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[IMF Executive Board
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Under ECF
Arrangement for
Guinea, Extends
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Guinea: Letter of Intent; Memorandum of Economic and Financial Policies; and Technical Memorandum of Understanding

March 1, 2016

March 14, 2016

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Letter of Intent Republic of Guinea

Conakry, March 1, 2016

MINISTRY OF THE ECONOMY
AND FINANCE

CENTRAL BANK OF THE
REPUBLIC OF GUINEA

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

Subject: Letter of Intent on Economic and Financial Policies

Madame Managing Director,

1. This Sixth Supplement to the Memorandum of Economic and Financial Policies reviews the implementation of the program supported by an arrangement under the IMF's Extended Credit Facility (ECF) during the second half of 2014 and 2015, and describes our policies for 2016. It also reviews the implementation of the government's commitments under the Rapid Credit Facility (RCF) and the cancellation of debt under the Catastrophe Containment and Relief (CCR) Trust to improve the support to low-income countries hit by a public health disaster.
2. Our country has been hit by several shocks that have undermined our economic performance in recent years. First and foremost, the Ebola epidemic, which appeared in early 2014 and claimed thousands of lives, has adversely affected all the sectors of our economy. The efforts of the government and its partners helped eradicate the disease, with the last case recorded on November 17, 2015, some six weeks before the World Health Organization formally declared the end of the epidemic in Guinea. The effects of the Ebola virus disease were exacerbated by the impact on our economy of the fall in commodity prices and the uncertainty relating to the October 2015 presidential elections. As a result, there was a sharp slowdown in economic growth in 2014 and 2015. Despite strong agricultural output, economic growth was close to zero owing to the slowdown in mining investment and the effects of travel restrictions on the services sectors.
3. These shocks, coupled with our efforts to limit their effects on both the economy and the population upset the implementation of the ECF-supported program. We have met most of the performance criteria (PCs) at end-December 2014, but several of the end-June 2015 PCs were missed

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

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

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

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

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

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

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

Sincerely yours.

_____/s/_____

Malado Kaba
Minister of Economy and Finance

_____/s/_____

Louceney Nabé
Governor of the Central Bank of the Republic
of Guinea

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

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

March 1, 2016

RECENT DEVELOPMENTS AND PROGRAM IMPLEMENTATION

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

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

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

- We met all the performance criteria (PCs) at end-2014 except for the PC on the central bank's net international reserves and the continuous PC on new nonconcessional medium- or long-term debt. For end-June 2015, due to shortfalls in revenue and foreign currency inflows linked to the Ebola epidemic and to the impact of the acceleration of public investments backed by central bank guarantees, we were able to meet only the PC on external arrears and the continuous PC on the stock of outstanding short-term external debt. We also missed the continuous PC on the non-introduction of multiple currency practice (MCP) in the context of the adoption of a new instruction to reform the exchange rate determination mechanism.
- Structural reforms have advanced despite some delays. With the assistance of the World Bank group, on June 19, 2015 we recruited the private partner for the management of EDG (structural benchmark at end-March 2015) which began operations in September 2015. The government adopted and implemented the recommendations from the review of the role of the SOGUIPAMI

(structural benchmark at end-February 2015) with the February 12, 2015 signature of a decree clarifying the roles of the SOGUIPAMI. Production of the administrative accounts for 2011–13 (structural benchmark at end-April 2015) was delayed until December 2015. We produced in December the management accounts for these years. Progress on other structural benchmarks of the program was limited because of difficulties in mobilizing technical assistance. However, we made progress on bringing budgetary and accounting management into compliance with the Budget Framework Law (LORF): from now on, the National Council for the Regulation of Post and Telecommunications will adopt the budget and accounts of the ARPT, while the Patrimoine Bâti Public (Public Building Agency) will receive budgetary appropriations commensurate with its operating expenses, thus putting an end to the use of revenues generated by their activities without the authorization of a budget law.

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

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

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

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

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

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

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

MACROECONOMIC OUTLOOK

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

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

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

FISCAL POLICY

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

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

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

the domestically financed to the foreign financed part of the budget and creating a special appropriations budget (BAS) to subject the execution of these projects to the receipt of an Abu Dhabi grant.

15. The budgetary adjustment will make it possible to reduce outstanding debt owed to the central bank. With nearly zero net external non-project financing and issues from commercial banks of 0.2 percent of GDP, the government will reimburse the BCRG for part ($\frac{1}{2}$ percent of GDP) of its 2015 advances and will reduce arrears to the private sector (0.3 percent of GDP). Reimbursement of the central bank's 2015 advances will be spread over six years based on a payment schedule established in February 2016 by agreement of the parties, with conditions similar to those in the domestic financial market. The reduction of the fiscal deficit will facilitate the central bank's implementation of its monetary policy.

MONETARY AND FOREIGN EXCHANGE POLICY

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

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

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

sign a memorandum with the government by end-March 2016 specifying the need to recapitalize the BCRG as well as the methods (including a schedule) for this recapitalization, taking into account budgetary cost and the need to ensure the financial and operational flexibility of the BCRG.

STRUCTURAL REFORMS

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

Public finance management

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

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

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

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

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

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

Civil service

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

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

Mining sector

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

Energy sector

25. Our endeavors will focus on the smooth execution of our seven priority projects with the common objective of ensuring sustainable supply and the quality of electrical services. The main goal of the management contract negotiated for a period of four years is to improve the

company's technical, commercial, and financial performance in line with the performance contract between the EDG and the government. To support the management contract, we will complete a rate study during the first half of 2016. However, given the increased production of electricity with the startup of the Kaleta dam, we will implement during the first half of 2016 a 25 percent rate increase, anticipated since 2013. For upcoming projects in the energy sector, including the Souapiti dam construction project, the government will communicate to the IMF any information relative to the financing and the construction of the projects.

PROGRAM FINANCING

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

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

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

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

PROGRAM MONITORING

29. The government will persevere with its efforts to upgrade the statistical system to ensure the regular production and supply of good quality statistical data. The national accounts for 2006 to 2011 were adopted and distributed in March 2015. The production of national accounts for 2012 (final version) and 2013 (provisional) is planned for end-March 2016 using 2010 as the base

year. The government will request IMF technical assistance to develop a range of economic indicators to be monitored as part of the Status Report on the Economy, as well as a methodology for performing annual growth estimates using monthly indicators. Program monitoring will be continued by new committees planned in this context (*Conseil de Coordination Economique et des Réformes* CCER, Technical Support Committee, *Cellule Technique de Suivi des Programmes* CTSP), which are now operational.

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

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

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

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

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

Table 1. Guinea: Performance Criteria and Indicative Targets, ECF 2014–16¹
(Billions of Guinean francs, unless otherwise indicated)

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

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

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

² Calculated using program exchange rates.

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

⁴ Continuous performance criterion.

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

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

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

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

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

Table 2. Guinea: Structural Benchmarks under the ECF-Supported Program, 2014

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

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

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

Table 4. Guinea: Summary of External Borrowing Program, 2016¹

	2016
(Millions of U.S. Dollars)	
Sources of debt financing	780.3
Concessional Debt²	780.3
Multilateral Debt	468.1
Bilateral Debt	312.2
Non-Concessional³	0.0
Use of amounts borrowed	780.3
Budgetary Assistance	32.0
Infrastructure (roads, bridges, etc)	270.4
Water and Energy	384.6
Agriculture	40.3
Social (education, health, etc)	43.0
Other	10.0

Source: Guinean authorities.

1/ New government loans contracted or guaranteed.

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

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

Attachment II: Guinea: Technical Memorandum of Understanding

March 1, 2016

INTRODUCTION

- 1. This memorandum of understanding sets out the understandings between the Guinean authorities and staff of the International Monetary Fund (IMF)** regarding the definitions of the quantitative performance criteria and indicative targets for the program supported under the ECF, as well as the nature of the data to be reported to the IMF.
- 2. The quantitative performance criteria, indicative targets, and cut-off dates** are detailed in Table 1 of the Sixth Supplement to the Memorandum of Economic and Financial Policies.

KEY DEFINITIONS

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

A Quantitative Performance Criteria

- 4. The basic fiscal balance is the difference between government revenue, excluding grants, and basic government expenditures.** Definitions of the bolded terms above are consistent with the definitions in the government fiscal operations table (TOFE), which are described in Section E below.
- 5. Net domestic assets (NDA) of the BCRG are defined as the difference between reserve money (defined below) and net foreign assets (NFA) of the BCRG.** NFA are equal to the difference between the gross foreign assets of the BCRG, including foreign assets that are not part of reserve assets, and foreign liabilities of the BCRG (in other words, $NDA = \text{Reserve Money} - NFA$, based on the BCRG balance sheet).
- 6. Domestic bank financing of the government, or net domestic bank credit to the government from banks, comprises:** (i) central bank financing of the Treasury, that is, the change in the net position of the Treasury with the central bank (NTP1), including the C2D account, the accounts for exceptional resources, such as the Special Investment Fund (SIF) and the accounts opened in the name of the National Coordination against the Ebola Epidemic, but excluding changes in the net position of "satellite" government accounts with the central bank (PNT2); and (ii) commercial bank financing of the Treasury, which includes changes in the stock of Treasury bills held by banks, but excludes changes in the net position of "satellite" government accounts held in commercial banks.

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

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

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

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

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

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

B. Indicative Targets and Memorandum Items

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

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

C External Debt

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

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

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

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

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

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

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

D Adjustments to Program Performance Criteria

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

Guinea: External Assistance, “Program” Arrears, Exceptional Mining Revenue, and Float, 2014–16
(Billions of Guinean francs, cumulative from the beginning of the fiscal year)

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

Sources: Guinean authorities and IMF staff calculations.

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

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

20. Adjustments for net external assistance:

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

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

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

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

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

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

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

E. **Definitions for the TOFE**

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

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

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

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

F. Data to be Reported for Program Monitoring Purposes

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

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

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

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

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

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