projects are expected to come on stream in the next few years, including a US$2 billion investment project by a Canadian conglomerate to establish an alumina refining plant.

## A. Fiscal Policy

24. **The authorities have stressed their determination to implement prudent fiscal policies**. The key to restoring stability will be to tighten fiscal policy so as to allow a reduction in central bank financing of the government deficit and in this way regain control over monetary expansion.

25. **The authorities are implementing measures to strengthen revenue collection.** These measures include (i) the application of the common external tariff of the West African Economic and Monetary Union (WAEMU),[18] (ii) the elimination of all ad-hoc tax or customs tariff exemptions, and (iii) the strengthening of tax and customs administration.[19] Over the medium term, the emphasis will be on consolidating the new tariff system adopted in early 2005 and on continuing to strengthen tax and customs administration. This should allow revenues to increase from 12 percent of GDP in 2005 to 13.5 percent in 2008.

26. **In the face of expenditure pressures arising from the larger-than-expected depreciation of the currency, the government has taken action to control expenditures in 2005 and beyond.** The authorities have decided to cut current spending by at least 10 billion Guinean francs (0.3 percent of GDP) in the last quarter of 2005, mainly by limiting outlays related to missions abroad and containing transfers and subsidies. The mission remarked that a larger cut would have been desirable, but the authorities indicated that they were constrained by the effect of the larger-than-expected depreciation on government outlays. The medium-term budget framework envisages a gradual increase in priority spending over 2006-08, to be offset by a reduction in nonpriority spending as a percent of GDP.

27. **The authorities have implemented measures to strengthen public expenditure management in order to improve the monitoring of budget execution, streamline budget procedures, and increase transparency.** These measures include (i) enforcing the application of budget and accounting rules and procedures, (ii) closing the loopholes that allow government entities to exceed their budgetary allocations, (iii) making the computerized budget management system fully operational, and (iv) unifying existing personnel management systems.[20] The staff welcomed these measures, which are in line with the recommendations made by a February 2005 FAD technical assistance mission.

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[18] Members of the Economic Community of West African States (ECOWAS) agreed to harmonize their external tariff system with that of the WAEMU as a step to encourage regional trade and simplify existing national tariff systems.

[19] These measures are being implemented on the basis of recommendations of two FAD missions in tax and customs administration. FAD will provide further technical assistance in tax and customs administration through West AFRITAC and a regional tax advisor based in Guinea-Bissau.

[20] Specifically, the authorities have (i) provided training to budget inspectors at the central and local levels, (ii) published in the budget law a limited list of expenditures that could be executed outside normal budgetary

(continued)

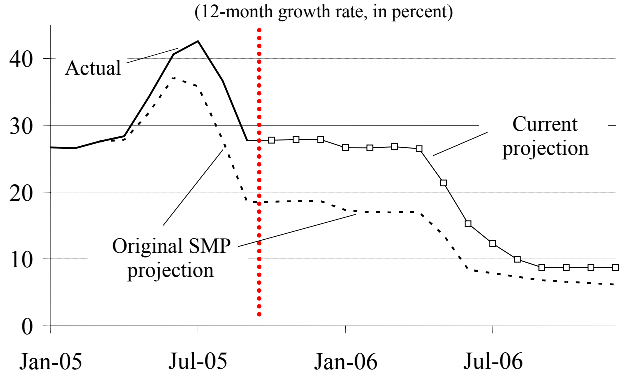
28. **The mission expressed concerns about certain recent fiscal measures.** First, the government pledged future tax revenues as guarantees for funds advanced from the large mining companies to pay for current government obligations, a practice that introduces significant rigidity into the budget.[21] The authorities have committed in their November 2005 MEFP (Appendix I, paragraph 13) to stop using future tax payments to pay for current obligations. Second, the government agreed to provide a subsidy—in the form of an exchange rate guarantee—to rice importers during July-September 2005. This arrangement, which in the end was never operative, constituted an open-ended and unbudgeted fiscal commitment and could have distorted the operation of the foreign exchange market. The authorities also have committed in their November 2005 MEFP (Appendix I, paragraph 13) to avoiding any such exchange rate guarantee scheme in the future.

29. **The authorities have started work on the 2006 budget.** Budget estimates are based on ongoing efforts to strengthen revenue collection, control the expansion of expenditures, eliminate central bank financing of the government, and reduce domestic and external arrears. The authorities have expressed their intention to improve the coverage of financial operations of public administration entities in government statistics.

## B. Monetary and Exchange Rate Policies

30. **Although inflation remains above the authorities' objective for 2005, the staff agreed with the authorities that the overall stance of financial policies remains broadly adequate.** The main reason for the inflation overrun is related to the higher-than-expected depreciation of the Guinea franc; as discussed above (paragraph 12), the pent-up demand for foreign currency assets which lies behind the rapid depreciation during March-July 2005 has been largely satisfied. At the same time, the authorities intend to implement the additional measures necessary to ensure the smooth operation of the new foreign exchange market.

Figure 7. Guinea: Actual and Projected Inflation, 2005-06
(12-month growth rate, in percent)




Source: Guinean authorities; and IMF staff estimates.

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procedures, and (iii) adopted ceilings for public procurement contracts that could be awarded by regional offices.

[21] The main mining companies agreed to provide Guinea with tax advances of US$18 million in August 2005 (½ percent of GDP); these resources are being used to pay external creditors, including the IMF. The authorities indicated that these funds have been provided at no interest and will be repaid over one to two years through deductions from taxes owed by the mining companies. These tax advances are reflected fully in the fiscal accounts as nonbank financing.

31. **To strengthen the operation of the new foreign exchange market and fully address the remaining multiple currency practice, the staff underscored the need to implement additional measures**, guided by the recommendations of the August 2005 MFD technical assistance mission.[22] These measures include obtaining information from banks that would allow calculation of a weighted average reference exchange rate on an intra-day basis, publishing the reference rate daily, and ensuring that the information provided by the banks reflects true market conditions. Also, the mission proposed that the central bank reorganize and modernize its foreign exchange department by separating front-office and back-office operations, improving the flow of statistical information for decision making, and hiring additional staff. Finally, the mission encouraged the central bank to eliminate the backlog in banks' foreign exchange transfers abroad.[23] It also emphasized the need to design a market-based strategy that would allow the central bank to manage its net foreign assets more flexibly. The authorities agreed with the thrust of the staff's recommendations.

32. **The staff also emphasized the need to reinforce central bank liquidity management, so as to better transmit to the market the stance of monetary policy and support the central bank's operations in the foreign exchange market**. Currently, mostly reflecting the lack of lending opportunities, the banking system maintains a very large level of unremunerated excess reserves in the central bank.[24] These large levels of excess reserves do not provide an adequate framework for the conduct of monetary policy, as banks do not need to access central bank financing. To mop up banks' large excess liquidity, the central bank increased the reserve requirement coefficient on bank deposits from 5½ percent to 9½ percent in October 2005.[25] Also, the central bank plans to enhance the role of the auctions of central bank bills (TRMs) as a monetary policy instrument, in part by holding auctions separate from treasury bond auctions. In parallel, it will reactivate the treasury committee to improve communication between the treasury and the central bank and will set up an internal committee to refine liquidity forecasting and management.

33. **Earlier this year, the central bank's international reserves were adjusted downward by US$23 million (about one-third of a month of imports)**.[26] This adjustment, prompted in part by the IMF safeguards process, reflected a 2003 central bank cash payment to a government supplier that had not been recorded previously. Following the adjustment of the central bank accounts, the government launched a formal inquiry into the unrecorded payment. It has now been clarified that the supplier, which also received payment from the

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[22] MFD will provide further technical assistance to follow up on the implementation of these recommendations.

[23] The backlog in banks' foreign exchange transfers abroad was reduced from more than US$18 million at the onset of the market unification to US$2½ million by end-September 2005.

[24] As of June 2005, banks' excess reserves in the central bank amounted to over 2½ times the level of required reserves.

[25] The authorities indicated that they may consider a further increase to 11½ percent if excess bank liquidity continues to be a problem.

[26] Central bank credit to the private sector was adjusted upward by the same amount.

government in the form of treasury bonds, was effectively paid twice for the same operation. At this stage no legal action has been pursued; however, the inquiry commission has yet to conclude its deliberations. Nevertheless, the central bank has initiated action to ensure that the supplier repays the central bank with the proceeds of the treasury bonds as they mature; the staff emphasized the need to use these resources to rebuild international reserves.

## C. Banking Sector

34. **The authorities are implementing changes in the legal and supervisory framework for the banking system.** Following MFD recommendations, the central bank is deepening the capacity of its banking supervision department and is stepping up on-site bank inspections. The new banking law, adopted in July 2005, and the microfinance law, which has already been submitted to the National Assembly, will also help to strengthen the central bank's supervisory role. The staff emphasized the need to ensure that all banks comply with minimum capital requirements and other prudential ratios. With regard to measures to combat money laundering and the financing of terrorism, the authorities indicated their commitment to accelerate implementation of measures to address these issues; a law is being finalized and will be presented to the National Assembly by the end of the year.[27]

## D. External Sector Policies and Debt

35. **Guinea's adoption of the WAEMU common external tariff and removal of nontariff barriers have resulted in a more open trade regime.** The authorities indicated that they would continue to promote export diversification while maintaining a liberal trade system. To this end, they intend to follow up on measures recommended by the 2003 Diagnostic Trade Integration Study (DTIS) to reduce supply constraints. They are also actively participating in regional trade integration initiatives, notably in the context of ECOWAS, designed to improve trade-related institutions and infrastructure in the region.

36. **Despite a series of external sector reforms undertaken since the mid-1990s, the lack of diversification of exports leaves Guinea vulnerable to exogenous shocks.** The authorities have identified agricultural products, fishing, and tourism as the key sectors through which export diversification could be pursued. The lack of appropriate infrastructure and storage facilities and weaknesses in the provision of public and financial services are key impediments to export diversification[28]

37. **The 2005 budget provides for the payment of all external current debt obligations and the settlement of US$8.4 million (0.2 percent of GDP) of external**

[27] MFD has provided detailed comments on the draft of this law.

[28] Guinea performs below the average among sub-Saharan African countries on 13 out of 39 survey-based indicators of the business environment compiled by the World Bank. See the accompanying Selected Issues Paper on competitiveness and the equilibrium exchange rate.

**arrears**, notably to multilateral creditors and on post-cutoff Paris Club debt.[29] The authorities continue, in parallel, to seek a rescheduling of existing debt as an interim step to a comprehensive solution under the enhanced HIPC Initiative.

38. **The update of the external debt sustainability analysis (DSA) undertaken jointly by the IMF and the World Bank confirms that Guinea's external debt will remain unsustainable until it benefits from the HIPC completion point and the MDRI (see Appendix V)**. The net present value of debt-to-exports ratio at end-2004 is estimated at about 192 percent, which is well above the policy-based indicative threshold of 100 percent. Under a scenario that includes reaching the HIPC completion point and the MDRI in 2007, the net present value of debt-to-exports ratio would be reduced and remain below the 100 percent threshold over the 2007-25 projection period, thus reestablishing external debt sustainability.[30]

Macoeconomic Assumptions of the DSA
(In percent of GDP, unless otherwise indicated)

| | 1995-2004 | 2005 | 2006-08 | 2009-15 | 2016-25 |
|---|---|---|---|---|---|
| Real GDP (% change) | 3.8 | 3.0 | 5.5 | 5.1 | 5.0 |
| GDP deflator (% change) | 6.7 | 28.7 | 8.2 | 4.6 | 4.3 |
| Government revenue | 11.0 | 12.8 | 13.2 | 14.7 | 17.2 |
| Government expenditure | 17.2 | 14.0 | 14.0 | 15.5 | 18.7 |
| Primary balance | 1.1 | 2.9 | 3.8 | 3.5 | 2.9 |
| Overall balance (commitment basis) | | | | | |
| Including grants | -3.5 | -1.2 | -0.5 | -0.6 | -1.3 |
| Excluding grants | -6.2 | -2.0 | -0.9 | -0.8 | -1.5 |
| Exports of GNFS | 22.0 | 26.9 | 27.6 | 27.9 | 29.7 |
| Imports of GNFS | 25.8 | 29.5 | 29.6 | 29.8 | 30.9 |
| Current account | | | | | |
| Including public transfers | -6.1 | -3.8 | -3.1 | -2.6 | -1.8 |
| Excluding public transfers | -7.0 | -4.6 | -3.5 | -2.8 | -1.9 |

1/ Consumer price index.

39. **The staff and the authorities concurred that successful implementation of Guinea's reform program would be an important step toward the resumption of external budget support.** With weak program implementation, most donors have stopped their budgetary assistance to Guinea since 2002. The European Union, Guinea's main provider of budgetary aid, could resume its assistance in 2006, once the municipal elections are completed and if a PRGF-supported program is in place. Other donors have also indicated their willingness to resume assistance if Guinea agrees on a financial program with the IMF.

40. **Guinea had difficulty making payments to the IMF until August 2005, but has since taken action to prevent further delays.** In line with their new strategy of making advance deposits in their SDR account, the authorities have deposited enough funds in the

[29] Guinea has obtained informal agreement on debt service forbearance with selected Paris Club members. Rescheduling agreements have been concluded with the Arab Bank for Economic Development in Africa, the Saudi Fund for Development and the Islamic Development Bank, and an agreement with Romania is expected by end-December 2005.

[30] This scenario assumes continued implementation of sound macroeconomic policies and structural reforms under the SMP, followed by adoption of a PRGF-supported program in 2006, attainment of the HIPC completion point and MDRI in early 2007, and no major exogenous shock or policy reversal after 2007. The scenario reflects the authorities' macroeconomic framework for 2005-08 and conservative macroeconomic assumptions beyond 2008.

account to cover all obligations to the IMF falling due until the end of 2005. The staff emphasized that timely payments to the IMF are an essential component of establishing a good policy track record.

## E. Domestic Petroleum Sector

41. **The authorities agreed with the mission on the need to adopt an automatic price adjustment mechanism for petroleum products in the domestic market.** As part of the 2006 budget law, they intend to implement a mechanism which will fully reflect exchange rate and international oil price conditions. The authorities indicated that they would aim at a price structure similar to that in neighboring countries, including if necessary by reducing current taxes. The mission, however, emphasized that if the authorities reduce taxes, they would need to identify alternative revenue sources so as not to weaken the fiscal outlook. In the meantime, the authorities indicated that they will implement limited adjustments of domestic oil prices during the last quarter of 2005. Despite the large price hike decreed last May, and owing to the rapid increase in international oil prices and the depreciation of the Guinean franc, petroleum products are currently being sold at a loss in the domestic market. According to the authorities, the accumulated losses of the petroleum companies exceed US$10 million (⅓ percent of GDP); the oil companies' weaker financial position may impair their ability to ensure the necessary bank financing for oil imports.[31]

## F. Business Environment

42. **To enhance Guinea's medium-term growth prospects, the government is working to improve the business environment for the private sector by implementing structural reforms, improving investment conditions in the mining sector, and strengthening the judicial system.** On the structural front, it has adopted action plans to improve the quality and availability of electricity and water; in the area of telecommunications, it has adopted a new regulatory framework and is preparing the enabling legislation. Privatization of government assets is also a component of the structural reform program; the shares or assets of 10 government companies will be sold in 2005 (including shares in the largest domestic bank), and the authorities intend to privatize 20 enterprises over the next three years.[32] The staff encouraged the authorities to implement the sectoral action plans and to move forward as planned in the area of privatization.

[31] A mechanism is in place whereby, whenever the sale price of petroleum products differs from the actual cost by more than 5 percent, the resulting loss or gain for the oil companies is lodged in an account called the *arrondi.* The oil companies' accumulated losses in this account constitute a contingent government liability. Normally, losses and gains are expected to cancel out over time; however, owing to the failure of domestic prices to keep pace with market conditions for most of the period since mid-2003, the *arrondi* account has now accumulated a loss of the amount noted.

[32] The World Bank is assisting the authorities in these efforts.

43. **The government is taking measures to improve investment conditions and transparency in the mining sector**. It will review the legal framework for investment in the sector to align it with international best practices, while the government's recent participation in the Extractive Industry Transparency Initiative (EITI) will help improve transparency in state-investor relations.[33] A new mining sector policy statement that embodies these policy initiatives will be finalized soon.

44. **The mission discussed with the authorities recent progress in strengthening governance and the judicial system, and encouraged them to continue moving forward**. The recently held national and regional seminars on governance and corruption led to the adoption of an action plan to combat corruption. The National Agency to Combat Corruption has been strengthened, and an anticorruption law will be submitted to the National Assembly during the first half of 2006. Finally, the authorities are implementing the decrees signed in March 2005 on the reorganization of the judicial system.

## G. Poverty Reduction Strategy

45. **Despite the economic difficulties of the last few years, the authorities have continued making efforts to implement the policies and measures included in the poverty reduction strategy paper (PRSP).** The mission underscored the close link between a stable macroeconomic situation and the possibility of implementing far-reaching poverty-reducing policies. The mission also stressed the need to ensure that sectoral investment plans reflect the government priorities set out in the PRSP.

46. **The government is finalizing the second annual progress report on the implementation of the poverty reduction strategy (PRS**). While progress has been made in the priority sectors, especially in education, the overall implementation has been hampered by Guinea's macroeconomic instability. The authorities indicated that they had not been able to compensate for the lower levels of foreign assistance received in 2003 and 2004 by mobilizing additional domestic resources and that better macroeconomic management could help correct some of the obstacles encountered in 2004. The authorities are concentrating their efforts in (i) trying to improve the policy formulation process and its link to budgetary resources and (ii) putting in place a system of performance indicators that could facilitate closer monitoring of the budget strategy.

47. **In February 2005, the authorities, with the assistance of donors, completed a second progress report on achieving the Millennium Development Goals (MDGs).** The report concluded that reaching the MDGs remains a significant challenge, particularly (i) the eradication of poverty and hunger, (ii) the promotion of gender equality, and

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[33] The first EITI workshop was held in April 2005. The government issued a decree establishing the EITI Steering Committee in June 2005. On July 1, the second meeting of the EITI Steering Committee took place, approving a set of rules and procedures to implement the EITI. The process to select an international auditor will start in November 2005. Publication of nonaudited data is expected to begin by March 2006, and the target date to publish audited data is June 2006.

(iii) environmental protection and access to safe water. The authorities intend to adopt in 2006 an action plan to alleviate the key obstacles to achieving the MDGs, particularly in the above three areas. They concurred with the staff, however, that a pro-poor growth strategy and an annual economic growth rate higher than 6 percent would be needed beyond 2008 to reach the MDGs.

### H. Statistical Issues

48. **Although available statistics allow for adequate program monitoring, improvements are needed in several areas.** Monetary and fiscal statistics are generally adequate, although unrecorded transactions remain a concern. The compilation of real sector and balance of payment statistics, however, needs to be substantially improved. The staff encouraged the authorities to improve the collection and reconciliation of external and domestic debt data to get ready for a full-fledged DSA that will be required if Guinea reaches the completion point under the HIPC Initiative.

49. **Guinea became a participant in the General Data Dissemination System (GDDS) in December 2003.** The mission encouraged the authorities to design an overall strategy to comply with the country's obligations under the GDDS, to be included in the PRSP framework, that could be supported by the IMF's Statistics Department and other donors.

50. **SMP program implementation will continue to be monitored on the basis of the quantitative targets and structural benchmarks specified in the authorities' memorandum of May 31, 2005.** The next quarterly staff assessment of the program will take place on the basis of data for end-September 2005.

## IV. Staff Appraisal

51. **If the authorities maintain sound policies, the Guinean economy could reach an average real GDP growth rate of 6 percent in the medium term and single-digit inflation even sooner.** The key policy areas to consolidate recent progress and move towards such medium term objectives include strengthening government revenue mobilization and expenditure management; reinforcing the operations of the central bank; deepening structural reforms, including in the foreign exchange market and public utilities; addressing institutional and capacity constraints to policy design and implementation; and improving the business environment for the private sector. External debt relief in the context of the enhanced HIPC Initiative and the MDRI is also an essential element of the medium-term scenario.

52. **The staff welcomes the authorities' efforts in tightening macroeconomic policy under the framework of the SMP.** Since the beginning of the second quarter of 2005, the government has pursued tight fiscal and monetary policies in lieu of the prior expansionary fiscal stance and accommodative monetary policy. Also, the staff welcomes the authorities'

determination to reform the foreign exchange market, customs and tax administration, expenditure management, and the public utilities.

53. **The staff commends the authorities for the measures taken in March 2005 to unify and liberalize the foreign exchange market.** These steps have been key to making the exchange rate flexible and market-determined, which has allowed the real exchange rate to come close to its underlying equilibrium value. The staff urges the authorities to take all necessary measures to deepen the reform of the foreign exchange market, including efforts to ensure daily and accurate reporting by the banks of their foreign exchange transactions and measures to reorganize the foreign exchange department of the central bank. The staff also notes that the changes in the foreign exchange market have eliminated the multiple currency practice arising from the previous institutional setup. However, a multiple currency practice is still in effect; the staff does not recommend its approval and encourages the authorities to eliminate it by calculating the reference exchange rate on the basis of intra-day exchange rates quoted by banks and exchange bureaus.

54. **Progress so far towards achieving macroeconomic stability is fragile as evidenced by the fact that inflation, although declining, exceeds the authorities' objective.** As stated in the attached Letter of Intent and MEFP (Appendix I), the authorities have committed to implementing all necessary additional policies to strengthen macroeconomic stabilization and achieve the SMP's objectives. They would thereby build the track record that would allow Guinea to move eventually to an IMF-supported arrangement.

55. **The authorities' immediate challenges are to bring inflation under control and to ensure that the central bank can achieve its net foreign assets objective.** They must therefore continue implementing tight fiscal policies, strengthen the operation of the foreign exchange market, and reinforce the central bank's liquidity management operations.

56. **The 2006 government budget should embody a prudent fiscal policy, consistent with the stabilization objective for next year.** The budget framework should be based on improving revenue collection, controlling expenditure while allowing the allocations to priority sectors to expand, and containing bank financing in line with prudent monetary management. Continued progress in customs and tax administration and in public expenditure management will be key to achieving these objectives. The 2006 budget also will include measures to ensure that petroleum products in the domestic market are priced in line with international prices.

57. **The staff welcomes the authorities' structural reform and governance measures and encourages them to continue pursuing those objectives.** Efforts to improve the operations of the water and electricity companies are essential to enhance growth prospects and the well-being of the population. Progress in the divestiture program is needed to boost economic efficiency. The steps the authorities are taking to combat corruption and improve the justice system will reduce the costs of doing business in Guinea.

58. **The extent of poverty in Guinea remains worrisome.** The staff encourages the authorities to give priority to the social sectors in government spending and investment plans. These efforts should be undertaken within the PRSP framework; the staff encourages the authorities to keep their PRSP under constant review and ensure that the investment plans of the different government agencies reflect the priorities set out in the PRSP.

59. **Guinea had significant difficulties in the past in making payments to the IMF on time.** To prevent this problem from recurring, the authorities are depositing funds in their SDR account in advance of upcoming obligations. The staff encourages them to address the underlying difficulties that gave rise to the repeated delays in payments—such as poor planning and those arising from unpredictability of foreign exchange inflows.

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

Table 1. Guinea: Selected Economic and Financial Indicators, 2003-08

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|
| | | Est. | | Proj. | | |
| | | (Annual percentage change, unless otherwise indicated) | | | | |
| Income | | | | | | |
| GDP at constant prices | 1.2 | 2.7 | 3.0 | 5.0 | 5.4 | 6.1 |
| GDP at current prices | 13.7 | 24.9 | 32.6 | 18.9 | 12.7 | 10.8 |
| GDP deflator | 12.3 | 21.7 | 28.7 | 13.3 | 6.9 | 4.4 |
| Consumer prices | | | | | | |
| Average | 12.9 | 17.5 | 31.1 | 17.6 | 7.0 | 5.0 |
| End of period | 14.8 | 27.6 | 27.9 | 8.7 | 5.0 | 5.0 |
| External sector | | | | | | |
| Exports, f.o.b. (in U.S. dollar terms) | 3.3 | 1.6 | 8.5 | 1.9 | 8.2 | 8.2 |
| Imports, f.o.b. (in U.S. dollar terms) | -3.0 | 22.4 | -0.7 | 4.9 | 4.8 | 6.3 |
| Terms of trade | | | | | | |
| Percentage change | -2.4 | -16.8 | -11.0 | -3.0 | 1.0 | 1.7 |
| Average effective exchange rates (depreciation -) | | | | | | |
| Nominal index | -11.7 | -17.3 | ... | ... | ... | ... |
| Real index | -4.3 | -5.7 | ... | ... | ... | ... |
| Money and credit | | | | | | |
| Net foreign assets 1/ | -15.2 | 10.1 | 12.3 | 3.4 | 8.1 | 9.8 |
| Net domestic assets 1/ | 50.5 | 26.9 | 21.3 | 7.1 | 5.3 | 2.3 |
| Net claims on government ( net) 1/ | 34.0 | 22.2 | 6.6 | 8.1 | 2.2 | -2.4 |
| Credit to nongovernment sector 1/ | 14.2 | 3.2 | 7.9 | 1.4 | 4.4 | 5.8 |
| Broad money | 35.3 | 37.0 | 33.6 | 10.5 | 13.4 | 12.1 |
| Reserve money | 27.4 | 33.0 | 27.7 | 8.8 | 8.9 | 8.4 |
| Treasury bill rate (end of period) | 14.1 | 14.7 | ... | ... | ... | ... |
| Velocity (GDP relative to average M2) | 7.7 | 7.0 | 6.9 | 6.8 | 6.8 | 6.7 |
| | | | (In percent of GDP) | | | |
| Central government finances | | | | | | |
| Total revenue and grants | 13.2 | 11.4 | 12.8 | 13.4 | 13.5 | 13.7 |
| *Of which:* nonmining revenue | 9.0 | 8.5 | 9.1 | 9.2 | 9.5 | 9.5 |
| Current expenditure | 13.0 | 11.3 | 9.9 | 9.7 | 9.9 | 9.9 |
| Capital expenditure and net lending 2/ | 6.3 | 5.0 | 4.1 | 4.1 | 4.1 | 4.3 |
| Overall budget balance | | | | | | |
| Including grants (commitment) | -6.1 | -4.9 | -1.2 | -0.5 | -0.5 | -0.5 |
| Excluding grants (commitment) | -8.9 | -5.9 | -2.0 | -1.2 | -0.7 | -0.7 |
| Primary balance | -2.6 | -0.4 | 2.9 | 3.6 | 3.9 | 3.9 |
| Gross investment | 9.9 | 10.9 | 12.0 | 13.2 | 14.5 | 15.4 |
| Government (fixed capital formation) | 4.4 | 3.9 | 3.2 | 3.3 | 3.2 | 3.4 |
| Nongovernment | 5.5 | 6.9 | 8.8 | 10.0 | 11.2 | 12.0 |
| Domestic savings | 7.5 | 6.8 | 9.4 | 10.5 | 12.6 | 14.1 |
| Government | -0.4 | 1.6 | 4.5 | 5.3 | 5.4 | 5.6 |
| Nongovernment | 8.0 | 5.2 | 4.9 | 5.2 | 7.2 | 8.5 |
| External current account balance | | | | | | |
| Including official transfers | -3.4 | -5.5 | -3.8 | -3.8 | -3.0 | -2.5 |
| Excluding official transfers | -4.1 | -5.8 | -4.6 | -4.5 | -3.3 | -2.7 |
| Overall balance of payments | -3.8 | -2.5 | 0.1 | -1.0 | -0.5 | 0.1 |
| | | (In percent of exports of goods and nonfactor services) | | | | |
| External public debt | 419.6 | 396.9 | 368.9 | 366.0 | 346.4 | 327.0 |
| Memorandum items: | | (In millions of U.S. dollars, unless otherwise indicated) | | | | |
| Exports f.o.b. | 731.7 | 743.2 | 806.6 | 821.7 | 888.7 | 961.4 |
| Imports f.o.b. | 578.5 | 707.9 | 703.2 | 737.6 | 772.8 | 821.9 |
| External current account (including official transfers) | -123.2 | -219.4 | -123.9 | -123.1 | -105.0 | -94.7 |
| Overall balance of payments | -138.2 | -99.8 | 3.9 | -32.1 | -16.4 | 2.3 |
| Net foreign assets (central bank) | -33.4 | -29.6 | 12.1 | 37.4 | 68.2 | 111.7 |
| Gross official reserves (in months of imports) | 1.2 | 0.8 | 1.3 | 1.6 | 2.0 | 2.5 |
| Gross reserves (in percent of broad money) | 20.9 | 15.8 | 24.0 | 26.5 | 31.4 | 38.1 |
| Nominal GDP (in billions of Guinean francs) | 7,210 | 9,004 | 11,939 | 14,191 | 15,994 | 17,718 |

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

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

2/ Includes expenditure for restructuring.

Table 2. Guinea: GDP at Current Prices by Demand Components, 2002-08

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|
| | | | | | Proj. | | |
| | | | (In billions of Guinean francs) | | | | |
| GDP at market prices | 6,340.3 | 7,209.8 | 9,004.1 | 11,938.5 | 14,190.8 | 15,993.6 | 17,718.0 |
| Consumption | 5,763.6 | 6,668.7 | 8,393.9 | 10,817.5 | 12,702.8 | 13,978.2 | 15,223.4 |
| Public | 477.5 | 559.5 | 566.8 | 689.5 | 799.3 | 944.4 | 1,052.7 |
| Private | 5,286.1 | 6,109.2 | 7,827.0 | 10,128.0 | 11,903.5 | 13,033.9 | 14,170.7 |
| Investment | 828.0 | 711.2 | 977.4 | 1,435.9 | 1,875.3 | 2,312.2 | 2,731.5 |
| Fixed capital formation | 814.4 | 707.5 | 976.2 | 1,435.0 | 1,874.8 | 2,311.6 | 2,730.9 |
| Government | 254.9 | 317.7 | 355.2 | 387.7 | 462.8 | 519.6 | 604.4 |
| Other sectors | 559.5 | 389.8 | 621.0 | 1,047.3 | 1,411.9 | 1,792.1 | 2,126.5 |
| Change in stocks | 13.7 | 3.7 | 1.1 | 0.9 | 0.5 | 0.6 | 0.6 |
| Foreign balance | -251.4 | -170.2 | -367.2 | -314.9 | -387.3 | -296.8 | -236.9 |
| Exports of goods and nonfactor services | 1,550.9 | 1,601.7 | 1,868.5 | 3,219.3 | 3,919.8 | 4,458.8 | 4,918.4 |
| Imports of goods and nonfactor services | 1,802.3 | 1,771.8 | 2,235.7 | 3,534.2 | 4,307.1 | 4,755.6 | 5,155.2 |
| | | | (In percent of GDP) | | | | |
| GDP at market prices | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Consumption | 90.9 | 92.5 | 93.2 | 90.6 | 89.5 | 87.4 | 85.9 |
| Public | 7.5 | 7.8 | 6.3 | 5.8 | 5.6 | 5.9 | 5.9 |
| Private | 83.4 | 84.7 | 86.9 | 84.8 | 83.9 | 81.5 | 80.0 |
| Investment | 13.1 | 9.9 | 10.9 | 12.0 | 13.2 | 14.5 | 15.4 |
| Fixed capital formation | 12.8 | 9.8 | 10.8 | 12.0 | 13.2 | 14.5 | 15.4 |
| Government | 4.0 | 4.4 | 3.9 | 3.2 | 3.3 | 3.2 | 3.4 |
| Other sectors | 8.8 | 5.4 | 6.9 | 8.8 | 9.9 | 11.2 | 12.0 |
| Change in stocks | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Foreign balance | -4.0 | -2.4 | -4.1 | -2.6 | -2.7 | -1.9 | -1.3 |
| Exports of goods and nonfactor services | 24.5 | 22.2 | 20.8 | 27.0 | 27.6 | 27.9 | 27.8 |
| Imports of goods and nonfactor services | 28.4 | 24.6 | 24.8 | 29.6 | 30.4 | 29.7 | 29.1 |
| Domestic savings | 9.1 | 7.5 | 6.8 | 9.4 | 10.5 | 12.6 | 14.1 |
| Government | 1.5 | -0.4 | 1.6 | 4.5 | 5.3 | 5.4 | 5.6 |
| Nongovernment | 7.6 | 8.0 | 5.2 | 4.9 | 5.2 | 7.2 | 8.5 |
| Gross national savings | 8.8 | 6.5 | 5.3 | 8.3 | 9.5 | 11.5 | 12.9 |
| Saving-investment balance | -4.3 | -3.4 | -5.5 | -3.8 | -3.8 | -3.0 | -2.5 |
| Current account, including official transfers | -4.3 | -3.4 | -5.5 | -3.8 | -3.8 | -3.0 | -2.5 |

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

Table 3. GDP at Constant 1996 Prices by Sectors, 2002-08

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|
| | | | | | Proj. | | |
| | (In billions of 1996 Guinean francs) | | | | | | |
| GDP at factor cost | 4,716.0 | 4,782.6 | 4,917.7 | 5,044.2 | 5,248.2 | 5,504.7 | 5,800.2 |
| Primary sector | 900.6 | 926.3 | 956.5 | 987.6 | 1,034.5 | 1,085.4 | 1,127.5 |
| Agriculture | 581.9 | 598.8 | 619.8 | 642.1 | 679.3 | 719.7 | 749.3 |
| Livestock | 171.1 | 177.9 | 182.7 | 187.9 | 194.0 | 200.4 | 208.5 |
| Fisheries | 37.1 | 37.9 | 38.8 | 39.5 | 40.1 | 41.3 | 42.5 |
| Forestry | 110.5 | 111.6 | 115.2 | 118.1 | 121.0 | 124.0 | 127.1 |
| Secondary sector | 1,533.9 | 1,539.9 | 1,588.1 | 1,646.3 | 1,733.1 | 1,841.3 | 1,969.5 |
| Mining | 801.2 | 822.0 | 834.3 | 856.0 | 884.2 | 924.5 | 975.3 |
| Manufacturing | 200.9 | 192.8 | 198.5 | 201.5 | 211.5 | 224.2 | 239.2 |
| Water, electricity | 29.1 | 27.5 | 27.8 | 28.1 | 29.3 | 31.3 | 34.1 |
| Construction | 502.7 | 497.7 | 527.5 | 560.8 | 608.1 | 661.4 | 720.9 |
| Tertiary sector | 2,281.6 | 2,316.4 | 2,373.0 | 2,410.3 | 2,480.6 | 2,578.0 | 2,703.2 |
| Trade | 1,248.3 | 1,267.0 | 1,302.5 | 1,319.5 | 1,353.1 | 1,405.2 | 1,468.4 |
| Transport | 281.1 | 283.9 | 288.4 | 292.5 | 302.8 | 314.8 | 330.5 |
| Administration | 257.0 | 260.9 | 267.4 | 270.4 | 278.5 | 290.2 | 302.3 |
| Other | 495.1 | 504.6 | 514.6 | 528.0 | 546.2 | 567.8 | 601.9 |
| Indirect taxes | 207.3 | 201.8 | 199.1 | 225.4 | 282.4 | 324.7 | 385.7 |
| GDP at market prices | 4,923.3 | 4,984.3 | 5,116.8 | 5,269.6 | 5,530.6 | 5,829.4 | 6,185.9 |
| | (Annual percent change) | | | | | | |
| GDP at factor cost | 3.4 | 1.4 | 2.8 | 2.6 | 4.0 | 4.9 | 5.4 |
| Primary sector | 5.1 | 2.9 | 3.3 | 3.2 | 4.8 | 4.9 | 3.9 |
| Agriculture | 5.9 | 2.9 | 3.5 | 3.6 | 5.8 | 6.0 | 4.1 |
| Livestock | 3.9 | 4.0 | 2.7 | 2.9 | 3.2 | 3.3 | 4.1 |
| Fisheries | 3.6 | 2.3 | 2.4 | 1.6 | 1.6 | 3.0 | 3.1 |
| Forestry | 3.0 | 1.0 | 3.2 | 2.5 | 2.5 | 2.5 | 2.5 |
| Secondary sector | 4.7 | 0.4 | 3.1 | 3.7 | 5.3 | 6.2 | 7.0 |
| Mining | 2.9 | 2.6 | 1.5 | 2.6 | 3.3 | 4.6 | 5.5 |
| Manufacturing | 6.0 | -4.0 | 3.0 | 1.5 | 5.0 | 6.0 | 6.7 |
| Water, electricity | 3.0 | -5.5 | 0.9 | 1.0 | 4.3 | 7.0 | 9.0 |
| Construction | 7.3 | -1.0 | 6.0 | 6.3 | 8.5 | 8.8 | 9.0 |
| Tertiary sector | 2.0 | 1.5 | 2.4 | 1.6 | 2.9 | 3.9 | 4.9 |
| Trade | 1.8 | 1.5 | 2.8 | 1.3 | 2.6 | 3.9 | 4.5 |
| Transport | 2.1 | 1.0 | 1.6 | 1.4 | 3.6 | 4.0 | 5.0 |
| Administration | 2.5 | 1.5 | 2.5 | 1.1 | 3.0 | 4.2 | 4.2 |
| Other | 2.0 | 1.9 | 2.0 | 2.6 | 3.5 | 4.0 | 6.0 |
| Indirect taxes | 24.9 | -2.7 | -0.8 | 11.7 | 21.7 | 12.5 | 18.8 |
| GDP at market prices | 4.2 | 1.2 | 2.7 | 3.0 | 5.0 | 5.4 | 6.1 |

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

Table 4. Guinea: Financial Operations of the Government, 2004-08

| | 2004 | 2005 | | | | | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|---|
| | | June | | Sept. | | Dec. | | Proj. | |
| | | Prog. | Actual | Prog. | Est. | Proj. | | | |
| | (In billions of Guinean francs) | | | | | | | | |
| Revenue and grants | 1027.4 | 706.6 | 752.3 | 1069.6 | 1158.0 | 1531.4 | 1901.7 | 2165.9 | 2426.5 |
| Revenue | 936.0 | 658.5 | 716.6 | 992.2 | 1103.5 | 1435.6 | 1798.4 | 2128.8 | 2386.4 |
| Mining sector | 171.0 | 160.5 | 162.1 | 249.5 | 258.5 | 348.8 | 495.8 | 610.7 | 703.6 |
| Nonmining sector | 765.0 | 498.0 | 554.5 | 742.7 | 845.0 | 1086.8 | 1302.6 | 1518.1 | 1682.8 |
| Direct taxes | 117.6 | 81.9 | 96.1 | 121.5 | 143.8 | 168.6 | 199.8 | 225.2 | 249.5 |
| Indirect taxes | 584.7 | 369.7 | 407.3 | 549.9 | 624.3 | 833.6 | 1002.5 | 1179.8 | 1308.1 |
| Goods and services | 402.8 | 257.3 | 269.3 | 383.3 | 403.5 | 557.9 | 660.6 | 781.8 | 866.0 |
| International trade | 181.9 | 112.4 | 138.0 | 166.6 | 220.8 | 275.7 | 341.9 | 398.1 | 442.0 |
| Nontax revenue | 62.6 | 46.4 | 51.1 | 71.3 | 77.0 | 84.6 | 100.3 | 113.0 | 125.2 |
| Grants | 91.4 | 48.1 | 35.7 | 77.5 | 54.5 | 95.8 | 103.2 | 37.1 | 40.2 |
| Project | 58.0 | 21.0 | 11.7 | 33.7 | 19.8 | 27.5 | 32.0 | 37.1 | 40.2 |
| Program | 0.0 | 0.0 | 3.8 | 0.0 | 3.8 | 3.8 | 0.0 | 0.0 | 0.0 |
| HIPC debt relief (multilaterals) | 33.4 | 27.1 | 20.2 | 43.8 | 30.9 | 64.5 | 71.2 | 0.0 | 0.0 |
| Total expenditures and net lending | 1464.2 | 732.8 | 739.9 | 1110.1 | 1204.9 | 1672.6 | 1966.4 | 2243.4 | 2512.0 |
| Current expenditures | 1015.9 | 508.6 | 511.2 | 777.2 | 835.3 | 1183.1 | 1382.3 | 1590.0 | 1752.3 |
| Primary current expenditures | 791.0 | 388.3 | 381.9 | 598.2 | 620.1 | 895.4 | 1049.6 | 1259.4 | 1396.7 |
| Salary and wage | 274.8 | 154.0 | 148.0 | 235.3 | 232.5 | 337.6 | 381.3 | 422.4 | 458.6 |
| Goods and services | 255.7 | 119.5 | 127.9 | 186.7 | 214.1 | 320.6 | 380.0 | 492.5 | 556.5 |
| Transfers and subsidies | 260.4 | 114.8 | 106.0 | 176.3 | 173.5 | 237.3 | 288.3 | 344.4 | 381.6 |
| Interest on debt | 224.9 | 120.3 | 129.3 | 179.0 | 215.2 | 287.7 | 332.7 | 330.6 | 355.6 |
| Domestic debt | 104.3 | 54.0 | 59.6 | 81.1 | 99.5 | 127.3 | 140.0 | 140.9 | 134.0 |
| External debt | 120.6 | 66.2 | 69.8 | 97.9 | 115.8 | 160.4 | 192.7 | 189.7 | 221.6 |
| Capital expenditure | 444.0 | 222.1 | 227.5 | 329.4 | 367.3 | 484.7 | 578.6 | 649.4 | 755.6 |
| Domestically financed | 181.1 | 82.1 | 83.5 | 130.7 | 135.7 | 183.8 | 227.9 | 242.8 | 300.8 |
| Investment | 178.0 | 77.2 | 78.7 | 123.2 | 130.6 | 173.8 | 216.2 | 248.6 | 285.9 |
| Capital transfer | 3.1 | 5.0 | 4.8 | 7.5 | 5.2 | 9.9 | 11.7 | 13.4 | 14.9 |
| Externally financed | 262.9 | 140.0 | 144.1 | 198.7 | 231.6 | 300.9 | 350.6 | 406.6 | 454.7 |
| Net lending | 0.7 | 1.2 | 0.1 | 2.4 | 0.1 | 2.8 | 3.4 | 1.7 | 1.9 |
| Restructuring expenditures | 3.6 | 0.9 | 1.0 | 1.1 | 2.1 | 2.1 | 2.2 | 2.3 | 2.3 |
| Primary balance 1/ | -40.3 | 186.0 | 250.2 | 259.7 | 345.5 | 351.6 | 515.3 | 622.7 | 684.7 |
| Overall balance, commitments basis | | | | | | | | | |
| Excluding grants | -528.1 | -74.3 | -23.2 | -118.0 | -101.4 | -237.0 | -168.0 | -114.6 | -125.6 |
| Including grants | -436.8 | -26.2 | 12.5 | -40.5 | -46.9 | -141.2 | -64.7 | -77.5 | -85.5 |
| Change in arrears | 47.9 | 4.0 | -0.3 | -0.7 | -10.0 | -15.1 | -10.0 | -15.6 | 0.0 |
| Domestic | 21.4 | 4.7 | 4.7 | 0.0 | -0.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest on external debt | 26.5 | -0.8 | -5.1 | -0.8 | -9.7 | -15.1 | -10.0 | -15.6 | 0.0 |
| Change in float 2/ | --- | -97.3 | -20.5 | -94.6 | -104.8 | 10.0 | 0.0 | 0.0 | 0.0 |
| Adjustment for balances of public administration | -20.9 | 1.1 | 22.4 | -9.0 | 35.4 | 6.4 | -10.0 | -10.0 | -5.0 |
| Adjustment for foreign exchange loss | -34.5 | --- | --- | --- | --- | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance, cash basis | -444.3 | -118.5 | 14.1 | -144.7 | -126.3 | -139.9 | -84.7 | -103.1 | -90.5 |

Table 4. Guinea: Financial Operations of the Government, 2004-08 (concluded)

| | 2004 | 2005 | | | | | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|---|
| | | June | | Sept. | | Dec. | Proj. | | |
| | | Prog. | Actual | Prog. | Est. | Proj. | | | |
| | (In billions of Guinean francs) | | | | | | | | |
| Financing | 444.3 | 118.5 | -14.1 | 144.7 | 126.3 | 139.9 | -198.6 | -257.2 | -169.9 |
| Domestic financing | 322.5 | 77.4 | -72.9 | 109.3 | 18.2 | 152.3 | -56.6 | -31.4 | -75.0 |
| Banking financing | 240.4 | 123.7 | -30.1 | 169.1 | -33.9 | 98.0 | 161.6 | 49.0 | -60.0 |
| Central bank | 197.4 | 57.3 | 9.9 | 59.7 | -73.9 | -42.0 | 18.6 | 20.0 | -30.0 |
| *of which* HIPC account | -6.9 | -1.6 | -14.1 | 2.4 | -16.7 | 5.2 | 18.6 | 20.0 | ... |
| Other banks | 43.1 | 66.4 | -40.0 | 109.4 | 40.0 | 140.0 | 143.0 | 29.0 | -30.0 |
| Nonbank financing | 82.1 | -46.3 | -42.8 | -59.8 | 52.1 | 54.3 | -218.2 | -80.4 | -15.0 |
| Privatization revenue | 3.7 | 0.0 | 1.3 | 7.5 | 75.9 | 86.7 | 5.0 | 5.0 | 5.0 |
| Government bonds ("*titres*") | 67.4 | -23.6 | -21.5 | -36.2 | -50.4 | -66.5 | -141.3 | -16.0 | 0.0 |
| Other government bonds | 36.0 | -10.7 | -10.7 | -16.0 | 40.1 | 52.6 | -62.3 | -49.4 | 0.0 |
| Amortization of domestic debt | -25.0 | -12.1 | -11.9 | -15.1 | -13.5 | -18.6 | -19.6 | -20.0 | -20.0 |
| External financing | 121.8 | 41.1 | 58.8 | 35.4 | 108.1 | -12.4 | -142.0 | -225.9 | -94.9 |
| Drawings | 204.9 | 119.0 | 132.3 | 165.0 | 211.8 | 273.4 | 318.6 | 369.5 | 414.6 |
| Projects | 204.9 | 119.0 | 132.3 | 165.0 | 211.8 | 273.4 | 318.6 | 369.5 | 414.6 |
| Program | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Amortization due | -288.4 | -194.5 | -199.5 | -276.4 | -301.9 | -448.7 | -584.5 | -592.0 | -599.7 |
| Traditional rescheduling obtained | 80.0 | 36.8 | 38.0 | 55.7 | 61.2 | 84.3 | 77.1 | 95.6 | 90.2 |
| HIPC debt relief (bilaterals) | 0.0 | 2.9 | 3.8 | 7.6 | 7.0 | 17.1 | 23.7 | 0.0 | 0.0 |
| Suspended debt service to Paris Club | 45.7 | 40.4 | 37.4 | 62.7 | 69.7 | 98.9 | 126.7 | 0.0 | 0.0 |
| HIPC resources committed but not spent | -3.1 | 3.7 | 6.7 | 0.0 | 15.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in amortization arrears | 84.0 | 33.7 | 40.0 | 21.9 | 46.8 | -31.5 | -98.0 | -99.0 | 0.0 |
| Debt repurchase | -1.4 | -0.8 | 0.0 | -1.3 | -1.6 | -5.9 | -5.6 | 0.0 | 0.0 |
| Errors and omissions / financing gap | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 283.4 | 360.3 | 260.4 |
| Errors and omissions / financing gap (in millions of U.S. dollars) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 65.5 | 79.0 | 56.0 |
| Memorandum items: | (In percent of GDP, unless otherwise indicated) | | | | | | | | |
| Expenditure in priority sectors | | | | | | | | | |
| In billions of GNF | 263.9 | 181.1 | 182.9 | 280.8 | 301.6 | 406.9 | 480.0 | 576.0 | 670.8 |
| In percent of GDP | 2.9 | 1.5 | 1.5 | 2.4 | 2.5 | 3.4 | 3.4 | 3.6 | 3.8 |
| *of which* : nonwage expenditure | | | | | | | | | |
| In billions of GNF | 119.0 | 100.1 | 102.3 | --- | 174.1 | 234.8 | 259.2 | 311.0 | 362.2 |
| In percent of GDP | 1.3 | 0.8 | 0.9 | --- | 1.5 | 2.0 | 1.8 | 1.9 | 2.0 |
| Revenue and grants | 11.4 | 5.9 | 6.3 | 9.0 | 9.7 | 12.8 | 13.4 | 13.5 | 13.7 |
| Revenue | 10.4 | 5.5 | 6.0 | 8.3 | 9.2 | 12.0 | 12.7 | 13.3 | 13.5 |
| Mining | 1.9 | 1.3 | 1.4 | 2.1 | 2.2 | 2.9 | 3.5 | 3.8 | 4.0 |
| Nonmining | 8.5 | 4.2 | 4.6 | 6.2 | 7.1 | 9.1 | 9.2 | 9.5 | 9.5 |
| Expenditures and net lending | 16.3 | 6.1 | 6.2 | 9.3 | 10.1 | 14.0 | 13.9 | 14.0 | 14.2 |
| Primary current expenditures | 8.8 | 3.3 | 3.2 | 5.0 | 5.2 | 7.5 | 7.4 | 7.9 | 7.9 |
| Wage bill | 3.1 | 1.3 | 1.2 | 2.0 | 1.9 | 2.8 | 2.7 | 2.6 | 2.6 |
| Capital expenditure | 4.9 | 1.9 | 1.9 | 2.8 | 3.1 | 4.1 | 4.1 | 4.1 | 4.3 |
| Primary balance | -0.4 | 1.6 | 2.1 | 2.2 | 2.9 | 2.9 | 3.6 | 3.9 | 3.9 |
| Overall balance, commitments basis | | | | | | | | | |
| Including grants | -4.9 | -0.2 | 0.1 | -0.3 | -0.4 | -1.2 | -0.5 | -0.5 | -0.5 |
| Excluding grants | -5.9 | -0.6 | -0.2 | -1.0 | -0.8 | -2.0 | -1.2 | -0.7 | -0.7 |
| Overall balance, cash basis | -4.9 | -1.0 | 0.1 | -1.2 | -1.1 | -1.2 | -0.6 | -0.6 | -0.5 |
| Nominal GDP (in billions of Guinean francs) | 9004.1 | 11938.5 | 11938.5 | 11938.5 | 11938.5 | 11938.5 | 14190.8 | 15993.6 | 17718.0 |

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

1/ Revenue minus noninterest expenditure, excluding foreign-financed investment projects.
2/ This item comprises changes in expenditure commitments unpaid during a period of no more than 90 days, beyond which they become arrears. For past year-end data, the change in float is consolidated with the change in domestic arrears.

Table 5. Guinea: Monetary Survey, 2004-08

| | 2004 | 2005 | | | | | | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | March | June | | Sept. | | Dec. | | | |
| | | | Prog. 1/ | Actual | Prog. 1/ | Est. | Proj. | Proj. | | |
| | (In billions of Guinean francs, unless otherwise indicated) | | | | | | | | | |
| Central bank | | | | | | | | | | |
| Net foreign assets | -75.4 | -74.1 | -40.3 | -62.1 | -12.7 | 35.6 | 52.2 | 169.0 | 314.1 | 524.8 |
| (in millions of U.S. dollars) | -29.6 | -22.7 | -12.6 | -16.2 | -3.9 | 8.6 | 12.0 | 37.4 | 68.2 | 111.7 |
| Net domestic assets | 838.7 | 987.4 | 966.5 | 933.6 | 955.2 | 873.1 | 922.5 | 891.5 | 841.1 | 727.9 |
| Domestic credit | 742.0 | 813.8 | 822.1 | 802.2 | 819.3 | 729.0 | 767.2 | 736.2 | 685.7 | 572.6 |
| Government, net | 723.1 | 750.0 | 777.2 | 733.0 | 780.1 | 649.2 | 681.1 | 699.7 | 719.7 | 689.7 |
| *Of which:* gold revaluation claims | 55.4 | 55.4 | 55.4 | 55.4 | 55.4 | 55.4 | 55.4 | 55.4 | 55.4 | 55.4 |
| Public enterprises | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 |
| Private sector | 96.7 | 120.7 | 112.1 | 142.4 | 113.6 | 127.4 | 143.8 | 148.0 | 150.0 | 152.1 |
| Liabilities to deposit money banks (-) | -80.5 | -59.5 | -69.9 | -75.9 | -77.1 | -50.3 | -60.3 | -114.1 | -186.6 | -271.9 |
| *Of which:* sterilization bills (-) | -82.5 | -67.0 | -72.0 | -78.0 | -79.2 | -73.0 | -83.0 | -136.8 | -209.3 | -294.6 |
| Other items, net (assets +) | 96.7 | 173.6 | 144.4 | 131.4 | 136.0 | 144.1 | 155.3 | 155.3 | 155.3 | 155.3 |
| Reserve money | 763.3 | 913.3 | 926.2 | 871.5 | 942.5 | 908.8 | 974.7 | 1,060.5 | 1,155.2 | 1,252.7 |
| Currency outside banks | 604.1 | 656.3 | 678.5 | 647.6 | 701.2 | 705.5 | 763.6 | 826.4 | 887.4 | 950.3 |
| Bank reserves | 154.1 | 252.8 | 246.6 | 219.4 | 240.9 | 195.2 | 211.2 | 234.0 | 267.8 | 302.5 |
| Deposits | 125.5 | 217.2 | 212.3 | 181.0 | 209.5 | 169.5 | 174.8 | 195.6 | 229.0 | 263.1 |
| Required reserves | 48.4 | 56.7 | 58.4 | 61.9 | 60.3 | 65.1 | 115.9 | 129.7 | 151.8 | 174.5 |
| Excess reserves | 77.1 | 160.5 | 153.9 | 119.1 | 149.2 | 104.4 | 58.9 | 65.9 | 77.1 | 88.6 |
| Cash in till | 28.6 | 35.6 | 34.3 | 38.4 | 31.4 | 25.7 | 36.4 | 38.4 | 38.9 | 39.4 |
| Private sector deposits | 5.1 | 4.2 | 1.1 | 4.5 | 0.5 | 8.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| | | | | | | | | | | |
| Deposit money banks | | | | | | | | | | |
| Net foreign assets | 185.0 | 199.3 | 190.5 | 264.8 | 181.8 | 238.3 | 239.8 | 189.9 | 222.3 | 255.4 |
| Bank reserves | 154.1 | 252.8 | 246.6 | 219.4 | 240.9 | 195.2 | 211.2 | 234.0 | 267.8 | 302.5 |
| Deposits at the central bank | 125.5 | 217.2 | 212.3 | 181.0 | 209.5 | 169.5 | 174.8 | 195.6 | 229.0 | 263.1 |
| Cash in till | 28.6 | 35.6 | 34.3 | 38.4 | 31.4 | 25.7 | 36.4 | 38.4 | 38.9 | 39.4 |
| Claims on central bank | 80.5 | 59.5 | 69.9 | 75.9 | 77.1 | 50.3 | 60.3 | 114.1 | 186.6 | 271.9 |
| *Of which:* sterilization bills | 82.5 | 67.0 | 72.0 | 78.0 | 79.2 | 73.0 | 83.0 | 136.8 | 209.3 | 294.6 |
| Domestic credit | 672.1 | 772.1 | 830.1 | 714.1 | 888.1 | 859.8 | 882.4 | 1,048.1 | 1,172.4 | 1,285.3 |
| Credit to the government | 288.5 | 311.9 | 354.9 | 248.5 | 397.9 | 328.5 | 428.5 | 571.5 | 600.5 | 570.5 |
| Claims | 386.2 | 357.6 | 429.4 | 329.6 | 472.4 | 413.9 | 483.0 | 646.0 | 675.0 | 645.0 |
| Deposits | 97.7 | 45.7 | 74.5 | 81.1 | 74.5 | 85.4 | 74.5 | 74.5 | 74.5 | 74.5 |
| Claims on public enterprises | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Claims on the private sector | 383.6 | 460.2 | 475.2 | 465.5 | 490.1 | 531.3 | 453.8 | 476.5 | 571.8 | 714.8 |
| Other items, net (assets +) | -216.3 | -256.6 | -275.8 | -153.8 | -291.1 | -168.5 | -173.6 | -220.4 | -250.8 | -278.6 |
| Liabilities to the private sector (deposits) | 875.4 | 1,027.1 | 1,061.3 | 1,120.4 | 1,096.7 | 1,175.1 | 1,220.1 | 1,365.7 | 1,598.2 | 1,836.5 |

Table 5. Guinea: Monetary Survey, 2004-08 (Concluded)

| | 2004 | 2005 | | | | | | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | March | June | | Sept. | | Dec. | | | |
| | | | Prog. 1/ | Actual | Prog. 1/ | Est. | Proj. | Proj. | | |
| | (In billions of Guinean francs, unless otherwise indicated) | | | | | | | | | |
| Monetary survey | | | | | | | | | | |
| Net foreign assets | 109.6 | 125.2 | 150.3 | 202.7 | 169.1 | 273.9 | 292.0 | 358.9 | 536.4 | 780.2 |
| Net domestic assets | 1,375.0 | 1,562.5 | 1,590.7 | 1,569.7 | 1,629.3 | 1,614.7 | 1,691.6 | 1,833.2 | 1,949.2 | 2,006.5 |
| Domestic credit | 1,494.6 | 1,645.5 | 1,722.1 | 1,592.2 | 1,784.4 | 1,639.1 | 1,709.9 | 1,898.3 | 2,044.7 | 2,129.8 |
| Credit to the government | 1,011.6 | 1,061.9 | 1,132.2 | 981.5 | 1,178.0 | 977.7 | 1,109.6 | 1,271.2 | 1,320.2 | 1,260.2 |
| Claims on public enterprises | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 |
| Claims on the private sector | 480.3 | 580.9 | 587.3 | 608.0 | 603.8 | 658.7 | 597.6 | 624.5 | 721.9 | 867.0 |
| Other items, net (assets +) | -119.6 | -83.0 | -131.4 | -22.5 | -155.2 | -24.4 | -18.2 | -65.1 | -95.5 | -123.3 |
| Broad money (M2) | 1,484.6 | 1,687.6 | 1,741.0 | 1,772.4 | 1,798.4 | 1,888.7 | 1,983.7 | 2,192.1 | 2,485.6 | 2,786.8 |
| Currency | 604.1 | 656.3 | 678.5 | 647.6 | 701.2 | 705.5 | 763.6 | 826.4 | 887.4 | 950.3 |
| Deposits | 880.5 | 1,031.3 | 1,062.4 | 1,124.8 | 1,097.2 | 1,183.1 | 1,220.1 | 1,365.7 | 1,598.2 | 1,836.5 |
| *Of which:* foreign currency deposits | 271.0 | 411.1 | 389.2 | 492.1 | 373.2 | 532.0 | 557.7 | 624.3 | 730.6 | 839.5 |
| Memorandum items: | (Year-on-year change in percent of beginning-of-period broad money, unless otherwise indicated) | | | | | | | | | |
| Net foreign assets | 10.1 | 9.8 | 3.9 | 7.9 | 5.4 | 12.7 | 12.3 | 3.4 | 8.1 | 9.8 |
| Net domestic assets | 26.9 | 34.9 | 28.2 | 26.6 | 20.2 | 19.2 | 21.3 | 7.1 | 5.3 | 2.3 |
| Domestic credit | 25.4 | 32.1 | 31.8 | 21.9 | 25.0 | 14.8 | 14.5 | 9.5 | 6.7 | 3.4 |
| Net claims on government | 22.2 | 19.0 | 19.1 | 7.7 | 15.9 | 1.9 | 6.6 | 8.1 | 2.2 | -2.4 |
| Credit to nongovernment sector | 3.2 | 13.1 | 12.6 | 14.2 | 9.1 | 12.9 | 7.9 | 1.4 | 4.4 | 5.8 |
| Broad money | 37.0 | 44.7 | 32.2 | 34.6 | 25.6 | 31.9 | 33.6 | 10.5 | 13.4 | 12.1 |
| Velocity (GDP/average M2) | 7.0 | ... | ... | ... | ... | ... | 6.9 | 6.8 | 6.8 | 6.7 |
| Commercial bank credit to the private sector (annual percentage change) | 7.5 | 34.0 | 40.9 | 38.0 | 30.3 | 41.2 | 18.3 | 5.0 | 20.0 | 25.0 |
| Reserve money (annual percentage change) | 33.0 | 49.0 | 44.8 | 36.3 | 32.6 | 27.9 | 27.7 | 8.8 | 8.9 | 8.4 |
| Quarterly growth in broad money | ... | 13.7 | -0.5 | 5.0 | 1.5 | 6.6 | 5.0 | ... | ... | ... |

Sources: Central Bank of Guinea (BCRG); and staff estimates and projections.

1/ The program targets have been revised downwards throughout by about US$23 million, following the adjustment to the central bank balance sheet on account of a foreign exchange transaction between the Central Bank and a private company. The targets from end-June are also adjusted upward for US$ 1 million of budgetary assistance obtained from China in June 2005 and which was not expected in the program. The target for NFA from end-December 2005 is adjusted downward for 75 percent of US$ 8.2 million of EU budgetary assistance that was programmed, but is not expected to be received as scheduled. Net bank credit to the government is also adjusted upward for the same amount in Guinean francs, recalculated at program exchange rates.

Table 6. Guinea: Prudential Indicators of the Banking Sector, 2002-June 2005

| | Prudential limits | 2002 | 2003 | 2004 | June 2005 |
|---|---|---|---|---|---|
| | (In percent, unless otherwise indicated) | | | | |
| Capital adequacy | | | | | |
| Net capital (GNF billion) 1/ | GNF 5 billion 2/ | 9.2 | 8.7 | 10.8 | 14.6 |
| Regulatory capital to risk-weighted assets 1/ | 10% 3/ | 18.4 | 15.8 | 12.2 | 12.7 |
| Loans larger than 15 percent of capital to regulatory capital (ratio) 1/ | Eight times capital | 1.4 | 1.8 | 1.7 | 2.9 |
| Number of loans larger than 25 percent of capital 1/ | 0 | 2.1 | 2.6 | 1.3 | 2.1 |
| Loans to managers and insiders to regulatory capital 1/ | 10% | 11.3 | 9.3 | 7.7 | 6.5 |
| Liquidity and foreign exchange position | | | | | |
| Liquid assets to short-term liabilities 1/ | 100% 4/ | 363.6 | 172.8 | 214.8 | 175.4 |
| Open foreign exchange position to regulatory capital 1/ | 35% | 7.7 | 11.0 | 17.2 | 19.3 |
| | (Number of banks respecting the prudential limits, out of a total of seven banks) | | | | |
| Net capital | GNF 5 billion 2/ | 5 | 6 | 6 | 7 |
| Regulatory capital to risk-weighted assets | 10% 3/ | 7 | 7 | 7 | 5 |
| Loans larger than 15 percent of capital to regulatory capital | Eight times capital | 7 | 7 | 7 | 7 |
| Number of loans larger than 25 percent of capital | 0 | 3 | 5 | 2 | 3 |
| Loans to managers and insiders to regulatory capital | 10% | 4 | 4 | 5 | 5 |
| Liquid assets to short-term liabilities | 100% 4/ | 7 | 7 | 7 | 7 |
| Open foreign exchange position | 35% | 7 | 7 | 6 | 6 |
| | (In percent) | | | | |
| Quality of loan portfolio | | | | | |
| Unpaid loans to total loans 5/ | | 29.4 | 31.5 | 27.5 | 22.1 |
| Nonperforming loans (NPLs) to total loans | | 25.7 | 28.0 | 26.2 | 21.8 |
| Coverage of NPLs with provisions | | 88.5 | 83.7 | 98.0 | 97.5 |

Source: The Central Bank of Guinea (BCRG).

1/ Average of seven banks.
2/ The minimum regulatory net capital was GNF 2 billion before March 2002.
3/ The ratio was 8 percent before June 2003.
4/ The ratio was 70 percent before June 2003.
5/ Includes nonperforming loans, frozen credits, and nonimputed values.

Table 7. Guinea: Balance of Payments, 2004-09
(In millions of U.S. dollars, unless otherwise indicated)

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| | | | | Proj. | | |
| Merchandise trade balance | 35.3 | 103.4 | 84.1 | 115.9 | 139.5 | 163.7 |
| Exports, f.o.b. | 743.2 | 806.6 | 821.7 | 888.7 | 961.4 | 1,037.3 |
| *Of which:* mining products | 666.9 | 722.8 | 726.0 | 787.5 | 855.2 | 924.4 |
| Imports, f.o.b. | -707.9 | -703.2 | -737.6 | -772.8 | -821.9 | -873.6 |
| Food products | -156.6 | -145.8 | -149.8 | -157.8 | -161.4 | -167.6 |
| Other consumption goods | -122.4 | -111.6 | -121.1 | -128.9 | -139.4 | -143.7 |
| Petroleum goods | -124.0 | -156.9 | -166.8 | -172.5 | -181.2 | -191.9 |
| Intermediate and capital goods | -304.9 | -288.9 | -299.8 | -313.6 | -339.8 | -370.4 |
| Services trade balance | -197.2 | -190.3 | -173.7 | -181.0 | -190.4 | -219.3 |
| Services exports | 80.7 | 82.5 | 84.6 | 89.0 | 96.0 | 103.4 |
| *Of which:* transport | 5.2 | 5.6 | 5.6 | 6.4 | 7.3 | 8.2 |
| Services imports | -277.9 | -272.8 | -258.3 | -270.0 | -286.4 | -322.7 |
| *Of which:* transport | -92.5 | -97.4 | -100.6 | -104.5 | -110.8 | -117.3 |
| Income balance | -59.8 | -46.5 | -43.1 | -36.5 | -41.9 | -43.3 |
| *Of which:* dividend payments | 0.0 | 0.0 | -0.7 | -0.5 | -0.5 | -0.5 |
| interest on public debt 1/ | -53.2 | -44.3 | -44.6 | -41.6 | -47.6 | -49.0 |
| Transfers | 2.3 | 9.6 | 9.5 | -3.4 | -1.9 | 5.5 |
| *Of which:* net private transfers | -7.6 | -17.8 | -15.7 | -12.4 | -11.2 | -4.1 |
| official transfers | -4.8 | 9.5 | 8.8 | 9.0 | 9.3 | 9.6 |
| HIPC Initiative assistance (multilat.) | 14.7 | 17.8 | 16.5 | 0.0 | 0.0 | 0.0 |
| Current account | | | | | | |
| Including official transfers | -219.4 | -123.9 | -123.1 | -105.0 | -94.7 | -93.3 |
| Excluding official transfers | -229.3 | -151.3 | -148.3 | -114.0 | -104.0 | -102.9 |
| Capital account | 25.6 | 7.6 | 7.4 | 8.1 | 8.6 | 8.9 |
| Public transfers (project grants) | 25.6 | 7.6 | 7.4 | 8.1 | 8.6 | 8.9 |
| Financial account | 113.1 | 120.2 | 83.6 | 80.4 | 88.4 | 87.1 |
| Public (medium and long term) | -30.6 | -34.9 | -38.9 | -37.8 | -10.0 | -0.5 |
| Project-related loans | 90.3 | 80.7 | 80.3 | 85.8 | 93.2 | 101.0 |
| Program financing | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Amortization due 1/ | -120.9 | -115.5 | -119.2 | -123.6 | -103.2 | -101.5 |
| Public (short term) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Direct and other private investment (net) | 97.9 | 114.6 | 107.5 | 104.2 | 84.6 | 80.1 |
| Private short term | 45.8 | 40.5 | 15.1 | 14.0 | 13.8 | 7.5 |
| Errors and omissions | -19.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance | -99.8 | 3.9 | -32.1 | -16.4 | 2.3 | 2.7 |

Table 7. Guinea: Balance of Payments, 2004-09 (concluded)
(In millions of U.S. dollars, unless otherwise indicated)

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| | | | | Proj. | | |
| Financing | 99.8 | -3.9 | -3.2 | -34.9 | -24.1 | -22.0 |
| Change in net official reserves | -3.9 | -41.6 | -25.4 | -30.8 | -43.5 | -40.0 |
| Changes in arrears and government assets (net) | 48.7 | -12.8 | -25.0 | -25.1 | 0.0 | 0.0 |
| Suspended debt service to Paris Club | 20.2 | 27.3 | 29.3 | 0.0 | 0.0 | 0.0 |
| Debt relief | 34.8 | 23.3 | 17.8 | 21.0 | 19.4 | 18.0 |
| Residual financing gap | 0.0 | 0.0 | 35.3 | 51.3 | 21.8 | 19.3 |
| Memorandum items: | | | | | | |
| Current account-GDP ratio (in percent) | | | | | | |
| Including official transfers | -5.5 | -3.8 | -3.8 | -3.0 | -2.5 | -2.3 |
| Excluding official transfers | -5.8 | -4.6 | -4.5 | -3.3 | -2.7 | -2.5 |
| Overall balance (in percent of GDP) | -2.5 | 0.1 | -1.0 | -0.5 | 0.1 | 0.1 |
| Exports-GDP ratio (in percent) | 20.8 | 27.0 | 27.6 | 27.9 | 27.8 | 27.6 |
| Imports-GDP ratio (in percent) | -24.8 | -29.6 | -30.4 | -29.7 | -29.1 | -29.0 |
| External medium- and long-term public debt | 3,270 | 3,221 | 3,248 | 3,301 | 3,358 | 3,404 |
| In percent of GDP | 82.4 | 97.7 | 99.0 | 94.1 | 88.2 | 82.5 |
| Debt-service ratio, before debt relief 2/ | 23.6 | 20.5 | 20.3 | 19.1 | 16.0 | 14.3 |
| Net present value of external debt (after debt relief) 2/ | 191.5 | 173.9 | 174.1 | 152.7 | 146.8 | 141.3 |
| Gross reserves | 92.3 | 107.7 | 128.6 | 169.5 | 213.0 | 269.2 |
| In months of imports of the following year | 0.8 | 1.3 | 1.6 | 2.0 | 2.5 | 2.7 |
| Nominal GDP (in millions of U.S. dollars) | 3,970 | 3,297 | 3,281 | 3,507 | 3,809 | 4,127 |

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

1/ Including debt service payments on publicly guaranteed debt.
2/ In percent of exports of goods and nonfactor services.

Table 8. Guinea: Millennium Development Goals

| | 1990 | 1995 | 2001 | 2002 | 2015 Target 1/ |
|---|---|---|---|---|---|
| Goal 1. Eradicate extreme poverty and hunger | | | | | |
| **Target 1:** Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day. | | | | | |
| 1. Population below US$1 a day (percent) | .. | 40.3 | 27.2 | .. | 20.0 |
| 2. Poverty gap ratio at US$1 a day (percent) | .. | .. | .. | .. | .. |
| 3. Share of income or consumption held by poorest 20 percent (percent) | .. | 6.4 | .. | .. | .. |
| **Target 2:** Halve, between 1990 and 2015, the proportion of people suffering hunger | | | | | |
| 4. Prevalence of child malnutrition (percent of children under 5) | .. | .. | 9.0 | .. | 5.0 |
| 5. Population below minimum level of dietary energy consumption (percent) | 40.0 | 23.0 | 32.0 | .. | 15.0 |
| Goal 2. Achieve universal primary education | | | | | |
| **Target 3:** Ensure that, by 2015, children will be able to complete a full course of primary schooling | | | | | |
| 6. Net primary enrollment ratio (percent of relevant age group) | .. | 42.0 | 60.0 | .. | 100.0 |
| 7. Percentage of cohort reaching grade 5 | 58.8 | 54.1 | 84.4 | .. | .. |
| 8. Youth literacy rate (percent, ages 15-24) | .. | .. | .. | .. | .. |
| Goal 3. Promote gender equality and empower women | | | | | |
| **Target 4:** Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education by 2015 | | | | | |
| 9. Ratio of girls to boys in primary and secondary education (percent) | 43.1 | 48.6 | .. | 75.4 | 100.0 |
| 10. Ratio of young literate females to males (percent, ages 15-24) | .. | .. | .. | .. | .. |
| 11. Share of women employed in the nonagricultural sector (percent) | .. | .. | .. | .. | .. |
| 12. Proportion of seats held by women in the national parliament (percent) | .. | 7.0 | 9.0 | .. | .. |
| Goal 4. Reduce child mortality | | | | | |
| **Target 5:** Reduce by two-thirds, between 1990 and 2015, the under-5 mortality rate | | | | | |
| 13. Under-five mortality rate (per 1,000) | 240.0 | 208.0 | 169.0 | .. | 90.0 |
| 14. Infant mortality rate (per 1,000 live births) | 145.0 | 129.0 | 95.0 | .. | 35.0 |
| 15. Immunization against measles (percent of children under 12 months) | 35.0 | 45.0 | 52.0 | .. | 80.0 |
| Goal 5. Improve maternal health | | | | | |
| **Target 6:** Reduce by three-fourths, between 1990 and 2015, the maternal mortality ratio. | | | | | |
| 16. Maternal mortality ratio (modeled estimate, per 100,000 live births) | 700.0 | 650.0 | .. | .. | 220.0 |
| 17. Proportion of births attended by skilled health personnel | 30.5 | .. | 55.0 | .. | 95.0 |
| Goal 6. Combat HIV/AIDS, malaria, and other diseases | | | | | |
| **Target 7:** Halt by 2015, and begin to reverse, the spread of HIV/AIDS. | | | | | |
| 18. HIV prevalence among females (percent, ages 15-24) | .. | .. | 2.5 | .. | .. |
| 19. Contraceptive prevalence rate (percent of women ages 15-49) | 2.0 | .. | 6.2 | .. | .. |
| 20. Number of children orphaned by HIV/AIDS | .. | .. | 30,000 | .. | .. |
| **Target 8:** Halt by 2015, and begin to reverse, the incidence of malaria and other major diseases. | | | | | |
| 21. Prevalence of death associated with malaria | .. | .. | .. | .. | .. |
| 22. Share of population in malaria risk areas using effective prevention and treatment | .. | .. | .. | .. | .. |
| 23. Incidence of tuberculosis (per 100,000 people) | .. | .. | 270.4 | .. | .. |
| 24. Tuberculosis cases detected under DOTS (percent) | .. | 38.0 | 40.0 | .. | .. |

Table 8 Guinea: Millennium Development Goals (concluded)

| | 1990 | 1995 | 2001 | 2002 | 2015 Target 1/ |
|---|---|---|---|---|---|
| Goal 7. Ensure environmental sustainability | | | | | |
| **Target 9:** Integrate the principles of sustainable development into policies and programs. Reverse the loss of environmental resources. | | | | | |
| 25. Forest area (percent of total land area) | 29.6 | .. | 28.2 | .. | .. |
| 26. Nationally protected areas (percent of total land area) | .. | 0.7 | 0.7 | 0.7 | .. |
| 27. GDP per unit of energy use (PPP $ per kg oil equivalent) | .. | .. | .. | .. | .. |
| 28. CO2 emissions (metric tons per capita) | 0.2 | 0.2 | 0.2 | .. | .. |
| 29. Proportion of population using solid fuels | .. | .. | .. | .. | .. |
| **Target 10:** Halve by 2015 proportion of people without access to safe drinking water. | | | | | |
| 30. Access to improved water source (percent of population) | 45.0 | .. | 48.0 | .. | 100.0 |
| **Target 11:** Achieve by 2020 significant improvement for at least 100 million slum dwellers. | | | | | |
| 31. Access to improved sanitation (percent of population) | 55.0 | .. | 58.0 | .. | 100.0 |
| 32. Access to secure tenure (percent of population) | .. | .. | .. | .. | .. |
| Goal 8. Develop a Global Partnership for Development 2/ | | | | | |
| **Target 16:** Develop and implement strategies for productive work for youth. | | | | | |
| 45. Unemployment rate of population ages 15-24 (total) | | | | | |
| Female | .. | .. | .. | .. | .. |
| Male | .. | .. | .. | .. | .. |
| **Target 17:** Provide access to affordable essential drugs. | | | | | |
| 46. Proportion of population access with access to affordable essential drugs | .. | .. | .. | .. | .. |
| **Target 18:** Make available new technologies, especially in information and communications. | | | | | |
| 47. Fixed line and mobile telephones (per 1,000 people) | .. | 1.5 | 10.1 | .. | 15.0 |
| 48. Personal computers (per 1,000 people) | .. | 1.4 | 4.0 | .. | .. |

Sources: Guinean authorities; and United Nations

1/ Authorities' own objectives, as indicated in the 2005 report on the implementation of the MDGs.
2/ Targets 12-15 and indicators 33-44 are excluded because they cannot be measured on a country specific basis. These are related to official development assistance, market access, and the HIPC Initiative.

Conakry, November 29, 2005

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431
USA

Dear Mr. de Rato,

1. Guinea is implementing a staff-monitored economic and financial program (SMP) covering the period April 2005-March 2006.

2. We have made important progress under our program. In particular, all the quantitative targets and structural benchmarks for end-June, with the exception of the target relating to the accumulation of net foreign assets by the Central Bank of the Republic of Guinea (BCRG), were met.

3. The attached memorandum (Annex I) outlines the additional economic and financial policies that the government intends to implement in addition to the policies described in our letter to you of May 31, 2005. The government is implementing the additional policies to ensure that the macroeconomic and structural objectives under the SMP will be met in a timely manner and on the basis of good policies.

4. The government undertakes to provide Fund staff with all the information needed to monitor the implementation of the measures envisaged under the program and the achievement of its objectives. The attached technical memorandum of understanding restates the programs targets and benchmarks for the period until March 2006, defines the relevant economic variables, and specifies the type of data to be reported to the IMF (Annex II).

5. The Guinean government believes that the additional policies and measures set forth in the attached memorandum will help ensure the achievement of the objectives of the program. If necessary, it stands ready to take any further measures that may become appropriate for this purpose.

6. During the program period, the government will consult with you, at its own initiative or when you request it, regarding Guinea's economic and financial policies.

7. In order to evaluate progress achieved in program implementation, the IMF staff, in conjunction with the government of Guinea, will conduct the next staff assessment by early-December 2005 based on the benchmarks for end-September 2005.

8. The Guinean government agrees to the publication of this letter and of the government's memorandum of economic and financial policies

9. Please accept this letter with our highest regards.

Sincerely yours,

| | |
|---|---|
| /s/ | /s/ |
| Alkaly Mohammed Daffé<br>Governor of the BCGR | Madikaba Camara<br>Minister of Economy and Finance |

Attachment: - Memorandum on Economic and Financial Policies for the Period September 2005 – March 2006

# Memorandum of Economic and Financial Policies

## for the Period September 2005 – March 2006

## I. Introduction

1. Within the framework of a staff-monitored program (SMP), Guinea adopted a program—covering the period April 2005-March 2006—of prudent fiscal and monetary policies and structural reform. The program is intended to stabilize the economy and thus lay the basis to accelerate growth, reduce poverty, and lay a solid basis for achievement of the Millennium Developments Goals.

2. This Memorandum is a complement to the Memorandum of May 31, 2005. It reports on recent developments, and describes the additional policies necessary to ensure achievement of the quantitative targets and structural benchmarks during the remaining period of the SMP.

## II. Recent Economic Developments

3. **As envisaged in the program, real GDP growth is recovering moderately and is expected to reach 3 percent in 2005.** The improvement in real GDP growth reflects a rebound of agricultural activity as well as stronger growth in the construction and mining sectors. Several large investment projects are expected to come on stream and to contribute to strong growth and exports in the mining sector in the coming years.

4. **However, inflation has remained above the programmed level.** Inflation is expected to reach 28 percent by the end of 2005 (12-month basis), reflecting the faster-than-expected depreciation of the Guinean franc as well as the effects of the significant increase in domestic petroleum prices decreed last May. The exchange rate moved from 2,850 Guinea francs per U.S. dollar on March 1 to 3,827 on June 30, compared to 3,200 in the program. However, the depreciation of the exchange rate has slowed significantly since mid-June, while at the same time the spread between the exchange rate in the banks and the exchange houses has dropped to less than 5 percent.

5. **The balance of payments is expected to improve in 2005.** The current account deficit is expected to contract from 5½ percent of GDP in 2004 to 3.8 percent of GDP in 2005, while the overall balance is expected to improve from a deficit of 2.5 percent of GDP in 2004 to a surplus of 0.1 percent of GDP in 2005. The increase in the price of bauxite and alumina boosted the value of exports, whereas the faster-than-expected exchange rate depreciation dampened non-oil imports. Gross international reserves are expected to increase

from 0.8 to 1.3 months of imports during 2005. Earlier this year, the international reserves of the central bank were adjusted downwards by the equivalent of ⅓ months of imports to reflect a 2003 cash payment to a government supplier which had remained unaccounted for; the central bank has initiated action to recover the funds, and intends to use them to reconstitute international reserves.

6. **All end-June quantitative targets under the SMP were met, except for the accumulation of central bank net foreign assets (NFA).** Fiscal revenue targets were achieved and expenditure commitments were kept under control as programmed. The overall fiscal balance (cash basis) reached a surplus of 0.2 percent of GDP in the first half of the year, compared to a deficit of 1 percent of GDP under the program, and the government was able to reduce the level of domestic financing. Reserve money expansion, which had reached 49 percent on a 12-month basis by March 2005, dropped to 36 percent by end-June. Broad money expanded by 34.6 percent in the year ended in June 2005, compared to 32.1 percent under the program, but this was the result of the effect of the faster-than-expected depreciation of the Guinean franc on the value of foreign currency deposits. The NFA of the central bank expanded by US$13 million in the first half of 2005, but this was not enough to meet the SMP target.

7. **There has been important progress in the area of structural reform in the last few months, and all end-June structural benchmarks under the SMP were met except the continuous benchmark on refraining from introducing new multiple currency practices.** The initial steps to liberalize the foreign exchange market were implemented last March; however, a multiple currency practice remains arising from the potential spread of more than 2 percent between interbank market spot rates and the central bank's reference rate. Regarding fiscal reform, the WAEMU common external tariff was adopted and reforms in the customs and tax administrations and in public expenditure management advanced as expected. There was progress under the divestiture program, including the sale of shares in the largest commercial bank to a foreign bank for about US$2 million in September 2005. Action plans to reduce fraud and enhance the efficiency of the water and electricity sectors were adopted. Finally, work on the audits of the central bank accounts and foreign asset position is almost complete.

8. **Despite the large increase in domestic petroleum prices of last May, the domestic petroleum sector continues to face serious difficulties.** The petroleum companies are again selling at a loss in the domestic market, owing to the rapid increase of international oil prices coupled with the depreciation of the exchange rate. This situation needs to be addressed to ensure continued supply of petroleum products in the domestic market.

9. **Guinea continued to experience difficulties in meeting its payments to the Fund on a timely basis.** As of the SMP test date of June 30, Guinea had overdue obligations

amounting to SDR 3 million, which were not settled until mid-August. To avoid the recurrence of this problem, the government will adopt a strategy of paying upcoming obligations in advance of the due date. We have already deposited in our SDR account the necessary funds to cover all obligations to the IMF falling due in 2005, and we will continue to use this mechanism for the settlement of future payments to the IMF.

## III. Economic and Financial Policies for September 2005-March 2006

10. **The government confirms its strong commitment to the objectives of the SMP.** Current financial policies will be strengthened and additional steps will be taken as needed to ensure success in reducing inflation, promoting growth, and accumulating international reserves. To achieve its objectives, the government will maintain a tight stance of fiscal and monetary policies, and will take measures to strengthen the institutional framework and enhance the efficiency of the foreign exchange market. Also, the government will adopt measures to ensure the continued supply of petroleum products in Guinea.

### Fiscal policy

11. **Fiscal performance was satisfactory during the period January-August 2005.** Revenue growth exceeded program objectives, especially in the area of international trade taxes, reflecting the combined effect of improved efficiency of the tax and customs administration, the implementation of the WAEMU common external tariff, and the faster rate of currency depreciation. The faster-than-expected exchange rate depreciation also has exerted substantial pressure on government expenditures, but the government was able to contain total outlays within the confines of the budget. The end-August primary surplus was 0.5 percentage points of GDP higher than targeted and the overall deficit, excluding grants, was 0.2 percentage points lower than expected, which allowed the government to reduce its net indebtedness vis-à-vis the central bank.

12. **The government will take specific measures during the last quarter of the year to ensure meeting the SMP's fiscal targets in the face of additional expenditure pressures.** Initial projections indicate that primary current expenditure during the last quarter of the year could exceed program projections, in part owing to additional pressure from the higher rate of currency depreciation. The government has decided to reduce expenditures on goods and services for at least 10 billion relative to the latest projections, mainly by pursuing efforts to limit foreign mission expenditures and containing transfers and subsidies to their program level.

13. **Faced with particular problems in the last few months, the government took measures not envisaged in the SMP policy framework.** First, to ensure availability of

foreign exchange to meet external debt service obligations, including to the Fund, the government received last August an interest-free advance of tax payments for US$18 million from the mining companies. To avoid the rigidity that such operations introduce in the budget, the government undertakes not to use future tax payments to meet current obligations during the period of the SMP. Second, faced with the increase in the cost of imported rice, the authorities agreed to provide an exchange rate guarantee to rice importers through September 2005. In the future, when faced with similar situations, the government will consult with the IMF on any policy actions that were not envisaged in its reform plan agreed with the IMF staff.

14. **The 2006 government budget is a key instrument to consolidate progress under the SMP.** It is being prepared on the basis of further strengthening of revenue collection, controlling the expansion of expenditures, and reducing central bank financing of the government as well as refraining from the use of nonconcessional external resources. As part of the 2006 budget preparation efforts, the government will take steps to gain better control over government activities that still remain outside the realm of the budget, and will request technical assistance from the IMF in this regard. The finance law for 2006 also will address the issue of the pricing mechanism of petroleum products in the domestic market (see below). Furthermore, the government will seek to improve expenditure composition to insure that the 2006 budget reflects the recommendations of the second progress report of the poverty reduction strategy.

**Monetary and exchange policy**

15. **Monetary and exchange policy will be conducted in a manner consistent with the targets and objectives of the SMP.** In this regard, the central bank will follow closely the recommendations made by the August 2005 mission of the IMF Monetary and Financial Systems Department (MFD), as described in the next two paragraphs.

16. **The central bank will implement policies to encourage the participation of economic agents in the formal foreign exchange market and to allow the market to be representative of the true underlying conditions in the economy.** First, the central bank will start calculating the reference exchange rate as a weighted average of the amounts transacted by the banks and exchange houses. At the same time, the central bank will take steps (including on-site inspections) to guarantee timely and complete reporting by the banks and the exchange bureaus of actual exchange rates and of volumes transacted. The central bank intends to start publishing a daily reference rate based on intra-day data, which will eliminate the remaining multiple currency practice. Also, the central bank will continue reducing the backlog in transferring banks' foreign exchange to correspondents abroad. In the last quarter of 2005, the central bank will set up an internal control structure for its foreign exchange operations as well as an agreement detailing the obligations of the central bank and the commercial banks in the foreign exchange market. During the last quarter of

2005, the central bank also will reorganize of its Foreign Exchange Department, while foreign exchange market regulations will be reviewed to reflect the institutional changes in the foreign exchange market implemented so far. The central bank also will assess the operation of the regulation on maximum withdrawals of foreign exchange cash. Finally, the central bank will work closely with the customs administration, the banking system and exporters to ensure full repatriation of export revenues in accordance with existing regulations.

17. **The central bank will implement policies that will allow it to transmit to the markets the stance of monetary policy and to support its operations in the foreign exchange market.** Given the situation of structural excess liquidity in the market—apparent in the large level of excess reserves that the banks maintain in the central bank—the reserve requirement coefficient on bank deposits will be increased in October 2005 to 9 ½ percent of bank deposits, after consultation with the commercial banks. At the same time, the period for calculation of compliance with reserve requirements will be extended from 10 to 15 days. To enhance the role of the auctions of central bank bills (TRMs) as a monetary policy instrument, the auctions of Treasury bills and TRMs will be carried out in different days of the week. The Treasury Committee will be reactivated to enhance the communication between the Treasury and the central bank, while a Liquidity Committee will be set up in the central bank. At the same time, the central bank will start work to revise the regulations pertaining to central bank advances to the government, with a view to eliminate statutory advances in the future.

**The petroleum sector**

18. **The government will introduce an automatic price adjustment mechanism for petroleum products in the 2006 budget law.** This automatic price adjustment mechanism will fully reflect exchange rate and international oil price conditions, and will be applied on a regular monthly basis. If the government decides to lower domestic petroleum taxes as part of the new price mechanism to ensure that the price structure in Guinea does not deviate from that in neighboring countries to a significant degree, other measures for an equal amount of resources will be identified so as to reach a neutral fiscal effect. In the meantime, the government will start implementing limited monthly adjustments of domestic oil prices in the fourth quarter of 2005.

## IV. PROGRAM MONITORING

**19. Program implementation will continue to be monitored on the basis of the quantitative indicators and structural benchmarks specified in the Memorandum of May 31, 2005, for end-September and end-December 2005 and end-March 2006.** Table 1 specifies the quantitative targets of the program, which are identical to those of the Memorandum of May 31, 2005, except for two adjustments. First, the stock of net foreign assets of the central bank has been revised downwards throughout by about US$23 million, following the adjustment to the central bank balance sheet on account of a 2003 import operation mentioned above (repayments received by the central bank corresponding to this operations will not count towards meeting the program objectives). Second, the target for the accumulation of net foreign assets of the central bank has been (a) revised upwards from June 2005 for US$1 million of exceptional budget assistance received from China, and (b) revised downwards from December 2005 for 75 percent of US$8.2 million of projected foreign financing from the European Union that is no longer expected to be received during the SMP period. The next quarterly staff assessment of the program will take place on the basis of data for end-September 2005.

Table 1. Structural Benchmarks for the 2005-06 Staff-Monitored Program

| Areas | Measures | Implementation Date | Status of Implementation |
|---|---|---|---|
| Tax administration | | | |
| | • Adoption of an action plan with a timetable for strengthening tax and customs administrations, based on the recommendations of the IMF technical assistance missions. | End-June 2005. | Completed. |
| | • Moratorium on new ad hoc tax or customs tariff exemptions. | On a continuous basis. | |
| Expenditure control | | | |
| | • Establishment of a monitoring committee to review the operation of the computerized expenditure management system and prepare the terms of reference for a complete computer network audit. | End-June 2005. | Completed. |
| | • Amend Article 31 of the General Rules on Public Accounting in order to eliminate the possibility of extra budgetary transactions. | End-September 2005. | |
| | • Launch a call for bids for an audit of the computerized expenditure management system. | End-September 2005. | |
| | • Closing of all accounts held by individuals on the books of the central bank. | End-December 2005. | |
| | • Completion of an audit of the government's domestic debt and of the cross debts between public enterprises and the government. | End-December 2005. | |

Table 1. Structural Benchmarks for the 2005-06 Staff-Monitored Program (Concluded)

| Areas | Measures | Implementation Date | Status of Implementation |
|---|---|---|---|
| Fiscal issues regarding public enterprises | | | |
| | • Adoption by the Council of Ministers of an action plan to combat fraudulent use of electricity and drinking water. | End-June 2005. | Completed. |
| | • Adoption of an action plan to strengthen financially the electricity and water companies. | End-September 2005. | |
| | • Adoption of a plan to settle cross debts between public enterprises and the government. | End-December 2005. | |
| Safeguards measures | | | |
| | • Completion of the special audit of the central bank's international reserves. | End-September 2005. | |
| | • Completion of the financial audit of the central bank itself. | End-December 2005. | |
| Governance | | | |
| | • Adoption of an action plan to combat corruption, including concrete objectives and performance indicators, as well as specific actions to improve governance in key public sectors and an implementation schedule. | End-September 2005. | |
| Exchange rate regime | | | |
| | • Refrain from introducing any new multiple currency practices. | On a continuous basis. | Not met. |

Table 2. Guinea: Quantitative Indicative Targets, 2004-06

| | 2004 | 2005 | | | | | | | 2006 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | March | June | | Sept. | | Dec. | | March | |
| | | | Targets | Est. | Targets | Est. | Targets 10/ | Proj. | Targets 10/ | Proj. |
| | | | (In billions of Guinean francs) | | | | | | | |
| Central government primary balance (floor) 1/ | -40.3 | 125.0 | 186.0 | 250.2 | 259.7 | 345.5 | 331.5 | 351.6 | 116.9 | 131.6 |
| Net bank credit to the government (ceiling) 2/ 3/ 8/ | 240.5 | 50.3 | 120.5 | -30.1 | 166.3 | -33.9 | 197.2 | 98.0 | 50.3 | 46.0 |
| Reserve money (ceiling) 9/ | 763.3 | 913.3 | 926.2 | 853.0 | 942.5 | 887.9 | 959.6 | 951.3 | 976.9 | 964.2 |
| | | | (In millions of U.S. dollars) | | | | | | | |
| Stock of net foreign assets of the central bank (floor) 4/ 5/ 8/ | -29.6 | -22.7 | -12.6 | -16.2 | -3.9 | 8.6 | 1.8 | 12.0 | 7.3 | 17.6 |
| New nonconcessional medium- or long-term external debt contracted of guaranteed by the government or the central bank (ceil | 0.0 | 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 (ceiling) 5/ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Stock of outstanding external payments arrears (ceiling) 6/ | 62.4 | 74.2 | 72.7 | 65.0 | 68.9 | 65.0 | 50.7 | 50.7 | 47.1 | 47.1 |
| | | | (In billions of Guinean francs) | | | | | | | |
| Central government nonmining revenue 2/ | 765.0 | 246.4 | 498.0 | 554.5 | 742.7 | 845.0 | 1,002.9 | 1,086.8 | 294.8 | 308.7 |
| Central government noninterest current expenditure 2/ | 791.0 | 156.5 | 388.3 | 381.9 | 598.2 | 620.2 | 825.9 | 895.5 | 201.9 | 210.7 |
| Expenditure in priority sectors 2/ 7/ | 263.9 | 71.8 | 181.2 | 182.9 | 280.8 | 301.6 | 399.0 | 406.9 | 96.0 | 105.0 |
| Change in domestic arrears (a "-" sign indicates repayment) 2/ | 21.4 | 4.7 | 4.7 | 4.7 | 0.0 | -0.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| Memorandum items: | | | | | | | | | | |
| External budgetary assistance (in millions of US dollars) 2/ | 0.0 | 0.0 | 0.0 | 1.0 | 0.0 | 1.0 | 0.0 | 1.0 | 0.0 | 0.0 |

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/ Cumulative from the beginning of the calendar year

3/ Subject to adjustment mechanisms for deviation in cash settlement of domestic arrears and disbursement of external budgetary assistance as specified in the Technical Memorandum of Understanding (TMU).

4/ Subject to adjustment mechanisms for accumulation of new external arrears and deviation in disbursement of external budgetary assistance as specified in the TMU..

5/ Excluding commercial credits.

6/ Excluding arrears under negotiation with creditors; monitored on a continuous basis.

7/ Priority sectors include public health, education, transport, road maintenance, justice, rural development, urban planning, and social affairs. This expenditure includes outlays funded by HIPC resources.

8/ The program targets have been revised downwards throughout by about US$23 million, following the adjustment to the central bank balance sheet on account of of a foreign exchange transaction between the Central Bank and a private company. The targets from end-June are also adjusted upward for US$ 1 million of budgetary assistance obtained from China in June 2005 and which was not expected in the program.

9/ The reserve money is reported at program exchange rates: 3200 GNF/USD for end-June; 3276 GNF/USD for end-September; 3335 GNF/USD for end-December; and 3496 GNF/USD for end-March 2006.

10/ The target for NFA from end-December 2005 is adjusted downward for 75 percent of US$8.2 million of EU budgetary assistance that was programmed, but is not expected to be received as scheduled. Net bank credit to the government is also adjusted upward for the same amount in Guinean francs, recalculated at program exchange rates.

## Guinea: Relations with the Fund

(As of October 31, 2005)

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

| II. **General Resources Account**: | SDR million | Percent of Quota |
|---|---|---|
| Quota | 107.10 | 100.00 |
| Fund holdings of currency | 107.03 | 99.93 |
| Reserve position in Fund | 0.08 | 0.07 |

| III. **SDR Department**: | SDR million | Percent of Allocation |
|---|---|---|
| Net cumulative allocation | 17.60 | 100.00 |
| Holdings | 3.42 | 19.41 |

| IV. **Outstanding Purchases and Loans**: | SDR million | Percent of Quota |
|---|---|---|
| Poverty Reduction and Growth Facility (PRGF) arrangements | 64.24 | 59.98 |

**V. Financial Arrangements**:

| Type | Approval date | Expiration date | Amount approved (SDR million) | Amount drawn (SDR million) |
|---|---|---|---|---|
| PRGF[34] | 05/02/2001 | 05/01/2004 | 64.26 | 25.70 |
| ESAF/PRGF | 01/13/1997 | 01/12/2001 | 70.80 | 62.94 |
| ESAF | 11/06/1991 | 12/19/1996 | 57.90 | 46.32 |

**VI. Projected Payments to the Fund (without HIPC Assistance)**

(SDR million; based on existing use of resources and present holdings of SDRs):

| | Forthcoming | | | | |
|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | 2009 |
| Principal | 3.13 | 13.09 | 13.98 | 11.83 | 8.29 |
| Charges/interest | 0.27 | 0.69 | 0.62 | 0.56 | 0.50 |
| **Total** | 3.40 | 13.78 | 14.60 | 12.38 | 8.79 |

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

## VII. Implementation of HIPC Initiative:

| | |
|---|---|
| A. Commitment of HIPC assistance | Enhanced Framework |
| Decision point date | 12/20/2000 |
| Assistance committed by all creditors(US$ million)[35] | 545.00 |
| *Of which*: IMF assistance (US$ million) | 31.40 |
| (SDR equivalent in millions) | 24.24 |
| Completion point date | Floating |
| B. Disbursement of IMF assistance (SDR million) | |
| Amount disbursed to the member | 5.17 |
| Interim assistance | 5.17 |
| Completion point balance | 0.00 |
| Additional disbursement of interest income [36] | 0.00 |
| **Total disbursements** | **5.17** |

[35] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point.

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

## VIII. Safeguards Assessments:

Under the Fund's safeguards assessment policy, the Central Bank of the Republic of Guinea (BCRG) was subject to an assessment with respect to the PRGF arrangement, which was approved on May 2, 2001. The assessment concluded that substantial risks existed in the central bank's external audit mechanism, financial reporting framework, and system of internal controls. Following the recommendations of the safeguards assessment mission, the BCRG contracted services of a reputable international firm to conduct a special audit of the foreign assets of the central bank and of the BCRG itself. Implementation of other measures by the BCRG is monitored by staff. An updated assessment will be needed with regard to a new arrangement.

## IX. Exchange Arrangements:

On March 1, 2005, the Guinean authorities unified and liberalized the foreign exchange system, and abandoned the foreign exchange rate auction mechanism. The Central Bank calculates the reference exchange rate on a weekly basis, as the arithmetic average of the exchange rates quoted by deposit money banks and foreign exchange bureaus. A multiple currency practice arises from the potential spread of over 2 percent of effective rates between the Central Bank's reference rate and the interbank market rate

## X. Article IV Consultation:

Guinea is on the 12-month cycle. The last consultation was concluded by the Executive Board on August 27, 2004 (Country Report No. 04/392).

## XI. Technical Assistance:[37]

| Department | Purpose | Timing |
|---|---|---|
| FAD | Advise on customs reform. | March 1999 |
| FAD/resident advisor | Assist on treasury management. | January-June 1999 |
| FAD/resident advisor | Advise on customs reform. | Sep. 1999-Oct. 2000 |
| FAD | Advise on introduction of West African Economic and Monetary Union (WAEMU) common external tariff. | September 2002 |
| FAD | Advise on tax administration. | June 2004 |
| FAD | Review progress in implementing tariff and customs administration reforms and provide advice on a strategy for the next steps. | December 2004 |
| FAD | Advise on budget and accounting | February 2005 |

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

| | | |
|---|---|---|
| | procedures as well as on government financial information system. | |
| MFD/resident advisor | Advise the governor of the BCRG. | 1998-2000 |
| MFD | Advise on monetary operations. | June 21-30, 2000 |
| MFD | Examine foreign exchange auctions system at the BCRG. | October 10-24, 2000 |
| MFD | Advise on liquidity forecasting, review foreign exchange operations, and advise on supervisory framework for microfinance institutions. | End-November 2001 |
| MFD | Advise on liquidity management. | Nov.-Dec. 2002 |
| MFD | Advise on bank supervision. | March 2003 |
| MFD | Advise on bank liquidity management, exchange operations, and supervision | March 2004 Follow-up: September 2004 |
| MFD | Advise on improving prudential instruments and upgrading capacity of banking supervision department | March 2005 |
| MFD | Advise on operational framework for monetary policy and bank liquidity management. | March-April 2005 |
| MFD | Follow-up mission on banking supervision | May 2005 |
| MFD | Technical assistance needs assessment mission to the BCRG. | June 2005 |
| MFD | Advise on monetary and exchange operations, and supervision. | August 2005 |
| STA | Examine the overall compilation of real sector statistics. | March 2000 |
| STA | Review the coverage of the monetary Statistics, as well as data collection and compilation practices. | November 2000 |

## XII. Resident Representatives:

Mr. Jones has been Resident Representative since July 2003.

## Guinea: IMF-World Bank Relations

(As of October 12, 2005**)**

### Partnership in Guinea's Development Strategy

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

2. The Fund and the World Bank cooperate closely, within their respective mandates, in assisting the government to implement its medium-term poverty reduction and growth strategy. The Fund leads the policy dialogue on macroeconomic policies. The World Bank is taking the lead in areas of structural reforms, including banking sector restructuring; privatization in the telecommunication, electricity, and water sectors; health, education, administrative decentralization; capacity building; rural development, road maintenance; and on governance issues.

### Bank Group Country Assistance Strategy

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

4. IDA provided in 2001 a fourth Structural Adjustment Credit (SAC IV) to Guinea. The credit operation was to support the country's poverty reduction strategy in the areas of public expenditure management, governance, and public services delivery to the poor. The SAC IV has had a satisfactory impact on the country's macroeconomic performance. The credit was disbursed in one tranche (US$50 million) on the grounds that, despite the lack of any external budget support for a two-year period, Guinea had kept its economy broadly on track and had demonstrated commitment to the program reforms with regard to public expenditure management, governance, and the decentralization of basic service delivery. The adjustment

program supported by SAC IV was planned to be succeeded during FY 2004 by a Poverty Reduction Support Credit (PRSC). The PRSC assumed continuing sound macroeconomic performance and reform implementation. However, macroeconomic management deteriorated seriously since mid-2002 and the Fund's PRGF supported program went off track in December 2002. Key contributing factors were overspending related to security outlays, lax monetary policies, and a fixing of the exchange rate, leading to rising inflation and a sharp decline in gross reserves. Structural reforms came also to a halt. The wavering macroeconomic policies, compounded by lower prices for bauxite and other commodities, led to slow GDP growth in 2003 (1.2 percent) and 2004 (2.6 percent). Given the poor macroeconomic performance, Guinea qualifies currently only for the CAS' low-case lending scenario. Since early 2005 a new government is making significant progress towards a gradual stabilization of the macroeconomic aggregates, resumes the path of structural reforms, and lays the ground for a renewed donor engagement, including by the World Bank.

*5.* As of end-July 2005, the IDA has approved 63 credits for Guinea, of which eleven were in the transport and infrastructure sector; thirteen in the energy, mining, water, and telecommunications sector; three in strengthening the country's management capability; five in public sector/governance; twelve in financing rural sector development; three in the urban sector; five in the health sector; seven in the education sector; one in social protection; three in the financial sector. The total value of these projects amounts to about US$1,460 million equivalent, of which US$1,334 million has been disbursed. During the period FY1998/2005, the Board approved two adjustment operations (Public Expenditure Management Adjustment Credit and the Fourth Structural Adjustment Credit) and 9 investment operations: the National Rural Infrastructure Project, Decentralized Rural Electrification, Education for All, Village Community Support Program, the Capacity Building for Service Delivery Program, the Microfinance LIL, the Pre-Service Teacher Education LIL, the Urban Project, and the Population and Reproductive Health Project. The Bank's current portfolio in Guinea reflects the priorities of the PRSP. It comprises eight projects totaling US$236.6 million, of which US$20.3 million is in the form of a grant, and US$133.6 million remain undisbursed. The Capacity Building for Service Delivery Project (US$19 million, with an undisbursed balance of $14.3 million) which closed on June 30, 2004, was retroactively extended to May 31, 2005 in order to permit the financing of a forensic audit. The non lending program includes fiduciary assessment; a public expenditure review (PER); analysis of public finance management and audit systems; a cross-cutting assessment of Guinea's social, structural, and sector development under the PRSP; and Bank/Fund collaborative work on social impact analysis

*6.* Under the current low-case CAS scenario, the proposed World Bank lending program for FY2004/06 will support a National Rural Infrastructure Project ($30.3 m) which was approved in August 2004 and a Second Health Sector Project (US$25 million), which got approved early June 2005; and a Second Village Community Support Program (US$45 million) is included in FY06. A second phase of the Urban APL in FY07 could be advanced, if Guinea moves up to the base case.

**Bank-Fund Collaboration in Specific Areas**

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

**Public Expenditure Management**

8. Improvements in public expenditure management have been one of the priorities of the Guinean government since 1996. The Bank, the Fund, and other donors have worked closely to provide the government with the needed support for institutional and policy reforms. While the Fund is leading the dialogue on tax policy, the Bank is focusing on strategic resource allocation and operational efficiency of public expenditures. To enhance strategic resource allocation and operational efficiency, the Bank has assisted the government in the preparation of the medium-term expenditure framework (MTEF) and is supporting the strengthening of the budget process as well as the allocation of resources to pro-poor priority areas at the decentralized level. A Country Procurement Assessment Review (CPAR) was undertaken in 2002 and a Public Expenditure Review (PER) followed in 2004. The PER was managed by the Bank, enjoyed strong government ownership, and benefited from extensive consultation of beneficiaries and development partners in close collaboration with the Fund and the AfDB. The PER was complemented by a full Country Financial Accountability Assessment (CFAA) which focused on public expenditure management systems, the auditing of public finances and related governance issues

**Poverty and Social Impact Analysis**

9. The Bank and Fund's respective Guinea country teams are currently discussing the Poverty and Social Impact Analysis. It is envisaged that a few selected areas may be analyzed over the coming years. These might cover: an analysis of the impact on social output indicators of government spending in health and education, an assessment of the impact of the adoption of the Common External Tariff of the West African Economic and Monetary Union (WAEMU) on the taxation of basic consumer goods, an assessment of the impact of exchange rate flexibility on consumer prices, a social impact analysis of trade reforms, and an analysis of the impact of taxation on growth and income distribution. The selection of the few reforms to analyze will be based on the importance of the expected poverty and social impacts of each reform, the prominence of the issue in the government's agenda, the timing and urgency of the reform, and the level of national debate surrounding the reform. The 2002 household survey has been completed during the first semester of 2005, making it possible to better identify key determinants of poverty and their interdependency and track poverty impact over time. An updated poverty diagnostic is about to be finalized.

**Public Service Reform and Improved Service Delivery**

10. In recent years, the Government of Guinea, with the support of the Bank and other donors, has launched a number of initiatives to improve administrative performance and to foster greater accountability, transparency, and integrity in the public sector. The Bank supported these efforts through : (i) the Economic Management Technical Assistance Project between 1993 and 2000 (*Projet d'Appui à la Gestion Economique et Financière – PAGE*), (ii) the Capacity Building for Service Delivery Project from 2000-2004 (*Projet de Renforcement des Capacités Institutionelles Pour une Meilleure Prestation des Services - PRCI*), (iii) governance and corruption surveys launched by the former Anti-Corruption Commission (*Conseil National de Lutte contre la Corruption - CNLC*) and (iv) a grant to strengthen the capacity of the Finance Committee of the National Assembly and the Chamber of Accounts.

11. These reforms aim to improve service delivery and financial accountability through capacity building and support to the Government's decentralization process. However, the impact of PAGE on public service efficiency and effectiveness was limited and the PRCI was suspended in August 2003 because of corruption, leaving most of the project's results indicators unachieved. In contrast, evaluation of the corruption surveys is ongoing and will lead to a medium term governance and anti-corruption strategy by the end of 2005. Progress has been made in strengthening the capacity of the Parliament's Finance Committee and the Chamber of Accounts.

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

**Trade Reforms**

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

World Bank Contact Person: Mr. Wilfried Engelke (Phone: 473-2062).

## World Bank Loan and Grant Operations, 2000-06

(In millions of U.S. dollars)

| | 2000 Actual | 2001 Actual | 2002 Actual | 2003 Actual | 2004 Actual | 2005 Proj. | 2006 Proj.[3] |
|---|---|---|---|---|---|---|---|
| **I. Project Credit Disbursements[1]** | **34.9** | **33.3** | **37.8** | **43.1** | **50.7** | **51.1** | **43.0** |
| National Rural Infrastructure (3/90)[2] | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 4.5 | 7.6 |
| Agriculture Export Promotion (7/92)[2] | 1.7 | 0.9 | 1.8 | 0.0 | 0.0 | 0.0 | 0.0 |
| Health Nutrition Sector Project (3/94)[2] | 2.2 | 3.6 | 3.7 | 0.1 | 0.0 | 0.0 | 0.0 |
| Urban III (4/99)[2] | 0.5 | 1.6 | 2.1 | 1.8 | 4.5 | 4.8 | 0.8 |
| Third Water Supply (4/97)[2] | 3.9 | 3.4 | 1.3 | 8.4 | 15.4 | 16.6 | 0.8 |
| Water Supply and Sanitation Project (12/78)[2] | 6.3 | 6.3 | 8.1 | 18.1 | 6.9 | 1.4 | 0.0 |
| Min. Sector Investment Promotion (6/96)[2] | 2.4 | 0.9 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Agricultural Services SIL (F96) (4/96)[2] | 7.9 | 3.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Equity and School Improvement (5/95)[2] | 4.9 | 3.1 | 7.5 | 1.9 | 0.0 | 0.0 | 0.0 |
| Higher Education Management (11/95)[2] | 1.0 | 1.4 | 1.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| Population & Reproduction Health (12/98)[2] | 1.5 | 4.2 | 3.0 | 1.3 | 2.6 | 0.0 | 0.0 |
| Pre-Service Teacher Education (7/98)[2] | 1.2 | 0.8 | 0.8 | 0.0 | 0.0 | 0.0 | 0.0 |
| Capacity Building Service Delivery (12/99)[2] | 0.0 | 1.7 | 1.8 | 2.2 | 0.3 | 0.4 | 0.0 |
| Education for All (7/01)[2] | 0.0 | 0.0 | 3.5 | 2.2 | 12.7 | 11.2 | 18.9 |
| Village Community Support Program (2/99)[2] | 1.3 | 2.0 | 2.9 | 5.3 | 5.8 | 3.4 | 0.1 |
| Multi-Sectoral AIDS Project (12/02)[2] | 0.0 | 0.0 | 0.0 | 1.7 | 1.3 | 6.1 | 8.3 |
| Decentralized Rural Electrification (7/02)[2] | 0.0 | 0.0 | 0.0 | 0.0 | 0.7 | 1.0 | 2.5 |
| **II. Adjustment Operations[1]** | **0.4** | **0.0** | **49.3** | **0.4** | **0.0** | **0.0** | **0.0** |
| SAC IV (07/01)[2] | 0.0 | 0.0 | 49.3 | 0.4 | 0.0 | 0.0 | 0.0 |
| **III. IFC Project Portfolio** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **IV. MIGA Guarantees** | 0.0 | 51.5 | 39.4 | 17.5 | 15.7 | 0.0 | 0.0 |

[1] Closed.

[2] Date of Board approval in brackets.

[3] Does not include an estimate of credits or grants that are expected to be approved by the Board in 2006.

## Guinea: Statistical Issues

1. Economic and financial data provided to the Fund are generally adequate for program monitoring and surveillance. However, scope exists to improve the internal consistency of fiscal data as well as their consistency with monetary accounts.

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

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

**Real sector statistics**

4. Statistics on the real sector are weak and incomplete, and not published timely enough to support economic policy making. Only the consumer price index (CPI) is published on a monthly basis in a timely manner (see below), while other statistics are published less frequently, and more erratically, and are often not reliable. Some of these series are available on the DNS website.[1] The monthly surveys on mining, industrial and agricultural production are produced with very long delays. Statistics on employment and population are only published annually. A program to reinforce the national accounts is being undertaken with the technical assistance of the regional statistical office (AFRISTAT) and the Gesellschaft für Technische Zusammenarbeit (GTZ). The work is expected to lead to the production of input-output matrices on an annual basis.

5. The consumer price index for Conakry is available on a monthly basis, with a one-month lag. Export prices are estimated on the basis of information supplied directly by the mining companies, while import prices are based on a weighted average of partner countries' export prices. Exchange rates are reported weekly.

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

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

7. In March 2000, a STA mission presented detailed recommendations on how to improve real sector statistics. The mission identified the lack of a budget for the compilation of current statistics and insufficient 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 have yet to be identified.

**Balance of payments statistics**

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

9. Merchandise trade statistics are reported in the standard Harmonized System of Customs Classification, net of imports by diplomats and transit trade. In spite of the technically advanced method of presentation, the data are inconsistent with actual developments in the country. Some of these inconsistencies may be due to smuggling, as Guinea's borders are porous. However, there appear to be compilation errors; for example, they report significant exports of aluminum products, which, according to the Ministry of Mining and Energy, are not produced in the country. Thus, these data are substantially adjusted prior to publication.

10. Weaknesses in balance of payments statistics also affect national accounts data. The national accounts are based on trade data that include transit trade and imports by diplomats, and thus overestimate the openness of the economy. However, the national accounts use estimates of trade in services, 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. Monthly data on international reserves have not been reported to the IMF Statistics Department since December 2002.

**Government finance statistics**

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

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

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

**Monetary accounts statistics**

14. Monthly data on monetary authorities, deposit money banks, and interest rates are provided to AFR, with a one-month delay; however, these data are not provided to STA with the same time lag. Developments in the financial system during the last few years, including the liquidation and restructuring of a number of banks, are not fully reflected in the monetary statistics, owing partly to problems in data collection, the classification of instruments, and the sectorization of economic activities. The authorities have made some progress in adopted the recommendations of a STA mission that visited Conakry in 2000, but further work is needed to update and otherwise strengthen the deposit money banks' reporting practices, including those relating to the classification of nonperforming loans.

15. Beginning in 2001, the authorities undertook regular reporting of monetary data for publication in *IFS*. Following a deterioration in 2003, the authorities report monetary data for publication in *IFS* more frequently, although not on a monthly basis. The latest monetary data published in *IFS* are for June 2005.

## Guinea: Table of Common Indicators Required for Surveillance
(As of October 14, 2005)

| | Date of latest observation | Date received | Frequency of Data[6] | Frequency of Reporting[6] | Frequency of publication[6] |
|---|---|---|---|---|---|
| Exchange Rates | 12/10/05 | 12/10/05 | W | W | W |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1] | 30/09/05 | 12/10/05 | M | M | M |
| Reserve/Base Money | 30/09/05 | 12/107/05 | M | M | M |
| Broad Money | 30/09/05 | 12/10/05 | M | M | M |
| Central Bank Balance Sheet | 30/09/05 | 12/10/05 | M | M | M |
| Consolidated Balance Sheet of the Banking System | 30/09/05 | 12/10/05 | M | M | M |
| Interest Rates[2] | 31/08/05 | 30/09/05 | M | M | M |
| Consumer Price Index | 31/08/05 | 30/09/05 | M | M | M |
| Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4] | NA | --- | --- | --- | --- |
| Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government | 31/08/05 | 30/09/05 | M | M | M |
| Stocks of Central Government and Central Government-Guaranteed Debt[5] | 2004 | 31/08/05 | A | A | A |
| External Current Account Balance | 2004 | 31/08/05 | A | A | A |
| Exports and Imports of Goods and Services | 2004 | 31/08/05 | A | A | A |
| GDP/GNP | 2004 | 31/08/05 | A | A | A |
| Gross External Debt | 30/06/05 | 31/08/05 | Q | Q | Q |

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Not Available (NA).

## Guinea: Debt Sustainability Analysis[1]

1. This annex assesses the external and public debt dynamics of Guinea using the joint IMF-World Bank debt sustainability analysis (DSA) framework for low income countries (LIC DSA). The main finding is that Guinea is in debt distress, and upon reaching completion point under the Enhanced HIPC Initiative (assumed to take place in early 2007), the country would be at a high risk of debt distress into the medium-term under the baseline scenario. Preliminary results from the public sector DSA reveal that domestic debt levels represent an additional risk to the probability of debt distress in Guinea.

### Background

2. Guinea reached the decision point under the Enhanced HIPC Initiative in December 2000, qualifying for US$545 million (in NPV terms) in debt relief. Interim debt relief has been provided by all main creditors including the IMF and IDA until early 2003 when the PRGF went off-track. Only IDA and the European Union and two Paris Club creditors have continued to provide interim relief under the Initiative. Consequently, Guinea has had difficulties servicing its external debt over the period. Total external arrears to multilateral and bilateral creditors accumulated at end-2004 amounted to US$62.4 million (about 2.0 percent of GDP). HIPC debt relief will restart irrevocably once the completion point is reached.

3. **At end-2004, Guinea's public and publicly guaranteed external debt is estimated to be US$3,270 million**. Multilateral creditors account for 65 percent of the total, with the World Bank and the African Development Bank group making up three-quarters of the multilateral's share. The Paris Club group of creditors accounts for 22 percent of total, while non-Paris Club creditors and commercial creditors make up the rest. Like most HIPC countries the currency composition of its external debt leaves it vulnerable to changes in the U.S. dollar against major international currencies. With over 70 percent of Guinea's external debt denominated in euros, yen and SDR (Figure 2), the depreciation of the U.S. dollar against major international currencies since decision point has increased the U.S. dollar value of Guinea's external debt (Box 2 details the other

**Figure 1: Creditor Group Composition of External Debt (end-2004)**

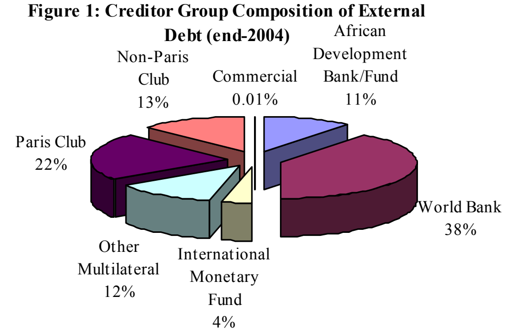
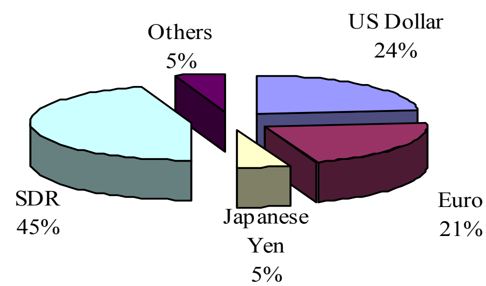



**Figure 2: Currency Composition of External Debt (end-2004)**




[1] Jointly prepared by the World Bank and IMF staff.

factors that have contributed to the increase in the NPV external debt-to-export ratio).

**External Debt Sustainability Analysis (2005-25)**

4. **A key feature of the low income debt sustainability analysis framework is that it compares Guinea's debt burden indicators to indicative policy-based thresholds.** The thresholds are based on the empirical finding that low-income countries with stronger policies and institutions tend to have a higher debt carrying capacity.[2] At end-2004, the NPV of debt-to-exports ratio is estimated at 191.5 percent, well above the relevant policy based indicative threshold. It is estimated that the NPV of debt-to-exports ratio would fall below the 100 percent threshold in 2015 under the baseline scenario. The NPV of debt-to-GDP and revenues ratios also breach the policy-based thresholds under the baseline scenario before declining below the thresholds in the medium-term (Table 1). The external debt service ratio quickly falls below the relevant threshold once HIPC debt relief resumes in full at completion point.

**Table 1: Policy-Based External Debt Burden Indicators**

| | Thresholds 1/ | Guinea's Ratios | |
|---|---|---|---|
| | | **2004** | **2007-25 2/** |
| ***NPV of debt in percent of:*** | | | |
| Exports | 100 | 192 | 97 |
| GDP | 30 | 40 | 28 |
| Revenues | 200 | 382 | 208 |
| ***Debt service in percent of:*** | | | |
| Exports | 15 | 21 | 7 |
| Revenues 3/ | 20 | 42 | 5 |

1/ Shows policy indicative thresholds as used in the joint IMF-World Bank low-income country DSA framework for a poor policy performer.
The quality of policies and institutions is measured by the World Bank's CPIA.
2/ Simple average.
3/ Revenues excluding grants.

5. **The baseline macroeconomic framework underpinning this DSA** assumes continued implementation of sound macroeconomic policies and structural reforms under the SMP, followed by adoption of a PRGF-supported program in mid-2006, attainment of the completion point in early 2007 and no major exogenous shock or policy reversal after 2007. This scenario reflects the authorities' macroeconomic framework for 2005-08 discussed with Fund staff in the context of the 2005 Article IV consultation and conservative macroeconomic assumptions beyond 2008 (Box 1). It also assumes that all new loans will be on concessional terms.

6. **Guinea's debt burden indicators are sensitive to exogenous shocks and policy reversal.** Sensitivity analysis indicates that the baseline debt burden indicators are most vulnerable to an exogenous shock to export growth and a one-time depreciation of the Guinean franc against the U.S. dollar. The debt ratios exhibit a significant level increase and are slower to return to policy-based thresholds when exports are subjected to a one standard deviation shock for two years and a one-time franc/U.S. dollar exchange rate depreciation (see extreme stress tests in Figure 3). A scenario where key macroeconomic variables remain at historical values sharply increases the risk of debt distress. Guinea's

[2] See IDA and IMF, "Operational Framework for Debt Sustainability Assessments in Low-Income Countries—Further Considerations" (IDA/R2005-0056), April 2005.

external debt ratios would follow a continuous upward path if key economic variables remain at their historical averages from 2005.[3]

7. **An alternative scenario that simulates possible G-8 debt relief indicates a sharp reduction in the risk of debt distress at the expected completion point** (Figure 3, MDRI Scenario). The G-8 debt relief proposal calls for the write-down of debt outstanding to IDA, the IMF and the African Development Fund as of end-2004 for all HIPC countries that have reached or will reach completion point. Simulating the implementation of G-8 debt relief in 2007 reduces Guinea's external debt ratios in half on average and the ratios remain well below the policy-based thresholds for the entire projection period. **The analysis underscores the importance of the authorities' remaining committed to policy reform to achieve sustained economic growth, to reach completion point and to potentially benefit from G-8 debt relief.**

**Box 1. Guinea: Macroeconomic Assumptions Underlying the DSA**

**Real GDP** is expected to grow by 3.0 percent in 2005 and by an annual average of 5.5 percent over 2006-10 and 5.0 percent over 2011-2025. The higher growth during 2006-08 over the historically observed trend is anticipated on account of better macro policies, rebound in the mining sector and improved public infrastructure.

Average **CPI Inflation,** which was 17.5 percent in 2004, is expected to reach 30.7 percent in 2005 reflecting mainly the depreciation of the Guinean franc and the increase in petroleum prices Thereafter it is expected to decline and average 9.6 percent in 2006-08 and 5.0 percent for the remaining forecast period, based on the authorities' commitment to abandon their accommodative policy stance and to strengthen their monetary policy. Following the liberalization of the foreign exchange market in March 2005, the Guinean franc lost almost one-third of its nominal value against the US dollar. Total nominal depreciation for 2005 is expected to reach 38 percent in foreign currency terms in 2005 and to remain equal to the projected inflation differential between Guinea and its main trade partners.

**Export** growth is projected to average about 7.2 percent over the 2005-10 period and 8.2 percent over 2011-25.and **external current account deficit**, excluding official transfers is forecast to decline from 5.8 percent of GDP in 2004 to 4.6 percent in 2005 and 2.5, on average, over the 2006-25 period.

**Fiscal policy** is assumed to remain tightened in line with ongoing staff-monitored program and possible PRGF-supported program starting in mid-2006. Government revenues which averaged 11.0 percent of GDP during 1995-04 are anticipated higher at about 13 percent of GDP in 2005, 13.2 percent in 2006-08, 14.7 percent in 2009-15 and 17.2 percent in 2016-25. The increase in revenues is premised on envisaged measures to strengthen customs and tax administration, eliminate ad hoc tax or customs tariff exemptions and consolidate the implementation of the new tariff system adopted in early 2005. The primary surplus is projected to decrease from an average of 3.8 percent of GDP in 2006-08 to 2.9 percent of GDP in 2016-25.

**New borrowing**, the financing gap is filled mainly with concessional funds, significantly from IDA.

[3] The historical values are calculated over the 1998-04 period.

## Box 2. HIPC DSA Update and Comparison to the LIC DSA Framework

This box updates the DSA presented in Guinea's decision point document (www.imf.org) using the HIPC methodology. Updates for new borrowing, exchange and discount rate parameters as of end-2004 and export data are used, while HIPC debt relief simulations conducted at decision point are redone to reflect the interruption of relief during the interim period and the accumulation of arrears.

As of end-2004, the NPV of debt after assuming the full delivery of enhanced HIPC assistance is estimated to be US$1,521 compared with US$1,293 projected for end-2004 in the decision point document. While new borrowing was lower-than-projected at decision point, it nevertheless did contribute to the increase in the NPV of external debt. Moreover, the fall in the U.S dollar vis-à-vis major international currencies and the decline in discount rates also contributed to the increase. The NPV of external debt-to-exports ratio is estimated at 189 percent as of end-2004, almost 40 percentage points higher than projected at decision point. Export growth between decision point and end-2004 fell well short of expectations. However, the export growth that was realized between decision point and end-2004 contributed to a small reduction in the ratio, but the reduction was far from sufficient to offset the increase in the ratio due to new borrowing and the change in exchange and discount rates

**Guinea: Change in the NPV of Debt-to-Exports Ratio from Decision Point to end-2004 1/**

| | Anticipated Change in Ratio from end-1999 to end-2004 2/ | Unanticipated Change in the end-2004 Ratio | | Total Change in Ratio | |
|---|---|---|---|---|---|
| | *Percentage points* | | | | |
| **End-1999 NPV of debt-to-exports ratio** | **150.0** | | | **150.0** | |
| **End-2004 NPV of debt-to-exports ratio** | | **118.6** | **2/** | | |
| **Factors contributing to changes in ratios** | | | | | |
| New borrowing (2000-04) | 14.0 | -4.3 | | 9.7 | |
| Export growth (2000-04) | -53.6 | 49.4 | | -4.1 | |
| Changes in parameters | | 25.3 | | 25.3 | |
| *of which* | | | | | |
| Due to changes in the discount rates | | 11.7 | | 11.7 | |
| Due to changes in the exchange rates | | 13.6 | | 13.6 | |
| Other factors 3/ | | 8.4 | | 8.4 | |
| **End-2004 NPV of debt-to-exports ratio** | **118.6** | **189.0** | **4/** | **189.0** | **4/** |

Source: Staff estimates.

1/ All figures assume the full delivery of debt relief under the HIPC Initiative.

2/ End-1999 data and projections at the time of the decision point.

3/ Includes accumulation of arrears, changes to the simulated HIPC debt relief relative to the decision point and a historical revision to exports.

4/ Based on actual end-2003 debt stocks, discount rates, exchange rates and the three-year backward-looking average of exports of good and services.

Using the HIPC methodology to update the decision point DSA results in an end-2004 ratio (189 percent) that is slightly lower than that generated with the new LIC DSA framework (192 percent). There are a number of methodological differences between the two frameworks that explain the difference: (i) the LIC DSA uses annual exports rather than a three-year backward looking average; (ii) the LIC DSA uses exchange rate projections from the WEO to project debt service streams rather than end-2004 exchanges rates under the HIPC methodology; and (iii) the LIC DSA uses a single discount rate of 5 percent to calculate the NPV of debt rather than currency specific discount rates.

In the case of Guinea, the difference resulting from the change in the exchange rates used to project future debt streams increases the debt ratios by more than the offsetting changes in discount rates and exports used between the two methods.

**Public Sector Debt Sustainability Analysis (2005-25)**

8. **Guinea's central government fiscal deficit (commitment basis, including grants) has been at an average deficit of 6.3 per cent of GDP during the period 1994 to 2004**. Reflecting fiscal slippages, the deficit deteriorated steadily from 5.3 percent of GDP in 1999 to reach 8.9 percent of GDP by end-2003. The fiscal imbalances reflect higher-than-budgeted expenditures on account of defense spending, interest charges on domestic debt, and domestically financed investment outlays. During the period, expenditures averaged 17.2 percent of GDP while revenues (including grants) were 13.7 percent of GDP on average, resulting in the growing primary deficit and the accumulation of domestic debt.

9. **At end-2004, the government's domestic debt represented about 22 percent of GDP** and included advances from the central bank (15 percent), treasury bills owned by commercial banks (4 percent) and accumulated arrears to the private sector (3 percent). The government had also a sizable amount of non-certified debt to the private non-financial sector and public enterprises, which is awaiting certification by external auditors. This category of debt is not captured in the data used in this analysis.[4] In the context of ongoing Staff-Monitored Program, the authorities have undertaken an inventory of its debt vis-à-vis the private non-financial sector and public enterprises, and intend to complete an audit of this debt by end-December 2005.

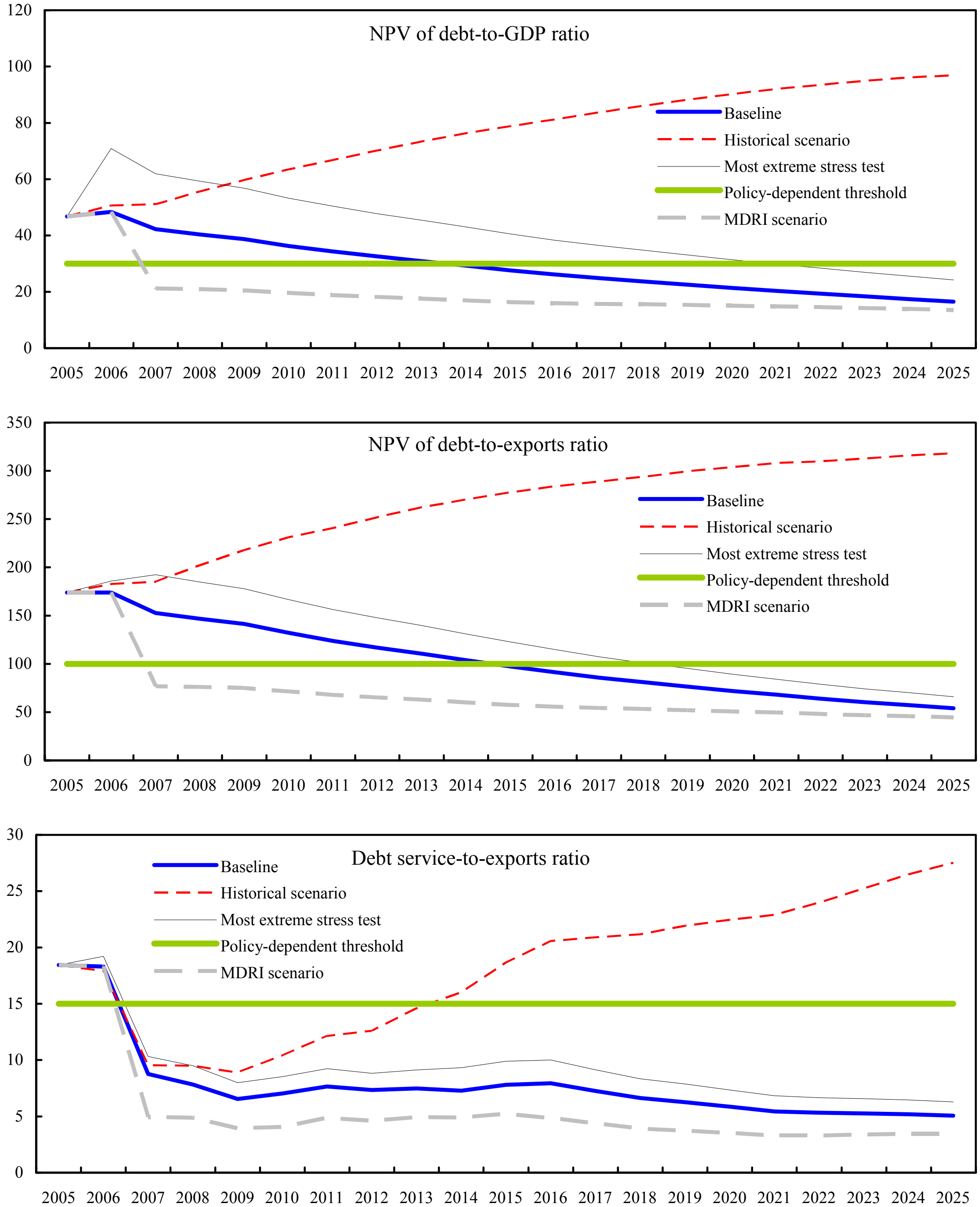
10. **An important component of the baseline macroeconomic scenario is increasing government revenues combined with restrained government spending.** The resulting fiscal adjustment is expected to reduce the public sector borrowing requirement over time. Consequently, the domestic debt stock is assumed to fall over time, reaching 7 percent of GDP by the end of the projection period. The combination of strong revenue growth and a diminishing domestic debt stock, result in a falling public sector debt burden over time. However, the starting levels are extremely high with the NPV of total public sector debt to fiscal revenues ratio estimated to be 577 percent and the NPV of public debt to GDP to be 134 percent in 2005 (Table 4).

11. **As in the external debt sustainability analysis, sensitivity analysis indicates a sharp rise in the risk of debt over the medium term**. In the no reform scenario, which maintains the primary balance at the 2004 level, all debt burden indicators increase significantly relative to the baseline scenario. For example, the NPV of public debt to revenues ratio increases on average about 130 percentage points. A one-time 30 percent real depreciation in the franc would also generate a significant increase in the debt burden indicators (most extreme stress tests in Figure 4).

[4] One of the stress tests in the LIC DSA framework assumes a 10 percent of GDP increase in debt creating flows in 2006, which could approximate the inclusion of non-certified domestic debt.

12. **The results of the public sector DSA underscore the importance of domestic debt management, especially the limiting of domestic borrowing from the central bank and the accumulation of domestic arrears to the private sector.**

Figure 3. Guinea: Indicators of Public and Publicly Guaranteed External Debt
Under Alternative Scenarios, 2005-2025
(In percent)




Source: Staff projections and simulations.

Table 2. Guinea: External Debt Sustainability Framework, Baseline Scenario, 2005-2025 1/
(In percent of GDP, unless otherwise indicated)

| | Actual | Historical | Standard | Projections | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Average 6/ | Deviation 6/ | | | | | | | 2005-10 | | |
| | 2004 | | | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | Average | 2015 | 2025 |
| **External debt (nominal) 1/** | **82.4** | | | **97.4** | **99.5** | **93.3** | **87.4** | **81.7** | **75.3** | **89.1** | **54.1** | **30.3** |
| o/w public and publicly guaranteed (PPG) | 82.4 | | | 97.4 | 99.5 | 93.3 | 87.4 | 81.7 | 75.3 | | 54.1 | 30.3 |
| Change in external debt | -10.2 | | | 15.1 | 2.1 | -6.2 | -5.9 | -5.6 | -6.4 | | -3.7 | -1.8 |
| Identified net debt-creating flows | -6.0 | | | -3.4 | -5.2 | -5.6 | -5.6 | -4.1 | -4.1 | | -1.7 | 0.1 |
| **Non-interest current account deficit** | **4.2** | **4.3** | **1.7** | **2.3** | **2.7** | **2.5** | **1.7** | **2.0** | **2.0** | **2.2** | **2.4** | **2.8** |
| Deficit in balance of goods and services | 4.1 | | | 2.6 | 3.1 | 2.1 | 1.4 | 1.8 | 1.9 | | 2.3 | 2.6 |
| Exports | 20.8 | | | 26.9 | 27.8 | 27.6 | 27.5 | 27.4 | 27.4 | **27.4** | 28.4 | 30.5 |
| Imports | 24.8 | | | 29.5 | 30.8 | 29.8 | 28.9 | 29.2 | 29.4 | | 30.7 | 33.1 |
| Net current transfers (negative = inflow) | -0.1 | -0.4 | 0.7 | -0.3 | -0.3 | 0.1 | 0.0 | -0.1 | -0.3 | | -0.1 | 0.0 |
| Other current account flows (negative = net inflow) | 0.2 | | | -0.1 | -0.1 | 0.2 | 0.3 | 0.4 | 0.4 | | 0.3 | 0.1 |
| **Net FDI (negative = inflow)** | **-3.6** | **-0.7** | **1.8** | **-4.2** | **-4.4** | **-3.9** | **-2.8** | **-2.3** | **-2.6** | | **-2.0** | **-1.6** |
| **Endogenous debt dynamics 2/** | **-6.6** | | | **-1.5** | **-3.5** | **-4.2** | **-4.4** | **-3.8** | **-3.6** | | **-2.1** | **-1.1** |
| Contribution from nominal interest rate | 1.3 | | | 1.5 | 1.4 | 0.8 | 0.8 | 0.7 | 0.6 | | 0.5 | 0.4 |
| Contribution from real GDP growth | -2.3 | | | -3.0 | -4.9 | -5.0 | -5.3 | -4.5 | -4.2 | | -2.7 | -1.5 |
| Contribution from price and exchange rate changes | -5.7 | | | … | … | … | … | … | … | | … | ... |
| **Residual (3-4) 3/** | **-4.2** | | | **18.5** | **7.3** | **-0.6** | **-0.3** | **-1.5** | **-2.3** | | **-2.0** | **-1.9** |
| o/w exceptional financing | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 |
| | | | | | | | | | | | | |
| NPV of external debt 4/ | 39.7 | | | 46.8 | 48.3 | 42.2 | 40.4 | 38.7 | 36.3 | **42.1** | 27.6 | 16.5 |
| In percent of exports | 191.5 | | | 173.9 | 174.1 | 152.7 | 146.8 | 141.3 | 132.2 | **153.5** | 97.4 | 54.1 |
| **NPV of PPG external debt** | **39.7** | | | **46.8** | **48.3** | **42.2** | **40.4** | **38.7** | **36.3** | **42.1** | **27.6** | **16.5** |
| In percent of exports | 191.5 | | | 173.9 | 174.1 | 152.7 | 146.8 | 141.3 | 132.2 | **153.5** | 97.4 | 54.1 |
| Debt service-to-exports ratio (in percent) | 21.0 | | | 18.4 | 18.3 | 8.8 | 7.8 | 6.6 | 7.0 | **11.2** | 7.8 | 5.1 |
| **PPG debt service-to-exports ratio (in percent)** | 21.0 | | | 18.4 | 18.3 | 8.8 | 7.8 | 6.6 | 7.0 | **11.2** | 7.8 | 5.1 |
| Total gross financing need (billions of U.S. dollars) | 0.2 | | | 0.1 | 0.1 | 0.0 | 0.0 | 0.1 | 0.1 | **0.1** | 0.2 | 0.4 |
| Non-interest current account deficit that stabilizes debt ratio | 14.4 | | | -12.8 | 0.6 | 8.7 | 7.6 | 7.7 | 8.5 | **3.4** | 6.1 | 4.6 |
| | | | | | | | | | | | | |
| **Key macroeconomic assumptions** | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| Real GDP growth (in percent) | 2.7 | 3.3 | 1.4 | 3.0 | 5.0 | 5.4 | 6.1 | 5.5 | 5.5 | 5.1 | 5.0 | 5.0 |
| GDP deflator in US dollar terms (change in percent) | 6.5 | -2.2 | 8.9 | -19.2 | -5.9 | 2.8 | 2.4 | 2.7 | 3.4 | -2.3 | 2.3 | 1.9 |
| Effective interest rate (percent) 5/ | 1.6 | 1.4 | 0.3 | 1.5 | 1.4 | 0.9 | 1.0 | 0.8 | 0.8 | 1.1 | 1.0 | 1.4 |
| Growth of exports of G&S (US dollar terms, in percent) | 2.8 | 1.6 | 4.5 | 7.9 | 1.9 | 7.9 | 8.1 | 7.9 | 9.3 | 7.2 | 7.9 | 7.1 |
| Growth of imports of G&S (US dollar terms, in percent) | 7.1 | 2.1 | 6.8 | -1.0 | 3.1 | 4.7 | 5.4 | 9.5 | 9.8 | 5.3 | 8.4 | 7.5 |
| Grant element of new public sector borrowing (in percent) | ... | ... | ... | 29.2 | 22.8 | 33.1 | 38.6 | 39.0 | 45.0 | 34.6 | 38.8 | 36.3 |
| | | | | | | | | | | | | |
| *Memorandum item:* | | | | | | | | | | | | |
| Nominal GDP (billions of US dollars) | 4.0 | | | 3.3 | 3.3 | 3.5 | 3.8 | 4.2 | 4.5 | | 6.5 | 13.4 |

Source: Staff simulations.

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

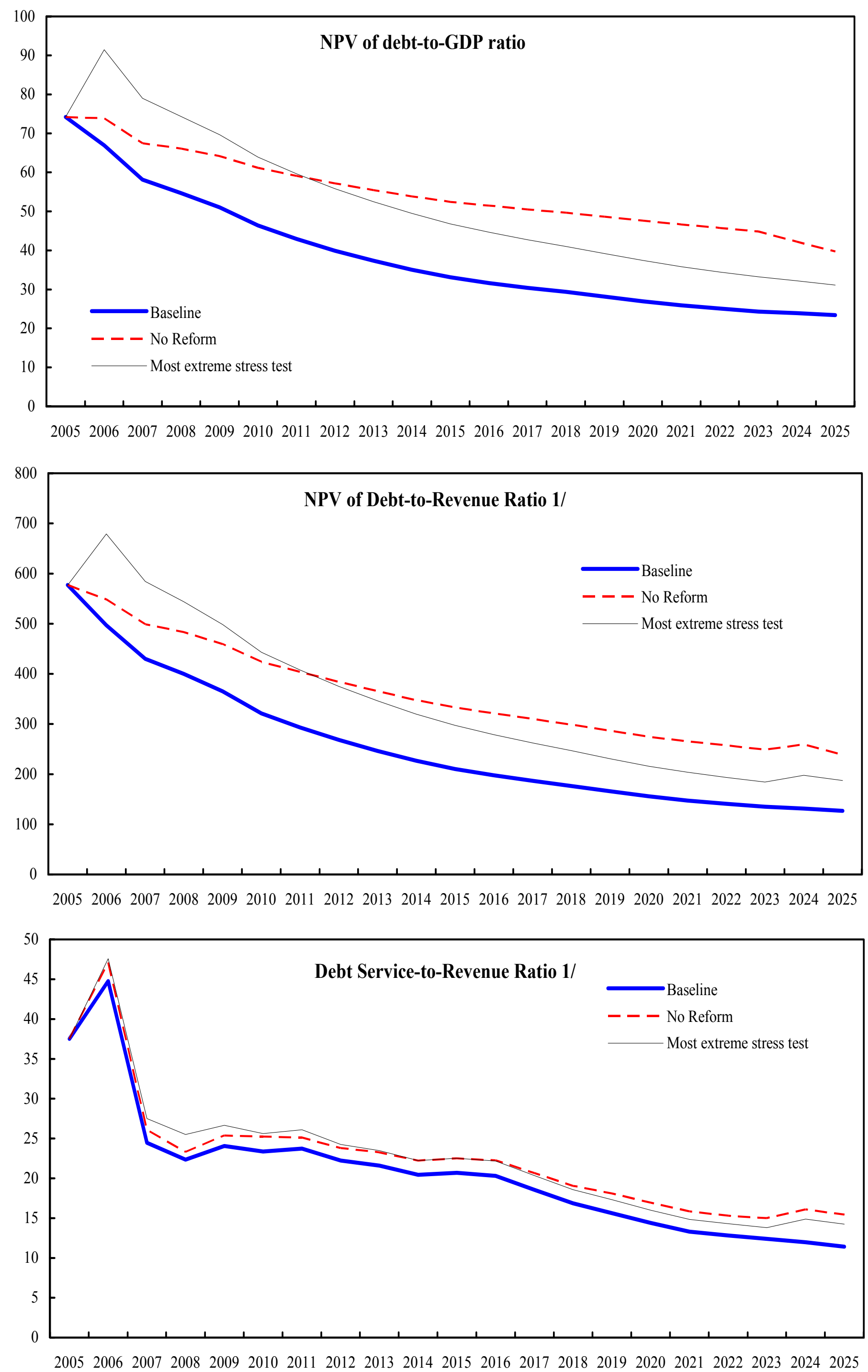
Table 3. Guinea: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2005-25
(In percent)

| | Projections | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | **2015** | 2025 |
| **NPV of debt-to-GDP ratio** | | | | | | | | |
| **Baseline** | 47 | 48 | 42 | 40 | 39 | 36 | **28** | 16 |
| **A. Alternative Scenarios** | | | | | | | | |
| A1. Key variables at their historical averages in 2005-25 1/ | 47 | 51 | 51 | 56 | 60 | 63 | **79** | 97 |
| A2. New public sector loans on less favorable terms in 2005-25 2/ | 47 | 49 | 44 | 42 | 41 | 39 | **32** | 24 |
| **B. Bound Tests** | | | | | | | | |
| B1. Real GDP growth at historical average minus one standard deviation in 2006-07 | 47 | 50 | 45 | 43 | 41 | 39 | **29** | 18 |
| B2. Export value growth at historical average minus one standard deviation in 2006-07 3/ | 47 | 49 | 46 | 44 | 42 | 39 | **30** | 17 |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2006-07 | 47 | 51 | 52 | 49 | 47 | 44 | **34** | 20 |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2006-07 4/ | 47 | 52 | 50 | 47 | 45 | 43 | **32** | 18 |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 47 | 50 | 52 | 50 | 48 | 45 | **34** | 20 |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/ | 47 | 71 | 62 | 59 | 57 | 53 | **41** | 24 |
| **NPV of debt-to-exports ratio** | | | | | | | | |
| **Baseline** | 174 | 174 | 153 | 147 | 141 | 132 | **97** | 54 |
| **A. Alternative Scenarios** | | | | | | | | |
| A1. Key variables at their historical averages in 2005-25 1/ | 174 | 183 | 185 | 202 | 218 | 231 | **278** | 318 |
| A2. New public sector loans on less favorable terms in 2005-25 2/ | 174 | 177 | 158 | 153 | 149 | 142 | **114** | 78 |
| **B. Bound Tests** | | | | | | | | |
| B1. Real GDP growth at historical average minus one standard deviation in 2006-07 | 174 | 174 | 153 | 147 | 141 | 132 | **97** | 54 |
| B2. Export value growth at historical average minus one standard deviation in 2006-07 3/ | 174 | 186 | 192 | 185 | 178 | 167 | **123** | 66 |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2006-07 | 174 | 174 | 153 | 147 | 141 | 132 | **97** | 54 |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2006-07 4/ | 174 | 189 | 179 | 172 | 166 | 156 | **114** | 59 |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 174 | 181 | 180 | 173 | 166 | 156 | **115** | 62 |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/ | 174 | 174 | 153 | 147 | 141 | 132 | **97** | 54 |
| **Debt service-to-exports ratio** | | | | | | | | |
| **Baseline** | 18 | 18 | 9 | 8 | 7 | 7 | **8** | 5 |
| **A. Alternative Scenarios** | | | | | | | | |
| A1. Key variables at their historical averages in 2005-25 1/ | 18 | 18 | 10 | 9 | 9 | 10 | **19** | 28 |
| A2. New public sector loans on less favorable terms in 2005-25 2/ | 18 | 18 | 9 | 8 | 7 | 7 | **8** | 6 |
| **B. Bound Tests** | | | | | | | | |
| B1. Real GDP growth at historical average minus one standard deviation in 2006-07 | 18 | 18 | 9 | 8 | 7 | 7 | **8** | 5 |
| B2. Export value growth at historical average minus one standard deviation in 2006-07 3/ | 18 | 19 | 10 | 9 | 8 | 9 | **10** | 6 |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2006-07 | 18 | 18 | 9 | 8 | 7 | 7 | **8** | 5 |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2006-07 4/ | 18 | 18 | 9 | 8 | 7 | 8 | **9** | 6 |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 18 | 19 | 10 | 9 | 8 | 8 | **9** | 6 |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2006 5/ | 18 | 18 | 9 | 8 | 7 | 7 | **8** | 5 |
| *Memorandum item:* | | | | | | | | |
| Grant element assumed on residual financing (i.e., financing required above baseline) 6/ | 35 | 35 | 35 | 35 | 35 | 35 | **35** | 35 |

Source: Staff projections and simulations.

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

## Figure 4. Guinea: Indicators of Public Debt Under Alternative Scenarios, 2005-25




Source: Staff projections and simulations.
1/ Revenue including grants.

## Table 4. Guinea: Public Sector Debt Sustainability Framework, Baseline Scenario, 2005-25
(in percent of GDP, unless otherwise indicated)

| | Actual | | | Estimate | Projections | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2004 | Historical Average 5/ | Standard Deviation 5/ | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2005-10 Average | 2015 | 2025 |
| **Public sector debt 1/** | 114.4 | | | 133.8 | 119.5 | 109.7 | 102.2 | 94.5 | 85.9 | | 59.9 | 37.4 |
| o/w foreign-currency denominated | 95.2 | | | 117.0 | 104.3 | 96.1 | 89.9 | 84.0 | 77.3 | | 55.3 | 31.4 |
| Change in public sector debt | -0.7 | | | 19.4 | -14.3 | -9.8 | -7.5 | -7.7 | -8.6 | | -4.0 | -1.3 |
| Identified debt-creating flows | 2.3 | | | 21.6 | -16.2 | -13.0 | -10.3 | -9.3 | -9.2 | | -4.2 | 0.9 |
| Primary deficit | 2.4 | 2.0 | 1.4 | -1.4 | -1.9 | -1.2 | -1.1 | -1.0 | -1.1 | -1.3 | -0.3 | 2.8 |
| Revenue and grants | 11.4 | | | 12.9 | 13.5 | 13.5 | 13.7 | 14.0 | 14.4 | | 15.8 | 16.6 |
| *of which* : grants | 1.0 | | | 0.8 | 0.7 | 0.2 | 0.2 | 0.2 | 0.2 | | 0.2 | 0.1 |
| Primary (noninterest) expenditure | 13.8 | | | 11.5 | 11.6 | 12.4 | 12.5 | 13.0 | 13.4 | | 15.5 | 19.4 |
| Automatic debt dynamics | 0.5 | | | 23.4 | -13.9 | -9.7 | -7.3 | -6.6 | -6.7 | | -3.3 | -1.8 |
| Contribution from interest rate/growth differential | -6.3 | | | -6.8 | -7.9 | -7.2 | -7.0 | -6.1 | -5.7 | | -3.2 | -1.8 |
| *of which* : contribution from average real interest rate | -3.3 | | | -3.5 | -1.6 | -1.1 | -0.6 | -0.7 | -0.7 | | -0.1 | 0.0 |
| *of which* : contribution from real GDP growth | -3.0 | | | -3.3 | -6.3 | -6.1 | -6.3 | -5.4 | -5.0 | | -3.0 | -1.9 |
| Contribution from real exchange rate depreciation | 6.8 | | | 30.2 | -6.0 | -2.4 | -0.3 | -0.5 | -1.1 | | ... | ... |
| Other identified debt-creating flows | -0.6 | | | -0.5 | -0.4 | -2.2 | -1.9 | -1.7 | -1.4 | | -0.6 | 0.0 |
| Privatization receipts (negative) | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 |
| Recognition of implicit or contingent liabilities | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 |
| Debt relief (HIPC and other) | -0.5 | | | -0.5 | -0.4 | -2.2 | -1.9 | -1.7 | -1.4 | | -0.6 | 0.0 |
| Other (specify, e.g. bank recapitalization) | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 |
| Residual, including asset changes | -3.0 | | | -2.2 | 1.8 | 3.2 | 2.8 | 1.6 | 0.5 | | 0.2 | -2.3 |
| **NPV of public sector debt** | 66.5 | | | 74.2 | 66.9 | 58.1 | 54.7 | 51.0 | 46.4 | | 33.1 | 23.4 |
| o/w foreign-currency denominated | 47.3 | | | 57.4 | 51.7 | 44.5 | 42.5 | 40.5 | 37.8 | | 28.5 | 17.5 |
| o/w external | 44.7 | | | 55.1 | 49.6 | 42.6 | 40.8 | 39.1 | 36.6 | | 27.9 | 16.6 |
| NPV of contingent liabilities (not included in public sector debt) | ... | | | ... | ... | ... | ... | ... | ... | | ... | ... |
| Gross financing need 2/ | 8.9 | | | 4.3 | 4.9 | 2.4 | 2.2 | 2.6 | 2.5 | | 3.2 | 3.1 |
| NPV of public sector debt-to-revenue ratio (in percent) 3/ | 582.8 | | | 577.1 | 496.8 | 429.8 | 400.0 | 365.1 | 321.3 | | 210.1 | 140.8 |
| o/w external | 391.5 | | | 428.2 | 368.5 | 315.1 | 298.2 | 279.7 | 253.6 | | 177.1 | 100.1 |
| Debt service-to-revenue ratio (in percent) 3/ 4/ | 48.3 | | | 37.5 | 44.8 | 24.5 | 22.4 | 24.1 | 23.4 | | 20.7 | 11.4 |
| Primary deficit that stabilizes the debt-to-GDP ratio | 3.0 | | | -20.7 | 12.5 | 8.6 | 6.4 | 6.7 | 7.6 | | 3.7 | 4.1 |
| **Key macroeconomic and fiscal assumptions** | | | | | | | | | | | | |
| Real GDP growth (in percent) | 2.7 | 3.7 | 1.4 | 3.0 | 5.0 | 5.4 | 6.1 | 5.5 | 5.5 | 5.1 | 5.0 | 5.0 |
| Average nominal interest rate on forex debt (in percent) | 2.0 | 0.3 | 0.7 | 2.2 | 1.5 | 1.0 | 1.1 | 1.0 | 0.9 | 1.3 | 1.1 | 1.6 |
| Average real interest rate on domestic currency debt (in percent) | -13.0 | -8.1 | 3.9 | -17.1 | -6.3 | -0.9 | 1.5 | 1.5 | 1.5 | -3.3 | 7.4 | 2.8 |
| Real exchange rate depreciation (in percent, + indicates depreciation) | 7.6 | 6.6 | 11.1 | 32.8 | -5.4 | -2.5 | -0.3 | -0.6 | -1.3 | 4.6 | -0.3 | 0.1 |
| Inflation rate (GDP deflator, in percent) | 21.7 | 6.7 | 6.5 | 28.4 | 12.9 | 6.7 | 4.4 | 4.7 | 5.5 | 10.4 | 4.4 | 3.9 |
| Growth of real primary spending (deflated by GDP deflator, in percent) | -18.0 | 1.7 | 13.0 | -13.9 | 5.9 | 12.3 | 7.6 | 9.5 | 8.5 | 5.0 | 7.4 | 7.0 |

Sources: Country authorities; and Fund staff estimates and projections.
1/ Public sector debt refers to central government and nonfinancial public sector on a gross basis.
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
3/ Revenues including grants.
4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.
5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
6/ The implicit nominal interest rate on domestic debt differs from nominal effective rates because the implicit rates are calculated on the basis of the total stock of debt to the central bank, commercial banks, and the private non-financial sector, which is higher than the stock of domestic debt which is actually being serviced.

Table 5. Guinea: Sensitivy Analysis for Key Indicators of Public Debt, 2005-25

| | Estimate | Projections | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2015 | 2025 |
| **NPV of Debt-to-GDP Ratio** | | | | | | | | |
| **Baseline** | 74 | 67 | 58 | 55 | 51 | 46 | 33 | 23 |
| **A. Alternative scenarios** | | | | | | | | |
| A1. Real GDP growth and primary balance are at historical averages | 74 | 71 | 66 | 66 | 65 | 63 | 56 | 44 |
| A2. Primary balance is unchanged from 2004 | 78 | 74 | 67 | 66 | 64 | 61 | 52 | 40 |
| A3. Permanently lower GDP growth 1/ | 74 | 67 | 59 | 55 | 52 | 48 | 36 | 30 |
| **B. Bound tests** | | | | | | | | |
| B1. Real GDP growth is at historical average minus one standard deviations in 2006-2007 | 74 | 69 | 63 | 60 | 56 | 52 | 40 | 32 |
| B2. Primary balance is at historical average minus one standard deviations in 2006-2007 | 74 | 72 | 67 | 62 | 58 | 52 | 37 | 25 |
| B3. Combination of B1-B2 using one half standard deviation shocks | 74 | 72 | 68 | 64 | 59 | 54 | 38 | 26 |
| B4. One-time 30 percent real depreciation in 2006 | 74 | 91 | 79 | 74 | 70 | 64 | 47 | 31 |
| B5. 10 percent of GDP increase in other debt-creating flows in 2006 | 74 | 76 | 66 | 62 | 57 | 52 | 37 | 25 |
| **NPV of Debt-to-Revenue Ratio 2/** | | | | | | | | |
| **Baseline** | 577 | 497 | 430 | 400 | 365 | 321 | 210 | 127 |
| **A. Alternative scenarios** | | | | | | | | |
| A1. Real GDP growth and primary balance are at historical averages | 577 | 529 | 488 | 483 | 465 | 435 | 352 | 261 |
| A2. Primary balance is unchanged from 2004 | 603 | 548 | 499 | 484 | 459 | 424 | 333 | 239 |
| A3. Permanently lower GDP growth 1/ | 577 | 499 | 434 | 406 | 373 | 330 | 229 | 183 |
| **B. Bound tests** | | | | | | | | |
| B1. Real GDP growth is at historical average minus one standard deviations in 2006-2007 | 577 | 512 | 462 | 435 | 402 | 359 | 253 | 194 |
| B2. Primary balance is at historical average minus one standard deviations in 2006-2007 | 577 | 533 | 493 | 454 | 412 | 362 | 234 | 151 |
| B3. Combination of B1-B2 using one half standard deviation shocks | 577 | 538 | 503 | 465 | 422 | 371 | 241 | 154 |
| B4. One-time 30 percent real depreciation in 2006 | 577 | 679 | 584 | 544 | 498 | 443 | 297 | 187 |
| B5. 10 percent of GDP increase in other debt-creating flows in 2006 | 577 | 566 | 490 | 452 | 410 | 360 | 234 | 151 |
| **Debt Service-to-Revenue Ratio 2/** | | | | | | | | |
| **Baseline** | 38 | 45 | 24 | 22 | 24 | 23 | 21 | 11 |
| **A. Alternative scenarios** | | | | | | | | |
| A1. Real GDP growth and primary balance are at historical averages | 47 | 46 | 26 | 24 | 27 | 27 | 25 | 19 |
| A2. Primary balance is unchanged from 2004 | 47 | 47 | 26 | 23 | 25 | 25 | 23 | 15 |
| A3. Permanently lower GDP growth 1/ | 47 | 45 | 25 | 23 | 24 | 24 | 21 | 14 |
| **B. Bound tests** | | | | | | | | |
| B1. Real GDP growth is at historical average minus one standard deviations in 2006-2007 | 47 | 46 | 26 | 24 | 26 | 25 | 22 | 14 |
| B2. Primary balance is at historical average minus one standard deviations in 2006-2007 | 47 | 45 | 26 | 23 | 25 | 24 | 21 | 13 |
| B3. Combination of B1-B2 using one half standard deviation shocks | 47 | 46 | 26 | 24 | 26 | 25 | 22 | 14 |
| B4. One-time 30 percent real depreciation in 2006 | 47 | 48 | 28 | 25 | 27 | 26 | 23 | 14 |
| B5. 10 percent of GDP increase in other debt-creating flows in 2006 | 47 | 45 | 27 | 23 | 25 | 24 | 21 | 13 |

Sources: Country authorities; and Fund staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).
2/ Revenues are defined inclusive of grants.

**Statement by the IMF Staff Representative**
**December 23, 2005**

1. This statement reports on information that has become available since the issuance of the staff report for the 2005 Article IV Consultation and Staff-Monitored Program. This information does not change the thrust of the staff appraisal.

2. **Although Guinea met most of the quantitative criteria and structural benchmarks under the SMP for end-September 2005, inflation remains high and recently there were slippages in policy implementation.** Notwithstanding the decline in inflation in recent months, the authorities' year-end objective is likely to be exceeded by a wide margin. Monthly inflation has declined gradually from a peak of 6 percent in June 2005 to 0.8 percent in November; however, 12-month inflation is expected to reach close to 29 percent by end-2005, compared to the SMP objective of 19 percent. Recent indicators suggest that real GDP growth as well as balance of payments developments in 2005 remain in line with the expectations in the staff report.

3. **All but one of the end-September 2005 quantitative indicative targets under the staff-monitored program (SMP) were met (Table 1):**

- The fiscal primary balance improved to a surplus of 2.9 percent of GDP in the first nine months of 2005 compared to the target of 2.2 percent of GDP.
- The indicative target on central government noninterest current expenditure was exceeded, albeit by a small margin; the excess was mainly due to the faster than expected depreciation of the exchange rate.
- Net bank credit to the government contracted during the first nine months of 2004.
- Reserve money contracted by GNF 25 billion between March and September, compared to an expansion of GNF 29 billion under the SMP.
- The target on the stock of net foreign assets (NFA) of the central bank was met, in part owing to tax advances from the mining companies (discussed in the staff report) and the proceeds of the sale of a GSM telephone license to a foreign operator in the third quarter of 2005.

4. **All end-September SMP structural benchmarks were met (except for the continued presence of a multiple currency practice; Table 2):**

- A provision of the general rules on public accounting was amended to eliminate the possibility of extrabudgetary spending, and the government launched a call for bids for an audit of the computerized expenditure management system.

- The government adopted an action plan to combat corruption. As part of this plan, a draft anti-corruption law is being finalized. In addition, a number of measures are being taken to strengthen the ability of citizens to bring cases of corruption to the attention of the authorities and to increase public awareness of corruption. The anti-corruption plan is part of a broader strategy to promote good governance, which is being developed with the support of the World Bank and the European Union.

- Action plans were adopted to strengthen the financial situation of the water and electricity companies. These plans envisage actions to reduce widespread fraud, clarify financial relationships between the government and the utilities, ensure timely payment of government bills for water and electricity consumption, and prepare an opening balance for 2006.

- No new ad-hoc tax or customs exemptions (a continuous structural benchmark) were introduced.

- The external audit of the international reserve position of the central bank was completed by the external auditor, and the central bank forwarded its reactions by end-September. The auditor submitted his final report in October 2005.

5. **However, there were serious slippages in program implementation during October-November 2005, as a result of which several of the SMP's end-December 2005 quantitative targets may not be attained**. As of end-November, base money had almost reached the level of the end-December target and central bank NFA had dropped to their end-December program levels. Also, external arrears—which had contracted until September 2005—increased in October-November. The main problems were a very rapid expansion of central bank credit to the government (reflecting in part higher government expenditures that had been delayed from earlier in the year and reduced commercial bank financing to the government) and the absence of an efficient program monitoring mechanism.

6. **The authorities are taking measures to bring their program back on track.** These measures include efforts to place additional treasury bonds with the commercial banks, including by raising interest rates; purchasing foreign exchange in the market to rebuild central bank NFA; and reducing external arrears by end-December to below the program ceiling. The authorities will also take action to improve policy coordination between the fiscal and monetary authorities; in particular, they will set up the treasury and liquidity committees, as specified in their November 2005 MEFP.

7. **There was progress in the area of structural reform during the last quarter, and all but one of the end-December structural benchmarks under the SMP are likely to be achieved.** The benchmarks related to the audit of the 2004 accounts of the central bank, closing private accounts in the central bank, performing an inventory of cross-debts between the government and the public enterprises, and adopting a plan to settle these cross debts will be met. However, the benchmark relating to the audit of domestic government debt to the private sector is not expected to be completed on time. A number of other positive developments have taken place in the last few months. On the fiscal front, wage demands have been kept under control in the face of social pressure, the number of military personnel

was reduced substantially in the last quarter of 2005, and the civil service census is advancing as planned. Regarding monetary and exchange rate policy, the central bank is taking action to publish the reference exchange rate on a daily and weighted basis and to reinforce its foreign exchange department; it also raised reserve requirements. The government sold a significant proportion of its shares in the largest commercial bank to a key foreign investor. Also, three foreign investors have announced plans to develop large alumina refinery plants in Guinea. Finally, nationwide local elections took place on December 18, 2005; the elections were peaceful although voter participation seems to have been very low.

Table 1. Guinea: Quantitative Indicative Targets, 2004 -September 2005

| | 2004 | 2005 | | | | |
|---|---|---|---|---|---|---|
| | | March | June | | Sept. | |
| | | | Targets | Est. | Targets | Est. |
| | | | (In billions of Guinean francs) | | | |
| Central government primary balance (floor) 1/ | -40.3 | 125.0 | 186.0 | 250.2 | 259.7 | 350.4 |
| Net bank credit to the government (ceiling) 2/ 3/ 8/ | 240.5 | 50.3 | 120.5 | -30.1 | 166.3 | -33.9 |
| Reserve money (ceiling) 9/ | 763.3 | 913.3 | 926.2 | 853.0 | 942.5 | 887.9 |
| | | | (In millions of U.S. dollars) | | | |
| Stock of net foreign assets of the central bank (floor) 4/ 5/ 8/ | -29.6 | -22.7 | -12.6 | -16.2 | -3.9 | 8.6 |
| New nonconcessional medium- or long-term external debt contracted of guaranteed by the government or the central bank (ceiling) | 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 (ceiling) 5/ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Stock of outstanding external payments arrears (ceiling) 6/ | 62.4 | 74.2 | 72.7 | 65.0 | 68.9 | 51.5 |
| | | | (In billions of Guinean francs) | | | |
| Central government nonmining revenue 2/ | 765.0 | 246.4 | 498.0 | 554.5 | 742.7 | 845.0 |
| Central government noninterest current expenditure 2/ | 791.0 | 156.5 | 388.3 | 381.9 | 598.2 | 620.2 |
| Expenditure in priority sectors 2/ 7/ | 263.9 | 71.8 | 181.2 | 182.9 | 280.8 | 299.9 |
| Change in domestic arrears (a "-" sign indicates repayment) 2/ | 21.4 | 4.7 | 4.7 | 4.7 | 0.0 | -0.3 |
| Memorandum items: | | | | | | |
| External budgetary assistance (in millions of US dollars) 2/ | 0.0 | 0.0 | 0.0 | 1.0 | 0.0 | 1.0 |

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/ Cumulative from the beginning of the calendar year

3/ Subject to adjustment mechanisms for deviation in cash settlement of domestic arrears and disbursement of external budgetary assistance as specified in the Technical Memorandum of Understanding (TMU).

4/ Subject to adjustment mechanisms for accumulation of new external arrears and deviation in disbursement of external budgetary assistance as specified in the Technical Memorandum of Understanding (TMU).

5/ Excluding commercial credits.

6/ Excluding arrears under negotiation with creditors; monitored on a continuous basis.

7/ Priority sectors include public health, education, transport, road maintenance, justice, rural development, urban planning, and social affairs. This expenditure includes outlays funded by HIPC resources.

8/ The program targets have been revised downwards throughout by about US$23 million, following the adjustment to the central bank balance sheet on account of a foreign exchange transaction between the Central Bank and a private company. The targets from end-June are also adjusted upward for US$ 1 million of budgetary assistance obtained from China in June 2005 and which was not expected in the program.

9/ The reserve money is reported at program exchange rates: 3200 GNF/USD for end-June and 3276 GNF/USD for end-September.

Table 2. Structural Benchmarks for the 2005-06 Staff-Monitored Program

| Areas | Measures | Implementation Date | Status of Implementation |
|---|---|---|---|
| Tax administration | | | |
| | • Adoption of an action plan with a timetable for strengthening tax and customs administrations, based on the recommendations of the IMF technical assistance missions. | End-June 2005. | Met. |
| | • Moratorium on new ad hoc tax or customs tariff exemptions. | On a continuous basis. | Met. |
| Expenditure control | | | |
| | • Establishment of a monitoring committee to review the operation of the computerized expenditure management system and prepare the terms of reference for a complete computer network audit. | End-June 2005. | Met. |
| | • Amend Article 31 of the General Rules on Public Accounting in order to eliminate the possibility of extra budgetary transactions. | End-September 2005. | Met. |
| | • Launch a call for bids for an audit of the computerized expenditure management system. | End-September 2005. | Met. |
| | • Closing of all accounts held by individuals on the books of the central bank. | End-December 2005. | |
| | • Completion of an audit of the government's domestic debt and of the cross debts between public enterprises and the government. | End-December 2005. | |

Table 2. Structural Benchmarks for the 2005-06 Staff-Monitored Program (Concluded)

| Areas | Measures | Implementation Date | Status of Implementation |
|---|---|---|---|
| Fiscal issues regarding public enterprises | | | |
| | • Adoption by the Council of Ministers of an action plan to combat fraudulent use of electricity and drinking water. | End-June 2005. | Met. |
| | • Adoption of an action plan to strengthen financially the electricity and water companies. | End-September 2005. | Met. |
| | • Adoption of a plan to settle cross debts between public enterprises and the government. | End-December 2005. | |
| Safeguards measures | | | |
| | • Completion of the special audit of the central bank's international reserves. | End-September 2005. | Met. |
| | • Completion of the financial audit of the central bank itself. | End-December 2005. | |
| Governance | | | |
| | • Adoption of an action plan to combat corruption, including concrete objectives and performance indicators, as well as specific actions to improve governance in key public sectors and an implementation schedule. | End-September 2005. | Met. |
| Exchange rate regime | | | |
| | • Refrain from introducing any new multiple currency practices. | On a continuous basis. | Not met. |

INTERNATIONAL MONETARY FUND
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# IMF Executive Board Concludes 2005 Article IV Consultation with Guinea

On December 23, 2005, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Guinea.[1]

**Background**

Guinea's economic performance deteriorated in recent years, largely as a result of a weak policy framework and against a background of mounting regional insecurity and low prices for its main commodity exports. Having averaged 4.7 percent in the late 1990s, economic growth since 2000 has slowed to an average of about 2.5 percent, inflation accelerated to almost 30 percent, international reserves fell to less than one month of imports, and the external public debt rose to almost 100 percent of GDP and is unsustainable.

Real GDP growth is expected to recover moderately in 2005 but little progress is expected in reducing inflation. The modest improvement in output growth to 3 percent reflects a rebound in agricultural activity as well as stronger growth in the construction and mining sectors. Inflation, while edging down, is expected to be nearly 28 percent at end-2005, well above the government's objective of less than 19 percent. Gross international reserves are expected to edge up from 0.8 to 1.3 months of import cover during 2005.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. This PIN summarizes the views of the Executive Board as expressed during the December 23, 2005 Executive Board discussion based on the staff report.

The improvement in economic performance in 2005 followed the tightening of fiscal and monetary policy early in the year and the implementation of the first steps to unify and liberalize the foreign exchange market. Reflecting a significant contraction of expenditures, the overall fiscal deficit (excluding grants) came down from 6 percent of GDP in 2004 to 0.2 percent of GDP by June 2005. As a result, net central bank credit to the government increased by just over 1 percent of reserve money in the first half of 2005, compared with 10 percent of reserve money in the same period of 2004. At the same time, the recent nominal depreciation of the Guinean franc, amounting to about 38 percent since end-February 2005, has brought the real exchange rate close to its underlying equilibrium rate.

The authorities are taking steps to enhance the business environment for the private sector, by implementing structural reforms, improving investment conditions in the mining sector, and strengthening governance and the judicial system. On the structural front, they have adopted plans to improve the quality and availability of electricity and water services, and are carrying out a program of privatization of government assets (including a substantial reduction of the government's stake in the largest commercial bank).

In support of the authorities' efforts, IMF management approved a staff-monitored program (SMP) covering April 2005–March 2006. The SMP aims to restore macroeconomic stability and, through structural reform, to lay the basis for renewed growth, debt sustainability, and poverty reduction. Guinea met all end-June and end-September indicative quantitative targets and structural benchmarks under the SMP, except for the end-June accumulation of central bank net foreign assets and the introduction of a new multiple currency practice.

**Executive Board Assessment**

Executive Directors welcomed the commitment of the new economic team—which took charge in late 2004—to implementing prudent economic policies and advancing structural reforms in order to address Guinea's macroeconomic imbalances, boost economic growth, and fight the pervasive poverty. They commended the actions taken in 2005, including the tightening of fiscal and monetary policies, the unification and liberalization of the foreign exchange market, and the efforts to improve the environment for private sector development. Directors were disappointed at the slippages in policy implementation toward the end of the year, but welcomed the corrective measures being taken. They noted that the overall strengthening of policies in 2005 has led to a decline in inflation in the last few months, a narrowing of the external current account deficit, and a small rebound in economic growth. Directors considered that these developments bode well for Guinea's economic future.

Directors emphasized, however, that much more needs to be done to achieve lasting progress toward macroeconomic stability and the Millennium Development Goals. Despite the recent progress, inflation remains high, the public debt unsustainable, the external position weak, and economic activity narrow-based and subdued. Directors therefore urged the authorities to implement promptly and vigorously the measures adopted in their economic program agreed with Fund staff, and to put in place an efficient policy coordination and monitoring mechanism to ensure that fiscal and monetary policies are implemented in a consistent way. This will also enable Guinea to build the track record that would allow it to move eventually to an IMF-supported arrangement, and subsequently to reach the completion point under the enhanced Heavily Indebted Poor Country Initiative and to benefit from the Multilateral Debt Relief Initiative. Directors stressed that fiscal consolidation is a key requirement for Guinea's return to higher and sustained economic growth and to a sustainable debt level. In this regard, they underscored the importance of adopting a prudent 2006 budget, consistent with the authorities' stabilization objectives. Key measures will be to continue to improve tax and customs administration and widen the tax base, control the growth of government outlays while promoting priority expenditures, deepen public expenditure management, intensify reform of the public utilities, and address institutional and capacity constraints to policy design, implementation and monitoring. Directors also advised that domestic prices of petroleum products be allowed to move in line with international prices.

Directors encouraged the authorities to take action to strengthen monetary control, including through institutional and operational strengthening of the central bank and further progress on financial sector reform. They urged the authorities to avoid central bank financing of budget operations, and to instead issue government securities such as treasury bills, which should help develop domestic capital markets. Directors recommended that interest rates be liberalized to help reverse recent dollarization, allow interest rates to send a clear signal of the stance of monetary policy, and promote a more efficient allocation of resources. While Directors were encouraged by the improvement in financial sector soundness indicators, they expressed concern at the high level of non-performing loans and concentration of credit, and called for continued reinforcement of banking supervision and for vigilant prudential oversight. Directors also encouraged the authorities to address as soon as possible the shortcomings identified in the audit of the central bank's 2004 accounts and foreign exchange position.

Directors encouraged the central bank to calculate the reference exchange rate on the basis of a weighted average of intra-day market transactions and to publish it daily. This will further unify and liberalize the foreign exchange market, make the exchange rate fully flexible and market-determined, and help eliminate the remaining multiple currency practice. Directors also supported the planned reorganization of the foreign exchange department of the central bank.

Directors commended the progress on structural reform and strengthening governance. In particular, they noted that the water and electricity sector reforms and the privatization of state-owned enterprises will be crucial for stimulating private sector-led growth and improving social conditions. They welcomed the steps taken to combat corruption and improve the justice system, and Guinea's participation in the Extractive Industries Transparency Initiative, and urged the authorities to accelerate efforts to combat money laundering and terrorism financing. Directors also stressed the need to diversify the export base in order to reduce Guinea's vulnerability to external shocks, and in this regard they commended the authorities' decision to adopt the WAEMU common external tariff and remove non-tariff barriers.

Directors welcomed the authorities' decision to stay current on their external debt payments, and, in particular, the measures taken to ensure that timely payments are made to the Fund. They encouraged the authorities to remain in close contact with their external creditors to work toward a plan to clear arrears.

Directors welcomed the authorities' progress in implementing their poverty reduction strategy. They underscored the importance of orienting public expenditure toward the social sectors, consistent with the framework of the Poverty Reduction Strategy Paper (PRSP). In this regard, they encouraged the authorities to keep their PRSP under review, and to ensure that the investment plans of the different government agencies reflect the priorities set out in the PRSP. Directors also underscored the importance of strengthening the statistical system, and encouraged the incorporation of an overall strategy for statistics development into the PRSP framework.

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

Guinea: Selected Economic Indicators, 2001-05

| | 2001 | 2002 | 2003 | 2004 Est. | 2005 Proj. |
|---|---|---|---|---|---|
| | (Annual percentage changes) | | | | |
| Income and prices | | | | | |
| Changes in real GDP | 4.0 | 4.2 | 1.2 | 2.7 | 3.0 |
| Changes in consumer prices (annual average) | 5.4 | 3.0 | 12.9 | 17.5 | 31.1 |
| | (in millions of U.S. dollars, unless otherwise specified) | | | | |
| External sector | | | | | |
| Exports, f.o.b. | 722.8 | 708.5 | 731.7 | 743.2 | 806.6 |
| Imports, f.o.b. | 561.9 | 596.2 | 578.5 | 707.9 | 703.2 |
| Current account balance, excluding official transfers | -145.8 | -180.5 | -148.1 | -229.3 | -151.3 |
| (in percent of GDP) | -4.8 | -5.6 | -4.1 | -5.8 | -4.6 |
| Capital and financial account balance | 84.3 | 82.4 | 81.8 | 138.7 | 127.8 |
| Gross official reserves | 208.4 | 170.0 | 113.5 | 92.3 | 107.7 |
| (in months of imports of goods and nonfactor services) | 2.7 | 2.3 | 1.2 | 0.8 | 1.3 |
| Debt service due (including to the Fund) 1/ | 20.0 | 18.6 | 22.6 | 23.6 | 20.5 |
| Change in real effective exchange rate (in percent) 2/ | -3.0 | -2.3 | -4.3 | -5.7 | ... |
| | (In percent of GDP, unless otherwise indicated) | | | | |
| Financial variables | | | | | |
| Government revenue | 11.3 | 12.0 | 10.5 | 10.4 | 12.0 |
| Domestic primary balance 3/ | 0.6 | 0.0 | -2.6 | -0.4 | 2.9 |
| Overall fiscal balance (commitment basis, excluding grants) | -7.5 | -6.2 | -8.9 | -5.9 | -2.0 |
| Velocity (GDP/average M2) | 9.4 | 8.6 | 7.7 | 7.0 | 6.9 |
| Interest rate 4/ | 13.4 | 13.3 | 14.13 | 14.7 | ... |

Source: Guinean authorities; and staff estimates and projections.

1/ In percent of exports of goods and nonfactor services (before debt refief).
2/ Increasing figures indicate an appreciation.
3/ Domestic revenue minus noninterest expenditure excluding externally-financed capital expenditure.
4/ Treasury bill rate, in percent; end-of-period.

**Statement by Damien Ondo Mañe, Executive Director for Guinea**
**December 23, 2005**

## Introduction

My Guinean authorities would like to express their deep appreciation to staff for their comprehensive assessment of macroeconomic developments in 2005 and Guinea's performance under the ongoing Staff Monitored Program (SMP). They also would like to thank management for the candid exchange of views and constructive policy dialogue and assistance in support of their adjustment and reform efforts.

Instability in the neighboring countries with its large inflows of refugees as well as the decline in bauxite prices –Guinea's most important export- have placed, over the past years, enormous pressure on government finance. However, the return of peace in the neighboring countries have enabled the authorities to strengthen economic and financial policies leading to significant progress.

The Guinean authorities have made commendable progress under the Staff Monitored Program that started in April 2005 with a view to addressing macroeconomic imbalances. They remain strongly committed to the successful implementation of the SMP meant to establish a track record for a new PRGF arrangement aimed at improving the economy's performance and fight the pervasive poverty. Indeed, all end-June quantitative targets under the SMP were met, with the exception of the central bank net foreign assets. The foreign exchange market has been unified and liberalized through the adoption in March of the floating exchange rate regime. With regard to the structural reforms, targets were also met, except for the benchmark on refraining from introducing new multiple currency practices, due to lack of capacity. On this issue, my Guinean authorities are committed to implementing recommendations made by the August 2005 MFD mission. The central bank will start publishing, instead of a weekly rate, a daily reference rate based on intra-day data, hence eliminating the remaining multiple currency practices.

Among the efforts made by my authorities to continue controlling and tightening the public expenditure, notably the wage bill, it should be noted that nearly 1,500 civil servants and 2,000 military are being retired at the end of 2005. My Guinean authorities are fully mindful of the challenges facing the economy and with the assistance from the international community, they are strongly committed to restoring the macroeconomic stability through sound policies and structural reforms leading to the resumption of growth, debt sustainability and poverty reduction.

## Recent Economic Developments and Performance under the SMP

Real GDP growth will reach 3 percent in 2005 from 1.2 in 2003, due mainly to buoyant agricultural activity and stronger growth in the construction and mining sectors. Inflation is expected to decrease substantially from 43 percent in July 2005 to 29 percent by end-December 2005, although remaining above the authorities' target of less that 19 percent. The inflation acceleration in 2005 is due to the adjustment measures with regard to the exchange rate and domestic petroleum prices. Indeed, the Guinean Franc depreciated faster than expected, by 38 percent, since end-February, and the domestic petroleum prices were increased by 55 percent in 2005.Gross international reserves are expected to increase from 0.8 to 1.3 months of imports.

As regards the fiscal sector, the authorities tightened their policy and abandoned the accommodative stance of monetary policy. As a result, the fiscal primary balance improved from a deficit to a surplus of over 2 percent of GDP by June and the overall fiscal deficit, excluding grants, declined from almost 6 percent in 2004 to 0.2 percent of GDP by June 2005. Under the ongoing SMP, fiscal revenue targets were achieved and expenditure commitments were kept under control as programmed. For the last quarter of the year, the authorities are determined to further improve public expenditure management as expected . On the other hand, the strengthening of tax and customs administration was pursued, ad-hoc exemptions were eliminated and the WAEMU external tariff system was put in place.

In view of the lack of foreign reserves, the authorities' intention to be current on their external payments, in particular with the Fund experienced some delays. To reverse the situation, the authorities had to have recourse to advance tax payments from the mining companies. They also adopted a strategy of paying upcoming obligations to the Fund through deposits of the necessary funds in their SDR account to cover all obligations due in 2005. The same mechanism will be used for the settlement of future payments to the Fund.

In the monetary area, the authorities have implemented a number of measures with the technical assistance from MFD, with a view to strengthen the foreign exchange market and bring monetary aggregates under control. Monetary policy was less expansionary in 2005. The depreciation of the currency has slowed since mid July and the necessary steps are underway, in order to avoid the occurrence of multiple currency practices. Only the target on the central bank foreign assets was missed at end-June, due to the lack of external support and the need to be current on external payments. The banking system remains sound and profitable. The main soundness ratios are above prudential limits and the central bank is implementing changes in the legal and supervisory framework, following the adoption of the new banking law in last July. Moreover, the National Assembly has approved the microfinance law and the law on money laundering and financing of terrorism is under consideration

In the structural area, the authorities concur with staff on the need to continue deepening structural reforms. To diversify the export base, agriculture, fishing and tourism have been identified as key sectors. Regarding the poverty reduction strategy, the authorities with the assistance of donors completed in last February the second progress report on achieving the MDGs. They intend to adopt in 2006 an action plan to alleviate key obstacles to achieving the MDGs particularly in the areas of eradication of poverty and hunger, promotion of gender equality and environmental protection and access to safe water. Action plans have also been adopted with regard to the improvement of the water and electricity companies' operations. In addition, the authorities have implemented the decision to reduce to less than 20 percent the state's share in the capital of the largest commercial bank namely the *Banque Internationale pour le Commerce et l' Industrie de la Guinée* (BICIGUI). In their continued efforts to reduce the cost of doing business in Guinea, the authorities implemented strong measures to combat corruption and improve the judicial system. Under the EITI Initiative, a working group made up of representatives of mining companies, civil society, national assembly and government has been set up with the assistance from the World Bank.

Overall recent developments have shown the difficult circumstances facing my authorities as evidenced by the rapid growth in central bank credit and reduction of the central bank net foreign assets. In order to maintain the SMP on track my Guinean authorities have already adopted remedial measures which include allowing interest rates on treasury bonds to rise so as to increase commercial bank financing of the government, purchasing foreign exchange in the market to ensure meeting the targets on central bank net foreign assets (NFA), repaying arrears as called for under the program, and enhancing policy coordination among the fiscal and monetary authorities.

**Medium-Term Program and Policies for 2006.**

My Guinean authorities will continue their efforts to improve macroeconomic management and accelerate structural reform. In this respect, current financial policies will be strengthened and additional measures will be taken as needed with a view to ensure success in reducing inflation, promoting growth and accumulating international reserves.

**Fiscal policy**

In order to ensure the realization of all fiscal targets set out in the SMP, the authorities have decided to maintain expenditures under control, thus allowing further reduction of the government net indebtness with the central bank. Focus will also be put on increasing expenditures in priority sectors while non-priority expenditures will decrease. On the revenue side, they will continue to improve on the efficiency of the tax and customs administration. To avoid in the future the rigidity attached to advance of tax payment made by mining companies, the authorities undertake not to use future tax payments to meet external debt service obligations. In the context of the 2006 budget, defined as a key instrument to consolidate progress made under the SMP, the authorities have requested Fund's technical assistance, in their efforts to improve the management of public finances.

**Monetary and exchange rate policies**

Achieving single digit inflation, increasing the level of international reserves and improving the financial intermediation are the objectives of the monetary program. To this end, strengthening the institutional framework and enhancing the efficiency of the foreign exchange market as agreed on with the recent MFD mission will be carefully implemented. In particular, the authorities are committed to (i) take measures encouraging the participation of economic agents in the formal foreign market; (ii) publish a daily reference exchange rate weighting the average transactions by the banks and exchange houses; (ii) set up an internal control structure within the central bank for its foreign exchange operations as well as an agreement detailing the obligations of the central bank and the commercial banks in the foreign exchange market; (iv) reflect the new institutional changes in the foreign exchange market regulations and (v) bring the customs administration, the banking system, the exporters and the central bank to work closely in the repatriation of export proceeds in accordance with the existing regulations. In addition, the central bank will start work to revise the regulations pertaining to central bank advances to government with a view to eliminate statutory advances in the future. The Treasury Committee will be reactivated to enhance the communication between the central bank and the Treasury, while a Liquidity Committee will be created within the central bank. Under the Fund's safeguards assessment policy, an audit of the central bank covering its foreign assets and its full 2004 accounts was conducted by a reputable international firm. The authorities are fully determined to implement remedial recommendations contained in the audit report.

**Structural reforms**

Building on progress made under the SMP, my authorities are determined to pursue vigorously their structural reforms agenda, thus laying the ground for a new program that could be supported by the PRGF. In the 2006 budget law, the authorities will introduce an automatic price adjustment mechanism for petroleum product which help to address financial difficulties facing *the oil companies* as well as the government due to the increases in international oil prices .The action plan designed for water and electricity companies will also be fully implemented in order to enhance efficiency and reduce fraud. In addition, the authorities are committed to promote export diversification while maintaining a liberal trade regime. To this end measures recommended by the Diagnostic Trade Integration Study (DTIS) will be fully implemented with a view to reduce supply constraints.

**Conclusion**

My Guinean authorities are determined to pursue their efforts in implementing sound policies and needed structural reforms in order to strengthen progress made so far and achieve the objectives set out under the SMP. To supplement these efforts and achieve the macroeconomic stability and foster economic growth, a strong and sustainable support from the international community is needed. In this regard, my authorities are hopeful that their ongoing efforts under the SMP will be well recognized and will lead to a new PRGF-supported program early 2006, thus enabling the country to reach the completion point under the Enhanced HIPC Initiative and benefit from the Multilateral Debt Relief Initiative (MDRI).