International Monetary Fund

Guinea and the IMF

Country's Policy Intentions Documents

Guinea: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

June 6, 2018

The following item is a Letter of Intent of the government of Guinea, which describes the policies that Guinea intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Guinea, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

Letter of Intent

MINISTRY OF ECONOMY AND FINANCE—MOEF	CENTRAL BANK OF GUINEA—BCRG

Conakry, June 6, 2018

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Ms. Lagarde:

1. **Our key objective is to generate higher and more inclusive growth to reduce poverty and improve the living standards of our population while preserving macroeconomic stability.** We aim to place our country on a path of sustained and broad-based growth and foster economic diversification, generate employment opportunities for all and improve the living standard of the population. We have started implementing our new National Social and Economic Development Plan (PNDES) for 2016–20 to foster higher and more inclusive growth and reduce poverty. The PNDES is focused on: i) a structural transformation and diversification of the economy supported by infrastructure investments in energy, transport and agricultural modernization to increase productivity and foster market access and commercialization of agricultural products; ii) promoting good governance; iii) human capital development; and iv) the effective management of natural resources. Our development program was endorsed by the international community at the Consultative Group held in Paris in November 2017 and we received pledges for US$22 billion from donors and private sector investors.

2. **Social tensions remerged in 2017 with economic repercussions, and Guinea's social context remains fragile.** Violent demonstrations took place in the Boké mining region in late 2017 thus disrupting activity of companies in the localities affected. Widespread strikes and social demands for higher wages in the education sector have paralyzed our capital Conakry and had repercussions country-wide. Despite our efforts to increase the provision of electricity to the economy, protests due to electricity shortages remain frequent. We held in February 2018, for the first time since 2005, our local elections through a democratic process which put additional and unforeseen pressures on our budget and contributed to fiscal slippages. Furthermore, the electoral period was marked by heightened tensions and episodes of violence with casualties.

3. On the backdrop of these difficult circumstances, the performance of our economy against end-December 2017 program targets was mixed. We met the performance criteria (PC) on net international reserves and the continuous PC on the non-contraction of new non-concessional external debt at end-December 2017. However, fiscal performance was weak and the PCs on the basic fiscal balance, net government budgetary borrowing from the central bank and net domestic assets of the central bank, and the indicative target (IT) on tax revenues were missed by large margins. We missed our indicative target on strengthening social safety nets, due to implementation constraints. We moved ahead with the implementation of program-supported reforms and most structural benchmarks (SBs) were met (Table 2). Notably we have advanced our reforms to support the implementation of sound macroeconomic policies, mobilize tax revenues, strengthen fiscal management, reduce untargeted electricity subsidies, and foster private sector development and good governance.

4. We are strongly committed to implement sound policies to ensure macroeconomic stability and advance our reform agenda to generate higher and more broad-based growth. In view of fiscal slippages in 2017, we are committed to orient the macroeconomic policy towards supporting stability. This arrangement will provide the appropriate framework for continuing the implementation of sound macroeconomic policies and achieve our goal to foster higher and more inclusive growth. To this end, our economic policy and reform program will aim at: i) preserving macroeconomic stability; ii) scaling-up much needed investments in infrastructure to support higher growth and economic diversification while preserving macroeconomic stability; iii) strengthening our social safety nets programs to reduce poverty and foster inclusiveness; and iv) advancing key growth-supporting structural reforms to strengthen governance and foster the development of private sector.

5. In view of the appropriate policies taken to achieve our 2018 fiscal program target and progress in implementing our reform agenda, we request the completion of the first review of the program by an Extended Credit Facility and the disbursement of SDR 17.213 million. In light of the corrective actions taken, the authorities also requests waivers for non-observance of the end-December 2017 quantitative performance criteria on the basic fiscal balance, government net borrowing from the Central Bank, and net domestic assets of the Central Bank. We also propose revised performance criteria for end-June and new end-December 2018 performance criteria, as well as a new continuous indicative target on non-accumulation of new domestic arrears (on a net basis) as described in the MEFP (Table 1) and in the attached Memorandum of Understanding.

6. The attached Memorandum of Economic and Financial Policies (MEFP) builds on the MEFP at the ECF arrangement request and lays out the medium-term economic policies and reform program of the government of Guinea and the policies of the Central Bank of the Republic of Guinea that we plan to implement during 2018–20. It also describes the performance targets and structural benchmarks for the first and second year of the ECF arrangement, setting forth the underpinning economic policies and structural reforms needed to achieve these objectives.

7. Our program will continue to be monitored through semi-annual reviews with quantitative performance criteria, indicative targets and structural benchmarks, as described in the attached MEFP and Technical Memorandum of Understanding. There will be six reviews to monitor progress in program implementation and to agree on eventual additional corrective measures to achieve the program objectives. We request that the disbursements be made in equal installments. The second review of Guinea's performance under the ECF arrangement will be completed on or after December 11, 2018, based on performance criteria at end-June 2018. Given our objective of generating higher and inclusive growth through a significant increase in public investment in infrastructure, the effectiveness of public investment and progress in strengthening the management of public investment will be a key element in the evaluation of program performance.

8. **We are confident the policies outlined in the attached MEFP are adequate to achieve the objectives of our economic program, but we will take any further measures that may become appropriate to attain these objectives**. The government of Guinea will consult with IMF staff on the adoption of these measures, and in advance of revisions to the macroeconomic policies contained in the MEFP, in accordance with the IMF's policies on such consultations. We will provide to IMF staff with all information and necessary for monitoring the implementation and achievement of our program objectives.

9. **In line with our commitment to transparency and accountability, we authorize the IMF to publish this letter, its attachments (MEFP, TMU, Tables 1 and 2), and related staff report**, including publication of these on the IMF website in accordance with Fund procedures, following the IMF Executive Board's approval of the request.

Sincerely,

/s/	/s/
Mamady Camara	Lounceny Nabé
Minister of Economy and Finance	Governor of the Central Bank of Guinea

Attachments: Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

June 6, 2018

A. Recent Economic and Financial Developments

1. The Guinean economy is growing at a strong pace. After slowing-down during 2014–15, real growth strengthened to 10.5 percent in 2016 (against 3.8 percent in 2015). The rebound of the economy was supported by a significant pick-up in mining production, higher energy production, strengthening in manufacturing, and increased commerce activity. Notably, real growth in the mining sector picked-up at 46 percent, reflecting higher bauxite and gold prices in the international markets, energy production increased by 22 percent following the construction of the Kaleta dam, and growth in manufacturing strengthened to 5.6 percent. The strong growth momentum of our economy continued in 2017, with real growth estimated above 8 percent owing to continued strength in mining, construction and commerce activity. Average inflation increased to 8.9 percent in 2017, reflecting a pick-up in the food price index of 13 percent, while core inflation remained stable at 2.5 percent. Inflation edged up to 9.7 percent (year-on-year) in February due to a pick-up in fresh food prices.

2. The current account deficit is estimated to have narrowed to about 7 percent of GDP in 2017 supported by strong export growth and continued to be financed by large FDI in the mining sector. Mining exports increased by 79 percent (y-o-y), reflecting the surge in bauxite production and the positive impact of the elimination of export taxes on gold which reduced smuggling to neighboring countries. Investment-related imports remained buoyant, while slightly declining by 7 percent (y-o-y) due to the high base effect in 2016. FDI in the mining sector continued to be strong and is estimated at 13 percent of GDP in 2017. International reserves increased to US$686 million, equivalent to 2.4 months of import coverage at end-2017. After depreciating by 9 percent in 2016, the real effective exchange rate appreciated by 4 percent in 2017, with the nominal effective exchange rate slightly depreciating by 2.5 percent. The premium between the official and foreign exchange bureaus rates was at 0.74 percent at end-2017, and further declined to 0.7 percent in March 2018 (14 percent in November 2015).

3. Guinea's fiscal imbalances significantly deteriorated in 2017. The basic fiscal balance recorded a deficit of 1.1 percent of GDP in 2017, despite having recorded a 0.5 surplus through October 2017. This weaker-than-anticipated performance reflected lower-than-programmed tax revenues and significantly larger-than-programmed expenditures, a large share of which was executed through the use of the exceptional approval procedures such as authorization letters which were applied outside the scope of the law. Mining tax revenues slightly increased to 2.3 percent of GDP (2.1 percent of GDP in 2016) but were significantly lower-than-programmed due to the impact of social protests on the activity of the bauxite company CBG and the amortization of CBG's investments. Non-mining tax revenues declined to 11 percent of GDP (11. 9percent of GDP in 2016). Notably non-mining corporate income tax and domestic VAT were significantly lower-than-programmed, mainly because of delays in the implementation of the Rand and Mercury projects for electronic control and collection. Furthermore, the tax on petroleum products (TSPP) declined to 0.5 percent of GDP (1.2 percent of GDP in 2016) and was 0.8 percent of

GDP lower-than-budgeted due to the downward adjustments of the tax rate to maintain constant retail prices due to rising import prices. On the other hand, taxes on international trade were 0.2 percent of GDP higher-than-programmed, supported by much higher trade volume and strengthened customs controls and collection, including through digitalization. On the expenditures side, we maintained our wage bill and electricity subsidies in line with our program objectives, respectively at 3.6 percent and at 1.3 percent of GDP. However, spending on goods and services were above programmed levels, owing to higher-than-budgeted costs for the local elections, at 3.6 percent of GDP. Domestically-financed capital expenditures were 0.8 percent above programmed levels, reflecting also projects execution related to the Independence Celebration Day. Owing to larger than programmed budgetary financing needs, net financing from the central bank reached 0.5 percent of GDP, against a programmed net repayment of 0.3 percent of GDP, and government borrowing from commercial banks increased to 0.9 percent of GDP, largely above program targets. In addition, domestic arrears of 1 percent of GDP were accumulated.

4. The basic fiscal balance recorded a surplus of 0.9 percent of GDP in the first two months of 2018. During January-February 2018 mining tax revenues increased by 31 percent (y-o-y) and reached 0.4 percent of GDP, on the back of buoyant mining production and CBG returning to its normal activity. Non-mining tax revenues increased by 22 percent (y-o-y) driven by strong international trade taxes. However, TSPP revenues declined by 51 percent (y-o-y) reflecting the lower tax rate. Due to rising import prices, customs duties on petroleum products were reduced, for the first time, to keep petroleum products retail price constant, which led to a revenue loss of GNF 220 million (0.2 percent of GDP) in the first quarter. We contained non-priority goods and services expenditures by 20 percent (y-o-y) and overall capital expenditures declined by 20 percent (y-o-y) during January-February 2018. We repaid domestic arrears equivalent to 1 percent of GDP in the first two months of the 2018. Net budgetary financing from the central bank continued and was at 0.2 percent of GDP.

5. Despite improved liquidity conditions of the banking system, credit to the private sector remained weak reflecting crowding out effects of government financing and banks' hesitance to provide credit to the private sector. Reserve money increased by 10.3 percent at end-2017, faster than programmed. Private sector credit growth was positive but remained weak at 2.3 percent, while commercial bank lending to government increased by 16.5 percent. The decision to lower reserve requirements (from 18 to 16 percent) in March 2017 freed up liquidity in the banking system. However, most of the additional liquidity was absorbed by the banks' subscription of the GNF500 billion government bond to finance road development. Crowding out effects of commercial bank financing of the government continued to constrain the provision of credit to the private sector, coupled by banks' hesitance to lend to the private sector due to a deterioration in their loan portfolio. Non-performing loans (NPLs) increased to 10.7 percent in December 2017 (9.4 percent in 2016 and 6 percent in 2015) which has also led banks to limit credit to the private sector.

6. Our banking system is broadly sound, but faces some challenges. Liquidity conditions in the banking sector have improved, reflecting the stronger pace of deposit growth which strengthened to 16.7 percent at end-2017 (10.6 percent in 2016). Deposits in GNF increased by 16.8 percent (y-o-y), and deposits in foreign currency continued to rise by 19.8 percent since end-2016, mostly reflecting higher repatriation of export earnings from artisanal gold following the elimination of the tax on gold exports. Reflecting improved liquidity conditions, banks' excess reserves increased by 56 percent and the interbank market activity slightly improved, with 26 transactions in 2017 compared to 24 transactions in 2016. All banks were in compliance of reserve requirements at end-2017. Provisioning for NPLs improved with NPLs net of provision to capital falling to 11.3 percent at end-2017 (14.7 percent in 2016). However, while profitability has improved on some measures, the interest margin-to-income has increased to 42 percent at end-2017 (39 percent at end-2016). Two banks remained non-compliant with the capital adequacy requirement at end-2017 (six banks were not-compliant at end-2016).

B. Program Objectives and Key Elements

7. Generating higher and more broad-based growth and reducing poverty while preserving macroeconomic stability and debt sustainability is our key objective. To this end, we are committed to implementing a comprehensive program of sound macroeconomic policies and economic reforms which aim at:

- **Preserving Guinea's macroeconomic stability.** We will continue to build our external buffers against shocks, in view of Guinea's vulnerability to terms-of-trade shocks, and we will preserve moderate inflation. In view of fiscal slippages in 2017, we will strengthen our fiscal program targets and contain budgetary financing needs to: i) preserve medium-term deb sustainability; ii) gradually repay government borrowing from the Central Bank above programmed levels in 2017 and limit the Central Bank's advances to the government to short-term cash management and within the limits indicated in the Central Bank Law; iii) limit borrowing from the banking sector to a level which is consistent with ensuring the provision of credit to the private sector; and iv) gradually repay all new domestic arrears accumulated in 2017 as well as arrears to the private sector accumulated in previous fiscal years. To this end, we have added on the decumulation of the stock of domestic arrears (on a net basis) as an indicative target to the ECF arrangement. We will avoid accumulating domestic and external arrears. We will maintain the stability of the financial sector.
- **Scaling-up public investments in infrastructure to put our economy on a higher growth path and support economic diversification while preserving stability and medium-term debt sustainability**. We are committed to creating budgetary space to step-up the implementation of infrastructure projects—notably in energy production, transport and agriculture—so as to support achieving higher growth and diversifying our economy. To this end, we will mobilize additional domestic revenues on the back of our tax policy and administration reform and contain non-priority spending. Notably, we will gradually phase out untargeted energy subsidies while putting in place appropriate mitigating measures to protect the most vulnerable. In parallel, we will mobilize the necessary external financing to support our ambitious investment program while preserving medium-term debt sustainability and ensuring that the risk of distress of our external debt does not exceed a moderate level. To this end, we are committed to maximize the concessionality of our external borrowing and to limit non-concessional borrowing that will be contracted or guaranteed during the three-year ECF arrangement to a maximum of US$650 million to

maintain medium-term debt sustainability and contain debt vulnerabilities. In addition, we will implement a domestic debt policy aiming at gradually clearing government arrears to the private sector, toward which we remain indebted with a considerable debt stock. Gradually clearing domestic arrears will support the recovery of the private sector, which has been severely affected by the recent health crisis, economic growth and job creation. At the same time, it will support private companies to pay their debt owed to the banking system.

- **Mobilizing additional domestic resources to strengthen our social safety nets programs to reduce poverty and foster inclusiveness**. We are moving ahead with the implementation of our recently adopted social protection strategy. In this vein, we will increase the envelope of domestic budgetary resources that we devote to social safety nets programs aimed at reducing poverty, fostering inclusion and generate employment opportunities for the most vulnerable. This will be key to start building the basis to reduce over-reliance on donors' external financing over time and ensure the medium-term sustainability of our social safety net programs.
- **Advancing our reforms to support sound macroeconomic policies and key structural reforms to achieve higher and more inclusive growth.** We will continue to strengthen our medium-term budget framework and public finances, including public investment management to ensure the appropriate monitoring, transparency, and efficiency of our ambitious public investment program. We will continue to strengthen our monetary policy framework and finalize our reform of the exchange rate market. Furthermore, we will advance our key growth-supporting reforms to improve governance and the business climate and foster private sector development. We will also move ahead with the implementation of our strategy to foster financial inclusion.

C. Economic Policies and Reforms Program

Macroeconomic Outlook

8. **Guinea's near and medium term growth outlook is expected to be strong, thus contributing to improving the living standards of the population**. Real growth is expected at 5.8 percent in 2018 on the back of buoyant mining activity, strengthening agricultural performance, and continued strength in construction activity reflecting the implementation of infrastructure projects. Medium-term growth is projected to be 6 percent supported by a scaling-up of investments in mining and infrastructure, strengthening exports, a stable macroeconomic environment and the implementation of growth-supporting structural reforms. A stronger than assumed pace of investments and pace of new mining capacity production would support higher medium-term growth. We will contain inflation to single digits through our prudent monetary policy.

9. **The current account deficit would remain large in 2018, financed by FDI inflows, and gradually narrow over the medium term.** The current account deficit is expected at 21 percent of GDP in 2018. Mining exports would further increase by about 1 percent from the buoyant 2017 levels. Imports would increase by 26 percent (y-o-y) on the back of large FDI (13.8 percent of GDP) and infrastructure development. International reserves would increase to 3.2 months of import

coverage. External imbalances would narrow over the medium term, reflecting an improvement in the trade balance. Export growth would average at 4 percent over the medium term, reflecting higher mining production capacity. Import growth would average at 3 percent over the medium term, continuing to be financed by large FDI, notably in the mining sector, (11 percent of GDP, on average over 2019-2023). International reserves would gradually increase to 3.8 months of import coverage in 2020.

Fiscal Policy

10. We are committed to orient our fiscal policy towards preserving macroeconomic stability and strengthen our program fiscal targets. In view of the deterioration in fiscal imbalances in 2017, we are committed to strengthen the program fiscal targets over 2018–20 to preserve debt sustainability. Thus, we are committed to achieve a basic fiscal surplus of 0.8 percent of GDP in 2018, of 1.0 percent of GDP in 2019 and 1.1 percent of GDP in 2020. This will allow us to gradually recoup part of the fiscal slippages which took place in 2017 and further contain budgetary financing needs so as to gradually repay government borrowing from the central bank above programmed levels in 2017, limit commercial banks' financing to a level consistent with healthy provision of credit to the private sector and gradually repaying domestic arrears accumulated in 2017 and in previous fiscal years. To avoid extrabudgetary expenditures and the accumulation of new domestic arrears, and better align cash flows and commitment plans, the Minister of Finance issued a circular to all ministries and financial controllers in February 2018 that limits the use of authorization letters (ALs) to sovereign expenditures and special funds in line with the budget management and public accounting decree (RGGBCP). We will ensure that the use of ALs is conducted in line with the Minister of Finance circular and the RGGBCP and limited to sovereign expenditures and existing special funds and the execution of expenditures authorized through ALs is linked to budgetary lines, and we will provide a report on the use of ALs during January-May 2018 to IMF staff and on a quarterly basis as part of the program requirements (prior action).

11. Creating needed fiscal space to scale-up growth-supporting public investments, notably in infrastructure, and priority social spending is our key objective. As outlined in our PNDES, we are committed to implement an ambitious scaling-up of public investments, notably in infrastructure, by about 3.5 percent of GDP during 2017–20, which will be crucial to realize the growth potential of our economy and support the development of the private sector. Furthermore, we aim at stepping up social safety nets as a critical element of our strategy to reduce poverty. To this end, we will mobilize additional tax revenues and contain current non-priority spending to generate the needed fiscal space for increasing growth-supporting priority spending while preserving macroeconomic stability. In parallel, we will mobilize additional external financing to finance our national public investment plan while maximizing reliance on concessional external borrowing to preserve medium-term debt sustainability. To this end, we are committed to limit non-concessional external borrowing that will be signed during the three-years of the ECF arrangement period to a maximum of US$650 million. These loans will be used to finance priority infrastructure projects, including the rehabilitation of the RN1 road, the rehabilitation of the Conakry urban road network, the construction of an electrical interconnection line and the rehabilitation of a university. In order to ensure transparency, efficiency and maximize the impact on growth, we have conducted and finalized the related feasibility studies in March 2018. In case external program loans and grants will be higher than budgeted, we will direct any additional public expenditure towards priority sectors, including strengthening social spending and social safety nets, in consultation with IMF staff, to support higher and more inclusive growth and reduce poverty.

Fiscal Strategy for 2018

12. **We have adopted in May a revised budgetary framework which strengthens our fiscal target to a basic fiscal surplus of 0.8 percent of GDP**. We expect mining tax revenues to increase to 2.5 percent of GDP in 2018 on the back of strong production of incumbent bauxite companies and the start of production of new companies. Furthermore, non-mining direct taxes revenues would increase to 2.8 percent of GDP on the back of strong economic growth and the implementation of our targeted tax policy and administration reform. Non-tax revenues will increase to 1 percent of GDP, owing to the mobilization of an exceptional transfer of past collected revenues of GNF 400 billion (0.4 percent of GDP) in April 2018 from the National Agency for the Regulation of Post and Telecommunications. We will contain current expenditures in goods and services to 3.3 percent of GDP in 2018 and reduce electricity subsidies to 1.0 percent of GDP while we will mobilize additional domestic resources to strengthen social safety nets. We will implement measures to compensate the higher-than-programmed increase in salaries for the public administration which will allow to maintain the wage bill at 3.9 percent of GDP. Overall capital expenditure will increase to 6.5 percent of GDP to support growth. In parallel, we will contain domestically financed capital expenditures to 2.4 percent of GDP, by rephasing investment projects in view of higher-than-programmed domestically-financed capital expenditures in 2017. We will repay on a net basis the BCRG equivalent to 0.2 percent of GDP, thus repaying a share of the government borrowing from the BCRG above programmed levels in 2017 and the 2015 government borrowing from the BCRG falling due. We will contain government borrowing from commercial banks to 0.2 percent of GDP, to ensure banks' provision of credit to the private sector. We will repay 0.4 percent of GDP of the outstanding government arrears to the private sector.

Mobilizing Revenues

13. **We have adopted key tax policy measures in the 2018 Budget Law that simplified our tax system and supported broadening the tax base and will allow us to mobilize an additional 0.1 percent of GDP in non-mining tax revenues in 2018**. We have adopted a time-bound action plan for a targeted tax policy and administration reform in November 2017. In line with our action plan, we introduced key tax policy measures in the 2018 Budget Law which simplified our tax system, made it more equitable, and contributed to broadening the tax base. Thus, we introduced a higher tax bracket at 20 percent for withholding on personal income from wages, we reduced the corporate income tax from 35 percent to 25 percent (excluding banks, mining and telecom companies), and we reduced the rate of the minimum tax on turnovers from 3 to 1.5 percent while removing its ceiling, allowing broader application. This would mobilize 0.1 percent of GDP additional revenues in 2018.

14. **In order to achieve our fiscal target, we have started implementing a package of additional tax measures which are expected to mobilize about 0.4 percent of GDP additional tax revenues in 2018.** We will go ahead with a package of additional tax policy and administration measures to support revenue mobilization and we will update our action plan by June 2018 to incorporate those new measures. Notably:

- **We have introduced tax policy measures that will mobilize 0.06 percent of GDP additional revenues in 2018.** We have adopted in April 2018 a Prime Minister's circular which establishes the creation of an inter-ministerial committee and requires the authorization of the Minister of Budget for the issuance of new exonerations which has strengthened our institutional framework to provide tax exonerations. This will allow us to: i) streamline the provision of new exonerations; and ii) start eliminating tax exonerations which were provided on an ad-hoc basis which is expected to generate GNF 40 billion additional tax revenues (0.04 percent of GDP) in 2018 (overall ad-hoc tax exonerations are estimated at GNF 500 billion). The Minister of Budget will adopt a time-bound action plan to rationalize tax expenditures which were provided on an ad-hoc basis by June 15, 2018 (prior action). We will integrate in this time-bound action plan, the recommendations to further streamline legal tax expenditures based on the review we will be conducting with the support of the EU, by end-August 2018. In addition, we have made it mandatory to purchase insurance policies on imported goods from local insurance companies which will broaden the tax base on insurance contracts and generate GNF 21 billion additional tax revenues (0.02 percent of GDP).

- **We are moving ahead with a number of tax administration measures which are expected to mobilize about 0.35 percent of GDP in 2018.** The Domestic Directorate for Taxes will conduct (i) general and desk audits for large enterprises which would respectively mobilize additional GNF180 billion (0.17 percent of GDP) and GNF 33 billion (0.03 percent of GDP) supported by improved audit procedures and introducing performance contracts for auditors; (ii) audits of 32 companies on the basis of cross-checking companies' import data in 2018 with declared turnover to mobilize GNF 20 billion (0.02 percent of GDP). In addition, we will step-up the recovery of tax arrears to GFN 95 billion (0.09 percent of GDP), out of an identified stock of recoverable arrears of GNF 622 billion. We will also strengthen the collection of the Single Land Contribution through the use of geo-localization. We have hired for this purpose125 youth to cover all 5municipalities of Conakry which is expected to mobilize GNF 32 billion (0.03 percent of GDP).

15. We are committed to implement the automatic adjustment price mechanism for petroleum products, while putting in place mitigating measures to protect the most vulnerable, to support revenue mobilization and budgetary transparency. We have kept the retail prices of fuel products constant since early 2015 at 8,000 Guinean francs per liter and the TSPP has been used as an adjustment variable to bridge the gap between import and retail prices. Due to the international oil price increase, this led to sizable revenue losses in 2017 as the TSPP rate was reduced to 250 GNF/liter for gasoil and essence and to 0 for Kerosene to keep the retail prices constant. Starting with January 2018, we also had to introduce, for the first time, ad-hoc downward adjustments of customs duties on petroleum products to maintain the petroleum products retail price which led to substantial revenue losses of 0.2 percent of GDP in the first quarter of 2018 and could led to an overall loss of 0.8 percent of GDP over 2018. In order to reduce revenue losses and facilitate a gradual increase in the price of petroleum products towards the price indicated by the automatic price mechanism, we will increase the price of petroleum products at the pump by at least 12 percent on July 1st, 2018 which will enable us to reduce the losses on custom duties revenues by GNF 404 billion (0.38 percent of GDP) over 2018. To this end we have signed a ministerial order in June 2018 (prior action). In addition, we have been studying the petroleum products pricing system in neighboring countries and we are cleaning the price structure, without compromising appropriate margins for distributors and other costs. We are committed to implement the automatic price adjustment mechanism for petroleum products and we are convinced that ensuring the mobilization and the predictability of TSPP revenues is key to support higher fiscal revenues, create fiscal space to step-up public investments, and allow better budgetary planning. In view of the difficult social context, we have decided to delay the implementation of the automatic adjustment price mechanism at the latest in the first quarter of 2019. As a key step to facilitate and notably to inform our petroleum products price reform, we have initiated discussions with key stakeholders to build consensus and we are preparing a communication strategy to inform the public of the importance of reforming the system and how petroleum price subsidies disproportionally benefit more the wealthiest. In parallel, we will put in place targeted mitigating measures, including strengthening social safety nets, to minimize the impact of the reform on the most vulnerable segments of society. In the event the implementation of the automatic adjustment price system is delayed beyond January 2019, we will undertake additional tax revenue measures to achieve our revenue target.

Containing Current Spending

16. We will contain non-priority current spending in goods and services. We will rationalize orderings of electronic material, vehicles, furniture, and office material which will generate GNF 345 billion (0.3 percent of GDP) savings compared to programmed amounts in the ECF arrangement request for 2018**.**

17. We will reduce untargeted electricity subsidies on the back of our electricity tariff reform, improving EDG's efficiency, changing our electricity production mix to reduce production costs. We aim to gradually reduce electricity subsidies to 0.6 percent of GDP by 2020 on the back of our three-pronged strategy which aims at (i) increasing electricity tariffs to bring them closer to cost recovery; ii) improving EDG's efficiency by strengthening payments collection rate and reducing commercial and technical losses; and iii) substituting costly thermal electricity production with cheaper hydro production. We will reduce electricity subsidies to 1.0 percent of GDP in 2018 from 1.3 percent of GDP in 2017. To this end, we increased electricity tariffs by 42 percent for industrial and large consumers in November 2017. Due to protests, we suspended the 42 percent tariff increase for industrial and large consumers in March 2018 while we decided to move ahead with a more comprehensive review of electricity tariffs. We signed a ministerial order in April 2018 which establishes electricity tariff increases for all consumers categories, while preserving the social tariff. Thus, the above-mentioned ministerial decree establishes a 25 percent increase in the electricity tariff for the tranche of industrial and professional users and a 10 percent tariff increase for households. We will implement the new tariff structure (prior action) which, jointly with the 42 percent increase for industrial and professional users that was applied during January-February 2018, will generate savings on electricity subsidies of GNF 143 billion (0.13 percent of GDP). On the basis of the findings of the tariff study and impact analysis which is being finalized with the support of the African Development Bank, we will continue to move ahead with our tariff reform to bring electricity tariff to cost recovery levels. In addition, we have started improving the composition mix of our electricity production to reduce production costs for EDG. Notably, we will substitute121,089 MHW of thermal production in 2018 with hydro production which will reduce the EDG production costs by GNF 328 billion. Furthermore, we have signed a new contract with fuel suppliers to reduce purchasing costs which is expected to generate savings of about 30 GNF billion. On the operational side, efforts to increase the collection rate of EDG will continue by moving forward with the installation of electricity consumption meters for the Prime Minister's Office and 15 public ministries by June 2018 (SB) and for 100,000 domestic consumers by end-2018 throughout the central government and for 80 percent of the rest of consumers by the end of February 2019 (SB). We are continuing to strengthen controls to curb fraud in the electricity sector and reduce commercial losses. Notably, EDG is conducting a survey and partnering with domestic consumers to identify and eliminate illegal connection to the distribution system. This is expected to regularize 80,000 industrial and domestic clients and lead to additional savings of GNF 47 billion in 2018. We have begun infrastructure investments in the distribution network which are expected to reduce technical losses.

18. We will take measures to contain the impact of the larger-than-programmed salary increase to maintain the wage bill in line with the 2018 programmed level. The higher-than-programmed increase in public wages of 20 percent adopted in March 2018 would add GNF 326 billion (0.3 percent of GDP) to the wage bill in 2018. In order to counterbalance the impact of the increase in wages, we will take the following measures to maintain the wage bill within the budgeted envelope which will generate savings of GNF 326 billion: (i) freeze planned recruitment to generate savings of GNF 169 billion (0.2 percent of GDP), while ensuring to expand access to social services in rural areas with a minimum of 16540 teachers and 8025 health workers; (ii) delay the implementation of the status on a number of paramilitary corps which is expected to generate savings of GNF 60 billion (0.05 percent of GDP); and (iii) freeze automatic advancements in the public administration to generate savings of GNF 94 billion (0.09 percent of GDP). We will continue to move ahead with our administration and civil service reform. Notably, we have continued to move forward with the biometric census of civil servants (pensioners and contractual employees). During this process, we have discovered discrepancies with our civil servants' database (reflecting ghost and deceased workers that still appear in the database), and we have started to clean our registries. We are establishing a permanent system to monitor staff and ensure the enforcement of organizational laws and regulations. With the support of the World Bank, we have put in public work places 120 machines to monitor the work data of civil servants to discourage fraud. Thanks to this, we have already exposed 2800 ghost workers. We will install 150 additional machines by end-2018. In the medium term we also aim to establish a new electronic platform that can monitor and consolidate data on civil servant work activity and salaries.

19. We will increase domestically-financed public expenditures directed towards social safety net programs to support reducing poverty and foster inclusion. We have finalized our first National Social Protection Policy in November 2016, which supports our objective to reduce poverty by: i) strengthening social protection; ii) providing access to employment opportunities; iii) improving the living conditions of the poorest and most vulnerable; iv) improving access to health and education services; v) improving access to food and nutrition security; vi) preventing and managing crises and disasters and building resilience; and vii) improving access to social housing. In order to support the implementation of our strategy, we are committed to use budgetary savings from the electricity subsidy reform to increase domestically-financed public expenditures on non-contributory social safety nets programs under the Social Development Fund and the Program Filets Social Productive (PFSP) to GNF197 in 2018 and over the program period. This would allow us to strengthen the coverage of these programs and start reducing over-reliance on donor financing to ensure the continuation of these programs over time. These include labor-intensive public works projects providing employment and training to women and the youth; conditional transfers to vulnerable households to support children's school enrolment and provision of health services; non-conditional cash transfers to poor households particularly in rural areas to reduce the poverty gap; social projects aimed at reducing gender inequality and fostering women's integration in the labor force; social assistance to the most vulnerable, including the elderly and the disabled, and those impacted by HIV/AIDS and Ebola. We will establish a unified social register of vulnerable populations which will be key to strengthen the targeting of the delivery of social programs by February 2019 (SB). To this end, we have started to strengthen capacity building, and we have held a workshop with donors and key stakeholders with the support of the World Bank in March 2018 to discuss a roadmap for execution. We will continue to liaise with donors, notably the World Bank and UNICEF, to mobilize needed external financing, in view of the significant cost of the project and identify the next steps.

Medium-term Revenue Mobilization Strategy

20. We are committed to mobilize additional tax revenues of 3 percent of GDP during the program period. Our strategy to mobilize additional tax revenues will focus on fostering non-mining tax revenues, notably direct taxes, through broadening the tax base and strengthen controls and payments. Specifically, we will adopt the following measures:

- **Tax policy measures**: we will focus on the implementation of measures that would allow mobilizing additional revenues while making our tax system more equitable and transparent. Notably, we will: (i) rationalize tax exemptions based on our ongoing review of tax expenditures (estimated at about 4 percent of GDP) which will support broadening the tax basis. To this end, we will adopt an action plan with time-bound measures to streamline exonerations in June 2018 on the basis of the review of existing tax exemptions that we conducted with the support of the EU and we will conduct an in-depth audit of the tax directorates; (ii) we will conduct a tax payer census of small and medium-sized businesses which will be the basis for the establishment of the Unique Professionals Tax (TPU) by June 2018, which will improve tax compliance for businesses in the informal sector through tax recovery via electronic and secured payment available in banks; (iii) streamlining excises and review rates; (iii) reviewing the property tax regime; (iv) introducing an additional tax bracket of 25 percent for personal income tax; (v) eliminating the global income tax while broadening the coverage increasing the coherence of the withholding system; and (vi) reviewing international tax rules and provisions. We will also put in place a strategy to reduce the outstanding stock of VAT credit arrears.

- **Tax administration measures:** we will focus on measures that will strengthen tax payment and collection. To this end, we will: (i) finalize the development of online tax declaration and payment modalities by June 2019 ; (ii) further advance informatization, with projects RAND and MERCURY allowing to connect TVA payments from businesses to the network of the National Directorate of Taxes (DNI) by end-2018, and enable real-time processing of tax obligations and consolidate information and data from various tax units into a centralized network (SFIG); (iii) reinforce the capacity of the DNI notably by separating management and operations; (iv) finalize the development of a procedural manual and an internal audit protocol for the DNI, with the support of the EU; (v) expanding the cross-checking of large companies' imports with declared turnover to reduce under-declaration and increase tax control by improving tax-payer identification; (vi) continue to collect tax arrears from large companies (estimated at 0.7 percent of GDP); (vii) introducing a permanent tax-payers' identification number by end-2018; (viii) strengthening the capacity of the Directorate for Taxes and the recovery of the Department of Large Enterprises; (ix) improving compliance of large and medium tax-payers; (vi) cleansing and transferring taxpayers files to responsible tax offices; and (x) digitalization of customs.

- **We remain committed to apply the tax provisions of the new mining code to mobilize additional mining revenues on the back of buoyant mining activity**. We have made significant progress towards strengthening governance and transparency in the mining sector. Guinea joined the Extractive Industries Transparency (EIT) initiative in 2014, and we implemented the amended Mining Code (adopted in 2011) in 2013, which introduced taxation provisions which are in line with international standards. In addition, we have conducted a review of mining agreements and titles and set-up a more transparent system for issuance, renewing and transfers of permits. We have made significant progress in bringing expiring agreements closer to the provisions of the new mining code. In view of new large investments in the mining sector, we aim at taking advantage of the buoyancy in the sector to mobilize additional revenues to finance our programmed scaling-up of investments in infrastructure and priority social spending. To this end, will ensure that all new and renewed expiring mining agreements, excluding those with new investments in infrastructure for multiple users and/or transformation in Guinea in higher value-added products, will be put in line with the mining code, including the tax provisions, and that all conventions which deviate from the mining code will be presented to the National Assembly with an assessment of tax expenditures, which will be updated on yearly basis as an annex in the budget law (new SB).

Fiscal Structural Reforms

21. We will continue to strengthen public financial management to support our envisaged scaling up of investments. We made important progress in strengthening public financial management, and we are committed to advancing reforms to support the fiscal strategy:

- **We will further strengthen our medium-term budget framework to better monitor public expenditures and manage the scaling-up in public investment.** For the first time, we presented a medium-term budget (MTB) with the 2017 budget law. We have adopted the new budget nomenclature in line with the GFSM 2001 manual for the 2018 Budget Law, implemented the new budget nomenclature for the 2018 budget execution and modernized the information system for the preparation and execution of the budget. We have established a top-down budgetary approach by setting targets for the MTB in line with the ECF-arrangement fiscal targets. In addition, we have enhanced our budget preparation calendar and will adhere to the calendar for the 2019 budget preparation with the budget orientation debate being held by July 1, 2018, and we will continue to publish the quarterly reports of the budgetary execution. We have adopted in December 2017 the ministerial orders for compliance of budgetary and accounting management of administrative public entities (EPA) with the new legislative and regulatory framework of public finances. We will adopt and operationalize the related procedural manuals to strengthen the quality of budgetary execution and the quality of the reports of budgetary execution by end-2018.

- **We will swiftly move ahead to finalize establishing a Treasury Single Account (TSA) to strengthen transparency, budget monitoring and our cash management.** To this end, we closed all accounts of the EPA held at commercial banks and allowed only one account at the Central Bank aiming at consolidating all accounts in the perimeter of the TSA. In this context, we have finalized a survey of the accounts of those entities in Conakry and in the rest of the country. We will transfer to the TSA the accounts of all ministries and all administrative public entities (EPA) in Conakry to make it operational by end-December 2018. The process of consolidation of the public treasury will continue in 2019 by the extension of the CUT to the accounts of externally-financed public development projects and programs, most of which are opened in commercial banks.
- **We are moving ahead with improving our cash management, which would be important to support containing budgetary financing from the BCRG.** We have better aligned expenditures commitment plans with cash flows, and we started conducting this exercise on a monthly basis since January 2018. In addition, we are holding on a weekly basis a technical inter-ministerial meeting to support the committee for cash management, which is held on a monthly basis. In addition, we will strengthen the forecasting component of our cash flow model, in line with recent IMF TA recommendations, which will enable us to improve our assessment of budgetary needs.
- **We are committed to move ahead with the implementation of the recommendations of the PEFA assessment.** We have conducted the PEFA exercise in April 2018 with the support of IMF TA which provided an in-depth evaluation of Guinea's public financial management framework. On this basis, we will integrate the recommendations of this assessment in the action plan to reform public finances by September 2018 (new SB) which will identify time bound measures to improve the strength of the public financial management system. Notably, we will focus strengthening the following areas: accounting, reporting, audit, performance information for service delivery, evaluation and monitoring of budgetary risk, public investment management, expenditure arrears and wage bill forecasting.

22. We will strengthen public investment management to improve transparency and efficiency and maximize returns of our envisaged national investment plan. We are committed to prioritizing public investments projects with higher growth and poverty reduction impact, conduct a full cost-benefit analysis of projects (cost-advantages for social projects). We will conduct the PIMA (Public Investment Management Assessment) methodology with the support of IMF TA in May 2018, which will be key to develop an action plan by September 2018 to strengthen our public investment management. We will ensure the implementation of our procurement framework. We have contracted a firm to assist in the implementation of a platform for integrated investment management, which will allow us to have a better knowledge of the investment portfolio and improve the ability of all stakeholders to track the financing and evolution of public investments, and strengthen the coordination and monitoring of investment projects which we will finalize by end-2018. In 2014, we adopted a new procurement code, which established competitive bidding for public investment projects (above a certain threshold). In 2016, we conducted and published an audit of public contracts. We reduced the delays in procurement by streamlining processes and we will finalize our survey of providers' prices by May 2018 to ensure the transparency of contracts and we will implement a system of sanctions as specified in the public procurement code. Furthermore, we have prepared the first report on public contracts, we have published it on the Ministry of Finance website and we will continue to publish it on a six-month basis. We will enforce the provisions of the procurement code and conduct competitive bidding for public investment projects. In addition, we are working to amend the procurement code by end-2018 to simplify and streamline procedures, reduce delays, and improve the transparency and monitoring of contracts, including the application of sanctions, which we expect will reduce costs and improve the quality of spending. In line with this reform, we will adopt a manual for procurement procedures by March 2019, and we will develop a platform to support internal management and monitoring of the execution of public contracts, for which we are elaborating on the terms of reference.

23. We will finalize our new public-private partnership (PPP) framework and ensure it is consistent with best practices. In view of our objective of increasing investments, a new PPP law was adopted by the Parliament in July 2017. We will publish the new law in the Official Gazette by end-June 2018. We will finalize the related implementation decrees by June 2018, ensuring that the new PPP framework is in line with best practices, geared toward supporting projects envisaged in the PNDES, and consistent with the organic law on public finance (LORF). Given the risks and contingent liabilities associated with PPP-financed projects, we will exercise prudence in the use of PPPs to ensure that we are not exposed to possible government contingent liabilities resulting from the implementation of those PPPs. We will ensure that those guarantees are well monitored, evaluated, and contained in line with sound risk management.

24. We will move ahead with our reform of state-owned enterprises (SOEs) aiming at strengthening their governance and support the mobilization of fiscal revenues. We completed a survey of the legal and financial status of all SOEs in 2017 and an SOEs' annual financial report for 2016 was submitted for the first time to the Parliament. A revised law on the governance of SOEs was approved by the parliament in December 2017 and ensured consistency with the law of public finance (LORF) and the decree on budget management and public accounting. The new SOEs' law strengthens governance and monitoring of SOEs by: i) applying the tax provisions of the common law; ii) strengthening the obligation to pay dividends; iii) clarifying the eventual granting of subsidies; and iv) strengthening control of fiscal risks stemming from SOEs. We have already prepared a draft of the implementation decrees of the SOEs' law and we will adopt it by September 2018 (new SB). We have started to bring the texts of five SOEs in accordance with the requirements of the new law and will finalize it for all public enterprises by end December-2018. In line with the new law, we are preparing the annual financial report for SOEs for 2017 and we will be submitting it to the Parliament as an Annex of the 2019 budget law. We are working to develop a medium-term strategy to improve the financial conditions of loss-making SOEs to reduce fiscal costs and the build-up of contingent liabilities. We will aim at improving the management and performance of these companies. To this end, we will update SOEs' legal status and texts, consolidate their financial position, and establish their Boards of Directors.

Debt Policy and Management

25. We are committed to preserve medium-term debt sustainability and not exceeding a moderate level of external debt distress. We will continue to carefully manage our external borrowing to finance the planned increase in public investments to preserve the sustainability of our debt and contain debt vulnerabilities. In view of Guinea's moderate risk of external debt distress and the large non-concessional loan we are finalizing to finance the construction of the Souapiti dam project (about 11 percent of GDP), which is critical to improve our electricity capacity production, we will maximize the concessional element of our new external borrowing and limit contracting or guaranteeing any additional non-concessional debt to preserve medium-term debt sustainability to our program ceiling. To this end, we are notably committed to limit non-concessional debt that will be contracted or guaranteed during the three years of the ECF arrangement to a maximum of US$650 million to finance key infrastructure projects so that Guinea's risk of debt stress does not exceed a moderate level. Within this envelope we are planning to sign the two loans for the financing of the rehabilitation of the RN1 road and Conakry urban road network by end-2018.

26. We are committed to gradually repaying the domestic arrears that have been accumulated in previous fiscal years. We conducted in 2016 an audit of domestic arrears and the overall stock of domestic arrears is estimated at end-2017 at GNF 4113 billion (4.4 percent of GDP). We have adopted in December 2017 a strategy for the clearance of domestic arrears which aims at clearing 80 percent of creditors (about GNF 109 billion) of the audited and verified arrears over the period 1982-2013. To this end, we have already repaid GNF43 billion in 2017, and we plan to repay GNF 58 billion in 2018. Furthermore, we are planning to repay the remainder amounts over a seven-year period, and we are working on defining the modalities. We will recruit an auditor and we will conduct a review of domestic arrears contracted during 2013-2017. We are committed to avoid the accumulation of new arrears, including through better debt management which will help support the private sector.

27. We will continue our efforts to resolve our long-standing external arrears. We have initiated negotiations to liquidate external arrears to Non-Paris Club and commercial creditors, and we will continue communications to the creditors to this end. Our objective is to gradually normalize these arrears as soon as we receive a response from the creditors. To this end, we will continue discussions with creditors. We will ensure not to accumulate new external arrears, including through improving debt management.

28. We will continue to strengthen our debt management framework. We published an operational procedures manual and the National Debt Policy statement and concluded in 2016 the audit of domestic arrears. We have strengthened our debt management capacities and we will continue to build on these efforts, with the support of technical assistance from the IMF, U.S. Treasury, AFD and other development partners. We will set-up a Committee to oversee debt management by end June 2018. We will update the medium-term debt management strategy (MDTS) by end 2018 for which we have requested technical assistance from the IMF. We will finalize and publish a statistical bulletin on public debt by end April 2018, and we will continue to publish it on a quarterly basis. We have published a calendar of bond issuance on the Ministry of Economy and Finance website in April 2018, which will support transparency and improve cash management. We have requested the DEMPA exercise (Debt Management Performance Assessment), which will be conducted with the support of the World Bank in May 2018. This will allow us to identify key measures to reinforce the management of our debt and we will develop an action plan to strengthen our debt management on the basis of the DEMPA findings by October-2018.

D. Monetary and Exchange Rate Policies

29. We are committed to finalize our foreign exchange market reform in order to strengthen the role of market forces and support greater exchange rate flexibility. The BCRG made significant progress in reforming the exchange rate mechanism by replacing the foreign exchange allocation system with a bilateral foreign exchange market (MEBD) in early 2016. This allowed greater exchange rate flexibility, and reduced the differential between the official rate and the rate of the foreign exchange bureaus. We have made MEBD operations more regular and predictable by issuing an instruction in early 2016 that details how the MEBD and auctions are organized. Auctions are currently held twice a week (on Tuesday and Friday) and are preceded by a communiqué the day before. We discontinued the practice of fixing the official ER one day after receiving banks' foreign exchange transactions reports and the reference rate is now published before 9am on a daily basis. We are committed to finalizing our reform of the foreign exchange market. To this end, the BCRG has signed an instruction in May 2018 that clarifies the methodology used for the calculation of the daily reference exchange rate which was communicated to banks. The BCRG will issue an instruction by June 2018 which will clarify the rules for banks' participation in the MEBD and will strengthen the reporting and analysis of the MEBD operations and prepare a quarterly report to support discussions with participants in the market. In order to make the MEBD more competitive and support greater flexibility of the exchange rate, we will gradually eliminate the limit on auction allocations to a single participant. Thus, we will increase this limit to 40 percent by September 2018 and 60 percent by December 2018. We will then fully eliminate it by June 2019. We will develop a rule-based intervention strategy for BCRG by March 2019 (SB), supported by IMF TA, to limit discretion. We will also establish an electronic platform to make MEBD operations more fluid and secure by June 2019, and we have strengthened foreign exchange liquidity forecasting by better sharing of information and regular meetings between the BCRG and the Ministry of Finance. We will ensure that the premium between the official exchange rate (which is the reference rate for all market participants) and the commercial banks' purchase and sales rate does not exceed 2 percent on a given day.

30. We will strengthen our foreign exchange reserves to build additional external buffers against exogenous shocks. We have strengthened our reserves in 2017, but they remain below 3 months of import coverage and below the ARA-CC metric reserve adequacy estimate of 3.8 months of imports. To support achieving our objective of reserve coverage of 3.8 months of imports by 2020 the BCRG will start an active strategy to accumulate reserves through regular and small purchases in unilateral and competitive auctions open to all Guinean banks and foreign non-bank entities operating in the MEBD by September 2018 (new SB) while we will ensure to preserve the MEBD's stability. Notably, we will conduct a unilateral auction each day, out of the days in which the MEBD is conducted. This will allow us to take advantage of a larger supply of foreign exchange in the economy. We will continue moving towards greater exchange rate flexibility, limiting our interventions in the MEBD to provide appropriate liquidity and prevent disorderly market conditions. In this respect, we will finalize a weekly foreign exchange liquidity forecast by December 2018 so as to improve the predictability of market supply and demand conditions.

31. Our monetary policy will aim at preserving moderate inflation. We are committed to continuing to strengthen the autonomy of the BCRG. The BCRG will aim at maintaining broadly stable inflation within single digits by continuing to target base money. In view of rising inflation and the build-up in inflationary pressures in the economy due the recent increase in wages in the public administration, we will maintain a prudent monetary policy and stand ready to tighten our monetary policy stance to maintain a positive real interest rate. For 2018, we will target the monetary base to expand at about 14 percent (y-o-y), which is consistent with an inflation rate at about 8 percent and growth of credit to the private sector at about 5 percent (in percent of broad money).

32. We will continue to strengthen our monetary policy framework by improving liquidity management. The BCRG has re-introduced monetary regulation instruments (short-term securities) to absorb excess liquidity and injections operations (refinancing windows) to meet liquidity needs, creating an interest rate corridor. Furthermore, the BCRG has improved its capacity to monitor liquidity by preparing a daily monitoring liquidity table and a weekly liquidity report. In line with recent TA recommendations, we have started to use our liquidity management tools on a more regular basis. We have established a new liquidity forecasting framework in March 2018, which will allow the BCRG to calibrate its liquidity injections and absorption operations. We will operationalize our new liquidity framework in May 2018 and we will use it to ensure that banks' liquidity needs are met and support banks' provision of credit to the private sector. We will set-up an electronic platform for interbank transactions in domestic and foreign currencies by September 2018, which will strengthen activity in the interbank market and support a more competitive market. Furthermore, we will establish an emergency liquidity framework for illiquid but solvent banks, supported by IMF TA, by February 2019.

33. We will continue to move forward in addressing remaining recommendations of the 2017 Safeguards Assessment Update to strengthen the BCRG's autonomy, transparency and accountability. We are convinced that recapitalizing the BCRG to ensure its operational autonomy, enhancing the BCRG's financial reporting transparency, developing its internal audit capacity and strengthening controls in currency operation are key. We are committed to continue to strengthen the autonomy of the BCRG. To this end, we have amended the published version of the new BGRG Law to strengthen its autonomy, which was approved by the Parliament in November 2016, to include all key amendments. Notably, the law prohibits the issuance of guarantees by the BCRG to the private sector. To ensure to maintain the operational autonomy of the BCRG, we have prepared a first draft of the Memorandum of Understanding between the BCRG and the Ministry of Economy and Finance which specifies the modalities and a timeline for the needed recapitalization of the BCRG (estimated at about U$200 million), and we are committed to sign it by end-May 2018 (prior action). The BCRG has made significant progress toward the implementation of the International Financing Reporting Standards (IFRS) and it is on track to publish IFRS compliant financial statements for 2017 by September 2018 (SB). We are committed to contain the government's borrowing from the BCRG to short-term cash management and in respect of the provisions of the Central Bank Law. To this end, we will sign a Memorandum of Understanding (MoU) between the BCRG and the Ministry of Economy and Finance in May 2018 that will limit the BCRG statutory advances to the government to the statutory limits indicated in the Central Bank Law (prior action) and thus to no more than 5 percent of the average revenues of the last three years which will have to be repaid within a period of 92 days. In addition, we will conduct an internal audit of the monitoring system of the credit provided to the government, and we will share the report with IMF staff by end May 2018. Furthermore, we will hold regularly the Executive Committee of the BCRG to strengthen monitoring, and we will start providing from May 2018 monthly regular reports to the

BCRG Board on the level of credit to the government and whether it is in compliance to the BCRG law. We are committed to strengthening the internal audit processes and capacity of the BCRG. We have commenced implementation of the 2017 Safeguards Assessment Update in this area, including producing periodic reports for the Audit Committee focusing on high-risk areas, and we have set up a capacity building program including by reinforcing the number of personnel in digital audit. We will set-up internal compliance processes at the BCRG to review adherence with legislation and provide semi-annual reporting to the Board by end-September 2018 (new SB), and we will conduct a peer-review of currency operations by November 2018. With the support of IMF TA, we will strengthen internal audit practices by ensuring adequate legal and institutional frameworks are in place and that the approach is in line with international standards of a risk-based assessment.

34. We are committed to maintaining the stability of the banking sector and continue to strengthen banking supervision. The BCRG has defined an action plan with the two remaining non-compliant banks to bring them into capital regulatory compliance by end-2018. One bank is in breach of capital adequacy requirements by a minimal amount and is expected to be in compliance following the incorporation of the 2017 financial year results; a recapitalization plan has been defined for the remaining bank. Furthermore, the BCRG will ensure that all banks are in compliance with the reserve requirement. In view of the recent increase in non-performing loans and to support banks' provision of credit to the private sector, we have set up a new credit information system, with the support of the World Bank, to provide better information on the creditworthiness of banks' customers which has been fully operational since end-2017. The BCRG is taking a number of measures to strengthen banking supervision, including updating the accounting framework applicable to credit institutions; automating the process reporting financial data; revising and drafting new regulations; and improving the rating methodology of banks and supervisory actions. We will further strengthen banking supervision by ensuring that all banks are compliant with IFRS standards and are moving towards implementing Basel II. An Insurance Code to improve sector supervision and meet international standards was developed and adopted in July 2017. We aim at establishing a banking resolution framework by end-2018 and discussions are underway with TA providers. We are in the process of setting up a deposit guarantee scheme, and we expect to finalize it by end-2018. A Professional Association of Banks (APB) and BCRG commission has been set up for this purpose, and a draft decision has been prepared as an action plan to implement the deposit guarantee fund.

Structural Reforms

35. We are committed to move ahead with the implementation of structural reforms to support higher and more inclusive growth. We will aim at ensuring the development of the private sector to generate higher and more inclusive growth and generate needed job-creation to reduce poverty. Our reforms will be targeted at improving the business climate and governance and strengthening financial inclusion over the program period.

36. Improving the business climate is needed to support private sector development and achieve higher and more inclusive growth. Guinea significantly improved its ranking in the World Business Indicators in the last five years and gained 27 places between 2013 and 2018 (153 out of 190 countries). We are committed to continue strengthening the business climate to foster private sector development and investments. To this end, we developed an action plan to improve the business climate in March 2018 which defines short, medium and long-term actions. Notably, we aim at: i) easing procedures to start a business; ii) developing a framework for the Public-Private dialogue, iii) easing paying taxes, including by introducing a business identification number and online tax declarations; iv) improving access to credit, notably for small and medium-sized enterprises; (v) strengthening contract enforcement; and (vi) easing cross border trade. Notably, we will establish a specialized Commerce Court in Conakry by October 2018 to improve contracts execution (new SB). In addition, we aim to establish a one-stop shop for foreign trade to facilitate cross border trade. To this end, we issued the tender for the operator. We are evaluating the offers received, aiming at finalizing the recruiting of the operator by end-2018.

37. We are committed to strengthening governance, a central pillar of our growth-enhancing strategy. The Parliament adopted in July 2017 the anti-corruption law, which represents an important step towards improving governance. The law was published in the Official Gazette on August 2017. We will adopt the implementation decrees of the 2017 corruption law on the asset declaration regime and whistle blowers and victims' protection by end-December 2018 (new SB). We are committed to move ahead with the criminalization of all acts of corruption. In addition, we will adopt the implementation decrees on the organization and operation of the National Agency for the Fight Against Corruption by end October 2018 (New SB). To this end, we have already prepared the draft decrees on the role and organization of the Agency to Fight Corruption (NAFC), whistle blower and victims' protection, and declaration of assets. We will strengthen the enforcement of the rule of law and the judiciary system, and the overall anti-corruption framework to improve governance. We have organized three workshops to ensure the coherence between the new anti-corruption law and our national strategy and plan of action to fight against corruption and promote good governance, with the support of the EU. Notably, we are committed to strengthening the NAFC by improving its human, technical, and logistic capabilities and by strengthening its independence and financial autonomy with a proper budget allocation and we will create a pool of specialized magistrates on the issues of corruption and a judicial police brigade within the NAFC. We are moving ahead with the reorganization of the Executive Secretariat of the NAFC and the restructuring of seven ANLC regional branches. We have started the consultations to establish a judicial police brigade and training of personnel. We are committed to continue to strengthen our AML/CFT regime and move ahead with the implementation of the recommendations of the assessment conducted by the Inter-Governmental Action Group Against Money Laundering in West Africa (GIABA), including measures related to politically-exposed persons, and enhancing the legal framework, with the support of IMF TA. We have made progress in improving our AML/CFT regime, including by operationalizing the Financial Intelligence Unit—in line with recommendations from IMF TA —and by setting-up an inter-ministerial committee and a steering committee.

38. We will strengthen financial inclusion to support the development of the private sector. To this end, we have adopted in July 2017 a new Financial Inclusion Law which will provide a framework for the activity of microfinance institutions and will be key to support increasing credit access of SMEs, women and the youth. Notably, the law introduces new regulations governing the activity and control of microfinance institutions as well as of the electronic money institutions and the financial services of the Guinean Post. We will swiftly adopt the law's implementation decrees by June 2018. To this end, we have prepared the draft instructions, with the support of the World Bank, we have transmitted them to key stakeholders (micro-finance institutions, e-money operators, postal financial services, etc.) and we held a workshop in April 2018 to discuss their observations and comments.

E. Program Monitoring

39. The program will continue to be monitored on a semi-annual basis, through quantitative performance criteria and indicative targets (Table 1) and structural benchmarks (Table 2). Quantitative targets set for end-June 2018 and end-December 2018 are performance criteria, while those for end-March 2018 and end-September 2018 are indicative targets. The second review should be completed on or after December 11, 2018, and the third review on or after June 11, 2019. We will evaluate the implementation of our macroeconomic policies and reforms through the government's program coordination and monitoring bodies, the Economic Coordination and Reform Council (CCER) and Technical Unit for Program Monitoring (CTSP).

40. We will continue our efforts to strengthen our statistical system to ensure the appropriate assessment and monitoring of our macroeconomic policies and reforms. We have strengthened in March 2017 our methodology for the compilation of the national accounts and adopted the 1993 SNA, with support of IMF TA. We will continue our ongoing work to further strengthen our methodology by migrating from SNA 1993 to SNA 2008 with the support of IMF TA. We put in place the steering bodies of the national statistical system, and we will ensure the operationalization of the macroeconomic framework committee to facilitate the harmonization of the data. To this end, we started a new household survey to update our assessment of the living conditions of the population, which will be completed by end-2018.

Table 1. Guinea: Quantitative Performance Criteria and Indicative Targets, ECF Arrangement, 2017-19

(Billions of Guinean Francs; unless otherwise indicated)

	2017				2018								2019	
	Dec				March				June		Sept.	Dec	March	June
	PC	Adj. PC	Act.	Status	IT	Adj. IT	Prel.	Status	PC	Rev. PC	IT	PC	IT	IT
Quantitative performance criteria														
Basic fiscal balance (floor; cumulative change for the year)	519	614	-1,030	Not Met	346	502	1,196	Met	957	1,022	1,387	904	609	1,394
Net domestic assets of the central bank (ceiling; stock)	7,208	7,350	8,236	Not Met	7,137	7,369	8,070	Not Met	7,066	8,358	8,112	7,909	7,878	7,786
Net government budgetary borrowing from the central bank (ceiling; stock)	7,179	7,321	7,983	Not Met	7,108	7,340	7,651	Not Met	7,037	7,939	7,693	7,656	7,625	7,534
Net international reserves of the central bank (floor; stock); US$ million[1]	345	330	357	Met	420	395	390	Not Met	456	422	506	544	585	624
Continuous performance criteria														
New non-concessional external debt contracted or guaranteed by the central government or central bank (cumulative ceiling); US$ million[2]	650	650	0	Met	650	650	0	Met	650	650	650	650	650	650
New external arrears of the central government and central bank (ceiling)[3]	0	0	0	Met	0	0	0	Met	0	0	0	0	0	0
Indicative targets														
Tax revenues collected (floor)	12,893	12,893	12,443	Not Met	3,115	3,115	2,995	Not Met	8,071	7,524	11,089	14,394	3,920	9,416
Domestically financed social safety programs to reduce poverty (cumulative floor)[4]	138	138	47	Not Met	76	76	6	Not Met	153	99	148	197	53	106
New domestic arrears accumulated by the central government (net)[4]	...	...	...	...	...	...	...	...	...	-340	-390	-479	-120	-145
Memorandum items:														
New concessional external debt contracted or guaranteed by the central government or central bank (cumulative)[5]; US$ million	315	315	315	Met	365	365	339	Met	365	339	399	399	399	399

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

[1] It will be calculated using program exchange rates.

[2] External debt contracted or guaranteed other than with a grant element equivalent to 35 percent or more,
calculated using a discount rate of 5 percent, excluding the $1.2 billion loan for the Souapiti dam. Excludes borrowing from the IMF. Continuous performance criterion.

[3] Continuous performance criterion.

[4] Cumulative from the beginning of each year.

[5] To be monitored continuously, reflects projected disbursements.

Table 2. Guinea: Prior Actions and Structural Benchmarks under the ECF Arrangement, 2017–20

Measures	Date	Status	Objectives
Prior Actions			
Limit the use of authorization letters (ALs), in line with the budget management and public accounting decree, to sovereign expenditures and special funds and link the execution of expenditures authorized through ALs to budgetary lines. Provide a report on the use of ALs in line with these principles during January-May 2018 to IMF staff.		In progress. A draft of the report has been prepared.	Ensure the execution of public expenditures in line with legal procedures as defined in the law and regulations and avoid extra-budgetary expenditures, and better align cash flows and commitment plans.
Adopt a time-bound action plan to rationalize ad-hoc tax expenditures		In progress. A draft of the action plan has been prepared.	Support mobilization of additional tax revenues
The Council of Ministers to approve a budgetary framework for 2018 in line with agreed corrective measures and revised program fiscal targets to be used as the basis for the 2018 Supplementary Budget Law and submit it to the Financial Commission of the National Assembly		Met	Strengthen macroeconomic stability
Signing a Memorandum of Understanding between the BCRG and the Ministry of Economy and Finance limiting the BCRG's lending to the government to the statutory limits indicated in the BCRG Law		Met	Limit government borrowing from the Central Bank
Signing a Memorandum of Understanding between the BCRG and the Ministry of Economy and Finance with modalities and timeline for the recapitalization of the BCRG		Met	Ensure the operational autonomy of the BCRG
Implementation of a 25 percent increase in the electricity tariff for industrial and professional users and a 10 percent increase for households as detailed in the circular 2018/3334		In progress. The ministerial decree was published in the Official Gazette and the increase in electricity tariffs was adopted by the electricity company in May 2018.	Reduce electricity subsidies
Sign a ministerial order to increase the price of petroleum products by at least 12 percent starting from July 1, 2018		Met	Protect budget revenues
Structural Benchmarks			
First Review			
I. Fiscal Policy			
Adoption of an action plan for a targeted tax policy and administration reform by the Ministry of Budget	End Dec-17	Met	Mobilize and safeguard tax revenues
Adoption of the Government's strategy for the clearance of domestic arrears by the Ministry of Finance	End-Dec-17	Met	Improving fiscal management and transparency and strengthening the private sector

Implementation of the 25% increase in electricity tariffs for industrial consumers and large consumers adopted in October 2016 by the Government	End Dec-17	Met. Electricity tariffs for industrial and large consumers were increased by 42 percent in November 2017. The increase was suspended in March 2018 and re-instated at 25 percent as a prior action	Reduce electricity subsidies
Completion of the electricity tariff study, including the impact analysis by the Ministry of Energy and Hydraulics	End Feb-18	Not met. The electricity tariff study is being finalized	Establish tariffs that cover medium-term electricity costs and accompanying measures to protect the most vulnerable populations
Implementation of the existing automatic price adjustment mechanism for petroleum products by the Government	End Mar-18	Not met	Protect budget revenues
Finalization of feasibility studies for public investment projects financed by non-concessional borrowing	End Mar-18	Met	Ensuring efficiency and good management of public investments
II. Monetary and foreign exchange policy			
Signing a Memorandum of Understanding between the BCRG and the Ministry of Economy and Finance with modalities and timeline for the recapitalization of the BCRG	End Feb-18	Not met. The Memorandum of Understanding was signed with a delay in May 2018 as a prior action	Ensure the operational autonomy of the BCRG
BCRG to establish a liquidity forecasting framework	End Mar-18	Met	Strengthen monetary policy framework and improve liquidity management
III. Structural reforms			
Adoption of an action plan to improve the business climate by the Government	End Mar-18	Met	Foster the development of the private sector
Submission to the Parliament the 2016 SOEs annual financial reports by the Ministry of Finance	End Dec-17	Met	Improve transparency and governance
Second Review			
I. Fiscal Policy			
EDG to install electricity consumption meters in the premises of the Prime Minister and fifteen Ministries and provide a complete report on the installation of meters for the rest of the consumers	End Jun-18		Increase the revenues of the public electricity utility to reduce budgetary transfers to the company
Integrate the PEFA recommendations in the action plan to reform public finances (*Newly proposed*)	End Sep-18		Strengthen public financial management
Submit to the National Assembly a Supplementary Budget Law for 2018 in line with agreed corrective measures and revised program fiscal target (*Newly proposed*)	End Sep-18		

All new and renewed expiring mining agreements, excluding those with new investments in infrastructure for multiple users and/or transformation in Guinea in higher value-added products, will be in line with the tax provisions of the mining code. All new agreements with new investments in infrastructure for multiple users and/or transformation in Guinea in higher value-added products will be submitted to the National Assembly with an assessment of tax expenditures (*Newly proposed*)	End Nov-18		Mobilize additional mining revenues and foster governance and transparency
II. Monetary and foreign exchange policy			
BCRG to publish IFRS-compliant financial statements for 2017	End Sep-18		Strengthening the BCRG financial accountability
BCRG to establish internal compliance processes to review adherence with legislation and provide semi-annual reporting to the Board (*Newly proposed*)	End Sep-18		Strengthening internal audits and control functions
BCRG to establish unilateral and competitive auctions to conduct regular and small purchases of foreign exchange (*Newly proposed*)	End Sep-18		Conduct an active strategy to accumulate international reserves
III. Structural reforms			
Adoption of the implementation decree of the 2017 law on governance of public entities (*Newly proposed*)	End June-18		Improve transparency and governance and reduce fiscal risks
Establish a specialized Commerce Court in Conakry (*Newly proposed*)	End Oct-18		Improve the business climate
Adoption of the implementation decree on the organization and operation of the National Agency for the Fight Against Corruption (*Newly proposed*)	End Oct-18		Strengthen governance
Third Review			
I. Fiscal Policy			
EDG to complete the installation of electricity meters in all buildings of all Ministries and complete the installation of meters for 80 percent of the rest of the consumers	End Feb-19		Increase the revenues of the public electricity utility to reduce budgetary transfers to the company
Establish a unified social register of vulnerable populations by the Ministry of Social Affairs	End Feb-19		Improving the targeting of social protection programs
II. Monetary and foreign exchange policy			
BCRG to strengthen its intervention strategy in the foreign exchange market	End Feb-19		Limit discretion in interventions and increase foreign exchange market transparency
BCRG to establish an emergency liquidity assistance framework for illiquid but solvent banks	End Feb-19		Strengthening the monetary framework
III. Structural reforms			
Adoption of implementation decrees of the 2017 corruption law on the asset declaration regime and whistle blowers and victims' protection (*Newly proposed*)	End Dec-18		Strengthen governance

Attachment II. Technical Memorandum of Understanding

June 6, 2018

1. **This memorandum sets out the understandings between the Guinean authorities and IMF staff regarding the definitions of the quantitative performance criteria and indicative targets for the ECF arrangement.** It also sets out the content and frequency of data reporting to IMF staff for program monitoring purposes.

2. **The quantitative performance criteria, indicative targets, and test dates are detailed in Table 1 of the Memorandum of Economic and Financial Policies (MEFP), attached to the Letter of Intent dated November 27, 2017**. For data reporting purposes, the Guinean authorities will follow the rules and the format considered appropriate for data reporting as covered by this technical memorandum of understanding, unless otherwise agreed with IMF staff.

3. **For program purposes, all assets, liabilities, and flows denominated in foreign currency at the Central Bank will be valued at the "program exchange rate" as defined below, with the exception of items affecting the government's budgetary accounts, which will be measured at current exchange rates**. For program purposes, the exchange rate corresponds to the accounting exchange rate of the GNF prevailing on December 31, 2016, as shown in the table below. The SDR to US$ exchange rate will be based on World Economic Outlook (WEO) projections. Gold holdings of the BCRG will be valued at the gold price in effect on December 30, 2016 US$1159.10 per oz.

Program Exchange Rates, Guinean Franc per Foreign Currency and Gold Price[1]	
Gold bullion LBM US$/troy ounce[2]	1159.10
Euro to US$ exchange rate	0.95
Yen to US$ exchange rate	116.80
Sterling UK to US$ exchange rate	0.81
Yuan to US$ exchange rate	6.95
Guinean Franc to US$ exchange rate	9225.31
Guinean Franc to SDR exchange rate	12362.72

Source: IMF (International Financial Statistics).

[1]Rates and prices as of end-December 2016.

[2] LBM connotes London Bullion Market.

DEFINITIONS OF PERFORMANCE CRITERIA, INDICATIVE TARGETS, AND MEMORANDUM ITEM

A. Performance Criteria and Indicative Benchmarks

4. The quantitative performance criteria and indicative benchmarks specified in Table 1 of the MEFP are:

Performance Criteria

- Floor on the basic fiscal balance of the central government.
- Ceiling on net domestic assets of the central bank.
- Ceiling on net central government budgetary borrowing from the central bank.
- Floor on the net international reserves of the central bank.

Continuous Performance Criteria

- Ceiling on new non-concessional external debt contracted or guaranteed by the central government or the central bank.
- Zero ceiling on new external arrears of the central government and the Central Bank.

Indicative Targets

- Floor on tax revenues collected.
- Floor on domestically-financed social safety nets program.
- Ceiling on new domestic arrears accumulated by the government (net)

Memorandum Item

- Ceiling on new concessional external debt contracted or guaranteed by the government or central bank.

B. Central Government Definition

5. The central government of the Republic of Guinea (the government) is defined as all ministries and agencies subject to central budgetary administration in accordance with the organic law on the government budget. Unless otherwise indicated, the central government 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*).

C. Floor on the Basic Fiscal Balance of the Central Government

6. The **basic fiscal balance** is defined as the difference between the government's total tax and nontax revenue (excluding grants and proceeds of privatizations, the latter recorded as financing) and total expenditure (including expenditure corresponding to earmarked revenues) plus net lending, excluding interest payments on external debt and externally financed capital expenditures. Government expenditures are defined as expenditures for which payment orders have been issued and which have been assumed by the Treasury, regardless of the execution procedure followed.

D. Ceiling on Net Domestic Assets of the Central Bank

7. **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 (defined below), both calculated at the program exchange rate. 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.

8. **Reserve money** comprises of (i) local banks' deposits and other private sector deposits with the BCRG (including bank reserve requirements) denominated both in Guinean francs and in foreign currencies; and (ii) 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 paragraph 3).

9. **Net Foreign Assets** (NFA) of the BCRG are defined as its gross foreign assets (GFA) minus its gross foreign liabilities as follow:

- **Gross foreign liabilities** are equal to gross foreign exchange liabilities as defined in paragraph 13, including SDR allocations, plus any other foreign liabilities not listed in that paragraph.
- **Gross foreign assets (GFA)** of the BCRG are defined as gross reserves assets as defined in paragraph 12, plus (i) any foreign currency claims on residents; (ii) capital subscriptions in international institutions; (iii) foreign assets in nonconvertible currencies; (iv) transfers of foreign currency claims to BCRG by other institutional units in Guinea just prior to reporting dates with accompanying reversals of such transfers soon after those dates; (v) assets obtained through currency swaps of less than three months duration; and (vi) gross reserves that are in any way encumbered or pledged, including, but not limited to: (a) assets blocked when used as collateral for third party loans and third-party payments, or pledged to investors as a condition for investing in domestic securities; (b) assets lent by BCRG to third parties that are not available before maturity, and are not marketable; and (c) foreign reserves blocked for letters of credit.

E. Ceiling on Net Government Budgetary Borrowing from the Central Bank

10. Net borrowing of the central government from the Central Bank is defined as BCRG claims on the central government minus the total of all government deposits at the BCRG. Central government borrowing from the BCRG is defined as loans, advances, arrears, and purchases of government securities and treasury bills. The monitoring of this indicator will be based on the central government's net position at the BCRG.

F. Floor on the Net International Reserves of the Central Bank

11. Net international reserves (NIR) of the BCRG are, by definition, equal to the difference between the gross reserve assets of the BCRG and the gross foreign exchange liabilities of the BCRG.

12. Gross reserve assets of the BCRG include the following: (i) monetary gold holdings of the BCRG; (ii) holdings of SDRs; (iii) the reserve position in the IMF; (iv) foreign convertible currency holdings; (v) foreign currency denominated deposits held in foreign central banks, the Bank for International Settlements, and other banks; (vi) loans to foreign banks redeemable upon demand; (vii) foreign securities; and (viii) other unpledged convertible liquid claims on nonresidents. It excludes the following: (i) any foreign currency claims on residents; (ii) capital subscriptions in international institutions; (iii) foreign assets in nonconvertible currencies; (iv) transfers of foreign currency claims to BCRG by other institutional units in Guinea just prior to reporting dates with accompanying reversals of such transfers soon after those dates; (v) assets obtained through currency swaps of less than three months duration; and (vi) gross reserves that are in any way encumbered or pledged, including, but not limited to: (a) assets blocked when used as collateral for third party loans and third-party payments, or pledged to investors as a condition for investing in domestic securities; (b) assets lent by BCRG to third parties that are not available before maturity, and are not marketable; and (c) foreign reserves blocked for letters of credit.

13. Gross foreign exchange liabilities are defined as the sum of the following: (i) outstanding medium and short-term liabilities of the BCRG to the IMF; (ii) all short-term foreign currency liabilities of the BCRG to nonresidents with an original maturity of up to, and including, one year; (iii) all foreign currency denominated liabilities to residents, including foreign currency denominated deposits of domestic banks and other residents with the BCRG; and (iv) any outstanding central bank guarantees in foreign currency. SDR allocations are excluded from gross foreign exchange liabilities of the BCRG.

G. Ceiling on New Non-Concessional External Debt Contracted or Guaranteed by the Central Government or the Central Bank

14. Definition of concessional external debt. The definition of debt, for program purposes, is set out in paragraph 8a of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to IMF Executive Board Decision No. 15688-(14/107), adopted on December 5, 2014.[1] For program purposes a debt is considered to be concessional if it includes a grant element of at least 35 percent. The grant element is the difference between the nominal value of the loan and its present value, expressed as a percentage of its nominal value. The present value of the debt is calculated on the date on which it is contracted by discounting the future stream of payments of debt service due on this debt. The grant element is calculated using a discount rate of 5 percent.[2] The ceiling on concessional external debt applies to the contracting and the guaranteeing of debt with nonresidents by the central government and the BCRG. For program monitoring purposes, concessional external debt is deemed to be contracted or guaranteed at the date of its signature.

15. Definition of non-concessional external debt: For program purposes, debt is non-concessional if it includes a grant element of less than 35 percent (paragraph 14 for definition of grant element), as indicated in the IMF Executive Board Decision No. 11248–(96/38), April 15, 1996. The total amount of non-concessional debt allowed to be contracted or guaranteed during the arrangement is limited to a ceiling of US$650 million on a cumulative basis from the start of the arrangement, to be used to finance priority infrastructure projects: the Rehabilitation of the RN1 national road; the rehabilitation of the road system in Conakry; the construction of the Lisan-Fomi-Kankan electricity transmission line; and university rehabilitation. The ceiling on non-concessional debt applies to the contracting and guaranteeing of debt with nonresidents by the central government and the BCRG. This performance criterion is monitored on a continuous basis. The ceiling is measured from the start of the arrangement. For program monitoring purposes, non-concessional external debt is deemed to be contracted or guaranteed at the date of its signature.

16. Excluded from the limit on non-concessional external debt is the following: (i) the use of IMF resources; (ii) debts classified as international reserve liabilities of the BCRG; and (iii) the non-concessional loan that the government is contracting to finance the Souapiti dam project.

[1]The definition of debt set forth in the IMF Debt Limit Policy (2014) reads as the outstanding amount of those actual current, and not contingent, liabilities, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which require payment(s) of principal and/or interest by the debtor at some point(s) in the future and that are owed to nonresidents by residents of an economy. Debts owed to nonresidents can take a number of forms, the primary ones being as follows: (i) loans, that is, advances of money to obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) 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 (iii) leases, that is, arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property.

[2] As approved by the IMF executive Board on October 11, 2013. A more detailed discussion of the concessionality concept and a calculator to estimate the grant element of a financing package are available on the IMF website at http://www.imf.org/external/np/spr/2015/conc/index.htm.

H. Ceiling on New External Arrears of the Central Government and Central Bank

17. New external arrears: The definition of debt for the purposes of the program is provided in paragraph 14 of the TMU, and such debt is considered to be external when it is contracted with a non-resident. For purposes of the PC on the non-accumulation of new external payment arrears, arrears are defined as external debt obligations contracted by the central government or the BCRG that have not been paid when due in accordance with the relevant contractual terms (taking into account any contractual grace periods). This PC excludes arrears on external financial obligations of the government subject to rescheduling.

I. Floor on Tax Revenues Collected

18. The floor on total domestic central government tax revenue is defined as total central government revenue, as presented in the central government financial operations table (TOFE), excluding external grants and non-tax revenue (*recettes non-fiscales*), defined as such in the TOFE.

J. Domestically-financed Social Safety Nets Programs

19. Domestically-financed social safety nets programs are defined as the domestically-financed spending which is disbursed to support the implementation of all non-contributory social programs under: i) the *Programmes Filets Sociaux Productifs* (PFSP); and ii) the Social Development Fund.

K. New Domestic Arrears Accumulated by the Central Government (Net)

20. **Domestic arrears are defined as spending** that have been recorded by the public accountant of the Treasury as due by the central government (*prise en charge comptable*) and which have not been paid, including checks that were issued but not yet cashed.

ADJUSTMENT FACTORS FOR THE PROGRAM PERFORMANCE CRITERIA

A. Adjustor for Basic Fiscal Balance

21. The floor for the basic fiscal balance of the central government will be adjusted:

- upward by an amount equal to 40 percent of the shortfall of external program loans and external program grants compared to programmed amounts, as specified in Table 2 (requiring a fiscal adjustment equivalent of 40 percent of the shortfall in program loans and program grants);
- downward by an amount equal to 40 percent of the surplus of external program loans and external program grants compared to programmed amounts, as specified in Table 2 (allowing 40 percent of the surplus in program loans and program grants to be used for supplementary expenditures.

Table 1. Guinea: External Financing Assumptions (Non-cumulative)

(Millions of U.S. Dollars)

	2017							2018							2019	
	Q1A	Q2A	Q3A	Q4P	Q4A	Total P.	Total A.	Q1P	Q1A	Q2P	Q3P	Q4P	Total P.	Q1P	Q2P
Loans	**13**	**10**	**1**	**61**	**107**	**85**	**132**	**35**	**0**	**66**	**224**	**158**	**448**	**42**	**34**
Project	13	10	1	41	107	65	132	33	0	66	156	156	377	42	34
Of which															
World Bank	0	0	0	0	0	0	0	3	0	6	3	3	13	3	3
BID	7	7	0	7	13	20	26	24	0	48	24	24	97	21	21
Program	0	0	0	20	0	20	0	2	0	0	68	3	71	0	0
Of which															
World Bank	0	0	0	20	0	20	0	0	0	0	60	0	60	0	0
Budget grants	**25**	**34**	**40**	**40**	**60**	**139**	**158**	**62**	**1**	**40**	**26**	**79**	**145**	**24**	**17**
Project grants	16	21	24	19	44	80	106	22	0	40	26	26	92	24	17
Budget support	7	12	15	21	15	55	49	40	0	0	0	53	53	0	0
Of which,															
EU	0	0	11	16	11	27	21	0	0	0	0	20	20	0	0
AFD	0	0	0	0	0	0	0	0	0	0	0	6	6	0	0

B. Adjustor for Net International Reserves

22. The floor on net international reserves will be adjusted:

- downward by an amount equal to 60 percent of the U.S. dollar equivalent of the cumulative shortfall of external program loans and external program grants of the central government as specified in Table 2;
- upward by an amount equal to 60 percent of the U.S. dollar equivalent of the cumulative surplus of external program loans and external program grants of the central government as specified in Table 2.

C. Adjustor for Net Domestic Assets of the Central Bank

23. The ceiling on net domestic assets will be adjusted:

- upward by an amount equal to 60 percent of the Guinean Franc equivalent (calculated at the program exchange rate) of the cumulative shortfall in external program loans and external program grants compared to programmed amounts as specified in Table 2;
- downward by an amount equal to 60 percent of the Guinean Franc equivalent (calculated at the program exchange rate) of the cumulative surplus of external program loans and program grants compared to programmed amounts as specified in Table 2.

D. Adjustor for Net Government Budgetary Borrowing from the Central Bank

24. The ceiling on net government budgetary borrowing from the Central Bank will be adjusted:

- upward by an amount equal to 60 percent of the Guinean Franc equivalent (calculated at the program exchange rate) of the cumulative shortfall in external program loans and external program grants compared to programmed amounts as specified in Table 2;
- downward by an amount equal to 60 percent of the Guinean Franc equivalent (calculated at the program exchange rate) of the cumulative surplus of external program loans and program grants compared to programmed amounts as specified in Table 2.

MONITORING AND REPORTING REQUIREMENTS

25. Performance under the program will be monitored from data supplied to the IMF by the Guinean authorities as outlined in the table below, consistent with the program definition above. The authorities will transmit promptly to IMF staff any data revisions as well as other information necessary to monitor the arrangement with the IMF.

Table 2. Data Reporting to IMF Staff 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	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.
	Central Bank net advances to the Treasury above the statutory limit and advance amounts not paid within	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.
	Status report on the use of special authorization letters, specifying nature of the public expenditures and link to budgetary lines.	Quarterly	One month after the end of each quarter
	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.
	New mining contracts and revised expiring contracts, including annexes with tax provisions	Quarterly	One month after the end of each 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 2. Data Reporting to IMF Staff for Program Monitoring (continued)			
Category of Data	**Table/Report**	**Frequency**	**Deadline**
Real sector data and prices	Consumer price index, Conakry.	Monthly.	30th 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
External debt	Debt service due before and after debt relief.	Monthly.	30th of the month for previous month's data.
	Debt service paid.	Monthly.	30th of the month for previous month's data.
	Debt service reconciliation table.	Monthly.	30th 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.	30th of the month for previous month's data.
	Drawings on new loans.	Monthly.	30th of the month for previous month's data.
External grants and loans	Disbursements.	Quarterly.	Quarterly. 30th of the last month of the quarter for previous quarter's data.