INTERNATIONAL MONETARY FUND

IMF Country Report No. 13/192

GUINEA

July 2013

Second Review Under the Three-Year Arrangement Under the Extended Credit Facility, Requests for Modifications of Performance Criteria and Waiver of Nonobservance of Performance Criterion, and Financing Assurances Review

In the context of the Second Review Under the Three-Year Arrangement Under the Extended Credit Facility, Requests for Modifications of Performance Criteria and Waiver of Nonobservance of Performance Criterion, and Financing Assurances Review with Guinea**,** the following documents have been released and are included in this package:

- **Staff Report** for the Second Review Under the Three-Year Arrangement Under the Extended Credit Facility, Requests for Modifications of Performance Criteria and Waiver of Nonobservance of Performance Criterion, and Financing Assurances Review, prepared by a staff team of the IMF, following discussions that ended on February 22, 2013, 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 May 6, 2013. 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.
- **Informational Annex** prepared by the IMF
- **Statement** by the IMF Staff Representative
- **Press Release** summarizing the views of the staff appraisal contained in the staff report
- **Statement** by the Alternate Executive Director

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

- Letter of Intent sent to the IMF by the authorities of Guinea*
- Memorandum of Economic and Financial Policies*
- Technical Memorandum of Understanding*
- Joint Staff Advisory Note of the Poverty Reduction Strategy Paper
- Poverty Reduction Strategy Paper

*Also included in Staff Report

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

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International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

GUINEA

May 6, 2013

SECOND REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, REQUESTS FOR WAIVER OF NONOBSERVANCE AND MODIFICATION OF PERFORMANCE CRITERION, AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Macroeconomic developments were broadly positive in 2012. Growth was close to 4 percent, while inflation declined from 19 percent at end-2011 to below 13 percent in December 2012. The exchange rate has been stable and international reserves covered 3.1 months of imports by end-2012. But investment in a large mining project slowed sharply toward the end of the year and the political environment remains fragile.

Performance under the ECF-supported program has been satisfactory. All but one of the end-2012 performance criteria (PCs) have been met. The authorities are requesting a waiver for breaching the continuous PC of no new nonconcessional debt, caused by weak technical capacity. The authorities have taken corrective measures to improve debt management and the impact of the breach on Guinea's debt-sustainability and on the successful implementation of the program is minor. Progress with structural reform has been satisfactory, although some measures were delayed.

The 2013 program focuses on consolidating macroeconomic stability. Economic growth is expected to pick up despite a slowdown in mining investment. Inflation is targeted to fall to single digits and gross official reserves will be kept at close to three months of imports. Key reform priorities include governance of the mining sector, improving the business climate, public financial management, and the electricity sector.

Risks to the program come from political uncertainty and its possible effects on reform momentum; inflation could rebound if large increases in civil service wages are followed by the private sector. Prolonged delays in implementation of the large Simandou iron ore project would negatively affect the medium-term growth outlook.

IMF staff recommends completing the second review under the ECF arrangement, approving (i) a waiver for the nonobservance of the PC on no new nonconcessional external debt; and (ii) modification of the PC on nonconcessional external debt; and completing the financing assurances review.

Approved By
Seán Nolan and Masato Miyazaki

An IMF staff team consisting of Messrs. Snoek (head), Ntamatungiro, Tapsoba (all AFR), Dicks-Mireaux (SPR), and Wane (resident representative) visited Conakry in February 7–22, 2013. The mission met with President Condé; President of the interim parliament Diallo; Minister of State for Economy and Finance Yansané; Deputy Minister for the Budget Diaré and other Ministers; Governor of the Central Bank of Guinea Nabé; other senior officials; civil society, trade unions and employers' organizations; and development partners. Mr. Bah (OED) participated in the discussions.

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BACKGROUND AND RECENT DEVELOPMENTS

1. **Guinea's economy performed reasonably well in 2012 (Figure 1**; **Tables 1–4**; **MEFP ¶3–4)**. Real GDP growth is estimated to have been almost 4 percent, despite the closure of the Friguia alumina refinery in April and a slow-down in mining sector investment in the last quarter of the year. Inflation declined gradually, ending the year at 12.8 percent, while international reserves amounted to the equivalent of 3.1 months of imports by end-December.

2. **Fiscal policy was tighter than envisaged (Figure 2**; **MEFP ¶8–10)**. The 2012 revenue target was exceeded, reflecting strong collection efforts despite a shortfall in fuel taxes due to rate cuts to offset the impact of rising world prices on domestic retail prices. Higher outlays on goods and services were more than offset by lower-than-budgeted spending on wages (reflecting a delay in implementing an increase in base wages and other allowances). Delays in implementing a large electricity sector project were a major factor in lower domestically financed investment spending. The basic balance deficit was more than 1 percent of GDP lower than targeted, facilitating the avoidance of central bank financing of the government (other than from drawing down deposits from the one-off mining receipts in 2011).

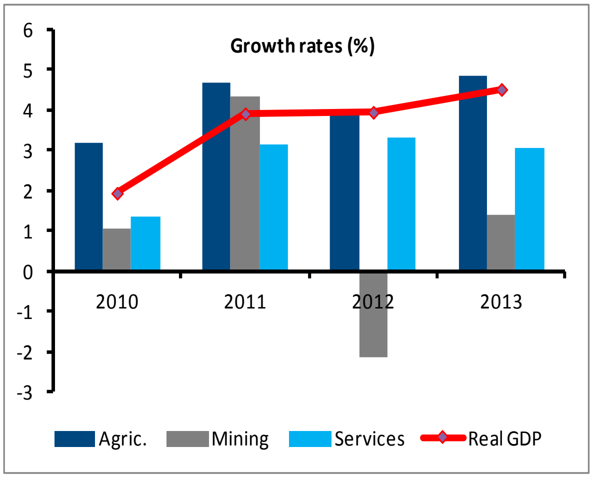
3. **Monetary conditions also tightened during 2012 (Figure 3**; **MEFP ¶11)**. Reflecting a decline in the domestic financing of the fuel sector, credit to the private sector fell slightly despite an uptick in the second half of 2012. Commercial banks' excess reserves fell sharply as their net foreign assets increased and the deposit base declined; interest rates on treasury bills rose toward year-end. Broad money stayed virtually flat during 2012; the liquidity overhang, attributable to high fiscal deficits in 2009–10, is gradually disappearing.

4. **Guinea benefitted from a substantial reduction in its external debt stock after reaching the completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative at end-September 2012 (MEFP ¶12)**. Following the completion point, Guinea's debt stock is to fall by about $1.95 billion. Multilateral creditors provided debt relief of $1.4 billion, including under the Multilateral Debt Relief Initiative. In October 2012, Paris Club official bilateral creditors provided HIPC and additional relief amounting to $0.5 billion. Bilateral debt relief agreements have been signed with France, and are pending signature with Italy, Norway, and the United Kingdom; the authorities are contacting other bilateral creditors.

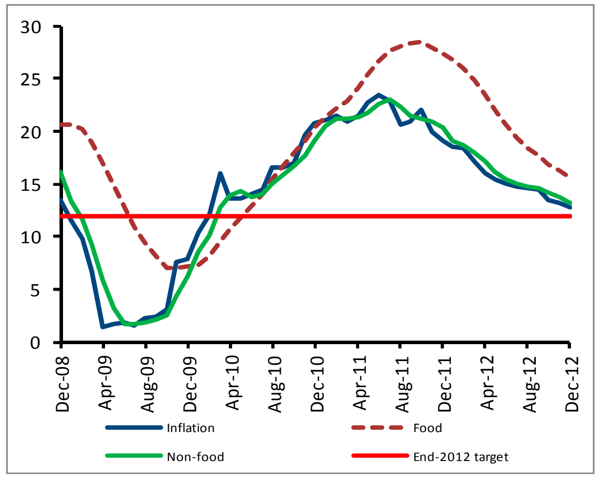
5. **The political environment remains fragile**. Government and opposition remain divided about preparations for long-delayed legislative elections, which are presently scheduled for June 30, 2013. Social tension is further aggravated by the lack of basic services, especially electricity.

Figure 1. Guinea: Recent Economic Developments

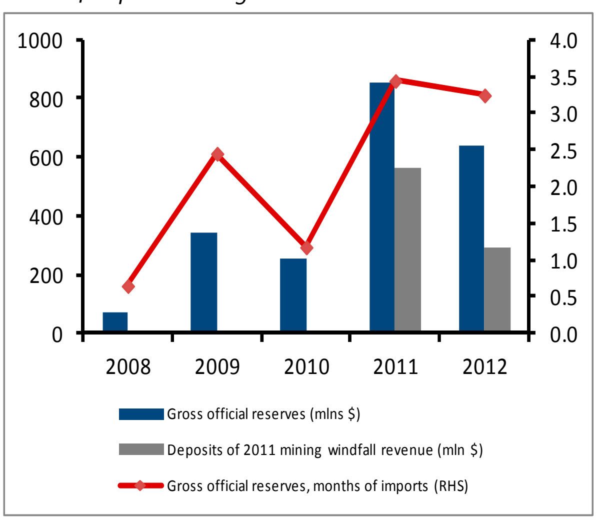
Despite a contraction in mining, real GDP growth remained strong in 2012, driven by continued good performance in agriculture and services.



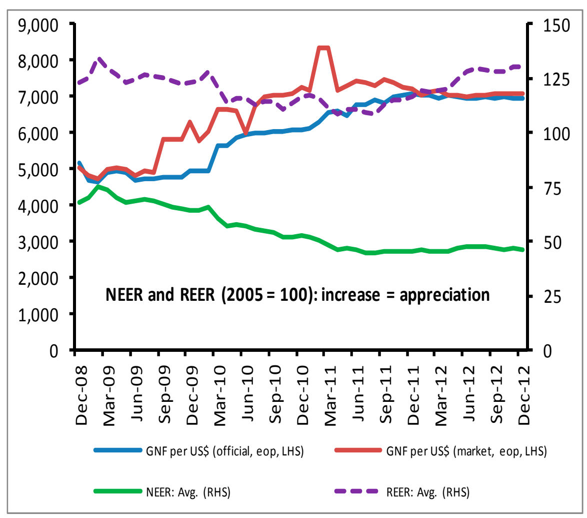
Inflation declined to 12.8 percent y-o-y.



Reserves declined, reflecting the drawdown of the 2011 mining windfall revenue, but remained adequate in terms of import coverage.



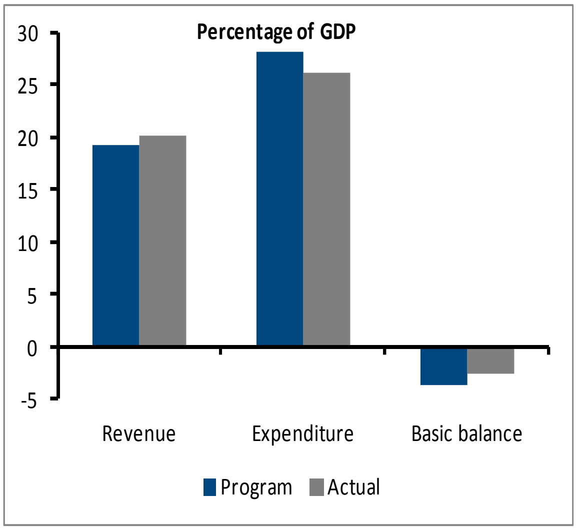
The exchange rate has remained broadly stable and the market premium has virtually disappeared.



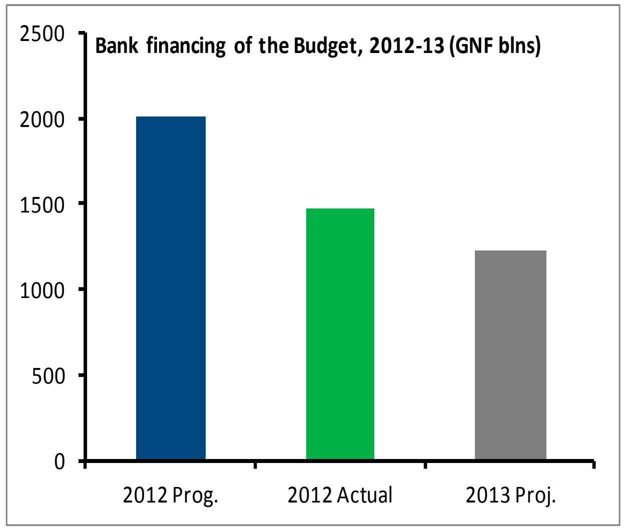
Sources: Guinean authorities and IMF staff.

Figure 2. Guinea: Recent Fiscal Developments

Fiscal performance was stronger than envisaged, both on the revenue and the expenditure side



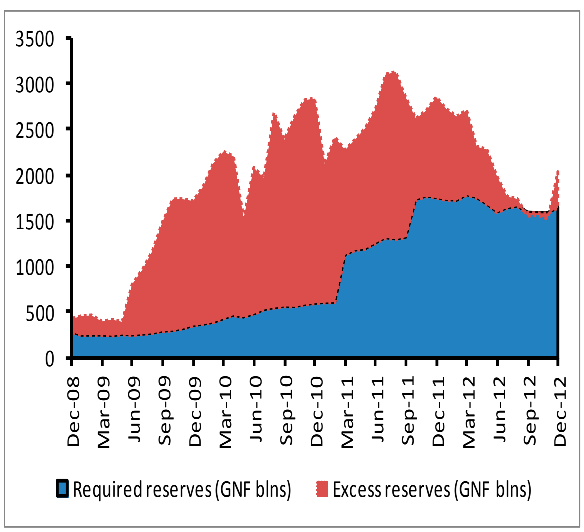
…leading to lower than-targeted domestic bank financing reflecting less use of the 2011 mining windfall revenue and an improved government position with commercial banks.



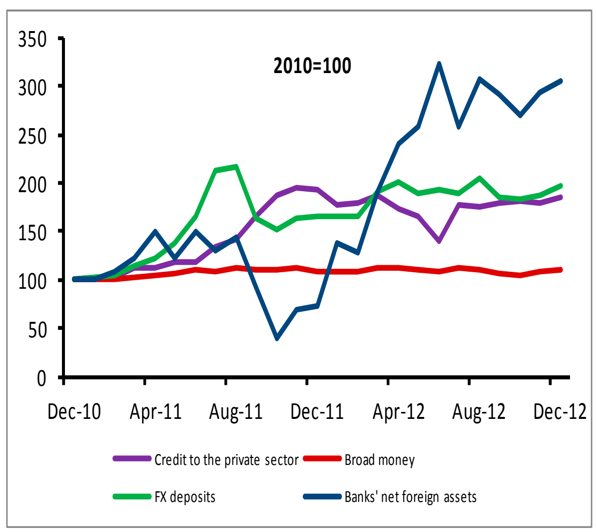
Sources: Guinean authorities and IMF staff.

Figure 3. Guinea: Recent Monetary Developments

Excess liquidity fell considerably.



Credit to the private sector declined, broad money stayed virtually flat. But banks' net foreign assets soared, partly reflecting a slight increase in foreign currency deposits.



Sources: Guinean authorities and IMF staff.

PROGRAM PERFORMANCE

6. Most of the indicative targets for end-September and all but one of the performance criteria (PCs) under the ECF-supported program for end-December 2012 were met (Table 5; **MEFP ¶5–7)**. The continuous PC on no new nonconcessional (grant element of less than 35 percent) medium- or long-term external debt was breached in the case of four loans:

- Three of the loans—for a total of $28 million (0.45 percent of GDP) with grant elements of 22, 29 and 30 percent, respectively—are relatively small and have a negligible impact on external debt and fiscal sustainability (Appendix II). These debts were contracted on nonconcessional terms because of weak technical capacity, including lapses of coordination between departments in the Ministry of Economy and Finance (MEF) and misunderstandings of the use of the IMF's methodology for assessing concessionality. To prevent a recurrence, the government is receiving technical assistance from the European Union (EU) to strengthen debt management and recently established a public debt monitoring commission (**prior action**) to ensure, amongst other things, that loans comply with the PC.

- The fourth loan, for the Kaleta hydroelectricity project, is $335 million (5.3 percent of GDP); the grant element exceeded the program floor of 35 percent at the time the final terms were negotiated in early-December 2012, but had dropped to 33.2 percent by the time it was signed on January 4, 2013, because of the change in the discount rate used for concessionality calculations that took effect on December 15. The project—which is part of a regional project supported by the African Development Bank for which the feasibility study shows a high expected rate of return—will considerably improve electricity supply and reduce average costs.

7. The authorities continue to make good progress with structural reform; **most of the actions constituting structural benchmarks (SBs) under the program were implemented**, **although some with delays (MEFP ¶13–15**; **Table 2)**. Longer-than-anticipated consultations with stakeholders led to delays in preparing amendments to the 2011 mining code; these amendments were approved by parliament in April 2013. In April 2013, the Ministry of Economy and Finance (MEF) and the Central Bank of the Republic of Guinea (BCRG) signed a framework agreement on the securitization of outstanding advances, while the medium-sized taxpayer unit became operational. Reflecting continued unease about sociopolitical stability, the authorities decided to delay applying an automatic adjustment mechanism for fuel prices until mid-2013.

DISCUSSIONS ON THE PROGRAM FOR 2013

A. Economic Outlook and Risks

8. The macroeconomic outlook for 2013 remains broadly as projected at the time of the first ECF review (MEFP ¶18–19).[1] Growth is projected at 4.5 percent for 2013, slightly lower than previously envisaged because of lower growth in the mining sector. The program's inflation target has been revised upward slightly, mainly reflecting the higher-than-programmed outcome at end-2012, together with some modest impact from a recent agreement on increases in civil service wages (Box 1). The target for gross official reserves remains set at 2.9 months of imports by end-2013. Investment in the large Simandou iron ore project slowed sharply toward the end of 2012, against the background of a worldwide reconsideration of investment plans by mining companies and delays in completing the project's legal investment framework and resolving the project's infrastructure provision arrangements, including the government's financial role. The medium-term projections have been adjusted to reflect the expected delays in completing this project.

9. Downward risks to the outlook have intensified (Appendix III). Key risks include continued political unrest in the run-up to elections, which could affect growth, investment, and reform momentum; and a rebound in inflation if the private sector follows the increase in civil service wages. Also, attainment of the fiscal targets remains vulnerable to a rise in international oil prices in the absence of an adjustment mechanism for domestic prices. The policies and reforms in the government's program have been formulated to mitigate these risks. Prolonged delays in moving ahead with mining projects would significantly reduce Guinea's medium-term growth potential; discussions are under way to allow investment in the Simandou project to resume, while the implementation of the new mining code by mid-2013 is expected to promote new projects.

B. Fiscal Policy

10. Recent projections, **taking into account the 2012 outcome**, **indicate that the program's fiscal objectives for 2013 remain within reach (MEFP ¶20–28)**. The interim parliament adopted the 2013 budget broadly in line with the program. Updated projections indicate a revenue shortfall of about 0.4 percent of GDP, owing to a delay in applying the automatic adjustment mechanism for fuel prices from January to August 2013 (**SB**). However, this is more than offset by higher net external assistance (1.4 percent of GDP), including a $90 million grant from Abu Dhabi, most of which will be used for additional investment. The basic balance deficit is projected to amount to 3.3 percent of GDP, compared to the initial program target (adjusted for the additional net external assistance) of a deficit of 2.8 percent of GDP.[2] The slightly higher deficit results from planned reprogramming of investment expenditure budgeted but not committed in 2012.[3]

[1] IMF Country Report n° 12/301, September 12, 2012.

[2] The program includes an adjustor allowing for the full pass-through of additional net external assistance.

[3] The 2012 budget included a provision for the transfer of $250 million from the end-2011 balance of the exceptional mining revenue to the Special Investment Fund (SIF), while the remainder would be used for

(continued)

Box 1. Guinea: The Agreement on 2012–13 Civil Service Wage Increases (MEFP ¶25)

Following a drop in real wages since 2010 and high expectations after attainment of the HIPC completion point, civil service unions demanded a 200 percent wage increase. In December 2012, the government, trade unions, and employers' organizations reached agreement on a phased increase in the September 2012 basic wage for the civil service of 50 percent: (i) 10 percent, starting from October 2012; (ii) 15 percent, from January 2013; and (iii) 25 percent before end-2013. The agreement also included the implementation, as of January 2013, of long-agreed special allowances for personnel in the education and health sectors, and the creation of a Social Security Fund and a system of health insurance for civil servants. The agreement also introduced a national minimum monthly wage of GNF 440,000 (about $60; compared to annual per capita GDP of $565).

The salary increase accounts for about half of the programmed growth in the 2013 budgetary wage bill of 0.8 percent of GDP. The impact is mitigated by the fact that the increase applies only to about 40 percent of the budget's wage bill because (i) civil service wages account for only about 65 percent of the total wage bill, while other government wages (mainly military, a substantial part of whose pay is paid in kind and thus automatically adjusted to inflation) are not expected to rise by such amounts; and (ii) about 40 percent of total civil service pay consists of allowances that, after a 10 percent increase in October 2012, will not be raised further during 2013. Other important elements in the increase in the wage bill are the implementation of the special allowances cited above (23 percent of the increase) and additional recruitment (19 percent).

11. The wage increase will be accompanied by strengthened civil service reform (MEFP ¶25). The authorities intend to maintain the budget's medium-term wage bill at about 5.2 percent of GDP, while improving productivity and addressing severe capacity constraints. In addition to the ongoing cleanup of the civil service roster and improving control over recruitment, the authorities intend to develop, with assistance from the World Bank, a civil service reform plan for adoption by the government by September 2013 (**SB**).

C. Monetary, Exchange Rate, and Financial Sector Policies

12. The central bank will maintain a cautious monetary policy stance despite the tightening liquidity situation (MEFP ¶29–30). While the stagnation in credit growth and the fall in banks' excess reserves indicate growing room for a relaxation of monetary policy, inflation has remained slightly higher than expected and upward risks from wage increases and political uncertainty have increased, calling for continued caution. The BCRG reduced its main (signaling) policy rate from 22 to 16 percent in February, bringing it more in line with rates prevailing in the banking sector, but has delayed reducing the reserve requirement until the downward trend in inflation is confirmed. The BCRG will continue weekly foreign exchange auctions, aimed at avoiding large exchange rate fluctuations.

13. The authorities are making progress in strengthening the financial sector (MEFP ¶31). With technical assistance from the IMF's Regional Technical Assistance Center for West Africa

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investment spending on the 2012 budget. Of the latter, $43 million (0.8 percent of GDP) had not yet been committed by end-2012; the corresponding expenditure will be included in a revised budget for 2013, to be prepared later this year.

(AFRITAC West), the BCRG has rebuilt its banking supervision department. In 2012, it closed the small agricultural bank BADAM (in which the government held a 51 percent share), for which it will nominate a liquidator by June 2013 (**SB**). The BCRG also plans to double the initial minimum capital requirement for banks to avoid a proliferation of small banks. It is also reviewing the recommendations of a recently completed consultant's study on the financial sector, for implementation in the second half of the year.

14. The BCRG's financial position is being strengthened (MEFP ¶32). Pending an evaluation of its balance sheet and future capital needs by the IMF's Money and Capital Markets Department (MCM), the budget made a capital transfer to the BCRG equivalent to 0.6 percent of GDP in 2012; a further infusion of 0.3 percent of GDP is planned for 2013 to raise the BCRG's capital to its statutory requirement. The BCRG also continues to implement the recommendations of the January 2012 safeguard assessment mission of the IMF's Finance Department and a new central bank act is expected to be submitted for government approval in the first half of 2013. Monetary analysis and policy formulation is being strengthened with IMF technical assistance, while delays in preparing accurate monetary data, because of the transition to a new accounting system, are being addressed.

D. External debt

15. The authorities are strengthening external debt management (MEFP ¶35; 48). To improve external debt management, in addition to the recently established (technical-level) external debt monitoring commission, the authorities will prepare a medium-term action plan by October 2013 **(SB**). They will also establish, before end-2013, a National Debt Committee that will prepare a national debt policy and a strategy for medium-term debt management, and then oversee their implementation. In the meantime, the authorities will, with EU technical assistance, prepare a procedures manual for the debt department and train staff on its application. The authorities intend to seek only grants and concessional loans to meet their financing needs. However, they noted that this may be difficult owing to the limited availability of concessional resources from lenders.[4]

16. Guinea is seeking to normalize financial relations with its commercial creditors. Guinea's debt to these creditors is in arrears, and the government has invited them for collaborative discussions to reach agreement, based on the principle of "inter-creditor equity" and in line with the HIPC Initiative. IMF staff believes this approach is consistent with the good faith criterion of the IMF's lending into arrears policy.

[4] The limited availability of concessional resources partly reflects lenders' budgetary constraints but also the decline in recent years in the discount rates used to calculate the grant element of loans.

E. Structural Reform

17. Structural reform will continue to focus on tax administration and public financial management (PFM), reforms in the mining, electricity, and agricultural sectors, and on improving the business climate. Key measures include the following:

- ***Revenue administration (MEFP ¶23)***: the revision of the tax and customs codes will incorporate tax incentives in the new codes and strengthen the value-added tax (VAT) system.

- ***PFM (MEFP ¶34)***: (i) adoption of the governance structure of the Special Investment Fund for exceptional mining revenue by end-June 2013 (**SB**); (ii) regularization of suspense accounts and production of the financial accounts for 2005–12, by end-2013 (**SB**); and (iii) adoption of the legal texts concerning public entities to make them consistent with the new budget framework law and the General Regulation on Budget Management and Public Accounting, by end-2013 (**SB**).

- ***Business climate (MEFP 36–38)***: the government recently adopted a National Investment Policy Letter, outlining the government's new streamlined investment policy (**prior action**). To implement this policy, the authorities will submit for parliamentary approval revisions to the Investment Code by end-June (**SB)**, and related fiscal and customs laws by end-May (**SB)**.

- ***Mining sector (MEFP ¶39–42)***: the 2011 new mining code is expected to become operational following adoption and publication of the implementing regulations and the standard mining agreement (**SB** for end-August 2013). These actions will improve the environment for mining investment by strengthening regulatory stability, while allowing the review process of the existing mining titles and conventions to advance.[5]

- ***Electricity (MEFP ¶43–45)***: progress in strengthening the financial situation of the government-owned electricity company *Electricité de Guinée* (EDG) has been slow. Pending recruitment of a strategic partner, the government has put EDG under close financial supervision, ensuring that its need for government financial support remains within the budgeted amounts, and will adopt, following consultation with its external partners, a new reform program by end-June 2013 (**SB**).

- ***Agriculture (MEFP ¶46)***: Officials are currently reviewing the effectiveness of reform measures taken in 2011–12, assisted by a World Bank public expenditure review. The evaluation will be discussed during a national workshop, tentatively planned for October 2013, to determine how best to promote sectoral growth.

[5] As an important step, in February 2013, the technical committee in charge of the review process published on its external website the mining contracts that will be reviewed.

POVERTY REDUCTION STRATEGY PAPER (PRSP)

18. Guinea is finalizing its third PRSP, **covering 2013–15 (MEFP ¶16–17)**.[6] The PRSP III gives priority to (i) strengthening democracy and the effectiveness of the state; (ii) accelerating diversified economic growth; (iii) increasing employment; and (iv) reducing regional inequalities. The new strategy, which was prepared through a consultative process, was approved by the government on May 2, 2013. The authorities are planning a donor meeting in the last quarter of 2013 to seek financing for the PRSP priority action plan.

PROGRAM MONITORING AND FINANCING

19. The authorities request a waiver for the PC on nonconcessional external borrowing; **IMF staff proposes to modify that same PC to take account of the four nonconcessional loans (Table 5)**. The request for a waiver for the nonobservance of the PC on nonconcessional debt is supported by staff because the four new loans do not jeopardize Guinea's moderate risk rating of debt distress;[7] the high economic rate of return of the Kaleta hydroelectricity project; and the corrective actions taken to prevent a recurrence of breaching the PC. The PC on nonconcessional debt would be modified to include a window for nonconcessional borrowing equal to the amount borrowed under the four nonconcessional loans (($363 million; 5.8 percent of GDP), to incorporate them transparently in the program. IMF staff also proposes PCs for end-December 2013 and updated indicative targets for end-September 2013. Proposed structural benchmarks for 2013 are set out in Table 3 of the MEFP.

20. The 2013 program's financing requirements are expected to be fully met (Table 6; **MEFP ¶47)**. The bulk of the external current account deficit—mainly reflecting imports for the mining sector—will be financed by foreign direct investment. For other external financing, in addition to debt relief under the HIPC Initiative, the government intends to rely mainly on grants and concessional external loans (particularly from the World Bank, the African Development Bank, the Islamic Development Bank and the EU) and disbursements on the four loans included in the proposed new limited window for nonconcessional borrowing.

STAFF APPRAISAL

21. Macroeconomic developments continue to be broadly positive. Although mining sector investment has slowed, economic growth was relatively strong in 2012, driven by agriculture and services. Continued tight fiscal and monetary policies contributed to a gradual decline in inflation. The exchange rate was stable, and gross official reserves have remained at a comfortable level.

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[6] The PRSP and a Joint Staff Advisory Note will be sent to the Board shortly.

[7] Annex I provides a summary debt sustainability analysis.

22. Implementation of the ECF-supported program has been satisfactory. All but one of the PCs for end-December 2012 were observed, the exception being the PC on contracting nonconcessional debt. The government is also making good progress with its ambitious structural reform agenda, despite some delays; it will be important to maintain the strong high-level policy coordination that was in place in the run-up to the HIPC completion point.

23. Fiscal policy remains tight. Domestic bank financing of the budget deficit continues to be limited to drawing down balances of the 2011 exceptional mining revenue. Cash-based expenditure management remains an important instrument for fiscal control while public financial management is being strengthened. The 2013 fiscal program makes a strong effort to safeguard domestically financed investment spending notwithstanding the declining availability of financing from the 2011 exceptional revenue.

24. Containing budgetary subsidies remains a major challenge. The recent measures to strengthen oversight of the electricity company are crucial, as will be an acceleration of reforms in the sector to ensure its financial viability, expand supply, and support economic growth. The further delay in bringing domestic fuel prices in line with import costs is understandable given the sociopolitical environment, but the budget's revenue loss needs to be addressed in a timely manner, alongside the deployment of measures to deliver targeted compensatory assistance to the poor.

25. Under present projections, **the 2012–13 increases in civil service wages can be financed**, **but it will be important to develop a structural and medium-term approach to public sector wages**. The wage increase is understandable given the erosion in purchasing power the last few years, although a more gradual adjustment would have been preferable to minimize the risk of rekindling inflation. In light of this, the timing of the implementation of the third tranche of the wage adjustment, to be implemented in the second half of the year, should await reassurance that the wage bill envelope in the 2013 budget will be maintained and that inflation is trending toward the single digits. Regular consultation between the authorities and the social partners would contribute to building consensus on macroeconomic and social policy issues and on an appropriate medium-term wage-policy framework. Accelerating civil service reform would assist in creating space for improving wages.

26. Liquidity is tightening, **but a cautious monetary policy stance remains appropriate**. Considering the increase in civil service wages and political uncertainty, the key criterion for relaxing monetary policy should be solid evidence of a persistent declining trend in inflation towards single digits, along with the maintenance of an adequate level of international reserves.

27. External debt management needs to be further strengthened. The staff welcomes the recent start of an EU-funded technical assistance project in debt management. Priority should be given to improving procedures and their application, and to the preparation of a medium-term action plan to strengthen debt management.

28. The significant downward risks highlight the importance of structural reform. The government's reform agenda remains ambitious, but continued progress in the key areas will make

Guinea more attractive for investors in both mining and other sectors, promoting growth and poverty reduction. Close high-level monitoring of the work being done on reform measures remains essential if progress is to be maintained.

29. The staff recommends completion of the second review under the ECF arrangement and of the financing assurances review. The authorities have taken corrective measures to improve debt management to ensure that new loans comply with program undertakings; the impact on Guinea's debt-sustainability and on the successful implementation of the program of the four new nonconcessional external loans is minor and the loan for the Kaleta hydroelectricity project is expected to yield a major economic return. In this context, IMF staff recommends approval of the request for a waiver for nonobservance of the PC on no new nonconcessional debt. It also recommends the modification of the PCs to include a nonconcessional borrowing window and the setting of the proposed PCs for December 2013 and indicative targets for September 2013, and supports the authorities' request for the second disbursement under the ECF arrangement of an amount equal to SDR 18.36 million.

Table 1. Guinea: Key Economic and Financial Indicators, 2008–16

	2008	2009	2010	2011	2012		2013		2014	2015	2016
					Prog.	Prel.	Prog.	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)										
National accounts and prices											
GDP at constant prices	4.9	-0.3	1.9	3.9	4.8	3.9	5.0	4.5	5.2	5.4	5.8
GDP deflator	14.1	6.8	20.2	19.7	14.7	12.9	6.3	9.9	9.6	6.3	6.5
GDP at market prices	19.7	6.5	22.5	24.4	20.2	17.3	11.7	14.9	15.4	12.0	12.7
Consumer prices											
Average	18.4	4.7	15.5	21.4	14.7	15.2	10.3	11.2	8.1	6.5	6.0
End of period	13.5	7.9	20.8	19.0	12.0	12.8	8.7	9.7	7.0	6.0	6.0
External sector											
Exports, f.o.b. (US$ terms)	27.2	-16.7	12.9	12.4	3.0	-2.2	2.2	0.9	5.3	3.1	1.8
Imports, f.o.b. (US$ terms)	12.2	-19.8	28.2	55.6	48.3	16.4	7.2	2.0	47.2	2.1	1.5
Average effective exchange rate (depreciation -)											
Nominal index	-14.0	0.2	-17.3	-17.7	…	-0.8	…	…	…	…	…
Real index	-3.0	3.6	-7.3	-3.5	…	11.3	…	…	…	…	…
Money and credit											
Net foreign assets [1]	14.3	4.7	-5.5	40.1	-11.6	-4.0	-1.2	-4.1	…	…	…
Net domestic assets [1]	24.7	21.2	79.9	-30.7	16.9	4.9	11.4	11.9	…	…	…
Net claims on government [1]	20.8	28.7	70.2	-44.8	17.7	11.9	7.6	10.7	…	…	…
Credit to nongovernment sector [1]	1.9	3.1	8.9	15.0	2.0	-1.1	7.0	4.1	…	…	…
Reserve money	13.8	81.7	73.0	-4.9	-6.2	-3.9	8.3	6.1	…	…	…
Broad money (M2)	39.0	25.9	74.4	9.4	5.3	0.9	10.2	7.8	…	…	…
Interest rate (short term T-bill)	21.5	15.0	13.0	13.0	...	15.7	...	...	...	...	...
	(Percent of GDP)										
Central government finances											
Total revenue and grants	16.1	16.5	15.7	20.2	22.9	22.9	24.0	22.7	24.0	23.6	23.8
Revenue	15.6	16.2	15.3	16.8	19.2	20.1	20.2	19.6	20.6	21.0	21.7
Of which : nonmining revenue	12.1	12.9	11.5	12.9	15.0	16.1	16.2	15.7	16.4	16.7	17.3
Grants	0.5	0.4	0.4	3.4	3.7	2.7	3.8	3.1	3.4	2.6	2.2
Total expenditure and net lending	17.5	23.7	29.7	21.5	28.1	26.1	26.1	27.8	26.7	25.3	25.5
Current expenditure	13.4	16.5	20.5	16.3	15.6	15.9	15.8	15.6	15.8	15.9	15.6
Of which : interest payments	2.6	2.1	2.0	2.0	1.4	1.7	0.9	1.0	1.2	1.2	1.0
Capital expenditure and net lending	4.0	7.2	9.1	5.2	12.4	10.2	10.3	12.1	10.8	9.4	9.9
Overall budget balance											
Including grants (commitment)	-1.3	-7.1	-14.0	-1.3	-5.2	-3.3	-2.1	-5.1	-2.7	-1.7	-1.7
Excluding grants (commitment)	-1.8	-7.5	-14.4	-4.7	-9.0	-6.0	-5.9	-8.2	-6.1	-4.3	-3.9
Basic fiscal balance	1.6	-5.6	-12.6	-1.6	-3.6	-2.5	-1.4	-3.3	-0.7	-0.6	0.6
National accounts											
Gross capital formation	17.5	11.4	10.6	14.6	37.3	25.6	44.1	28.7	51.3	46.2	43.6
Savings	7.0	2.9	-0.9	-5.8	-1.7	-8.4	4.4	3.6	4.3	4.0	4.0
Current account balance											
Including official transfers	-10.6	-8.6	-11.5	-20.3	-38.8	-34.2	-39.2	-25.2	-47.0	-42.0	-39.5
Excluding official transfers	-11.0	-8.6	-11.5	-22.5	-39.6	-35.2	-40.2	-26.8	-47.4	-42.4	-39.8
Overall balance of payments	-0.9	5.3	-3.6	10.1	-7.2	-5.8	-0.8	-1.6	-0.6	2.2	-0.2
	(US$ millions, unless otherwise indicated)										
Memorandum items:											
Exports, goods and services	1,566.8	1,287.9	1,434.5	1,620.2	1,613.7	1,673.6	1,648.5	1,689.7	1,774.5	1,829.4	1,865.3
Imports, goods and services	1,810.4	1,427.2	1,800.4	2,757.6	3,693.8	3,490.2	3,958.3	3,242.4	4,638.4	4,607.0	4,687.2
Overall balance of payments	-42.4	245.9	-177.8	521.4	-410.8	-328.0	-48.2	-98.6	-36.7	152.7	-17.9
Net foreign assets (central bank)	-14.1	97.9	39.6	637.6	265.7	411.3	214.8	307.5	330.0	507.4	488.0
Gross available reserves (months of imports) [2]	0.6	0.8	0.6	3.4	2.9	3.2	2.9	2.9	3.0	3.1	3.2
Nominal GDP (GNF billions)	20,780	22,133	27,118	33,739	40,494	39,590	45,219	45,479	52,470	58,782	66,273

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

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

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

Table 2a. Guinea: Fiscal Operations of the Central Government, 2011–16

(Billions of Guinean francs; unless otherwise indicated)

	2011	2012				2013			2014	2015	2016
		Sep.		Dec.		Prog.	Budg.	Proj.	Proj.	Proj.	Proj.
		Prog.	Est.	Prog.	Est.						
Revenue and grants	6,824	6,438	6,360	9,278	9,047	10,847	10,323	10,328	12,590	13,866	15,798
Revenue	5,662	5,610	5,886	7,760	7,976	9,132	9,225	8,919	10,829	12,346	14,351
Mining sector	1,296	1,160	1,098	1,705	1,607	1,798	1,798	1,798	2,221	2,532	2,887
Non-mining sector	4,366	4,450	4,789	6,055	6,368	7,333	7,427	7,121	8,608	9,814	11,464
Direct taxes	1,001	1,193	1,298	1,495	1,776	1,718	1,718	1,718	2,012	2,310	2,644
Indirect taxes	2,881	3,000	3,193	4,288	4,217	5,222	5,315	5,009	6,142	6,995	8,232
Taxes on goods and services	1,904	2,000	2,060	2,920	2,765	3,487	3,581	3,275	4,132	4,782	5,526
Taxes on international trade	978	1,000	1,133	1,368	1,452	1,734	1,734	1,734	2,010	2,214	2,706
Non-tax revenue	484	257	298	272	375	394	394	394	454	509	588
Grants	1,162	828	473	1,518	1,071	1,715	1,098	1,409	1,761	1,520	1,447
Project grants	412	599	264	1,187	677	1,258	641	641	1,533	1,283	1,202
Budget support	750	229	210	331	394	457	457	768	229	238	245
Total expenditures and net lending	7,247	8,267	6,518	11,384	10,342	11,818	11,688	12,640	14,005	14,886	16,921
Current expenditures	5,490	4,571	4,195	6,334	6,291	7,147	7,175	7,106	8,311	9,325	10,363
Primary current expenditures	4,826	4,180	3,897	5,781	5,617	6,719	6,542	6,657	7,687	8,648	9,678
Wages and salaries	1,764	1,383	1,290	1,974	1,757	2,384	2,284	2,366	2,730	3,079	3,472
Goods and services	1,814	1,653	1,502	2,276	2,356	2,492	2,694	2,719	3,137	3,553	4,006
Subsidies and transfers	1,248	1,144	1,105	1,531	1,505	1,843	1,565	1,572	1,820	2,015	2,200
Interest on debt	664	391	298	553	674	428	634	449	624	677	685
Domestic debt [1]	370	193	103	337	402	373	373	373	503	537	526
External debt	293	198	195	216	271	55	261	76	122	140	159
Capital expenditures	1,750	3,688	2,314	4,782	3,801	4,241	4,143	5,165	5,658	5,521	6,513
Domestically financed	984	2,223	1,859	2,826	2,674	2,225	2,576	2,991	2,960	3,461	3,678
Capital transfer	13	11	10	16	14	19	16	16	18	20	23
Externally financed	753	1,454	445	1,939	1,113	1,997	1,551	2,158	2,681	2,040	2,813
Net lending & restructuring expenditure	7	7	10	268	251	430	369	369	35	39	44
Basic fiscal balance [2]	-539	-1,005	8	-1,469	-982	-634	-650	-1,486	-374	-359	402
Percent of GDP	-1.6	-2.5	0.0	-3.6	-2.5	-1.4	-1	-3.3	-0.7	-0.6	0.6
Overall balance, commitment basis											
Excluding grants	-1,585	-2,657	-632	-3,625	-2,367	-2,686	-2,462	-3,721	-3,176	-2,540	-2,570
Including grants	-423	-1,829	-158	-2,107	-1,296	-971	-1,365	-2,312	-1,414	-1,019	-1,123
Financing	367	1,829	255	-14	1,422	-53	1,365	1,349	1,414	1,019	1,123
Domestic financing	605	1,016	205	1,503	1,314	574	574	798	589	689	41
Bank financing	-4,378	1,490	555	2,010	1,470	906	906	1,221	517	540	0
Central bank	-4,671	1,490	763	2,010	1,865	906	906	1,221	517	540	0
Commercial banks	293	0	-208	0	-395	0		0	0	0	0
Nonbank financing	4,984	-473	-350	-507	-155	-332	-332	-423	72	149	41
Privatization revenue	0	0	0	0	0	0	0	0	0	0	0
Amortization of domestic debt	-6	-92	-3	-179	-3	-179	-179	-179	-197	-118	-130
Change in arrears	0	0	0	0	0	0	0	0	0	0	0
	170	-384	-346	-332	-152	-154	-153	-244	0	0	0
Previous years				-441	-450			-339			
Current year				159	339			140			
VAT credit				-50	-41			-45			
Exceptional revenue	4,634	0	0	0	0	0	0	0	0	0	0
Other	186	3	0	4	0	0	0	0	269	267	171
External financing	-238	812	50	-1,517	108	-627	790	551	826	330	1,082
Drawings	845	1,365	684	1,263	939	1,022	1,193	1,800	1,148	758	1,611
Project	341	855	181	752	436	739	911	1,517	1,148	758	1,611
Program	504	510	503	510	503	283	283	283	0	0	0
Amortization due	-1,166	-913	-980	-1,008	-1,522	-588	-1,879	-238	-277	-403	-517
Debt relief	566	1,977	359	0	2,446	0	1,476	0	0	0	0
Change in arrears (- = reduction) [3]	-483	-1,617	-14	-1,771	-1,755	-1,060	0	-1,011	-45	-24	-13
Errors and omissions [4]	56	0	-97	0	-127	0	0	0	0	0	0
Financing gap	0	0	0	2,121	0	1,024	0	963	0	0	0
Possible financing (incl. debt relief) [3]	0	0	0	2,121		1,024		963	0	0	0
Debt relief 3/		0	0	2,121		1,024		963	0	0	0
HIPC completion point debt relief [3]				15,015	13,406						
HIPC completion point debt cancellation [3]				-15,015	-13,406						
Residual financing gap	0	0	0	0	0	0	0	0	0	0	0
Of which: forbearance on external debt	0										
Memorandum items:											
Nominal GDP	33,739	40,494	39,590	40,494	39,590	45,219	45,219	45,479	52,470	58,782	66,273
Nominal GDP excl. Simandou production	33,739	40,494	39,590	40,494	39,590	45,219	45,219	45,479	52,470	58,782	66,273

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

[1] Includes interest due in 2012 on the central bank's debt (GNF 196 billion) recorded under the float in 2012 to be paid in 2013.

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

[3] For 2012, Paris Club debt relief for end-2011 arrears and maturities falling due agreed under October 2012 Paris Club agreement. Comparable terms are assumed for other bilateral creditors. HIPC/MDRI relief is assumed to be delivered effective October 2012.

[4] The large errors and omissions in 2012 reflect to a large extent exchange rate losses on the 2011 exceptional mining revenue held in dollar accounts.

Table 2b. Guinea: Fiscal Operations of the Central Government, 2008–16

(Percent of GDP; unless otherwise indicated)

	2008	2009	2010	2011	2012		2013			2014	2015	2016
					Prog	Est.	Prog.	Budg.	Proj.	Proj.	Proj.	Proj.
Revenue and grants	16.1	16.5	15.7	20.2	22.9	22.9	24.0	22.8	22.7	24.0	23.6	23.8
Revenue	15.6	16.2	15.3	16.8	19.2	20.1	20.2	20.4	19.6	20.6	21.0	21.7
Mining sector	3.6	3.3	3.8	3.8	4.2	4.1	4.0	4.0	4.0	4.2	4.3	4.4
Non-mining sector	12.1	12.9	11.5	12.9	15.0	16.1	16.2	16.4	15.7	16.4	16.7	17.3
Direct taxes	2.4	3.1	2.7	3.0	3.7	4.5	3.8	3.8	3.8	3.8	3.9	4.0
Indirect taxes	8.7	8.6	8.2	8.5	10.6	10.7	11.5	11.8	11.0	11.7	11.9	12.4
Taxes on goods and services	6.0	5.8	5.6	5.6	7.2	7.0	7.7	7.9	7.2	7.9	8.1	8.3
Taxes on international trade	2.7	2.8	2.5	2.9	3.4	3.7	3.8	3.8	3.8	3.8	3.8	4.1
Non-tax revenue	0.9	1.3	0.7	1.4	0.7	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Grants	0.5	0.4	0.4	3.4	3.7	2.7	3.8	2.4	3.1	3.4	2.6	2.2
Project grants	0.5	0.4	0.4	1.2	2.9	1.7	2.8	1.4	1.4	2.9	2.2	1.8
Budget support	0.0	0.0	0.0	2.2	0.8	1.0	1.0	1.0	1.7	0.4	0.4	0.4
Total expenditure and net lending	17.5	23.7	29.7	21.5	28.1	26.1	26.1	25.8	27.8	26.7	25.3	25.5
Current expenditure	13.4	16.5	20.5	16.3	15.6	15.9	15.8	15.9	15.6	15.8	15.9	15.6
Primary current expenditure	10.8	14.4	18.5	14.3	14.3	14.2	14.9	14.5	14.6	14.7	14.7	14.6
Wages and salaries	4.1	5.0	5.7	5.2	4.9	4.4	5.3	5.0	5.2	5.2	5.2	5.2
Goods and services	4.8	6.1	9.4	5.4	5.6	5.9	5.5	6.0	6.0	6.0	6.0	6.0
Subsidies and transfers	1.9	3.3	3.4	3.7	3.8	3.8	4.1	3.5	3.5	3.5	3.4	3.3
Interest on debt	2.6	2.1	2.0	2.0	1.4	1.7	0.9	1.4	1.0	1.2	1.2	1.0
Domestic debt	1.3	1.5	1.3	1.1	0.8	1.0	0.8	0.8	0.8	1.0	0.9	0.8
External debt	1.3	0.6	0.7	0.9	0.5	0.7	0.1	0.6	0.2	0.2	0.2	0.2
Capital expenditure	4.0	7.1	9.1	5.2	11.8	9.6	9.4	9.2	11.4	10.8	9.4	9.8
Domestically financed	1.9	5.8	8.1	2.9	7.0	6.8	4.9	5.7	6.6	5.6	5.9	5.5
Capital transfer	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Externally financed	2.1	1.3	1.0	2.2	4.8	2.8	4.4	3.4	4.7	5.1	3.5	4.2
Net lending & restructuring expenditure	0.0	0.0	0.0	0.0	0.7	0.6	1.0	0.8	0.8	0.1	0.1	0.1
Basic fiscal balance [1]	1.6	-5.5	-12.6	-1.6	-3.6	-2.5	-1.4	-1.4	-3.3	-0.7	-0.6	0.6
Overall balance, commitment basis												
Excluding grants	-1.8	-7.5	-14.4	-4.7	-9.0	-6.0	-5.9	-5.4	-8.2	-6.1	-4.3	-3.9
Including grants	-1.3	-7.1	-14.0	-1.3	-5.2	-3.3	-2.1	-3.0	-5.1	-2.7	-1.7	-1.7
Financing	1.3	7.1	14.4	1.3	0.0	3.6	-0.1	3.0	3.0	2.7	1.7	1.7
Domestic financing (net)	0.8	7.3	14.1	2.0	3.7	3.3	1.3	1.3	1.8	1.1	1.2	0.1
Bank financing	2.3	6.1	15.0	-13.0	5.0	3.7	2.0	2.0	2.7	1.0	0.9	0.0
Central bank	0.2	6.2	10.7	-13.8	5.0	4.7	2.0	2.0	2.7	1.0	0.9	0.0
Commercial banks	2.0	-0.1	4.3	0.9	0.0	-1.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonbank financing	-1.5	1.2	-0.9	14.9	-1.3	-0.4	-0.7	-0.7	-0.9	0.1	0.3	0.1
Privatization revenue	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization of domestic debt	-1.6	-0.2	-0.5	0.0	-0.4	0.0	-0.4	-0.4	-0.4	-0.4	-0.2	-0.2
Change in arrears	-0.1	0.0	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in float	0.2	0.5	0.1	0.5	-0.8	-0.4	-0.3	-0.3	-0.5	0.0	0.0	0.0
Exceptional revenue	0.0	0.0	0.0	13.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	1.2	0.1	0.6	0.0	0.0	0.0	0.0	0.0	0.5	0.5	0.3
External financing	0.5	-0.2	0.2	-0.7	-3.7	0.3	-1.4	1.7	1.2	1.6	0.6	1.6
Drawings	1.6	0.9	0.7	2.5	3.1	2.4	2.3	2.6	4.0	2.2	1.3	2.4
Amortization due	-3.1	-2.0	-2.2	-3.5	-2.5	-3.8	-1.3	-4.2	-0.5	-0.5	-0.7	-0.8
Debt relief and interim HIPC assistance	1.2	0.0	0.5	1.7	0.0	0.0	0.0	3.3	0.0	0.0	0.0	0.0
Change in arrears (- = reduction) [2]	0.8	0.9	1.3	-1.4	-4.4	-4.4	-2.3	0.0	-2.2	-0.1	0.0	0.0
Errors and omissions			-0.4	0.2		-0.3		0.0		0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	5.2	0.0	2.3	0.0	2.1	0.0	0.0	0.0
Possible financing				0.0	5.2		2.3	0.0	2.1	0.0	0.0	0.0
Debt relief [2]					5.2		2.3	0.0	2.1	0.0	0.0	0.0
HIPC completion point debt relief [2]					37.1	33.9		0.0				
HIPC completion point debt cancellation [2]					-37.1	-33.9		0.0				
Residual financing gap				0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
Nominal GDP (GNF billions)	20,780	22,133	27,118	33,739	40,494	39,590	45,219	45,219	45,479	52,470	58,782	66,273
Nominal GDP excl. Simandou production(GNF bln)	20,780	22,133	27,118	33,739	40,494	39,590	45,219	45,219	45,479	52,470	58,782	66,273

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

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

[2] For 2012, Paris Club debt relief for end-2011 arrears and maturities falling due agreed under October 2012 Paris Club agreement. Comparable terms are assumed for other bilateral creditors. HIPC/MDRI relief is assumed to be delivered effective October 2012.

Table 3a. Guinea: Central Bank and Deposit Money Banks Accounts, 2008–13[1]

(Billions of Guinean francs; unless otherwise indicated)

	2008	2009	2010	2011	2012					2013	
					Jun.	Sep.		Dec.		Prog.	Proj.
					Est	Prog.	Est.	Prog.	Prel.		
Central bank											
Net foreign assets	-73	482	241	4,538	3,620	2,462	2,831	1,898	2,867	1,580	2,230
(US$ millions)	-14	98	40	638	508	355	408	266	411	215	308
Of which: net international reserves	-226	1,248	1,353	5,281	4,475	3,213	3,752	2,730	3,726	2,437	3,095
(US$ millions)	-44	253	222	759	643	463	541	382	535	331	427
Net domestic assets	2,293	3,553	6,739	2,105	2,547	3,756	2,892	4,331	3,513	5,168	4,540
Domestic credit	1,928	3,505	6,491	1,516	1,551	3,032	2,547	3,559	3,418	4,462	4,645
Claims on central government (net)	2,077	3,450	6,456	1,467	1,481	2,957	2,478	3,476	3,352	4,383	4,573
Claims on private sector	9	10	6	9	39	39	42	42	44	42	48
Liabilities to deposit money banks (-)	-208	2	0	1	0	-2	0	-4	0	-8	0
Claims on other public sector	49	42	29	39	30	38	27	45	22	45	24
Other items, net (assets +)	365	48	248	589	997	724	345	772	95	707	-105
Reserve money	2,221	4,035	6,980	6,638	6,167	6,218	5,723	6,229	6,380	6,748	6,770
Currency outside banks	1,652	2,120	3,988	3,262	3,762	3,793	3,616	3,104	3,695	3,223	3,984
Bank reserves	537	1,885	2,961	3,276	2,247	2,265	1,908	3,020	2,432	3,411	2,509
Deposits	434	1,720	2,839	2,856	1,987	2,004	1,560	2,760	2,037	3,128	2,076
Required reserves	289	360	603	1,755	1,597	1,597	1,589	1,943	1,648	2,185	1,775
Excess reserves	145	1,360	2,236	1,101	390	406	-29	817	389	943	300
Of which: in foreign exchange	102	111	136	200	259	193	175	193	231	199	240
Cash in vaults of deposit banks	103	164	122	420	260	262	349	260	395	283	433
Private sector deposits	32	30	32	100	158	160	198	105	253	114	277
Deposit money banks											
Net foreign assets	944	609	524	379	1,697	1,698	1,526	1,700	1,599	1,870	1,766
Bank reserves	537	1,885	2,961	3,276	2,247	2,265	1,908	3,020	2,432	3,411	2,509
Deposits at the central bank	434	1,720	2,839	2,856	1,987	2,004	1,560	2,760	2,037	3,128	2,076
Cash in vaults of deposits banks	103	164	122	420	260	262	349	260	395	283	433
Claims on central bank	208	-2	0	-1	0	2	0	4	0	8	0
Domestic credit	1,690	1,829	3,541	5,425	4,324	5,093	4,868	5,616	4,747	6,454	5,206
Credit to the government (net)	714	699	1,865	2,206	1,962	2,206	1,880	2,206	1,673	2,206	1,673
Claims on public enterprises	1	0	43	58	60	60	46	60	48	60	48
Claims on the private sector	975	1,129	1,633	3,161	2,303	2,827	2,942	3,351	3,025	4,188	3,484
Other items, net (assets +)	-338	-525	-678	-1,104	-1,007	-1,797	-1,081	-1,613	-1,287	-1,926	-1,411
Liabilities to the private sector (deposits)	3,040	3,795	6,347	7,976	7,261	7,261	7,221	8,728	7,490	9,817	8,070
Memorandum items:											
Net foreign assets (US$ millions)	-14	98	40	638	508	355	408	266	411	215	308
Net international reserves (US$ millions)	-44	253	222	759	643	463	541	382	535	331	427

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

[1] End of period.

Table 3b. Guinea: Money Survey,2008–13[1]

(Billions of Guinean francs; unless otherwise indicated)

	2008	2009	2010	2011	2012					2013	
					Jun.	Sep.		Dec.		Prog.	Proj.
						Prog.	Est.	Prog.	Prel.		
Net foreign assets	871	1,091	765	4,917	5,316	4,160	4,357	3,598	4,466	3,450	3,996
Net domestic assets	3,853	4,854	9,601	6,421	5,865	7,051	6,678	8,339	6,973	9,704	8,335
Domestic credit	3,826	5,331	10,031	6,940	5,875	8,126	7,415	9,180	8,164	10,924	9,851
Claims on central government	2,791	4,149	8,320	3,673	3,443	5,163	4,358	5,682	5,025	6,589	6,246
Claims on public enterprises	50	43	72	98	90	97	74	105	70	105	72
Claims on private sector	984	1,140	1,639	3,170	2,342	2,866	2,983	3,392	3,069	4,230	3,533
Other items, net (assets +)	27	-477	-430	-520	-10	-1,073	-737	-841	-1,191	-1,219	-1,516
Broad money (M2)	4,724	5,945	10,366	11,338	11,181	11,214	11,035	11,937	11,438	13,154	12,331
Currency	1,652	2,120	3,988	3,262	3,762	3,793	3,616	3,104	3,695	3,223	3,984
Deposits	3,072	3,825	6,379	8,076	7,419	7,421	7,419	8,833	7,743	9,931	8,347
Of which: in foreign currency	1,342	1,065	1,371	2,278				2,536	2,698		2,908
					(Year-on-year change in percent of beginning-of-period M2)						
Memorandum items:											
Net foreign assets	14.3	4.7	-5.5	40.1	-13.6	-6.7	-13.0	-11.6	-4.0	-1.2	-4.1
Of which: central bank	2.1	11.7	-4.1	41.5	-21.6	-18.3	-22.0	-23.3	-14.7	-2.7	-5.6
Net domestic assets	24.7	21.2	79.9	-30.7	11.9	5.6	8.6	16.9	4.9	11.4	11.9
Of which: central bank	5.9	26.7	53.6	-44.7	12.8	14.6	12.1	19.6	12.4	7.0	9.0
Domestic credit	22.6	31.9	79.1	-29.8	6.7	10.5	11.7	19.8	10.8	14.6	14.7
Net claims on government	20.8	28.7	70.2	-44.8	3.1	13.1	9.5	17.7	11.9	7.6	10.7
Credit to the private sector	1.9	3.1	8.9	15.0	3.7	-2.7	2.2	2.0	-1.1	7.0	4.1
Broad money (M2)	39.0	25.9	74.4	9.4	-1.7	-1.1	-4.3	5.3	0.9	10.2	7.8
Reserve money (annual percentage change)	13.8	81.7	73.0	-4.9	-13.9	-9.4	-16.6	-6.2	-3.9	8.3	6.1
Commercial bank credit to the private sector (annual percentage change)	18.4	15.8	44.6	93.5	19.8	-10.6	8.5	6.0	-4.3	25.0	15.2
Money multiplier (M2/reserve money)	2.1	1.5	1.5	1.7	1.8	1.9	1.9	1.9	1.8	1.9	1.8
Velocity (GDP/average M2)	5.1	4.1	3.3	3.1	3.5	3.5	3.5	3.5	3.5	3.6	3.8
Velocity eop (GDP/M2 eop)	4.4	3.7	2.6	3.0	3.5	3.5	3.6	3.4	3.5	3.4	3.7
Deposit dollarization	43.7	27.8	21.5	28.2	34.1	…	33.8	…	34.8	…	34.8
Exchange rate, GNF per US$ (eop)	5,161	4,924	6,079	7,090	6,950	…	6,939	…	6,970	…	…
Nominal GDP (billions GNF)	20,780	22,133	27,118	33,739	39,590	39,380	39,590	39,380	39,590	43,950	45,479
GDP at constant prices (percentage change)	4.9	-0.3	1.9	3.9	3.9	4.8	3.9	4.8	3.9	5.0	4.5
Consumer prices (percentage change,eop)	13.5	7.9	20.8	19.0	15.0	13.4	14.4	12.0	12.8	8.7	10.6
Nominal GDP (percentage change)	19.7	6.5	22.5	24.4	17.3	16.9	17.3	16.9	17.3	11.6	14.9

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

[1] End of period.

Table 4. Guinea: Balance of Payments, 2008–16

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

	2008	2009	2010	2011	2012		2013		2014	2015	2016
					Prog.	Prel.	Prog.	Proj.	Proj.	Proj.	Proj.
Merchandise trade balance	93	119	-33	-643	-1,428	-1,034	-1,612	-1,070	-2,213	-2,242	-2,272
Exports, f.o.b.	1,460	1,215	1,372	1,543	1,533	1,510	1,567	1,524	1,605	1,654	1,684
Mining products	1,380	1,097	1,261	1,409	1,437	1,378	1,460	1,391	1,470	1,526	1,551
Other	79	119	111	134	96	131	107	132	134	128	133
Imports, f.o.b	-1,366	-1,096	-1,405	-2,186	-2,961	-2,543	-3,178	-2,594	-3,818	-3,896	-3,956
Food products	-227	-204	-181	-267	-266	-307	-261	-303	-304	-306	-299
Other consumption goods	-205	-191	-227	-293	-313	-344	-334	-366	-392	-420	-453
Petroleum products	-356	-296	-298	-448	-459	-511	-446	-522	-527	-535	-549
Intermediate and capital goods	-579	-405	-698	-1,178	-1,923	-1,381	-2,137	-1,403	-2,595	-2,635	-2,655
Of which : imports for large mining projects	-239	-83	-74	-99	-1,188	-395	-1,443	-581	-1,833	-1,941	-1,421
Services trade balance	-337	-259	-333	-495	-652	-783	-698	-482	-651	-535	-550
Services exports	107	73	62	77	80	164	82	166	170	175	181
Services imports	-444	-331	-396	-572	-732	-947	-780	-648	-820	-711	-731
Of which : imports for large mining projects	-39	-14	-12	-16	-195	-65	-237	-96	-301	-181	-132
Income balance	-523	-505	-451	-447	-488	-441	-485	-420	-430	-442	-456
Of which: interest on public debt	-60	-29	-35	-45	-31	-39	-8	-11	-15	-17	-18
Transfers	290	247	251	536	338	340	348	394	315	355	361
Of which:											
Net private transfers	271	247	251	422	291	283	285	289	288	328	334
Official transfers	19	0	0	114	47	56	63	106	28	27	27
Current account											
Including official transfers	-477	-397	-566	-1,049	-2,230	-1,918	-2,446	-1,578	-2,978	-2,865	-2,916
Excluding imports for large mining projects	-199	-301	-480	-933	-847	-1,458	-765	-902	-844	-743	-1,363
Excluding official transfers	-496	-397	-566	-1,163	-2,277	-1,975	-2,509	-1,684	-3,006	-2,892	-2,944
Capital account	27	29	33	778	209	137	185	100	197	148	134
Of which : Rio Tinto payment	0	0	0	700	0	0	0	0	0	0	
Financial account	-210	59	-163	162	1,610	455	2,213	1,379	2,744	2,869	2,765
Public (medium and long-term)	-66	-50	-78	-49	36	-83	60	215	105	41	122
Project-related loans	72	43	32	52	107	62	102	209	139	88	179
Program financing	0	0	0	76	72	72	39	39	0	0	0
Amortization due	-138	-93	-110	-177	-143	-217	-81	-33	-34	-47	-57
Public (short-term)	0	0	0	0	0	0	0	0	0	0	0
Direct and other private investment (net)	-162	-193	-277	51	1,322	271	1,887	611	2,322	2,093	1,165
Of which : large mining projects	379	138	108	282	1,608	535	2,183	878	2,603	2,379	1,767
Private short-term	18	302	192	160	252	267	266	553	317	735	1,479
Errors and omissions	618	555	518	630	0	999	0	0	0	0	0
Overall balance	-42	246	-178	521	-411	-328	-48	-99	-37	153	-18
Financing	42	-246	178	-521	382	328	-9	41	-21	-181	18
Change in net official reserves	-20	-287	90	-598	310	230	-4	47	-16	-179	19
Of which:											
Fund repayments [1]	9	-13	0	0	-23	16	0	0	0	0	0
Change in gross official reserves	-24	-274	90	-598	332	214	-4	47	-16	-179	19
Change in arrears [1]	54	40	65	-74	-251	-250	-146	-139	-5	-3	-1
Debt relief [1]	8	1	22	150	301	348	141	133	0	0	0
HIPC interim assistance	4	0	1	0	1	0	0	0	0	0	0
HIPC completion point debt relief [1]					2,151	1,902					
HIPC completion point debt cancellation [1]					-2,130	-1,902					
Financing gap	0	0	0	0	29	0	58	58	58	29	0
Memorandum items:											
Current account balance (percent of GDP)											
Including official transfers	-11	-9	-11	-20	-39	-34	-39	-25	-47	-42	-39
Excluding imports for large mining projects	-4	-6	-10	-18	-15	-26	-12	-14	-13	-11	-18
Excluding official transfers	-11	-9	-11	-22	-40	-35	-40	-27	-47	-42	-40
Overall balance (percent of GDP)	-1	5	-4	10	-7	-6	-1	-2	-1	2	0
Exports-GDP ratio (percent)	35	28	29	31	28	30	26	27	28	27	25
Imports-GDP ratio (percent)	-40	-31	-37	-53	-64	-62	-63	-52	-73	-68	-63
Gross available reserves *(US$ millions)*	70	114	124	851	519	637	523	590	605	784	765
Gross available reserves (months of imports)	1	1	1	3	3	3	3	3	3	3	3
Nominal GDP (US$ millions)	4,517	4,635	4,929	5,124	5,744	5,632	6,237	6,273	6,348	6,798	7,363
National currency per US dollar (avg.)	4,600	4,775	5,502	6,584	…	7,030	…	…	…	…	…

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

[1] For 2012, Paris Club debt relief for end-2011 arrears and maturities falling due agreed under October 2012 Paris Club agreement. Comparable terms are assumed for other bilateral creditors. HIPC/MDRI relief is assumed to be delivered effective October 2012.

Table 5. Guinea: Performance Criteria and Indicative Targets, ECF 2012–13 [1, 2]

(Billions of Guinean francs, unless otherwise indicated)

	2012									2013			
	Jun.	Sep.				Dec.				Mar.	Jun.	Sep.	Dec.
	Act.	Indicative Targets	Adjusted [1]	Est.	Status	PC	PC Adjusted [1]	Est.	Status	Indicative Targets	PC	Indicative Targets	PC
Quantitative performance criteria													
Basic fiscal balance (floor)	60	-1,005	-984	8	Met	-1,469	-1,436	-982	Met	-238	-475	-1,115	-1,486
Net domestic assets of the central bank (ceiling)	2,471	3,756	3,802	2,892	Met	4,331	4,283	3,513	Met	4,645	4,959	4,596	4,540
Domestic bank financing of the government (ceiling)	315	1,490	1,536	555	Met	2,010	1,962	1,470	Met	340	680	1,069	1,221
Net international reserves of the central bank (floor); US$ millions [3]	643	463	379	541	Met	382	250	535	Met	363	344	458	427
New nonconcessional medium- or long-term external debt contracted or guaranteed by the government or central bank (ceiling); US$ millions [4,5]	0	0	0	0	Met	0	0	10	Not Met	363	363	363	363 [7]
Stock of outstanding short-term external debt contracted or guaranteed by the government or the central bank (ceiling); US$ millions [5]	0	0	0	0	Met	0	0	0	Met	0	0	0	0
New external arrears (ceiling) [5]	0	0	0	0	Met	0	0	0	Met	0	0	0	0
Indicative targets													
Expenditure in priority sectors (floor) [6]	2,341	2,700	2,700	2,673	Not Met	4,069	4,069	4,197	Met	1,105	2,367	3,077	4,200
Memorandum items:													
Reserve money	6,195	6,218	6,218	5,723	Met	6,229	6,229	6,380	Not Met	6,424	6,619	7,028	6,770

Sources: Guinean authorities; and IMF staff projections.

[1] Definitions and adjustors are included in the technical memorandum of understanding (TMU).

[2] Flow for fiscal criteria and stock for end-December 2012 for monetary and external debt criteria.

[3] Calculated using the program exchange rates.

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

[5] Continuous performance criterion.

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

[7] Ceiling established on loans contracted with China's EXIMBANK (US$334.65 million), ECOWAS (US$10.53 million), and the OFID (US$17 million). These loans were contracted in 2012-13; they became effective starting from late 2012.

Table 6. Guinea: External Financing Requirements and Sources, 2012–16

(US$ millions)

	2012	2013		2014	2015	2016
	Est.	Prog.	Proj.	Proj.	Proj.	Proj.
1. Gross financing requirements	2,170	2,729	1,797	3,049	3,120	2983
External current account deficit	1,975	2,509	1,684	3,006	2,892	2944
Capital account balance	-41	-12	-12	-12	0	0
Debt amortization	217	81	33	34	47	57
Change in arrears, net [1]	250	146	139	5	3	1
Gross reserves accumulation	-214	4	-47	16	179	-19
IMF repayments [1]	-16	0	0	0	0	0
2. Available financing	2,170	2,672	1,739	2,991	3,091	2983
Foreign direct investment, net	538	2,153	1,164	2,639	2,828	2643
Identified disbursements	286	377	443	352	263	340
Grants	152	237	194	213	176	161
Project	96	173	88	185	148	134
Program	56	63	106	28	27	27
Loans	134	141	248	139	88	179
Project	62	102	209	139	88	179
Program	72	39	39	0	0	0
Other flows	999	0	0	0	0	0
Debt relief '	348	141	133	0	0	0
HIPC completion point debt relief [1]	1,902					
HIPC completion point debt cancellation [1]	-1,902					
3. Residual financing	0	58	58	58	29	0
Of which: ECF disbursement		58	58	58	29	0

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

[1] For 2012, Paris Club debt relief for end-2011 arrears and maturities falling due agreed under April 2012 Paris Club agreement. Comparable terms are assumed for other bilateral creditors. HIPC/MDRI relief is assumed to be delivered effective October 2012.

Table 7.Guinea: Indicators of Capacity to Repay the IMF, 2013–25

(SDR millions, unless otherwise indicated)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
							Projections						
Fund obligations based on existing credit													
Credit outstanding	37.22	37.22	37.22	37.22	35.39	27.54	20.2	12.85	5.51	0	0	0	0
Percent of quota	34.76	34.76	34.76	34.76	33.04	25.71	18.86	12	5.14	0	0	0	0
Repayment of principal	0	0	0	0	1.84	7.85	7.34	7.34	7.34	5.51	0	0	0
Charges and interest	0.01	0.01	0.1	0.1	0.1	0.09	0.07	0.05	0.03	0.01	0.01	0.01	0.01
Fund obligations from prospective drawings under the new ECF													
Credit outstanding	36.72	73.44	91.80	91.80	91.80	89.96	80.78	64.26	45.90	27.54	11.02	1.84	0.00
Percent of quota	34.32	68.64	85.79	85.79	85.79	84.07	75.50	60.06	42.90	25.74	10.30	1.72	0.00
Repayment of principal	0	0	0	0	0	1.84	9.18	16.52	18.36	18.36	16.52	9.18	1.84
Charges and interest	0	0	0.22	0.23	0.23	0.23	0.22	0.18	0.14	0.09	0.05	0.01	0
Total obligations based on existing and prospective credit													
Credit outstanding	73.94	110.66	129.02	129.02	127.19	117.5	100.98	77.11	51.41	27.54	11.02	1.84	0
Percent of quota	69.04	103.33	120.47	120.47	118.76	109.71	94.29	72	48	25.71	10.29	1.71	0
Percent of gross foreign available reserves	18.86	27.50	24.77	25.29	20.39	17.12	13.53	10.06	6.51	3.38	1.30	0.21	0.00
Repayment of principal	0	0	0	0	1.84	9.68	16.52	23.87	25.7	23.87	16.52	9.18	1.84
Charges and interest	0.01	0.01	0.33	0.33	0.33	0.32	0.28	0.23	0.17	0.1	0.05	0.02	0.01
Total payments to the IMF	0.01	0.01	0.33	0.33	2.17	10	16.81	24.1	25.87	23.97	16.58	9.2	1.84
Percent of exports of goods and services	0.00	0.00	0.03	0.03	0.10	0.31	0.39	0.49	0.49	0.41	0.28	0.16	0.03
Percent of external public debt service	0.03	0.03	0.78	0.69	4.22	15.70	23.09	28.59	31.02	36.49	24.75	14.22	2.85
Memorandum items:													
Prospective purchases	36.72	36.72	18.36										
Exports of goods and services, US$ millions	1689.67	1774.532	1829.389	1865.291	3226.36	4877.668	6474.797	7418.531	8022.866	8698.936	8767.604	8841.301	8920.896

Sources: Guinean authorities; and IMF staff projections.

Table 8. Guinea: Proposed Schedule of Disbursements and Timing of Reviews Under the EFC Arrangement, 2012–15

Percent of quota	Millions of SDRs	Date of Availability	Condition for Disbursement
17.1	18.36	February 23, 2012	Disbursed following Executive Board approval of the three-year arrangement under the ECF.
17.1	18.36	September 25, 2012	Disbursed following Executive Board completion of the first review under the ECF arrangement.
17.1	18.36	May 20, 2013	Observance of all relevant performance criteria, including the performance criteria for December 2012 and completion of the second review under the ECF arrangement.
17.1	18.36	August 15, 2013	Observance of all relevant performance criteria, including the performance criteria for June 2013 and completion of the third review under the ECF arrangement.
17.1	18.36	February 15, 2014	Observance of all relevant performance criteria, including the performance criteria for December 2013 and completion of the fourth review under the ECF arrangement.
17.1	18.36	August 15, 2014	Observance of all relevant performance criteria, including the performance criteria for June 2014 and completion of the fifth review under the ECF arrangement.
17.1	18.36	February 15, 2015	Observance of all relevant performance criteria, including the performance criteria for December 2014 and completion of the sixth review under the ECF arrangement.
120.0	128.52	**Total**	

Source: IMF staff.

APPENDIX I. LETTER OF INTENT

Conakry, May 3, 2013

CENTRAL BANK OF THE
REPUBLIC OF GUINEA

MINISTRY OF ECONOMY
AND FINANCE

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431
USA

Subject: Letter of Intent

Dear Ms. Lagarde:

1. On behalf of the government of Guinea, we would like to provide you with an update on the progress we have achieved under our economic program supported by the IMF's Extended Credit Facility (ECF). Since the first review under the program in September last year, continued tight fiscal and monetary policies have contributed to a further decline in inflation. The exchange rate has remained stable and our international reserves' position is satisfactory. Economic growth was negatively affected by the closure of an alumina refinery and, towards the end of the year, a slowdown in investment in a major mining project, but still amounted to close to 4 percent in 2012.

2. The implementation of the program's policies and measures continues to be satisfactory. Important progress has been made with regard to structural reform, in spite of delays in the implementation of some measures. The end-December 2012 quantitative performance criteria have been met, with the exception of the continuous performance criterion of no contracting of new medium- or long-term nonconcessional external debt. Four such loans were contracted, of which three were due to capacity constraints in external debt management; they are relatively small amounting to about $28 million. The fourth loan is larger, amounting to $335 million. It is intended to finance the Kaleta hydroelectric dam project, which has been evaluated to have a high economic return and will help close the country's energy shortfall, export electricity to the neighboring countries, and boost growth prospects. This loan, which was deemed concessional at the conclusion of the negotiations in early-December 2012, became nonconcessional at the time of its signing in January 2013, following a change in the discount rate used for the calculations of the grant element on December 15, 2012. Corrective measures have been taken to strengthen debt management to ensure that new external debt complies with the program; the impact of the nonconcessional nature of these loans on debt sustainability is minor. Based on this, we request a waiver for the nonobservance of the performance criterion on no new medium- or long-term nonconcessional external debt.

3. The attached second Supplement to the Memorandum of Economic and Financial Policies (MEFP) sets out the government's objectives and policies for 2013. The policies build on the

progress made in 2011–12 and are consistent with the objectives of the third Poverty Reduction Strategy Paper (2013–15), which has just been approved by the government, and with the 2011–15 Five-Year Development Plan. Our medium-term objective remains to reverse the increase in the poverty rate that occurred during the last decade, develop our country's abundant natural resources, and promote broad-based economic growth. For 2013, we will maintain tight fiscal and monetary policies, aiming at reducing inflation to the single digits. Several important structural reforms, such as in the mining sector and in investment incentives, are expected to be completed during 2013 while others, such as restoring the viability of the electricity sector, will be accelerated.

4. The government is seeking a modification of the program performance criterion on no new nonconcessional external debt. The requested change will set a limit on the total amount of nonconcessional debt equal to the four above-mentioned already contracted loans. In this context, the government remains committed to mobilizing only grants and concessional loans to finance its program. The modified performance criterion for end-June 2013 and the performance criteria for end-December 2013 are included in Table 1 of the attached MEFP.

5. In view of the good performance in program implementation, as well as the policies and measures contained in the attached MEFP, the government is requesting completion of the second review of the ECF-supported program and a third disbursement of SDR 18.36 million (17.1 percent of quota) under the ECF agreement.

6. The government firmly believes that the policies and measures described in the attached MEFP are adequate to achieve the program objectives. However, it will take any further measures that may become appropriate for that purpose. The government will consult with the IMF on the adoption of such measures, either at its own initiative or at the request of the Managing Director of the Fund, prior to adopting such measures, or in advance of revisions to the policies contained in the MEFP, in accordance with the IMF's policies on such consultations. The government undertakes to provide the IMF with any information that may be necessary to monitor implementation of the measures and attainment of the program objectives.

7. The government authorizes the IMF to publish this Letter, the attached Supplement to the MEFP and Technical Memorandum of Understanding, and the Staff Report relating to the second review of the IMF-supported program under the ECF.

Sincerely yours,

/s/	/s/
Louncény Nabé Governor of the Central Bank Republic of Guinea	Kerfalla Yansané Minister of State in charge of Economy and Finance

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

ATTACHMENT 1. SUPPLEMENT TO THE MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

Conakry, May 3, 2013

This second supplement to the February 11, 2012 Memorandum on Economic and Financial Policies (MEFP) summarizes implementation of the program supported by the IMF's Extended Credit Facility (ECF) since the first program review in September 2012. It also sets forth the key program policies and measures for 2013.

Introduction

1. **Having achieved the completion point of the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative in September 2012**, **the government of President Alpha Condé has continued its efforts to consolidate macroeconomic stability and strengthen structural reforms**. End-December 2012 data show that the country's macroeconomic performance has been maintained, despite a slowdown in the rate of growth of real gross domestic product (GDP). All but one of the end-December 2012 quantitative performance criteria (PCs) under the program were met. Considerable progress was made with structural reforms, despite the fact that a number of structural benchmark actions experienced delays.

2. **The government's program is in line with the Second Poverty Reduction Strategy Paper (PRSP II) and the Third Poverty Reduction Strategy Paper (PRSP III) covering the period 2013–15**, **which was approved by the government on May 2, 2013**. Following attainment of the HIPC completion point and a favorable conclusion of the second review of their three-year program, the government and people of Guinea will continue to implement prudent policies in line with the PRSP III.

Macroeconomic Results and Implementation of the Program in 2012

A. Recent Macroeconomic Development

3. **The very good performance under the program recorded in the first half of 2012 continued during the second half of the year.**[1] Real GDP growth remained at around 4 percent in 2012, the same as in 2011, compared to a program target of 4.8 percent. The shortfall in relation to the target is explained mainly by the weakness of the recovery in the mining sector, following the halt at the Fria alumina factory and the slower pace of investments in the main large-scale mining projects, including the Simandou iron ore project and the Guinea Alumina Corporation's alumina project. Agricultural production continued to improve, benefiting from government support to the rural sector, although the growth rate was slower than expected, owing to delays in

[1] Developments during the first half of 2012 were described in the September 11, 2012 supplement to the MEFP (IMF Country Report No. 12/301, September 12, 2012).

implementing a new support system for the crop season. Economic activity was also held back by delays in the rehabilitation of the Conakry power plants (Tombo) and in bringing into the electricity grid the new power plants purchased by the government under the electricity sector reform plan.

4. **Inflation continued to trend downward, falling to 12.8 percent in December 2012 year-on-year (or an annual average of 15.2 percent), compared to a program target of 12 percent and down from the 19 percent recorded at end-December 2011**. The drop in inflation reflects the implementation of policies to strengthen public finances, tight monetary policies, and higher rice production; government measures to help the population purchase essential goods also helped. The monetary and exchange rate policies made it possible to stabilize broad money at its end-2011 level. The real effective exchange rate appreciated against the main currencies, while the foreign exchange market premium vanished; international reserves of the Central Bank of the Republic of Guinea (Banque de la République de Guinée—BCRG) amounted to the equivalent of more than three months of imports at end-December 2012.

5. **The end-December 2012 PCs under the ECF-supported program were met, except for the continuous PC on no new nonconcessional external debt (Table 1)**. Strong performance on government revenue and continuation of cash-based expenditure management allowed holding the government's fiscal basic balance deficit at 2.5 percent of GDP, compared to a program target of 3.6 percent of GDP, despite a shortfall on fuel taxes. This facilitated maintaining the PC on net bank credit to the government (including a net repayment of treasury bills of about GNF 400 billion (almost 1 percent of GDP) to the commercial banks) and on the BCRG's net domestic assets. The PC on net international reserves of the BCRG was met with a good margin.

6. **The breach of the PC on no new nonconcessional external debt was not met because of four new loans with grant elements below the program's floor of 35 percent**. The four nonconcessional loans were:

- A large loan from Exim Bank of China ($335 million) to finance the Kaléta hydroelectric dam. This loan was considered concessional when its terms were finalized early in December 2012, but was no longer concessional at the time of signature in January 2013, because the benchmark interest rates used for the calculation of the minimum grant element had fallen on December 15, 2012, resulting in a drop in the grant element to 33.2 percent; and

- Three small loans, of which two loans contracted by the government from the OPEC Fund in March 2012 and January 2013, to finance agriculture ($10 million) and water ($7 million) projects, together with a $10.53 million loan from the Investment and Development Bank (BIDC) of the Economic Community of West African States (ECOWAS), contracted in August 2012 to finance projects to rehabilitate the distribution network in the electricity sector; the grant elements of these loans range between 22–30 percent.

7. **The government is requesting a waiver for the breach of the PC concerning these four loans**. Projects in the agriculture, water, and power distribution sectors are important for the welfare of the rural population; moreover the amounts involved are relatively small and the concessionality level below the floor of 35 percent has a minor impact on external debt sustainability. The Kaléta project and the project to reestablish and extend the power distribution

network have very high rates of return and are beneficial for growth and poverty reduction. Moreover, the Kaléta project is of primary importance for West African regional integration, since 30 percent of its output is intended for export to neighboring countries. The government has taken corrective measures to ensure that new external debt henceforth complies with the undertakings under the program: (i) the Minister for Economy and Finance has created a technical public debt monitoring committee in April 2013 (prior action under the ECF-supported program) to ensure, amongst other things, that external loans comply with a grant element of at least 35 percent before they are put forward for signature; and (ii) the Debt Department of the Ministry of Economy and Finance (MEF) is receiving technical assistance financed by the European Union (EU) and its staff will also receive training from the IMF's Regional Technical Assistance Center for West Africa (AFRITAC West).

B. Budget Execution

8. **Fiscal policy in 2012 continued to aim at avoiding net bank financing** other than from the use of deposits from the 2011 exceptional mining revenue. In this regard, measures focused on increasing revenue while expenditure continued to be managed on a cash basis.

9. **Government revenue exceeded projections by more than 0.9 percent of GDP due to a combination of increases in tax rates, administrative measures, and strong collection efforts.** In direct taxes, an important factor was the collection of tax arrears following tax audits performed for fiscal years 2009 to 2012. Revenue from the withholding tax on non-wage income grew following a rise in the rate (from 10 to 15 percent) and the large number of mining-sector expatriates subject to this tax. The customs department exceeded its revenue target despite accumulated losses in fuel taxes (pump prices remained stable while import costs increased, and the gap was closed by reducing the tax rate—the loss is estimated to have amounted to 1.8 percent of GDP in 2012). Important administrative measures were (i) increased use of levying customs taxes on the market value of imports instead of on a lump-sum valuation by container; (ii) harmonization of customs clearance at the port and land borders to reduce leakage; and (iii) close monitoring of tax exemptions for companies eligible for advantages under the Investment Code. However, some problems persisted: (i) clearing the backlog of VAT credits started in the second half of 2012, but delays persist at the treasury in refunding VAT credits to mining companies, which, in turn, have begun to default on their VAT obligations; and (ii) the expansion of the VAT base was hampered by delays in establishing the medium-sized taxpayer unit.

10. **Expenditures were lower than budgeted**. Savings in the wage bill were generated as a result of the retirement of a large number of military personnel, postponement of the implementation of a number of special personnel statutes in public administration, the continued cleaning up of the civil service database, and better management of new recruitment. The start of cleaning up the list of scholarship recipients in higher education lowered subsidies. Investment expenditures were well below forecasts, mainly due to a change in the procurement contract for new thermal power plants and the postponement of contracts to build and renovate military barracks.

C. Monetary, Exchange Rate, and External Debt Developments

11. In 2012, **the BCRG maintained its monetary policy aimed at further reducing inflation and stabilizing the exchange rate**. The central bank's policy interest rate and the reserve requirement ratio remained unchanged at 22 percent. To strengthen the official foreign exchange market, the central bank continued to organize weekly foreign exchange auctions, selling a total of $251.6 million in 2012, equivalent to a net liquidity contraction of GNF 1,728 billion. Although indicators show that interest rates fell in the banking system, bank credit to the private sector declined in 2012 (by 4.3 percent, compared to an increase of 94 percent in 2011). This partly reflected the repayment of loans after foreign financing was replaced by domestic financing for petroleum product imports in 2011, as well as the drastic reduction in bank liquidity. The fact that broad money stabilized relative to end-December 2011 indicates that the monetary policy objective of absorbing excess liquidity in the economy is being achieved. The Guinean franc appreciated by 1.7 percent against the U.S. dollar, but depreciated by 0.6 percent in relation to the euro during the course of 2012. The better supply of foreign exchange in the market is also evident from the sharp decline in the average spread between the official and parallel markets from almost 11 percent in June 2011 to almost zero during most of 2012.

12. Guinea is starting to benefit from reaching the HIPC completion point in September 2012. In October 2012, Paris Club creditors reached agreement with the government to cancel 99 percent of its eligible external public debt on exceptionally favorable terms. Several bilateral agreements under the agreement were signed in recent months, including with the government of the United States, which cancelled 100 percent of the arrears and outstanding debt owed by Guinea in January 2013. In early February 2013, a bilateral agreement was signed with France, cancelling 100 percent of its debt except for debt eligible for conversion into debt reduction and development contracts (C2D). For the latter, two C2Ds were proposed for a total amount of €171 million, covering the future debt service due on the eligible debt, which will be converted into grants for development projects. Discussions have started with other official bilateral and commercial creditors on debt restructuring on comparable terms. In the case of multilateral creditors, following the World Bank, the European Investment Bank and the African Development Bank (AfDB) cancelled outstanding debt in line with the Multilateral Debt Relief Initiative (MDRI) in early November 2012. The government continued discussions with its commercial creditors, in a manner consistent with the IMF's policy on lending to countries in arrears, in particular regarding the transparency of information, equity between creditors, and a collaborative approach in discussions with creditors.

D. Implementation of the Structural Reforms

13. The government continued to implement and monitor structural reforms at the highest level, **by reviewing them regularly in the Cabinet chaired by the Prime Minister**. This made it possible to coordinate and rapidly implement an ambitious structural reform program and the majority of the structural benchmarks (SBs) under the program were met. The draft technical amendments to the 2011 Mining Code were sent to the interim parliament (*Conseil National de Transition*—CNT) in March 2013 and adopted in April; the delay was due to consultations with the mining sector and civil society that lasted longer than expected; the adoption and publication of the implementing regulations for the new Code and the standard mining convention are expected to follow shortly. Nonetheless, delays have occurred in meeting some of the SBs; most of these are expected to be completed during the first half of 2013. The government decided that the mechanism for adjusting fuel prices on a monthly basis (continuous SB from January 1, 2013) could not be implemented owing to an unfavorable social context.

14. The government continued to implement its major program for strengthening tax administration and public financial management. In late September 2012, it adopted a three-year rolling public investment program (PIP) 2013-15 with support from the AfDB and the United Nations Development Program (UNDP). This PIP served as the basis for preparing investment expenditure for the 2013 budget. Following promulgation, on August 6, 2012, of the Budget Framework Law (*loi organique relative aux lois de finances* – LORLF), which was drafted in collaboration with the IMF's Fiscal Affairs Department, the government continued to implement its public financial management reform program. In particular, it: (i) promulgated a new Government Procurement Code; (ii) signed a new decree on General Regulations of Budgetary Management and Public Accounting (*Règlement Général de Gestion Budgétaire et de Comptabilité Publique* –RGGBCP), and started work on a procedural manual for budgetary management and public accounting, as well as a decree on governance and transparency in budget preparation and execution; (iii) instituted a new medium-sized enterprise unit in the National Tax Directorate, and extended the scope of VAT to cover medium-sized enterprises (in April 2013); and (iv) signed a framework agreement between the BCRG and the Ministry of Economy and Finance, updating the 2010 securitization agreement (also in April 2013). The government also consolidated the operational rules of the Treasury Single Account (TSA), with assistance from the IMF, and launched an audit of domestic payment arrears, with support from the French development agency (AFD). Lastly, it strengthened procedures for closing government accounts at December 31, 2012, by implementing new closure instructions, transmitted throughout the entire accounting network.

15. The central bank maintained its policy to strengthen and develop the financial system. A new draft banking law was adopted by the government in December 2012 and sent to the CNT. The BCRG started to implement a payment incidents clearing house to upgrade the payments system, with support from de Banque de France; disseminated new instructions on microfinance institutions; and strengthened regulation in the insurance sector. With technical assistance from AFRITAC West, the BCRG also continued to strengthen the supervision of banks and microfinance institutions, for which purpose 16 young inspectors were recruited in late 2012. A decision was taken to put the African Agriculture and Mining Bank (BADAM) into liquidation, and its license was withdrawn. In accordance with recommendations made by the IMF safeguards assessment mission in January 2012, the BCRG's new independent auditor approved the monetary statistics used to evaluate the performance of the program as of June 30, 2012.

Implementation of the Extended PRSP II for 2011–12 and Adoption of the PRSP III for 2013–15

16. The government started implementing an emergency program to combat poverty, **based on the Second Poverty Reduction Strategy Paper (PRSP II**). The latter, which initially covered the period 2007–10, was extended to cover 2011–12 to achieve some of the goals that had not been attained during the period of the military regime in 2009–10. The 2011–15

Five-Year Development Plan adopted by the government is consistent with the extended PRSP II. It includes a priority public investment program, particularly in infrastructure, but also in the mining, industrial, water and energy, tourism, education and health sectors. The annual progress report on the implementation of the PRSP II for 2011, which was submitted to the IMF and World Bank in May 2012, shows the continuing increase in expenditures in the priority sectors.

17. The PRSP III, **covering 2013–15**, **was completed and adopted by the government on May 2, 2013**. The document was prepared in a highly inclusive participatory process, involving stakeholders from the regions, boroughs and local communities of Guinea, along with civil society, labor unions, the private sector and technical and financial partners, as well as the government and the CNT. The PRSP III is divided in two major parts. The first lays out the present situation by assessing poverty and reviewing the lessons learned from the implementation of the PRSP I and II. The second part sets out the government's vision and sectoral strategies, arranged around six pillars: (i) macroeconomic stability; (ii) governance and institutional reforms; (iii) development of economic infrastructures; (iv) rural development; (v) mining and industrial development; and (vi) human capital development. The PRSP III defines a process for implementing the strategy and the priority action plan, along with a communication program and mechanisms for evaluating the strategy's impact on the living conditions of Guinea's population measured against the Millennium Development Goals.

Economic and Financial policies and Structural Reforms for 2013

18. The government will continue to implement the rigorous macroeconomic policies and structural reforms of its medium-term ECF-supported program, with a view to unlocking the country's vast economic potential and supporting strong, sustainable and diversified growth. It will use the savings from debt relief under the HIPC Initiative, as well as remaining funds available in the Special Investment Fund (SIF) from the 2011 exceptional mining revenue, to finance priority expenditure programs—including for the energy sector, basic infrastructures and social spending—formulated with assistance from the country's development partners.

A. Macroeconomic Outlook for 2013

19. Despite the persistence of the global economic crisis and other risks, **macroeconomic prospects for Guinea remain favorable for 2013**. Output growth in agriculture, particularly rice, should remain strong; and the mining sector is set to expand due to the expected recovery of alumina production from the second half of the year. The objective for the real GDP growth rate for 2013 is 4.5 percent. Nonetheless, there are major uncertainties stemming from delays in the large Simandou mining project and the impact of legislative elections on investment. The government aims to undertake new priority public investments in the energy and agriculture sectors—drawing on targeted budgetary support from the government of the United Arab Emirates—and EU funding. The letter, which is predicated on the completion of the legislative elections now scheduled for June 30, 2013, is expected to increase during the second half of the year. On the inflation front, the aim is to reduce the rate of increase in the consumer price index to 9.7 percent year-on-year by December 2013, which will correspond to an annual average rate of 11.2 percent. Given the large wage rises awarded in 2012–13, achieving this target will require prudent budgetary and monetary policies. The central bank's foreign exchange reserves should be equivalent to at least 2.9 months of imports by end-2013.

B. Fiscal policy

20. Fiscal policy for 2013 will continue to aim at avoiding net bank financing of the budget other than from drawing down resources stemming for the 2011 exceptional revenue. The 2013 budget was approved by the CNT in line with the program, in December 2012; updated provisions indicate that the overall targets remain attainable. Priority expenditures will benefit from the savings on external debt service obtained from attainment of the HIPC completion point and the MDRI. The government's basic balance deficit is expected to rise from 2.5 percent of GDP in 2012 to 3.3 percent in 2013. The latter is consistent with the initial program objective of 1.4 percent of GDP for 2013, after adjusting for additional net external financing (especially additional budget support from the United Arab Emirates and higher-than-projected debt relief), and a shift of expenditure to be financed by the balance of the 2011 exceptional mining revenues from 2012 to 2013. Special Investment Fund (SIF) resources—$250 million by end-2012—will be used on a staggered basis in 2013-15, to ensure a sufficient level of public investment before the expected increase in mining revenues in the second half of this decade. External financing will be consistent with the goal of keeping the debt sustainable after achievement of the completion point.

21. Budget revenue is projected to drop slightly, from 20.1 percent of GDP in 2012 to 19.6 percent in 2013. The projections assume continued strong collection efforts but also continuing losses on fuel taxes (estimated at 0.7 percent of GDP) due to a delay in bringing fuel prices in line with import costs. Key measures are: (i) the cancelation of tax benefits for companies that no longer comply with the obligations under the Investment Code; (ii) the recent implementation of the medium-sized enterprise unit within the National Tax Directorate (DNI), and extension of the scope of VAT to cover medium-sized enterprises; and (iii) clearance of the backlog of VAT credits by end September 2013—restoring the system for refunding these credits should enhance incentives for taxpayers, particularly in the mining sector, to collect and pay the tax.

22. The government intends to introduce a mechanism for monthly adjusting fuel prices starting by August 2013 (SB). The government is aware of the importance of avoiding large subsidies on oil products. However, instruments to protect the poorest groups in society against increases in fuel prices are not yet available. For the time being, the government has chosen to emphasize efforts to collect other revenue to offset the losses for fuel taxes; however, the losses have been substantial and they reduce resources available for priority sector spending such as education and health, which also benefit the poorest in society. Guinea plans to set up a framework social protection strategy, which may allow adjusting fuel prices while mitigating the impact on poverty. Starting August 2013, the price adjustments will be set by the Joint Committee on Petroleum Products, of which the Director General of Customs and the Special Customs Collector will be members.

23. The revenue agencies will continue to implement the measures provided for in the action plans for tax and customs reform, with assistance from development partners. The action plan of the National Tax Directorate (DNI) is based on (i) streamlining the organization to allow more effective administration; (ii) harmonizing and simplifying tax legislation; (iii) promoting taxpayer compliance; (iv) strengthening employee skills; (v) expanding the tax base; and (vi) strengthening management and supervision of the administration. The action plan of the Directorate-General of Customs (DGD) aims at: (i) strengthening the customs agency; (ii) improving its human and financial resources; and (iii) modernizing customs procedures and strengthening risk-based control. The following priority activities will be carried out:

- Revision of the General Tax and Customs Codes and the Customs Tariff to take account of recent tax changes and to incorporate the tax incentives that are presently included in the Investment Code and other statutes;

- Preparation of a study, with IMF assistance, to provide recommendations on reforming real estate taxation;

- Operationalization of the Tax Appeal Commission to speed up the settlement of disputes and tax collection;

- Implementation, by end-September 2013, of a VAT refund system to ensure that refunds to enterprises are made within a reasonable timeframe and with the necessary safeguards, in line with IMF recommendations;

- Implementation of risk-based customs control by selectively using SYDONIA ++ declarations, followed by SYDONIA World, and by computerizing customs offices at inland border posts;

- Forging of a partnership with the private sector by signing an agreement on the gradual payment of customs duties; importers will have the possibility to take just a portion of the imported goods and to pay a portion of customs duties; the unpaid portion of customs duties will be guaranteed by the goods that are not collected; and

- Interconnection of computers between the two tax agencies and with the other administrations—in particular the National Procurement Directorate, the Treasury, and the BCRG—to speed up services for users, including payment of taxes and customs clearance of goods, and to limit fraud.

24. Current expenditure is projected to decline slightly in percent of GDP in 2013 compared to the 2012 outcome, **despite a sharp increase in civil service wages**. The wage bill declined sharply in percent of GDP during 2012 in line with the government's strict expenditure management policy, but is projected to return in 2013 to about the same level, relative to GDP, as in 2011. Expenditure on goods and services will rise by 4 percent in real terms, reflecting more effective budgeting of public consumption of water and electricity, but agriculture and electricity sector subsidies will be restricted to their nominal 2012 values.

25. The government intends to maintain the wage bill at around 5.2 percent of GDP over the medium-term, **while creating additional space for wage increases through administrative improvements and civil service reform**. Following two years of decline in real wages and in light of high expectations following attainment of the HIPC completion point, the government agreed to raise civil service basic wages by 50 percent over the period October 2012–December 2013 (Box 1); the timing of the third tranche in the increase, during the second half of the year, will depend on budgetary and inflation developments. It will also hire about 10.000 new employees (about 10 percent of the end-2012 payroll) in the priority sectors (education, health, environment, justice, and police). The effects of these additional expenditures over the medium-term will be partly offset by measures aimed at cleaning up the civil service database and improving workforce management, including: (i) harmonizing the civil service database and payroll administrations; (ii) securing the database through a biometric census, carried out with support from the World Bank; (iii) correcting anomalies, including the removal of duplicate and fictitious workers and better monitoring of contractual workers; (iv) strengthening recruitment practices; and (v) establishing line managers and strengthening employee management with support from the World Bank. To this end, the government intends to adopt, before end-September 2013, a civil service reform plan, based on the results of the ongoing biometric census and the action plan of the state reform and public sector modernization program (HCREMA) (**SB**).

Box 1. Guinea: The Increase in the 2013 Wage Bill

Following demands by civil service unions for a 200 percent wage increase, the government, trade unions, and employers' organizations reached agreement on an increase in civil service wages and other issues in December 2012. The September 2012 basic wage of civil servants would be increased in a phased manner: (i) 10 percent starting from October 2012; (ii) 15 percent from January 2013; and (iii) 25 percent before end-2013. The government also agreed to implement, starting in January 2013, the special employment conditions (charters) for personnel in the education and health sectors that had been agreed in 2008 and to create a Social Security Fund and a system of health insurance for civil servants. The agreement also introduced a minimum monthly wage for the public and private sector of GNF 440,000 (about $60; 1.3 times monthly per capita GDP).

The salary increase accounts for about half of the budgeted growth of 35 percent (0.8 percent of GDP) in the 2013 wage bill by (see text table below). The impact is mitigated by the fact that the increase applies to only about 40 percent of the budget's wage bill as (i) civil service wages account for only about 65 percent of the total wage bill and other government wages are not expected to follow the same increase; and (ii) about 40 percent of total civil service pay consists of allowances; following a 10 percent increase in October 2012, the latter will not be raised further during 2013. Other important elements in the increase in the wage bill are provisions for the full implementation of the special charters (23 percent of the increase) and additional recruitment (19 percent).

Guinea: Details of the Increase in the 2013 Wage Bill

	GNF billions	In percent of total
Total increase in the 2013 wage bill	609.1	100
Civil service wage increase	297.3	49
Special charters	139.5	23
Adjustment to minimum wage	15.5	3
Recruitments	113.9	19
Education	64.6	11
Health	5.1	1
Security	30.0	5
Justice	0.2	0
Environment	14.0	2
Promotions	77.7	13
Retirement	-34.8	-6

Source: Guinean authorities.

26. In 2013, the government will incur a number of exceptional expenses to improve tax compliance and help strengthen the financial sector. In this regard, it will clear the backlog of VAT credits (GNF 45 billion; 0.1 percent of GDP). Budgetary credits are also expected to finance the operating expenses of the government-owned entity set up to manage the government's economic and financial activities in the mining sector (SOGUIPAMI). The budget includes a provision of GNF 20 billion for the liquidation of BADAM; the BCRG will appoint a liquidator for this bank by the end of June 2013, under terms of reference that will ensure, in particular, that the advances from BCRG to BADAM and deposits up to GNF 10 million will be reimbursed (**SB**). The liquidator will also recover the assets of the bank in liquidation and of its managers. Lastly, projections for 2013 include the second tranche of the recapitalization of the BCRG (GNF 138 billion).

27. As a ratio of GDP, **domestically financed investment expenditure is expected to drop slightly to 6.6 percent of GDP in 2013**. This fall reflects the lesser availability of financing from the 2011 exceptional mining revenues. During 2012, the equivalent of $250 million of the exceptional revenue was used, mainly to finance projects in the electricity sector; the 2013 budget provides for the use of $125 million (2.5 percent of GDP), which is half of the exceptional revenue that was transferred to the SIF in 2012. Nonetheless, the reduction was mitigated by retargeting external budgetary assistance toward investments and by reprogramming expenses that could not be executed in 2012, specifically with regard to the installation of new thermal power generating plants. Projects to be financed from SIF resources are based on the three-year public investment program prepared in 2012. With assistance from the World Bank, the government will set up the governance structure for the SIF to make the fund operational by June 2013. Projections for externally financed investment (3.4 percent of GDP) assume, among other things, that EU financing under the 10th European Development Fund (EDF) that is contingent upon legislative elections, will remain available.

28. The budget is expected to be fully financed, **including due to debt relief from achievement of the HIPC completion point**. The external debt service savings from the HIPC completion point, the MDRI, and from additional relief from bilateral creditors are estimated at about $203 million. The budget also includes grants associated with the debt reduction and development contracts (C2Ds) with France to finance jointly agreed projects. Under the C2Ds, Guinea will make debt service payments on debts under the C2D which will be returned as grants to finance development projects. The government also received $90 million in budget support from Abu Dhabi, targeted on the electricity and agriculture sectors. The government is planning to organize a consultative group meeting of donors and private investors towards the end of 2013 in Abu Dhabi, which could generate additional financing. Net bank financing of the Treasury will be avoided, other than the planned use of SIF resources and the remainder (outside the SIF) of the deposits from the 2011 exceptional mining revenue, amounting to $43 million.

C. Monetary and Exchange Rate Policy

29. The main objective of monetary policy remains to lower inflation; the BCRG will continue to focus on containing reserve money growth. Given the absence of indirect instruments, interventions in the weekly foreign exchange auctions (*marché interbancaire des changes*—MIC) will continue to be the main monetary policy instrument, allowing the BCRG to control the level of liquidity by selling foreign exchange, within the limit of the target for international reserves. Nonetheless, the sharp drop in the inflation rate in 2012, a decline in bank lending, and a reduction in the banks' demand for treasury bills while rates increased, shows that bank liquidity is drying up. Against this background, the BCRG lowered the central bank's policy rate—which mainly fulfills a signaling function—by six points to 16 percent on February 28, 2013 (while maintaining a spread of six percentage points for the interest rate on special overdrafts at the BCRG to encourage banks to develop an interbank market). A further loosening of monetary policy by reducing the reserve requirement in the coming months will depend on evidence of a sustained downward trend in inflation and stability in international reserves.

30. The exchange rate is largely market-determined, **and BCRG interventions have been limited to the weekly auctions**. The weekly offered amounts in the MIC have fluctuated very little and banks' purchases have been mainly used to satisfy marginal needs. To further enhance transparency, the BCRG will adopt new regulations to clarify the MIC's operating regulations, such as the modalities for allocating foreign exchange and setting the exchange rate, based on IMF technical assistance.

31. The BCRG is pursuing its policy to strengthen the financial sector. The BCRG will continue to strengthen banking supervision, with technical assistance from the IMF. Key measures for strengthening the financial sector include (i) adoption of a plan for the recapitalization of banks that are not compliant with the minimum capital requirement; (ii) an increase in the minimum capital requirement for banks from GNF 50 billion to GNF 100 million. By end-December 2013, the central bank will adopt a plan for the liquidation of banks that have not complied with their recapitalization plans; (iii) a study the feasibility of setting up a deposit insurance fund; and (iv) preparation of a new draft chart of accounts for banks in accordance with the new banking law, targeted for completion by end-2014. It is also planning to strengthen supervision on microfinance institutions and the insurance sector. To increase the sector's contribution to the country's development, a study on the development of the financial sector, prepared with assistance from the AfDB, the UNDP, and other economic and financial partners, was recently completed; its recommendations are expected to be adopted by the government by June 2013.

32. The BCRG will also continue to strengthen its own financial position and implement the recommendations of the IMF's safeguard assessment. The planned second capital contribution for the budget would bring the central bank's capital up to the statutory minimum in 2013. A further increase in the bank's capital may be needed to bring it in line with the growing banking system; to this end, it has asked the IMF's Monetary and Capital Markets Department to prepare a financial assessment of its entire balance sheet to more precisely determine such additional capital requirements. The central bank will also work to define its investment policy, set up the trading room for its foreign exchange investments, and train staff with technical assistance from the IMF and the World Bank. The new external auditors will review the agreed procedures to validate the level of net domestic assets and net international reserves indicated in the December 31, 2012 monetary survey. The new independent auditor will certify the monetary data used to evaluate the program's performance on December 31, 2012 and audit the central bank's accounts for December 31, 2012 by end-June 2013; the latter will subsequently be published on the BCRG's external web site. In March 2013, the BCRG received comments from the IMF's Legal and other Departments on a new draft central bank act, which it intends to submit for government approval in the first half of 2013.

D. Structural Reform

33. Structural reform is crucial to remove bottlenecks to economic growth and reduction in poverty, **and for unlocking Guinea's abundant natural resources**. During 2013, and following much preparatory work in 2011–12, a number of important reforms are expected to be completed, such as in the mining sector and with regard to the revision of the investment code. In other areas, such as in public financial management (PFM), our actions will build on the important progress made in 2012. Efforts to restore the viability of the energy sector are planned to be intensified, while part of the work in the agricultural sector will be to evaluate the effectiveness of previous reform measures.

Fiscal management

34. The government will continue to implement its public financial management modernization program in 2013, **with support from its technical and financial partners**. Many actions focus on the implementation of the 2012 Budget Framework Law (LORLF) and the new Decree on the General Regulations on Fiscal Management and Public Accounting (*Règlement Général de Gestion Budgétaire et de Comptabilité Publique – RGGBCP)*. It will implement the following action plan:

- By end-June 2013, finalize the transfer of accounts to be integrated into the Treasury Single Account (TSA) and perform a weekly leveling of the balances in credit accounts of financial administrations in the account of the National Treasury Directorate (DNT), except for the bank accounts of public accountants in the regions.

- Produce and disseminate accounting and budgetary procedures, under the new regulatory framework, to units that execute the government budget.

- Regularize suspense accounts and produce administrative and general financial management accounts for 2005-2012 by end-December 2013 (**SB**).

- Adopt a new order to limit the use of special budget execution procedures, providing modalities for their regularization, pursuant to the new regulatory framework.

- Reintroduce oversight of the budget implementation process through budget review laws; prepare the administrative and management accounts for 2010–12, in order to submit the draft expenditure laws for 2010, 2011, and 2012 to Parliament.

- With technical assistance from the World Bank, put the SIF governance structure in place by end-June 2013 (**SB**), including the management committee, consultative and monitoring committee, and the executive secretariat; and submit projects that could be financed by it in the framework of the 2013–15 triennial public investment program.

- Adopt a public investment program for 2014-16, based on recommendations made by the country's development partners.

- By end-October 2013, adopt the implementing regulations for the Procurement Code that was adopted by the CNT and promulgated in 2012.

- Adopt the procedural manual for budgetary management and public accounting, and the computerization master plan; and, with assistance from the development partners, computerize the expenditure chain and public accounting on a secure basis, with real-time access for authorized personnel.

- Adopt the decree on budgetary governance and transparency in the management of government finances—the second implementing regulation of the LORLF—which sets rules on the formulation of budgetary policy and the preparation of the budget laws.

- Adopt orders in relation to the government chart of accounts and budget nomenclature, to be applied for the first time in fiscal year 2014;

- Prepare a functional budgetary classification, targeting priority expenses;

- Prepare a plan, by end-September 2013, to clear domestic payment arrears, based on the findings of the ongoing audit, supported by AFD; and

- Implement the regulations, requiring that expenditure commitments cannot be made after November 30, and complete payments on related expenses on January 31 of the following year (i.e. a supplementary period of one month). These provisions will make it possible to limit the overflow of 2013 expenses into fiscal 2014. Transactions made under special procedures will also be limited.

35. To strengthen the management of the country's external debt, the government will adopt, by end-December 2013, revisions to the statutes of public entities to align them with the new LORLF and the RGGBCP (**SB**). In this context, Order O/91/025 of March 11, 1991 concerning the institutional framework of public enterprises, and Decree D92/133/PRG/SGG of May 26, 1992, will be amended to control recourse to borrowing and thus limit the risks for the government budget. Similarly, a draft revision of Law L/93/021/CTRN/SGG of May 6, 1993 on public administrative entities (EPAs) will be submitted to Parliament, forbidding those entities to borrow. The government has requested technical assistance from the IMF for this purpose.

Improve the business climate

36. To implement the reforms needed to promote the private sector, **improve the business climate, and provide incentives for investment**, **work on reviewing the Investment Code is continuing**, **with technical assistance from the World Bank**, **the International Finance Corporation (IFC), and the IMF**. The government decided to separate investment regulation from tax incentives: a new Investment Code will be limited to nontax regulations while all tax and customs incentives will be included in the General Tax Code, the Customs Code, and the Customs Tariff. A draft national private investment policy letter was prepared during a workshop with stakeholders in September 2012, and adopted by the government in March 2013 (**prior action**). Key actions for 2013 will be:

(i) Submission of a draft law on tax and customs incentives to Parliament by end-May 2013 (**SB**); this law will encompass all tax and customs incentives for private investment, including those that are presently granted by Ministries outside the Investment Code, and have precise triggering thresholds. Once this law has been adopted, projects and businesses will no longer be required to seek approval for the incentive systems, because the tax and customs administrations will apply the advantages according to the legally defined trigger thresholds. The government will submit to parliament a draft law revising the Investment Code, by end-June 2013 (**SB**). This draft law will contain provisions relating only to nontax and non-customs incentives.

(ii) Preparation, with assistance from the IMF and IFC, and submission to Parliament, of new General Tax and Customs Codes and a new Customs Tariff, incorporating the tax incentives for private investment, between September 2013 and June 2014.

Pending parliamentary adoption of the law on tax incentives, the National Investment Commission (CNI) will continue to operate under the Ministry of Industry and SMEs. Then, the government will set up a private-sector reform coordination unit in the Ministry of Industry and SMEs, to monitor the reforms. Lastly, to complete the operationalization of the private investment promotion agency (APIP), the government will appoint its executive board and nominate the deputy managing director and the heads of the four departments provided for under its statutes, before end-June 2013.

37. Guinea rose three places on the "Doing Business" indicators ranking in 2013 and the government will continue efforts toward further improvement. The improvement in the country's ranking resulted from the intensification of its reforms on three indicators during 2012 and the first four months of 2013, based on the following performance criteria: (a) the delays; (b) the number; and (c) the cost of procedures, while monitoring effective implementation of the reforms. For the remainder of 2013, the government will focus on the remaining four indicators. It will also work with the private sector to streamline professional organizations, including the organization of a round table in 2013 with support from the country's development partners and the participation of all stakeholders from the private sector.

38. Strengthening the legal system is an important condition for improving the business climate. In 2013, the government will maintain its continuous training program for judges and other court officers, and it will continue to help strengthen the capacities of the associations of attorneys, notaries, court clerks and auctioneers, and accounting experts and auditors, to execute court decisions more effectively and strengthen shareholder control of enterprise management and accounts. It will submit a draft anticorruption law to Parliament by end-September 2013, which transposes the provisions of the United Nations and African Union conventions on controlling corruption into domestic law; and it will launch a second survey to evaluate the level of corruption in the country by end-December 2013. As part of the fight against money laundering, a decree on the operation and duties of the National Financial Information Processing Unit (CENTIF) will be issued by end-June 2013. This will provide the unit with human, financial and technical resources, pursuant to the provisions of Articles 19 and 20 of the law to combat money-laundering and the financing of terrorism.

Mining policy

39. Mining policy will continue to focus on the development of investments in the sector to promote growth and employment. This entails providing the necessary support for projects currently under development to facilitate their transition to the production phase in line with initially planned schedules. In addition, the government intends to foster mining exploration so as to diversify the exploitation of mining resources and make the mining sector more resilient to shocks on mineral prices in international markets. Further, with a view to enhancing added value from the sector and strengthening its contribution to poverty reduction, the government plans to encourage local processing of mining products. With support from the World Bank, the government intends to commission a study on a master plan for mining sector-related infrastructure (port and rail), which is expected to be finalized in September 2013, as well as a study on the organization of artisanal gold exploration, which is expected to be finalized by end-December 2013. To maintain a comprehensive and updated database on the mining cadaster and permits, the government will mobilize resources to modernize the information system of the Mining Promotion and Development Center (CPDM). The government will take delivery of the findings of the geological study.

40. In addition to the revision of the mining code, **an important aspect of the government's policies in the mining sector is a review of all existing contracts**. The adoption of the amendments to the mining code by the CNT in April 2013 removed the last remaining obstacle to the effective start of the renegotiating process. To reduce the uncertainty facing companies, the Technical Committee charged with reviewing the mining titles and agreements will publish its work program by mid-2013; it will be supported by four international law firms that combine the necessary legal, technical, and financial skills. To promote transparency, the technical committee published all mining conventions on its web site. An audit of the 18 mining companies whose contracts will be subject to review will be finalized by end-December 2013. The renegotiating process for three priority contracts is scheduled to be finalized by end-2013, together with the adoption of the outcome of the negotiations by the Strategic Committee overseeing the Technical Committee and their immediate implementation. With assistance from the AfDB, the Technical Committee will hire a financial analyst to provide guidance on applying, improving, and maintaining the financial models used to steer the renegotiating process. Renegotiation of all the mining titles to be renegotiated is scheduled to be finalized in 2014.

41. The government's policies will continue to focus on improving the governance of the sector so as to attract investment. Following the adoption of the new mining code by the CNT, the government will adopt and publish the implementing regulations of the new mining code as well as a model mining contract by end-June **(SB)**. The findings of the audit of the mining cadaster have given rise to increased opportunities for obtaining mining licenses and concessions. The government is, therefore, actively seeking professional partners for purposes of reallocating the 818 inactive permits that were withdrawn following the audit. The reallocation process will be transparent and consistent with the stipulations of the mining code. To facilitate the development of oil and gas potential, with the support of the AfDB, the government has launched the preparation of the petroleum code and its implementing regulations. The new petroleum code is slated to be adopted by the government and submitted to Parliament by September 2013. This will facilitate the development of exploration initiatives along the lines of the Tullow Oil plc deepwater well project on which drilling is scheduled to start by end-June 2013. The government expects to finalize the investment framework for the Simandou South project and specify the financing strategy for the project soonest. The *Compagnie de Bauxite de Guinée* (CBG), in which the government holds a 49 percent share, recently concluded an agreement requiring a substantial increase in production; the World Bank is assisting the government in the evaluation of CBG's worth, which should pave the way for continuing discussions on possible financing arrangements for increasing production capacity. Lastly, the government will agree on a timetable with the bauxite company Rusal for bauxite mining in the Dian-Dian concession as well as for the resumption of work at the Friguia alumina factory.

42. The government reaffirms its commitment to reforming the institutional framework of SOGUIPAMI. Efforts to clarify its role are being pursued with World Bank assistance, with the purpose of: (i) limiting its activities to management of the state's portfolio of mining assets, with the Treasury retaining ownership of state securities and shares; and (ii) defining its relationship with the Ministry of Economy and Finance and the Ministry of Mines. A first request for bids for a consultant in these areas was not successful and a second request is under preparation. Due to the resulting delays, the government is now aiming at adopting and implementing the recommendations of the study by end-December 2013 (**SB**). In the meantime, a Steering Committee will ensure that all activities undertaken by SOGUIPAMI remain strictly within the limits of the allocations assigned to it by the budget law and are in conformity with the rules governing public entities. By end-June 2013, the Steering Committee will meet to take decisions on SOGUIPAMI's business plan, including on conditions for the acquisition of geodetic data to streamline the use of resources for mining exploration.

Energy Sector

43. The government will continue to implement the policies and reforms outlined in the Policy Letter on Energy Sector Development, **as revised in December 2012**. The medium- to long-term objectives are to (i) increase access to electricity for the general population; (ii) improve governance of EDG; and to (iii) reduce dependence on fossil fuels, especially by developing Guinea's large potential for hydroelectricity. To that end, over time, the government intends to withdraw from commercial activities and open up the sector to competition. With respect to the short- and medium-term, the principal measures of the Letter are included in the recovery plan for the electricity sector.

44. For 2013, **the government will give priority to improving the governance of EDG**. Despite substantial government support, progress with restoring financial viability to the state-owned power company *Electricité de Guinée* (EDG) has been slow. To accelerate the process, in March 2013, EDG was placed under the supervision of an oversight board; the board is assisted by a financial controller, who will supervise EDG's financial management on a daily basis, ensuring that EDG's expenses remain in line with its revenue and that the government subsidy of a maximum of GNF 250 billion is strictly adhered to. Further, efforts will be made to improve commercial and demand management, including by installing meters (150,000 meters in three years at a cost of $8.3 million) and installing low consumption bulbs (close to two million lamps).

45. The government also recently updated the action plan for the restructuring of the electricity sector, with assistance from the World Bank. Five priority projects were defined based on the revised plan: (i) rehabilitation and strengthening of hydroelectric production; (ii) rehabilitation of the thermal power plants of Tombo III and V in Conakry; (iii) support to the reform of EDG's governance, in particular the establishment of a management contract with a strategic operator; (iv) restructuring and strengthening of the sector through technical advice to the reform of the electric power sector; review of the electricity law; adoption of a law on public-private partnerships in Guinea; and (v) rehabilitation and strengthening of the electric power transport network. The government presented these five projects at a Donor Round Table on April 19, 2013 in Washington, D.C., to seek external financing in an amount estimated at about $280 million; donors agreed to start preparing their respective support to the priority projects, with the view to making them available in 2014.

Agricultural sector

46. Relaunching the agriculture sector, **with the aim of achieving food self-sufficiency by 2014**, **is an important objective for the government**. A key issue in 2012 was to ensure that assistance to the sector remains sustainable over the medium term by raising the loan collection rate and controlling budget subsidies. However, despite strong government support to boost yields, the increase in food crop production (in particular rice) over the past two crop seasons is mainly attributable to an increase in the area under cultivation. To identify the reasons why the expected substantial improvement in yields failed to materialize, the government will carry out an in-depth evaluation, including a technical and financial audit of the last two seasons. The audit is also expected to examine the distribution of subsidies to farmers by income level so as to draw conclusions on the equity of the program and its contribution to poverty reduction. The evaluation, including the findings of a public expenditure review by the World Bank, is expected to be completed by end-June 2013, following which it will be discussed at a national workshop, tentatively planned for end-October 2013. In the context of achieving the objective of food security, the government approved the National Agricultural Investment and Food Security Plan 2012-16 in December 2012. It will prepare a work program for the recently created National Agency for the Development of Agriculture and for Food Security entrusted with policy coordination in the agricultural sector as a whole and with promoting food security, including by building grain stocks to help stabilize grain product prices.

E. External Program Financing

47. The program's financing requirements in 2013 are expected to be met in part by external assistance in the form of budget support and financing for investment projects. In addition, achieving the HIPC initiative completion point and implementation of the MDRI has released significant resources from debt service in 2013. In this regard, the World Bank and the

AfDB cancelled their MDRI-eligible outstanding debt with Guinea.[2] A debt reduction operation was agreed with the creditor members of the Paris Club in October 2012; and the government will continue to hold discussions with its other foreign creditors to obtain debt reduction under terms comparable to those of the Paris Club and in line with the HIPC Initiative. In the case of commercial creditors, the government will continue to hold discussions, in line with the IMF's policy on lending to countries in arrears. In addition, disbursements from the IMF under the ECF arrangement are expected to cover the residual balance of payments financing need.

48. To ensure prudent debt management, **the authorities will seek only grants and concessional loans**, although this may be difficult owing to the limited availability of concessional resources from lenders. In addition, as discussed above, the loan from Exim Bank of China to finance the Kaléta hydroelectric dam; a loan with the BIDC; and two loans from the OPEC Fund, have a grant element of less than 35 percent. The government's equity in the project to develop the Simandou iron-ore deposits (blocs 3 and 4) will be financed without any direct loans or government guarantees, and should be fully covered by project revenue. In any event, the government will provide IMF staff with details on the financing for its equity participation. To ensure debt sustainability after the HIPC Initiative completion point, the authorities will adopt a new medium-term debt management strategy and a program to strengthen debt management capacities, in consultation with the Fund. The authorities intend to submit to the newly created public debt monitoring committee all proposals for new loan agreements and loan guarantees to ensure that the terms are concessional. The government also intends to consult with IMF staff on the conditions and concessionality of all new debt agreement proposals before contracting or guaranteeing any external debt. By end-October 2013, the government will prepare a medium-term action plan to strengthen external debt management, with technical assistance from the European Union (**SB**). In this context, by end September 2013, it will finalize a procedural manual and set up management teams for the National Debt Directorate; and by end-December 2013, it will establish a National Debt Committee that will prepare a National Debt Policy and a medium-term debt strategy, and oversee their implementation. To service the debt owed to the IMF, the BCRG will keep sufficient funds in its SDR account with the Fund to cover all payments falling due over the next quarter.

F. Statistics and Strengthening Program Monitoring Capacities

49. The government will persevere in its efforts to upgrade the statistics system to ensure the steady production and supply of quality statistical data. In line with the National Strategy for the Development of Statistics (NSDS), the government is preparing the draft statistical law and the institutional framework of the National Statistical System. It will also start implementing the capacity-building programs negotiated with the development partners.

50. The government has identified a broad range of technical assistance needs in macroeconomic management. To make a fresh start, the authorities requested technical assistance from the partners, including the IMF and its regional technical assistance center

[2] At the time of reaching the HIPC completion point, Guinea did not have any outstanding MDRI-eligible debt to the IMF.

AFRITAC West, the European Union, and the AFD in several areas, including fiscal policy, tax and customs administration, public financial management, the foreign exchange market, monetary policy, bank supervision, debt management, the balance of payments and the national accounts.

51. To monitor implementation of the measures and the attainment of its objectives under its ECF-supported program, **between now and end-June 2013**, **the government will strengthen the monitoring system**. The system will consist of a Reform Coordination Committee (CCR) chaired by the Prime Minister, a Technical Support Committee for the CCR, and a Program Monitoring Technical Unit (CTSP) in the Ministry of Economy and Finance. With these mechanisms, the government, the central bank, the international financial institutions, and Guinea's development partners will receive periodic reports on the progress made, prospects, and the measures envisaged.

52. The program will be reviewed semiannually by the IMF Executive Board on the basis of quantitative monitoring indicators and structural benchmarks (Tables 1, 2 and 3 attached). These indicators are defined in the attached Technical Memorandum of Understanding (TMU) (Attachment II). The second year of the program will finish at end-December 2013. The third (fourth) program review based on the performance criteria at end-June 2013 (December 2013) should be completed no later than October 2013 (April 2014).

53. During the program period, the government agrees not to introduce or intensify restrictions on the balance of payments or transfers pertaining to current international transactions, introduce multiple currency practices, enter into bilateral payment agreements that are inconsistent with Article VIII of the IMF Articles of Agreement, or impose or intensify import restrictions for balance of payments purposes. Moreover, the authorities agree to adopt, in consultation with IMF staff, any new financial or structural measures that may prove necessary for the program's success.

Table 1. Guinea: Performance Criteria (PC) and Indicative Targets, ECF 2012–13 [1, 2]

(Billions of Guinean francs, unless otherwise indicated)

	2012									2013			
	Jun.	Sep.				Dec.				Mar.	Jun.	Sep.	Dec.
	Act.	Indicative Targets	Adjusted [1]	Est.	Status	PC	PC Adjusted [1]	Est.	Status	Indicative Targets	PC	Indicative Targets	PC
Quantitative performance criteria													
Basic fiscal balance (floor)	60	-1,005	-984	8	Met	-1,469	-1,436	-982	Met	-238	-475	-1,115	-1,486
Net domestic assets of the central bank (ceiling)	2,471	3,756	3,802	2,892	Met	4,331	4,283	3,513	Met	4,645	4,959	4,596	4,540
Domestic bank financing of the government (ceiling)	315	1,490	1,536	555	Met	2,010	1,962	1,470	Met	340	680	1,069	1,221
Net international reserves of the central bank (floor); US$ millions [3]	643	463	379	541	Met	382	250	535	Met	363	344	458	427
New nonconcessional medium- or long-term external debt contracted or guaranteed by the government or central bank (ceiling); US$ millions [4,5]	0	0	0	0	Met	0	0	10	Not Met	363	363	363	363 [7]
Stock of outstanding short-term external debt contracted or guaranteed by the government or the central bank (ceiling); US$ millions [5]	0	0	0	0	Met	0	0	0	Met	0	0	0	0
New external arrears (ceiling) [5]	0	0	0	0	Met	0	0	0	Met	0	0	0	0
Indicative targets													
Expenditure in priority sectors (floor) [6]	2,341	2,700	2,700	2,673	Not Met	4,069	4,069	4,197	Met	1,105	2,367	3,077	4,200
Memorandum items:													
Reserve money	6,195	6,218	6,218	5,723	Met	6,229	6,229	6,380	Not Met	6,424	6,619	7,028	6,770

Sources: Guinean authorities; and IMF staff projections.

[1] Definitions and adjustors are included in the technical memorandum of understanding (TMU).

[2] Flow for fiscal criteria and stock for end-December 2012 for monetary and external debt criteria.

[3] Calculated using the program exchange rates.

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

[5] Continuous performance criterion.

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

[7] Ceiling established on loans contracted with China's EXIMBANK (US$334.65 million), ECOWAS (US$10.53 million), and the OFID (US$17 million). These loans were contracted in 2012-13; they became effective starting from late 2012.

Table 2. Guinea: Prior Actions and Structural Benchmarks Under the ECF-Supported Program, 2012–13[1]

Measures	**Date**	**Implementation status**	**Macroeconomic rationale**
Prior action			
Adoption by the government of a revised budget for 2012 as agreed with the July-August 2012 mission, including a clause that closes expenditure commitments on November 30, 2012 and sets the end of the supplemental period as January 31, 2013	August 30, 2012	Completed	To implement the revised program.
Structural benchmarks			
Adoption of a medium-term public investment program, based on advice provided by the development partners (MEFP, ¶ 46)	End-December 2012	Completed	To create a pipeline of viable projects that could receive funding from the SIF
Signing of a decree on the General Regulations on Fiscal Management and Public Accounting (RGGBCP) (MEFP ¶ 47)	End-December 2012	Completed	To strengthen budget management; limit the possibility of expenditure overflows between fiscal years; strengthen central control over public external debt.
Signing by the BCRG and the Ministry of Economy and Finance of a framework agreement to update the 2010 securitization agreement (MEFP ¶ 45).	End-December 2012	Completed with delays The agreement was signed in April 2013	To implement recommendations by the external auditor to shorten the repayment period of the advances.

Table 2. Guinea: Prior Actions and Structural Benchmarks Under the ECF-Supported Program, 2012–13 (continued)

Measures	**Date**	**Implementation status**	**Macroeconomic rationale**
Structural benchmarks			
Adoption by the government of the draft new banking law (MEFP ¶ 44)	End-December 2012	Completed	To strengthen the banking system.
Termination of tax advantages under the Investment Code for companies that do not meet the contractual obligations associated with the advantages in the Code (MEFP ¶ 30).	End-December 2012[2]	Completed	To reduce tax exemptions.
Submission to Parliament of the draft amendments to the 2011 Mining Code (MEFP ¶ 52)	End-December 2012[2]	Completed with delays. The draft was submitted to Parliament in early March 2013 and adopted in April 2013	To ensure that the Mining Code is competitive and increase the government's share in the country's mining revenues.
Adoption and publication of the implementing texts of the new Mining Code as well as a standard mining convention (MEFP ¶ 52)	End-December 2012[2]	Not completed. Postponed to end-June 2013	To ensure that the Mining Code is competitive and increase the government's share in the country's mining revenues.
Operational implementation of the medium-sized enterprises unit and extend VAT collection to medium-sized enterprises (MEFP ¶ 30)	End-December 2012	Completed with delays. The unit became operational in April 2013.	To increase budget revenues.
Application of a monthly adjustment system to the price of petroleum products based on changes in the international market price and the exchange rate (MEFP ¶ 37)	Continuous, beginning January 1, 2013[2]	Not completed. Postponed to August 1, 2013	To protect budget revenues.

Table 2. Guinea: Prior Actions and Structural Benchmarks Under the ECF-Supported Program, 2012–13 (concluded)

Measures	Date	Implementation status	Macroeconomic rationale
Structural benchmarks			
Completion of a study on the role of SOGUIPAMI and its relationship with the public administrations (MEFP ¶ 54).	End-March 2013	Not completed. Postponed to end-October 2013	To maintain government control over its assets in the mining sector, protect budget revenue, and limit financial risks.
Submission to Parliament of a draft law revising the Investment Code (MEFP ¶ 49)	End-March 2013	Not completed, owing to delays in adopting the investment policy letter.. Postponed to end-June 2013	To reduce tax expenditures and improve the business environment.
Submission to Parliament of a draft law on tax and customs incentives (MEFP ¶ 49)	End-May 2013	Ongoing	To separate the function of investment regulation from tax incentives.
Definition of the legal status of the EDG and establishment of the company's governance institutions, including management (MEFP ¶ 57)	End-June 2013	Ongoing	To improve the EDG's governance and performance, and reduce budget subsidies.
Adoption of a revision to legal texts on public entities to make them consistent with the new budget framework law and the General Regulation on Budget Management and Public Accounting (RGGBCP) (MEFP ¶ 48)	End-December 2013	Ongoing	To limit the risks for the government budget; improve central control over external public debt.

[1] Throughout Table 2, references made to the MEFP concern the 1st supplement to the MEFP attached to the letter of intent dated September 11, 2012 (IMF Country Report n° 12/301, September 12, 2012).

[2] Rescheduled actions.

Table 3. Guinea: Prior Actions and Structural Benchmarks
January–December 2013

Measure	Date	Macroeconomic Rationale
Prior actions		
Adoption by the government of the investment policy letter.	Completed on March 22, 2013	Lay the foundation for improving the business environment.
Creation of an external debt supervisory commission.	Completed on April 8, 2013	Promote debt sustainability by ensuring that the terms of new external loans are consistent with program provisions regarding the minimum grant element prior to submission for signature by the Minister of Finance.
Structural benchmarks		
Submit to Parliament a draft law on tax and customs incentives.	End-May 2013	Separate the function of investment regulation from that of tax and customs incentives.
Adopt and publish the implementing texts for the new Mining Code as well as the standard mining convention.	End-June 2013[1]	Ensure the Mining Code is competitive and guarantee a larger share for the government in the country's mining revenues.
Submit to Parliament a draft law revising the Investment Code.	End-June 2013[1]	Reduce tax expenditures and improve the business environment.
Adopt a program to reform the electricity sector and the governance of Electricité de Guinée (EDG), in keeping with the recommendations made during the energy development partners meeting in April 2013.	End-June 2013	Improve EDG's governance and performance, and reduce budget subsidies.
Adopt the Special Investment Fund governance structure, with technical assistance from the World Bank.	End-June 2013[2]	Promote fiscal sustainability and economic growth through better cost-effective use of windfall mining revenues.
Appoint a liquidator for the BADAM bank with terms of reference ensuring, in particular, that advances from BCRG to BADAM and deposits up to GNF 10 million will be reimbursed.	End-June 2013[2]	Protect the banking system and small depositors, while limiting use of the government budget.

Table 3. Guinea: Prior Actions and Structural Benchmarks
January–December 2013 (concluded)

Measure	Date	Macroeconomic Rationale
Structural benchmarks		
Apply a monthly adjustment system to the price of petroleum products based on fluctuations in the international market price and the exchange rate.	Continuous starting August 1, 2013[1]	Protect fiscal revenues.
Adopt a civil service reform plan, based on the results of the biometric census and the HCREMA action plan.	End-September 2013[2]	Restrain the wage bill and improve government productivity.
Prepare a medium-term action plan to strengthen external debt management with technical assistance from the European Union.	End-October 2013[2]	Strengthen external debt management.
Adopt and implement recommendations for a study on the role of SOGUIPAMI and its relationship with public administrations.	End-December 2013[1]	Maintain the government's assets in the mining sector under government control, protect government revenues, and limit fiscal risks.
Regularize suspense accounts and produce administrative and general financial management accounts for 2005–12.	End-December 2013[2]	Strengthen public financial management and transparency.
Adopt revisions of legal texts on public entities to make them consistent with the new Organic Budget Law (LORLF) and the General Regulations on Fiscal Management and Public Accounting (RGGBCP).	End-December 2013	Limit the risks for the government budget and strengthen central control over external public debt.

[1] Readjusted actions.

[2] New actions.

ATTACHMENT 2. TECHNICAL MEMORANDUM OF UNDERSTANDING

May 3, 2013

Introduction

1. This memorandum sets out the understandings between the Guinean authorities and staff of the International Monetary Fund (IMF) regarding the definitions of the quantitative performance criteria and indicative targets for the program supported under the ECF, as well as the related reporting requirements.

2. The quantitative performance criteria, indicative targets, and cut-off dates are detailed in Table 1 of the Supplement to the Memorandum of Economic and Financial Policies of May 3, 2013 (Supplement).

Key Definitions

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

A. Quantitative Performance Criteria

4. **The basic fiscal balance** is calculated as the difference between government **revenue**, excluding grants, and **basic government expenditure**. Definitions of bolded terms above are consistent with the definitions in the government flow of funds table (TOFE), for which the calculation method is described in Section IV below.

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

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

7. **Net international reserves** (NIR) of the BCRG are, by definition, equal to the difference between the reserve assets of the BCRG (i.e., the external assets readily available to and controlled by the BCRG as per the sixth edition of the IMF's *Balance of Payments Manual*) and the foreign exchange liabilities of the BCRG to residents and nonresidents (including the foreign exchange deposits of the local banks with the BCRG and off-balance sheet liabilities). These foreign exchange liabilities, which are used to calculate the NIR, do not include long-term liabilities, such as SDR allocations. In the context of the program, the gold holdings of the BCRG will be valued at the gold price in effect on December 28, 2012 (US$1657.50 per oz.) for the first half of 2013 and at the price in effect on June 28, 2013 for the second half of 2013. For the test dates, the U.S. dollar value of the reserve assets (other than gold) and foreign exchange liabilities will be calculated using the program exchange rates in effect, namely: on December 28, 2012 for the first half of 2013, the exchange rates between U.S. dollar and the Guinean franc (6951.33 GNF/US$), SDR (1.5369 US$/SDR), Euro (1.3183 US$/EUR), and other currencies as published in *International Financial Statistics*; and for the second half of 2013, the exchange rates in effect on June 28, 2013.

8. Medium- and long-term external debt contracted or guaranteed by the government or the central bank is defined as the amount of external debt (see Subsection C below) contracted by the government or the central bank for a period of one year or more during the period under review. Debt is considered concessional if it has a grant element equivalent to 35 percent or more of the net present value (NPV). The net present value (NPV) of the debt is calculated using the average of the OECD commercial interest reference rates (CIRRs) for the previous 10 years for debts with a maturity of 15 years or more. For debts with a maturity of less than 15 years, the average OECD CIRRs for the previous six months (January 1 to June 30 or July 1 to December 31) are used to calculate the NPV. The same margins for different repayment periods (0.75 point if the repayment period is less than 15 years, 1 point if the repayment period is between 15 and 19 years, 1.15 points if the repayment period is between 20 and 29 years, and 1.25 points if the repayment period is 30 years or more) are added to the two averages (over 10 years and over six months).[1] This definition does not apply to financing granted by the IMF.

9. This performance criterion on new nonconcessional medium- or long-term debt includes an allowance for four project loans totaling $362.53 million. The debts, all of which are nonconcessional, are (i) from the Export-Import Bank of China, for a loan of $335 million—dated January 4, 2013—to finance the Guinea Kaleta Hydroelectric Plant Project (Loan Number China Exim Bank PBC No. 49 Total No. 437); (ii) from the from the ECOWAS Investment and Development Bank, for a loan of $10.53 million—dated August 24, 2012—to finance the rehabilitation and extension of th electricity distribution network (Loan Number 67/AP/LA/BIDC/EBID/08/2012); (iii) from the OPEC Fund for International Development, for a loan of $10 million—dated March 7, 2012—to finance the National Program to Support Agricultural Value Chains (Loan Number 1429P); and from the OPEC Fund for International Development, for a loan of $7 million—dated January 29, 2013—to finance the Five Towns Water Supply Project (Loan Number1481P).

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

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

11. **New external arrears** include all debt-service obligations (principal and interest) arising from loans contracted or guaranteed by the government or the BCRG that are due but not paid on the due date, and unpaid penalties or interest charges associated with these loans. For the purposes of this performance criterion, an obligation which has not been paid within 30 days after falling due will be considered a "program" arrear. Arrears not to be considered as arrears for the performance criteria or "non-program" arrears are defined as: (i) arrears accumulated on the service of an external debt for which there is a request for rescheduling or restructuring; and/or (ii) litigious amounts.

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

B. Indicative Target and Memorandum Item

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

14. **Reserve money**, a memorandum item, comprises local banks' deposits and other private sector deposits with the BCRG (including bank reserve requirements) denominated both in Guinean francs and in foreign currencies, Guinean francs in circulation, and Guinean francs in the vaults of local banks. The amounts in foreign currencies will be converted to Guinean francs at the program exchange rate (as defined above in the paragraph on net international reserves).

C. External Debt

15. The term "external debt" is understood as specified in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by the Executive Board of the IMF on

August 31, 2009.[2] For purposes of the program, "debt" will be understood to mean current, i.e., not contingent, liabilities, created under a contractual arrangement through theprovision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. External debt can take a number of forms, the primary ones being the following:

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

- suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

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

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

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

D. Adjustments to program Performance Criteria

18. The quantitative performance targets are calculated on the basis of projected amounts of (1) net external assistance; (2) exceptional revenues of the mining sector (see table below); (3) the net change of "program" arrears; and (4) the net change in the float. For program purposes, net

[2] See "Guidelines on Performance Criteria with Respect to Foreign Debt"—IMF Executive Board Decision No. 12274, as amended by Decision No. 14416-(09/91).

external assistance is defined as the difference between: (a) cumulative budgetary assistance (grants and loans), the impact of debt relief granted by external creditors, and the net change in "non-program" arrears; and (b) cumulative payments of external debt service due after relief, for loans on which debt relief is secured.

Guinea: External Assistance: Exceptional Mining Revenue and the Float, 2012–13

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

	2012				2013			
	Sept.		Dec.					
	Prog.	Act.	Prog.	Est.	Mar.	Juin	Sept.	Dec.
Net exetrnal assistance	-12	-117	-33	-198	-60	-112	365	688
Budgetary support (grants and loans)	739	713	841	904	0	77	626	1051
External debt service	-1111	-1175	-1740	-963	-60	-170	-242	-315
Interest	198	195	273	272	21	33	56	76
Principal	913	980	1467	692	39	137	186	238
Payment of arrears	-1617	-14	-1771	-1755	0	-340	-340	-1011
Debt relief	1977	359	2637	1616	0	321	321	963
Exceptional mining revenue expected	0	0	0	0	0	0	0	0
Chenge in the float	-384	-346	-332	-152	-58	-115	-185	-244

Sources: Guinean authorities and IMF staff estimates.

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

20. Adjustments for net external assistance:

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

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

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

- *If the net change in "program" arrears exceeds program projections,* the floor for NIR will be adjusted upward by an amount equal to the surplus net change in arrears. The ceilings on

NDA of the BCRG and bank financing of the government will be adjusted downward by an amount equal to the surplus net change in arrears. The floor for the basic fiscal balance will not be adjusted.

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

22. Adjustments for exceptional mining revenues:

- *In the case of surplus exceptional mining revenues of up to US $125 million,* the floor for NIR will be adjusted upward and the ceilings on NDA of the BCRG and bank financing of the government will be adjusted downward by 80 percent of the surplus, while the floor for the basic fiscal balance will be adjusted downward by 20 percent of the surplus (allowing the surplus to be used for supplementary expenditures up to the amount of US $25 million or 0.4 percent of GDP).

- *For surplus exceptional mining revenues in excess of US $125 million,* the floor for NIR will be adjusted upward and the ceilings on NDA of the BCRG and bank financing of the government will be adjusted downward by an amount equal to 100 percent of the surplus beyond US $125 million, while the floor for the basic fiscal balance will not be adjusted (resulting in the saving of the surplus beyond US $125 million pending a review of the budget outlook and a cost-benefit and sustainability analysis before these excess revenues are committed). Surplus exceptional mining revenues between US $125 million and US $250 million will be saved in the Special Investment Fund (SIF).

23. Adjustment related to the net change in the float:

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

E. Definitions for Purpose of the TOFE

24. Government **revenue** includes tax and nontax revenue. It does not include external grants, the proceeds of privatizations, or exceptional mining revenues (the latter two being recorded as financing). Tax and nontax revenue are defined in accordance with Section IV.A.1 of the 1986 edition of the IMF's *Government Finance Statistics Manual (GFS)*, using the following categories. For tax revenue, the main categories are taxes on income, profit, and dividends (Title 1); taxes on property (Title 2); taxes on international trade (Title 3), including import duties, export duties, the surtax on consumption, the liquidation levy (*redevance de liquidation*), and penalties related to international trade; taxes on goods and services (Title 4), including general sales taxes, value-added taxes on domestic sales and on imports, the single tax on vehicles (TUV), the business tax (TAF), taxes on petroleum products, and export taxes on mining products, including the tax on mining products, taxes on diamonds, and the tax on precious metals. Other tax revenues (Title 5) include stamp taxes and registration fees. Tax receipts also include the taxes borne by the government for the purchase of externally financed capital goods. Nontax revenue consists of royalties and dividends (excluding revenue from the sale of telephone licenses), administrative duties and fees, and fines and forfeitures (Title 6), other nontax revenue (Title 7), including incidental revenues, and capital revenues (Title 8). Capital revenues include the proceeds from the sale of government assets, but exclude privatization proceeds.

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

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

27. **External financing** comprises: (i) disbursements of external loans; (ii) principal owed on government external debt; (iii) relief and rescheduling of government external debt, net of HIPC assistance obtained from multilateral institutions, which is considered part of grants; and (iv) the net change in external arrears (interest and principal, to be shown separately).

F. Data Reporting for Program Monitoring Purposes

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

29. The authorities will report the information summarized in Table 1 below to the IMF's African Department by the deadlines set in this table. Barring any indication to the contrary, the data will take the form mutually agreed upon by the authorities and the IMF. The authorities will supply the Fund with any additional information that its staff may request for program monitoring purposes.

Table 1. Data Reporting Requirements for Program Monitoring

Category of Data	Table/Report	Frequency	Deadline
Financial and monetary data	Central bank balance sheet, consolidated commercial bank balance sheet, monetary survey (at the current exchange rate as well as at the program exchange rate)	Monthly	30th of the month for the previous month
	Detailed net treasury position (NTP) and net government position (NGP)	Monthly	30th of the month for the previous month
	Interest rates and stock of government and central bank securities (*BDT* and *TRM*)	Monthly	30th of the month for the previous month
	Prudential indicators for commercial banks	Quarterly	One month after the end of the quarter
	Foreign exchange budget	Monthly	30th of the month for the previous month
Fiscal data	Status report, including a detailed statement of revenue, expenditure, and cash-flow operations	Monthly	30th of the month for the previous month
	General Treasury balances	Monthly	30th of the month for the previous month
	Cash-flow plan	Monthly	30th of the month for the previous month
	Government fiscal reporting table (TOFE)	Monthly	30th of the month for the previous month
	Use of exceptional mining revenues	Quarterly	30th of the month after the end of the quarter
	Execution of budgetary expenditures from HIPC resources and other priority expenditures	Monthly	30th of the month for the previous month
	Balance of current expenditures, VAT credits to be refunded, and domestic debt arrears	Monthly	30th of the month for the previous month

Table 1. Data Reporting Requirements for Program Monitoring (concluded)

Category of Data	Table/Report	Frequency	Deadline
	Nonbank financing, indicating operations in Guinean francs and those in foreign currencies	Monthly	30th of the month for the previous month
Real sector data and prices	Consumer price index, Conakry	Monthly	30th of the month for the previous month
	National accounts	Annually	Summary estimates three months after the end of the year
Balance of payments data	Imports by use and exports by major product, trade balance	Quarterly	Three months after the end of the quarter
	Price and volume indices of imports and of exports	Quarterly	Three months after end of quarter
	Consolidated balance of payments estimates	Annual	Summary estimates: six months after the end of year
External debt	Debt service due before and after debt relief	Monthly	30th of the month for the previous month
	Debt service paid	Monthly	30th of the month for the previous month
	Debt service reconciliation table	Monthly	30th of the month for the previous month
	End-of-month outstanding debt and stock of daily debt service outstanding (after relief) and unpaid, stock of daily arrears according to the program definition	Monthly	30th of the month for the previous month
	Drawings on new loans	Monthly	30th of the month for the previous month
External grants and loans	Disbursements	Quarterly	30th of the month for the previous quarter
	Monthly transfers of debt relief amounts under the HIPC Initiative, by creditor	Monthly	30th of the month for the previous month

APPENDIX II. UPDATE TO THE LOW-INCOME COUNTRY DEBT SUSTAINABILITY ANALYSIS

This annex provides an update to the LIC-DSA attached to the completion point document of September 12, 2012 (IMF Country Report No. 12/295*). It includes updated macroeconomic projections and additional information on borrowing, including on four nonconcessional loans contracted in 2012 and early in 2013.*

1. **Guinea continues to be assessed at a moderate risk of debt distress**. As in the previous assessment, the moderate rating is primarily due to Guinea's vulnerability to adverse shocks to growth, exports, foreign direct investment flows, and fiscal performance. This underscores the need for sustained implementation of sound macroeconomic policies, ensuring public investment in sound projects, while improving implementation capacity and the business climate; the above referenced previous LIC-DSA provides a more elaborate discussion of these issues. In addition, especially with the projected expansion of the export-oriented mining sector, structural reforms aimed at removing bottlenecks and improving productivity in the economy to minimize the effects (Dutch disease) on the competitiveness on other sectors of the economy. Guinea's vulnerabilities indicate that new borrowings on a large scale should be avoided, especially before the boost to exports and growth from the onset of new mining production. As noted in the previous DSA, the authorities continue to be committed to ensuring that government participation in large-scale infrastructure and mining projects does not involve the use of budgetary resources to meet the associated financing needs.

2. **Guinea's external public debt amounted to $1.3 billion (23 percent of GDP) at end-2012 (Table 1)**, significantly down following the attainment of the HIPC completion point from $3.2 billion (62 percent of GDP) at end-2011, and slightly above that projected in the previous LIC-DSA ($1.1 million). The underlying macroeconomic framework is consistent with the ECF-supported program, but differs from the previous LIC-DSA (Table 2). First, the government's public investment program, which was finalized in late 2012, has been incorporated in the budget projections. This has raised the level of public investment, in particular because of the inclusion of a major investment project, the Kaleta hydroelectric dam. Second, delays in investment and exports related to the large Simandou iron ore project have resulted in a (downward) revision in the projections of real GDP growth, exports, and fiscal revenues—a substantial increase in these three variables, which had been projected in 2015, has now been shifted to 2017. In addition, the discount rate used for calculating present values has been reduced from 4 percent to 3 percent, resulting in an increase in the present value of debt. Debt policy thresholds are unchanged.

3. **The results of the external LIC-DSA confirm that Guinea's debt dynamics are sustainable**. The stress tests reaffirm that Guinea continues to have vulnerabilities primarily from shocks to growth, exports, foreign direct investment flows, and fiscal performance. These vulnerabilities to the alternative scenarios and stress tests highlight the dependence of the projected improvement in macroeconomic prospects under the baseline on the projected large inflow of foreign direct investments in the mining sector and the related jump in mining exports. The main changes to the baseline compared to the previous LIC-DSA reflects a lower grant element of new borrowing in the latter part of the projection period, the higher present value (PV) of debt, lower

debt service payments in 2013–16, and the delayed start-up of operations related to the Simandou mining project and its impact on real GDP growth, exports and fiscal revenue (Figure 1). The lower grant element of new borrowing is primarily because, compared with the last LIC-DSA, the current one allows for some financing from commercial creditors beginning 2027, the introduction of specific terms of four new nonconcessional loans, in particular that for the Kaleta hydroelectric dam, and the increase in the discount rate used to calculate the grant element. The higher upfront PV of debt stems from the higher assumed borrowing (and corresponding government disbursements) to finance the revised investment budget, which is associated with an increase in external borrowing during 2013–16 (Figures 1 and 2, Tables 3 and 4). The bulk of the increased borrowing is accounted for by a loan from the Export-Import Bank of China to finance the construction of the Kaleta hydroelectric dam; the loan amount is $335 million (5.3 percent of 2013 GDP) and has a grant element of 33.3 percent. This loan and the three other nonconcessional loans are projected to be disbursed during 2013–16. The changes in the debt service ratios reflect the higher borrowing, and in the short-term a change in the assumed profile of debt service payments on French ODA claims that have been converted into debt-for-development swaps (C2D); these payments are assumed in the present LIC-DSA to be stretched out over 2013–20 rather than over 2013–15 as projected in the last LIC-DSA.[1] The average interest rate on new borrowing is relatively low (similar to the last LIC-DSA), reflecting the presence of several long-standing lenders, from whom further lending is expected, where the loan terms have a zero interest rate, and for others (even for the four new nonconcessional loans) interest rates charged have been low. While similar terms are projected for this group of creditors, there is a risk that interest rates will rise as the global economy recovers from the recent economic and financial crisis. The delay in the Simandou mining project results in a shift of about two years in the peaks in the debt and debt service ratios; this is highlighted in the most extreme shock stress test.[2] All other baseline assumptions are broadly similar to the last LIC-DSA.

4. The inclusion of domestic debt in the LIC-DSA worsens the debt burden indicators, although the domestic debt burden is expected to decrease over time (Figure 3, Tables 5 and 6). Following the large increase in borrowing from the domestic banking system in 2009–10, the authorities, in line with their policies to restore macroeconomic stability, have sharply curtailed new borrowing, and net repayments of domestic debt are expected to resume.[3] As in the last LIC-DSA, the public debt position is vulnerable notably with respect to policy reversals in maintaining fiscal

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[1] Under C2D (*Contrats de désendettement et développement*) the debt service maturities at the time of the HIPC completion point were consolidated and re-profiled; when they are repaid, they are returned to the country through grants from France for development spending. At the time of staff discussions in the preparation of the HIPC completion point documents, the assumed time period over which the C2D would be implemented was based on preliminary information. As a result of discussion after the completion point between the authorities and the French Development Agency, the agreed re-profiling was longer than previously assumed to take into account the absorptive capacity of Guinea.

[2] The most extreme stress test corresponds to the combination shock.

[3] In addition, under an agreement between the Ministry of Finance and the central bank, the government will repay past advances through end-2010 from the central bank, over a period of 40 years, starting in 2020. The agreement envisages that the repayments will be made in cash rather than issuance of government debt. However, discussions are to begin in the near future on the recapitalization of the central bank which would likely entail the issuance of new public debt and would offset to some extent the projected decline of the share of domestic debt in total public sector debt.

discipline and shocks to growth. The impact of an unchanged primary balance is much weaker than in the previous LIC-DSA because the reference year changed from 2012 to 2013 and the projected 2013 primary deficit is smaller than the 2012 deficit projected at the time of the last LIC-DSA.

5. The Guinean authorities broadly concurred with the assumptions and conclusions, **including identified vulnerabilities**, **of this update of the LIC-DSA**.

Table 1. Guinea: Structure of External Public Debt (end-2012, nominal)

	$ Million	Percent of total	Percent of GDP
Total	**1,306.3**	**100.0**	**23.2**
Multilateral creditors	**585.5**	44.8	10.4
IMF	57.3	4.4	1.0
World Bank	155.2	11.9	2.8
AfDB Group	96.6	7.4	1.7
IsDB	128.8	9.9	2.3
EU	0.0	0.0	0.0
Other multilateral creditors	147.6	11.3	2.6
Official bilateral creditors	**659.9**	**50.5**	**11.7**
Paris Club	272.0	20.8	4.8
Non-Paris Club	263.5	20.2	4.7
Arab Funds	124.4	9.5	2.2
Commercial creditors	**60.8**	**4.7**	**1.1**

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

Table 2. Guinea's LIC DSA Macroeconomic Assumptions: Comparison with the HIPC Completion Point LIC DSA

	HICP Completion Point LIC DSA						Current LIC DSA Update					
	2013	2014	2015	2020	2025	2032	2013	2014	2015	2020	2025	2032
	(percent of GDP, unless otherwise indicated)											
Nominal GDP ($ million)	6,237.1	6,179.7	7,475.2	13,396.2	16,008.1	21,388.3	6,273.0	6,347.9	6,797.7	14,092.3	17,314.9	24,296.4
Real GDP (percentage change)	5.0	5.2	19.9	6.1	2.7	3.1	4.5	5.2	5.4	6.4	3.2	3.6
Fiscal (central government)												
Revenue (incl. external grants)	24.0	24.9	27.5	30.2	29.8	32.3	22.7	24.0	23.6	25.9	26.5	26.9
Primary expenditure	25.2	24.9	27.1	31.4	29.2	31.3	26.8	25.5	24.1	26.6	26.0	26.1
of which Capital expenditure and net lending	10.3	10.5	13.2	18.8	18.6	23.3	12.1	10.8	9.4	13.0	13.9	17.4
Primary fiscal balance	-1.2	0.0	0.4	-1.2	0.6	0.9	-4.1	-1.5	-0.6	-0.7	0.5	0.8
Basic primary fiscal balance	-0.6	0.4	0.4	1.4	1.3	1.1	-2.4	0.2	0.3	1.4	0.8	0.6
New external borrowing[1]	1.6	1.5	1.0	1.7	0.5	0.1	4.9	3.1	1.7	1.6	0.5	0.1
Grant element of new external borrowing (%)	39.7	39.7	39.7	33.4	33.4	30.3	17.7	15.5	20.3	23.0	23.0	17.4
Balance of payments												
Exports of goods and services	26.4	28.2	41.4	64.5	56.6	43.9	26.9	28.0	26.9	52.6	51.5	37.5
Imports of goods and services	-63.5	-65.2	-61.1	-52.3	-47.2	-40.4	-51.7	-73.1	-67.8	-49.0	-46.8	-40.3
Current account, incl. official transfers	-39.2	-39.2	-21.3	-2.0	-2.7	-5.8	-25.2	-46.9	-42.1	-7.0	-5.8	-10.5
Foreign direct investment	35.8	35.9	25.7	3.7	4.1	4.7	14.8	41.8	35.8	3.6	3.9	4.6

Source: Country authorities, IMF and World staffs.

[1] Includes publicly guaranteed external borrowing.

Figure 1. Guinea's External LIC DSA Comparison with the HIPC Completion Point LIC DSA

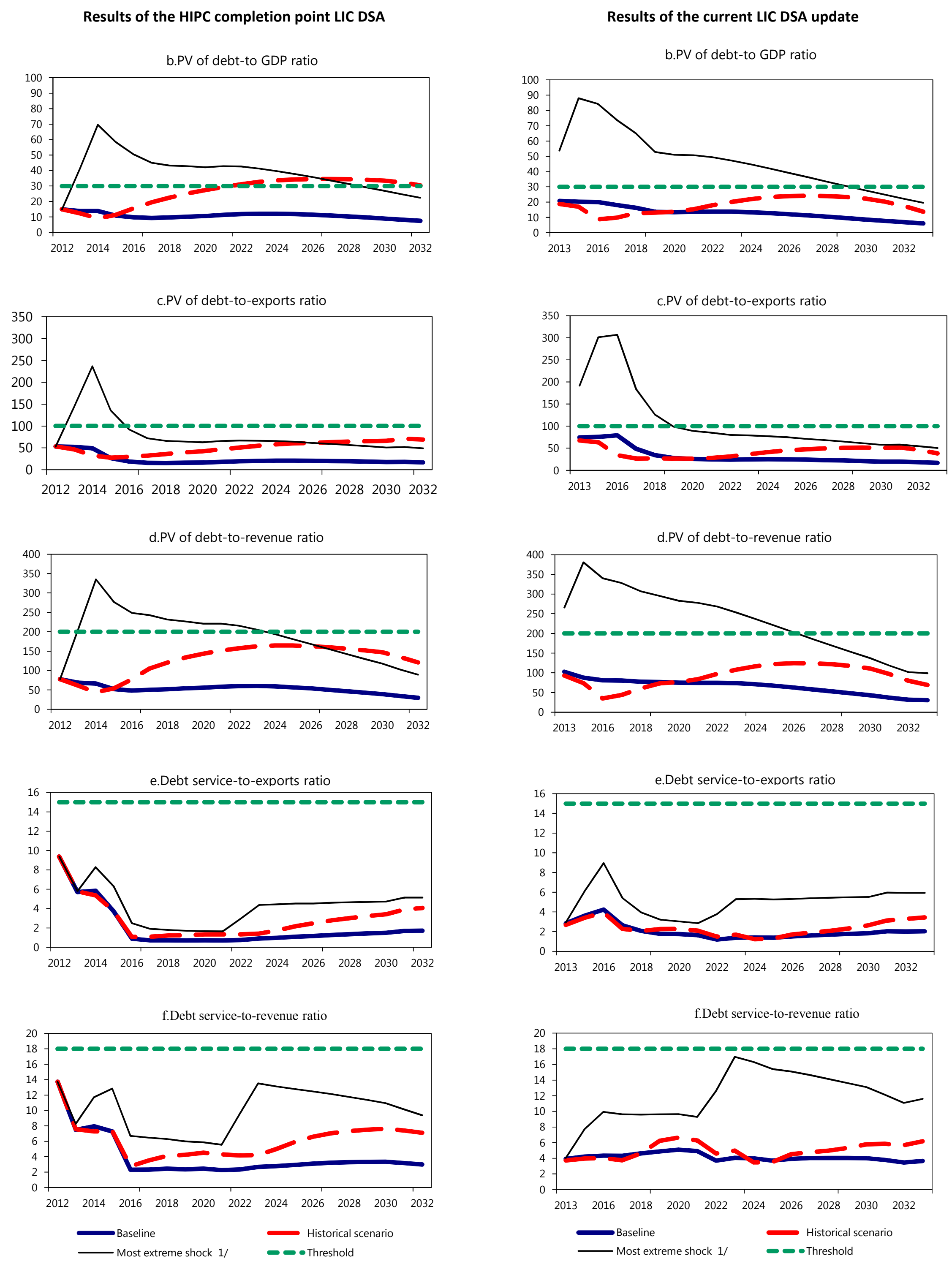
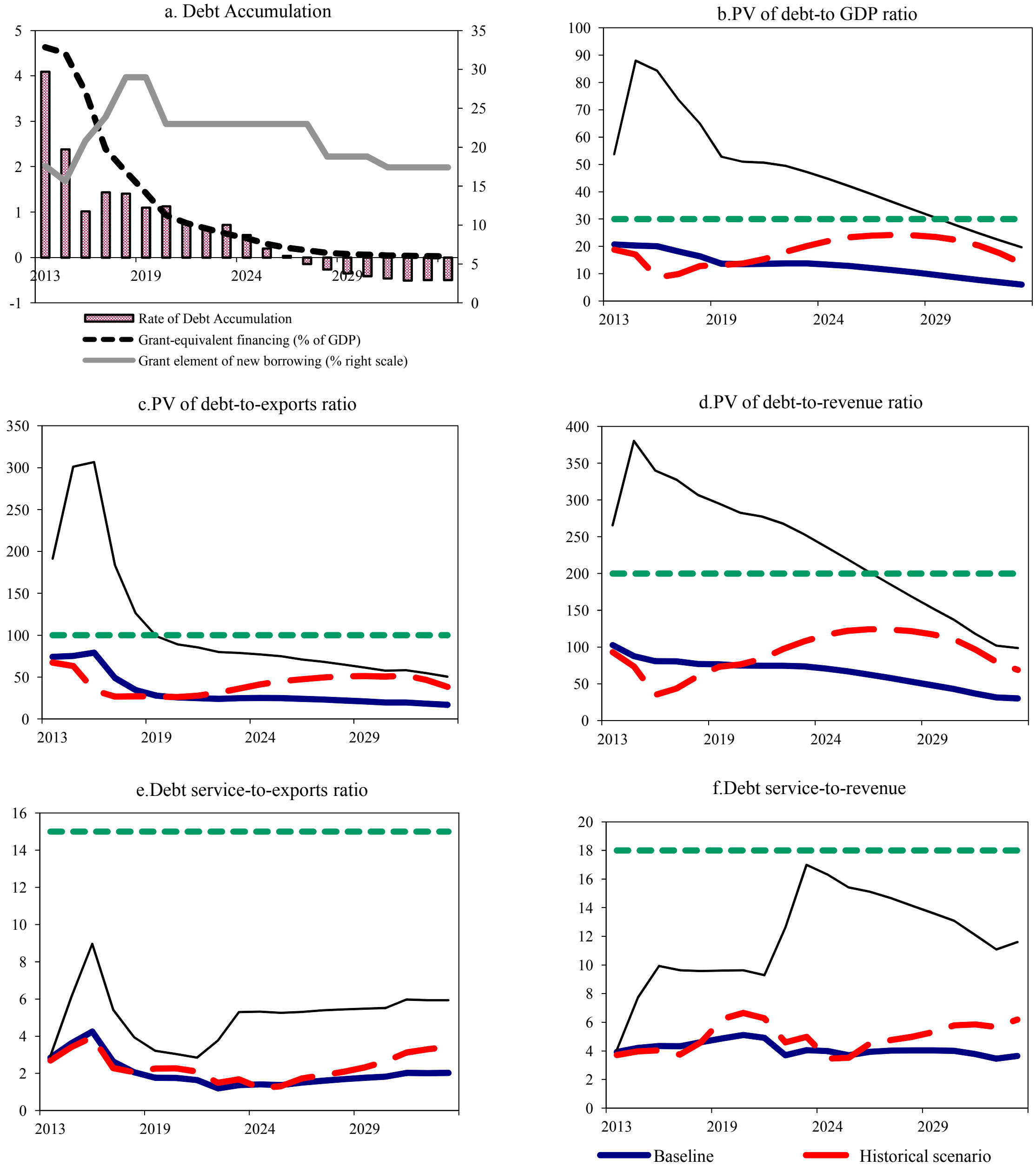


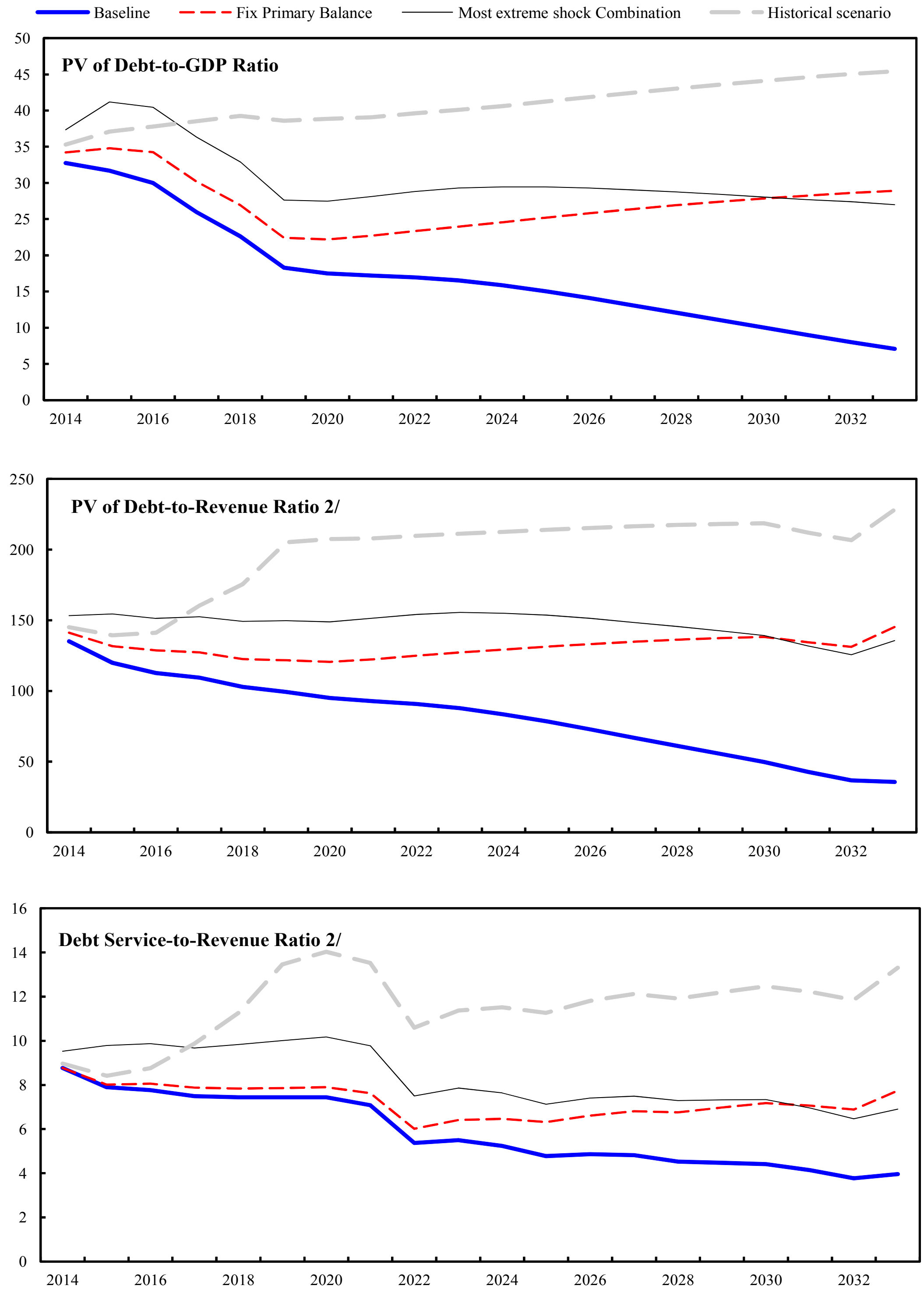
Figure 2. Guinea: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2013–33 [1]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2023. In figure b. it corresponds to a Combination shock; in c. to a Combination shock; in d. to a Combination shock; in e. to a Combination shock and in figure f. to a Combination shock

Figure 3. Guinea: Indicators of Public Debt Under Alternative Scenarios, 2013–33 [1]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2023.

2/ Revenues are defined inclusive of grants.

Table 3. Guinea: External Debt Sustainability Framework, Baseline Scenario, 2010–33 [1]

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average [6/]	Standard Deviation [6/]	Projections									
	2010	2011	2012			2013	2014	2015	2016	2017	2018	2013-2018 Average	2023	2033	2019-2033 Average
External debt (nominal) 1/	**70.7**	**67.5**	**23.0**			**26.1**	**28.1**	**27.1**	**26.7**	**24.2**	**21.9**		**18.2**	**8.3**	
o/w public and publicly guaranteed (PPG)	70.7	67.5	23.0			26.1	28.1	27.1	26.7	24.2	21.9		18.2	8.3	
Change in external debt	-1.0	-3.2	-44.5			3.1	2.0	-0.9	-0.4	-2.6	-2.3		-0.1	-1.0	
Identified net debt-creating flows	4.8	11.4	17.6			9.4	3.8	5.0	13.4	-0.7	-2.7		0.7	6.6	
Non-interest current account deficit	**10.8**	**19.6**	**33.4**	**9.3**	**10.6**	**24.9**	**46.7**	**41.9**	**39.3**	**18.9**	**4.4**		**4.8**	**11.5**	7.1
Deficit in balance of goods and services	7.4	22.2	32.3			24.8	45.1	40.9	38.3	17.9	3.2		-6.4	4.3	
Exports	29.1	31.6	29.7			26.9	28.0	26.9	25.3	36.9	47.4		55.2	35.8	
Imports	36.5	53.8	62.0			51.7	73.1	67.8	63.7	54.8	50.7		48.8	40.2	
Net current transfers (negative = inflow)	-5.1	-10.5	-6.0	-6.9	1.9	-6.3	-5.0	-5.2	-4.9	-4.2	-3.6		-2.5	-1.8	-2.3
o/w official	0.0	-2.2	-1.0			-1.7	-0.4	-0.4	-0.4	-0.4	-0.3		-0.2	-0.3	
Other current account flows (negative = net inflow)	8.5	7.9	7.2			6.5	6.5	6.2	5.9	5.3	4.8		13.7	8.9	
Net FDI (negative = inflow)	**-2.4**	**-6.5**	**-10.4**	**-5.1**	**2.9**	**-14.8**	**-41.8**	**-35.8**	**-24.7**	**-15.6**	**-3.6**		**-3.8**	**-4.6**	-4.0
Endogenous debt dynamics 2/	**-3.6**	**-1.7**	**-5.4**			**-0.7**	**-1.1**	**-1.1**	**-1.2**	**-4.0**	**-3.5**		**-0.3**	**-0.2**	
Contribution from nominal interest rate	0.7	1.0	0.7			0.2	0.3	0.3	0.3	0.3	0.3		0.3	0.1	
Contribution from real GDP growth	-1.3	-2.7	-2.4			-0.9	-1.3	-1.4	-1.5	-4.3	-3.7		-0.5	-0.3	
Contribution from price and exchange rate changes	-3.0	0.0	-3.7			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**-5.8**	**-14.6**	**-62.1**			**-6.3**	**-1.8**	**-5.9**	**-13.8**	**-1.8**	**0.4**		**-0.9**	**-7.6**	
o/w exceptional financing	-0.4	-1.6	-39.9			-2.1	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	37.1			18.8	20.8	20.3	20.1	18.1	16.3		13.7	6.0	
In percent of exports	...	...	122.4			69.9	74.3	75.4	79.2	49.1	34.5		24.9	16.8	
PV of PPG external debt	**...**	**...**	**37.1**			**18.8**	**20.8**	**20.3**	**20.1**	**18.1**	**16.3**		**13.7**	**6.0**	
In percent of exports	**...**	**...**	**122.4**			**69.9**	**74.3**	**75.4**	**79.2**	**49.1**	**34.5**		**24.9**	**16.8**	
In percent of government revenues	**...**	**...**	**220.8**			**94.0**	**102.8**	**87.7**	**81.0**	**80.5**	**77.2**		**73.6**	**30.3**	
Debt service-to-exports ratio (in percent)	**10.1**	**13.8**	**11.6**			**3.0**	**2.8**	**3.6**	**4.2**	**2.6**	**2.1**		**1.4**	**2.0**	
PPG debt service-to-exports ratio (in percent)	**10.1**	**13.8**	**11.6**			**3.0**	**2.8**	**3.6**	**4.2**	**2.6**	**2.1**		**1.4**	**2.0**	
PPG debt service-to-revenue ratio (in percent)	**19.2**	**26.0**	**17.1**			**4.1**	**3.9**	**4.2**	**4.3**	**4.3**	**4.6**		**4.1**	**3.7**	
Total gross financing need (Billions of U.S. dollars)	0.6	0.9	1.5			0.7	0.4	0.5	1.2	0.4	0.2		0.3	1.9	
Non-interest current account deficit that stabilizes debt ratio	11.8	22.8	77.9			21.9	44.7	42.8	39.7	21.5	6.6		5.0	12.5	
Key macroeconomic assumptions															
Real GDP growth (in percent)	1.9	3.9	3.9	2.5	1.5	4.5	5.2	5.4	5.8	18.9	18.2	9.7	3.0	3.7	4.8
GDP deflator in US dollar terms (change in percent)	4.3	0.0	5.7	4.2	15.3	6.6	-3.8	1.6	2.3	-0.1	-0.5	1.0	1.2	1.7	1.5
Effective interest rate (percent) 5/	1.1	1.4	1.2	1.4	0.3	1.0	1.1	1.1	1.2	1.2	1.3	1.2	1.4	1.4	1.4
Growth of exports of G&S (US dollar terms, in percent)	11.4	12.9	3.3	8.6	12.8	1.0	5.0	3.1	2.0	73.0	51.2	22.5	0.8	0.7	4.6
Growth of imports of G&S (US dollar terms, in percent)	26.2	53.2	26.6	16.6	19.3	-7.1	43.1	-0.7	1.7	2.1	8.8	8.0	2.0	5.1	4.7
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	17.6	15.6	20.8	23.9	29.0	29.0	22.7	23.0	17.4	20.7
Government revenues (excluding grants, in percent of GDP)	15.3	16.8	20.1			20.0	20.2	23.1	24.8	22.5	21.2		18.7	19.9	19.4
Aid flows (in Billions of US dollars) 7/	0.0	0.2	0.2			0.3	0.3	0.3	0.2	0.2	0.2		0.1	0.0	
o/w Grants	0.0	0.2	0.2			0.2	0.3	0.2	0.1	0.1	0.1		0.0	0.0	
o/w Concessional loans	0.0	0.0	0.0			0.1	0.0	0.0	0.1	0.1	0.1		0.1	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			4.6	4.5	3.6	2.4	1.9	1.4		0.4	0.0	0.3
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			53.5	63.3	72.9	56.3	53.3	49.4		33.6	29.9	34.7
Memorandum items:															
Nominal GDP (Billions of US dollars)	4.9	5.1	5.6			6.3	6.3	6.8	7.4	8.7	10.3		15.9	25.6	
Nominal dollar GDP growth	6.3	4.0	9.9			11.4	1.2	7.1	8.3	18.7	17.6	10.7	4.2	5.4	6.4
PV of PPG external debt (in Billions of US dollars)			1.8			1.1	1.3	1.4	1.4	1.6	1.6		2.1	1.5	
(PVt-PVt-1)/GDPt-1 (in percent)						4.1	2.4	1.0	1.4	1.4	1.1	1.9	0.5	-0.5	0.1
Gross workers' remittances (Billions of US dollars)	…	…	…			…	…	…	…	…	…		…	…	
PV of PPG external debt (in percent of GDP + remittances)	...	...	37.1			18.8	20.8	20.3	20.1	18.1	16.3		13.7	6.0	
PV of PPG external debt (in percent of exports + remittances)	...	...	122.4			69.9	74.3	75.4	79.2	49.1	34.5		24.9	16.8	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	11.6			3.0	2.8	3.6	4.2	2.6	2.1		1.4	2.0	

Sources: Country authorities; and staff estimates and projections.

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

Table 4. Guinea: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013–33

(In percent)

	Projections							
	2013	2014	2015	2016	2017	2018	**2023**	2033
PV of debt-to GDP ratio								
Baseline	19	21	20	20	18	16	**14**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	19	19	17	9	10	13	**20**	14
A2. New public sector loans on less favorable terms in 2013-2033 2	19	21	21	21	20	19	**18**	10
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	19	21	22	21	19	17	**15**	6
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	19	22	25	25	22	20	**16**	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	19	22	25	24	22	20	**17**	7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	19	53	80	76	67	59	**43**	18
B5. Combination of B1-B4 using one-half standard deviation shocks	19	54	88	84	74	65	**47**	20
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	19	29	29	29	26	23	**20**	9
PV of debt-to-exports ratio								
Baseline	70	74	75	79	49	34	**25**	17
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	70	67	63	34	27	27	**37**	38
A2. New public sector loans on less favorable terms in 2013-2033 2	70	75	78	85	54	40	**32**	29
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	70	72	74	78	48	34	**24**	16
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	70	87	110	115	71	49	**34**	23
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	70	72	74	78	48	34	**24**	16
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	70	191	296	301	181	124	**77**	50
B5. Combination of B1-B4 using one-half standard deviation shocks	70	192	301	307	184	126	**79**	51
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	70	72	74	78	48	34	**24**	16
PV of debt-to-revenue ratio								
Baseline	94	103	88	81	80	77	**74**	30
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	94	93	74	35	44	61	**108**	69
A2. New public sector loans on less favorable terms in 2013-2033 2	94	104	91	86	89	89	**94**	51
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	94	104	93	86	86	82	**78**	32
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	94	110	109	100	98	94	**86**	35
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	94	109	106	98	98	94	**89**	37
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	94	263	345	308	297	278	**229**	89
B5. Combination of B1-B4 using one-half standard deviation shocks	94	266	381	340	328	307	**253**	99
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	94	146	125	115	115	110	**105**	43

Table 4. Guinea: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013–33 (continued)

(In percent)

				Debt service-to-exports ratio				
Baseline	3	3	4	4	3	2	**1**	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	3	3	3	4	2	2	**2**	3
A2. New public sector loans on less favorable terms in 2013-2033 2	3	3	4	4	3	2	**2**	2
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	3	3	4	4	3	2	**1**	2
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	3	3	4	5	3	3	**2**	3
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	3	3	4	4	3	2	**1**	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	3	3	6	9	5	4	**5**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	3	3	6	9	5	4	**5**	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	3	3	4	4	3	2	**1**	2
				Debt service-to-revenue ratio				
Baseline	4	4	4	4	4	5	**4**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	4	4	4	4	4	5	**5**	6
A2. New public sector loans on less favorable terms in 2013-2033 2	4	4	4	4	5	5	**5**	4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	4	4	5	5	5	5	**4**	4
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	4	4	4	5	5	5	**5**	4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	4	4	5	5	5	6	**5**	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	4	4	7	9	9	9	**15**	10
B5. Combination of B1-B4 using one-half standard deviation shocks	4	4	8	10	10	10	**17**	12
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	4	6	6	6	6	7	**6**	5
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	17	17	17	17	17	17	**17**	17

Sources: Country authorities; and staff estimates and projections.

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

Table 5. Guinea: Public Sector Debt Sustainability Framework, Baseline Scenarios, 2010–33

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2010	2011	2012	Average 5/	Standard Deviation 5/	2013	2014	2015	2016	2017	2018	2013-18 Average	2023	2033	2019-33 Average
Public sector debt 1/	99.6	77.8	35.4			39.2	40.0	38.5	36.6	32.0	28.2		21.0	9.4	
o/w foreign-currency denominated	70.7	67.5	23.0			26.1	28.1	27.1	26.7	24.2	21.9		18.2	8.3	
Change in public sector debt	10.3	-21.9	-42.3			3.8	0.8	-1.5	-1.9	-4.6	-3.9		-0.5	-1.1	
Identified debt-creating flows	10.9	-10.4	-42.4			-0.3	-1.3	-2.5	-2.3	-4.3	-3.5		-0.3	-1.0	
Primary deficit	12.0	-0.7	1.6	1.9	4.4	1.6	-0.2	-0.5	0.0	0.9	0.8	0.4	0.2	-0.6	-0.2
Revenue and grants	15.7	20.2	22.9			23.8	24.2	26.4	26.6	23.7	22.0		18.8	19.9	
of which: grants	0.4	3.4	2.7			3.8	4.0	3.3	1.8	1.2	0.8		0.2	0.0	
Primary (noninterest) expenditure	27.7	19.5	24.4			25.4	24.0	25.9	26.6	24.6	22.8		19.1	19.3	
Automatic debt dynamics	-0.6	-8.1	-10.8			-1.9	-1.2	-2.1	-2.3	-5.2	-4.3		-0.6	-0.4	
Contribution from interest rate/growth differential	-3.5	-7.7	-3.4			-1.9	-2.2	-2.0	-2.2	-5.7	-4.8		-0.7	-0.4	
of which: contribution from average real interest rate	-1.8	-4.0	-0.5			-0.3	-0.3	0.1	0.0	0.2	0.1		-0.1	-0.1	
of which: contribution from real GDP growth	-1.7	-3.7	-3.0			-1.5	-1.9	-2.0	-2.1	-5.8	-4.9		-0.6	-0.4	
Contribution from real exchange rate depreciation	2.9	-0.4	-7.3			-0.1	1.1	-0.1	-0.1	0.5	0.5		...	...	
Other identified debt-creating flows	-0.5	-1.6	-33.2			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-0.5	-1.6	-33.2			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-0.5	-11.4	0.0			4.1	2.2	1.0	0.4	-0.3	-0.4		-0.2	-0.1	
Other Sustainability Indicators															
PV of public sector debt	...	10.2	48.0			31.9	32.8	31.7	30.0	26.0	22.6		16.5	7.1	
o/w foreign-currency denominated	...	0.0	37.1			18.8	20.8	20.3	20.1	18.1	16.3		13.7	6.0	
o/w external	...	...	37.1			18.8	20.8	20.3	20.1	18.1	16.3		13.7	6.0	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	16.7	4.8	6.0			3.6	1.9	1.6	2.1	2.7	2.5		1.3	0.2	
PV of public sector debt-to-revenue and grants ratio (in percent)	…	50.7	210.1			134.2	135.2	120.0	112.8	109.5	102.9		87.9	35.6	
PV of public sector debt-to-revenue ratio (in percent)	…	61.1	238.3			159.4	162.1	137.1	121.0	115.4	106.9		88.7	35.6	
o/w external 3/	…	…	184.2			94.0	102.8	87.7	81.0	80.5	77.2		73.6	30.3	
Debt service-to-revenue and grants ratio (in percent) 4/	30.0	27.1	19.6			8.5	8.8	7.9	7.8	7.5	7.4		5.5	4.0	
Debt service-to-revenue ratio (in percent) 4/	30.7	32.6	22.2			10.1	10.5	9.0	8.3	7.9	7.7		5.6	4.0	
Primary deficit that stabilizes the debt-to-GDP ratio	1.7	21.2	43.9			-2.2	-1.0	1.0	1.9	5.5	4.7		0.7	0.5	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	1.9	3.9	3.9	2.5	1.5	4.5	5.2	5.4	5.8	18.9	18.2	9.7	3.0	3.7	4.8
Average nominal interest rate on forex debt (in percent)	1.1	1.4	1.2	1.4	0.3	1.0	1.1	1.1	1.2	1.2	1.3	1.2	1.4	1.4	1.4
Average real interest rate on domestic debt (in percent)	-9.2	-12.5	-1.1	-5.2	7.2	-2.1	-1.1	2.1	1.2	3.9	4.2	1.4	0.6	0.4	0.8
Real exchange rate depreciation (in percent, + indicates depreciation)	4.1	-0.5	-11.4	0.7	19.7	-0.3	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	20.2	19.7	12.9	17.5	9.4	9.9	9.6	6.3	6.5	3.8	3.4	6.6	5.1	5.6	5.4
Growth of real primary spending (deflated by GDP deflator, in percent)	0.3	-0.3	0.3	0.1	0.2	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.0	-0.1	0.0
Grant element of new external borrowing (in percent)	...	...	0.0	0.0	…	17.6	15.6	20.8	23.9	29.0	29.0	22.7	23.0	17.4	...

Sources: Country authorities; and staff estimates and projections.

1/ Public sector covers central government; net debt is used.

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

3/ Revenues excluding grants.

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

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

Table 6. Guinea: Sensivity Analysis for Key Indicators of Public Debt, 2013–33

		Projections						
	2013	2014	2015	2016	2017	2018	2023	2033
PV of Debt-to-GDP Ratio								
Baseline	32	33	32	30	26	23	17	7
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	32	35	37	38	39	39	40	45
A2. Primary balance is unchanged from 2013	32	34	35	34	30	27	24	29
A3. Permanently lower GDP growth 1/	32	33	32	31	27	24	19	17
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	32	35	37	37	33	31	29	29
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	32	38	42	40	35	30	22	11
B3. Combination of B1-B2 using one half standard deviation shocks	32	37	41	40	36	33	29	27
B4. One-time 30 percent real depreciation in 2014	32	42	41	38	33	28	21	12
B5. 10 percent of GDP increase in other debt-creating flows in 2014	32	41	40	37	32	28	21	10
PV of Debt-to-Revenue Ratio 2/								
Baseline	134	135	120	113	109	103	88	36
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	134	145	139	141	160	176	211	228
A2. Primary balance is unchanged from 2013	134	141	132	129	127	123	127	145
A3. Permanently lower GDP growth 1/	134	136	121	115	113	108	103	85
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	134	143	138	137	140	138	152	145
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	134	157	160	151	146	138	118	57
B3. Combination of B1-B2 using one half standard deviation shocks	134	153	155	151	153	149	156	136
B4. One-time 30 percent real depreciation in 2014	134	174	153	143	138	129	112	62
B5. 10 percent of GDP increase in other debt-creating flows in 2014	134	169	150	141	137	129	110	51
Debt Service-to-Revenue Ratio 2/								
Baseline	9	9	8	8	7	7	5	4
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	9	9	8	9	10	11	11	13
A2. Primary balance is unchanged from 2013	9	9	8	8	8	8	6	8
A3. Permanently lower GDP growth 1/	9	9	8	8	8	8	6	6
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	9	9	9	9	8	9	7	9
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	9	9	8	9	8	8	7	5
B3. Combination of B1-B2 using one half standard deviation shocks	9	9	9	9	9	9	8	9
B4. One-time 30 percent real depreciation in 2014	9	10	10	10	10	10	8	7
B5. 10 percent of GDP increase in other debt-creating flows in 2014	9	9	9	9	8	8	7	5

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

APPENDIX III. RISK ASSESSMENT MATRIX

Sources of Risks	Relative Likelihood	Impact If Realized
A deterioration in the current socio-political and security situation	Medium to high	High There would be a negative impact on foreign investment, particularly in the mining sector. Program monitoring would weaken, key structural reforms would be postponed (e.g. fuel pricing, expenditure controls), with an aggravation of fiscal deficits, money creation, inflation, loss of foreign exchange, and exchange rate instability.
The private sector follows a recent agreement on increases in civil service wages	Low	High Inflation would rebound, reducing economic growth and increasing poverty. The socioeconomic situation would deteriorate, increasing political tension and instability
Prolonged delay in resuming investment in a major mining project	Medium	Medium Short-term economic growth would decline. The negative demonstration effect on other large investment projects would undermine Guinea's longer-term development and prolong high poverty rates.
Stalled or incomplete delivery of Euro area policy commitments	Medium	Medium Guinea would be affected essentially through the trade channel, especially through lower mining exports. Foreign investments in the mining sector could also slow down. Guinea would however benefit from lower oil prices
Global oil shock triggered by geopolitical events	Low	Medium Higher import prices for oil would result in additional tax losses in case domestic prices would not be adjusted. The revenue loss would seriously complicate attaining fiscal targets, thus undermining ongoing efforts on macroeconomic stabilization.

INTERNATIONAL MONETARY FUND

GUINEA

May 6, 2013

SECOND REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, REQUESTS FOR WAIVER OF NONOBSERVANCE AND MODIFICATION OF PERFORMANCE CRITERION, AND FINANCING ASSURANCES REVIEW—INFORMATIONAL ANNEX

Prepared By African Department
(In Consultation with Other Departments)

CONTENTS

RELATIONS WITH THE FUND

As of March 31, 2012

Membership Status: Joined: September 28, 1963 Article VIII

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

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	102.47	100.00
Holdings	78.47	76.58

Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ECF Arrangements	37.22	34.76

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Feb 24, 2012	Feb 23, 2015	128.52	36.72
ECF [1]	Dec 21, 2007	Dec 20, 2010	69.62	24.48
ECF [1]	May 02, 2001	May 01, 2004	64.26	25.70

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

	Forthcoming				
	2013	2014	2015	2016	2017
Principal					1.84
Charges/Interest	0.02	0.02	0.11	0.11	0.11
Total	0.02	0.02	0.11	0.11	1.95

Implementation of HIPC Initiative:

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

[1] Formerly PRGF.

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

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

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

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

Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable

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

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

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

Safeguards Assessment

An update of the 2007 safeguards assessment of the Central Bank of the Republic of Guinea (BCRG) was completed in April 2012. It found that risks of misuse and misreporting remain high, but are somewhat improved since the 2007 assessment. To mitigate risks to the prospective program, staff proposed that external auditors continue to verify monetary data, the BCRG publish audited annual financial statements within statutory deadlines, and the Board approve an investment policy and guidelines. These measures are needed in the short run, but equally important are steps to exercise better oversight on controls and to strengthen the autonomy of the central bank. The BCRG has initiated implementation of these recommendations.

Exchange Rate Arrangement

Guinea is returning to a managed float system with no predetermined path, after an interruption of the system during 2009–10; the de facto arrangement is classified as "other managed arrangement". The system includes a multiple currency practice as the value of the official rate lags the weighted average commercial bank rate on which it is based by one day. A technical assistance mission from the Fund (MCM) visited Conakry in 2011 and made suggestions on the exchange rate system, including on the lag between the official and commercial banks rate. A resident advisor financed by the IMF is assisting the BCRG in implementing the recommendations. Guinea has accepted the obligations under Article VIII, sections 2, 3 and 4 of the IMF's Articles of Agreement.

Article IV Consultation

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

Technical Assistance 2011–13

Calendar Year 2011

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

Source: IMF staff.

Calendar Year 2012

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

Source: IMF staff.

Calendar Year 2013

Provider	Main topic	Dates
Fiscal Affairs		
FAD	Manual on budget execution (1/2)	January 28-February 15, 2013
FAD	Budget preparation framework (1/2)	January 29-February 1, 2013
FAD	TSA implementation (follow up)	February 6-15, 2013
FAD	Budget preparation framework (2/2)	March 4-8, 2013
FAD	PEFA assessment	March 20-April 3, 2013
FAD	Extrabudgetary entities framework	April 24-30, 2013
FAD	Manual on budget execution (2/2)	April 15-26, 2013
FAD	Public financial management	April 8-19
FAD	Validation of PEFA assessment	June 25-July 3, 2013 1/
FAD	Budgeting for natuarl resources	September 2013 1/
FAD	Forecasting mining revenue	October 2013 1/
FAD	Public financial management (Resident advisor)	2013
Money and Capital Markets		
AFW	Bank Supervision and Regulation in Guinea	February 4-22, 2013
AFW	Analysis of Debt Portfolio	April 8-19, 2013
MCM	Central Banking (Resident advisor)	2013
Legal		
LEG	Central Banking Legislation	March, 2013
Statistics		
AFW	Migration to GFSM 2001	April 8-19, 2013

Source: IMF staff.

1/ Planned.

JOINT WORLD BANK-FUND MATRIX

(As of February 2013)

Title	Products	Expected delivery date
World Bank work program in the next 12 months	**Operations**:	
	Development Growth Corridor Project	Q3 2013
	Economic and Sector Work:	
	Public Expenditure Review (Education and health)	Q4 2013
	Public Expenditure Review (Agriculture)	Q4 2013
	Public Expenditure Review (transversal issues including investment)	Q4 2013
	Technical assistance/other analytical:	
	Support to MOP on the Core Welfare Indicators Questionnaire survey (CWIQ) and PRS III	Ongoing
	Social Protection Strategy	Q4 2013
	Public Private Partnership project	Q4 2013
	Policy Dialogue for National Backbone (Telecom)	Q4 2013
	Economic and Poverty Monitoring	Ongoing
	Support on EITI implementation	Ongoing
IMF work program in the next 12 months	**Program**:	
	Second review under the ECF	May 2013
	Third review under ECF	October 2013
	Technical Assistance:	
	Mining and general tax policy	Ongoing
	Public financial management	Ongoing
	Monetary and exchange rate policy	Ongoing
	Banking supervision	Ongoing
	National, balance of payments and fiscal accounts	Ongoing
Fund requests to the Bank	Assessment of the investment projects financed with the exceptional mining resources Assessment of the electricity reform plan and the budgetary implication Assessment of reforms in agriculture and the budget implication Assessment of the next steps on the new mining code and renegotiation of mining contracts Information sharing on the financing of the large iron ore project Information sharing on the PRSP III	Ongoing Ongoing Ongoing Ongoing Ongoing
Bank requests to Fund	Regular updates on macro-economic and fiscal projections Consultations on program structural benchmarks	Ongoing Ongoing
Joint Bank-Fund products	Joint Staff Assessment Note on the PRSP III	May 2013

RELATIONS WITH THE AFRICAN DEVELOPMENT BANK, 2011–13

(As of February 2013)

1. The Bank's new strategy, approved by the Board on 1st March 2012, focuses on two pillars: (i) economic and financial governance; and (ii) infrastructure for development. Under the first pillar, the Bank will assist in building public financial management capacity, improving governance in the extractive sector and strengthening the central government's budget. Under the second pillar, the Bank will contribute to reducing the power generation gap and further developing transport infrastructure.

2. Lending Operations: Units of Accounts (UA) 20 million was allocated for the first Pillar, through the Budget Support Programme approved by the Bank's Board in May 2011. Guinea also has access to UA 2.50 million under the Fragile States Facility (FSF) Window III that was allocated for implementing two capacity building programmes. The available balance on the African Development Fund (ADF) for 2011–13 estimated at UA 38.38 million was fully allocated to activities planned under Pillar II.

3. In the governance sector, the Bank has already approved budget support of UA 20 million and FSF Targeted Support of UA 2.5 million. In addition, the Bank restructured some non-performing projects and reallocated UA 7.5 million to an economic governance project in 2011. This will improve the country's public finance management while supporting the reforms aimed at enhancing governance especially in the extractive sector. The targeted support will also cover public administration capacity building, particularly in statistics and strategic planning. In 2013 the Bank will approve an Institutional support project of UA 11.4 million focused on improving governance in mining contract management and on enhancing public investment and project management.

4. In the energy sub-sector, three projects are scheduled for 2013 and 2014. The first project is the Côte d'Ivoire-Liberia- Sierra Leone -Guinea power interconnection project that will see the construction of 1,360 km of 225 kV transmission lines and 12 sub-stations. The second project is the second Conakry Electrical Networks Rehabilitation and Extension Project (PREREC). The third project is a contribution to financing the project of the Gambia River Basin Development Organization (OMVG) involving the construction of a dam and a 240 MW hydro-power plant at Kaleta. Implementation of these three projects will result in: (i) an increase in the average electricity access rate; (ii) a reduction in the kWh generating cost; (iii) a reduction in the number of power outages; (iv) the creation of temporary and permanent jobs; and (v) a reduction in greenhouse gas emissions.

5. In the transport sub-sector, the Bank intends to finance the Boké-Quebo Road which is part of the ECOWAS Regional Transport Programme. Because of its integrative role, construction of this highway is in line with the New Partnership for Africa's Development (NEPAD) Short-Term Action Plan, one of whose core objectives is to have interstate roads without any impediment to the free movement of goods and persons. The completion of the Boké–Quebo missing link should provide a year-round paved road link between Conakry and Bissau.

6. Non-Lending Operations: To deepen the analysis and understanding of the country's main challenges and fuel strategic reflexion, the Bank has already initiated economic and sector works in collaboration with the UNDP, under the first FSF programme, on the following themes: (i) private sector profile; (ii) Guinea's Vision 2035; (iii) study on financial sector reforms; (iv) study on the feasibility of the PPP framework; and (v) study on Economic Partnership Agreements (EPA). Within this framework, the FSF is providing support to: (i) build the PRSP III (2012–15) steering capacity; (ii) good governance monitoring and promotion; and (iii) build aid mobilization and coordination capacity. That component also includes support to the organization of the Guinea Partnership Conference scheduled for last quarter of 2013 and aimed at mobilizing international community aid around the following six themes: (i) rural development and food security; (ii) infrastructure; (iii) education; (iv) social development; (v) mining, energy, water, environment and industry; and (vi) macroeconomic framework and institutional development.

7. Furthermore, a second FSF programme will support the National Statistics Development Strategy (NSDS) and the conduct of the Third General Population and Housing Census (RGPH-III). The Bank also intends to support mining sector governance through its private sector window and legal support facility. This will entail: (i) support for Guinea's accession to the EITI; (ii) support to Mining Code Reform, which includes a 15 percent State participation in all mining concessions, the strengthening of transparency and introduction of penalties for non-compliance with the legislation; (iii) support for the revision of mining agreements; (iv) involvement in the operational audit of mining companies; and (v) the conduct of economic and financial studies on mining contracts (their value, production costs and transfer prices, etc.).

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

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

Table 1. ADF 13 (2011–13) and FSF Operations Programming

(UA million)

Lending Operations					
	Year	**ADF 12**	**FSF (Pillar III)**	**Regional Funds**	**Total**
Pillar I – Support Good Economic and Financial Governance					
Budget Support	2011	20.00			20.00
Targeted Support	2011		2.50		
Sub-Total		**20.00**	**2.50**		**22.50**
Pillar II – Support Energy and Transport Infrastructure					
CLSG Interconnection (electricity)	2013	16.00		40.00	56.00
Rehabilitation of Electric Power Networks	2013	11.00			11.00
Institutional support project for Economic Management	2013	11.4			11.4
OMVG (postponed)	2014				
Boké-Quebo Road (Postponed)	2015				
Sub-Total		38.40		40.00	78.4
Total		**58.40**	**2.50**	**40.00**	**100.9**
Economic and Sector Work					
Private Sector Profile	**2013**		**x**		
Guinea Vision 2035	**2013**		**x**		
Study on Financial Sector Reforms,	**2013**		**x**		
PPP Framework Feasibility Study	**2013**		**x**		
Study on Economic Partnership Agreements (EPA).	**2013**		**x**		

MILLENNIUM DEVELOPMENT GOALS[1]

	1990	1995	2000	2005	2011 Sub-Saharan Africa	2011	2015 MDG Target
Goal 1: Eradicate extreme poverty and hunger							halve
Employment to population ratio, 15+, total (%)	69	69	69	69	*64*	*70*	
Employment to population ratio, ages 15-24, total (%)	51	51	51	51	*46*	*52*	
GDP per person employed (constant 1990 PPP $)	..	..	..	..	3,669	..	
Income share held by lowest 20%	3.0	5.0	..	6.0	..	..	
Malnutrition prevalence, weight for age (% of children under 5)	..	21.0	29.0	23.0	21	*21*	13.4
Poverty gap at $1.25 a day (PPP) (%)	63.0	30.0	..	15.0	*21*	..	…
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	93.0	64.0	..	43.0	*48*	..	…
Vulnerable employment, total (% of total employment)	..	..	..	..	…	…	…
Goal 2: Achieve universal primary education							100
Literacy rate, youth female (% of females ages 15-24)	..	..	..	34	*67*	*57*	100
Literacy rate, youth male (% of males ages 15-24)	..	..	..	59	*76*	*70*	
Persistence to last grade of primary, total (% of cohort)	..	..	..	74	*60*	66	100
Primary completion rate, total (% of relevant age group)	19	20	32	58	70	67	100
Total enrollment, primary (% net)	25	..	47	69	*76*	83	100
Goal 3: Promote gender equality and empower women							100
Proportion of seats held by women in national parliament (%)	..	7	9	19	21	*19*	100
Ratio of female to male primary enrollment (%)	47	52	69	82	93	87	100
Ratio of female to male secondary enrollment (%)	34	36	40	51	82	64	
Ratio of female to male tertiary enrollment (%)	9	10	14	24	63	36	
Share of women employed in the nonagricultural sector (% of total nonagricultural empl	..	..	24	29	..	*29*	
Goal 4: Reduce child mortality							>75% reducti
Immunization, measles (% of children ages 12–23 months)	35	61	42	51	74	58	
Mortality rate, infant (per 1,000 live births)	135	121	106	93	69	79	
Mortality rate, under 5 (per 1,000)	229	203	175	151	109	126	78
Goal 5: Improve maternal health							
Births attended by skilled health staff (% of total)	*31*	..	*35*	*38*	*46*	…	
Maternal mortality ratio (modeled estimate, per 100,000 live births)	1,200	..	740	980	*500*	*610*	> 75% reduct
Contraceptive prevalence (% of women ages 15–49)	..	*2*	*6*	*9*	*22*	..	
Goal 6: Combat HIV/AIDS, malaria, and other diseases							halt/reverse
Incidence of tuberculosis (per 100,000 people)	119	158	193	236	257	183.0	halt/reverse
Prevalence of HIV, female (% ages 15–24)	..	..	..	..	3.1	0.9	halt/reverse
Prevalence of HIV, male (% ages 15–24)	..	..	..	..	1.3	0.4	halt/reverse
Prevalence of HIV, total (% of population ages 15-49)	1.1	1.8	1.7	1.5	*5.0*	1.4	halt/reverse
Tuberculosis case detection rate (%, all forms)	29.0	30.0	33.0	29.0	61	61.0	halt/reverse
Goal 7: Ensure environmental sustainability							
CO2 emissions (kg per PPP $ of GDP)	0	0	0	0	*0*	*0*	
CO2 emissions (metric tons per capita)	0	0	0	0	*1*	*0*	
Forest area (% of land area)	30	..	28	27	*28*	*27*	
Improved sanitation facilities (% of population with access)	10	12	14	16	*31*	*18*	57
Improved water source (% of population with access)	51	58	63	69	*61*	*74*	72
Marine protected areas (% of territorial waters)	0	0	0	0	*6*	*0*	
Net ODA received per capita (current US$)	51	55	18	22	*52*	*22*	
Goal 8: Develop a global partnership for development							
Debt service (PPG and IMF only, % of exports, excl. workers' remittances)	20.0	24.0	15.0	13.0	*3*	*5.0*	
Internet users (per 1,000 people)	0	0	0.1	0.5	12.3	1.3	
Mobile cellular subscriptions (per 100 people)	0	0	1.0	2.0	53.0	44.0	
Telephone lines (per 100 people)	0	0	0	0	1.0	0	
Fertility rate, total (births per woman)	7.0	6.0	6.0	6.0	*5*	5.0	
Other goals and indicators							
GNI per capita, Atlas method (current US$)	450	480	400	420	1,257	430	
GNI, Atlas method (current US$ billions)	3	4	3	4	1,100	4	
Gross capital formation (% of GDP)	25	21	20	20	21	18	
Life expectancy at birth, total (years)	44	46	48	51	*54*	54	
Literacy rate, adult total (% of people ages 15 and above)	..	..	..	29	*63*	*41*	
Population, total (millions)	0	0	0	0	1	0	
Trade (% of GDP)	65	46	52	69	71	79	

Sources: World Development Indicators database, October 2012; and Guinean authorities, Third Poverty Reduction Strategy Paper, March 2013.

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

STATISTICAL ISSUES

I. ASSESSMENT OF DATA ADEQUACY FOR SURVEILLANCE
General: Guinea's data provision has some shortcomings, but is broadly adequate for surveillance. Official data provision was suspended during 2009–10 when the ability of the government agencies in charge of statistics to collect data on government operations and private sector activities was seriously hindered. Following the return to a normal functioning of the Guinean administration, the mechanism of data collection is being gradually restored and the authorities are making efforts to resume data provision to allow Fund staff to restart surveillance.
National Accounts: Real sector statistics are incomplete, and published with insufficient timeliness to support economic policymaking. Statistics on economic activities are published less frequently and less regularly; the monthly bulletin of the Guinean economy is trying to include the limited available macroeconomic variables. Monthly surveys of mining, industrial and agricultural production are produced with delays. Employment and population statistics are only published annually. A program supported by international partners, expected to lead to the production of annual input-output matrices, was interrupted in 2009. The regional technical assistance center (West AFRITAC) has sent several missions to Conakry to work with the authorities on revised national accounts for 2003-08 and provisional estimates for 2009–10, with 2006 as the new base year; the work is completed, but data are still to be validated before publication.
Price statistics: The monthly consumer price index (CPI) is being published in a timely manner.
Government finance statistics: The Ministry of Economy and Finance compiles comprehensive monthly budgetary central government data on a cash basis for revenue and on commitment and cash bases for expenditure. During 2009–10, many operations executed on behalf of the government were not recorded under the government financial operations tables (TOFE). The new government took corrective measures to produce an accurate presentation of the situation. Provision of monthly data to AFR has resumed, and within a short period in recent months. AFR also receives treasury plans. The budget includes the bulk of all government operations, although it excludes a number of "satellite" accounts that are not directly incorporated into the budget. Following the adoption of the law on Treasury Single Account in 2011, efforts are now underway to incorporate those satellite accounts, including autonomous government agencies, into the budget and the government finance statistics.
Monetary statistics: During 2009–10, many government accounts were created at the central bank and commercial banks outside the control of the treasury, creating large inconsistencies between the government finance statistics and monetary accounts statistics. The new government is closing these accounts and bringing all government operations under the net position of the treasury. Central bank and deposit money bank accounts as well as the monetary survey are compiled and shared with AFR on a monthly basis. Some delays have been experienced with regard to data from the commercial banks, which still needs to be improved. Coordination between the central bank and the ministry of finance is improving, reducing discrepancies between monetary and fiscal data. However, the ongoing migration to a new central bank's accounting system has led to frequent data changes and to delays in the provision of monetary statistics. Monetary data used to assess program performance are certified by an independent external auditor on a regular basis.
Balance of payments: A technical assistance mission from the IMF statistical department visited Conakry in April 2012 to assist improving balance of payments statistics, including the migration from the fifth edition to the sixth edition of the *Balance of Payments Manual*. The Technical Committee on Balance of Payments Harmonization has reportedly been reactivated. Results of the weekly foreign exchange auctions are reported regularly on line and in the main newspapers in Guinea. Exchange rates are published daily.

II. DATA STANDARDS AND QUALITY	
Guinea participates in the General Data Dissemination System since 2003.	No data ROSC is available.

Guinea—Second Review Under the Three-Year Arrangement Under the Extended Credit facility, Requests for Waiver of Nonobservance and Modification of Performance Criterion, and Financing Assurances Review; Poverty Reduction Strategy—Joint Staff Advisory Note

Statement by the IMF Staff Representative
May 20, 2013

1. This statement provides information that has become available since the issuance of the staff report and the Joint Staff Advisory Note (JSAN) on the Poverty Reduction Strategy Paper on May 6, 2013.

2. Provisional data through the first quarter of 2013 confirm that the program remains broadly on track and are in line with the staff appraisal. Inflation has stalled around 13 percent y-o-y and strong foreign exchange inflows resulted in an appreciation of the exchange rate by about 1 percent since end-December 2012. Fiscal policy remains tight: government revenue was lower than projected (especially revenue from the mining sector), but this was more than offset by lower spending; the fiscal basic balance was about in equilibrium compared to a projected deficit of 0.5 percent of GDP. Most quantitative indicative targets for end-March 2013 were met (Table 1), with the exception of the floor on priority sector spending (reflecting delays in investment spending). As discussed in the staff report, the continuous performance criterion on no new nonconcessional debt was not observed. Progress is being made with structural reforms, particularly with regard to the end-May and end-June structural benchmarks on improving the business climate.

3. The government adopted the Poverty Reduction Strategy Paper 2013–15 on May 2, 2013; the adopted version is the same as the version on which the JSAN was based and that was issued to the Board on May 9, 2013 (see www.imf.org).

4. The political situation remains difficult. Despite UN-led intermediation, government and opposition remain divided on the process for legislative elections, which remain scheduled for June 30. Political rallies and demonstrations against electricity and water shortages have resulted in a deteriorating security situation, especially in the capital Conakry.

Table 1. Guinea: Performance Criteria (PC) and Indicative Targets, ECF 2012–13 [1, 2]

(Billions of Guinean francs, unless otherwise indicated)

	2012									2013		
	Jun.	Sep.				Dec.				Mar.		
	Act.	Indicative Targets	Adjusted [1]	Est.	Status	PC	PC Adjusted [1]	Est.	Status	Indicative Targets	Prel.	
Quantitative performance criteria												
Basic fiscal balance (floor)	60	-1,005	-984	8	Met	-1,469	-1,436	-982	Met	-238	-40	Met
Net domestic assets of the central bank (ceiling)	2,471	3,756	3,802	2,892	Met	4,331	4,283	3,513	Met	4,645	3,664	Met
Domestic bank financing of the government (ceiling)	315	1,490	1,536	555	Met	2,010	1,962	1,470	Met	340	110	Met
Net international reserves of the central bank (floor); US$ millions [3]	643	463	379	541	Met	382	250	535	Met	363	515	Met
New nonconcessional medium- or long-term external debt contracted or guaranteed by the government or central bank (ceiling); US$ millions [4,5]	0	0	0	0	Met	0	0	10	Not Met	0	28	Not Met [7]
Stock of outstanding short-term external debt contracted or guaranteed by the government or the central bank (ceiling); US$ millions [5]	0	0	0	0	Met	0	0	0	Met	0	0	Met
New external arrears (ceiling) [5]	0	0	0	0	Met	0	0	0	Met	0	0	Met
Indicative targets												
Expenditure in priority sectors (floor) [6]	2,341	2,700	2,700	2,673	Not Met	4,069	4,069	4,197	Met	1,105	702	Not Met
Memorandum items:												
Reserve money	6,195	6,218	6,218	5,723	Met	6,229	6,229	6,380	Not Met	6,424	6,437	Not Met

Sources: Guinean authorities; and IMF staff projections.

[1] Definitions and adjustors are included in the technical memorandum of understanding (TMU).

[2] Flow for fiscal criteria and stock for end-December 2012 for monetary and external debt criteria.

[3] Calculated using the program exchange rates.

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

[5] Continuous performance criterion.

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

[7] Nonconcessional loans (US$363 million) were contracted in 2012-13; they became effective starting from late 2012.

INTERNATIONAL MONETARY FUND — EXTERNAL RELATIONS DEPARTMENT

Press Release No. 13/185
FOR IMMEDIATE RELEASE
May 20, 2013

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Second Review Under the Extended Credit Facility for Guinea and Approves US$27.4 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the second review of Guinea's economic performance under a program supported by the Extended Credit Facility (ECF). The completion of the review enables the disbursement of an amount equivalent to SDR 18.36 million (about US$27.4 million), bringing total disbursements under the arrangement to SDR 55.08 million (about US$82.1 million). In completing the review, the Board approved the authorities' request for a waiver for nonobservance of the continuous performance criterion on new nonconcessional external debt.

The Executive Board approved a three-year ECF arrangement with an amount equivalent to SDR 128.52 (then about US$198.1 million) for Guinea on February 24, 2012 to support the government's economic program (Press Release No. 12/57).

Following the Board's discussion of Guinea, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, issued the following statement:

"Guinea's macroeconomic performance under the ECF-supported program has been satisfactory. Growth has been strong, inflation is gradually declining, and international reserves are at a comfortable level. Guinea has also benefitted from a substantial reduction in its external debt stock after reaching the completion point under the Heavily Indebted Poor Countries' Initiative (HIPC Iniaitiative) in September 2012. Continued strong commitment to program policies and structural reforms will be necessary to consolidate macroeconomic stability, maintain debt sustainability, and foster sustainable and inclusive growth.

"The authorities' fiscal and monetary policies for 2013 remain appropriately geared toward reducing inflation. Efforts to strengthen revenue collections and rationalize expenditure, together with additional external assistance, facilitated the maintenance of a high level of domestically-financed investment spending in the 2013 budget despite dwindling resources from the 2011 exceptional mining revenue. The government has taken steps to contain subsidies, including in the electricity sector. Going forward, it will be important to introduce a timely automatic adjustment mechanism while providing targeted assistance to the poor. It will also be important to maintain an adequate level of international reserves.

"The December 2012 agreement on increases in civil service wages is within the limits of the 2013 budget but it is important to assess the timing of the implementation of the last round of the increases against trends in inflation. The authorities should work with social partners to develop a medium-term approach to wage increases accompanied by a strengthened civil service reform program.

"Further progress in the implementation structural reforms will be necessary to achieve strong and sustainable growth and reduce poverty. Key reforms should continue to focus on improving the business climate and the electricity sector, as well as governance of the mining sector.
"Guinea's third Poverty Reduction Strategy Paper for 2013–15 (PRSP-III) lays out a good program for tackling Guinea's development and macroeconomic challenges, emphasizing the strengthening of state institutions, including justice and security, and improving the business climate. Successful implementation will require prioritization of the many proposed policies and actions and effective monitoring and evaluation of the outcomes of programs," he said.

Statement by Nguéto Tiraina Yambaye, Alternate Executive Director for Guinea
May 20, 2013

I. INTRODUCTION

My Guinean authorities would like to express their deep appreciation to the Executive Board, Management and Staff for their continuous support. The authorities' strong commitment to sound policies and reforms coupled with Fund's assistance helped Guinea to reach in September 2012 the completion point under the enhanced HIPC Initiative. This achievement has considerably reduced the Guinea's external public debt and will enable the country to implement policies conducive to sustainable growth and poverty reduction.

II. PROGRAM PERFORMANCE IN 2012

Implementation of the ECF-supported program remains satisfactory despite the difficult international environment, and has helped the Guinean authorities to stabilize the economy as demonstrated by the decline in inflation, the reduction of the fiscal deficit, the return of confidence in the national currency and the resumption of economic growth.

The end-December 2012 quantitative performance criteria have been met with the exception of the criterion on non concessional external debt. Good progress has also been made with structural reforms. Based on this good performance, my Guinean authorities are requesting completion of the second review under the ECF arrangement. They are also requesting waiver for the nonobservance of the performance criterion on no new nonconcessional debt and the modification of the performance criteria.

The nonconcessional debt criterion was not satisfied on four loans contracted to strengthen the capacity of the electricity and agricultural sectors which are crucial to raising economic growth and reducing poverty. In addition, among the four loans three are small and the criterion was missed due to technical capacity constraints reflected by the misunderstandings of the use of the IMF's methodology for assessing concessionality. As for the fourth loan contracted to complement the financing of the Kaleta hydroelectricity project it was considered to be concessional at the conclusion of the negotiations in December 2012. At that time it was estimated that it had a grant element exceeding the program floor of 35 percent. However, by the time the loan agreement was signed, in January 2013 it became nonconcessional (as the grant element fell to 33.2 percent) due to a change in the discount rate used for the calculations of the grant element. However, it is worth noting that the Kaleta hydroelectric project is part of a regional project supported by the African Development Bank with a high rate of return. It will significantly improve electricity supply, reduce average costs and thus spur economic growth. Moreover, 30 percent of Kaleta's production will be sold to neighboring countries, thereby increasing export revenues.

Although these loans do not jeopardize the country's moderate risk rating of debt distress, the authorities are cognizant of the urgent need to improve debt management. In this regard, they have taken corrective measures to prevent a recurrence of this situation, ensure that new external debts meet the program criteria and sustain the improvement in external debt strategy and management. Besides the establishment of a technical debt commission within the Ministry of Economy and Finance, the authorities intend to prepare with the technical assistance of the European Union a medium-term action plan to strengthen external debt management.

III. MACROECONOMIC DEVELOPMENTS IN 2012

Macroeconomic developments were positive in 2012. Real GDP grew by almost 4 percent driven mainly by the continued good performance of the agricultural and services sectors. The mining sector's contribution to growth was held back due to the closure of the alumina plant and postponement of iron ore development projects.

Fiscal policy was tightened. Government revenues exceeded the target owing to a combination of increases in tax rates, administrative measures and strong collection efforts. Public expenditures were also lower than budgeted reflecting savings in the wage bill, lower subsidies and investment. The implementation of streamlining measures greatly helped in the process. As a result, the basic balance deficit in 2012 was 2.5 percent of GDP against a target of 3.5 percent.

Monetary policy remained tight. This helped to reduce inflation and stabilize the exchange rate. As a result, inflation decreased significantly from 19.0 percent in 2011 to 12.8 percent in 2012. International reserves amounted to 3.1 months of imports by end-December 2012 thus remaining adequate in terms of imports coverage. As for the exchange rate, it continues to be market-determined and has been broadly stable.

On structural reforms, good progress has also been made despite delays in some areas reflecting difficulties due to capacity constraints. In this regard, it is worth noting that the amendments to the mining code adopted in 2011 were approved by the parliament in April 2013; the framework agreement on the securitization of outstanding advances was signed last April by the Ministry of Economy and Finance and the Central Bank; and the medium-sized taxpayer unit became operational. However, the implementation of the automatic adjustment mechanism for fuel prices was delayed until mid-2013.

In September 2012, Guinea reached the completion point under the enhanced HIPC initiative. In October 2012, the authorities and Paris Club creditors reached an agreement to cancel 99 percent of the country's eligible external debt on exceptional favorable terms. Several bilateral agreements were signed in recent months under the Paris Club agreement. The authorities have undertaken discussions with other official bilateral and commercial creditors on debt restructuring on comparable terms. My Guinean authorities are thankful to their bilateral and multilateral partners for their support to their efforts to fully benefit from the HIPC and MDIR Initiatives.

IV. THE 2103 PROGRAM POLICIES AND OBJECTIVES

My Guinean authorities are determined to continue implementing the macroeconomic policies and structural reforms envisaged under the program with a view to further accelerate economic growth and significantly reduce poverty. In this regard, progress made under the ECF-supported program in macroeconomic management and policy reforms will be consolidated.

Reducing poverty through sustained economic growth remains the authorities' key priority. In this regard, they have completed and adopted on May 2, 2013 the PRSP III covering 2013–15. The authorities' vision and sectoral strategies are based on six pillars: (i) macroeconomic stability; (ii) governance and institutional reforms; (iii) development of economic infrastructures; (iv) rural development; (v) mining and industrial development; and (vi) human capital development. The implementation of this strategy requires well defined investment projects and large amounts of resources. To this end, the authorities intend to organize before the end of 2013 in Abu Dhabi a Donors' Conference. They are hopeful that the international community will continue to provide them the support needed to achieve their objectives.

Despite the persistence of the global economic slowdown and regional instability, the macroeconomic prospects for Guinea remain positive for 2013. Real economic growth is projected to reach 4.5 percent, driven mainly by investments in the energy and agriculture sectors. The fiscal basic balance is projected at 3.3 percent of GDP due to the decline in budget revenue and public investments in priority sectors. As for inflation, tighter macroeconomic policies are expected to help bring the inflation rate down to 9.7 percent by December 2013. Moreover, reforms needed to further improve the business climate and promote the private sector will be accelerated.

The authorities' fiscal policy for 2013 will continue to avoid net banking financing of the budget through intensified revenue collection and contained public expenditure. In particular, measures cancelling tax benefits for companies that no longer comply with the obligations under the investment code will be fully implemented. Also, the scope of the VAT to cover medium-sized enterprises will be extended. Furthermore, by August 2013 the authorities will introduce the mechanism for monthly adjustment of the fuel prices and the price adjustment will be set by a joint committee. The implementation of the action plans for tax and custom reforms with the technical assistance from development partners will be accelerated. On the expenditure side, the authorities will maintain the wage bill at around 5.2 percent of GDP over the medium-term. The recent increase in the civil service basic wage by 50 percent covers the period October 2012-December 2013. The implementation of the third tranche of the basic wage increase which is scheduled for the second half of 2013 will depend on budgetary and inflation developments. The authorities will adopt by the end of September 2013 a civil reform plan based on the results of the ongoing biometric census and the action plan of the state reform and public sector modernization program.

With regard to monetary and financial policies, the aim is to continue policies aimed at reducing inflation and improving financial intermediation with a greater private sector access to credit. In order to further lower inflation, the authorities' efforts to contain the growth of reserve money will be pursued through the central bank's interventions in the weekly foreign exchange auctions. To enhance transparency in the weekly auctions, the central bank plans to adopt, with technical assistance from the Fund, new regulations clarifying the regulations governing the *marché interbancaire des changes* (MIC). Needed measures to strengthen the financial sector will be implemented including the increase in the minimum capital requirement for banks from GNF 50 billion to GNF 100 million and the adoption of a plan enabling banks to comply with the minimum capital requirement. The authorities intend also to conduct a feasibility study to establish a deposit insurance fund. They have completed with the assistance from development partners a study on the development of the financial sector whose recommendations will be adopted by June 2013.

On structural reforms, my Guinean authorities will continue the implementation of their reform agenda with a view to remove bottlenecks to economic growth and poverty reduction. To this end, their efforts will focus on tax administration and public financial management. They will also continue implementing needed reforms in the mining, energy and agricultural sectors while creating a business environment that is conducive to high and sustainable growth. The implementation of the 2012 Budget Framework Law and the Decree on the General Regulations on Fiscal Management and Public Accounting will be pursued.

On the business climate, after the adoption of the National Investment Policy Letter, the authorities will submit to the parliament by end-June the revisions to the investment code as well as the related fiscal and customs laws. Regarding the electricity sector, the company *Electricité de Guinée* has been put under close financial supervision to ensure that the government's financial support remains within budget limits. The authorities will adopt by end-June a new reform plan prepared in consultation with development partners. As for the agricultural sector, a review of the effectiveness of reform measures taken in 2011-12 is underway and the authorities plan to determine by end-October 2013 the best strategy to promote growth in the sector based on the results of this evaluation.

V. CONCLUSION

My Guinean authorities remain strongly determined to continue implementing prudent fiscal and monetary policies and sound structural reforms under the ECF-supported program. They are also determined to continue working with the Fund and other development partners to implement their economic development strategy. Based on their good performance and strong commitment to reform policies, I would appreciate Directors' support to my Guinean authorities' requests for the completion of the second review and the waivers for non-observance of performance criterion and for modification of performance criteria.