INTERNATIONAL MONETARY FUND

IMF Country Report No. 17/387

GUINEA

December 2017

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GUINEA

In the context of the Request For A Three-Year Arrangement Under The Extended Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 11, 2017, following discussions that ended on August 15, 2017 with the officials of Guinea on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on November 27, 2017.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).
- A **Statement by the Executive Director** for Guinea.

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

Letter of Intent sent to the IMF by the authorities of Guinea*
Memorandum of Economic and Financial Policies by the authorities of Guinea*
Technical Memorandum of Understanding*
Economic Development Documents
*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

Press Release No. 17/484
FOR IMMEDIATE RELEASE
December 12, 2017

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$170.1 Million under the ECF Arrangement for Guinea

On December 11, 2017, the Executive Board of the International Monetary Fund (IMF) approved a three-year arrangement under the Extended Credit Facility (ECF) for Guinea for an amount equivalent to SDR 120.488 million (about US$170 million, or 56.25 percent of Guinea's quota). The ECF arrangement will support Guinea's 2016–20 National Social and Economic Development Plan which aims at fostering higher and broad-based growth, diversifying the economy, and reducing poverty. The Executive Board's decision today enables an immediate disbursement of SDR 17.2 million (about US$24.3 million). The remaining amounts will be phased over the duration of the arrangement, subject to semi-annual reviews.

The ECF arrangement will support the authorities' economic policies and reforms to achieve high and more broad-based growth and reducing poverty while preserving macroeconomic stability. The ECF-supported program will aim at strengthening the resilience of the Guinean economy, scaling-up public investments in infrastructure to foster high and more broad-based growth while preserving medium-term debt sustainability, strengthening social safety nets to reduce poverty and foster inclusion, and promoting the development of the private sector.

Following the Executive Board discussion on Guinea, Deputy Managing Director Mr. Mitsuhiro Furusawa, and Acting Chair issued the following statement:

"The Guinean economy has rebounded from the adverse impact of the Ebola epidemic and growth momentum is expected to be sustained. Going forward, the priorities are to preserve macroeconomic stability, reduce vulnerabilities, facilitate structural transformation and diversification, tackle widespread poverty, improve living standards, and promote good governance.

"The three-year Extended Credit Facility (ECF**)** arrangement will support the authorities' 2016–20 National Social and Economic Development Plan to foster higher and more inclusive growth while preserving macroeconomic stability. Thus, the program will aim at improving Guinea's macroeconomic resilience, scaling-up growth-supporting public investments in infrastructure while preserving debt sustainability, bolstering social safety nets, and promoting private sector development.

“The authorities aim at strengthening the fiscal position to preserve macroeconomic stability. Creating fiscal space and prudent external borrowing will support scaling up public investment in infrastructure while preserving debt sustainability. To this end, the program will mobilize additional tax revenues, gradually phase out electricity subsidies, strengthen social safety nets, and enhance public finance and investment management. Furthermore, maximizing reliance on concessional borrowing and limiting the recourse to non-concessional borrowing will support debt sustainability

“In addition, accumulating international reserves will build external buffers and strengthen resilience. A prudent monetary policy will preserve moderate inflation while providing appropriate liquidity in the banking sector to ensure healthy credit provision to the private sector. Measures to improve financial stability and strengthen the autonomy of the central bank will enhance macroeconomic resilience and support growth.

“Advancing structural reforms will also be pivotal in supporting the development of the private sector. Notably, strengthening the business climate and governance, as well as fostering financial inclusion will be key in achieving higher and more broad-based growth.”

INTERNATIONAL MONETARY FUND

GUINEA

November 27, 2017

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY

EXECUTIVE SUMMARY

Context. The Guinean economy has rebounded from the adverse impact of the Ebola epidemic and growth is expected to continue to be sustained supported by buoyant mining activity and the scaling-up of infrastructure investments. The authorities have requested a successor Fund arrangement to support their 2016–20 National Social and Economic Development Plan which seeks to foster higher and more inclusive growth. Guinea held a Consultative Group, with the support of the World Bank, with donors and investors to mobilize financing during November 16–17, 2017.

Program objectives. The three-year ECF arrangement will help Guinea address a protracted balance of payment need and implement economic policies and reforms to foster higher and broad-based growth. The program will also play a catalytic role in mobilizing donor financing, notably from the World Bank and the European Union. Access of 56.25 percent of quota (SDR 120.488 million) will contribute to close the balance of payment financing gap. The program will aim at: i) strengthening Guinea's macroeconomic resilience; ii) scaling-up public investments in infrastructure to foster higher growth and economic diversification while preserving macroeconomic stability and debt sustainability; iii) strengthening social safety nets to reduce poverty and foster inclusion; and iv) promoting private sector development to foster broad-based growth.

Program strategy. Building external buffers against shocks, strengthening Guinea's fiscal position, preserving moderate inflation and debt sustainability, and maintaining financial sector stability will strengthen macroeconomic resilience. Creating fiscal space and prudent external borrowing will allow a significant scaling-up of growth-supporting public investment in infrastructure and social safety nets while preserving stability. Reforms will support sound macroeconomic policies and foster private sector development. IMF technical assistance will support the authorities in advancing their reform agenda.

Ex-Post Peered Review Assessment (PRA). Staff conducted a PRA, with feedback from the authorities, which draws lessons from the experience of the last three arrangements with Guinea. The main lesson is that program success can be limited by capacity constraints, exogenous shocks and social and political uncertainty. Therefore, strong reform ownership is crucial.

Approved By:
Dominique Desruelle
Kevin Fletcher

An IMF team consisting of Ms. Albertin (Head), Mr. Cangul, Mr. Egoume, and Ms. Sian (all AFR), Ms. Daly (SEC), Mr. Sulemane (Resident Representative), and Mr. Diallo (local economist) held discussions with the authorities in Conakry, Guinea during July 31–August 15, 2017. Mr. Raghani (Alternate ED) and Mr. Alle (Senior Advisor) joined the discussions. The team met with Prime Minister Mamady Youla, the Economic and Finance Commission of the National Assembly, Minister of Economy and Finance Malado Kaba, Central Bank Governor Lounceny Nabé, Minister of Budget Mohamed Doumbouya, Minister of Planning and Cooperation Kanny Diallo and other members of the government, the Ministers Counselors to the President and other senior government officials. The IMF team also met with representatives of the donor community, civil society, trade unions, private sector and banks.

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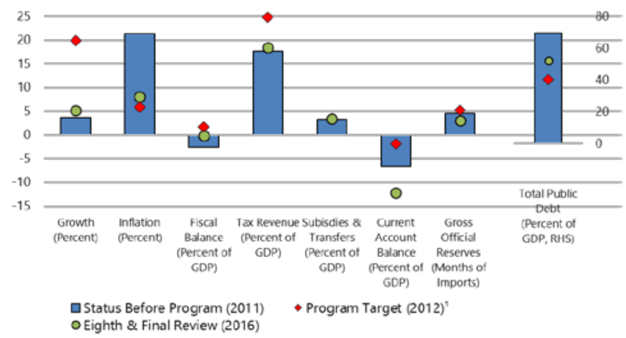
CONTEXT AND BACKGROUND

1. Despite being hit by severe shocks, Guinea made significant strides towards macroeconomic stabilization under the 2012–16 ECF-supported arrangement, concluded in November 2016 (Annex VIII). Inflation was curbed, international reserves were preserved despite adverse shocks, fiscal imbalances were reduced and debt sustainability was restored with the achievement of the HIPC completion point (Figure 1).[1] However, economic growth remained below expectations, owing to the adverse impact of the Ebola epidemic in 2014–15—which led to borders closing and stalled trade and investments—the decline in commodity prices which delayed mining projects, political instability and weak implementation of structural reforms.

Figure 1. Guinea: Program Achievements, ECF 2012–16



[1] Program targets for 2016 as set in 2012 ECF Arrangement.
Sources: Guinean authorities; and IMF staff estimates.

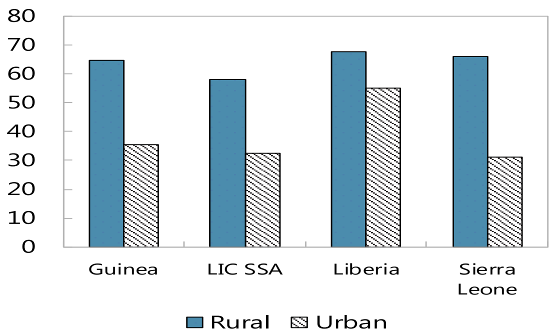
2. Further strengthening macroeconomic resilience is needed in view of Guinea's vulnerabilities. International reserves are below comfortable levels and Guinea is exposed to commodity prices shocks, which are heightened by limited economic diversification. Debt vulnerabilities have increased and banks' credit to the economy remains subdued. Private sector development is constrained by an infrastructure bottleneck, notably in energy and transport, limited access to credit, and poor governance.

3. Poverty remains pervasive and social outcomes are weak pointing to the urgent need to foster high and more broad-based growth. Guinea is a fragile country with risks of social and political instability. Poverty is pervasive, income and gender inequality are sizable, and education and health outcomes remain weak. Preliminary data suggest that the incidence of poverty has increased to around 60 percent owing to the Ebola crisis, compared with an incidence rate of 55 percent in 2012 (65 percent in rural areas). Moreover, Guinea ranks at the bottom of the Human Development Index (183 out of 188 countries), average years of schooling is low at 2.6 years, infant mortality remains high, only 40 percent of girls are enrolled in secondary education (against 50 percent for boys), and women's participation in the labor force is weaker than for men (75 percent against 85 percent for men) (Figure 2).

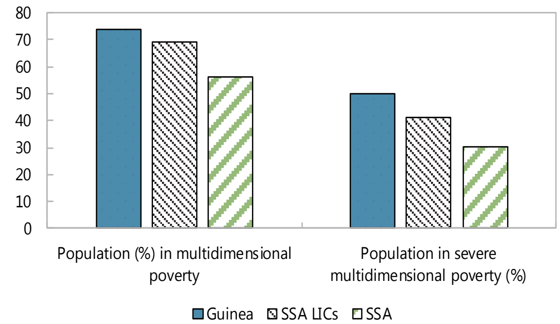
[1] To ensure consistency, program performance under the 2012–16 ECF arrangement is assessed based on the national accounts used at the time program targets were set, namely before the 2017 methodological revisions.

Figure 2. Guinea: Pervasive Poverty, Weak Social Outcomes, and Gender Inequality

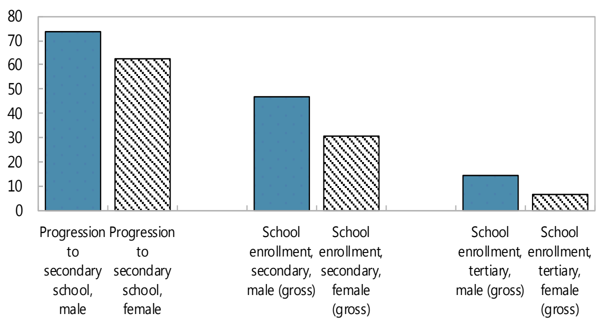
Poverty rates in urban and rural areas
(Percent of population)



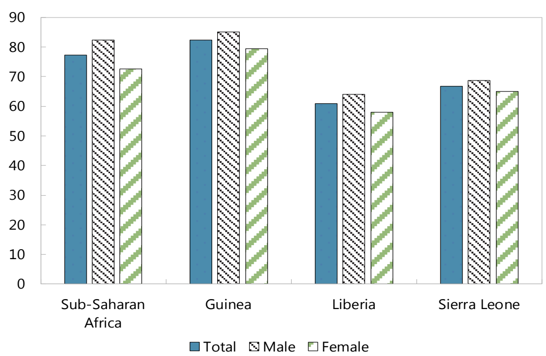
Multidimensional poverty rates
(Percent of population)



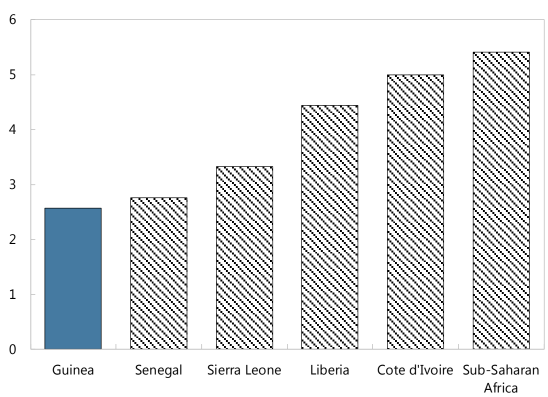
School enrollments by levels and progression to secondary school
(Percent)



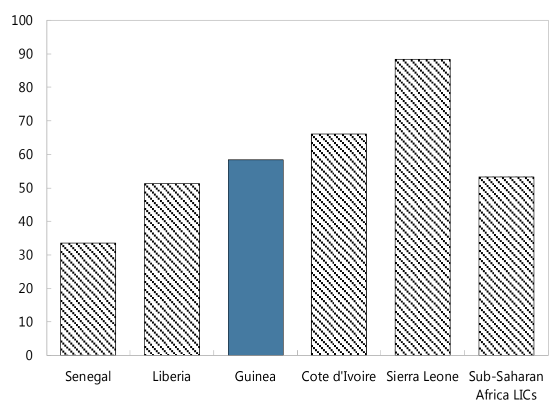
Labour force participation rates, 2016
(15+; percent of population)



Average years of schooling, 2015
(Number of years)



Infant mortality, 2015
(Mortality rate per 1000 births)



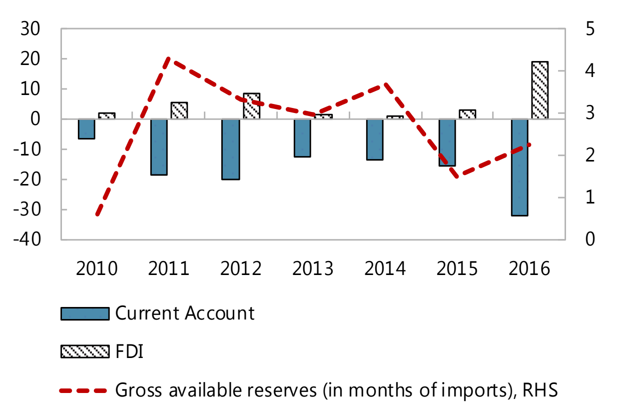
Source: World Bank Databank; 2016 UN Human Development Report; UNESCO Institute for Statistics; 2015 ILO Labor Force Participation Rate Modelled Estimates.

RECENT ECONOMIC AND FINANCIAL DEVELOPMENTS

4. The Guinean economy has rebounded from the adverse impact of the Ebola epidemic. After slowing down during 2014–15, real growth is estimated at 6.6 percent in 2016 supported by a pick-up in mining production, resumed construction activity, good agricultural performance, and improved electricity provision. Average inflation was contained at 8.2 percent (y-o-y) in 2016 and at 9.3 percent (y-o-y) in September 2017, reflecting a prudent monetary policy stance.

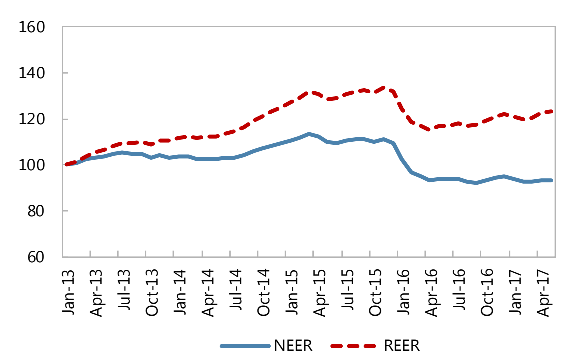
5. The current account deficit widened to 32 percent of GDP in 2016 financed by a FDI surge in the mining sector. Imports grew by more than 100 percent, driven by a strong pick-up in investment-related imports due to surging FDI in mining (19 percent of GDP). This was in part mitigated by rebounding mining and agricultural product exports. Gross international reserves increased to US$594 million in 2016 (2.3 months of import cover). During the first half of 2017, exports increased by 21 percent (y-o-y) reflecting the pick-up in bauxite production and the elimination of gold export taxes. Imports increased by 31 percent continuing to be driven by investment-related imports in equipment and intermediate goods. Gross international reserves reached US$686 million at end-September 2017 (2.5 months of import cover). After depreciating by 9 percent in 2016, the real effective exchange rate appreciated by 2.9 percent (y-o-y) at end-September with the nominal effective exchange rate depreciating by 2.7 percent (y-o-y). The premium between the official and foreign exchange bureaus rates was at 0.8 percent in September 2017 (14 percent in November 2015).

Figure 3. Guinea: Current Account, FDI and Reserves
(Percent of GDP; in months of imports)



Sources: Guinean authorities; and IMF staff estimates.

Figure 4. Guinea: Real Effective Exchange Rate



Sources: Guinean authorities; and IMF staff estimates.

6. The basic fiscal balance recorded a 0.9 percent surplus in the first half of 2017.[2] Tax revenues were at 7.1 percent of GDP reflecting buoyant mining activity, strong international trade taxes, and tax measures to mobilize additional revenues, including the introduction of the stamp duty on imported vehicles and administrative measures to widen the tax base (MEFP para 12). Revenues from the excise tax on petroleum products (TSPP) strengthened to 0.25 percent of GDP, but remained below objectives. Goods and services expenditures were contained by about 0.2 percent of GDP compared to budgetary allocations. Electricity subsidies were at 0.7 percent of GDP (0.2 percent of GDP higher than in the 2017 budget law) reflecting higher electricity consumption and production costs of thermal generation. Capital expenditures execution was slow at 1.9 percent of GDP, mostly owing to delays in external financing while domestically-financed investment progressed. Net budgetary financing from the central bank and commercial banks was close to zero.

7. The banking system is broadly stable but credit to the private sector remains weak due to tight liquidity and crowding out effects of government financing. Private sector credit growth was negative at 1.4 percent in July (y-o-y). The BCRG reduced reserve requirements (from 18 to 16 percent) in March to free-up liquidity but most of the liquidity was absorbed by banks' subscription to a GNF500 billion government bond. Deposit growth slowed to 8 percent in the first seven months of 2017 compared to end-2016. This largely reflected the growth slow-down in national currency deposits partially compensated by the pick-up in foreign currency deposits due the repatriation of export earnings of artisanal gold and mining. Rising non-performing loans (NPLs) at 11.4 percent in June 2017 has also led banks to limit credit to the private sector. Two banks remain in non-compliance with the capital adequacy requirements (six banks were not compliant at end-2016). Liquidity constraints and the limited interbank market activity has resulted in three banks not complying with reserve requirements.

8. Socio-political tensions are significant. The opposition has been staging protests against the lack of enforcement of the political accord on the local elections, expected in early 2017 and delayed to 2018. Several violent demonstrations took place in the bauxite region due to the lack of jobs and public services, and protests due to electricity shortages are frequent.

9. National accounts data were substantially revised in early 2017 based on a strengthened methodology. The authorities recently adopted the 1993 SNA, with support of IMF technical assistance, and revised the national accounts for 2006–15. This resulted in an average upward revision of nominal GDP by 40 percent, and changes in key economic indicators (Annex I).

[2] The basic fiscal balance is defined as the difference between government revenues, excluding external grants, and public expenditure, excluding interest payments on external debt and capital expenditures financed by grants or external borrowing. This measure of the fiscal balance aims to capture actual fiscal efforts.

PROGRAM OBJECTIVES AND KEY ELEMENTS

10. Guinea has adopted a new National Social and Economic Development Plan (PNDES) for 2016–20. Approved by the Parliament in June 2017, the PNDES aims at fostering higher and more inclusive growth and reducing poverty by: i) achieving a structural transformation and diversification of the economy on the back of major infrastructure investments in energy, transport and agriculture; ii) promoting good governance; iii) fostering human capital accumulation; and iv) better managing natural resources.

11. The ECF arrangement will support the authorities' economic policies and reforms to achieve higher and broad-based growth and reduce poverty while preserving macroeconomic stability. The key objectives of the program will be: i) strengthening Guinea's macroeconomic resilience; ii) scaling-up public growth-supporting investments in infrastructure while preserving macroeconomic stability and medium-term debt sustainability; iii) strengthening social safety nets; and iv) promoting the development of the private sector.

12. Furthermore, financing under the ECF-supported arrangement will help Guinea address a protracted balance of payment need. Guinea is expected to have a balance of payments financing gap of US$270 million during 2017–20 to achieve a comfortable level of reserves, with anticipated large FDI inflows mostly financing project-related imports. IMF financial support will contribute to close this financing gap and catalyze donors' financing, notably budget support from the World Bank (US$40 million in 2018) and the European Union (€55 million over 2017–19).

13. The key elements of the ECF-supported arrangement are:

- **Building external buffers against shocks and strengthening the fiscal position to preserve moderate inflation and maintain medium-term debt sustainability.** International reserves are currently below the ARA-CC metric average reserve adequacy estimate of 3.8 months of imports cover (Annex VII) and will be gradually increased to this level to build buffers against shocks, in view of Guinea's limited economic diversification. A basic fiscal surplus of 0.6 percent in 2017 and an average basic surplus of 0.9 percent over 2018–20 will be targeted to reduce financing needs to avoid recourse to inflationary financing from the BCRG, ensure healthy credit growth to the private sector, and preserve medium-term debt sustainability. Inflation will be maintained at about 8 percent.
- **Creating fiscal space to support scaling-up public investments in infrastructure and a prudent external borrowing strategy consistent with preserving debt sustainability**. Public investments will be increased by about 3.5 percent of GDP over the program period, notably in infrastructure. Mobilizing additional tax revenues and containing non-priority spending will create fiscal space. Furthermore, the external borrowing policy will maximize reliance on concessional financing and limit recourse to additional non-concessional

borrowing to finance infrastructure to a maximum of US$650 million to preserve debt sustainability.[3]

- **Increasing domestically-financed public spending allocated to social safety nets to reduce poverty and foster inclusion, notably of women and youth**. Social safety nets in Guinea are small and mainly donor-financed. The program will support using budgetary savings stemming from reducing untargeted electricity subsidies to strengthen social safety nets programs.
- **Advancing reforms in priority areas to support sound macroeconomic policies, and foster private sector development.** The program will strengthen the medium-term budgetary framework and public finance and investment management as these are critical to supporting the scaling-up and efficiency of public investments. The monetary and exchange rate framework will be strengthened to support moving towards greater exchange rate flexibility and ensuring appropriate liquidity provision to the banking sector. IMF technical assistance (TA) will be tailored to support reforms to achieve program objectives (Annex IX).[4] Structural reforms to improve the business climate and governance will foster private sector development and more broad-based growth.

MACROECONOMIC OUTLOOK

14. Guinea's growth outlook is expected to be favorable under the program scenario. Real growth is expected to reach 6.7 percent in 2017 and average at 6 percent over the medium term. Large FDI in the mining sector is expected to support buoyant activity and the scaling-up of infrastructure investment would boost construction and support agriculture.[5] Improved infrastructure and energy provision, structural reforms to improve the business climate and governance, and strengthened bank credit to the economy, are expected to support private sector development. Inflation would remain moderate.

15. The current account deficit is expected to remain large in 2017 and gradually narrow over the medium-term, financed by FDI inflows. The current account deficit would be at 24 percent of GDP in 2017, reflecting FDI-related imports in mining and in infrastructure (16 percent of GDP), notably the start of the construction of the Souapiti dam. Furthermore, international reserves would increase to 2.5 months of import coverage in 2017. The pick-up in FDI in mining and infrastructure project is expected to continue over the medium-term (12 percent of GDP, on average

[3] This excludes the US$1.2 billion non-concessional loan for the construction of the Souapiti dam which is being finalized.

[4] Guinea is a pilot country under the IMF Capacity Building Framework for fragile countries.

[5] The program scenario assumes that new mining production capacity comes on stream only gradually, public investments are lower than envisaged in the PNDES to account for capacity and financing constraints, and productivity gains in the agricultural sector are gradual. The authorities' objective is to achieve average growth of 9 percent.

during 2018–21). External imbalances would gradually narrow owing to stronger mining and agricultural exports, despite strong FDI-related imports and a pick-up in repatriated profits. International reserves would gradually increase to 3.8 months of import coverage in 2020.

16. Risks to the growth outlook are balanced. Socio-political tensions arising from further delays in local elections and the run-up to the 2018 legislative elections could undermine near-term growth and weaken policy discipline. Delays in mining projects, a decline in commodity prices, capacity and financial constraints in implementing infrastructure projects and delays in structural reforms could weaken medium-term growth. On the other hand, a faster pace of new mining production capacity coming on stream and infrastructure investment would support higher near- and medium-term growth.

STRENGTHENING MACROECONOMIC RESILIENCE

17. Sound macroeconomic policies will be key to reduce Guinea's vulnerabilities and strengthen macroeconomic resilience. Building external buffers against shocks, strengthening Guinea's fiscal position, preserving moderate inflation and debt sustainability, and maintaining financial sector stability will strengthen macroeconomic resilience.

Fiscal Policy

18. Fiscal policy will aim at preserving macroeconomic stability and debt sustainability by targeting a basic fiscal surplus and improving spending composition. The authorities aim to achieve a basic fiscal surplus of 0.6 percent of GDP in 2017 and an average basic surplus of 0.9 percent of GDP over 2018–20. Mobilizing additional tax revenues and containing non-priority expenditures while stepping-up public investment and strengthening social safety nets will be the focus of the medium-term fiscal strategy. Containing budgetary financing needs will avoid recourse to inflationary financing from the central bank, limit commercial banks' budgetary financing to a level consistent with healthy credit growth to the private sector, limit external borrowing to preserve medium-term debt sustainability, avoid accumulating new domestic and external arrears while gradually clearing outstanding government arrears to the private sector (about US $220 million).

19. Measures to mobilize additional tax revenues and containing non-priority spending, coupled with strong growth and mining activity, will help achieve a basic fiscal surplus in 2017. To account for significantly larger electricity subsidies, a Supplementary Budget Law was adopted in September 2017, which targeted a basic fiscal surplus of 0.2 percent of GDP (against 0.5 percent of GDP fiscal surplus in the 2017 budget). Electricity subsidies are expected at 1.3 percent of GDP—almost three times larger than in the 2017 budget—owing to higher electricity consumption and production costs, and the authorities' decision to clear most of EDG's outstanding arrears to suppliers. However, in view of a shortfall in anticipated external financing, the authorities aim at further strengthening the fiscal position and target a 0.6 percent of GDP basic fiscal surplus in 2017. Tax and administrative measures (MEFP¶ 12) will lead to additional tax revenues of 0.1 percent of GDP. In parallel, non-priority current spending in goods and services will be contained by

0.1 percent of GDP. The wage bill will be contained by 0.2 percent of GDP, reflecting some postponement in recruitments and in the government contribution to pension funds, due to delays in their setting-up. Mining tax revenues are expected at 14.8 percent of GDP percent, reflecting buoyant activity. This will allow net government repayments to the central bank, repaying government arrears to the private sector, and containing borrowing from commercial banks. The draft 2018 Budget Law has been presented to the Parliament in line with program objectives.

20. Further strengthening public financial management will support the fiscal strategy. Strengthening the medium-term budget framework (MBT) will promote better monitoring of public expenditure and the scaling-up of public investment. To this end, key priorities will be: (i) implementing the new budget nomenclature for the execution of the 2018 budget; (ii) establishing a top-down budgetary approach by setting MBT targets in line with the program targets; and (iii) modernizing the information system for the preparation and execution of the budget. Furthermore, it will be important to finalize the Treasury Single Account (TSA) and transfer into the TSA accounts of the autonomous public entities by June 2018, and ensure compliance of budgetary and accounting management of public agencies with the new legislative and regulatory framework of public finances by end-2017.

Monetary and Exchange Rate Policies

21. Bolstering external buffers against shocks will strengthen macroeconomic resilience. The exchange rate policy will be oriented towards gradually accumulating reserves to build comfortable buffers in view of Guinea's exposure to commodity prices shocks and limited economic diversification. BCRG interventions in the bilateral foreign exchange auction market (MEBD) will be limited to maintaining liquidity and preventing disorderly market conditions. To this end, the central bank will develop a weekly foreign exchange liquidity forecasting framework by end-2017. Greater exchange rate flexibility will help reduce the real effective exchange rate overvaluation, estimated within 19–23 percent at end-2016 (Annex VII).

22. Finalizing the foreign exchange market reform will strengthen the role of market forces and support greater exchange rate flexibility. The reform of the exchange rate mechanism has significantly advanced with the establishment of the MEBD in 2016, which replaced a foreign exchange allocation system. This has allowed greater exchange rate flexibility and reduced the differential between the official rate and the rate of the foreign exchange bureaus below 2 percent. The authorities aim at completing the reform by eliminating the limit on auction allocations to increase competition in the market, and by strengthening the BCRG's intervention strategy, with the support of the IMF technical assistance, to limit discretion by February 2019 (SB). An electronic platform for foreign exchange transactions will also be introduced to make operations in the MEBD more fluid and secure.

23. Monetary policy will aim at preserving moderate inflation while ensuring liquidity in the banking sector to support healthy private sector credit growth. The BCRG's objective is to keep inflation broadly stable and within single digits and base money is its intermediate target. Monetary policy will remain prudent to keep inflationary pressures from building up and will maintain a positive real interest rate. In view of slowing deposit growth and limited volume of transactions on the interbank market, the BCRG will ensure that banks' liquidity needs are fulfilled, including by strengthening the regular use of liquidity regulation instruments.

24. Improving liquidity management will strengthen the monetary framework. The BCRG has re-introduced monetary regulation instruments and improved liquidity management through the preparation of a daily monitoring liquidity table and a weekly liquidity report. Developing a liquidity forecasting framework by March 2018 (SB), supported by IMF TA, will be key to better calibrate liquidity injections and absorption operations. An emergency liquidity framework will also be established for illiquid but solvent banks by February 2019 (SB), supported by IMF TA.

25. Further strengthening the BCRG's autonomy, transparency, and accountability is important. An update of the safeguards assessment is currently underway and preliminary findings point to progress in strengthening some areas of the safeguards framework. In particular, the correct version of the amended BCRG law—which strengthens the central bank's autonomy and prohibits the issuance of guarantees to the private sector—was published in the Official Journal in August 2017 (prior action), and the 2016 external audit of the BCRG was completed on a timely basis in line with international standards. Moving ahead, recapitalizing the BCRG to ensure its operational autonomy, enhancing financial reporting transparency, developing internal audit capacity and strengthening controls in currency operations are important. To this end, a memorandum of understanding between the BCRG and the Ministry of Economy and Finance will be signed by February 2018 (SB), which will specify the modalities and timetable to conduct the recapitalization of the BCRG.[6] Furthermore, the BCRG has made progress towards the implementation of the International Financial Reporting Standards (IFRS) and expects to publish IFRS compliant financial statements for 2017 by September 2018 (SB), with IMF TA. Approving a capacity building program for internal audit and undergoing a peer review of currency operations would also be important.

Financial Sector

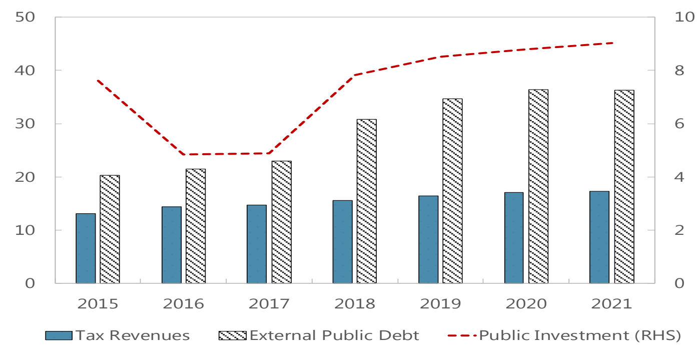
26. Financial sector stability will be maintained. A banking resolution framework will be established by end-2018 to strengthen resilience. The BCRG adopted a new insurance code in July 2017 to improve banking sector oversight and banking supervision will be strengthened, including by updating accounting norms and automating the process of reporting financial data (MEFP¶ 32), and a deposit guarantee system will be established. In view of the recent increase in NPLs, a new credit information system to provide better information to banks on the creditworthiness of customers will be established by end-2017. The BCRG is developing an action plan to bring remaining banks in compliance with capital adequacy requirements by end 2017. Furthermore, the BCRG will ensure that all banks comply with reserve requirements.

[6] Although the BCRG's ability to conduct daily operations is not constrained, a recapitalization is needed to ensure its financial autonomy.

SCALING-UP INFRASTRUCTURE INVESTMENT WHILE PRESERVING STABILITY

27. Scaling-up public investment in infrastructure is needed to foster higher growth and has to be balanced with preserving stability. A two-pronged strategy aimed at creating fiscal space and ensuring prudent external borrowing will be key to support the scaling-up of public investments (Figure 5). Mobilizing additional tax revenues and containing non-priority current public expenditure will create fiscal space. Maximizing reliance on concessional external borrowing and limiting non-concessional loans will be critical to preserve deb sustainability.

Figure 5. Guinea: Public Investment, Tax Revenues, and External Public Debt
(Percent of GDP)



Sources: Guinean Authorities; IMF staff estimates and projections.

A. Scaling-up Growth-supporting Public Infrastructure Investment

28. A large infrastructure gap continues to weigh on private sector development and growth in Guinea.[7] Electrification rates are low at 26 percent and 11 percent in rural areas (Figure 6). The construction of the Kaleta dam in 2015 doubled electricity generation capacity, but electricity shortages remain frequent. Transport infrastructure remains limited and high transport costs hinder commerce and trade. Guinea ranks 122 out of 137 countries on the World Economic Forum's index of perceived quality of infrastructure scoring well below regional averages and comparator countries in key areas like electricity, road, and port quality (Figure 7).

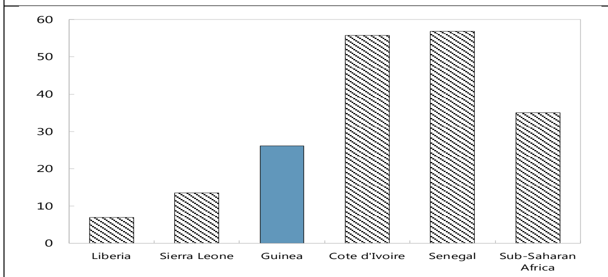
29. Scaling-up infrastructure is at the center of the authorities' strategy to unlock Guinea's growth potential and diversify the economy. The program supports a significant scaling up in public investments (additional 2.8 percent of GDP, on average, per year compared with 2017) to reach about 8 percent of GDP during 2018–20. Infrastructure projects will aim at stepping-up electricity generation and enhance the transmission/distribution network, improve transports (roads and railways) and foster the mechanization of agriculture. This will support economy diversification

[7] Infrastructure is a multidimensional concept which encompasses quantity, i.e. the stock of infrastructure, the quality of infrastructure services and access. The literature distinguishes between hard and soft infrastructure. Hard infrastructure is often classified in five sectors: telecommunication; transport; energy; water and sanitation; and solid waste. Soft infrastructures typically include education; housing; and security. (World Bank, 2017).

(continued)

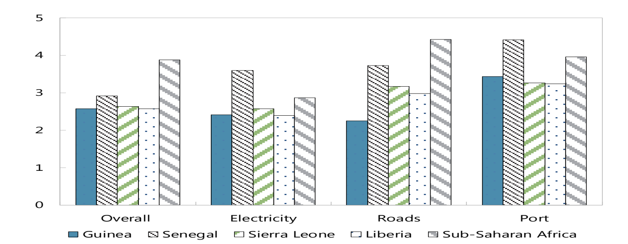
by fostering agriculture, commerce and trade, and manufacturing. The mining sector—a low labor intensity sector—has so far been the key driver of Guinea's growth but had limited impact on job creation (mining accounts for only 3 percent of the employed population against about 70 percent in the agricultural sector).[8] While mining will continue to drive growth over the medium term, improved infrastructure will support diversifying sources of growth, notably agriculture. This will support job creation for a fast-growing population, and increase employment opportunities in rural areas, where poverty is at its highest, and for women (68 percent of the female workforce is in the agricultural sector) (Annex III).

Figure 6. Guinea: Electrification Rate: Guinea vs. Comparators, 2012
(Percent of total population)



Source: World Bank Development Indicators. Source: World Bank Development Indicators.

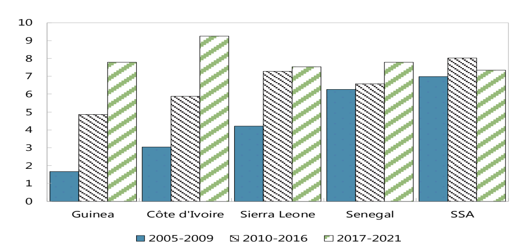
Figure 7. Guinea: Infrastructure Quality: Guinea vs. Comparators
(Values from 1 to 7; 7 is highest score)



Source: World Economic Forum Global Competitiveness Indicators, 2017.

30. Strengthening public investment management is needed to improve transparency, efficiency and maximize the returns of the scaling-up in public investment. Prioritizing and phasing public investments projects to maximize impact and account for capacity and execution constraints will be essential. Conducting cost-benefit analysis will be needed for an efficient resource allocation and to improve transparency and governance. To this end, feasibility studies for the priority infrastructure projects financed by non-concessional loans will be completed by March 2018 (SB). Conducting competitive bidding for public investment projects will be key to foster transparency.[9] Finalizing the integrated platform for investment

Figure 8. Guinea: Average Level of Public Investment: Guinea vs. Comparators
(Percent of GDP)



Source: IMF World Economic Outlook, October 2017.

[8] About 35 percent of the population is either inactive or unemployed and more than 60 percent of the population are under the age of 25 (National Survey, 2012). The pace of Guinea's working-age population growth is expected to accelerate to 3.4 percent on average between 2015–25.

[9] The new procurement code (2014) requires competitive bidding for public investment projects above a certain threshold. A 2016 audit pointed out that more than 70 percent of public investment procurements contracts remained single-sourced.

management will improve coordination and monitoring of investment projects. Continuing efforts to strengthen public investment management, including conducting a Public Investment Management Assessment (PIMA), with the support of IMF technical assistance, will help maximize the returns of investments.

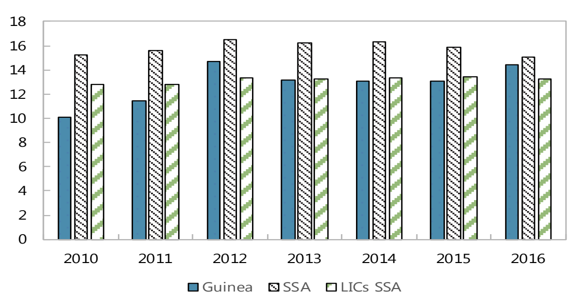
31. Finalizing the new public-private partnership (PPP) framework in line with best practice is important. The authorities are planning to undertake public-private partnerships (PPPs) to support infrastructure development. Implementation decrees of the new PPP law adopted in early July will need to ensure that the new PPP framework is in line with best practices, geared toward supporting projects envisaged in the PNDES, and consistent with the law on public finances (LORF). Given the risks and associated contingent liabilities, prudence will be needed to avoid over-dependence on PPPs in financing the stepping-up of investments. To this end, guarantees will need to be well-monitored and contained in line with sound risk management.

B. Creating Fiscal Space to Support the Scaling-up of Priority Spending

Mobilizing Additional Tax Revenues

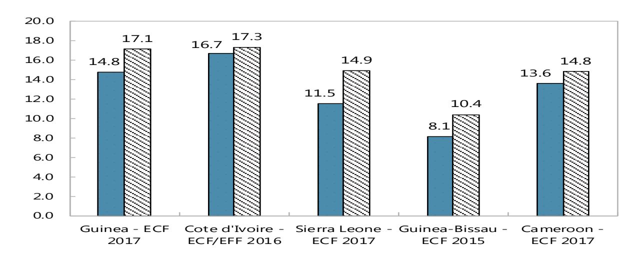
32. Mobilizing additional tax revenues will be key to create fiscal space to step-up growth priority spending. Guinea's tax revenue performance has improved over time, with the tax-to-GDP ratio slightly above the average for sub-Saharan low-income countries. However, a potential tax revenue gap remains, estimated in the range of 3–5 percent of GDP.[10] A tax policy and administration reform, coupled with sustained growth and buoyant mining activity, would increase tax revenues by about 3 percent of GDP under the program, broadly in line with IMF-supported programs targets in fragile countries.

Figure 9. Guinea: Tax Revenues: Guinea vs. Comparators
(Percent of GDP)



Sources: Guinean authorities; and IMF staff estimates.

Figure 10. Guinea: Targeted Revenue Mobilization
(Percent of GDP)



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

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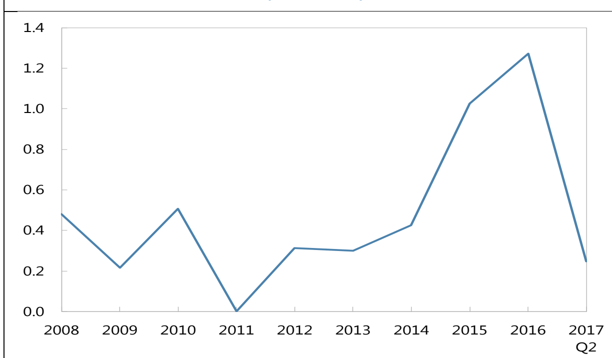
[10] The potential tax revenue gap is measured as the difference between the potential tax-to-GDP ratio, is estimated based upon data from peer countries and the actual tax-to-GDP ratio (Guinea -Selected Issues – IMF country Report n. 16/262).

33. Implementing a targeted tax policy and administration reform, coupled with sustained growth, will mobilize additional non-mining tax revenues. Fostering non-mining tax revenues, notably direct taxes, is key to mobilize additional revenues (Annex IV). To this end, the authorities will adopt an action plan for a targeted tax policy and administration reform by end 2017 (SB), with the support of IMF TA, which would increase non-mining revenues by 2 percent of GDP. The reform will aim at widening the tax base, simplifying the tax regime and strengthening tax collection and controls:

- Tax policy measures will aim at simplifying the tax system and making it more equitable. Key measures will be: (i) rationalizing tax exemptions (estimated at about 4 percent of GDP); (ii) reviewing corporate income taxes; (iii) setting up a proper tax scheme for small taxpayers and facilitating electronic payments; (iv) streamlining excises and reviewing rates; and (v) reducing VAT credit repayment delays and the stock of arrears.
- Tax administration measures will aim at strengthening tax payment and collection. Key measures will focus on: (i) reinforcing the capacity of the National Directorate for Taxes by separating management and operations; (ii) strengthening control of the tax base by improving taxpayers' identification and cross-checking tax-payers' imports with declared turnover; (iii) strengthening customs' procedural efficiency and human and material resources to improve collection; (iv) introducing on-line tax declarations and payments; and (v) strengthening informatization.

34. Implementing the automatic price adjustment mechanism for petroleum products will support revenue mobilization and predictability. The retail prices of fuel products have been kept constant since early 2015 and the TSPP was adjusted, on a monthly basis, to bridge the gap between import and retail prices, leading to revenue losses in 2017 (Annex V). Implementing the existing automatic price adjustment mechanism—an unmet structural benchmark under the 2012–16 ECF program—by March 2018 (SB) would support the mobilization and predictability of TSPP revenues, contributing to create fiscal space for priority spending and improve budget transparency. This would be preceded by a communication campaign and the setting-up of mitigating measures to protect vulnerable households, including through strengthening social safety nets.

Figure 11. Guinea: TSPP Revenues-to-GDP Ratio
(Percent)

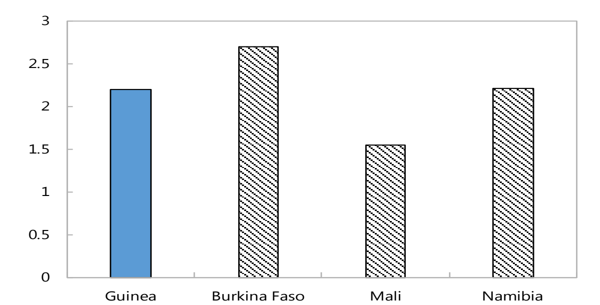


Sources: Guinean authorities; and IMF staff estimates.

35. Applying the provisions of the new mining code is needed to capture tax windfalls from buoyant mining activity. Guinea joined the EITI in 2013 and implemented a new Mining Code in 2014, which strengthened governance and transparency and introduced taxation provisions in line with international standards. However, existing companies were grand-fathered from the application of new tax provisions. Ensuring the application of the tax provisions of the new code to new companies will be important to support the mobilization of an additional 0.8 percent of GDP during 2017–20 (cumulative).[11] Continuing efforts to bring expiring agreements under the new code will also be important.

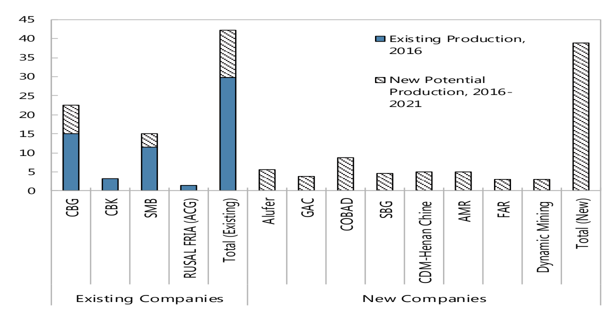
36. Moving forward with the reform of state-owned enterprises (SOEs) would strengthen governance and fiscal revenues. In 2016, the authorities adopted new legislation to strengthen SOEs' governance and supervision, including the oversight power of the Ministry of Economy and Finance, and ensure transfers of SOEs dividends to the budget. Ensuring consistency between the 2016 SOE law and existing legislation is needed. The survey of SOEs was finalized and the SOEs' 2016 annual financial reports will be submitted to the Parliament by end-2017 (SB).

Figure 12. Guinea: Mining Revenues, 2016
(Percent of GDP)



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

Figure 13. Guinea: Mining Production Capacity
(Millions of tons)

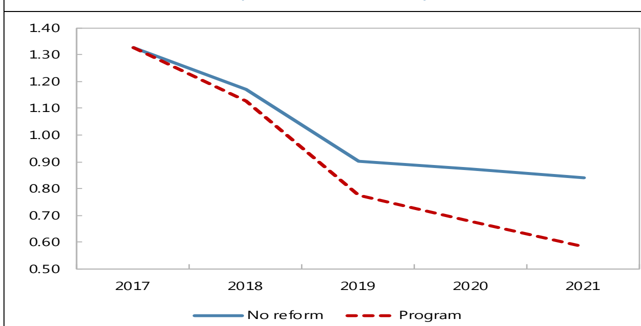


Source: Guinean authorities.

Containing Current Non-Priority Spending

37. Phasing out untargeted electricity subsidies will free resources to scale up priority spending. Large budgetary transfers are provided to EDG to compensate for below cost-recovery tariffs, weak revenue collection and large technical and distribution losses. Nevertheless, EDG runs financial losses and arrears to suppliers, which are cleared ad-hoc by the government, including through the issuance of domestic debt. The program supports gradually reducing untargeted electricity

Figure 14. Guinea: Subsidies to EDG
(Percent of GDP)



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

[11] Part of the pick-up in mining activity under the program period will be generated by companies grandfathered from the application of the new mining code thus constraining potential tax mobilization.

subsidies on the back of a two-pronged strategy: (i) bringing electricity tariffs closer to cost recovery, and (ii) improving EDG's efficiency by strengthening its collection rate and reducing distribution losses. To this end, a 25 percent tariff increase for industrial and large consumers will be implemented by end-2017 (SB) and a tariff study—including an impact analysis—will be finalized by February 2018 (SB), to establish a cost-recovery tariff and mitigating measures to protect the most vulnerable. Furthermore, electricity consumption meters will be installed in public buildings of the Prime Ministry and fifteen Ministries by June 2018 (SB) and throughout the central government and 80 percent of the rest of consumers by February 2019 (SB). Strengthening control measures will aim at curbing electricity theft and reducing distribution losses.

38. Maintaining the wage bill contained will help create fiscal space. The authorities aim at maintaining the wage bill contained at about 4 percent of GDP. Finalizing the administration and civil service reform will contribute to increase efficiency. To this end, the distribution of biometric cards to all civil servants will be finalized by December 2017, the cleaning of civil servants' registries will continue and the system for monitoring civil servants will be strengthened (MEFP ¶17).

C. Mobilizing External Financing While Maintaining Medium-term Debt Sustainability

39. Maximizing reliance on concessional external borrowing and limiting non-concessional borrowing is critical to preserve medium-term debt sustainability. Under the program scenario, Guinea's debt dynamics are sustainable with a moderate risk of debt distress. Forward-looking risks have risen, with the present value of external debt-to-GDP ratio expected to increase from 16 percent in 2016 and to peak at 26.2 percent in 2025, driven by infrastructure-related borrowing. This reflects that, given constraints in securing sufficient concessional resources, Guinea's has started mobilizing non-concessional loans to finance its large infrastructure needs. Thus, a US$1.2 billion (13 percent of GDP) non-concessional loan is being finalized for the construction of the Souapiti dam. In view of this, the authorities have committed to limit new non-concessional loans, additional to the Souapiti loan, to a maximum of US$650 million (6 percent of GDP) during 2017–20, calibrated so as to preserve debt sustainability.[12] These new non-concessional loans will finance key priority growth-supporting infrastructure projects in the energy, transport and education sectors (text table

Text Table 1. Guinea: New Non-concessional Loans to Finance Priority Infrastructure Projects[1]

Project	Amount (USD million)
Rehabilitation of RN1 (national road)	275
Rehabilitation of road system in Conakry	159
Construction of electricity transmission line (Lisan-Fomi-Kankan)	150
University Rehabilitation	63

[1] Indicative values on a contracted basis, expected during 2017–20. This excludes the US$1.2 billion non-concessional Souapiti loan which is being finalized.

[12] The US$1.2 billion Souapiti loan and the additional package of US$650 million non-concessional loans are included in the Debt Sustainability Analysis.

(continued)

1). The authorities remain committed to resolving outstanding external arrears (US$147.4 million to non-Paris Club and commercial creditors which pre-date the HIPC completion) and negotiations are ongoing.[13] Furthermore, a strategy to clear government arrears to the private sector—an unmet benchmark of the 2012–16 ECF—will be developed by end-2017 (SB).

40. Strengthening debt management capacity will contribute to preserve debt sustainability. The authorities are committed to enhancing debt management, including through the publication of a statistical bulletin on public debt, the setting-up of a technical group responsible for analyzing debt sustainability, and updating the medium-term debt management strategy. In addition, Guinea will participate in a Debt Management Performance Assessment (DEMPA) to identify key areas for improvement.

STRENGHTHENING SOCIAL SAFETY NETS

41. Strengthening social safety nets is needed to reduce high poverty and foster inclusion. Social safety nets (SSNs) in Guinea are small and mostly donor-financed (Annex VI). Domestically-financed public spending allocated to the main SSNs programs—the *Programme Filet Social Productive* (PFSP) and the *Fonds de Développement Social et de Solidarité* (FDSS)—was at 0.1 percent of GDP in 2016.[14] Guinea adopted in 2016 its first National Social Protection Strategy to support reducing the poverty rate to 45 percent by 2020. To support this objective, the equivalent of the budgetary savings stemming from reducing electricity subsidies (0.8 percent of GDP cumulative during 2018–20) will be used to step-up public spending on the PFSP and FDSS programs. This would also help reduce these programs dependence on external financing.

42. The targeting of social safety nets program will be improved to make the most effective use of limited resources. Programs under the PSFP and FDSS use a combination of geographic factors, self-identification, community-based committees, and basic means testing to identify beneficiaries. Nevertheless, reaching intended populations remains difficult in the absence of a national identification system, remoteness of target regions, and limited monitoring capacity. To improve targeting of social safety nets, a unified social register of vulnerable populations will be put in place by February 2019 (SB), with the support of the World Bank.

[13] Guinea owes arrears to non-Paris Club (Libya, Morocco, Thailand, Bulgaria, Romania, and Iraq) which continue to be deemed away under the IMF Policy on arrears to official bilateral creditors as the underlying Paris Club agreement is adequately representative and the authorities are making best efforts to resolve the arrears. Regarding the external arrears owed by Guinea to private creditors, the authorities continue to make good faith efforts to reach a collaborative agreement with these creditors. The authorities aim to normalize these arrears by end-2017. So far creditors have not yet responded to the authorities' requests nor requested payments on these arrears.

[14] The PFSP is mostly supported by a US$43 million World Bank grant to finance its activities over 2012–18 and includes labor intensive public works projects in rural regions, notably for women and the youth, unconditional cash transfers to the poor, educational conditional cash transfers to foster children school enrollment and attendance, and life skills training. The FDSS is a socio-economic reintegration program for vulnerable groups, including women, the disabled, the elderly, and those affected by HIV/AIDS and Ebola.

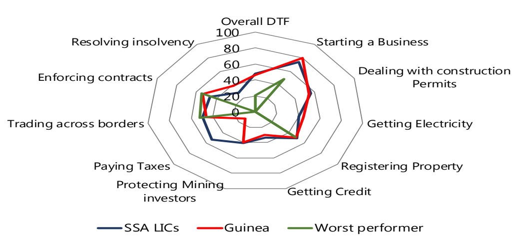
ADVANCING GROWTH-SUPPORTING STRUCTURAL REFORMS

43. Improving the business climate will support private sector development and achieve higher and more inclusive growth. Guinea's ranking in the 2018 World Bank Doing Business Indicators improved to 153 out of 190 countries (163 in 2017). The authorities will develop an action plan to improve the business climate by March 2018 (SB). Key measures will aim at easing procedures to start a business; introducing a business identification number and online tax declarations to facilitate paying taxes; strengthening the credit information system to improve access to credit for SMEs; establishing a one-stop-shop to facilitate trade; and developing a framework for the dialogue between the private sector and the government.

44. Strengthening governance is a pillar of the authorities' strategy to support higher and more inclusive growth. Guinea's governance indicators remain weak (Fig 16). The authorities are committed to strengthening the enforcement of the rule of law, the judicial system and the overall anti-corruption framework. A new anti-corruption law was adopted in July 2017 and implementing decrees will be in line with best international practices, including criminalizing all acts of corruption and the publication of asset declarations of high-officials. In parallel, the National Agency to Fight Corruption will be strengthened and a pool of specialized judges and dedicated police will be created. The authorities made progress in improving the AML/CFT regime, including by operationalizing the Fraud Investigation Unit and setting-up an inter-ministerial committee and a steering committee. Implementing the recommendations of the GIABA assessment, including measures related to politically-exposed persons, will further strengthen the AML/CFT regime.

45. Promoting financial inclusion will support private sector development and reduce gender and income inequality. A new Financial Inclusion Act was approved by parliament in July 2017 to provide a framework for microfinance institutions. The adoption of the implementing decrees by end-2017 will support the facilitation of banking services and help improve access to credit for SMEs, women and the youth (only 7 percent of the Guinean population has a bank account).

Figure 15. Guinea: Doing Business Indicators
(Distance to the frontier)



Source: 2018 World Bank Doing Business Indicators

Figure 16. Guinea: Governance Indicators
(Rank, in percentile)

	2012	2013	2014	2015	2016
Voice and Accountability	17.84	18.31	24.14	24.14	26.11
Political Stability and Non Violence	11.37	11.85	14.29	32.86	30.95
Government Effectiveness	9.00	11.85	10.58	12.50	14.90
Regulatory Quality	16.59	16.11	13.94	20.19	19.23
Rule of Law	4.69	6.57	6.25	10.10	8.65
Control of Corruption	15.17	13.74	13.46	14.42	14.90

Source: Worldwide Governance Indicators, 2017.

PROGRAM MODALITIES

46. Access, phasing and capacity to repay the Fund. The ECF arrangement will cover three years from December 2017 to December 2020. In view of anticipated available external financing and financing that will be catalyzed by the program (Table 10), staff proposes access of 56.25 percent of quota (SDR 120.488 million) which will close the balance of payments financing gap. Disbursements are proposed to be spread in equal installments. Given Guinea's track record in meeting its obligations to the Fund, the strength of the program, the favorable medium-term outlook and a sustainable debt position, staff considers that Guinea has an adequate capacity to repay the Fund (Table 8). An update of the 2016 safeguards assessment is currently underway.

47. Monitoring of program performance. Program performance will be monitored through semi-annual program reviews based on quantitative performance criteria (Table 7) and structural benchmarks (Table 9), which also includes critical unmet structural benchmarks under the 2012–16 ECF program. Test dates for the quantitative performance criteria are the last day of each semester starting December 2017.

STAFF APPRAISAL

48. Despite being hit by severe shocks, Guinea made significant strides towards macroeconomic stabilization under the 2012–16 ECF-supported arrangement. Inflation was curbed, international reserves were preserved, fiscal imbalances were reduced, and debt sustainability was restored with the reaching of the HIPC completion point. After slowing down during 2014–15 due to the adverse impact of the Ebola epidemic and the decline in commodity prices, the Guinean economy has rebounded with real growth estimated at 6.6 percent in 2016. The growth momentum is expected to be sustained in 2017.

49. Strengthening macroeconomic resilience and generating high and more inclusive growth are needed to reduce Guinea's vulnerabilities, tackle pervasive poverty and improve living standards. Guinea is exposed to commodity prices shocks, international reserves remain below comfortable levels, debt vulnerabilities have increased, and credit to the economy remains subdued. Poverty incidence is pervasive at 55 percent, education and health outcomes are weak, and income and gender inequality is sizable. Private sector development is constrained by a sizable infrastructure gap, limited access to credit, and poor governance.

50. The ECF arrangement will support the authorities' economic policies and reforms, which aim to achieve higher broad-based growth and reduce poverty while preserving macroeconomic stability. The program will support the authorities' 2016–20 PNDES and aim to: strengthen Guinea's macroeconomic resilience; scale-up growth-supporting public investments in infrastructure while preserving macroeconomic stability and debt sustainability; strengthen social safety nets; and promote private sector development. Guinea's growth outlook is expected to be favorable under the program scenario at about 6 percent over the medium-term. However, the program is subject to risks, including potential commodity price volatility and capacity constraints. Strong ownership and implementation of economic policies and reforms will be essential to mitigate these risks and foster program success.

51. Fiscal policy will aim at preserving macroeconomic stability, scaling-up growth-supporting public investment while preserving debt sustainability, and strengthening social safety nets. Targeting a basic fiscal surplus will contain budgetary needs so as to preserve moderate inflation, ensure banks' credit to the private sector, and preserve medium-term debt sustainability. Creating fiscal space and prudent external borrowing will allow scaling up public investment in infrastructure while preserving debt sustainability. Additional tax revenues will be mobilized on the back of a targeted tax policy and administration reform and the implementation of the automatic petroleum prices adjustment mechanism. Electricity subsidies will be gradually phased out and budgetary savings used to strengthen social safety nets. Maximizing reliance on concessional borrowing and limiting recourse to non-concessional borrowing to address infrastructure development needs will be key to preserving debt sustainability. Strengthening public finance and investment management will improve transparency, efficiency and investments' returns.

52. Accumulating reserves will strengthen external buffers and Guinea's resilience to commodity prices shocks. The BCRG will continue to gradually build-up international reserves and limit interventions in the bilateral foreign exchange auction market to ensure liquidity and prevent disorderly market conditions. To this end, a weekly foreign exchange liquidity forecasting framework will be established. In parallel, finalizing the reform of the foreign exchange mechanism will support greater exchange rate flexibility by increasing competition in the market and strengthening the BCRG intervention strategy by limiting discretion.

53. Preserving moderate inflation, ensuring healthy private sector credit growth, and strengthening the BCRG's autonomy will be key. Monetary policy will continue to be prudent and a positive real interest rate will be maintained. The BCRG will ensure appropriate liquidity in the banking system to support provision of credit to the economy and strengthen liquidity management. Addressing the recommendations of the 2017 Safeguard Assessment Update will further strengthen the BCRG autonomy, transparency, and accountability. A memorandum of understanding will be signed between the BCRG and the Ministry of Economy and Finance for the BCRG recapitalization and the BCRG will publish IFRS-compliant financial statements for 2017.

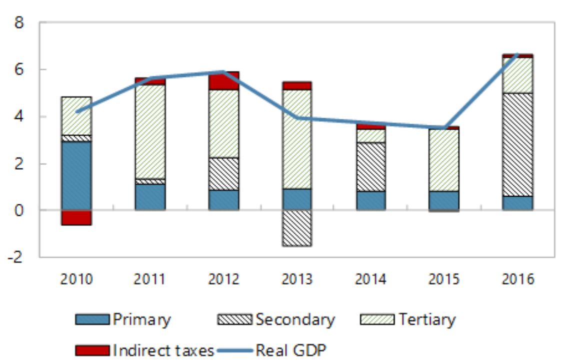
54. Maintaining financial stability will strengthen macroeconomic resilience and support growth. Banking supervision will be strengthened and a deposit guarantee system and a banking resolution framework will be established. In view of the recent increase in NPLs, a new credit information system will provide better information to banks. The BCRG will ensure that all banks are compliant with reserve capital adequacy and reserve requirements.

55. Advancing structural reforms will support the development of the private sector and generate more broad-based growth. Strengthening the business climate and governance and fostering financial inclusion is needed for private sector development and achieve higher and more inclusive growth.

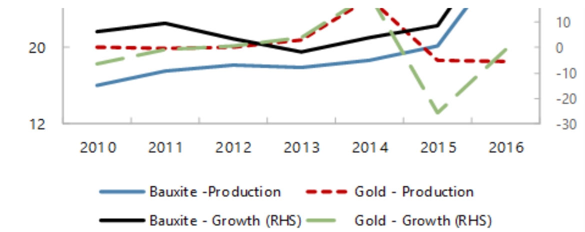
56. In view of Guinea's balance of payment needs and the strong policies proposed by the authorities, staff supports their request for a three-year ECF arrangement for the amount of SDR 120.488 million (equivalent to 56.25 percent of the quota).

Figure 17. Guinea: Recent Economic Developments

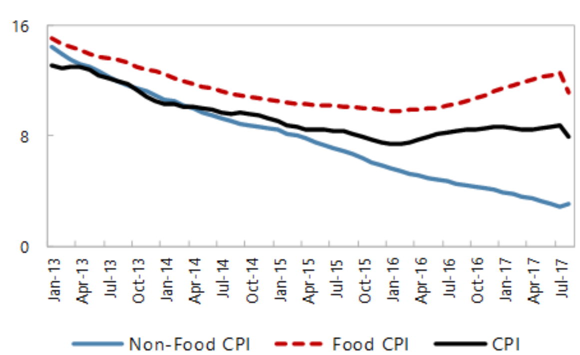
Real GDP growth at factor price and contributions by sector
(Percent)



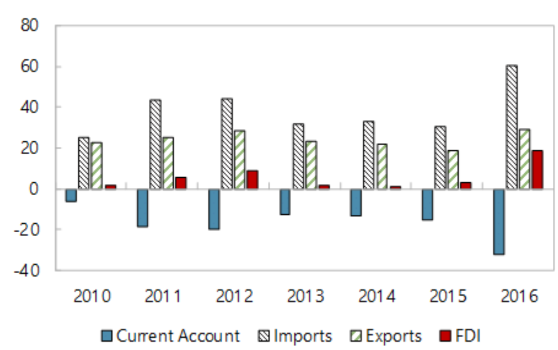
Production and growth in the mining sectors
(Millions of tons and in percent)



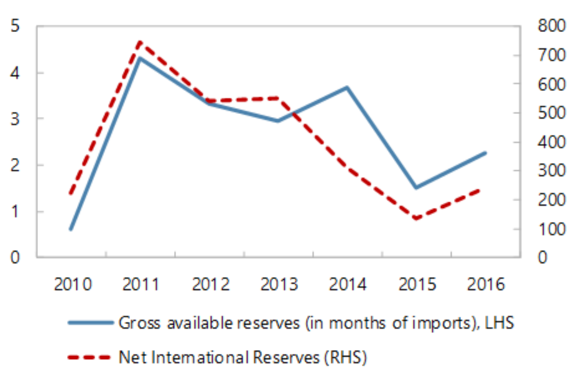
Inflation
(Average year-on-year growth, percent)



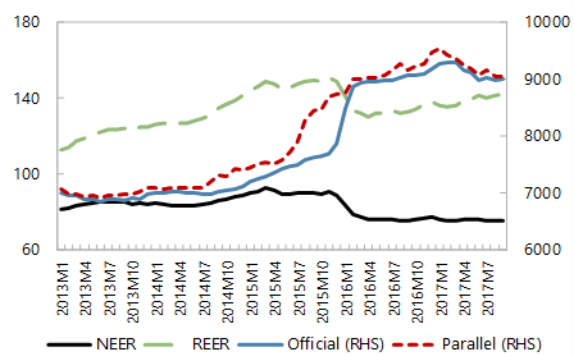
Current Account, Exports, Imports, and FDI
(Percent of GDP)



Gross available reserves and net international reserves
(Months of imports, USD millions)

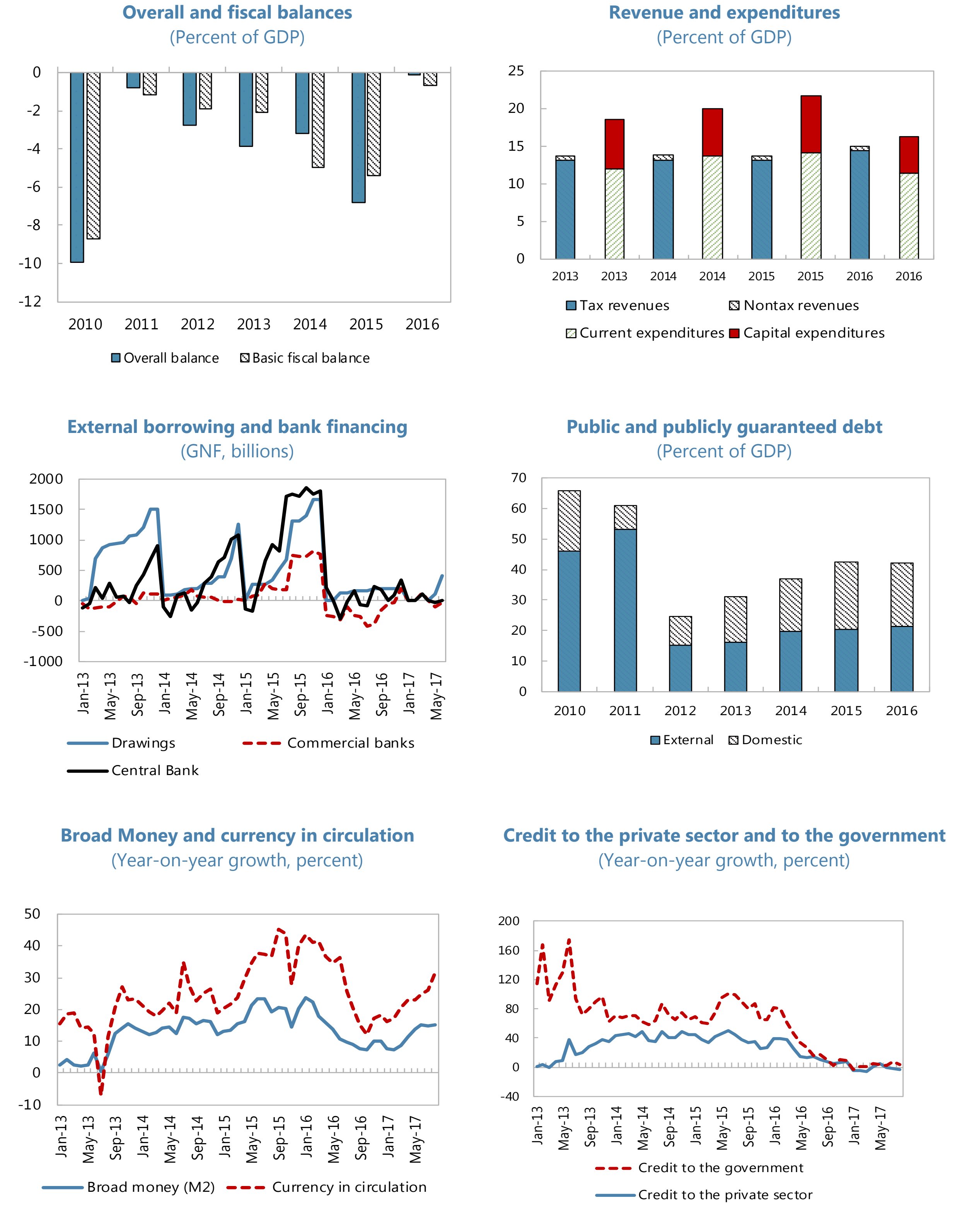


Exchange rates
(Averages)



Sources: Guinean authorities; and IMF staff estimates.

Figure 18. Guinea: Fiscal and Monetary Indicators



Sources: Guinean authorities; and IMF staff estimates.

Table 1. Guinea: Key Economic and Financial Indicators, 2014–21

	2014	2015	2016	2017	2018	2019	2020	2021
			Prel.	Proj.	Proj.	Proj.	Proj.	Proj.
	Annual percentage change, unless otherwise indicated							
National accounts and prices								
GDP at constant prices	3.7	3.5	6.6	6.7	5.8	5.9	6.0	6.0
Mining	11.0	-4.0	33.5	13.7	7.5	10.9	8.9	9.9
Non-mining	2.8	4.5	3.4	5.6	5.5	5.0	5.5	5.3
GDP deflator	2.8	2.8	8.5	7.8	7.7	7.8	7.6	7.5
GDP at market prices	6.6	6.4	15.7	15.0	14.0	14.1	14.0	13.9
Consumer prices (average)								
Average	9.7	8.2	8.2	8.5	8.2	8.0	7.9	7.8
End of period	9.0	7.3	8.7	8.2	8.0	8.0	7.9	7.8
External sector								
Exports, f.o.b. (US$ terms)	4.7	-18.5	55.0	30.0	19.3	16.6	8.3	7.0
Imports, f.o.b. (US$ terms)	26.1	-6.7	102.1	2.5	3.2	-8.5	23.4	0.7
Average effective exchange rate (depreciation -)								
Nominal index	1.1	6.0	-14.6	...	...	...	...	...
Real index	8.5	12.5	-9.2	...	...	...	...	...
Terms of trade	5.5	10.1	7.1	-3.2	6.0	6.1	5.9	-0.8
Money and credit								
Net foreign assets[1]	-8.3	-11.0	7.6	6.8	8.0	6.6	6.7	6.4
Net domestic assets[1]	20.6	31.2	2.4	3.7	5.9	7.4	8.3	8.7
Net claims on government[1]	7.5	17.2	1.9	1.5	-0.3	-0.1	-0.1	0.0
Credit to non-government sector[1]	13.7	10.8	2.9	2.0	6.2	7.5	8.4	8.7
Reserve money	14.5	2.6	15.5	1.7	13.9	11.3	12.1	12.1
Broad money (M2)	12.3	20.3	9.9	10.5	14.0	14.0	15.0	15.1
Interest rate (short-term T-bill)	9.8	11.5	...	...	...	...	...	...
	Percent of GDP, unless otherwise indicated							
Central government finances								
Total revenue and grants	17.0	14.9	16.2	17.0	18.4	18.6	19.1	19.2
Revenue	13.8	13.7	15.0	15.4	16.2	17.1	17.8	17.9
Of which: N on-mining revenue	10.9	11.3	12.8	12.6	13.3	14.2	14.8	14.9
Grants	3.1	1.2	1.2	1.6	2.2	1.5	1.3	1.3
Total expenditure and net lending	20.2	21.8	16.4	17.4	20.8	20.9	21.1	21.2
Current expenditure	13.6	14.1	11.5	12.5	13.0	12.3	12.3	12.1
Of which: Interest payments	1.0	0.8	1.1	1.3	1.3	1.1	1.0	0.9
Capital expenditure and net lending	6.4	7.6	4.8	4.9	7.8	8.5	8.8	9.0
Overall budget balance (cash basis)								
Including grants	-3.2	-6.8	-0.1	-0.4	-2.5	-2.3	-2.0	-2.0
Excluding grants	-6.3	-8.1	-1.4	-2.0	-4.6	-3.8	-3.3	-3.3
Basic fiscal balance	-5.0	-5.4	-0.7	0.6	0.6	0.9	1.1	1.1
National accounts								
Gross capital formation	6.4	7.3	25.2	23.3	19.1	14.6	21.7	19.4
Savings	-7.0	-8.1	-6.7	-1.2	-2.2	3.4	3.6	3.9
Current account balance								
Including official transfers	-13.4	-15.4	-31.9	-24.4	-21.3	-11.2	-18.1	-15.5
Excluding official transfers	-14.7	-15.5	-32.9	-25.2	-22.4	-11.9	-18.6	-16.0
Overall balance of payments	-0.7	-4.0	1.3	0.7	1.9	1.6	1.6	1.8
Memorandum items:								
Exports, goods and services (US$ millions)	1,958.0	1,636.0	2,471.3	3,201.2	3,810.9	4,438.3	4,806.2	5,141.4
Imports, goods and services (US$ millions)	2,901.6	2,694.5	5,142.3	5,389.6	5,560.0	5,089.8	6,281.9	6,323.7
Overall balance of payments (US$ millions)	-61.7	-347.4	111.3	62.6	186.5	173.7	179.2	223.7
Net foreign assets of the central bank (US$ millions)	453.4	161.2	274.3	331.5	517.1	690.7	892.2	1,113.8
Gross available reserves (months of imports)[2]	3.7	1.5	2.3	2.5	3.2	3.5	3.8	4.0
External public debt, incl. IMF (percent of GDP)	19.7	20.3	21.5	23.0	30.8	34.6	36.4	36.2
Total public debt, incl. IMF (percent of GDP)	33.4	39.4	40.9	40.4	45.1	46.7	46.5	44.8
Nominal GDP (GNF billions)	61,664	65,627	75,943	87,355	99,558	113,630	129,548	147,593

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

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

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

Table 2. Guinea: Balance of Payments, 2015–21

(Millions of U.S. Dollars, unless otherwise indicated)

	2015	2016	2017	2018	2019	2020	2021
		Prel.	Proj.	Proj.	Proj.	Proj.	Proj.
Exports, f.o.b.	1,558	2,414	3,140	3,745	4,367	4,729	5,059
Mining products	1,381	1,918	2,638	3,182	3,742	4,035	4,288
Other	177	496	502	563	625	694	770
Imports, f.o.b.	-2,192	-4,429	-4,539	-4,683	-4,287	-5,291	-5,326
Food products	-276	-617	-668	-717	-772	-832	-897
Other consumption goods	-290	-305	-330	-354	-382	-411	-443
Petroleum products	-498	-402	-563	-741	-828	-910	-978
Intermediate and capital goods	-1,128	-3,106	-2,978	-2,870	-2,305	-3,137	-3,007
Services trade balance	-425	-656	-789	-811	-732	-914	-915
Services exports	78	57	62	66	71	77	83
Services imports	-503	-713	-851	-877	-803	-991	-998
Income balance	-283	-155	-204	-586	-744	-817	-962
Of which: Interest on public debt	-15	-26	-37	-33	-32	-37	-41
Transfers	-6	119	147	236	205	219	236
Of which:							
Net private transfers	-17	37	76	123	128	162	174
Official transfers	12	83	71	113	77	57	62
Current account							
Including official transfers	-1,347	-2,706	-2,245	-2,099	-1,191	-2,073	-1,908
Excluding official transfers	-1,358	-2,789	-2,316	-2,212	-1,268	-2,130	-1,970
Capital account	79	26	88	116	102	110	117
Public transfers	33	10	72	99	85	92	99
Financial account	857	2,547	2,219	2,169	1,262	2,143	2,015
Public (medium and long-term)	172	-29	679	855	328	309	334
Project-related loans	187	22	701	922	650	544	397
Program financing	36	0	20	10	9	11	10
Amortization due	-52	-51	-42	-77	-67	-79	-73
Public (short-term)	0	0	0	0	0	0	0
Direct and other private investment (net)	263	1,595	1,489	1,248	864	1,762	1,607
Private short-term	422	981	51	66	71	72	74
Errors and omissions	63	244	0	0	0	0	0
Overall balance	-347	111	63	187	174	179	224
Financing	347	-111	-63	-187	-174	-179	-224
Use of Fund resources (net)	33	22	24	48	44	9	-49
Of which							
Disbursements	63	22	24	48	49	49	0
Change in gross official reserves (- = increase)	291	-133	-86	-235	-218	-188	-175
Of which: SDR Allocation							
Change in arrears (- = reduction)	11	-1	-82	0	0	0	0
Debt relief	13	0	82	0	0	0	0
Financing gap	0	0	0	0	0	0	0
Memorandum items:							
Current account balance (percent of GDP)							
Including official transfers	-15.4	-31.9	-24.4	-21.3	-11.2	-18.1	-15.5
Excluding official transfers	-15.5	-32.9	-25.2	-22.4	-11.9	-18.6	-16.0
Overall balance (percent of GDP)	-4.0	1.3	0.7	1.9	1.6	1.6	1.8
Exports-GDP ratio (percent)	18.7	29.2	34.9	38.7	41.8	42.0	41.7
Imports-GDP ratio (percent)	-30.7	-60.7	-58.7	-56.4	-48.0	-54.9	-51.3
FDI-GDP ratio (percent)	3.0	18.8	16.2	12.7	8.1	15.4	13.0
Gross available reserves (US$ millions)	461	594	680	915	1,133	1,321	1,496
Gross available reserves (months of imports)	1.5	2.3	2.5	3.2	3.5	3.8	4.0
Nominal GDP (US$ millions)	8,763	8,476	9,183	9,855	10,614	11,439	12,326
National currency per US dollar (avg.)	7,489	9,513	…	…	…	…	…

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

Table 3a. Guinea: Fiscal Operations of the Central Government,[1] 2015–21

(Billions of Guinean Francs; unless otherwise indicated)

	2015	2016	2017			2018	2019	2020	2021
			Budg.	Proj.	H1	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	**9,749**	**12,325**	**15,194**	**14,831**	**7,019**	**18,279**	**21,126**	**24,720**	**28,354**
Revenue	8,988	11,391	12,877	13,474	6,488	16,135	19,390	23,037	26,436
Tax revenue	8,579	10,930	12,264	12,893	6,198	15,472	18,634	22,174	25,454
Mining sector	1,558	1,671	1,931	2,500	971	2,887	3,291	3,886	4,427
Non-mining sector	7,021	9,259	10,334	10,393	5,226	12,585	15,342	18,288	21,026
Direct taxes	1,376	1,890	2,376	2,580	1,437	2,985	3,747	4,483	5,107
Indirect taxes	5,645	7,369	7,957	7,812	3,790	9,601	11,595	13,805	15,919
Taxes on goods and services	3,824	5,342	5,850	5,432	2,470	6,390	7,658	8,992	10,245
Taxes on international trade	1,821	2,027	2,108	2,380	1,320	3,211	3,937	4,813	5,674
Non-tax revenue	409	462	612	581	290	663	756	862	982
Grants	761	934	2,317	1,357	531	2,144	1,736	1,683	1,919
Project grants	249	92	1,315	683	337	998	909	1,036	1,181
Budget support	89	742	1,002	674	171	1,146	827	647	738
Other earmarked grants	423	101	0	0	23	…	…	…	…
Expenditures and net lending	**14,286**	**12,439**	**15,315**	**15,193**	**6,343**	**20,719**	**23,708**	**27,340**	**31,257**
Current expenditures	9,283	8,708	10,462	10,895	4,620	12,915	14,028	15,933	17,912
Primary current expenditures	8,741	7,863	9,306	9,789	4,336	11,653	12,778	14,617	16,583
Wages and salaries	2,721	2,937	3,600	3,440	1,671	4,128	4,744	5,442	6,125
Goods and services	3,313	2,714	3,197	3,130	1,281	3,845	4,209	4,731	5,388
Subsides and transfers	2,707	2,212	2,508	3,218	1,384	3,680	3,824	4,444	5,070
of which: EDG	291	410	400	1,159	570	1,122	880	877	861
other subsidies and transfers	2,416	1,802	2,108	2,059	…	2,558	2,944	3,567	4,209
Interest on debt	542	845	1,156	1,107	284	1,262	1,251	1,316	1,329
Domestic debt	433	609	750	750	195	923	903	894	841
External debt	109	236	406	357	89	339	348	422	488
Capital expenditure	4,990	3,682	4,831	4,276	1,674	7,783	9,659	11,384	13,320
Domestically financed	3,337	3,389	2,386	2,395	1,128	2,973	4,624	6,079	7,386
Investment (central budget exec.)	3,290	3,327	2,330	2,317	1,105	2,937	4,588	6,044	7,351
Capital transfers	47	63	56	78	23	36	36	36	36
Externally financed	1,653	293	2,445	1,881	546	4,811	5,035	5,305	5,933
Net lending and restructuring expenditures	13	49	22	22	49	21	21	23	25
Adjustment measures	…	0	0	0	0	…	…	…	…
Basic fiscal balance [2]	**-3,535**	**-520**	**413**	**519**	**779**	**566**	**1,064**	**1,423**	**1,600**
Percent of GDP	-5.4	-0.7		0.6	0.9	0.6	0.9	1.1	1.1
Overall balance									
Excluding grants	-5,298	-1,048	-2,439	-1,719	145	-4,584	-4,319	-4,303	-4,821
Including grants	-4,537	-114	-121	-362	676	-2,440	-2,583	-2,620	-2,903
Cash adjustments / Non-fiscal expenditures	63	12	0	0	-356	0	0	0	0
Overall balance (cash basis)	**-4,474**	**-101**	**-121**	**-362**	**320**	**-2,440**	**-2,583**	**-2,620**	**-2,903**
Financing	**4,472**	**55**	**121**	**362**	**-244**	**2,440**	**2,583**	**2,620**	**2,903**
Domestic financing	**3,011**	**318**	**-633**	**-630**	**-368**	**-697**	**-924**	**-879**	**-1,098**
Bank financing	2,578	505	660	300	-13	-62	-36	-31	-8
Central bank	1,804	294	0	-284	5	-284	-284	-284	-284
Commercial banks	774	210	660	583	-18	222	248	253	275
Nonbank financing	433	-187	-1,293	-930	-355	-635	-888	-848	-1,090
Privatization revenue	0	0	0	0	0	0	0	0	0
Borrowing/Amortization of domestic debt (net)	-150	-350	-1,153	-836	-319	-511	-772	-731	-956
Change in arrears	296	158	0	-109	-36	-124	-117	-117	-134
Development fund	0	0		0	0	0	0	0	0
Other / Exceptional revenue	287	5	15	15	0	0	0	0	0
External financing (net)	**1,461**	**-263**	**754**	**992**	**125**	**3,136**	**3,507**	**3,499**	**4,001**
Drawings	1,674	201	1,130	1,388	417	3,912	4,226	4,388	4,873
Project	1,404	201	1,130	1,197	417	3,812	4,126	4,268	4,753
Program	270	0	0	190	0	100	100	120	120
Amortization due	-388	-456	-423	-396	-295	-776	-719	-889	-871
Debt relief [3]	96	0	0	778	0	0	0	0	0
Change in cap. arrears (- = reduction) [3]	73	-6	39	-778	0	0	0	0	0
Change in int. arrears (- = reduction) [3]	6	-2	9	0	2	0	0	0	0
Miscellaneous cash adjustments	0	0	0	0	0	0	0	0	0
Financing gap	**0**	**0**	**0**	**0**	**-76**	**0**	**0**	**0**	**0**
Memorandum items:									
Nominal GDP (GNF billion)	65,627	75,943	87,356	87,355	87,355	99,558	113,630	129,548	147,593

Sources: Guinean authorities; Fund staff estimates and projections.

[1] Based on GFSM 1986 due to data availability limitations.

[2] Total revenue excluding grants minus expenditures excluding interest on external debt and foreign-financed capital expenditures.

[3] For 2014 and 2015, debt relief is on outstanding loans fully in arrears owed to non-Paris club official and commercial creditors.

Table 3b. Guinea: Fiscal Operations of the Central Government,[1] 2015–21

(Percent of GDP; unless otherwise indicated)

	2015	2016	2017 Budg.	2017 Proj.	2017 H1	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.
Total revenue and grants	**14.9**	**16.2**	**17.4**	**17.0**	**8.0**	**18.4**	**18.6**	**19.1**	**19.2**
Revenue	13.7	15.0	14.7	15.4	7.4	16.2	17.1	17.8	17.9
Tax revenue	13.1	14.4	14.0	14.8	7.1	15.5	16.4	17.1	17.2
Mining sector	2.4	2.2	2.2	2.9	1.1	2.9	2.9	3.0	3.0
Non-mining sector	10.7	12.2	11.8	11.9	6.0	12.6	13.5	14.1	14.2
Direct taxes	2.1	2.5	2.7	3.0	1.6	3.0	3.3	3.5	3.5
Indirect taxes	8.6	9.7	9.1	8.9	4.3	9.6	10.2	10.7	10.8
Taxes on goods and services	5.8	7.0	6.7	6.2	2.8	6.4	6.7	6.9	6.9
Taxes on international trade	2.8	2.7	2.4	2.7	1.5	3.2	3.5	3.7	3.8
Non-tax revenue	0.6	0.6	0.7	0.7	0.3	0.7	0.7	0.7	0.7
Grants	1.2	1.2	2.7	1.6	0.6	2.2	1.5	1.3	1.3
Project grants	0.4	0.1	1.5	0.8	0.4	1.0	0.8	0.8	0.8
Budget support	0.1	1.0	1.1	0.8	0.2	1.2	0.7	0.5	0.5
Other earmarked grants	0.6	0.1	0.0	0.0	0.0	…	…	…	…
Expenditures and net lending	**21.8**	**16.4**	**17.5**	**17.4**	**7.3**	**20.8**	**20.9**	**21.1**	**21.2**
Current expenditures	14.1	11.5	12.0	12.5	5.3	13.0	12.3	12.3	12.1
Primary current expenditures	13.3	10.4	10.7	11.2	5.0	11.7	11.2	11.3	11.2
Wages and salaries	4.1	3.9	4.1	3.9	1.9	4.1	4.2	4.2	4.1
Goods and services	5.0	3.6	3.7	3.6	1.5	3.9	3.7	3.7	3.7
Subsides and transfers	4.1	2.9	2.9	3.7	1.6	3.7	3.4	3.4	3.4
of which EDG	0.4	0.5	0.5	1.3	0.7	1.1	0.8	0.7	0.6
other subsidies and transfers	3.7	2.4	2.4	2.4	…	2.6	2.6	2.8	2.9
Interest on debt	0.8	1.1	1.3	1.3	0.3	1.3	1.1	1.0	0.9
Domestic debt	0.7	0.8	0.9	0.9	0.2	0.9	0.8	0.7	0.6
External debt	0.2	0.3	0.5	0.4	0.1	0.3	0.3	0.3	0.3
Capital expenditure	7.6	4.8	5.5	4.9	1.9	7.8	8.5	8.8	9.0
Domestically financed	5.1	4.5	2.7	2.7	1.3	3.0	4.1	4.7	5.0
Investment (central budget exec.)	5.0	4.4	2.7	2.7	1.3	3.0	4.0	4.7	5.0
Capital transfers	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Externally financed	2.5	0.4	2.8	2.2	0.6	4.8	4.4	4.1	4.0
Net lending and restructuring expenditures	0.0	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Adjustment measures	…	0.0	0.0	0.0	0.0	…	…	…	…
Basic fiscal balance[2]	**-5.4**	**-0.7**	**0.5**	**0.6**	**0.9**	**0.6**	**0.9**	**1.1**	**1.1**
Overall balance									
Excluding grants	-8.1	-1.4	-2.8	-2.0	0.2	-4.6	-3.8	-3.3	-3.3
Including grants	-6.9	-0.1	-0.1	-0.4	0.8	-2.5	-2.3	-2.0	-2.0
Cash adjustments / Non-fiscal expenditures	0.1	0.0	0.0	0.0	-0.4	0.0	0.0	0.0	0.0
Overall balance (cash basis)	**-6.8**	**-0.1**	**-0.1**	**-0.4**	**0.4**	**-2.5**	**-2.3**	**-2.0**	**-2.0**
Financing	**6.8**	**0.1**	**0.1**	**0.4**	**-0.3**	**2.5**	**2.3**	**2.0**	**2.0**
Domestic financing	**4.6**	**0.4**	**-0.7**	**-0.7**	**-0.4**	**-0.7**	**-0.8**	**-0.7**	**-0.7**
Bank financing	3.9	0.7	0.8	0.3	-0.0	-0.1	-0.0	-0.0	-0.0
Central bank	2.7	0.4	0.0	-0.3	0.0	-0.3	-0.2	-0.2	-0.2
Commercial banks	1.2	0.3	0.8	0.7	-0.0	0.2	0.2	0.2	0.2
Nonbank financing	0.7	-0.2	-1.5	-1.1	-0.4	-0.6	-0.8	-0.7	-0.7
Privatization revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Borrowing/Amortization of domestic debt (net)	-0.2	-0.5	-1.3	-1.0	-0.4	-0.5	-0.7	-0.6	-0.6
Change in arrears	0.5	0.2	0.0	-0.1	-0.0	-0.1	-0.1	-0.1	-0.1
Development fund	0.0	0.0	…	0.0	0.0	0.0			
Other / Exceptional revenue	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External financing (net)	**2.2**	**-0.3**	**0.9**	**1.1**	**0.1**	**3.2**	**3.1**	**2.7**	**2.7**
Drawings	2.6	0.3	1.3	1.6	0.5	3.9	3.7	3.4	3.3
Project	2.1	0.3	1.3	1.4	0.5	3.8	3.6	3.3	3.2
Program	0.4	0.0	0.0	0.2	0.0	0.1	0.1	0.1	0.1
Amortization due	-0.6	-0.6	-0.5	-0.5	-0.3	-0.8	-0.6	-0.7	-0.6
Debt relief [3]	…	0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.0
Change in cap. arrears (- = reduction) [3]	0.1	-0.0	0.0	-0.9	0.0	0.0	0.0	0.0	0.0
Change in int. arrears (- = reduction) [3]	0.0	-0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous cash adjustments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**-0.1**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:									
Nominal GDP (GNF billion)	65,627	75,943	87,356	87,355	87,355	99,558	113,630	129,548	147,593

Sources: Guinean authorities; Fund staff estimates and projections.

[1] Based on GFSM 1986 due to data availability limitations.

[2] Total revenue excluding grants minus expenditures excluding interest on external debt and foreign-financed capital expenditures.

[3] For 2014 and 2015, debt relief is on outstanding loans fully in arrears owed to non-Paris club official and commercial creditors.

Table 4. Guinea: Central Bank and Deposit Money Accounts,[1] 2015–21

(Billions of Guinean Francs; unless otherwise indicated)

	2015	2016	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.
Central bank							
Net foreign assets	1,290	2,531	3,058	4,771	6,371	8,231	10,275
Net domestic assets	7,449	7,566	7,208	6,924	6,640	6,357	6,073
Domestic credit	7,469	7,580	7,199	6,915	6,631	6,348	6,064
Claims on central government (net)	7,353	7,462	7,179	6,895	6,611	6,327	6,044
Of which: to the Treasury (PNT1)	7,507	7,640	7,356	7,072	6,789	6,505	6,221
Claims on private sector	115	117	20	20	20	20	20
Liabilities to deposit money banks (-)	0	0	0	0	0	0	0
Claims on other public sector	2	0	0	0	0	0	0
Other items, net (assets +)	-21	-14	9	9	9	9	9
Reserve money	8,739	10,097	10,266	11,695	13,012	14,587	16,348
Currency outside banks	5,178	5,608	6,000	6,838	7,797	8,968	10,322
Bank reserves	3,096	3,802	3,580	4,170	4,529	4,933	5,340
Deposits	2,392	2,751	2,580	3,170	3,529	3,933	4,340
Required reserves	2,160	2,358	2,359	2,704	3,098	3,580	4,137
Excess reserves	231	393	221	467	430	354	203
Required reserves on GNF deposits	....	1,734	1,454	1,660	1,895	2,182	2,354
Excess reserves on GNF deposits	....	195	71	417	380	304	153
Required reserves on FX deposits	....	625	904	1,044	1,203	1,398	1,783
Excess reserves on FX deposits	....	198	150	50	50	50	50
Cash in vaults of deposit banks	704	1,051	1,000	1,000	1,000	1,000	1,000
Private sector deposits	465	686	686	686	686	686	686
Deposit money banks							
Net foreign assets	502	595	1,384	1,393	1,411	1,416	1,421
Bank reserves	3,096	3,802	3,580	4,170	4,529	4,933	5,340
Deposits at the central bank	2,392	2,751	2,580	3,170	3,529	3,933	4,340
Cash in vaults of deposits banks	704	1,051	1,000	1,000	1,000	1,000	1,000
Claims on central bank	0	0	0	0	0	0	0
Domestic credit	9,966	10,702	11,776	13,332	15,421	18,023	21,092
Credit to the government (net)	2,457	2,683	3,266	3,488	3,735	3,988	4,264
Claims on public enterprises	40	10	13	15	17	20	22
Claims on the private sector	7,469	8,009	8,497	9,829	11,669	14,015	16,806
Other items, net (assets +)	-1,563	-1,998	-1,998	-1,998	-1,998	-1,998	-1,998
Liabilities to the private sector (deposits)	12,001	13,100	14,742	16,897	19,363	22,374	25,855
Memorandum items:							
Net foreign assets of the central bank (US$ million)	161	274	332	517	691	892	1,114
Net international reserves (GNF billion)	1,102	2,247	3,185	4,858	6,300	7,965	9,624
Net international reserves (US$ million)[2]	138	244	345	527	683	863	1,043

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

[1] End of period.

[2] Excludes amounts in transit and Central Bank guarantees.

Table 5. Guinea: Monetary Survey,[1] 2015–21
(Billions of Guinean Francs; unless otherwise indicated)

	2015	2016	2017	2018	2019	2020	2021
			Proj.	Proj.	Proj.	Proj.	Proj.
Net foreign assets	1,793	3,125	4,442	6,164	7,783	9,647	11,696
Net domestic assets	15,852	16,269	16,986	18,258	20,063	22,381	25,167
Domestic credit	17,435	18,281	18,975	20,247	22,053	24,370	27,156
Claims on central government	9,811	10,145	10,445	10,383	10,346	10,316	10,307
Claims on public enterprises	41	10	14	15	18	20	23
Claims on private sector	7,583	8,126	8,517	9,849	11,689	14,035	16,826
Other items, net (assets +)	-1,584	-2,012	-1,989	-1,989	-1,989	-1,989	-1,989
Broad money (M2)	17,644	19,395	21,428	24,422	27,846	32,028	36,863
Currency	5,178	5,608	6,000	6,838	7,797	8,968	10,322
Deposits	12,466	13,787	15,428	17,584	20,049	23,060	26,541
	(Year-on-year percent change of beginning-of-period M2, unless otherwise indicated)						
Memorandum items:							
Net foreign assets	-11.0	7.6	6.8	8.0	6.6	6.7	6.4
Of which: central bank	-13.5	7.0	2.7	8.0	6.6	6.7	6.4
Net domestic assets	31.2	2.4	3.7	5.9	7.4	8.3	8.7
Of which: central bank	15.0	0.7	-1.8	-1.3	-1.2	-1.0	-0.9
Domestic credit	28.0	4.8	3.6	5.9	7.4	8.3	8.7
Net claims on government	17.2	1.9	1.5	-0.3	-0.1	-0.1	0.0
Credit to the private sector	10.8	2.9	2.0	6.2	7.5	8.4	8.7
Broad money (M2)	20.3	9.9	10.5	14.0	14.0	15.0	15.1
Reserve money (Annual percentage change)	2.6	15.5	1.7	13.9	11.3	12.1	12.1
Commercial bank credit to the private sector (Annual percentage change)	26.1	7.2	6.1	15.7	18.7	20.1	19.9
Money multiplier (M2/reserve money)	2.0	1.9	2.1	2.1	2.1	2.2	2.3
Velocity (GDP/average M2)	4.1	4.1	4.2	4.2	4.2	4.2	4.2
Velocity (GDP/M2, EOP)	3.7	3.9	4.1	4.1	4.1	4.0	4.0
Consumer prices (Annual percentage change, EOP)	7.3	8.7	8.2	8.0	8.0	7.9	7.8
Real GDP (Annual percentage change)	3.5	6.6	6.7	5.8	5.9	6.0	6.0
Nominal GDP (Annual percentage change)	6.4	15.7	15.0	14.0	14.1	14.0	13.9

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

[1] End of period.

Table 6. Guinea: Financial Soundness Indicators,[1] 2015–17 Q2
(Percent)

	2015Q1	2015Q2	2015Q3	2015Q4	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1	2017Q2
Regulatory Capital to Risk-Weighted Assets	18.51	18.59	16.98	16.45	16.95	17.49	17.92	17.89	18.60	17.90
Regulatory Tier 1 Capital to Risk-Weighted Assets	18.26	18.73	17.43	16.87	15.77	16.84	17.99	18.00	19.10	18.20
Non-performing Loans Net of Provisions to Capital	7.42	6.98	9.18	6.82	9.09	23.08	14.05	14.66	12.90	14.40
Non-performing Loans to Total Gross Loans	6.34	5.91	6.19	6.07	6.66	10.08	9.36	9.44	10.00	11.40
Return on Assets	1.72	1.84	2.21	2.39	2.60	2.20	2.19	2.15	2.40	2.20
Return on Equity	15.31	16.40	19.89	21.74	24.25	21.50	18.30	18.81	19.40	17.10
Interest Margin to Gross Income	17.62	18.46	18.52	20.10	33.45	37.40	37.75	38.93	40.70	40.80
Non-interest Expenses to Gross Income	90.62	89.76	89.02	86.58	80.92	80.05	79.27	79.22	76.50	76.40
Liquid Assets to Total Assets (Liquid Asset Ratio)	32.38	32.27	28.10	25.56	24.35	26.56	28.18	28.89	26.20	30.40
Liquid Assets to Short Term Liabilities	53.32	52.03	45.20	42.15	40.45	43.41	45.62	45.80	42.70	48.60
Net Open Position in Foreign Exchange to Capital	17.67	30.87	-26.34	-56.35	-49.74	-34.10	26.03	25.11	56.90	68.30

Source: Guinean authorities.

[1] End of period.

Table 7. Guinea: Indicators of Capacity to Repay the IMF, 2017–27[1]

(As of end-June 2017; SDR millions, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
						Projections					
Fund obligations based on existing credit											
Credit outstanding	179.51	179.51	176.56	148.33	113.76	75.51	44.6	17.37	5.51	0	0
Percent of quota[2]	83.81	83.81	82.43	69.25	53.11	35.25	20.82	8.11	2.57	0	0
Repayment of principal	0	0	2.95	28.23	34.58	38.25	30.91	27.23	11.86	5.51	0
Charges and interest	0	0	0	0	0	0	0	0	0	0	0
Fund obligations from prospective drawings under the ECF											
Credit outstanding	17.21	51.64	86.06	120.49	120.48	120.48	115.32	103.27	84.34	60.24	36.15
Percent of quota[2]	8.03	24.1	40.18	56.25	56.25	56.25	53.84	48.21	39.38	28.13	16.88
Repayment of principal	0	0	0	0	0	0	5.16	12.05	18.93	24.1	24.1
Charges and interest	0	0	0	0	0	0	0	0	0	0	0
Total obligations based on existing and prospective credit											
Credit outstanding	196.72	231.15	262.62	268.82	234.24	195.99	159.92	120.64	89.85	60.24	36.15
Percent of quota[2]	91.84	107.91	122.61	125.5	109.36	91.5	74.66	56.32	41.95	28.13	16.88
Percent of gross foreign available reserves	37.26	34.69	32.06	28.30	21.80	16.83	12.87	9.09	6.34	3.95	2.22
Repayment of principal	0	0	2.95	28.23	34.58	38.25	36.07	39.28	30.79	29.61	24.1
Charges and interest	0	0	0	0	0	0	0	0	0	0	0
Total payments to the IMF	0	0	2.96	28.23	34.58	38.25	36.07	39.29	30.79	29.61	24.1
Percent of exports of goods and services	0.0	0.0	0.09	0.83	0.95	0.98	0.87	0.89	0.66	0.60	0.46
Percent of external public debt service	0.0	0.0	2.57	17.63	21.48	20.45	16.92	15.05	9.36	6.93	4.99
Memorandum items:											
Disbursements	17.21	34.43	34.42	34.43							
Exports of goods and services, US$ millions	3201.24	3810.85	4466.33	4825.84	5145.00	5519.05	5847.51	6198.14	6572.96	6973.96	7403.36

Sources: Guinean authorities; and IMF staff projections.

[1] PRGT interest waived through end-2016. RCF interest set at zero percent and no longer subject to biannual Board reviews. The following rates are assumed beyond 2016: projected interest charges between 2017 and 2018 are based on 0/0.25/0.25 percent per annum for the ECF, SCF, and ESF, respectively, and beyond 2018 0.25/0.5/0.25

[2] Guinea's quota increased on February 11, 2016 from SDR107.1 million to SDR214.2 million.

Table 8. Guinea: Performance Criteria and Indicative Targets, ECF Arrangement, 2017–18

(Billions of Guinean Francs; unless otherwise indicated

	2017	2018			
	Dec	March	June	Sept.	Dec
	PC	IT	PC	IT	IT
Quantitative performance criteria					
Basic fiscal balance (floor; cumulative change for the year)	519	346	957	948	566
Net domestic assets of the central bank (ceiling; stock)	7,208	7,137	7,066	6,995	6,924
Net government budgetary borrowing from the central bank (ceiling; stock)	7,179	7,108	7,037	6,966	6,895
Net international reserves of the central bank (floor; stock); US$ million [1]	345	420	456	491	527
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	650	650	650
New external arrears of the central government and central bank (ceiling)[3]	0	0	0	0	0
Indicative targets					
Tax revenues collected (floor)	12,893	3,115	8,071	11,909	15,472
Domestically financed social safety programs to reduce poverty (cumulative floor)	138	76	153	229	306
Memorandum items:					
New concessional external debt contracted or guaranteed by the central government or central bank (cumulative)[4,5]; US$ million	315	365	365	365	365

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] To be monitored continuously.

[5] Reflect projected disbursements.

Table 9. Guinea: Schedule of Disbursements and Timing of Reviews Under the ECF Arrangement, 2017–20

Percent of quota	Millions of SDRs	Date of Availability	Condition for Disbursement
8.035	17.210	December 11, 2017	Executive Board approval of the three-year arrangement under the ECF arrangement.
8.036	17.213	June 11, 2018	Observance of all relevant performance criteria, including the performance criteria for December 2017 and completion of the first review under the ECF arrangement.
8.036	17.213	December 11, 2018	Observance of all relevant performance criteria, including the performance criteria for June 2018 and completion of the second review under the ECF arrangement.
8.036	17.213	June 11, 2019	Observance of all relevant performance criteria, including the performance criteria for December 2018 and completion of the third review under the ECF arrangement.
8.036	17.213	December 11, 2019	Observance of all relevant performance criteria, including the performance criteria for June 2019 and completion of the fourth review under the ECF arrangement.
8.036	17.213	June 11, 2020	Observance of all relevant performance criteria, including the performance criteria for December 2019 and completion of the fifth review under the ECF arrangement.
8.036	17.213	November 26, 2020	Observance of all relevant performance criteria, including the performance criteria for June 2020 and completion of the sixth review under the ECF arrangement.
56.250	120.488	Total	

Source: IMF staff.

Note: All quota percentages are presented to reflect the new Guinea's quota under the 14th General Quota Review.

Table 10. Guinea: Prior Actions and Structural Benchmarks Under the ECF-supported Arrangement, 2017–20

Measures	Date	Objectives
Prior Action		
Publish the corrected version of the amended BGRG Law in line with the recommendations of the 2016 Safeguards Assessment	End Aug-17	Strengthen the autonomy of the BCRG
Structural Benchmarks		
Fiscal Policy		
First Review		
Adoption of an action plan for a targeted tax policy and administration reform by the Ministry of Budget	End Dec-17	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	Improving fiscal management and transparency, and strengthening the private sector
Implementation of the 25 percent increase in electricity tariffs for industrial consumers and large consumers adopted in October 2016 by the Government	End Dec-17	Reduce electricity subsidies
Completion of the electricity tariff study, including the impact analysis by the Ministry of Energy and Hydraulics	End Feb-18	Establish tariffs that cover medium-term electricity costs and accompanying measures to protect the most vulnerable
Implementation of the existing automatic price adjustment mechanism for petroleum products by the Government	End Mar-18	Protect budget revenues
Finalization of feasibility studies for public investment projects financed by non-concessional borrowing	End Mar-18	Ensuring efficiency and good management of public investments
Second Review		
EDG to install electricity consumption meters in the premises of the Prime Ministry 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
Third Review		
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

Table 10. Guinea: Prior Actions and Structural Benchmarks Under the ECF-supported Arrangement, 2017–20 (concluded)

II. Monetary and foreign exchange policy		
First Review		
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	Ensure the operational autonomy of the BCRG
BCRG to establish a liquidity forecasting framework	End Mar-18	Strengthen monetary policy framework and improve liquidity management
Second Review		
BCRG to publish IFRS-compliant financial statements for 2017	End Sep-18	Strengthening the BCRG financial accountability
Third Review		
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		
First Review		
Adoption of an action plan to improve the business climate by the Government	End Feb-18	Foster the development of the private sector
Submission to the Parliament of the 2016 SOEs' annual financial reports by the Ministry of Finance	End Dec-17	Improve transparency and governance

Table 11. Guinea: External Financing Requirements and Sources, 2015–21
(Millions of U.S. Dollars)

	2015	2016	2017	2018	2019	2020	2021
		Est.			Proj.		
1. Gross financing requirements	1,123	2,958	2,509	2,507	1,540	2,419	2,248
External current account deficit	1,358	2,789	2,316	2,212	1,268	2,130	1,970
Capital account balance [1]	-16	-16	-17	-17	-18	-18	-19
Debt amortization	52	51	42	77	67	79	73
Change in arrears, net [2]	-11	1	82	0	0	0	0
Gross reserves accumulation	-291	133	86	235	218	188	175
IMF Repayments [3]	30	0	0	0	4	40	49
2. Available financing	1,060	2,935	2,469	2,396	1,469	2,370	2,248
Foreign direct investment, net [4]	685	2,576	1,540	1,314	934	1,834	1,681
Identified disbursements	269	115	847	1,082	800	703	567
Grants	45	93	126	150	140	149	160
Project	33	10	72	99	85	92	99
Program	12	83	54	51	55	57	62
Loans	223	22	721	932	660	554	407
Project	187	22	701	922	650	544	397
Program	36	0	20	10	9	11	10
Other flows	63	244	0	0	-265	-167	0
Debt relief [1,2]	43	0	82	0	0	0	0
3. Residual financing	-63	-22	-40	-111	-71	-49	0
ECF and RCF disbursement	63	22	24	48	49	49	0
World Bank budget support	...	...	...	40	...	...	...
EU budget support	...	...	16	22	22	...	...

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

[1] Excludes public transfers and capital grant from IMF CCR Trust for debt cancellation.

[2] Projected clearance of outstanding debt arrears to non-Paris Club official creditors and commercial creditors through debt relief.

[3] In 2015 includes debt cancellation (under IMF repayments) and debt relief provided under the IMF's CCR Trust.

[4] Includes private short-term capital flows.

Table 12. Guinea: Projected External Borrowing

January 1, 2017–December 31, 2017

PPG external debt	Volume of new debt in 2017		PV of new debt in 2017 (program purposes)	
	USD million	Percent	USD million	Percent
By sources of debt financing	**1921.9**	**100**	**1345.4**	**100**
Concessional debt, of which	**314.9**	**16**	**184.2**	**14**
Multilateral debt	286.3	15	166.2	12
Bilateral debt	28.5	1	18.0	1
Other	0.0	0	0.0	0
Non-concessional debt, of which	**1607.0**	**84**	**1161.2**	**86**
Semi-concessional	1607.0	84	1161.2	86
Commercial terms	0.0	0	0.0	0
By Creditor Type	**1921.9**	**100**	**1345.4**	**100**
Multilateral	286.3	15	166.2	12
Bilateral - Paris Club	0.0	0	0.0	0
Bilateral - Non-Paris Club	1635.5	85	1179.2	88
Other	0.0	0	0.0	0
Uses of debt financing	**1921.9**	**100**	**1345.4**	**100**
Infrastructure	1878.6	98	1322.7	98
Social Spending	0.0	0	0.0	0
Budget Financing	0.0	0	0.0	0
Other	43.3	2.3	22.7	1.7
Memo Items				
Indicative projections				
Year 2	**266.0**		**186.6**	
Year 3	**50.0**		**22.9**	

Table 13. Guinea: Risk Assessment Matrix[1]

Sources of Risks	Relative Likelihood	Impact If Realized	Policy Response if Materialized
Tighter or more volatile global financial conditions (surge in the US dollar).	High	Medium Competitiveness could be further impaired and reserve buffers strained	Further advance the structural reform agenda to remove bottlenecks and allow greater exchange rate flexibility.
Weaker-than-expected global growth.	High/Medium (AEs) Low/Medium (EMEs)	High Investment in large-scale mining projects (bauxite) would likely be delayed, lowering medium-term growth prospects.	Intensify structural reform to improve the business climate and diversify growth.
Lower energy prices.	Low	Medium Would lead to an improved balance of payment position, support growth and possibly higher fiscal revenues as taxes are adjusted to maintain unchanged fuel prices.	Implement the automatic fuel price adjustment mechanism to reduce uncertainty in revenues.
Heightened risk of fragmentation/security dislocation in the Middle East, Africa, and Europe.	High	Medium Large-scale investment projects would likely be postponed. Progress out of fragility would be in doubt.	Intensify structural reform to remove bottlenecks to growth, and protect buffers. Fiscal policy to focus on revenue mobilization, and delivery of public services.
Deterioration of the domestic socio-political and security situation	Medium	High Investment and growth would be affected; poverty could increase; implementation of program could weaken. Macroeconomic stability would be at risk.	Refocus reform on areas less sensitive to socio-political environment. Strengthen further social safety nets. Aim to maintain fiscal control and promote inclusive growth through diversification.
Resurgence of Ebola	Low	High Additional to the human toll, investor sentiment and consumer confidence would deteriorate further. Mining investments would be delayed.	Intensify structural reform. Fiscal accommodation should remain within the limits of available financing, and focus on priority sector spending.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term (ST)" and "medium term (MT)" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Annex I. Strengthening National Accounts Statistics

1. The National Institute of Statistics (INS) of Guinea has been working on improving and updating the methodology of compiling the national accounts with the support of technical assistance of the International Monetary Fund (AFRITAC West), the United Nations Economic Commission for Africa (UNECA), AFRISTAT, and the European Commission (EU).

2. Guinea's national accounts statistics were previously based on the U.N. Systems of National Accounts 1968 (SNA 1968). In 2011, work on implementing SNA 1993 methodology was started to improve statistical concepts and classifications, and harmonize the methodology with international standards. Furthermore, contributions of various sectors to production have also changed. The Fund was actively involved in providing technical assistance on compiling supply and use tables (SUT) and integrating economic accounts (IEA) in accordance with SNA 1993.

3. The revised national accounts statistics were published on the INS website in May 2017. The time series commences in 2006; it is broadly compliant with SNA 1993; and incorporates relevant improvements such as new economic surveys, a better categorization of activities and products and improved estimates for informal activity.[1] In addition, the base year for the national accounts was revised to 2006 (from 2003) for key parameters—including population estimates, household and business sector activity, and informal activity—while the reference years for prices was changed to 2010 (from 2003). As a result, nominal GDP was revised up by an average 40 percent between 2006–15 and real growth and key economic indicators significantly improved.

4. Staff discussed the revisions to the national accounts data, with support of an STA expert, during the May 2017 staff visit. In view of the enhanced statistical methodology, staff incorporated the revised national accounts data for the period 2006–14 in the program scenario. Staff, however, uses an estimate for 2015—using partially available information on sectoral activity—as the final number will not be released until December 2017.

Table A1.1. Guinea: Change in Key Indicators

	2011	2012	2013	2014	2015
Old NA	Annual percentage change				
Real GDP Growth	3.3	3.2	1.5	1.1	0.1
	Percent of GDP				
Basic fiscal balance	-1.6	-2.5	-2.8	-6.5	-7.0
Overall fiscal balance	-1.1	-3.6	-5.3	-4.2	-8.9
Current account balance	-24.8	-26.0	-17.2	-17.6	-19.9
Total public debt	82.1	32.1	42.5	43.8	50.7
	2011	2012	2013	2014	2015
Revised NA	Annual percentage change				
Real GDP Growth	5.6	5.9	3.9	3.7	3.5
	Percent of GDP				
Basic fiscal balance	-1.2	-1.9	-2.1	-5.0	-5.4
Overall fiscal balance	-0.8	-2.8	-3.9	-3.2	-6.9
Current account balance	-18.4	-20.0	-12.5	-13.4	-15.4
Total public debt	58.1	24.4	31.3	33.9	39.8

Sources: Guinean authorities; and IMF staff estimates.

5. The INS has started to further enhance the compilation of the national accounts and aims to migrate from SNA 1993 to SNA 2008 over the coming 2–3 years. Migration to SNA 2008 will be achieved after new surveys have been conducted, specifically a household survey, a census of companies, and an agricultural census. As part of these further enhancements, the INS will also revise the base year to 2015.[1] The Fund continues to provide technical assistance on application of SNA 2008 methodologies. Other TA providers, including the UNECA, AFRISTAT, and the EU are supporting the INS with developing a roadmap for rebasing to SNA 2008, the application of revised classifications, and improving data collection.

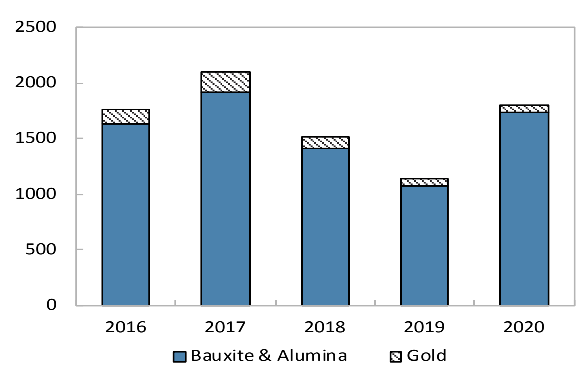
[1] The total weight for agriculture, mining and construction in GDP declined by 16 percent, while weights of the components of the tertiary sector have increased, including for trade activities.

Annex II. A Buoyant Mining Sector: A Key Source of Medium-Term Growth

1. Mining production in Guinea is set to rise sharply because of tighter global supply and intensifying demand. Guinea is benefitting from an increase in its market share of bauxite and alumina exports to China following the introduction of export bans on minerals by two key regional suppliers—Indonesia and Malaysia—to Chinese alumina refineries.[1] Guinea holds the largest high-grade reserves of bauxite in the world—estimated to be around a third of total global reserves. Demand for aluminum, which is set to increases by around 5% annually over the medium term, is also expected to support demand for bauxite and alumina.

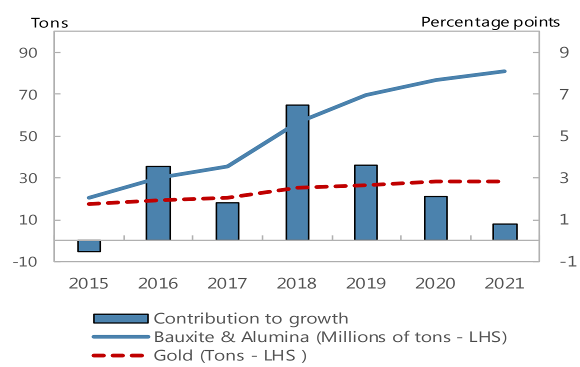
2. To meet rising demand, the mining industry is investing heavily to expand their production capacity in Guinea. Total investment in bauxite and alumina production and associated infrastructure is expected to reach around $6.5 billion in 2017–20 (14 percent of GDP, cumulatively over the period) (Figure A2.1). CBG—one of the largest bauxite producers in the world and the largest producer in Guinea—is expanding its capacity by almost 50 percent by 2021 by investing $1 billion. Furthermore, new mining companies are also investing a total of $4.8 billion (10 percent of GDP, cumulatively over the period) between 2017 and 2020. As a result, total production capacity for bauxite and alumina is expected to quadruple—increasing from a productive capacity of 20 million tons to 80 million tons by 2021. Gold producers are also expanding productive capacity as gold prices recover. Investments in gold production (around 25 percent of overall mining production) are expected to total around $400 million over 2017–21 leading to an increase in capacity of almost 50 percent.

Figure A2.1. Guinea: Mining Investments
(USD, millions)



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

Figure A2.2. Guinea: Growth in Production Capacity



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

[1] Indonesia introduced the ban in 2014, while Malaysia in January 2016. Malaysia was a leading supplier to China accounting for 99 percent of their bauxite exports.

3. The contribution of rising mining activity to medium-term growth is expected to be significant. Mining could contribute as much as 3 percentage points on average to growth between 2017 and 2021 if the expansion in production reaches its maximum capacity (Figure A2.2). The weight of mining in total output could also increase from around 13 percent in 2016 to 20 percent by 2021 if production reaches full capacity. However, the program scenario assumes a more conservative impact of mining on growth, with a 1.5 percentage point average contribution to growth over 2017–21 as new capacity in production is assumed to be brought on stream at different stages and in a gradual manner. The expansion of capacity by some of the existing mining producers will impact growth in 2018 and 2021, while the new mining companies are expected to start their production in 2018 and 2019.

Annex III. Sources of Growth and Employment

1. Creating jobs as Guinea's economy expands will be an important factor for reducing poverty and maintaining social cohesion. In line with population trends in Sub-Saharan Africa, the pace of Guinea's working-age population growth is expected to accelerate to 3.4 percent on average between 2015–25 compared with around 2.5 percent between 2010–15.[1] Furthermore, the most recent estimates indicate that around 35 percent of the population are either inactive or unemployed,[2] and more than 60 percent of the population are under the age of 25. With the labor force growing, absorbing new entrants into the workforce while increasing overall productivity levels will be vital to support poverty reduction. Evidence from fast growing economies suggests that a key challenge is to raise labor productivity while increasing employment of the working age population, which can be achieved by promoting growth in more labor-intensive industries like agriculture and services through productivity enhancing investments.[3] For this reason, the sectoral composition of growth will be critical for job creation.

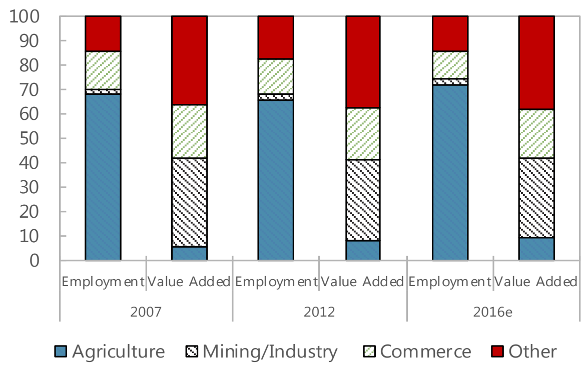
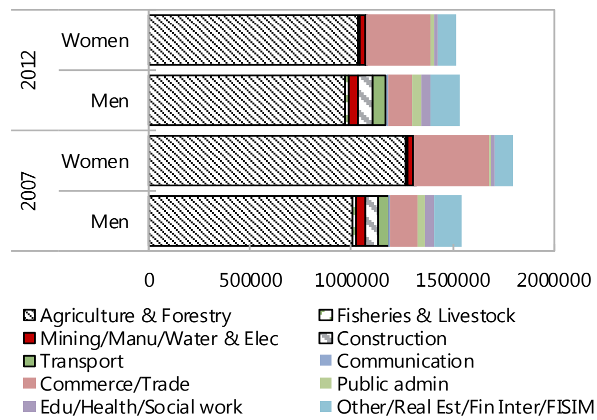
2. The mining sector—a low labor intensive sector—has so far been a key driver of growth, which has constrained job creation. Between 2014–16, mining has contributed around 1.5 percentage points on average to growth with a much more sizeable contribution in 2016 of over 3.5 percent. By comparison, the agricultural sector has contributed around 0.5 percentage points to growth over the same period. While mining makes a significant contribution to the economy, accounting for around 13 percent of Guinea's economic output, the sector has little impact on employment with only 3 percent of the total workforce employed in the industry (Figure A3.1). By comparison, agriculture has a much more sizeable influence on employment with close to two-thirds of the workforce employed in sector, while making up around 10 percent of the economy's total output. The mining sectors' low labor intensity means that the sector has little scope to generate employment despite contributing strongly to the economic growth.

3. Progress on increasing female participation and improving gender equality will also be influenced by the composition of growth. Agriculture represents an even more important sector for female employment. The employment rate for females was at 68 percent in 2012, a slightly higher share than male employment at 63 percent (Figure A3.2). By contrast, only 1.9 percent of females are employed in mining. While female employment is relatively high in Guinea, limited job creation in labor-intensive sectors may have a disproportionate adverse impact on female employment. Between 2007 and 2012 female employment in the agricultural sector declined by around 4 percent on average per year compared with 0.8 percent for males (Figure A3.2).

[1] Based on population estimates from the United Nations Population Division.

[2] Based on the 2012 Household Survey.

[3] See examples from Vietnam, Mozambique, Ethiopia in "Fostering Durable and Inclusive Growth" in Regional Economic Outlook April 2014.

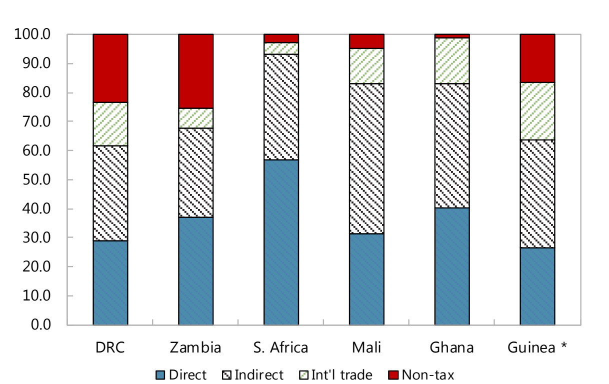
Figure A3.1. Guinea: Employment and Value-added Contributions (Percent total)	Figure A3.2. Guinea: Employment Shares
	
Sources: Guinean authorities; and IMF staff estimates.	Sources: Guinean authorities; and IMF staff estimates.

4. While mining will continue to drive growth over the medium term, efforts to diversify the economy, notably by fostering growth in the agricultural sector, will be critical to promote job creation and higher productivity. The mining sector expected to outpace the rest of the economy, growing at around 10 percent over the medium term compared with an average of 5.4 percent for the rest of the economy, job creation is likely to be limited. However, efforts to diversify the economy and support growth in labor intensive sectors will be essential in this respect. The central focus of the 2016–20 National Development Plan (PNDES) is fostering agricultural mechanization, developing agro-industries and enabling Guinea to become an exporter of agricultural products. Raising productivity of the sector through these reforms should support further job creation in the industry. Furthermore, the PNDES also aims to step up infrastructure investments to support private sector development and diversification of the economy. Delivering on the infrastructure investment as planned will therefore be a critical factor in facilitating the expansion of other industries. Efforts to enhance productivity, including through investments in human capital, will also support inclusive growth over the long term by enabling the workforce to participate in higher value-added industries.

Annex IV. Mobilizing Revenue

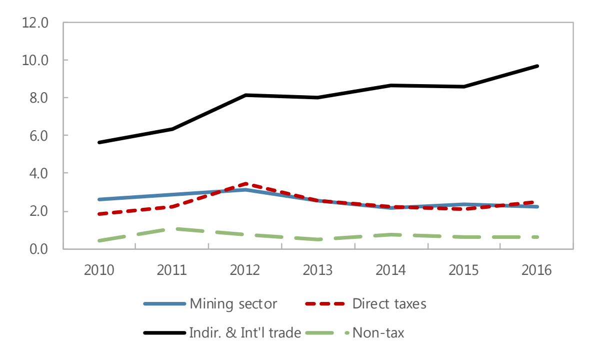
1. Mobilizing additional revenue is a priority for Guinea to step-up infrastructure investments while preserving macroeconomic stability and maintaining debt sustainability. The authorities' PNDES envisages a large increase in revenue, with a target of 17.8 percent of GDP in tax and non-tax revenue by 2020, from 15.0 percent at end-2016. While the mining sector is expected to contribute to an increase in revenues, stepping-up non-mining revenues will be essential. In this regard, it will be key to strengthen revenues direct taxes (2.5 percent of GDP in 2016 and 23 percent of overall revenues, below comparator countries) and reduce the overdependence on indirect taxes (9.7 percent of GDP in 2016), notably taxes collected at customs, including VAT and excises on imports. In addition, improving non-tax revenue collection by line ministries and the Treasury will be important.

Figure A4.1. Revenue composition: Guinea vs. Comparators, 2015
(Percent total)



Sources: Guinean authorities; and IMF staff estimates.

Figure A4.2. Guinea: Recent Evolution of Revenue
(Percent of GDP)



Sources: Guinean authorities; and IMF staff estimates.

2. Given capacity constraints, it will be essential to target reforms. A strong focus on the reform of the *Direction Nationale des Impôts* (DNI) and related tax policy will be most productive, as indicated in recent IMF technical assistance (2016):

- **A complete overhaul of the DNI is needed**. The structure and processes of the DNI remain antiquated. A key objective will be to clearly separate management and operations, and within the latter, to establish a clear and transparent segmentation between large, medium, and small businesses. Increasing human and material resources is needed to ensure a tighter control of the tax base through proper identification of taxpayers and of their activities using available data sources.

- **Tax policy reform would contribute to increase tax revenues by improving the performance of direct taxation.** A thorough review of existing tax exemptions, streamlining corporate and personal income taxes (rates, brackets, deductions), and setting up a proper small taxpayer regime will be important steps to support the administrative reforms of the DNI by simplifying the tax system and broadening the tax base.

3. **Continuing the reform of customs will remain important.** Improving the operations efficiency of customs through increased staff and material resources, continued expansion of the SYDONIA platform and a better use of data to shift to a risk-based approach will require increased efforts. The new AFRITAC-West long term advisor dedicated to fragile states will focus on providing dedicated support to Guinea, with a view to improving the quality of administration of the tax system, and domestic revenue mobilization.

Annex V. Implementing the Automatic Fuel Price Adjustment Mechanism to Preserve Fiscal Revenues

1. Domestic fuel prices in Guinea have been constant since early 2015. Since March 2015, the price of the three fuel products (gasoline, gasoil, and kerosene) has been maintained at GNF8000, broadly in line with average prices in comparator countries. Retail prices of fuel products were increased to GNF10000 in 2010, but were then reduced in early 2015 following social pressures from trade unions and threats from the opposition parties. Taxes represent about 36 percent of fuel prices in Guinea—higher than most comparator countries.

Table A5.1. Fuel Prices
(USD per liter)

	Gasoline	Diesel	Kerozene
Guinea	0.89	0.89	0.89
Cote d'Ivoire	0.92	0.92	0.56
Senegal	1.08	0.96	0.83
Liberia	0.73	...	0.70
Sierra Leone	0.83	0.83	0.83

Source: Country authorities.

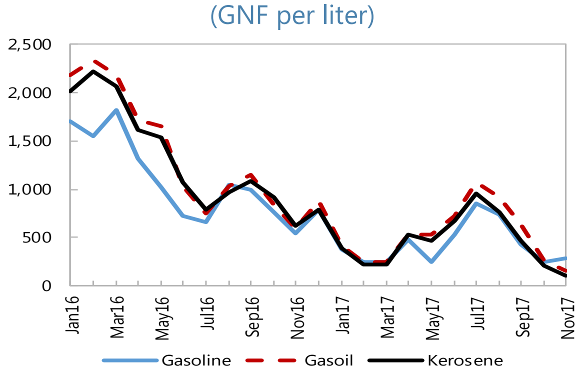
Table A5.2. Taxes on Fuel Products
(Percent of pump price)

	Petrol/Gasoline	Kerozene	Diesel	Average
Guinea	**36.1%**	**36.1%**	**38.4%**	
Burkina Faso	39%	...	28%	
Sierra Leone	15%	21%	16%	
CIV	...	...	...	37.30%
Liberia	10%	10%	10%	
Senegal	...	...	31%	
Mali	41%	not appl.	33%	

Source: Country authorities.

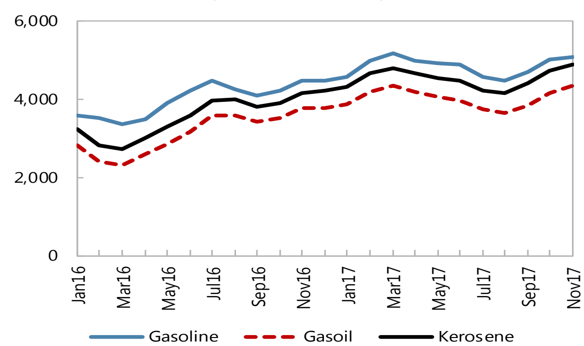
2. An automatic fuel price adjustment mechanism is in place in Guinea but has never been implemented. In 2001, the authorities first introduced an automatic price adjustment mechanism for fuel products, which was never implemented. In 2014, a Ministerial Decree adopted a revised automatic fuel price adjustment mechanism, which requires retail prices to be adjusted at end of each month when the average fuel products import prices (average of previous month, expressed in local currency) increases/decreases by more than 5 percent. Despite import price movements above the +/- 5 percent threshold, the adjustment mechanism has never been applied.

Figure A5.1. Guinea: TSPP Monthly Level
(GNF per liter)



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

Figure A5.2. Guinea: Price FOB Average
(1000 GNF/TM)



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

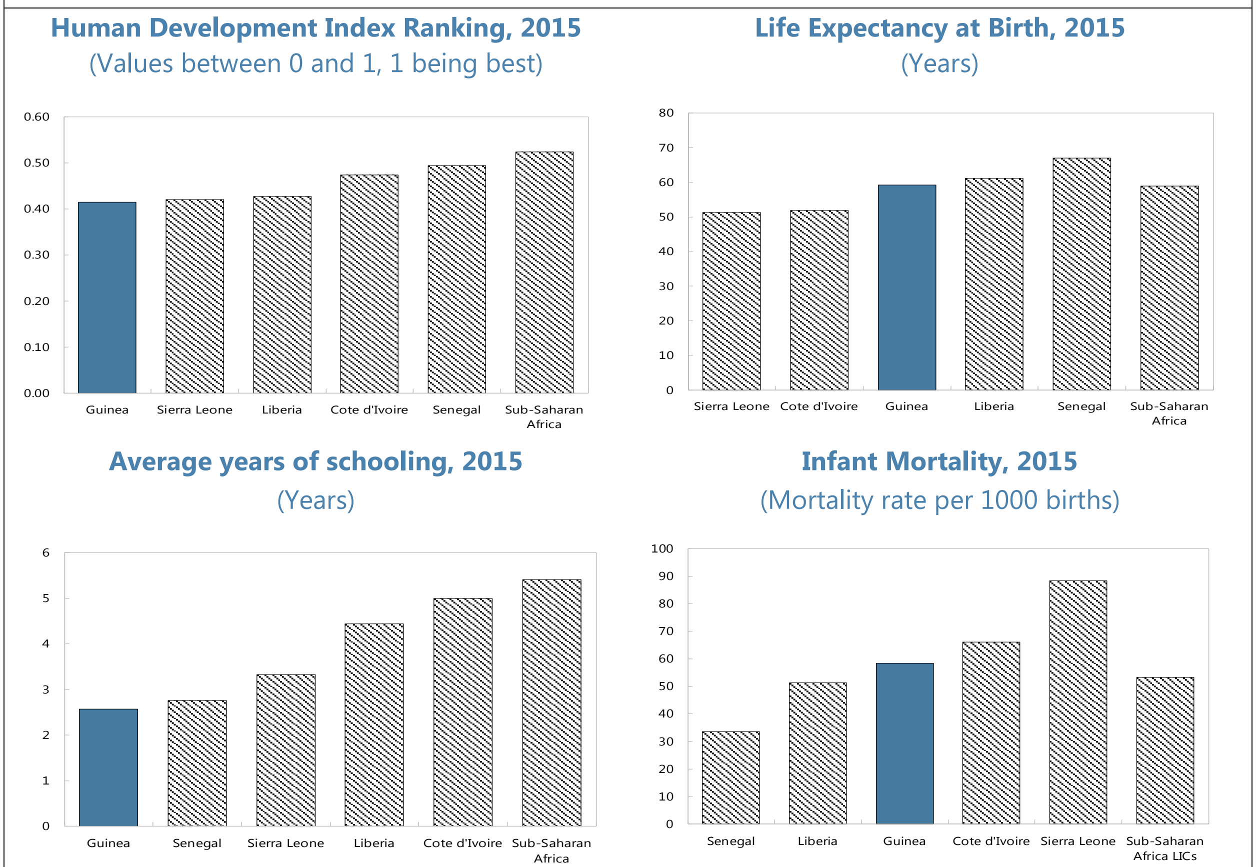
3. The tax on petroleum products (TSPP) has been adjusted to maintain unchanged prices at the pump leading to revenues uncertainty. The TSPP has been treated as a "floating tax" that is adjusted to maintain the targeted fuel price at the pump. Thus, the monthly setting of the TSPP is based on domestic price policy in view of movements in international import price and exchange rate. TSPP downwards adjustment in the first quarter of 2017 led to 0.1 percent of GDP during the first quarter of 2017 against budgeted 0.3 percent of GDP. TSPP revenues strengthened to 0.25 percent of GDP in the first half of 2017, owing upward tax adjustments due to declining import prices, but remained below objectives.

4. Implementing the fuel prices automatic adjustment mechanism is needed to preserve fiscal revenues and strengthen predictability. Adjusting fuel prices in line with implementation of the automatic fuel prices adjustment mechanism would allow the authorities to abandon the practice of using the TSPP has an adjustment variable and strengthen revenues predictability. Putting in place adequate mitigating measures to protect vulnerable households will be needed.

Annex VI. Strengthening Social Safety Nets to Reduce Poverty and Foster Inclusion

1. Poverty in Guinea remains pervasive and inequality high. The 2012 household survey pointed to 55 percent of the total population and 65 percent of the rural population living below the national poverty line.[1] While an update to this survey is underway, preliminary analysis from the World Bank suggests that these rates have likely increased to 60 percent during the Ebola crisis in 2014–15.[2] Inequality in Guinea is high, even if slightly lower than the regional average, with a Gini coefficient of 39.4 compared with an average of 43 for Sub-Saharan Africa.

Figure A6.1. Guinea: Human Development Indicators



Sources: UN Human Development Index; and World Bank Development Indicators.

2. Social outcomes are also weak. Guinea ranks low on the UN's Human Development Index at 183 out of 188, well below regional average (Figure A6.1, top left). While life expectancy is slightly higher than the Sub-Saharan African average at 59.2 years compared with 58.9 years, infant mortality rates are at 12.5 percent, with malaria being the leading cause of death

[1] Defined as 3.2 million GNF (US$455) per person, per year.

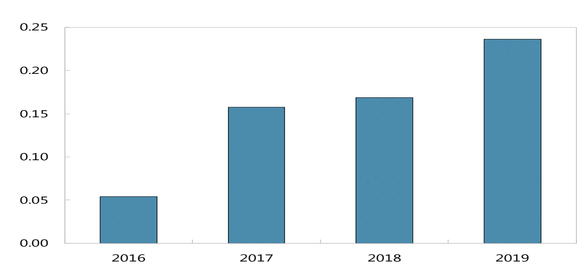
[2] Socioeconomic Impact of Ebola using Mobile Phone Survey (World Bank May 2016).

(Figure A6.1, bottom right). Malnutrition is prevalent with 31 percent of children exhibiting stunted growth. The average years of schooling is 2.6 years, compared with an average of 5.4 years for Sub-Saharan Africa (Figure A6.1, bottom left). Illiteracy rates are high, with 76 percent of women and 48 percent of men reported as illiterate.

3. **Social safety nets in Guinea are small and mostly donor-financed.** Most of the population relies on informal systems such as family networks and village groups for social protection. The *Programme Filet Social Productive* (PFSP) and the *Fonds de développement social et de solidarité* (FDSS) are the main non-contributory social safety net programs in Guinea.[3] In terms of domestically financed public spending for these programs, approximately 0.1 percent of GDP was allocated in the 2016 budget. The PFSP is mostly supported by a US$43 million World Bank grant to finance its activities over 2017–18. The PFSP supports vulnerable groups through the implementation of labor intensive public works projects in rural regions, notably for women and the youth, providing unconditional cash transfers to the poor and educational conditional cash transfers to foster children school enrollment and attendance, life skills training, and building institutional capacity to manage social safety net programs. As of July 2017, the PFSP had around 46,500 beneficiaries, around 12 percent of the potential estimated by the authorities with 8,668 beneficiaries of cash transfer programs. The FDSS is a socio-economic reintegration program for vulnerable groups, including women, the disabled, the elderly, and those impacted by HIV/AIDS and Ebola. The program includes traditional elements of reintegration like providing work to targeted individuals along with innovations like facilitating individual saving, external investment, and risk sharing.

4. **Stepping-up domestic resources allocated to social safety nets programs is needed to reduce poverty and foster inclusion and ensure the resilience of those programs.** Widespread poverty points to the need to step-up social safety nets in Guinea. Furthermore, reducing dependence on external funding is needed to ensure the sustainability of social programs over the medium term. To this end, the authorities aim to channel additional domestic resources from phasing out untargeted electricity subsidies into social safety net programs as part of their overall poverty reduction strategy. In November 2016, the authorities finalized a National Social Protection Strategy (PNPS). A key element of the strategy will involve building on the PFSP and FDSS, notably on existing cash transfer and employment programs, to further support vulnerable groups including the poorest, disabled, expectant and young mothers, and orphans. The strategy will also focus on building the legislative and institutional framework for a social security system; improving access to health, education, and lodging; and preventing and managing catastrophic risks.

Figure A6.2. Guinea: Domestically-financed Social Spending
(Percent of GDP)



Note: Based on budget allocation and quantitative performance criteria.
Sources: Guinean authorities; and IMF staff estimates and projections.

[3] Contributory insurance schemes cover only around 6 percent of the population including civil servants and private sector employees.

Annex VII. External Stability Assessment for Guinea

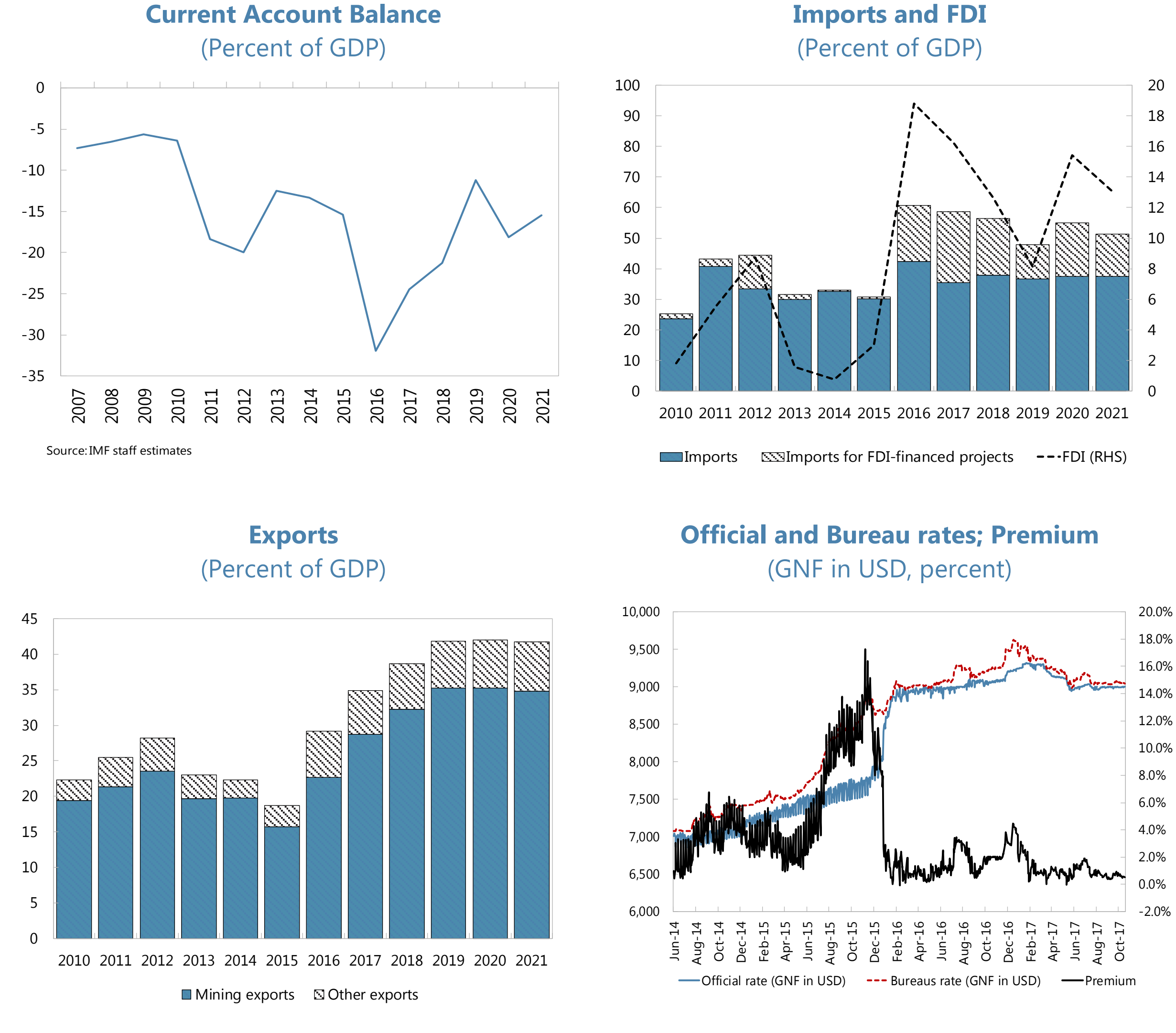
The external position in Guinea in 2016 remained substantially weaker than the level consistent with economic fundamentals and desirable policies. The exchange rate remains overvalued but recent exchange rate reforms have contributed to reducing part of the misalignment through a depreciation of the real effective exchange rate (REER). Reserve coverage improved in 2016, but further accumulation is needed to buffer against shocks given Guinea's narrow export base. Continued efforts to enhance exchange rate flexibility, strengthen the fiscal position, and accumulate reserves should help strengthen the external position.

A. Balance of Payments and Exchange Rate Developments

1. The current account (CA) deficit deteriorated to 32 percent of GDP in 2016 driven by a surge in FDI-related imports (Figure A7.1, top left). Imports rose by 102 percent (y-o-y) in 2016, driven by imports related to investment of the mining sector (Figure A7.1, top right). These were only partly offset by higher export volumes which rose 51 percent thanks to a rebound in mining and agricultural exports (Figure A7.1, bottom left). The export base remained narrow, with 78 percent of exports related to mining products. The CA deficit was financed mostly by FDI, which reached 18.8 percent of GDP in 2016, compared with 3.0 percent the previous year. The CA deficit is projected to remain large at 27 percent of GDP in 2017 driven by FDI-related imports in for mining and infrastructure, gradually narrowing to 13 percent by 2021 as mining exports increase. FDI will remain strong, well-above historical average, averaging 13 percent of GDP over 2017–21.

2. Guinea's real effective exchange rate (REER) depreciated 9 percent in 2016 as the authorities continued to make progress on reforms to enhance exchange rate flexibility (Figure A7.1, bottom right). In early 2016, the BCRG introduced a bilateral foreign exchange auction market, replacing a foreign exchange allocation system. As a result, the premium between the official and foreign exchange bureaus rates narrowed to 0.8 percent by end-September 2017, compared with 14 percent in November 2015. The premium has remained below 2 percent since early February 2017. The REER has since appreciated by 2.9 percent in 2017, despite the nominal effective exchange rate depreciating by 2.7 percent.

Figure A7.1. Guinea: External Sector Developments



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

B. Exchange Rate Assessment

3. Model based assessments are based on the IMF's External Balance Assessment (EBA)-Lite Methodology using the CA model and the REER model.[1] The CA model estimates a current account norm, or value consistent with fundamentals and desirable policies and determines the exchange rate adjustment needed to eliminate the gap between the current account norm and the actual current account.[2] The REER model estimates the equilibrium real exchange rate based on

[1] See Methodological Note on EBA-Lite (IMF, 2016).https://www.imf.org/external/np/pp/eng/2016/020516.pdf

[2] The CA norm consists of a *policy gap* country's actual policy and optimal levels determined by staff and a *fitted current account* based on the product of values of economic fundamentals and coefficients from a cross-country regression estimated on a sample of emerging market and developing economies. Explanatory variables include the

(continued)

the product of economic fundamentals and coefficients of a cross-country panel regression.[3] In addition to fundamentals, the CA and REER norms of both models are determined based on desirable policy settings based on program targets.

4. Both models point to the external position being weaker than implied by fundamentals and a misalignment of the REER:

- The **CA model**, when adjusted for Guinea's high level of imports related to FDI-financed projects, suggests the real exchange rate is overvalued by around 19 percent. The model estimates the cyclically-adjusted CA-norm at -2.9 percent of GDP based on 1995–2015 historical data on fundamentals and policy factors. However, imports for FDI-financed projects in 2016 at 18 percent GDP are well above the historical average (2 percent of GDP average over 1995–2015), and are expected to remain high in the medium term, averaging 17 percent over 2017–21. Thus, the CA-norm is adjusted downwards by 15 percent of GDP to reflect higher FDI-financed inflows over the medium term, from -2.9 percent to -17.9 percent of GDP. In addition, the cyclically-adjusted actual CA is further adjusted upwards by 1 percent to reflect the temporarily higher FDI-financed imports in 2016 compared with the medium term to -32.0 percent of GDP. When adjusted for FDI-financed imports, the model produces a CA gap of 14 percent, which implies an exchange rate adjustment of 19 percent is needed to eliminate the gap.[4]

- The **REER model** indicates an overvaluation of 23.6 percent. Although the gap is large, it is a significant improvement from the 2015 estimate of 32 percent suggesting that the authorities' efforts to enhance exchange rate flexibility helped bring the exchange rate closer to fundamentals.

Summary of EBA-lite Findings

	CA Norm*	Actual CA*	CA Gap	REER Gap
	(percent of GDP)			(percent)
CA Approach (adjusted for FDI)	-17.9	-32.0	-14	19.2
CA Approach (unadjusted)	-2.9	-33.0	-30	41.1
REER Approach	n.a	n.a	n.a	23.6

Note: Values are cyclically adjusted.

5. Policies under the program will help strengthen the external position and address exchange rate misalignment. The authorities are committed to finalizing the reform of the foreign exchange market with the support of IMF technical assistance to strengthen market forces and develop a rule-based intervention strategy for the central bank. Strengthening the fiscal position through revenue mobilization and containing non-priority current expenditure can also contribute to improving the current account balance.

fiscal balance, FX intervention, private credit, capital controls, NFA, productivity, oil and gas exports, demographic indicators, real GDP growth forecast, country risk, financial center, aid, and remittances, the output gap and terms of trade.

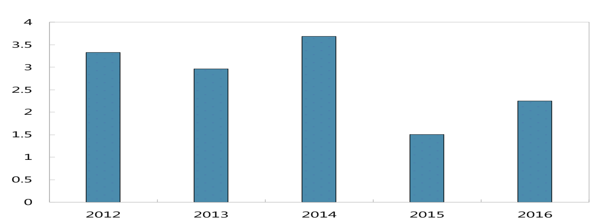
[3] Explanatory variables include FX intervention, interest rates, private credit growth, capital controls, productivity, financial home bias, terms of trade, trade openness, NFA, the output gap and aid and remittances.

[4] Assuming a REER elasticity of -0.73 based on estimates from Tokarick (2010). This value is consistent with elasticity estimates for LICs and was used in the 2015 External Sector Assessment.

C. Reserve Adequacy

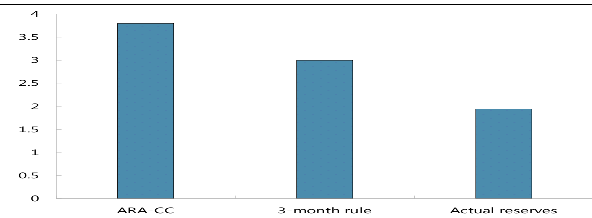
6. International reserves increased in 2016 as the authorities rebuilt buffers following the commodity price and Ebola shocks in 2015 (Figure A7.2). Guinea's gross international reserves rose from 1.5 months to 2.3 months of import coverage at end-2016 (excluding imports related to large FDI-financed projects) or US$594 million.

Figure A7.2. Guinea: Gross International Reserves, 2012–16
(Months of imports)



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

Figure A7.3. Guinea: Reserve Adequacy



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

Summary of ARA-CC Results
(Adequate Reserve Coverage in Months of Imports)

Economic Classification	Exchange Rate Regime	
	Flexible	Fixed
Resource Rich	2.5	5.1
Fragile	0.9	1.7

Note: Assumes cost of holding reserves of 6.2 percent.

7. However, reserves remain low relative to reserve adequacy metrics (Figure A7.3). The 2016 reserve level is below the 3-month rule of thumb. At around 28 percent of broad money, it is slightly above the 20 percent of broad money rule of thumb. However, these metrics may not account for the full range of benefits and costs of holding reserves in Guinea. Guinea's status as an undiversified commodity exporter and fragile state suggests the benefits to holding reserves as a buffer against shocks may be higher. In addition, while the authorities are moving toward a more flexible exchange rate regime, there still may be need to intervene to provide market liquidity or avoid large exchange rate fluctuations, which would also require holding more reserves. Without access to international capital markets, however, Guinea may face higher opportunity costs to holding reserves. A cost-benefit analysis approach considering these factors using the IMF's reserve adequacy assessment framework for credit constrained LICs (ARA-CC) estimates that the optimal level of reserves for Guinea is in the range of 0.9-5.1 (months of imports (see table). Given the limited export diversification and high dependency of the mining sector, staff considers that the range of adequate reserves is between the levels for a resource rich country with a flexible or fixed regime of 2.5 to 5.1 months of import coverage, respectively, or an average of 3.8 months.[5] The authorities remain committed to strengthening foreign exchange reserves and are targeting to reach an import reserve coverage of 3.8 months under the program, in line with the average optimal level of reserves for Guinea.

[5] This considers the range of outcomes for resource rich countries for flexible and fixed exchange rate regimes. The opportunity cost of holding reserves is assumed to be 6.2 percent based on the LIC average for the marginal productivity of capital.

Annex VIII. Ex-Post Peer Reviewed Assessment[1]

This annex assesses Guinea's performance under Fund arrangements since 2007 and draws lessons for future program design and Fund engagement. Program performance is assessed against the quantitative performance criteria (PCs) and structural benchmarks, and factors that hindered the implementation of program conditionality are discussed. To ensure consistency, program performance is assessed based on the national accounts data series used at the time program targets were set, before the 2017 methodological revisions. This does not alter the thrust of program assessment.

A. Overview of the Fund engagement with Guinea

1. **Since becoming a member of the IMF in 1963, Guinea has been engaged in a series of Fund arrangements.** Over the last ten years, Guinea entered two financial arrangements under the Poverty Reduction and Growth Trust (PRGT), the second of which was preceded by a Staff Monitoring Program (SMP), and was complemented by a Rapid Credit Facility (RCF) in 2014 in response to the Ebola crisis:

- **A three-year PRGF arrangement was approved in 2007 for an amount of SDR 48.195 million (45 percent of quota) but went off-track following the end-2008 military coup**. The first review was the only one that was completed, in July 2008, with access augmented by 20 percent of quota to face a balance of payments needs resulting from rising world food and fuel prices. Following the military coup in December 2008, the program went off-track and the Fund subsequently withdrew its recognition of the self-appointed military government.

- **Fund engagement with Guinea resumed in the aftermath of the first democratic elections at end-2010 and a one-year SMP was approved in June 2011.**[2] The SMP was aimed at restoring macroeconomic stability as an initial step in laying the basis for sustained growth and build a track record towards a Fund-supported arrangement. Performance under the SMP was good in terms of both fiscal and monetary targets and structural reform implementation.

- **A three-year arrangement under the Extended Credit Facility (ECF) was approved in February 2012 for an amount of SDR 128.52 million (120 percent of quota)**. In response to the Ebola epidemic in 2014, access under the program was augmented by 42 percent of the quota. The program was extended to end-2015 at the time of the fifth review to provide policy continuity and catalyze donors' support. The program was further extended to end-October 2016, at the time of the sixth and seventh reviews, which were combined due to policy slippages in 2015.

[1] An 'Ex-Post Assessment of Longer-Term Program Engagement' was last conducted in 2004.

[2] The SMP covered the period January-December 2011.

- **In addition to the increased access under the 2012–16 ECF, Guinea received emergency financial assistance from the Fund in the wake of the Ebola outbreak in 2014**. An RCF was approved in September 2014 for an amount of SDR 26.775 million (25 percent of quota, single disbursement) to meet urgent fiscal and balance of payments needs in the wake of the Ebola crisis; the disbursement was made directly in the form of budget support. In addition, the Fund provided debt relief under the Catastrophe Containment and Relief Trust (CCR) in an amount of SDR 21.42 million (20 percent of quota) to repay debt service to the Fund falling due during 2017–19. This allowed to free up resources to support relief, containment and recovery efforts in the fight against the Ebola epidemic.

B. Program Performance

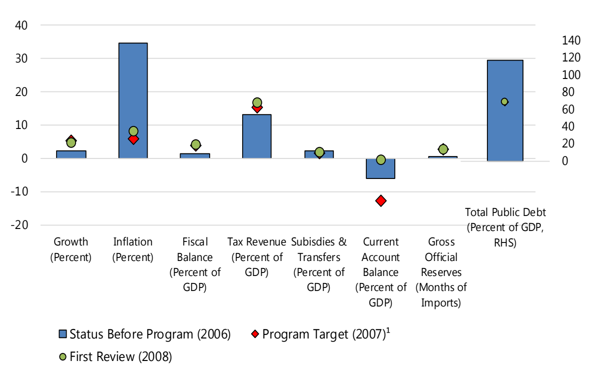
PRGF 2007–10

2. The three-year PRGF arrangement aimed to support Guinea in establishing conditions for sustained growth. Successful performance under the arrangement was also expected to help the country reach the HIPC completion point and benefit from MDRI debt relief, thus reducing the external debt burden to sustainable levels.

3. The 2007–10 PRGF got off to a difficult start and program performance up to the first and only completed review (July 2008) was weak. At the first review, two quantitative performance criteria (PCs) and several indicative targets were missed. Specifically, PCs on net international reserves (NIR), external arrears, and the fiscal target and two structural PCs were not met (Figure A8.1). Most structural benchmarks were also delayed (Figure A8.2, Panel Table 1.1).

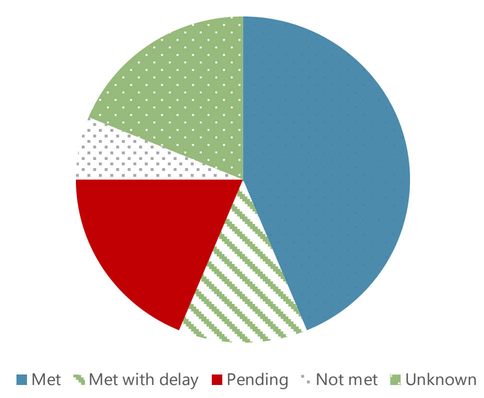
Figure A8.1. Program Achievements, PGRF 2007–10

[1] Program target for 2010 as set in 2007 PGRF Arrangement.



Sources: Guinean authorities; and IMF staff estimates.

Figure A8.2. Structural Benchmarks, PGRF 2007–10



Sources: Guinean authorities; and IMF staff estimates.

4. Rising social and political instability, compounded by the impact of an increase in international food and fuel prices, were at the root of the lackluster performance. The threat of a general strike and military unrest led the government to offset a 63 percent increase in retail petroleum prices to civil servants (0.4 percent of GDP budgetary impact) and repay wage arrears to soldiers. The lack of implementation of the petroleum price adjustment formula led to tax revenue losses and exacerbated the impact of the price shock on the fiscal balance. Due to increased balance of payments needs and shortfalls in reserve accumulation, the authorities sought additional financial assistance from donors and the IMF. Access under the program was augmented by 20 percent of quota at the conclusion of the first review in 2008.

5. Following a military coup in December 2008, the 2007–10 PRGF program definitely went off track. The Fund withdrew recognition of the self-appointed military government in September 2009, program resumption was shelved, and full policy dialogue with Guinea would only be restored in January 2011, after the first democratic elections in late 2010.

SMP 2011

6. The one-year SMP for 2011 was aimed at establishing the track record for a new Fund-supported program while addressing pressing macroeconomic imbalances and stabilizing the economy. The newly-elected government immediately sought IMF support to restore macroeconomic stability. The lack of fiscal control under the 2009–10 military regime had led to sharp widening of fiscal imbalances financed by large monetary expansion, which resulted in a surge in annual inflation at end-2010 to about 21 percent, a depreciating exchange rate, depletion of foreign exchange reserves to less than one month of imports, and accumulation of external arrears.

7. Guinea's performance under the 2011 SMP was strong. Quantitative benchmarks under the program were met with considerable margins. Strong fiscal adjustment significantly reduced fiscal imbalances and deficit monetization was stopped, the exchange rate stabilized, and gross official reserves increased to about 5 months of imports, also reflecting a windfall in mining revenues. Real GDP growth rebounded on the back of the macroeconomic stabilization efforts and the improved political situation. Inflation stabilized by end-2011 but remained high at 19 percent. Structural reforms improved financial management and strengthened governance in the mining sector.

ECF 2012–16

8. Despite the impact of adverse shocks, Guinea made significant strides towards macroeconomic stabilization during the 2012–16 ECF arrangement and completed a multi-year financial arrangement with the Fund for the first time since becoming a member. Building on the progress made under the SMP, the ECF was aimed at strengthening macroeconomic stabilization to support growth and curbing inflation. The arrangement was successfully completed at its eighth and final review in November 2016 following extension of the arrangement in March 2015. Under the program, macroeconomic resilience was strengthened despite the impact of adverse shocks and political instability:

- Inflation was curbed from 19 percent at end-2011 to 8.2 percent in 2016, while remaining above the program objective of 5.9 percent.

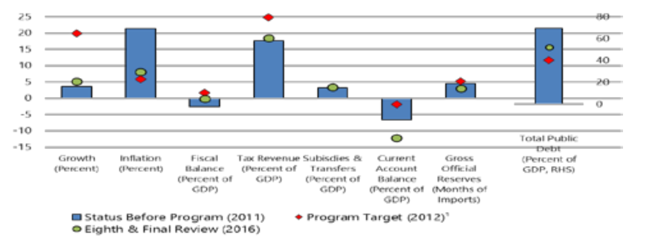
- The basic fiscal balance was reduced from a deficit of 2.5 percent of GDP in 2011 to -0.2 percent of GDP by 2016, although it was significantly short of the program expectation of a fiscal surplus of 1.7 percent of GDP in 2016.

- Foreign exchange reserves were maintained at 2.3 months of imports at end-2016, despite significant shortfall in anticipated mining projects, although significantly below the program objective to reach about 5 months of imports in 2016.

- The HIPC Initiative completion point was reached in October 2012 at the completion of the first review which reduced external debt from $3.2 billion (62 percent of GDP) at end-2011 to $1.3 billion (23 percent of GDP) at and-2012—a decline of almost 60 percent. Since then, large infrastructure investments have been undertaken which has led to a gradual increase in the external debt stock to $1.9 billion (26 percent of GDP) at end-2016.

9. However, economic growth remained subdued and poverty widespread. Real GDP growth remained below program expectations averaging only 1.5 percent between 2012–15 (Figure A8.3). The adverse impact of the Ebola epidemic in 2014–15, which led to borders closing and private investment stalling, political instability, delays in programmed mining sector projects, and weak structural reform implementation contributed to weaker-than-expected growth outcomes. Notably, the Simandou iron ore project, expected to raise real growth by 15 percent in 2015, did not materialize. Poverty remains pervasive at 55 percent in 2012, slightly increasing from 53 percent in 2007. Nevertheless, some social indicators have improved for instance, life expectancy increased from 54 years in 2007 to 59 years in 2015, while primary school enrollment increased from 67 percent to 76 percent between 2007 and 2014.

Figure A8.3. Guinea: Program Achievements, ECF 2012–16



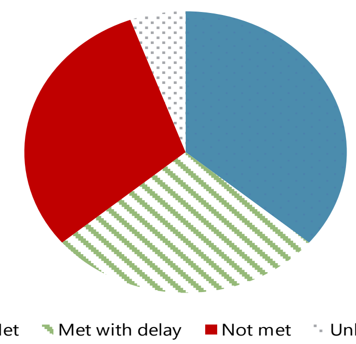
[1] Program target for 2016 as set in 2012 ECF Arrangement.

Sources: Guinean authorities; and IMF staff estimates.

10. Despite the satisfactory macroeconomic performance, the program was marred by adverse shocks, policy slippages in 2014–15 which led to misreporting, and weak structural reform implementation. Most of the program PCs were met up until the fifth review, with two non-observances on the accumulation of external arrears and net international reserves during the first review, and one non-observance on contracting non-concessional external debt in the context of the second review. In the wake of the Ebola epidemic, coupled with the decline in prices of Guinea's commodity exports[3] and policy slippages, program implementation weakened and most PCs were missed at the sixth review. Tax revenues were lower than expected due to delays in key mining projects and a decline in tax revenues on petroleum products following the decision to maintain constant retail prices below levels projected in the 2015 budget. Emergency spending to address the Ebola outbreak and an acceleration in infrastructure spending, led to a significant fiscal expansion in the first half of 2015. Notably, the financing of public investment with issuance of central bank guarantees and the contraction of non-concessional external debt, in the context of reduced external financing, led to significant policy slippages and a case of misreporting: net domestic assets of the central bank exceeded program projections and net international reserves targets were missed.

[3] Guinea exports bauxite, alumina, gold, and diamonds.

Figure A8.4. Guinea: Structural Benchmarks, ECF 2012–16



Sources: Guinea authorities; and IMF staff estimates.

11. While progress was made in some key areas, the implementation of structural reforms was weak (Figure A8.4, Panel Table 1.2). Under the program, public financial management was improved, the exchange rate mechanism was reformed, the regulatory framework for the mining sector was strengthened with the introduction of a new mining code, a reform plan for the energy sector was adopted and the management of the electricity public utility through a performance contract. However, due to competing priorities during the Ebola epidemic, capacity constraints and difficulties in securing technical assistance, and lack of political will several structural reforms were not completed. Notably, some key structural measures aiming at protecting fiscal revenues, supporting the private sector and strengthening the budgetary framework were not implemented. These include:

- Reinstating the automatic adjustment mechanism for petroleum product prices, in line with movements in international market prices and the exchange rate, to mitigate the impact of higher international oil prices on tax revenues.
- Approving a timetable for clearing domestic payment arrears.
- Transferring the accounts of autonomous public entities to the Treasury Single Account.
- Revising legal texts for public entities to ensure consistency with the new budget framework law and the regulation on budget management and public accounting.

C. Lessons for Future Fund Engagement and Programs

12. The following key lessons can be drawn from the Fund's program engagement with Guinea over the last 10 years:

- **Guinea faces considerable social and political uncertainty which can limit program success.** Strengthening institutions and intra-institutional coordination, and political stability is vital to ensure that program's objectives are reached.
- **Growth projections should be realistic.** In designing the 2012–16 ECF, growth projections were optimistic— they were based on a major mining project being implemented, which did not materialize. This led to a shortfall in GDP growth and tax revenues compared to the program objectives. Thus, an element of caution should be built in future growth projections, notably regarding key large mining and infrastructure projects that are yet to be implemented.

- **Program targets should be ambitious but realistic.** Program performance under previous arrangements highlights the need to take into account capacity constraints and weak institutional frameworks. Adjustors to program targets should be set considering risks, given Guinea's susceptibility to external and domestic shocks.

- **Flexibility to adjust macroeconomic policies and targets to shocks is warranted.** The Ebola epidemic demonstrated the Fund's capacity to respond to humanitarian imperatives by adjusting program targets and providing additional resources. The high level of budget support provided by donors further ensured that the program remained on-track.

- **Capacity constraints need to be factored in the implementation of structural reforms and strong reform ownership is key.** Over the last programs, a number of structural reforms were not implemented due to capacity constraints and difficulties in securing technical assistance as well as lack of political will. Accordingly, the number of structural benchmarks in eventual new programs should be streamlined in line with program priorities and should be aligned with technical assistance. Furthermore, ensuring strong ownership is needed to advance the structural reform agenda to foster higher and more inclusive growth.

D. Authorities Views

13. The authorities agreed with the broad assessment of the PRA and highlighted that the recent Fund-supported program enabled them to achieve macroeconomic stabilization. They noted, however, that continued Fund support will be important to build on recent achievements and foster sustainable and inclusive growth. In particular, they highlighted that a new Fund-supported arrangement that supports the National Development Plan (PNDES) will be critical to realize long-term sustainable growth and a reduction in poverty.

Panel Table 1.1 Structural Benchmarks Three-Year PRGF Arrangement, 2007–10

Category	Description	Status of Conditionality Dec-07	Status of Conditionality Jun-08
Structural Performance Criteria	Independent verification by an external auditor of central bank balance sheet data that will be used to calculate quantitative performance criteria the (i.e., net international reserves and net domestic assets) at end-December 2007.		
	Deposit of PRGF disbursements in a separate account at the Bank for International Settlements (BIS). Withdrawals from this account will be subject to the express authorization of the Governor or Vice Governor of the BCRG.		
	No payment by the central bank for the account of the government without the prior signature of the Minister of Economic, Finance, and Planning or his official representative.		
	Ad hoc tax and customs exemptions are prohibited.		
	Extrabudgetary expenditure is prohibited.		
	Submission of a draft law to Parliament amending the charter of the central bank to strengthen its independence and limit financing of the central government budget by the central bank.		
	Lift the prohibition against exports of agricultural, forestry, and fishery products.		
	Reinstate the mechanism for the monthly determination of oil prices based on a pricing formula.		
Structural Benchmarks	Publish the central bank's audited financial statements for 2006 and 2007 on its website, together with the opinion of the external auditor.		
	Apply international standards to the oversight, management, and accounting of the foreign exchange reserves in accordance with the recommendations contained in the report on safeguard measures.		
	Close all accounts of nonautonomous government entities at commercial banks, except those explicitly required by donors.		
	Issue a ministerial decree stating which expenditures are eligible for simplified procedures and do not require prior authorization.		
	Adopt in the Council of Ministers a standard mining contract based on international best practices.		
	Adopt a budget classification based on the IMF Government Finance Statistics Manual 2001 (particularly the economic and functional classifications) and define poverty-reducing expenditure based on the functional classification.		
	Finalize and publish the results of the audit of mining sector revenue and expenditure in 2006 in the context of the Extractive Industries Transparency Initiative.		
	Adopt an overall strategy and a rate policy for the electricity sector. The BCRG will ensure the compliance of commercial banks with the		

Note:
- Met
- Met with delay
- Pending
- Not met

Panel Table 1.2 Structural Benchmarks Three-Year ECF Arrangement, 2012–16

Category	Description	Request Feb-12	1st Rev. Sep-12	2nd Rev. May-13	3rd Rev. Feb-14	4th Rev. Jul-14	5th Rev. Jan-15	6th & 7th Rev. Mar-16	8th & Final Rev.
Program Request	Consult with the IMF before approving any modification to the new mining code or implementing regulations that could have a tax impact		Met						
	Adopt a comprehensive plan for reform of the electricity sector		Met						
	Harmonize the methods and procedures for assistance to the agriculture sector (distribution of inputs, seeds, and agricultural materials) as well as the extension and collection of agricultural loans, based on advice provided by the World Bank and IFAD		Met with delay						
	Adopt implementing texts and general terms and conditions of operation for the implementation of the Special Investment Fund, based on advice provided by IMF and World Bank		Met						
	Reintroduce the mechanism for regularly adjusting petroleum product prices based on changes in the international market prices and in the exchange rate		Not met	Not met	Not met	Not met			
	Adopt and publish implementing decrees for the new mining code as well as a standard mining contract		Not met	Not met	Met with delay				
	Develop a plan to implement tax reforms		Met						
	Certify, by an independent external auditor, the statistical data on the program performance at test dates submitted to the IMF by the BCRG, and approve an investment policy and guidelines by end-December 2012 by the BCRG board of directors		Pending			Met			
	Based on an exhaustive list of companies benefitting from the investment code and their tax advantages, terminate the benefits of companies whose eligibility periods have expired, and adopt a revised investment code		Not met	Not met	Not met	Not met			
	Adopt a medium-term public investment program, based on advice provided by the development partners		Pending	Met					
First Review	Signing of a decree on the General Regulations on Fiscal Management and Public Accounting (RGGBCP)			Met					
	Signing by the BCRG and the Ministry of Economy and Finance of a framework agreement to update the 2010 convention on the outstanding stock of advances			Met with delay					
	Adoption by the government of the draft new banking law			Met					
	Termination of tax advantages under the Investment Code for companies that do not meet the contractual obligations associated with the advantages in the code			Met					
	Submission to Parliament of the draft technical amendments to the 2011 Mining Code			Met with delay					
	The medium-size enterprise unit starts activities and VAT collection is expanded to medium-sized enterprises.			Met with delay					
	Apply an automatic system to monthly adjust the price of petroleum products based on changes in the international market price and the exchange rate			Not met	Not met				
	Completion of a study on the role of SOGUIPAMI and its relationship with the public administration assets in the mining sector, protect budget revenue, and limit financial risks.			Not met	Not met				
	Submission to parliament of a draft law on tax and customs incentives			Pending	Met with delay				
	Definition of the legal status of EDG and establishment of the company's governance institutions, including management			Pending					
	Adoption of a revision to legal texts on public entities to make them consistent with the new budget framework law and the General regulation on budget management and public accounting (RGGBCP)			Pending	Not met	Not met	Not met	Not met	Not met
Second Review	Adopt a program to reform the electricity sector and the governance of Electricité de Guinée (EDG), in keeping with the recommendations made during the energy development partners meeting in April 2013.				Met				
	Adopt the Special Investment Fund governance structure, with technical assistance from the World Bank.				Met				
	Appoint a liquidator for the BADAM bank with terms of reference ensuring, in particular, that advances from BCRG to BADAM and deposits up to GNF 10 million will be reimbursed.				Met				
	Adopt a civil service reform plan, based on the results of the biometric census and the HCREMA action plan.				Not met	Pending	Not met	Not met	Met with delay
	Prepare a medium-term action plan to strengthen external debt management with technical assistance from the European Union.				Not met	Met with delay			
	Adopt and implement recommendations for a study on the role of SOGUIPAMI and its relationship with public administrations.				Not met	Not met	Not met	Not met	Met with delay
	Regularize suspense accounts and produce administrative and general financial management accounts for 2005–12.				Not met	Not met			
Third Review to Eight & Final	Strengthen the institutional and financial resources of the CTSP and start the process of recruiting national experts in line with the recommendations of the study financed by the EU					Not met			
	Sign a performance contract with EDG's management, requiring EDG to ensure that its need for financial assistance will be limited to the amount in the Budget and that new supplier arrears will be avoided					Not met			
	Adopt the regulations governing the power of the main participants (ACGP, ARMP, DNMP) and the implementing regulations of the new procurement code					Not met			
	The government to decide on the treatment of the suspense accounts for the exceptional years (2005–10) based on the recommendations of IMF technical assistance and will produce the general management and the administrative accounts of the State for 2011–12					Not met	Not met	Not met	Met with delay
	Revise relations between autonomous entities in receipt of public resources and the Treasury to transfer these resources to the Treasury Single Account					Not met	Not met	Not met	Not met
	Adopt, in consultation with donors, a new budget nomenclature, including a functional classification					Not met	Not met	Not met	Not met
	Recruit a management partner for EDG with the assistance of the World Bank and the IFC					Pending	Not met	Not met	Met with delay
	The government will approve a timetable for clearing domestic payment arrears, distinguishing between arrears from the budget years 2011–13 and those from 2005–10.					Pending	Not met	Not met	Not met

Note:
- Met
- Met with delay
- Pending
- Not met

Annex IX. Capacity Building Framework Strategy Note

A. Introduction

1. This annex presents the TA priorities identified by the Guinea mission team, the Guinean authorities, and key stakeholders for strengthening macroeconomic policies and institutions. It includes identified TA programs, their objectives, and indicative set of milestones. The strategy also takes into account that other development partners are already active in some TA areas, and that the Fund will seek to cooperate with them. Finally, the note presents the risks to the TA strategy and recommendations on how to mitigate the risks.

B. Past Capacity Building

2. Guinea is an intense user of Fund technical assistance (TA). Since the inception of the previous 2012–16 ECF arrangement, Guinea received annually about 10 missions from AFRITAC West and 10 missions from HQ, and three long-term experts (LTX).[1] In FY16, Guinea received 2.3 full time equivalents (FTE).[2] and was among the top 20 beneficiaries of Fund TA in SSA. The intensity of TA reflected the need to strengthen economic institutions and help the country exit out of fragility. Fund TA aimed at improving macroeconomic management and statistics, strengthening Pubic Financial Management (PFM) and modernizing tax and customs systems, and developing monetary policy instruments and the financial sector. The TA program targeted areas with potential for quick wins, including the areas of budget management and treasury operations through the Treasury Single Account (TSA), revenues mobilization, banking supervision, civil service, and competitiveness. Fund TA remained in line with the country's priorities and was delivered through missions from AFRITAC West and HQ, long-term experts at the central bank and the ministry of finance, and training workshops.

3. The implementation of Fund TA helped strengthen Guinea's economic policy framework and institutions. Successes on the PFM front include the adoption of a new public finance organic law, the initial work on the TSA, the revisions of the fiscal provisions of the mining code and of the investment code, the reform of the VAT reimbursement mechanism, and the budget execution report. Regarding the monetary and financial sector, with Fund TA, the authorities have put in place a national payments system, approved a new central bank law and its amendment and a new banking law, strengthened banking supervision, and reformed the exchange rate determination mechanism. In the area of statistics, the authorities have made progress toward upgrading balance of payments statistics to BPM6,[3] and adopted the SNA 1993 and published revised national accounts for 2006–15.

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[1] The total weight for agriculture, mining and construction in GDP was reduced by 16 percent, while weights of the components of the tertiary sector have increased, including for trade activities.

[2] Since 2011 AFW carried out 53 missions to Guinea, including 15 missions in the area of statistics.

4. Limited absorptive capacity hampered the implementation of TA recommendations. Full rollout of the new finance organic law is lagging because of difficulties in realigning existing regulations with the new law, especially regarding the management of fiscal risks from public enterprises and agencies. A first medium term budget was prepared with the 2017 Budget but weaknesses remain. Recently the authorities have put in place a Fiscal Policy Committee and establish the format of the tables for the Medium-Term Budget exercise within ministries. At his moment, the number of participating ministries is 7, and the target for 2018 is to go beyond 20 ministries. Poor quality of data hampers fiscal reporting and the adoption of past budgets' settlement laws. However, the first quarterly budget execution report for 2017 has been validated by the authorities and submitted to the parliament. The new budget nomenclature has been used to prepare the 2018 budget. TA is needed to follow up this pilot for the quality control of the work done so far. The placement of long-term experts (LTX) has however helped ease these constraints through training and a closer monitoring of difficulties in implementing TA recommendations.

5. Against this backdrop, this annex lays out the IMF's medium-term capacity building program (2017-2020) for Guinea. It defines goals to strengthen macroeconomic policies and institutions, including an indicative set of milestones or objectives. The goals are tailored to Guinea's needs and institutional capacity and cover revenue mobilization, preparation and budget execution, management of public investments, treasury management, public accounting, real sector statistics, and financial sector oversight. The strategy, developed by AFR, is endorsed by the relevant functional departments of the IMF, and reflects understandings reached with the authorities on their readiness to commit the necessary political support, staffing, and other resources to achieving the agreed goals, contingent on appropriately tailored capacity building support from partners. Results-based management will be an integral part of the Capacity Building Framework (CBF). Traction of capacity building, including in terms of institutional benchmarks, will be followed up and documented annually, including in AFRITAC West annual reports. This annex will serve as a blueprint for the implementation of the CBF and will be revised annually in light of results and evolving priorities. It will also serve as input to discussions in the context of reviews of the ECF-supported arrangement and Article IV consultation.

C. Policy Priorities

6. Guinea's 2017–20 ECF supports the authorities' program of economic policies and reforms to: (i) Reinforce macroeconomic resilience and preserving hard-won stability gains; (ii) Scale-up public investments in infrastructure to put the economy on a higher growth path and support economic diversification while preserving macroeconomic stability and debt sustainability; iii) strengthen the social safety net programs; and (iv) advance key structural reforms to support achieving higher and more inclusive growth.

D. Main TA Priorities in the Period Ahead

7. IMF capacity building will be closely integrated with program work so as to support the authorities in achieving key program objectives. Increasing non-mining tax revenues, strengthening public finance and investment processes, improving debt management, improving BCRG's liquidity management and forecasting, supporting the finalization of the exchange rate mechanism reforms, and strengthening statistics, including on inflation, national accounts and balance of payments, and reinforcing the AML/CFT framework are the key priorities. The list below gives more details on the suggested focus and objectives of TA for each of the main areas covered by the Fund:

- Enhance domestic revenue mobilization by widening the tax base, by reducing fiscal expenditure and improving the management and governance, and core functions of the tax department.
- Improve the capacities to produce the national budget in a context of a progressive process towards multi-year budgeting.
- Improve public finance and investment management to support the scaling-up of public-investments and strengthen debt management, including by updating the Medium-Term Debt Strategy.
- Strengthen the independence of the central bank, and improve monetary operations and FX markets to support the new exchange rate determination mechanism.
- Improve in-year GDP estimates and forecasts, and national accounts and CPI statistics.

8. While many of the priorities above are under the Fund's mandate, some donors are already involved in the provision of TA in debt management (European Union, and US Treasury), revenue administration (France, and EU), Treasury management (EU), and monetary operations (Central Bank of Morocco). In particular, areas for coordination are being discussed between FAD's Revenue Administration division and the EU-funded resident tax advisors. Continued involvement of donors should be welcomed, but it will be important to liaise with all, including through a technical assistance forum coordinated by the authorities to discuss the country's priorities and the respective contributions of TA providers based on their areas of expertise. The units in charge of monitoring the economic program in collaboration with the IMF Resident Representative could play a leading role in this regard.

E. Main Results Expected from the TA over the Medium Term

9. Results expected from the delivery of Fund TA are mainly to gradually close Guinea's tax revenue gap, tilt the composition of spending toward productive investment, protect vulnerable groups, strengthen debt management, eliminate fiscal dominance, bank supervision, and improve statistics to support policy formulation and monitoring.

Specific objectives include:

- Raising non-mining tax revenue by 2.4 percent of GDP by 2020.
- Adopting comprehensive laws and regulations for managing risks from contingent liabilities, including PPPs.
- Inclusion of a DSA in the budget law (as an annex) with simulations of the impact of large investment projects on debt sustainability starting with the 2018 budget.
- Issuance of a quarterly report which updates growth estimates and projections from the first quarter of 2018; rebase CPI statistics and reconcile macroeconomic estimates with approved

national accounts statistics by end-2017; rollout the interest rate survey to financial institutions by end-2017.

F. Main IMF Capacity Building Activities for FY2018

10. TA delivery priorities will be focused on the following areas: i) Public Finance Management; ii) Tax administration; iii) Monetary and Exchange framework; iv) Statistics compilation; (v) Macroeconomic projections and analysis; and (vi) strengthening the AML/CFT framework. The mode of delivery (diagnostic HQ mission, short term expert visit(s), long term advisor, and AFW reflects the authorities' preference for LTX and training to support traditional TA reports, and participation in training courses. Capacity building efforts in the area of public finances in FY18 will focus on revenue administration, fiscal policy, macro fiscal management, budget preparation and execution, public investments management and budgeting, treasury operations and management of the wage bill, and will be delivered by AFW and FAD, including the LTXs placed at the treasury and the budget and funded by the European Union. Planned missions are:

Guinea: Missions AFW and HQ FY1	
Areas	**TA Inputs**
Public Finance Management	
Accounting	(AFW) Support for the review of the government chart of account to strengthen fiscal reporting
Public Finance Statistics	(AFW) Finalization of the Table of Financial Operations of the State of the Central Budget Administration based on the Manual of Statistics of Public Finances 2001 and social security
Public Debt Management	(AFW) Strengthening the terms of issuing public securities: follow-up mission (HQ) Debt capacity management; MTDM
Public Financial Management – Budget	(AFW) Strengthening Expenditure Programming Documents (Medium-Term Budget Framework, Medium Term Expenditure Framework) (FAD) Budget nomenclature; Tax policy; Treasury and Financial Control; PEFA and PIMA
Tax Administration	
Customs	(AFW) Monitoring and control of exemptions; Transit
Tax Administration	(AFW) Strengthening the tax operations of the Tax Directorate; Strengthening tax audit and broadening the tax base

Guinea: Missions AFW and HQ FY1 (continued)	
Areas	**TA Inputs**
Financial System and Monetary Sector	
Bank Supervision and Regulation	(AFW) Follow-up mission reporting and chart of accounts; Risk Based Supervision; Reporting and Chart of Accounts
Central Bank Operations	(MCM) Monetary policy and exchange rate market; Open market operations; Liquidity management and forecasting
Safeguards Assessments	(FIN) Safeguards assessment
AML/CFT	(LEG) AMF/CFT Scoping Mission; AML/CFT Supervision of financial institutions and operations of FIU
Monetary and Financial Statistics	(STA) Monetary and Financial Statistics
Statistics Compilation	
Real Sector Statistics	(AFW) Preparation of the National Accounts 2014–2015–2016; Implementation of the 2008 National Accounts System: Nomenclatures and data sources; (STA) CPI; External sector statistics
Macroeconomic Projections and Analysis	
Macroeconomic Analysis and Projections	(AFW) Strengthening the institutional set-up and deepening the process of developing macroeconomic frameworks

G. Main Risks and Mitigating Measures

11. Traction of IMF TA could be held back by weak capacity, insufficient ownership of the TA program, lack of financing, and a lack of coordination with donors. There is a need to strengthen the Statistics National Institute in terms of technical and financial support. For the future, the government is committed to enhance the support to this institution in coordination with international partners (IMF-AFW, EU, WB, and the AFD). More generally, there is limited knowledge and endorsement of TA plans by individuals and work units targeted by the TA program, which is typically discussed between Fund staff and top country officials. Lack of coordination with donors may lead to overlapping efforts and conflicting messages. Moreover, some recommendations with large financial implications for the government (e.g., recapitalization of the central bank, clearance of domestic arrears, etc.) might be difficult to implement. In addition, many challenges prevent the enforcement of the new rules and regulations. Recent cases are the non-compliant procurement contracts signed by the government, and the central bank exceeding the limits of advances to the government permissible under its statutes.

12. Ensuring TA is demand-driven and reinforcing coordination at all levels would help mitigate these risks. In consultation with the government, Fund staff could ensure stakeholders' views on the program and its milestones are well reflected in the TA program before it is rolled out. The country team will closely follow-up the status of TA recommendations to identify difficulties early on and discuss with the authorities needed steps. Finally, a more systematic combination of training activities and on-job training to the traditional delivery of TA will improve traction of TA recommendations. Provision of further TA in a given area could be linked to satisfactory progress in the implementation of past TA recommendations. The Fund Resident Representative could help by identifying stakeholders with vested interests in the status quo and by helping develop a strategy to allay their concerns and showcasing the merits of the reforms. This could be supported by more outreach on the role and importance of timely and accurate statistics for policy design and performance monitoring.

H. Authorities' Commitments

13. The authorities intend to commit the necessary political support, staffing, and other resources to overcome the identified constraints and achieve the goals of the capacity building program. The authorities will strengthen the units (CTA and CTSP) tasked with monitoring the implementation of reforms by providing these units the resources to manage the overall medium-term capacity building program. The authorities are committed also to providing enough financial and human resources to sectors (such as national statistics and CPI) identified as priority sectors in the capacity building program, as well as budget resources to implement TA recommendations with financial implications. They will put in place mechanisms for the strict enforcement of rules and regulations, e.g., laws on public procurement, laws on the governance of public enterprises and agencies, the banking law, and so on.

14. In particular, a semi-annual report will be produced by the CTSP to address the status of the implementation of the TA missions' recommendations, as well as the constraints on their implementation. Such report will be submitted to the government for discussion and validation. Before endorsing capacity building plans in a sector, the authorities will promote a robust and inclusive discussion with individuals and units responsible for the implementation of the recommendations.

Appendix I. Letter of Intent

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

Conakry, November 27, 2017

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

Dear Ms. Lagarde:

1. **Despite being hit by severe shocks, we stabilized our economy on the back of our economic policies and reform program supported by an ECF arrangement during 2012–16 and successfully completed for the first time a financial arrangement with the IMF.** During 2014–15, our country was severely affected by the Ebola epidemic and the decline in international commodity prices and this had major negative repercussions on our economy and our population. In this difficult context, we made significant efforts to continue the implementation of our economic policies and reform program supported by the 2012–16 ECF arrangement to achieve macroeconomic stabilization. Thanks to this, we curbed inflation to about 8 percent from slightly above 20 percent at end-2011; we preserved our international reserves despite adverse shocks; we reduced fiscal imbalances; and we achieved the HIPC completion point and restored debt sustainability. Since the conclusion of the eighth and last review under the 2012–16 ECF arrangement in November 2016, we have resolutely continued to implement economic policies geared toward preserving macroeconomic stability and advancing our reform agenda.

2. **Looking ahead, our key objective is to generate higher and more inclusive growth to significantly reduce poverty, generate sustainable job creation, and improve the living standards of our population.** We aim to place our country on a path of sustained and broad-based growth and foster economic diversification to reduce the vulnerabilities, generate employment opportunities for all and improve the living standard of the population. To this end, we have adopted in June 2017 a new National Social and Economic Development Plan (PNDES) for 2016–20

to foster higher and more inclusive growth and significantly reduce poverty. Our strategy articulated in the PNDES is centered on: i) a structural transformation and diversification of the economy on the back of major infrastructure investments in energy, transport and agricultural mechanization to increase productivity, foster market access and commercialization of agricultural products; ii) promoting good governance, including to improve the quality of public expenditure and its impact on our populations and our economy; iii) fostering human capital accumulation to improve the employability of our youth and the productivity of our workforce; and iv) better managing our natural resources by taking into account our environment. The implementation of our strategy will require mobilizing important financing. To this end, we aim to mobilize needed external financing from donors and private sector investors in the context of Consultative Group we organized in November 2017, supported by the World Bank.

3. **In order to achieve our objectives, we request the support of the International Monetary Fund (IMF) for a successor three-year Extended Credit Facility Arrangement (ECF) in an amount equivalent to SDR 120.488 million (56.25 percent of quota)**. 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) further strengthening Guinea's macroeconomic resilience; 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.

4. **The attached Memorandum of Economic and Financial Policies (MEFP) 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 2017–20**. It also describes the performance targets and structural benchmarks for the first year of the ECF arrangement, setting forth the underpinning economic policies and structural reforms needed to achieve these objectives.

5. **Our program will 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 first and the second reviews of Guinea's performance under the ECF-supported arrangement will be completed on or after June 11, 2018 and December 11, 2018, based on performance criteria at end-December 2017 and performance criteria at end-June 2018, respectively. 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 implementing the reforms envisaged to strengthen the management of public investment will be a key element in the evaluation of program performance.

6. **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 IMF's policies on such consultations. We will provide to IMF staff with all information and necessary for monitoring the implementation and the achievement of our program objectives.

7. 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/
Malado Kaba	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

November 27, 2017

A. Recent Economic and Financial Developments

1. The Guinean economy has rebounded from the adverse impact of the Ebola epidemic. Guinea was declared free of the Ebola epidemic by the World Health Organization on June 1, 2016. After slowing-down during 2014–15, we estimate real growth to have strengthened to 6.6 percent in 2016 (against 3.5 percent in 2015) leading to an increase in GDP per capita. The rebound of the economy was supported by a pick-up in mining production, good agricultural performance, higher energy production and strengthening in manufacturing. Notably, real growth in mining sector picked-up at 33.5 percent following higher bauxite and gold prices in the international markets, growth in the agricultural sector was at 4 percent supported by higher availability of fertilizers, and growth in manufacturing resumed at 1.5 percent in 2016. We continued to successfully contain inflation within single digits, with an average inflation of 8.2 percent in 2016, thanks to our prudent monetary policy stance. Inflation edged up to 9.2 percent (year-on-year) in September 2017 due to a pick-up in fresh food prices.

2. The current account deficit deteriorated to 32 percent of GDP in 2016 but was financed by a surge in FDI in the mining sector. Investment-related imports strongly picked-up in 2016, in part mitigated by rebounding mining and agricultural products exports, while FDI surged to 19 percent of GDP (3 percent of GDP in 2015). International reserves increased to US$594, equivalent to 2.3 months of import coverage at end-2016. During the first half of 2017, exports grew strongly by 21 percent (y-o-y), reflecting the positive impact of the elimination of export taxes on gold which reduced smuggling to neighboring countries, and the surge in bauxite exports. Imports increased by 31 percent (y-o-y) driven by food, equipment, and intermediate goods. FDI inflows in the first quarter of the year remained contained at US$11 million. International reserves increased by about US$40 million to US$686 million, covering 2.5 months of projected imports, as of end-September 2017. After depreciating by 9 percent in 2016, the real effective exchange rate appreciated by 2.9 percent in the first nine months of 2017, with the nominal effective exchange rate slightly depreciating by 2.7 percent. The premium between the official and foreign exchange bureaus rates was at 0.8 percent in September 2017 (14 percent in November 2015).

3. The basic fiscal deficit narrowed to 0.7 percent in 2016, reflecting stronger revenues and lower public expenditures. Tax revenues strengthened by 1.3 percent of GDP (y-o-y), owing to the good performance of non-mining tax revenues. This was underpinned by higher growth, and the impact of revenue measures introduced in the 2016 budget law, including the increase in the VAT rate from 18 to 20 percent (reversed back to 18 percent in 2017), the introduction of a tax on phone communications (TCT), and strengthened tax controls. Current expenditures declined by 2.8 percent of GDP (y-o-y) on the back of lower Ebola-related spending and delays in the recruitment of social workers in education, health and security; capital expenditure also declined by 1.1 percent of GDP, due to a 2.3 percent of GDP drop in external financing. Owing to the improved fiscal position, net budgetary financing from the central bank and commercial banks declined to 0.4 percent of GDP and to 0.3 percent of GDP, respectively. However, further arrears towards the private sector were accumulated equivalent to 0.2 percent of GDP. External public debt slightly increased to 21.5 percent of GDP at end-2016, while domestic public debt was 19.4% of GDP.

4. Owing to our efforts to mobilize additional revenues and containing non-priority expenditures and overperformance of mining sector tax revenues, we achieved a basic fiscal surplus of 0.9 percent of GDP in the first half of 2017. During the first half of the year, tax revenues were at 7.1 percent of GDP (0.13 percentage points of GDP higher than expected) on the back of a buoyant mining activity, overperforming international trade taxes supported by stronger imports and exports, and the positive impact of several tax measures that we adopted which led to additional revenues of 0.06 percent of GDP, including the introduction of the stamp duty on imported vehicles and a number of administrative measures to widen the tax base (paragraph 14). After underperforming at 0.13 percent of GDP (0.16 percentage points of GDP below budgeted target) in the first quarter due downward tax adjustments to maintain constant retail prices, revenues from the excise tax on petroleum products (TSPP) strengthened to 0.25 percent of GDP in the first semester (still below the target of 0.43 percent of GDP) owing to upward tax adjustments, due to declining petroleum products import prices in the second quarter and a stable exchange rate. We contained non-priority goods and services expenditures by 0.23 percent of GDP and maintained electricity subsidies at 0.7 percent of GDP (0.2 percent of GDP higher than overall budgeted amount for 2017). Overall capital expenditures were lower than expected at 5.3 percent of GDP, due to delays in projects external financing but we ensured the execution of domestically-financed public investment. Net budgetary financing from the central bank and from commercial banks was close to zero percent of GDP.

5. Credit to the private sector remains weak due to banks' tight liquidity conditions and crowding out effects of government financing. Reserve money increased by 15.5 percent at end-2016 while private sector credit growth was contained at 2.9 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. After recording a negative growth in the first quarter of 2017, credit growth to the private sector resumed in April-May but declined again by 1.4 percent in July (y-o-y). Constrained liquidity in the banking system coupled with crowding out effects of commercial bank financing of the government have contributed to tight credit conditions for the private sector. Furthermore, the rise in non-performing loans (NPLs) to 9.6 percent in June (6 percent in 2015), has also led three banks to limit credit to the private sector.

6. Our banking system is broadly sound, but faces challenges. The pace of deposit growth in the banking sector has slowed to 8 percent in July 2017 since end-2016. Notably, while deposit in foreign currency have significantly increased by 25 percent since end-2016 reflecting essentially the repatriation of export earnings from artisanal gold. Deposits in domestic currency have increased only slightly by 1.1 percent over the same period, reflecting withdrawals. Provisioning for NPLs has deteriorated with net of provision to capital increasing to 14.7 percent at end-2016 (6.8 percent in 2015). Furthermore, while profitability has improved on some measures, specifically the interest margin-to-income has increased to 39 percent at end-2016 (20 percent at end-2015), banks' return on equity and assets has declined during 2016. Two banks remain non-compliant with the capital adequacy requirement (six banks were not-compliant at end-2016). Furthermore, liquidity constraints in the banking system and limited interbank market activity has also resulted in three banks not complying with the central bank's reserve requirements.

B. Program Objectives and Key Elements

7. Strengthening macroeconomic stability, while improving the buffers of our economy, and generating higher and more broad-based growth to reduce poverty and improve the living conditions of our population are our key objectives. To this end, we are committed to implement our comprehensive program of sound macroeconomic policies and targeted reforms which aims at:

- **Reinforcing Guinea's macroeconomic resilience and preserving hard-won stability gains.** We will build external buffers against shocks, in view of Guinea's vulnerability to terms-of-trade shocks, and strengthen our fiscal position to contribute to preserve inflation and medium-term debt sustainability and ensure healthy credit growth to the private sector. To this end, we will contain budgetary financing needs to a level that will allow us to avoid borrowing from the Central Bank (excluding the statutory advances that are refunded within a period of 92 days), reduce borrowing from the banking sector and ensure an appropriate credit growth to the private sector, and 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 macroeconomic stability and medium-term debt sustainability**. We will create 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 domestic revenues on the back of our tax policy and administration reform and contain non-priority spending. Notably, we will gradually reduce untargeted energy subsidies while putting in place appropriate mitigating measures to protect the most vulnerable. In parallel, we will mobilize the necessary external financing for 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 years of the ECF arrangement at a maximum of US$650 million to maintain medium-term debt sustainability and contain debt vulnerabilities. In addition, we will implement a sustainable domestic debt policy, notably with the gradual clearing of arrears to the private sector toward which we remain indebted with a considerable debt stock. This clearance of 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 aimed at reducing poverty and foster inclusiveness.** We will move 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 our social safety nets programs which are aimed at reducing poverty, fostering inclusion and generate employment opportunities for the most vulnerable. This will be key to start building a basis to reduce over-reliance on donors' external financing over time and ensure the sustainability of our social safety net programs.

- **Moving ahead with our reforms to support the implementation of sound macroeconomic policies and key structural reforms to support achieving higher and more inclusive growth**. We will further strengthen our medium-term budget framework and investment management to ensure the appropriate monitoring, transparency, and efficiency of our ambitious public investment program. We will strengthen our monetary framework and finalize our exchange rate market reform. Furthermore, we will advance our key growth-supporting reforms to improve governance and the business climate to foster private sector development as needed to support higher and more inclusive growth. We will also move ahead with the implementation of our strategy to foster financial inclusion.

C. Economic Policies and Reforms Program

Macroeconomic outlook

8. **Near- and medium-term growth is expected to be strong, thus contributing to improving the living standards of the population**. Real growth is expected at 6.7 percent in 2017 on the back of strong performance in the mining and agricultural sector and a pick-up in construction activity. 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. However, a stronger than assumed pace of investments and pace of new mining capacity production would support higher medium-term growth. We aim to contain inflation at a moderate level, reflecting a prudent monetary policy.

9. **The current account deficit would remain large and financed by FDI inflows in mining and infrastructure projects.** The current account deficit is expected to slightly reduce to 24 percent of GDP in 2017. Exports would grow by 30 percent, owing to buoyant bauxite and gold exports while, after surging in 2016, imports growth would slow in 2017. International reserves would increase to 2.5 months of import coverage. External imbalances would narrow over the medium-term, reflecting an improvement in the trade balance that would more than offset the pick-up in repatriated profits. Export growth would average at 13 percent over the medium term, reflecting higher mining production capacity. Import growth would average at 4.7 percent over the medium term, continuing to be financed by large FDI in the mining sector. International reserves would gradually increase to 3.8 months of import coverage.

Fiscal Policy

10. **Our fiscal policy will aim at strengthening macroeconomic stability while creating needed fiscal space to scale-up growth-supporting public investments, notably in infrastructure, and priority social spending.** 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, and gradually reducing the government's arrears to the private sector. 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 limiting the non-concessional 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 ensuring to maximize the impact on growth, we will finalize the feasibility studies for these projects by the end of March 2018 (SB). 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 2017

11. We will continue to implement corrective measures to achieve a 0.6 percent of GDP basic fiscal surplus in 2017 to preserve macroeconomic stability. Our 2017 budget law targeted a basic surplus of 0.5 percent of GDP in the 2017. However, electricity subsidies to the public electricity company (EDG) are expected to be almost three times larger than budgeted at 1.3 percent of GDP (0.5 percent of GDP budgeted for 2017), due to higher electricity consumption and production costs of thermal generation, and EDG arrears payments. In order to compensate for those slippages and preserve macroeconomic stability, we have promptly started to take corrective measures which we will continue in the rest of the year which will allow us to achieve a basic fiscal surplus of 0.6 percent of GDP. We are committed to abstain from additional borrowing from the BCRG in the second half of the year, ensure the repayment of government borrowing from the central bank in 2015 (0.3 percent of GDP) and in the first quarter (0.1 percent of GDP), and initiate the repayment of part of the government arrears which had been accumulated in the previous fiscal years back to the private sector, and ensure the payment of the amortization of domestic and external debt.

12. Our fiscal adjustment strategy for 2017, supported by an overperformance of mining revenues, is underpinned by the implementation of measures to mobilize additional revenues, containing non-priority spending while preserving public investments and social spending. Notably, we have taken the following corrective actions:

- **We have adopted tax revenue measures that are expected to generate additional 0.3 percent of GDP tax revenues in 2017**. Our tax policy and administration measures focused on: (i) the introduction of a stamp duty on imported vehicles; (ii) administrative reform to streamline the collection of import taxes on new vehicles; (iii) improved scrutiny of public contracts awarded to contractors, capturing previously unpaid taxes by comparing revenue to expenditure databases; and (iv) administrative reforms to extend the tax base of professionals and facilitate tax compliance for small and medium size businesses by opening banks withdrawal points (flash cash), including four at the National Directorate of Taxes.

- **We have contained non-priority current spending in goods and services, which allow us to realize savings of 0.1 percent of GDP in 2017.** Notably, we contained expenditures in goods and services by rationalizing orderings of electronic material and stopping purchases of furniture and office material.

Medium-term Fiscal Strategy

13. We aim to mobilize additional tax revenues of 3 percent of GDP during the program period. Over time, Guinea's tax revenue performance has improved but further efforts to mobilize domestic revenues are needed to support the scaling-up in public investment and reducing reliance on external financing. We will also strengthen collection of non-tax revenues.

14. Our targeted tax policy and administration reforms, coupled with sustained growth, will contribute to raising non-mining tax revenues by about 2 percent of GDP over 2018–21. Our strategy to mobilize additional tax revenues will focus on fostering non-mining tax revenues, notably direct taxes. To this end, we will adopt an action plan for a targeted tax policy and administration reform by end-2017 (SB) which aims at widening the tax base, simplifying the tax regime and strengthening tax collection and controls, with the support of planned TA from the IMF. Specifically, we will adopt the following strategy:

- **Tax policy measures**: we will focus on the implementation of both measures that will deliver quick wins as well as reforming the tax system. Notably, we will: (i) rationalize tax exemptions based on a review of tax expenditures (estimated at about 4 percent of GDP) to broaden the tax basis; (ii) establishing a Unique Professionals Tax (TPU), which will encourage tax compliance for small and medium-size businesses which are in the informal sector through an electronic and secured payment available in banks and electronic forms of payment; (iii) review existing corporate (from 35 to 30 percent) to make the tax system more competitive and equitable; (iv) streamlining excises and review rates; and (v) reviewing the property tax regime. We will also put in place a strategy to reduce the outstanding stock of VAT credit arrears.

- **Tax administration reform:** 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; (ii) further advance informatization, with projects RAN 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) increase tax control by improving tax-payer identification and cross-checking tax-payers' imports with declared turnover; and (vi) strengthen human and material resources to improve the collection and processing of tax data.

15. Implementing the automatic adjustment price mechanism for petroleum products, while putting in place appropriate mitigating measures to protect the most vulnerable, will support our revenue mobilization strategy and increase 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, after taking into account cost recovery for distribution and other charges, leading to revenue losses in 2017. We are convinced that ensuring the mobilization and the predictability of TSPP revenues is key to support higher fiscal revenues and step-up public investments, and allow better budgetary planning. To this end, we will implement the automatic adjustment price mechanism (SB) and fix the TSPP at a level consistent with our revenue targets by end-March 2018. Notably, we have been studying the petroleum products pricing system in other countries to draw appropriate lessons for our reform initiative. We are also reviewing the different components of the petroleum price structure to evaluate where we can generate additional revenue without compromising appropriate margins for distributors and other costs in the structure. As a key step to facilitate and inform our petroleum products price reform, we have initiated discussions with key stakeholders to build consensus. To this end, we are also preparing a communication strategy to inform the public of the importance of reforming the system and how petroleum price subsidies disproportionally benefit more the wealthy. 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 March 2018, we will undertake additional tax revenue measures to achieve our revenue target.

16. In parallel, we will mobilize additional mining revenues on the back of buoyant mining activity over the program period and the application of the tax provisions of the new mining code. We have made significant progress towards strengthening governance and transparency in the mining sector. Guinea joined the Extractive Industries Transparency (EIT) initiative in 2013, and we implemented a new Mining Code in 2014, 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. In view of anticipated large projects in the mining sector, we will ensure that the tax provisions of the new code will be applied to new companies to mobilize additional fiscal revenues. We will also continue our efforts to bring under the provisions of the new code, the existing agreements that will expire.

17. We will contain non-priority current public expenditure to free up fiscal resources for scaling-up infrastructure and social spending. To this end, we will:

- **Gradually reduce untargeted electricity subsidies, and improve the financial soundness of EDG to reduce large budgetary costs**. We provide budgetary transfers to the National Electricity Company (EDG) to compensate for below cost-recovery tariffs, weak revenue collection and large technical and commercial losses. Notwithstanding this, EDG runs large financial losses and accumulates arrears to fuel and electricity suppliers, which are cleared by the government on an ad-hoc basis, including through the issuance of domestic debt. We aim to gradually reduce electricity subsidies to 0.6 percent of GDP by 2020 on the back of our two-pronged strategy which aims at (i) improving EDG's efficiency by strengthening payments collection rate and reducing commercial losses; and (ii) increasing electricity tariffs to bring them closer to cost recovery. To this end, we have adopted a management contract for EDG and adopted a restructuring plan for the company. Notably, we will install electricity consumption meters at the Prime Ministry and fifteen Ministries by June 2018 and throughout the central government and 80 percent of the rest of consumers by the end of February 2019 (SB) to increase EDG's revenues. We will review the conditions of EDG's contracts with fuel suppliers to reduce purchasing costs, and conduct a review of tax exonerations in the energy sector. We will strengthen controls to curb electricity theft. Furthermore, we will implement the 25 percent tariff increase for industrial and large consumers by December 2017, adopted by decree in October 2016 (SB) to increase revenue. Finally, with the support of the African Development Bank, we will finalize by February 2018, the tariff study and an impact analysis (SB) to establish a medium-term cost recovery tariff and establish a transparent market for electricity, and put in place needed mitigating measures to protect the most vulnerable.

- **Continue to maintain a sustainable wage bill, and move ahead with the administration and civil service reform to reduce fiscal cost**. We have conducted a survey of civil servants, initiated the distribution of biometric cards for a number of pilot ministries and we will finalize the distribution to all civil servants by December 2017. During this process, we have discovered discrepancies with our civil servants' database (reflecting ghost and deceased workers still registered) and we have started to clean our registries, which should generate budgetary savings. 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 (collected from the biometric cards) to discourage fraud. Thanks to this, we have already exposed 2800 ghost workers, which is expected to bring in budgetary annual savings. 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. Furthermore, we have reformed our grade system, making it more refined and motivating for staff and we are in the process of reforming our salary grades.

18. We will increase domestically-financed public expenditures directed towards social safety nets programs to support achieving our ultimate goal of reducing poverty. 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 will use the equivalent of our programmed budgetary savings from the electricity subsidy reform to increase domestically-financed public expenditures on non-contributory social safety nets programs under the Program Filet Social Productive (PFSP) and the Social Development Fund. This would allow us to strengthen the coverage of these program 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 disables, and those impacted by HIV/AIDS and Ebola. We will also make further efforts to improve the quality of and accessibility to health services and prevent epidemiological risks. We will establish a unified social register of vulnerable populations to strengthen the targeting of the delivery of social programs by February 2019 (SB). To this end, we have started capacity building and discussions with stakeholders and donors.

19. We will continue to strengthen public finance management to support the envisaged scaling up of investments. For the first time, we presented a medium-term budget (MTB) with the 2017 budget law. We are committed to strengthen our medium-term budget framework to better monitor public expenditures and manage the scaling-up in public investment. To this end, we will (i) implement the new budget nomenclature for the execution of the 2018 budget; (ii) establish a top-down budgetary approach by setting targets for the MTB in line with the fiscal targets of our ECF-supported arrangement, and (iii) modernize the information system for the preparation and execution of the budget. Furthermore, we will continue to publish the quarterly reports of the budgetary execution and we will finalize establishing a Treasury Single Account (TSA) by June 2018, and undertake the necessary regulatory reform for its effective implementation. To this end, we will continue the cleaning of public accounts at the Central Bank by: i) closing irregular accounts; ii) the regularization of the nomination of public accountants having an account; and iii) transferring the closing balances in the TSA. We will update the survey of the accounts of the administrative entities in the commercial banks and at the Central Bank, in Conakry and in the rest of the country. We will finalize the transfer of the accounts of the autonomous public entities in the TSA by June 2018. We will adopt the decrees for compliance of budgetary and accounting management of public agencies with the new legislative and regulatory framework of public finances by end-2017. 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.

20. We will strengthen public investments management to improve transparency, efficiency and maximize returns of our envisaged national investment plan. We will prioritize public investments projects with higher growth and poverty reduction impact, conduct a full cost-benefit analysis of projects (cost-advantages for social projects), strengthen our public investment management on the basis of the PIMA (Public Investment Management Assessment) methodology with the support of IMF TA and ensure the implementation of our procurement framework. With the support of AfDB, we will finalize the implementation of a platform for integrated investment management by the end of December 2017, which will allow us to have a better knowledge of the investment portfolio and improve the coordination and monitoring of investment projects. 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, we will finalize our ongoing survey of providers' prices to ensure the transparency of contracts by end-2017 and we are developing a related system of sanctions. Furthermore, we have prepared the first report on public contracts and we have published it on the Ministry of Finance website. We will enforce the provisions of the new procurement code, and conduct competitive bidding for public investment projects. We will adopt a manual for procurement procedures by end-2017, we will set up a central agency for the purchases of the public administration, and we will establish a monitoring system of the execution of the different phases of public contracts.

21. We will finalize our new public-private partnership (PPP) framework and ensure it is consistent with best practices. In view of our objective of stepping up of investments, a new PPP law was adopted by the Parliament in early July of this year. We will finalize the related implementation decrees by end-2017, 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.

22. We will move ahead with our reform of state-owned enterprises (SOEs) aiming at strengthening their governance and support the mobilization of fiscal revenues. In 2015, we adopted a new law on the governance of public enterprises which was key in strengthening the governance and supervision of public enterprises, including the oversight power of the Ministry of Finance and ensuring the transfers of SOE dividends to the budget. Subsequent amendments to the law in 2016 introduced changes on the financial governance of public entities and SOEs which are not completely consistent with the LORF and the decree on budget management and public accounting (RGGBCP). In order to ensure coherence, we will amend the SOEs in the 2018 budget law and we will then finalize the implementing decrees of the law by March 2018. We have finalized the survey of SOEs and started to bring the texts of a pilot group of SOEs in compliance with the requirements of the new law and will aim at finalizing this for all entities by end-2018. In addition, as per the new law, we will submit to the Parliament our first annual financial report for SOEs by end-2017 (SB). 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.

Debt Policy and Management

23. We are committed to preserve medium-term debt sustainability and ensure not to exceed a moderate level of external debt distress. We will 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 13 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 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 so that Guinea's risk of debt stress does not exceed a moderate level.

24. We are committed to gradually repaying the domestic arrears that have accumulated in previous fiscal years. We conducted an internal arrears audit in 2016 and finalized an analysis to determine the optimal strategy for eliminating these arrears, taking into account budgetary constraints. On this basis, we have developed an action plan to address the greatest number of low-cost arrears, and we have identified around 120 creditors that could initially be repaid. We will adopt the strategy for the clearance of domestic arrears (SB) and repay some of these arrears by end-December 2017. We will avoid the accumulation of new arrears through better debt management which will help support the private sector.

25. We will continue our efforts to resolve the external arrears. We have begun negotiations to liquidate external arrears to Non-Paris Club and commercial creditors. Our objective is to normalize these arrears by end-2017. We will ensure not to accumulate new external arrears, including through improving debt management.

26. 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, to update bond issuance practices, operationalize the national technical group focused on the debt sustainability analysis (DSA) by March 2018, and update the medium-term debt management strategy (MDTS). We will finalize and publish a statistical bulletin on public debt by December 2017, upgrade statistical IT systems, and strengthen procedures to manage domestic debt. We are committed to conduct the DEMPA exercise (Debt Management Performance Exercise) with the support of the World Bank, which will allow us to identify key measures to reinforce the management of our debt.

Monetary and Exchange Rate Policies

27. We will strengthen our foreign exchange reserves to build additional external buffers against exogenous shocks. We have strengthened our reserves, but they remain below 3 months of import coverage and below the ARA-CC metric reserve adequacy estimate of 3.8 months of imports. Our exchange rate policy will be oriented towards gradually accumulating reserves to reach a comfortable level of 3.8 months of import coverage by 2020. We will continue moving towards greater exchange rate flexibility, limiting our interventions to provide appropriate liquidity in the recently-introduced bilateral foreign exchange auction market (MEBD) and prevent disorderly market conditions. In this respect, we will develop a weekly foreign exchange liquidity forecasting by December 2017 so as to improve the predictability of market supply and demand conditions.

28. We will finalize the foreign exchange market reform 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 held twice a week (on Tuesday and Friday) and are preceded by a communiqué the day before. We are committed to finalize our reform of the foreign exchange market with the support of IMF technical assistance to make markets more competitive, including gradually eliminating the limit on auction allocations to make it more competitive. 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 end 2018, and strengthen foreign exchange liquidity forecasting by better sharing of information and regular meetings between the BCRG and the Ministry of Finance. We discontinued the practice of fixing the official ER one day after receiving banks' foreign exchange transactions reports. We will ensure that the premium between the official exchange rate (which is the reference rate for all market participants) and the foreign exchange bureaus rate does not exceed 2 percent.

29. Our monetary policy will be oriented towards preserving moderate inflation while ensuring the provision of appropriate liquidity to the banking sector to support a healthy private sector credit growth. We are committed to continuing to strengthen the independence of the BCRG. The BCRG will aim at maintaining a broadly stable inflation and within single digits by continuing to target base money. For 2017, we expect the monetary base to expand at about 2 percent (y-o-y), which is consistent with an inflation rate at 8.5 percent and growth of credit to the private sector of 2 percent (in percent of broad money). We will maintain a prudent monetary policy in case inflationary pressures build-up and maintain a positive real interest rate. In parallel, we will ensure that the banks' liquidity needs are met given the recent slow pace of deposits growth and the limited volume of transactions in the interbank market.

30. 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, and 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 will move towards using on a regular basis our liquidity management tools, and develop a full-fledged liquidity forecasting framework to calibrate liquidity injections and absorption operations by March 2018, supported by the IMF TA. Furthermore, we will establish an emergency liquidity framework for illiquid but solvent banks, supported by IMF TA, by February 2019.

31. We made significant progress towards addressing remaining recommendations of the 2016 Safeguards Assessment on the BCRG autonomy, transparency and accountability. 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 (prior action). In particular, 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 will sign a Memorandum of Understanding between the BCRG and the Ministry of Economy and Finance by February 2018, which will specify the modalities and a timeline for the needed recapitalization of the BCRG (estimated at about U$100 million) (SB). The BCRG has made significant progress toward the implementation of the International Financing Reporting Standards (IFRS) and we will publish IFRS compliant financial statements for 2017 by September 2018 (SB).

32. We will maintain the stability of the banking sector and continue to strengthen banking supervision. The BCRG will define an action plan with the two remaining non-compliant banks to bring them into capital regulatory compliance by end 2017. Furthermore, the BCRG will ensure that all banks are brought into respect of the reserve requirement. In view of the recent increase in non-performing loans, we will set up by end-2017, with the support of the World Bank, a new credit information system to provide better information on the creditworthiness of banks' customers. The BCRG has taken 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, particularly when thresholds are reached. An Insurance Code to improve sector supervision and meet international standards was developed and adopted in July 2017. We aim at establish a banking resolution framework by end-2018 and discussions are underway with TA providers. We are working toward setting up deposit guarantee scheme by end-2018.

Structural Reforms

33. **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.

34. **Improving the business climate is needed to support private sector development and achieve higher and more inclusive growth.** We are committed to strengthen the business climate to foster private sector investments and activity. To this end, we have adopted an Investment Code in 2015 and its implementing decrees, we have established a regulatory and legislative framework for the promotion of industrial production and we have adopted the National Charter of SMEs, the National Quality Policy, and the National Strategy for the Promotion of Intellectual Property. In August 2017, we launched a call for tender for the establishment of a one-stop-shop for foreign trade to facilitate exchange and increase revenues. We reduced business registration tax rate from 5 to 2 percent to encourage new companies. We will develop an action plan to improve the business climate by March 2018 (SB). Our reforms will focus on: i) easing procedures to start a business and paying taxes, developing a framework for the Public-Private dialogue, improving informatization, introducing a business identification number, and online tax declarations; and ii) improving access to credit, notably for small and medium-sized enterprises, by increasing the coverage of the central risk office and credit information system.

35. **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 and which follows the criminalization of all acts of corruption in compliance with the United Nations Convention against Corruption (UNAC). We will move ahead with the adoption of the law implementing decrees in line with best international practices, including criminalizing all acts of corruption and the publication of asset declarations of high-officials, with the support of IMF TA. We will strengthen the enforcement of the rule of law and the judiciary system, and the overall anti-corruption framework to improve governance. Notably, we will strengthen the National Agency to Fight Corruption (NAFC) by improving its human, technical, and logistic capabilities, strengthening its independence and its 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 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 with IMF TA. We have made progress in improving our AML/CFT

regime, including by operationalizing the Fraud Investigation Unit—in line with recommendations from IMF TA —and by setting-up an inter-ministerial committee and a steering committee.

36. 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 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. The law will support the facilitation of banking services and credit to those marginalized in the financial system. We will adopt the new Financial Inclusion law and related implementing decrees by end-2017.

D. Program Monitoring

37. The program will 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-December 2017 and end-June 2018 are performance criteria, while those for end-March 2018 and end-September 2018 are indicative targets. The first review under the Fund-supported program should be completed on or after June 11, 2018 and the second review on or after December 11, 2018. We will evaluate the implementation of our macroeconomic policies and reforms through the government's program coordination and monitoring bodies (CCER and CTSP).

38. We will continue 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 technical assistance. 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 will 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 will conduct a new household survey to update our assessment of the living conditions of the population to be completed by end-2018.

Table 1. Guinea: Quantitative Performance Criteria and Indicative Targets, ECF Arrangement, 2017-18

(Billions of Guinean Francs; unless otherwise indicated)

	2017	2018			
	Dec	March	June	Sept.	Dec
	PC	IT	PC	IT	IT
Quantitative performance criteria					
Basic fiscal balance (floor; cumulative change for the year)	519	346	957	948	566
Net domestic assets of the central bank (ceiling; stock)	7,208	7,137	7,066	6,995	6,924
Net government budgetary borrowing from the central bank (ceiling; stock)	7,179	7,108	7,037	6,966	6,895
Net international reserves of the central bank (floor; stock); US$ million [1]	345	420	456	491	527
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	650	650	650
New external arrears of the central government and central bank (ceiling)[3]	0	0	0	0	0
Indicative targets					
Tax revenues collected (floor)	12,893	3,115	8,071	11,909	15,472
Domestically financed social safety programs to reduce poverty (cumulative floor)	138	76	153	229	306
Memorandum items:					
New concessional external debt contracted or guaranteed by the central government or central bank (cumulative)[4,5]; US$ million	315	365	365	365	365

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] To be monitored continuously.

[5] Reflect projected disbursements.

Table 2. Guinea. Prior Actions and Structural Benchmarks		
Measures	**Date**	**Objectives**
Prior Action		
Publish the corrected version of the amended BGRG Law in line with the recommendations of the 2016 Safeguards Assessment	End-Aug-17	Strengthen the autonomy of the BCRG
Structural Benchmarks		
I. Fiscal Policy		
First Review		
Adoption of an action plan for a targeted tax policy and administration reform by the Ministry of Budget	End Dec-17	Mobilize additional tax revenues
Adoption of the Government's strategy for the clearance of internal arrears by the Ministry of Finance	End-Dec-17	Improving fiscal management and transparency, and strengthening the private sector
Implementation the 25 percent increase in electricity tariffs for industrial consumers and large consumers adopted in October 2016 by the Government	End-Dec-17	Reduce electricity subsidies
Completion of the electricity tariff study, including the impact analysis by the Ministry of Energy and Hydraulics	End Feb-18	Establish tariffs that cover medium-term electricity costs and accompanying measures to protect the most vulnerable
Implementation of the existing automatic price adjustment mechanism for petroleum products by the Government	End Mar-18	Protect budget revenues
Finalization of feasibility studies for public investment projects financed by non-concessional borrowing	End Mar-18	Ensuring efficiency and good management of public investments
Second Review		
EDG to install electricity consumption meters in the premises of the Prime Ministry 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 electricity public utility to reduce budgetary transfers to the company
Third Review		
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 electricity public 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		
First Review		
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	Ensure the operational autonomy of the BCRG
Second Review		
BCRG to establish a liquidity forecasting framework	End Mar-18	Strengthen monetary policy framework and improve liquidity management
BCRG to publish IFRS compliant financial statements for 2017	End-Sep-18	Strengthening the BCRG financial accountability

Table 2. Guinea. Prior Actions and Structural Benchmarks (concluded)

Measures	Date	Objectives
Third Review		
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		
First Review		
Adoption of an action plan to improve the business climate by the Government	End Feb-18	Foster the development of the private sector
Submission to the Parliament of the SOEs' annual financial reports by the Ministry of Finance	End Dec-17	Improve transparency and governance

Attachment II. Technical Memorandum of Understanding

November 27, 2017

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.

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

[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

(continued)

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.

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

17. New external arrears: For purposes of the PC on the non-accumulation of new external payment arrears, arrears are defined as external debt obligations of 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.

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.

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 *Program Filet Sociaux Productifs* (PFSP); and ii) the Social Development Fund.

ADJUSTMENT FACTORS FOR THE PROGRAM PERFORMANCE CRITERIA

K. Adjustor for Basic Fiscal Balance

20. 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 2. Guinea: External Financing Assumptions (Non-cumulative)

(Millions of U.S. Dollars)

	2017				2018			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Government external financing	**6**	**7**	**35**	**56**	**27**	**75**	**92**	**117**
Drawings	11	33	41	61	36	101	125	125
Project	11	33	41	41	33	98	123	123
of which: World Bank	0	0	0	0	3	3	3	3
of which: BID	7	7	7	7	24	24	24	24
Program	0	0	0	20	2	2	2	2
Budget grants	**24**	**32**	**47**	**40**	**62**	**48**	**43**	**60**
Project grants	17	21	15	19	22	26	26	26
Budget support	7	11	32	21	40	22	17	34
of which: World Bank	0	0	0	0	40	0	0	0
of which: EU	0	0	0	16	0	22	0	0
Privatization receipts	0	0	0	0	0	0	0	0
Government external debt service	-12	-28	-30	-9	-15	-40	-43	-12
Amortization	-5	-26	-6	-5	-9	-26	-33	-8
Interest	-7	-2	-24	-4	-6	-14	-10	-4

L. Adjustor for Net International Reserves

21. 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.

M. Adjustor for Net Domestic Assets of the Central Bank

22. 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.

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

22. 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

23. 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.

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 at the program exchange rate).	Monthly	30th of the month for the previous month.
	Detailed net treasury position (NTP) and net government position (NGP).	Monthly	30th of the month for the previous month.
	Interest rates and stock of government and central bank securities (*BDT* and *TRM*).	Monthly	30th of the month for the previous month.
	Prudential indicators for commercial banks.	Quarterly	One month after the end of the quarter.
	Foreign exchange budget.	Monthly	30th of the month for the previous month.
	Central Bank gross advances to the Treasury above the statutory limit and advance amounts not paid within 92 days.	Monthly	30th of the month for the previous month.
Fiscal data	Status report, including a detailed statement of revenue, expenditure, and cash-flow operations.	Monthly	30th of the month for the previous month.
	General Treasury balances.	Monthly	30th of the month for the previous month.
	Cash-flow plan.	Monthly	30th of the month for the previous month.
	Government fiscal reporting table (TOFE).	Monthly	30th of the month for the previous month.
	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.

INTERNATIONAL MONETARY FUND

GUINEA

November 27, 2017

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—INFORMATIONAL ANNEX

Prepared By

African Department
(In Consultation with Other Departments)

CONTENTS

RELATIONS WITH THE FUND

(As of October 15, 2017)

I. Membership Status: Joined: September 28, 1963 — Article VIII

II. General Resources Account:	**SDR Million**	**%Quota**
Quota	214.20	100.00
IMF's Holdings of Currency (Holdings Rate)	187.35	87.47
Reserve Tranche Position	26.85	12.54

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	102.47	100.00
Holdings	137.24	133.94

IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
RCF Loans	26.78	12.50
ECF Arrangements	152.74	71.31

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Feb 24, 2012	Nov 07, 2016	173.66	173.66
ECF 1/	Dec 21, 2007	Dec 20, 2010	69.62	24.48
ECF 1/	May 02, 2001	May 01, 2004	64.26	25.70

1/ Formerly PRGF.

VI. Overdue Obligations and Projected Payments to Fund 2/
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2017	2018	2019	2020	2021
Principal			2.95	28.23	34.58
Charges/Interest		0.00	0.00	0.00	0.00
Total		0.00	2.96	28.23	34.58

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

VII. Implementation of HIPC Initiative:

	Enhanced Framework
I. Commitment of HIPC assistance	
Decision point date	Dec 2000
Assistance committed	
by all creditors (US$ Million) [1/]	639.00
Of which: IMF assistance (US$ million)	36.01
(SDR equivalent in millions)	27.80
Completion point date	Sep 2012
II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	27.80
Interim assistance	11.30
Completion point balance	16.49
Additional disbursement of interest income[2/]	7.45
Total disbursements	35.25

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

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

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

IX. Implementation of Catastrophe Containment and Relief (CCR):

Date of Catastrophe	Board Decision Date	Amount Committed (SDR million)	Amount Disbursed (SDR million)
N/A	Mar 18, 2015	21.42	21.42

As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR) Trust.

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

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

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

Exchange Rate Arrangement

Guinea's exchange rate arrangement is classified as a managed float system with no predetermined path, after an interruption of the system during 2009–10; the *de facto* exchange rate arrangement has been reclassified to *other managed* from a stabilized arrangement, effective February 5, 2015. The Central Bank of the Republic of Guinea (BCRG) intervenes twice a week through a multi-price, two-way, foreign exchange auction with active commercial banks. The BCRG regularly publishes information regarding such auctions. It calculates the reference rate every evening by close of business using daily foreign exchange reports submitted by commercial banks. The reference rate is a weighted average of commercial banks' purchase and sale rates and is mandatory for government transactions, including current transactions, on the day after it is calculated. Since February 2017, the spread between the reference exchange rate and the foreign exchange bureau rates has remained below 2 percent. However, the foreign exchange system gives rise to a multiple currency practice because the reference rate can potentially deviate by more than 2 percent from the commercial banks' purchase and sales rates on a given day.

Technical Assistance 2011–17

Calendar Year 2011

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

Source: IMF staff.

Calendar Year 2012

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

Source: IMF staff.

Calendar Year 2013

Provider	Main topic	Dates
Fiscal Affairs		
FAD	Manual on budget execution (1/2)	January 28-February 15, 2013
FAD	Budget preparation framework (1/2)	January 29-February 1, 2013
FAD	TSA implementation (follow up)	February 6-15, 2013
FAD	Budget preparation framework (2/2)	March 4-8, 2013
FAD	PEFA assessment	March 20-April 3, 2013
FAD	Extrabudgetary entities framework	April 29-May 3, 2013
FAD	Manual on budget execution (2/2)	April 15-26, 2013
FAD	Public financial management	April 8-19
FAD	PEFA dissemination and reform strategy	May 15-22, 2013
FAD	Tax administration	June 17- 28, 203
FAD	Public financial management	September 2-13, 2013
FAD	VAT credit refund in the mining sector	November 18-22, 2013
FAD	Customs Administration	December 9-13, 2013
FAD	Public financial management	December 9-20, 2014
FAD	Public financial management (Resident advisor)	2013
Money and Capital Markets		
AFW	Bank Supervision and Regulation in Guinea	February 4-22, 2013
AFW	Analysis of Debt Portfolio	April 8-19, 2013
AFW	Bank Supervision	May 13-24, 2013
AFW	Bank Supervision	December 1-13, 2013
AFW	Bank Supervision and Regulation in Guinea	December 2-13, 2013
MCM	Central Banking (Resident advisor)	2013
Legal		
LEG	Central Banking Legislation	March, 2013
Statistics		
AFW	Migration to GFSM 2001	April 8-19, 2013
AFW	National accounts	May 13-24, 2013
AFW	Government finance statistics	May 22-31, 2013

Source: IMF staff.

Calendar Year 2014

Provider	Main Topic	Dates
Fiscal Affairs		
FAD	Fiscal forecasting and budgeting	February 10–24, 2014
FAD	VAT refund mechanisms for the mining sector and PFM governance	January 29–February 6, 2014
Monetary and Capital Markets		
MCM	Reserve Management	January 30–February 7, 2014
AFW	Bank Supervision	March 3–14, 2014
MCM	Central Banking Resident Advisor	2013–2014
Statistics		
AFW	National Accounts	January 6–17, 2014
STA	Financial Soundness Indicators	April 14–18, 2014

Source: IMF Staff.

Calendar Year 2015

Provider	Main Topic	Dates
Fiscal Affairs		
FAD	PFM Strategy and MT Framework	February 3–12, 2015
FAD	Budget Classification	February 16–25, 2015
FAD	Fiscal Governance of Parastatals and Natural Resources	February 3–10, 2015
FAD	JSA7 Project Inception	June 3–16, 2015
AFW	PFM Strategy	July 27–August 7, 2015
AFW	Tax Administration	September 21–October 2, 2015
Monetary and Capital Markets		
AFW	Bank Supervision	January 22– February 11, 2015
AFW	Bank Supervision	June 1–12, 2015
AFW	Bank Supervision	November 23–December 4, 2015
MCM	FX Market Development and Liquidity Management	November 30–December 10, 2015
Statistics		
AFW	Government Finance Statistics	November 14–25, 2015

Source: IMF Staff.

Calendar Year 2016

Provider	Main Topic	Dates
Fiscal Affairs		
FAD	Natural Resource Management	January 13–27, 2016
FAD	STX Visit	January 13–26, 2016
FAD	SOEs and Fiscal Risks	January 13–24, 2016
FAD	PFM Long Term Resident Advisor	January 25–29, 2016
	Installation of Guinea LT Advisor	February 1–3, 2016
FAD	STX Visit	March 7–18, 2016
FAD	STX Visit	April 14–15, 2016
FAD	Budget Execution and Fiscal Reporting	May 9–20, 2016
AFW	Tax ADM	May 23–June 3, 2016
FAD	HQ Backstopping Visit	June 27–July 1, 2016
AFW	Customs ADM	Sep 12–23, 2016
AFW	Tax ADM/Mission FAD	Nov 29–Dec 2016
FAD	Revenue Administration	Nov 30–Dec 13, 2016
AFW	Customs ADM	Dec 1–13, 2016
FAD	PFM Resident Advisor	Jan 31 2016–2017
Monetary and Capital Markets		
AFW	Debt Management	Feb 22–March 4, 2016
MCM	Monetary and FX Operations	March 9–22, 2016
AFW	Bank Supervision	March 14–25, 2016
AFW	Bank Supervision	Sept 26–Oct 7, 2016
AFW	Debt Vulnerability	Oct 31–Nov 11, 2016
Statistics		
AFW	National Accounts Compilation	February 2–19, 2016
AFW	Government Finance Statistics	March 3–25, 2016
STA	Financial Soundness Indicators	April 20–26, 2016
AFW	National Accounts	August 29–Sept 9, 2016
STA	Balance of Payments Statistics	Oct 24–Nov 4, 2016
AFW	TOFE Methodology	Nov 8–17, 2016

Source: IMF Staff.

Calendar Year 2017

Provider	Main Topic	Dates
Fiscal Affairs		
FAD	Budget Execution	Jan 16–27, 2017
FAD	Macrofiscal	Feb 8–22, 2017
FAD	Inspection of PFM Resident Advisors	Feb 23–March 1, 2017
AFW	Customs ADM	March 20–31, 2017
FAD	Review PPP Laws	May 1–May 7, 2017
AFW	Customs ADM	June 5–16, 2017
FAD	PFM–National Accounting	June 26–July 7, 2017
FAD	Budget Nomenclature	Aug 3–17, 2017
AFW	Tax ADM	Aug 28–Sept 8, 2017
FAD	Income Tax Base Broadening	Oct 1–15, 2017
FAD	Strengthening Cash Flows Projections	Oct 5–18, 2017
AFW	Customs ADM	Oct 16–20, 2017
		Oct 26–Nov 10, 2017
FAD	Tax Policy	
Monetary and Capital Markets		
MCM	Monetary and Foreign Exchange Operations	Jan 23–Feb 3, 2017
AFW	Banking Supervision	Feb 27–March 3, 2017
Legal		
LEG	AML/CFT Diagnostic Mission	May 15-19, 2017
LEG	AML/CFT Diagnostic Mission	Oct 16-20, 2017
Statistics		
AFW	National Accounts Rebasing	March 13–24, 2017
STA	Monetary and Financial Statistics	April 10–21, 2017
AFW	Implementation of 2008 SNA	Sept 18–22, 2017
STA	Balance of Payments Statistics	Sept 25–Oct 6, 2017
STA	Consumer/Produce Prices	Oct 2–13, 2017
AFW	National Accounts	Oct 9–20, 2017

Source: IMF Staff.

JOINT WORLD BANK-FUND MATRIX

Title	Products	Expected Delivery Date
World Bank work program in the next 12 months	**Operations**:	
	Mineral Governance Support Project	Ongoing
	Social Safety Nets Project	Ongoing
	Health Services Project	Q1 2018
	Budget Support Lending (DPO)	Q1 2018
	Technical assistance/other analytical:	
	Economic and Poverty Monitoring	Ongoing
	Support on EITI implementation	Ongoing
IMF work program in the next 12 months	**Program**:	
	First review under the ECF	June 2018
	Second review under the ECF	December 2018
	Technical Assistance:	
	Mining and general tax policy	Ongoing
	Public financial management	Ongoing
	Monetary and exchange rate policy	Ongoing
	Banking supervision	Ongoing
	National and fiscal accounts, balance of payments	Ongoing
Fund requests to the Bank	Audit of public investment projects Update of poverty analysis Assessment of the major project to build a dam using a PPP framework Assessment of reforms in agriculture and the budget implications	Ongoing Q2 2018 Ongoing Ongoing
Bank requests to Fund	Regular updates on macro-economic and fiscal projections Consultations on program structural benchmarks Surveillance of fiscal impact of mining sector reforms	Ongoing Ongoing Ongoing
Joint Bank-Fund products	Debt sustainability for the new ECF-supported program	Q4 2017

RELATIONS WITH THE AFRICAN DEVELOPMENT BANK, 2011–15

(As of September 2017)

1. **The Bank's Country Strategy Paper (CSP) 2012–16, approved by the Board on March 1, 2012, focuses on two pillars**: (i) economic and financial governance; and (ii) infrastructure for development. Under the first pillar, the Bank will assist in building public financial management capacity, improving governance in the extractive sector and strengthening the central government's budget. Under the second pillar, the Bank will contribute to reducing the power generation gap and further developing transport infrastructure. The mid-term review of the CSP, which was delayed due to the Ebola (EVD) crisis, was done in February 2016. This provided an opportunity for dialogue on the Bank's support to Guinea through the implementation of the PRSP, taking into account the fight against Ebola, the socio-economic recovery process, and outcomes of the Abu Dhabi Conference for the period 2015 to 2017. The Bank and Guinea's authorities agreed to extend the end of the CSP from 2016 to 2017 and to maintain the two pillars. The extension will: (i) allow the government and the Bank to implement the reforms and the operations which were delayed due to the EVD; and, (ii) allow the Bank to better prepare the next country strategy paper (2018–22) which will be aligned on the new national development plan 2016–20. They agreed also that the Bank will support the development of the agricultural sector and the value chain program Guinea intends to develop in the coming months, targeting sector reforms (including land reform), entrepreneurship and business management (including youth), and financing (credit and guarantees). The targeted support to the country's development program will be delivered through the mobilization of all its financial and technical assistance instruments/vehicles.

2. **In the governance sector**, the Bank approved a budget support allocation of UA20 million in 2011 and support of UA 2.5 million through the Fragile State Facility (FSF). In addition, the Bank restructured some non-performing projects and reallocated UA 7.5 million to an economic governance project in 2011. This was to improve the country's public finance management while supporting the reforms aimed at enhancing governance, especially in the extractive sector. The FSF support also covers public administration capacity building, particularly in statistics and strategic planning. At the end of 2013 the Bank approved an institutional support project of UA 11.4 million focused on improving governance in mining contract management and on enhancing public investment and project management. A budget support operation (UA 12 million) targeting the private sector environment and PPPs frameworks, governance (mining, PFM, and public investment management) was approved by the board in end-June 2014 and UA 6.39 million was disbursed end-December 2014. The Bank approved in 2016 a programmatic budget support operation (UA 10.5 million in 2016 and indicative UA 10 million in 2017/2018) targeting public financial management and the business climate. In addition, the Bank approved in 2016 a capacity building project aimed at scaling-up and enhancing the government capacity to manage Mining project (mining one stop shop, local content policy, communities, etc.). Early 2017 the Bank approved a small dedicated capacity building operation targeting Central Bank (BCRG) for UA 2 million. In 2018

the Bank intend to co-finance with Agence Francaise de Developpement (AFD) a capacity building support operation targeting public enterprises governance, budget, PPP unit, and project management. The Agricultural project the Bank intends to support in 2018 for at least UA 10 million at the beginning of the program will target the governance of the sector, entrepreneurship (including youth), and financing issues (credit and guarantees).

3. **In the energy sub-sector**, two projects were signed at the end of 2013 and began implementation in 2014. The first project is the second Conakry Electrical Networks Rehabilitation and Extension Project (PREREC.2) for UA 11 million. The second project is the Côte d'Ivoire-Liberia-Sierra Leone-Guinea power regional interconnection project for UA 40.2 million that will see the construction of 1,360 km of 225 kV transmission lines and 12 sub-stations. In 2015, the Bank approved the financing of the interconnection project of the Gambia River Basin Development Organization (OMVG) involving the construction of a dam and a 240 MW hydro-power plant at Kaleta already financed by the government with a loan from China. In 2017 the Bank will submit to the Board for approval Guinea-Mali power regional interconnection project for UA 35 million for the construction of transmission lines and sub-stations. Implementation of these projects will result in: (i) an increase in the average electricity access rate; (ii) a reduction in the kWh generating cost; (iii) a reduction in the number of power outages; (iv) the creation of temporary and permanent jobs; and (v) a reduction in greenhouse gas emissions.

4. **In the transport sub-sector**, the Board approved in December 2014 the road development and Transport Facilitation Programme within the MRU including the road Danané (Côte d'Ivoire) Frontier of Guinea and from the frontier to N'zoo-Lola (Guinea). This road is part of a regional project including these key roads: Zantiébougou-Kolondiéba-Kadiana-Frontier of Côte d'Ivoire (140 km) linking Bamako to Abidjan and San-Pédro through the axe Tengréla-Boundiali-Séguéla-Daloa; and Duekoué-Guiglo-Bloléquin-Toulepleu-Frontier of Liberia. These roads are part of the Transafrican Dakar-Abidjan-Lagos road. The Bank intends also to co-finance in 2017 and 2018 with the European Union and other partners a road program including the Coyah-Farmoriah-Pamelap road towards Sierra Leone, the Boké (Guinea)-Quebo (Guinea-Bissau) road, which is part of the ECOWAS Regional Transport Programme, and the feasibility studies for the Kankan-Mandiana-Odiene road. Because of their integrative role, construction of these roads is in line with the New Partnership for Africa's Development (NEPAD) Short-Term Action Plan, whose core objective is to have interstate roads without any impediment to the free movement of goods and persons.

5. **Support to private sector operations.** During the 2014–17 period, and after, the Bank will support specific private sector operations with high and transformative impact. At the request of the government, AfDB intends to provide a loan of about USD 100 million for financing part of the Global Alumina Bauxite project. AfDB will also support capacity building and provide technical assistance in order to allow the government to fulfil its commitment pertaining to the implementation of the mining and other private sector projects.

6. **Non-lending operations**: To deepen the analysis and understanding of the country's main challenges and fuel strategic reflexion, the Bank supported the government finalize in 2016, in collaboration with UNDP, an economic and sector works (ESWs) on (i) private sector profile and

(ii) local taxation. The Bank will keep enhancing its dialogue and provide specific technical assistance on PPP (PPP law and PPP Unit) and on mining sector governance. The Bank will also continue to support implementation of the country development plan-PNDES, and the link between macroeconomic/budget framework sector policies and the public investment plan. The Bank will continue its support through the FSF programme to the National Statistics Development Strategy (NSDS).

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

8. Response to the Ebola crisis. The AfDB has adopted a regional approach to address the Ebola crisis. In April 2014, the Bank provided an emergency support of USD 2 million UA equivalent to USD 3 million grant to support Mano River Union (MRU) countries affected namely Guinea, Liberia and Sierra Leone. In July 2014, the AfDB approved a UA 40 million equivalent to USD 60 million grant for countries fighting against Ebola. In October 2014, the AfDB approved UA 100 million sector budget support in order to support the three most affected countries. AfDB approved also in October 2014 a UA 7.7 million Technical Assistance Capacity Building Programme to support the national and foreign health worker programs. The total Bank's support for Guinea amounts to UA 35 million (US$52 million) and aims to help the government enhance the immediate response but also structure a medium to long term plan. The AfDB is supporting the government's 2015–17 post-Ebola recovery plan by accelerating the execution of planned projects and mobilizing additional resources for new operations/projects.

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

Table 1. Guinea: ADF 13 (2011–17) and FSF Operations Programming
(UA million)

Lending Operations					
	Year	**ADF/ADB 12/13/14**	**FSF (Pillar III)**	**Regional & Other Funds**	**Total**
Pillar I –Economic and Financial Governance Support					
Budget support	2011	20.0			20.0
Targeted support	2011		2.5		2.5
Budget support	2014/15	12.0			12.0
Capacity building (Mining One-Stop Shop and Simandou)	2016	4.0	2.0		6.0
Targeted support for capacity building (Central Bank)	2016		2.0		2.0
Capacity building: co-financed with AFD (France).	2018	3.0		4.0	7.0
Agriculture (Governance, entrepreneurship, and financing): a PPF was approved in 2016 for the project preparation.	2018	10.0			10.0
Sub-Total		**49.0**	**6.5**		**59.5**
Pillar II –Infrastructure Support (Energy, Transport, etc.)					
CLSG Interconnection (electricity)	2013	16.0		24.2	40.2
Rehabilitation of electric power networks	2013	11.0			11.0
Institutional support project - Public investment management and mining	2013	11.4			11.4
Mano River Union road (CI-Liberia, linked to Mali)	2014	13.1		20.3	33.4
OMVG	2015	20.0		30.0	50.0
Coyah-Farmoriah-Pamelap road including a study for the Kankan-Mandiana-Odiene project	2017	44.0		21.0	65.0
Guinea-Mali interconnection (energy)	2017	35.0			35.0
Boké-Quebo road	2018	69.0		21.0	90.0
Sub-Total		219.5		116.5	336.0
Total		**268.5**	**6.5**	**120.5**	**395.5**
Economic and Sector Work (analytical support)					
Study on financial sector reforms	2013		x		
Private sector profile	2015		x		
Private sector strategy	2016				
Guinea Vision 2040	2016				
PPP law	2017				
Local taxation	2017				

SUSTAINABLE DEVELOPMENT GOALS[1]

	2012	2013	2014	2015	2016	2030 Target
Goal 1: End Poverty in all its forms everywhere						
Proportion of population below the international poverty line of US$1.90 per day	35.3	...	...	...	...	Eradicate extreme poverty for all people living on less than $1.90 per day
Proportion of population below national poverty line	55.2	...	...	...	...	Reduce the proportion of all people living in poverty according to national definitions
Proportion of employed population covered in the event of work injury	...	14.5	...	...	...	
Goal 2: End hunger, achieve food security and improved nutrition and promote sustainable agriculture						
Prevalence of undernourishment	17.5	17.1	16.8	16.4	...	End hunger and ensure access by all people to food year round
Proportion of wasted children (weight for height below minus two standard deviations from the median) under the age of 5 years	9.9	...	...	...	...	End all forms of malnutrition
Number of locally adapted and exotic animal breeds kept in the country	...	7.0	...	...	...	
Goal 3: Ensure healthy lives and promote well-being for all at all ages						
Maternal mortality ratio (per 100,000 live births)	695.0	695.0	688.0	679.0	...	Reduce the global maternity mortality ratio to less than 70 per 100,000 live births
Proportion of births attended by skilled health personnel (percent)	45.3	...	...	...	...	Reduce the global maternity mortality ratio to less than 70 per 100,000 live births
Under-five mortality rate	66.8	64.7	62.8	61.0	...	End preventable deaths of newborns to at least as low as 12 per 1,000 live births
Neonatal mortality rate (per 1000 live births)	33.2	32.6	31.8	31.3	...	End preventable deaths of children under 5 years of age to at least as low as 25 per 1,000 live births
Estimated HIV incidence rate	0.8	0.7	0.6	0.6	...	End the AIDS epidemic
Tuberculosis incidence per 100,000 population	180.0	177.0	177.0	177.0	...	End the tuberculosis epidemic
Malaria incidence per 1,000 population	...	...	...	367.8	...	End the malaria epidemic
Mortality rate attributed to cardiovascular disease, cancer, diabetes or chronic respiratory disease	...	...	...	20.3	...	Reduce by one third premature mortality from non-communicable diseases
Suicide mortality rate	...	...	...	7.7	...	Reduce by one third premature mortality from non-communicable diseases
Total gross official disbursements for medical research and basic health sectors, by recipient (billions USD)	29.3	15.9	94.6	139.8	...	
Goal 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all						
Participation rate in organized learning (one year before the official primary entry age)	...	37.0	40.7	...	...	Ensure that all girls and boys have access to quality early childhood development and pre-primary education
Proportion of teachers in lower secondary education who have received at least the minimum organized teacher training (e.g. pedagogical training) pre-service or in-service required for teaching at the relevant level in a given country	...	...	...	...	...	Increase the supply of qualified teachers
Proportion of teachers in primary education who have received at least the minimum organized teacher training (e.g. pedagogical training) pre-service or in-service required for teaching at the relevant level in a given country	74.5	74.1	75.0	...	...	Increase the supply of qualified teachers
Goal 5: Achieve gender equality and empower all women and girls						
Proportion of women aged 20-24 years who were married by age 15	21.3	...	...	...	...	Eliminate all harmful practices, such as child/early marriage and female genital mutilation
Proportion of seats held by women in national parliaments	...	...	21.9	21.9	21.9	Ensure women's full participation and equal opportunities for leadership
Goal 6: Ensure availability and sustainable management of water and sanitation for all						
Proportion of population using improved drinking water sources	74.8	75.7	76.7	76.8	...	Achieve universal access to safe drinking water
Proportion of population using improved sanitation facilities	18.9	19.4	20.0	20.1	...	Achieve universal access to adequate and equitable sanitation and hygiene
Goal 7: Ensure access to affordable, reliable, sustainable and modern energy for all						
Proportion of population with access to electricity	26.2	26.9	27.6	...	...	Ensure universal access to affordable and reliable energy services
Proportion of population with primary reliance on clean fuels and technology	...	...	5.7	...	...	Ensure universal access to affordable and reliable energy services

	2012	2013	2014	2015	2016	2030 Target
Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all						
Growth rate of real GDP per capita [1/]	3.2	1.3	1.1	1.0	4.0	Sustain at least 7 per cent gross domestic product growth per annum in the least developed countries
Growth rate of real GDP per employed person	0.9	-10.3	-2.6	-2.9	0.8	Achieve diversification, technological upgrading and innovation
Proportion of children aged 5-17 years engaged in labour	...	...	...	...	...	Eradicate forced labour and secure the prohibition and elimination of the worst forms of child labour
Number of automated teller machines (ATMs) per 100,000 adults	1.1	1.3	1.6	2.0	...	Expand access to banking, insurance, and financial services
Number of commercial bank branches per 100,000 adults	1.6	1.6	2.2	2.4	...	Expand access to banking, insurance, and financial services
Goal 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation						
Freight volume (tonne kilometres), by road transport	...	...	...	1,042.00	...	Develop quality, reliable, sustainable and resilient infrastructure
Passenger volume (passenger kilometres), by road transport	...	...	...	3,825.00	...	Develop quality, reliable, sustainable and resilient infrastructure
Goal 10: Reduce inequality within and among countries						
Labour share of GDP, comprising wages and social protection transfers	...	...	...	...	...	Adopt fiscal, wage and social protection policies to achieve greater equality
Total assistance for development, by recipient	622.7	385.9	605.4	580.3	...	Encourage development assistance and financial flows to States where the need is greatest
Goal 11: Make cities and human settlements inclusive, safe, resilient and sustainable						
Proportion of urban population living in slums	...	...	43.3	...	...	Ensure access for all to adequate, safe and affordable housing
Direct disaster economic loss, average annual loss in relation to global GDP	...	...	...	3.8	...	Reduce the number of disaster-related deaths and direct economic losses
Goal 12: Ensure sustainable consumption and production patterns						
Material footprint per capita	...	...	...	...	...	Achieve sustainable management and efficient use of natural resources
Material footprint per unit of GDP	...	...	...	...	...	Achieve sustainable management and efficient use of natural resources
Goal 13: Take urgent action to combat climate change and its impact						
Goal 14: Conserve and sustainably use the oceans, seas and marine resources for sustainable development						
Coverage of protected areas in relation to marine areas	...	...	...	...	0.5	Conserve at least 10 per cent of coastal and marine areas
terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss						
Forest area as a proportion of total land area	...	...	...	...	...	Ensure the conservation, restoration and sustainable use of terrestrial ecosystems
Coverage by protected areas of important sites for mountain biodiversity	66.0	66.0	66.0	66.0	66.0	Ensure the conservation of mountain ecosystems, including their biodiversity
Goal 16: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels						
Number of victims of intentional homicide per 100,000 population	...	...	...	8.5	...	Significantly reduce all forms of violence and related death rates everywhere
Proportion of firms experiencing at least one bribe payment request	...	...	...	...	7.9	Substantially reduce corruption and bribery
Number of cases of killings of journalists and associated media personnel	...	...	...	...	0.0	Ensure public access to information
Goal 17: Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development						
Volume of remittances (in United States dollars) as a proportion of total GDP	1.2	1.5	1.4	1.4	...	Mobilize additional financial resources for developing countries
Debt service as a proportion of exports of goods and services (percent)	8.6	3.8	4.4	2.7	...	Assist developing countries in attaining long-term debt sustainability

Source: United Nations Sustainable Development Goals. https://unstats.un.org/sdgs/indicators/database

Note: For additional information on the 2030 goals outlined, refer to the Revised list of global Sustainable Development Goal indicators located here: https://unstats.un.org/sdgs/indicators/Official%20Revised%20List%20of%20global%20SDG%20indicators.pdf

[1/]Guinean authorities and IMF Staff calculations

STATISTICAL ISSUES

(As of October 2017)

I. Assessment of Data Adequacy for Surveillance	
General: Data provision is broadly adequate for surveillance with some key data shortcomings in national accounts and fiscal statistics.	
National Accounts: Guinea's national accounts are compiled using *1993SNA*, an outdated base year (2006), and are not timely. The authorities recently increased the human resources used to compile annual GDP and released a ten-year time series concluding in 2015. The authorities have plans to implement the latest international standard (*2008 SNA*) and a contemporary base year (2015). The authorities remain reliant on externally funded technical assistance provided by AFRITAC West to achieve this objective and improve the timeliness of annual GDP.	
Price Statistics: The monthly consumer price index (CPI), which only covers Conakry, is published in a timely manner with an outdated base year (2002).	
Government Finance Statistics: The Ministry of Economy and Finance compiles comprehensive monthly budgetary central government data on a cash basis for revenue, and on commitment and cash basis for expenditure based on a national presentation not comparable to international standards. The last Government Finance Statistics (GFS) technical assistance (TA) mission found that public finance reforms are progressing slowly in Guinea, with most progress in the adoption of the new budget nomenclature and the new State's chart of accounts. The current compilation methodology of the government operations tables (TOFE) needs to be modernized, which is currently reconciled with budgetary execution and financing data. The production of the TOFE based on GFSM 2001/2014 will require the use of the data outside the general accounting system, as it lacks comprehensiveness and timeliness. Cash-based general accounts must also be improved along with the gradual implementation of accrual accounting. Implementation of these reforms will require new IT systems, training and manuals. The data produced by the debt office is of fair quality, although it does not yet include the financing of new infrastructural projects. Data on extra-budgetary units, local government and central government investments in public and private corporations is available, but will need to be assessed from a GFS perspective. Complete accounts for the social security funds sub-sector of good quality are also available.	
Monetary and Financial Statistics: The latest monetary data based on the old forms reported to STA corresponds to December 2016. In April 2017, STA provided TA to the BCRG to start reporting monetary data using the recommended standardized report forms (SRFs), which are more adequate for surveillance purpose. The BCRG submitted preliminary sectoral balance sheet data based on the SRFs for the central bank and ODCs, and they are being reviewed by STA for dissemination.	
Financial Sector Surveillance: The BCRG reports quarterly FSIs to the Fund, which are published on the IMF's FSI website. The reported FSIs comprise all the core FSIs, 8 encouraged FSIs for deposit takers and 2 encouraged FSI for real sate market.	
External Sector Statistics: The Central Bank of the Republic of Guinea (BCRG) compiles balance of payments and international investment position statistics in line with the Balance *of Payments and International Investment Position Manual,* sixth edition (*BPM6)* The BCRG has been receiving technical assistance (TA) under the JSA project to improve ESS in West and Central Africa launched in 2016. Quarterly balance of payments data up to 2016 Q4 and annual international investment position (IIP) data up to 2016 have been submitted to STA based on *BPM6.* Quarterly IIP is not produced due to weak source data. TA has been provided to improve FDI statistics including source data, recording of external debt transactions related IMF debt relief, timeliness of quarterly balance of payments, statistics, etc. In addition, the BCRG is supported on future participation in quarterly external debt statistics survey and the coordinated direct investment survey.	
II. Data Standards and Quality	
Guinea participates in the enhanced General Data Dissemination System, but the metadata have not been updated since 2003.	No data ROSC is available.

Table of Common Indicators Required for Surveillance
(As of November 7, 2017)

	Date of Latest Information	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	11/06/2017	11/06/2017	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	09/30/2017	10/10/2017	M	M	M
Reserve/Base money	08/31/2017	10/10/2017	M	M	M
Broad Money	08/31/2017	10/10/2017	M	M	M
Central Bank Balance Sheet	08/31/2017	10/10/2017	M	M	M
Consolidated Balance Sheet of the Banking System	08/31/2017	10/10/2017	M	M	M
Interest Rates[2]	08/31/2017	10/10/2017	M	M	M
Consumer Price Index	08/31/2017	10/03/2017	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] - General Government[4]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3] - Central Government	09/30/2017	11/07/2017	M	M	M
Stocks of Central Government and Central Government - Guaranteed Debt[5]	09/30/2017	11/07/2017	Q	Q	A
External Current Account Balance	06/30/2017	09/13/2017	Q	Q	A
Exports and Imports of Goods and Services	06/30/2017	09/13/2017	Q	Q	A
GDP/GNP	12/31/2015	07/31/2017	A	A	A
Gross External Debt	09/30/2017	11/07/2017	Q	Q	A
International Investment Position	2016	06/08/2017	A	A	A

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, and domestic bank and non-bank financing.

[4] The general government consists of the central government (budgetary and extra-budgetary funds, and social security funds) and state and local governments. Guinea does not yet compile data at the General Government due to capacity constraints.

[5] Including currency and maturity composition.

[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Not Available (NA).

INTERNATIONAL MONETARY FUND

GUINEA

November 27, 2017

REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

Approved By
Abebe Amro Selassie (IMF) and Paloma Anos-Casero (IDA)

Prepared by the International Monetary Fund and the International Development Association

The results of the Debt Sustainability Analysis (DSA) show that Guinea continues to face a moderate risk of external debt distress [1,2] All external debt burden indicators under the baseline scenario lie below their policy-dependent thresholds. However, stress tests suggest that debt vulnerabilities have increased owing to external debt accumulation related to financing of critical infrastructure projects. Under the worst-case scenario,[3] all solvency and liquidity indicators breach their thresholds for prolonged periods and at higher magnitudes than in the 2016 DSA. The inclusion of domestic debt in the baseline scenario does not significantly change the conclusion of the external DSA. A prudent external borrowing strategy aimed at maximizing the concessionality of new debt and strengthening debt management will be essential to preserving debt sustainability in the context of large financing needs.

[1] The DSA was prepared jointly by the IMF and the World Bank, in collaboration with the Guinean authorities. It updates the DSA analysis contained in Sixth and Seventh Review Under the Extended Credit Facility Arrangement (March, 3, 2016, No. 16/95).

[2] The three-year average rating for Guinea in the Country Policy and Institutional Assessment (CPIA) is 3.09, which classifies Guinea as a weak policy performer in the LIC-DSA Framework.

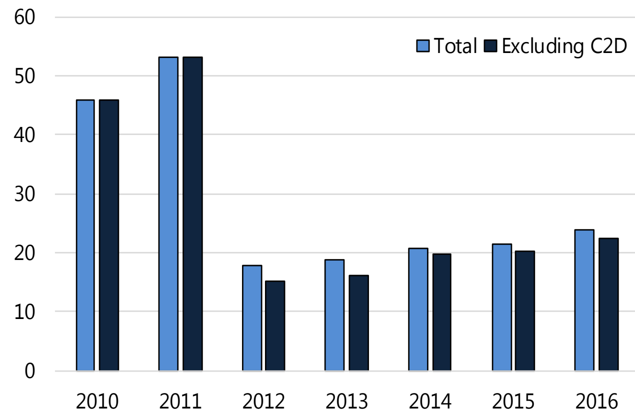
[3] A combination of shocks to growth, exports, the GDP deflators, and net non-debt creating flows.

BACKGROUND

1. Guinea's external public debt has gradually increased since 2012 as the government has used the borrowing space from debt relief to finance projects to address infrastructure needs. Guinea received US$639 million of debt relief in present value (PV) terms upon reaching the completion point of the HIPC initiative in 2012. Since then, the government has used external borrowing to finance infrastructure investments in the energy and transport sectors, notably the construction of the Kaleta hydroelectric dam (US$335 million or 4 percent of GDP) and the rehabilitation of the electric transmission networks. This has led to a gradual increase in Guinea's external debt stock, with total public and publicly guaranteed (PPG) external debt reaching US$1.8 billion (21.5 percent of GDP) in 2016, compared with US$1.3 billion (17.9 percent of GDP) in 2012 (Table 1).[5] Approximately 54 percent of this stock is due to official bilateral creditors, mostly to Non-Paris Club, while 43 percent is owed to multilateral creditors. At end-2016, Guinea had outstanding external debt arrears of $147.4 million (1.7 percent of GDP), unchanged with respect to the previous year. These arrears pre-date the completion of the HIPC and are owed to non-Paris club official bilateral (60 percent) and commercial creditors (40 percent). The authorities continue to make best efforts to discuss debt relief and normalization of these arrears with the creditors, with the aim of reaching an agreement by end-2017. Creditors have so far not requested payment of these arrears.

Figure 1. Guinea: Stock of External Public and Publicly Guaranteed Debt,[4] 2010–16

(Percent of GDP)



Sources: Guinean authorities; and IMF Staff calculations.

[4]Starting in 2014, external and domestic PPG debt includes guarantees issued by the Guinean Central Bank (BCRG) to local and foreign banks to provide commercial loans to private sector operators to pre-finance the execution of public works. Notably, a guarantee issued to an external creditor in foreign currency, increased the stock of public and publicly-guaranteed external debt by US$72 million in 2014.

[5] In this DSA, the definition of PPG external debt excludes French claims under C2D debt-for-development swaps, which were cancelled in the context of the HIPC debt relief. The C2D mechanism implies a payment of the debt service to the creditor from Guinea, which is later returned to the government in the form of grants to finance development projects. See EBS/15/4, Sup. 2, 01/28, 2015 and Country Report No. 15/39 for a detailed discussion.

Table 1. Guinea: Structure of External Public and Publicly Guaranteed Debt

(Nominal values)

	end-2015	end-2016		
		USD (millions)	Percent of Total	Percent of GDP
Total	**1776.0**	**1822.1**	**100.0**	**21.5**
Total incl. C2D	1914.8	1934.4	106.2	22.8
Multilateral creditors	**700.7**	**778.7**	**42.7**	**9.2**
IMF	197.9	241.3	13.2	2.8
World Bank	161.1	219.8	12.1	2.6
AfDB Group	111.2	98.9	5.4	1.2
IsDB	113.0	106.1	5.8	1.3
EU	0.0	0.0	0.0	0.0
Other Multilateral creditors	117.5	112.5	6.2	1.3
Official Bilateral Creditors	**979.2**	**984.4**	**54.0**	**11.6**
Paris Club (excl. C2D)	28.5	27.7	1.5	0.3
Non-Paris Club	815.3	809.3	44.4	9.5
Arab Funds	135.3	147.4	8.1	1.7
Commercial Creditors	**59.6**	**58.9**	**3.2**	**0.7**
Memo				
Arrears	148.1	147.4	8.1	1.7

Notes: Arrears at end-2016 are due to Non-Paris Club official bilateral creditors (US$88.5 million) and commercial creditors (US$58.9 million). The Guinean authorities have started discussions with creditors in order to reach a resolution on the normalization of these arrears and expect to reach an understanding by December 2017.

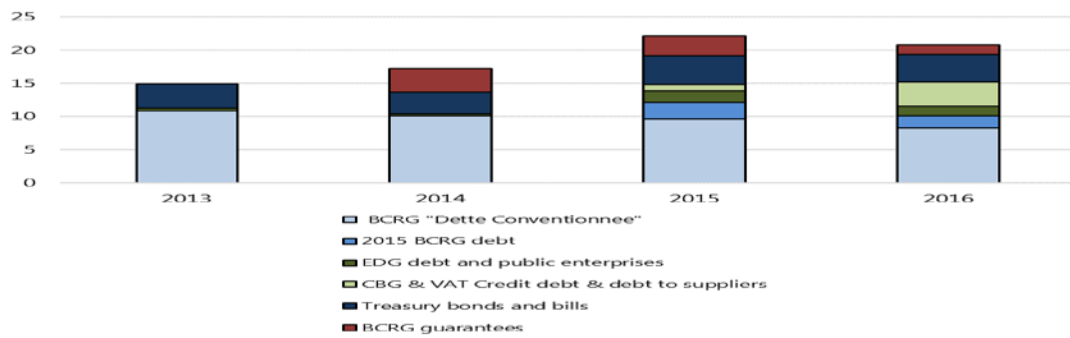
Sources : Guinean authorities; and IMF Staff calculations.

2. **Domestic debt declined slightly in 2016, as settlement of debt related to central bank guarantees offset an increase in debt related to the inclusion of domestic arrears** (Figure 2). In 2014 and 2015, the central bank issued US$870 million (9.9 percent of GDP) worth of guarantees to commercial banks to provide loans to private companies to pre-finance the execution of public investment projects.[6] Domestic PPG debt rose from 14.9 percent of GDP in 2014 to 22.1 percent of GDP in 2015, higher than the average for sub-Saharan African low income countries (LICs) of 16.1 percent of GDP. Restructuring in 2015 and settlement of some of these loans reduced guarantees to US$118 million (1.4 percent of GDP) by end-2016. In addition to debt related to the 2014–15 central bank guarantees and to 2015 central bank advances to the government, Guinea continued to hold US$678 million (8.2 percent of GDP) in "dette conventionnée", which is debt related to consolidated central bank advances accumulated prior to 2013, scheduled to be repaid over 40 years starting in 2023. Meanwhile, in July 2016 the authorities completed an audit of the outstanding stock of central government arrears over 1982-2013, which led to the inclusion of an additional US$0.2 billion (2.9 percent of GDP) in arrears owed mainly to domestic suppliers and VAT credit refunds arrears in domestic debt.[7] By end-2016, PPG domestic debt stood at 20.7 percent.

[6] Most of the guarantees were domestic apart from US$72 million owed to a foreign bank

[7] Domestic arrears built up in the early 2000s as social and political unrest contributed to a deterioration of public financial management. In addition, arrears increased sharply in 2011 after the newly formed government froze many procurement contracts that had been committed outside of standard procedures under the military and transition government of 2009–10.

Figure 2. Guinea: Stock of Domestic Public and Publicly Guaranteed Debt, 2013–16
(Percent of GDP)



Note: "Dette conventionnée" comprises consolidated past advances to the government which are to be repaid over 40 years with amortization payments beginning in 2023. 2015 BCRG debt are central bank advances to the government whose repayment agreement calls for amortization over six years beginning in 2016.
Sources: Guinean authorities; and IMF Staff calculations.

3. **The public debt position at end-2016 is slightly higher than projected in the last DSA** (Figure 3). Total public debt amounted to US$3.5 billion (42.9 percent of GDP) at end-2016 compared with projected US$3.0 billion (35.4 percent of GDP) in the 2016 DSA. The external debt stock was slightly higher than projected at US$1.8 billion, compared with an expected US$1.7 billion, as the projected cancellation of external arrears did not materialize and the calendar for the settlement or cancellation of some of the BCRG guarantees changed. Domestic debt was also higher than projected at US$1.7 billion, compared with an expected US$1.3 billion, driven by the inclusion of domestic arrears.

UNDERLYING ASSUMPTIONS

4. **Key changes to the assumptions in relation to the 2016 LIC-DSA are as follows:**

- **National accounts data have been revised significantly upward.** National accounts data over 2006–15 were revised with support of technical assistance from the IMF and other development partners to adopt the SNA 1993 methodology for the compilation of national account leading to a 40 percent increase in nominal GDP. These changes include improvements such as new economic surveys, a better categorization of activities and products, and improved estimates for informal activity (see Box 1).

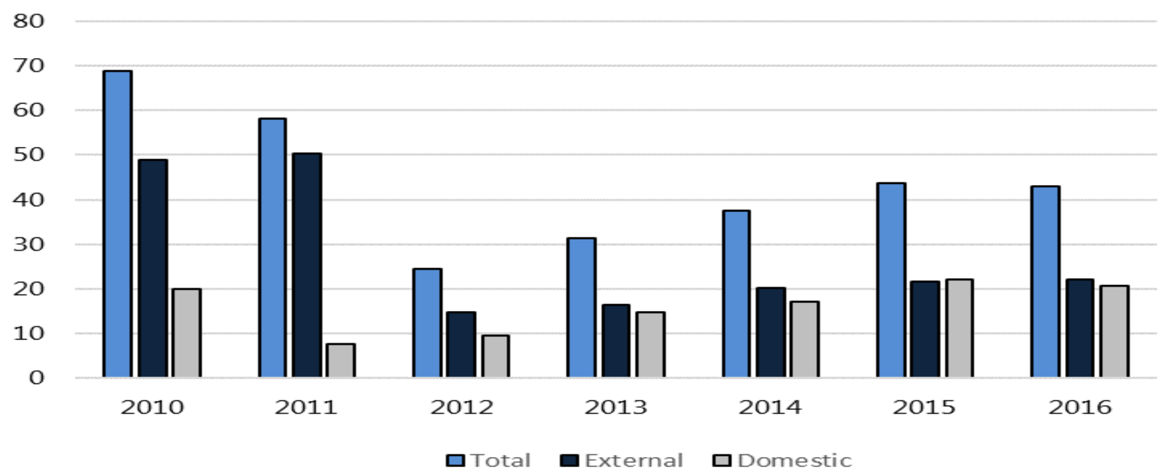
Guinea: Change in Key Economic Indicators Following National Account Revisions

	2011	2012	2013	2014	2015
Old NA	Annual percentage change				
Real GDP Growth	3.3	3.2	1.5	1.1	0.1
	Percent of GDP				
Basic fiscal balance	-1.6	-2.5	-2.8	-6.5	-7.0
Overall fiscal balance	-1.1	-3.6	-5.3	-4.2	-8.9
Current account balanc	-24.8	-26.0	-17.2	-17.6	-19.9
Total public debt	82.1	32.1	42.5	43.8	50.7
	2011	2012	2013	2014	2015
Revised NA	Annual percentage change				
Real GDP Growth	5.6	5.9	3.9	3.7	3.5
	Percent of GDP				
Basic fiscal balance	-1.2	-1.9	-2.1	-5.0	-5.4
Overall fiscal balance	-0.8	-2.8	-3.9	-3.2	-6.9
Current account balanc	-18.4	-20.0	-12.5	-13.4	-15.4
Total public debt	58.1	24.4	31.3	33.9	39.8

Source: Guinean authorities; and IMF staff estimates.

Figure 3. Guinea: Stock of Total Public and Publicly Guaranteed Debt, 2010–16

(Percent of GDP)



Sources: Guinean authorities; and IMF Staff calculations.

- **The iron-ore Simandou project is excluded from this analysis.** In the 2016 DSA, the Simandou iron-ore project was expected to start production in 2023–24, and the financing of construction and related infrastructure was accounted for in the analysis and macroeconomic projections. However, due to the decline in commodity prices the Simandou project has been put on hold indefinitely.[8] Even if the project were to materialize in the longer term, it is not expected to impact the debt profile as it will likely be executed as a private sector investment financed by FDI inflows.

- **The Souapiti dam project, which will significantly impact Guinea's debt profile, is included in the analysis.** Construction of the large 450-MW dam has started, which is expected to double Guinea's electricity generation capacity, improve electricity provision, and significantly benefit the economy. The overall estimated project cost is US$1.6 billion (18.5 percent of GDP) and expected to be financed through a combination of equity (25 percent) and debt (75 percent).[9] For the debt portion, the government is finalizing a US$1.2 billion non-concessional loan (12.7 percent of GDP) from China Eximbank.[10] This loan will then be transferred to a Special Purpose Vehicle (SPV), jointly owned by the Government

[8] Mining company Rio Tinto also exited the project in October 2016 by selling its stake to Chinalco. Chinalco currently owns 80 percent of the project with the Government of Guinea holding the remaining 20 percent.

[9] The equity portion is being provided by the government's divestment in its share of the Kaleta dam project.

[10] The grant element of the Souapiti loan is expected to be: 29.7 percent. The terms of the loan are assumed to be: 20-year maturity with a 7-year grace period; 2 percent interest rate; 0.5 percent commitment fees and 0.5 percent management fees. Disbursements are expected over 2017-2020 as follows: US$184 million in 2017, US$544 million in 2018, US$265 million in 2019 and US$180 million in 2020.

(51 percent) and China International Water & Electricity Corporation (49 percent), which will be responsible for servicing it.[11] In view of limited information on the modalities of the loan transfer to the SPV and that the government would be responsible to repay if the SPV were unable to, the loan is included in PPG external debt. Furthermore, to depict the potential full impact on the debt profile, the government is assumed to be responsible for servicing the loan in the analysis.

Table 2. Guinea: LIC DSA Macroeconomic Assumptions
(Percent of GDP, unless otherwise indicated)

	Previous DSA				Current DSA			
	2016	2021	2026	2036	2016	2021	2026	2037
Nominal GDP ($ Million)	6573.8	9496.5	16757.3	32027.2	8476.3	12325.7	17367.0	36735.2
Real GDP (percentage change)	4.0	6.0	5.5	4.6	6.6	6.0	5.0	5.0
Fiscal Accounts								
Revenues and grants	23.9	26.5	22.9	23.1	16.0	19.0	19.1	18.8
Public Sector Expenditure	25.6	28.3	23.3	24.0	16.4	21.2	21.0	19.3
of which: Capital expenditure and net lending	9.6	13.4	10.5	11.2	4.9	9.0	8.6	8.5
Primary Fiscal Balance	0.4	-1.0	-0.1	-0.6	1.0	0.9		
New external borrowing	3.6	3.3	1.6	1.7	…	3.3	3.2	1.9
Grant elements of new external borrowing	42.6	44.1	41.8	32.7	…	29.4	28.3	23.3
Balance of Payments								
Exports of goods and services	22.9	21.7	60.3	42.0	29.2	41.7	40.1	38.0
Imports of goods and services	-37.1	-68.2	-48.0	-38.4	-60.7	-51.3	-43.1	-37.4
Current account (including transfers)	-13.4	-44.7	8.0	-5.2	-32.2	-15.5	-10.2	-9.0
Foreign direct investment	4.8	40.5	-9.1	3.7	18.8	13.0	6.3	1.6

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

5. **The macroeconomic assumptions underlying the DSA analysis are consistent with the macroeconomic framework outlined in the Staff Report for the Request of the Extended Credit Facility**[12] (Table 2):

- **Real GDP growth** is expected to increase to 6.7 percent in 2017 and average to 6 percent over the medium term, driven by strong performance in mining, construction, and scaled-up investments in infrastructure. Over the long run (2021–37), growth is projected to remain around 5 percent, reflecting the increased productive capacity of the economy and its diversification. Risks to these projections are balanced, with downside potential from socio-political tensions, delays in projects and implementing reforms, and upside potential from higher than expected mining production.
- **Inflation** is expected to remain moderate at around 8.5 percent in 2017 and slightly decline over the medium term, reflecting a prudent monetary policy.

[11] Ensuring cost-recovery electricity tariffs and restructuring the electricity public utility so that it can pay Souapiti SPV in a timely manner for electricity supply will be key to ensure that the Souapiti SPV can service the loan.

[12] *Guinea—Request for a Three-Year Arrangement under the Extended Credit Facility*.

- **Fiscal balance.** The basic fiscal surplus is projected to strengthen from 0.6 percent of GDP in 2017 to an average of 0.9 percent of GDP during 2018–21, reflecting revenue mobilization efforts and the containment of non-priority current expenditure, notably the gradual phasing out of electricity subsidies.[13] In parallel, capital expenditures are expected to rise with the scale up in public infrastructure investment under the authorities National Economic and Social Development Plan (PDNES) from 4.8 percent of GDP in 2016 to 9.0 percent in 2021. The primary fiscal balance is expected to move from a surplus of 0.9 percent of GDP in 2017 to a deficit of 1.2 percent of GDP in 2018, and average a deficit of 1.1 percent over 2019–22.[14]

- **The current account** is expected to record a deficit at 24.4 percent of GDP in 2017 and remain large averaging 16.5 percent of GDP over 2018–22, reflecting high FDI-financed imports for mining and public infrastructure projects, including the Souapiti dam. These investments will boost exports over the longer term, resulting in a gradual narrowing of the current account deficit.

- **External financing mix and terms.** In addition to the borrowing to finance the Souapiti dam, this DSA also incorporates the authorities' plans to borrow an additional US$650 million in non-concessional loans to be disbursed over 2018–21, from China Eximbank (Table 3).[15] These loans will finance priority infrastructure projects such as the rehabilitation of the RN1 national road and the Conakry urban road network, the construction of an electrical interconnection line, and the rehabilitation of a university. New external borrowing is expected to pick up significantly in the near term from 3.6 percent of GDP in 2017 to 9.8 percent of GDP in 2018, average at 7.2 percent of GDP over 2019–21, and settle around a long-run average of about 2 percent of GDP. Due to the mostly non-concessional nature of borrowing in the near term, the average grant element of new borrowing is projected to decline from around 33 percent in 2017 to 27 percent in 2019, mostly driven by large disbursements related to Souapiti loan. The average grant element of new borrowing is expected to then slightly increase to 31 percent in 2020 as Souapiti related financing winds down. Disbursements related to the US$650 million non-concessional loans will also contribute slightly to reducing the grant element over 2018–22. While some additional multilateral concessional financing is expected in 2020–21, access to concessional financing is projected to gradually decline over time, and non-concessional borrowing to take its place after 2021, with an average grant element of 25 percent in the long run.

[13] Guinea has increased revenues considerably in recent years, but performance of different categories has been uneven, particularly for direct taxes. Staff anticipate an additional mobilization of tax revenues of about 3 percent of GDP over 2018-2020 supported by a targeted tax policy and administration reform and the pick-up in mining revenues.

[14] The basic fiscal balance is calculated as government revenue excluding grants minus expenditures, excluding interest payments on external debt and externally financed capital expenditure.

[15] The grant element of these loans is expected to be approximately 25.9 percent

- **Domestic borrowing.** Net government domestic financing is expected to be negative throughout 2017–37, as the government is expected to gradually repay domestic debt. This includes gradual payments of validated arrears to the private sector in line with the authorities' strategy to clear these amounts.

Table 3. Guinea: Non-concessional Loans to Finance Priority Infrastructure Projects[1]

Project	Amount (USD million)
Rehabilitation of RN1 (national road)	275
Rehabilitation of road system in Conakry	159
Construction of electricity transmission line (Lisan-Fomi-Kankan)	150
University Rehabilitation	63

[1] Indicative values on a contracted basis, expected during 2017–20. This excludes the US$1.2 billion non-concessional Souapiti loan which is being finalized.

DEBT SUSTAINABILITY ANALYSIS

A. External Debt

6. **Under the baseline scenario all external debt ratios remain below their policy dependent thresholds, indicating that Guinea's debt dynamics are sustainable** (Table 4 and Figure 4). The PV of debt to GDP is expected to remain below the policy-dependent threshold, peaking at 26.2 percent in 2025 (compared with a peak of 17.5 percent of GDP in the 2016 DSA). Furthermore, liquidity ratios (debt service-to-exports and debt service-to-revenues) are also expected to remain well-below policy dependent thresholds as the new loans contain sizeable grant elements. The growth rate for accumulation of external debt will average 3.5 percent (year-on-year) over 2017–21, significantly higher than in the 2016 DSA (average 1.1 percent year-on-year growth rate over the same period), reflecting additional external borrowing related to the Souapiti dam project and the US$650 million non-concessional loans to finance key infrastructure projects. However, the authorities' decision to prioritize and carefully phase investment projects and related borrowing, will contribute to maintaining external debt at a sustainable level. Debt service has risen compared with the 2016 DSA, due to faster debt accumulation and the non-concessional nature of newly identified borrowing.

7. **Guinea remains at a moderate risk of debt distress while vulnerabilities have increased.** Nearly all indicators breach their thresholds for prolonged periods under the historical and extreme shock scenarios (Figure 4).[16] The magnitude of these breaches is larger than in the 2016 DSA

[16] The most extreme shocks are either an exports shock or a combination shock, compared with the 2016 DSA where all most extreme scenarios corresponded to a combination shock.

suggesting an increase in debt vulnerabilities due to faster debt accumulation. Under the bound tests, all indicators breach their thresholds under the most extreme scenario. However, these tests are based on historical growth and export averages, which reflect exceptionally adverse economic conditions for Guinea, including the Ebola crisis and commodity price shocks during 2014–15, and earlier periods of civil unrest. Under two more plausible country-specific scenarios: i) a weak policy implementation scenario; and ii) less prudent phasing of investment projects scenario with frontloaded disbursements of the anticipated US$ 650 non-concessional loans, all indicators remain below their policy dependent thresholds but slightly closer than under the baseline scenarios (Figure 5).[17]

Table 4. Guinea: Policy Dependent Thresholds and Results

	Policy-dependent Threshold	Guinea (2017)	Guinea (Max 2017-37)
PV of debt to GDP ratio	30	15.5	26.2
PV of debt-to-exports ratio	100	44.5	64.6
PV of debt-to-revenue ratio	200	100.6	143.4
Debt service-to-exports ratio	15	1.9	5.6
Debt service-to-revenue ratio	18	4.2	11.5

Source: IMF Staff calculations.

8. **Guinea remains at a moderate risk of debt distress while vulnerabilities have increased.** Nearly all indicators breach their thresholds for prolonged periods under the historical and extreme shock scenarios (Figure 4).[18] The magnitude of these breaches is larger than in the 2016 DSA suggesting an increase in debt vulnerabilities due to faster debt accumulation. Under the bound tests, all indicators breach their thresholds under the most extreme scenario. However, these tests are based on historical growth and export averages, which reflect exceptionally adverse economic conditions for Guinea, including the Ebola crisis and commodity price shocks during 2014–15, and earlier periods of civil unrest. Under two more plausible country-specific scenarios: i) a weak policy implementation scenario; and ii) less prudent phasing of investment projects scenario with frontloaded disbursements of the anticipated US$ 650 non-concessional loans, all indicators remain below their policy dependent thresholds but slightly closer than under the baseline scenarios (Figure 5).[19]

[17] The weak policy scenario assumes real GDP is 1 percentage point below the baseline over 2018–37, reflecting slower reform implementation, and the basic fiscal balance is 0.5 percent of GDP in 2018–19, reflecting slower revenue collection. The frontloaded disbursement scenario assumes the $650 million in non-concessional loans are disbursed over a three rather than five-year period and more rapid disbursement of already signed concessional loans.

[18] The most extreme shocks are either an exports shock or a combination shock, compared with the 2016 DSA where all most extreme scenarios corresponded to a combination shock.

[19] The weak policy scenario assumes real GDP is 1 percentage point below the baseline over 2018–37, reflecting slower reform implementation, and the basic fiscal balance is 0.5 percent of GDP in 2018–19, reflecting slower revenue collection. The frontloaded disbursement scenario assumes the $650 million in non-concessional loans are disbursed over a three rather than five-year period and more rapid disbursement of already signed concessional loans.

B. Total Public Debt

9. Debt indicators remain below the benchmark when adding public and publicly guaranteed domestic debt under the baseline scenario (Figure 6)**.** The PV of total public debt-to-GDP ratio remains below the policy-dependent benchmark during 2017–21 and then gradually declines over the long-term. This dynamic mirrors the path of the PPG external debt stock, which increases in the short-run due to the high rate of debt accumulation. The PV of total debt-to-GDP ratio would exceed the benchmark in the medium-term under the extreme shock [20]and historical scenarios. Furthermore, delays in repaying domestic arrears or debt owed to the BCRG, or the inclusion of additional debt that may not be currently reflected due to data limitations could worsen the dynamics of total debt dynamics.

CONCLUSION

10. Guinea remains at moderate risk of external debt distress. Although external debt is expected to increase significantly due to borrowing to finance critical infrastructure needs, the authorities' strategy of carefully phasing investment projects, spreading out loan disbursements, and containing non-concessional external borrowing within the amounts specified under the objectives of the ECF program,[21] is key to ensure that debt remains sustainable and does not exceed a moderate risk of external debt distress. Nevertheless, indicators have deteriorated under alternative and extreme shock scenarios, and the debt service burden has increased, suggesting that Guinea's debt vulnerabilities have risen.

11. Maximizing concessional debt and strengthening debt and public investment management will be essential to preserving debt sustainability in the context of large financing needs. In this regard, the authorities' commitment to implement a prudent borrowing strategy that aims to maximize concessionally and limit non-concessional borrowing to a maximum of US$650 million (excluding Souapiti) during 2017–21 is key to ensure the risk of debt distress does not exceed a moderate level. Ongoing efforts to strengthen the debt management framework, with the support of technical assistance from the IMF, World Bank, and other development partners, will be essential to strengthening debt management capacity and monitor debt vulnerabilities. Specific measures include updating bond issuance practices, enhancing capacity to analyze debt sustainability, improving public debt statistics, and strengthening procedures for managing domestic debt. A holistic assessment such as the World Bank's Debt Management Performance Assessment (DeMPA) to assess recent implemented measures and identify further areas for improvement would also be useful. Further improving coordination among ministries and the central bank will be important to ensure that new borrowing is in line with the national strategy. Strengthening public investment management, including with the implementation of a platform for

[20] In this case, the most extreme shock is a 10 percent GDP increase in other debt creating flows in 2018.

[21] US$650 million excluding the use of IMF resources; debts classified as international reserve liabilities of the BCRG; and the non-concessional loan that the government to finance the Souapiti dam project.

integrated public investment management and the support of the Public Investment Management Assessment (PIMA) with IMF technical assistance, will enhance the transparency and efficiency of the investment plan.

12. The authorities broadly agree with the conclusions of the DSA. They underscored their commitment to maintaining a sustainable level of debt and not exceeding a moderate risk of debt distress. In this regard, the authorities noted that the current level of external debt remains below the regional average of 28 percent of GDP. They also concurred with the importance of maximizing concessional borrowing where possible, but noted financing under these terms is not available in the scale needed to finance their large infrastructure needs.[22] The authorities agree that addressing domestic debt is a priority and are committed to their strategy to gradually clear domestic arrears toward the private sector. They also remain committed to strengthen debt management and have expressed interest in updating DeMPA.

[22] The World Bank is envisaging scaling-up the IDA envelope for Guinea.

Box 1. Guinea: Strengthening National Accounts Statistics

The National Institute of Statistics (INS) of Guinea has been working on improving and updating the methodology of compiling the national accounts with the support of technical assistance of the International Monetary Fund (AFRITAC West), the United Nations Economic Commission for Africa (ECA), AFRISTAT, and the European Commission (EU).

Guinea's national accounts statistics were previously based on the U.N. Systems of National Accounts 1968 (SNA 1968). In 2011, work on implementing SNA 1993 methodology was started to improve statistical concepts and classifications, and harmonize the methodology with international standards. Furthermore, contributions of various sectors to production have also changed.[1] The Fund was actively involved in providing technical assistance on compiling supply and use tables (SUT) and integrating economic accounts (IEA) in accordance with SNA 1993.

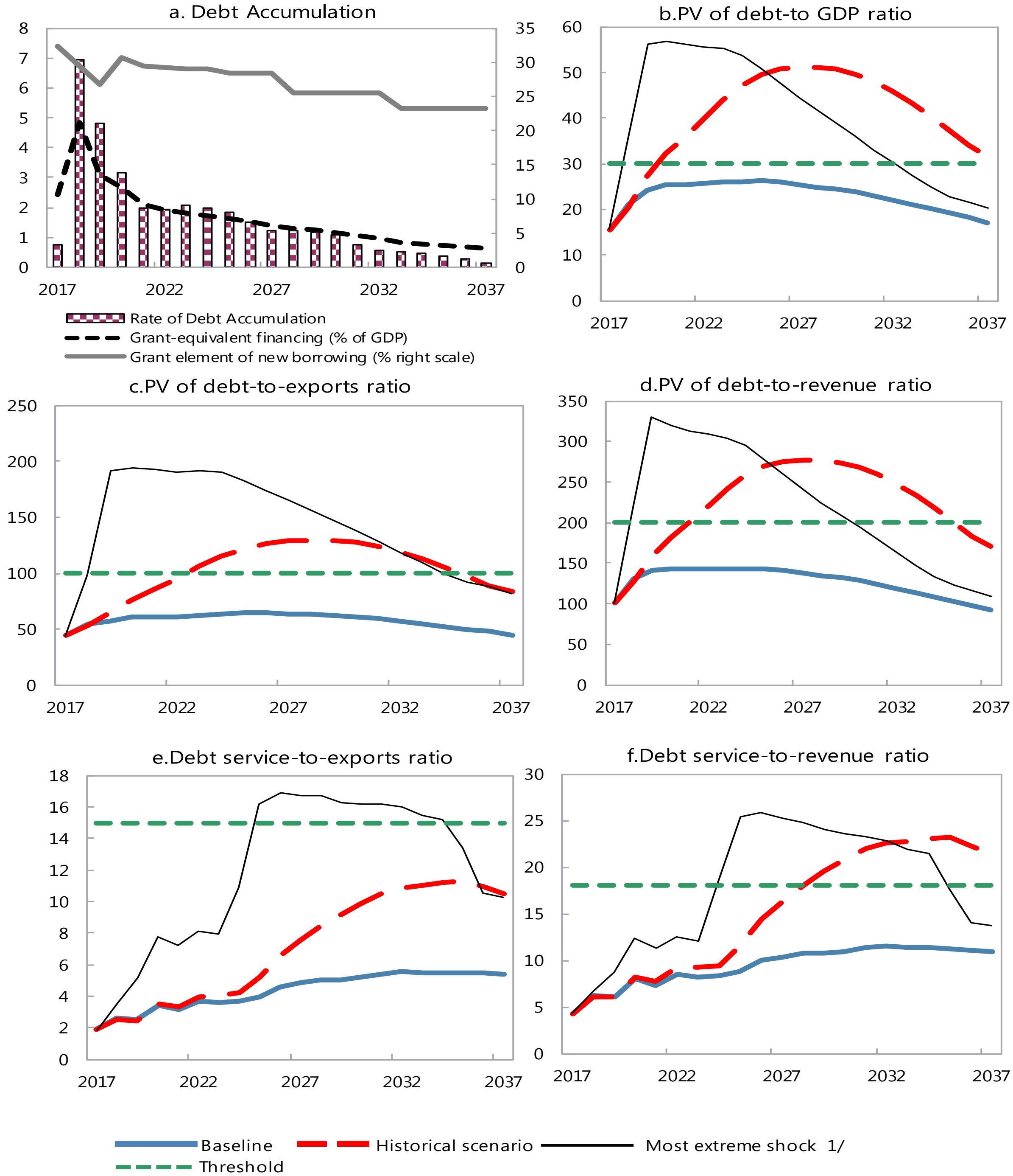
The revised national accounts statistics were published on the INS website in May 2017. The time series commences in 2006; it is broadly compliant with SNA 1993; and incorporates relevant improvements such as new economic surveys, a better categorization of activities and products and improved estimates for informal activity.[1] In addition, the base year for the national accounts was revised to 2006 (from 2003) for key parameters—including population estimates, household and business sector activity, and informal activity—while the reference years for prices was changed to 2010 (from 2003). As a result, nominal GDP was revised up by an average 40 percent between 2006–15 and real growth and key economic indicators significantly changed.

Staff discussed the revisions to the national accounts data, with support of an STA expert, during the May 2017 staff visit. In view of the enhanced statistical methodology, staff incorporated the revised national accounts data for the period 2006–14 in the program scenario. Staff, however, uses an estimate for 2015—using partially available information on sectoral activity—as the final number will not be released until September 2017.

The INS has started to further enhance the compilation of the national accounts and aims to migrate from SNA 1993 to SNA 2008 over the coming 2–3 years. Migration to SNA 2008 will be achieved after new surveys have been conducted, specifically a household survey, a census of companies, and an agricultural census. As part of these further enhancements, the INS will also revise the base year to 2015.[1] The Fund continues to provide technical assistance on application of SNA 2008 methodologies. Other TA providers, including the UNECA, AFRISTAT, and the EU are supporting the INS with developing a roadmap for rebasing to SNA 2008, the application of revised classifications, and improving data collection.

[1]The total weight for agriculture, mining and construction in GDP was reduced by 16 percent, while weights of the components of the tertiary sector have increased, including for trade activities.

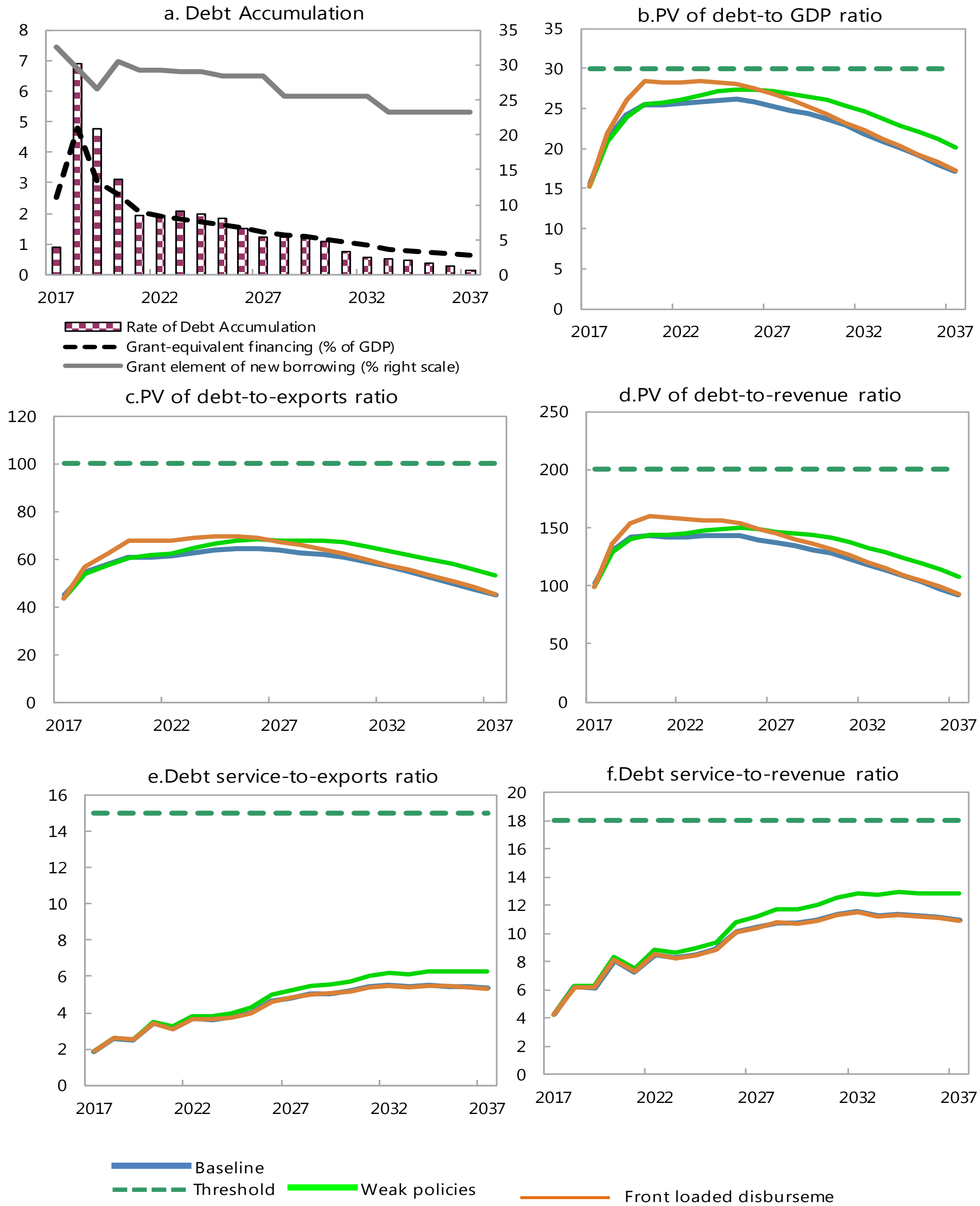
Figure 4. Guinea: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2016–37[1/]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2027. In figure b. it corresponds to a Combination shock; in c. to a Exports shock; in d. to a Combination shock; in e. to a Exports shock and in figure f. to a Combination shock

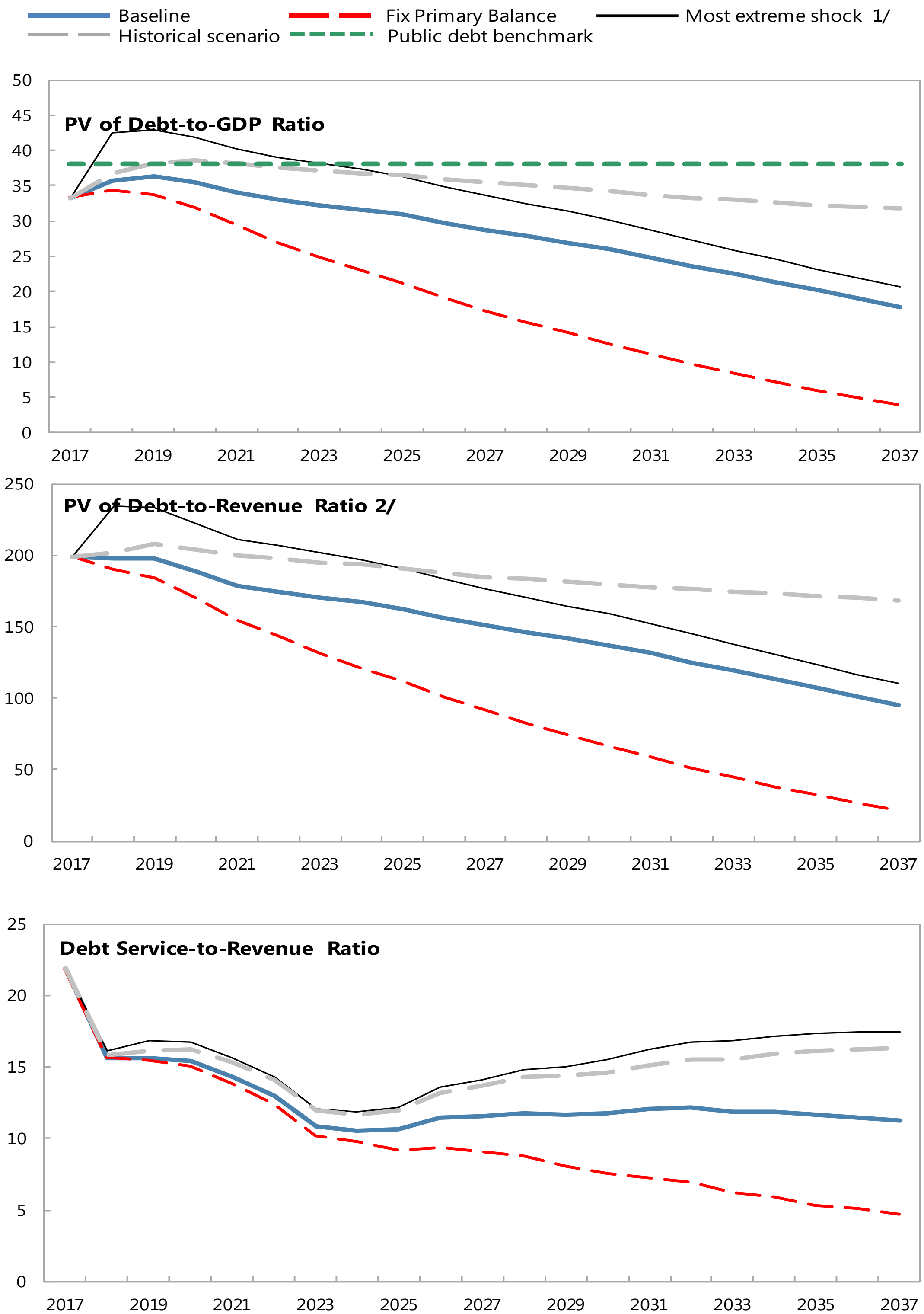
Figure 5. Guinea: Indicators of Public and Publicly Guaranteed External Debt Under Country-Specific Alternative Scenarios, 2016–37[1]/



Sources: Country authorities; and staff estimates and projections.

1/ The weak policies scenario assumes real GDP growth of 1 percentage point below the baseline over 2018-2037 and a lower overall primary fiscal balance of 0.5 percent of GDP in 2018-2019 to reflect slower reform implementation and revenue collection. The frontloaded disbursement scenario assumes the $650 million in non-concessional loans are disbursed over a three rather than five-year period along with a more rapid disbursement profile for already signed concessional loans.

Figure 6. Guinea: Indicators of Public Debt Under Alternative Scenarios, 2016–37[1/]



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2027.
2/ Revenues are defined inclusive of grants.

Table 3a. Guinea: External Debt Sustainability Framework, Baseline Scenario, 2014–37 1/

(Percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2014	2015	2016			2017	2018	2019	2020	2021	2022	2017-2022 Average	2027	2037	2023-2037 Average
External debt (nominal) 1/	**20.3**	**21.7**	**22.1**			**22.1**	**30.1**	**34.2**	**36.1**	**36.0**	**36.2**		**35.0**	**23.4**	
of which: public and publicly guaranteed (PPG)	20.3	21.7	22.1			22.1	30.1	34.2	36.1	36.0	36.2		35.0	23.4	
Change in external debt	3.9	1.4	0.5			-0.1	8.1	4.0	1.9	0.0	0.2		-0.8	-1.4	
Identified net debt-creating flows	12.1	12.3	14.1			7.2	7.7	1.7	1.1	0.5	0.8		2.6	5.0	
Non-interest current account deficit	**13.5**	**15.1**	**31.9**	**13.4**	**8.4**	**24.3**	**21.1**	**11.0**	**17.9**	**15.0**	**12.9**		**9.3**	**7.1**	8.9
Deficit in balance of goods and services	10.7	12.1	31.5			23.8	17.7	6.1	12.9	9.6	7.1		2.4	-2.5	
Exports	22.3	18.7	29.2			34.9	38.7	41.8	42.0	41.7	41.7		39.8	37.9	
Imports	33.0	30.7	60.7			58.7	56.4	48.0	54.9	51.3	48.8		42.2	35.4	
Net current transfers (negative = inflow)	-1.8	0.0	-1.1	-3.2	1.9	-1.3	-2.1	-1.7	-1.7	-1.9	-2.0		-1.5	-0.8	-1.3
of which: official	-1.1	-0.2	-0.7			-0.5	-0.9	-0.5	-0.3	-0.5	-0.5		-0.4	-0.1	
Other current account flows (negative = net inflow)	4.6	3.1	1.5			1.8	5.5	6.5	6.6	7.3	7.7		8.4	10.3	
Net FDI (negative = inflow)	**-0.8**	**-3.0**	**-18.8**	**-5.5**	**5.4**	**-16.2**	**-12.7**	**-8.1**	**-15.4**	**-13.0**	**-10.9**		**-5.6**	**-1.4**	-4.3
Endogenous debt dynamics 2/	**-0.6**	**0.2**	**1.1**			**-0.9**	**-0.7**	**-1.2**	**-1.4**	**-1.5**	**-1.2**		**-1.1**	**-0.7**	
Contribution from nominal interest rate	0.2	0.2	0.3			0.4	0.4	0.5	0.5	0.5	0.5		0.5	0.4	
Contribution from real GDP growth	-0.6	-0.7	-1.5			-1.4	-1.2	-1.6	-1.9	-2.0	-1.7		-1.7	-1.1	
Contribution from price and exchange rate changes	-0.2	0.8	2.2			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-8.3**	**-11.0**	**-13.7**			**-7.2**	**0.3**	**2.3**	**0.8**	**-0.5**	**-0.7**		**-3.4**	**-6.3**	
of which: exceptional financing	-0.1	-0.5	0.0			-0.9	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	16.0			15.5	21.1	24.1	25.4	25.5	25.6		25.4	17.1	
In percent of exports	...	...	54.9			44.5	54.6	57.7	60.5	61.1	61.4		63.7	45.0	
PV of PPG external debt	**...**	**...**	**16.0**			**15.5**	**21.1**	**24.1**	**25.4**	**25.5**	**25.6**		**25.4**	**17.1**	
In percent of exports	**...**	**...**	**54.9**			**44.5**	**54.6**	**57.7**	**60.5**	**61.1**	**61.4**		**63.7**	**45.0**	
In percent of government revenues	**...**	**...**	**106.7**			**100.6**	**130.2**	**141.5**	**142.9**	**142.2**	**142.3**		**137.1**	**91.7**	
Debt service-to-exports ratio (in percent)	**2.3**	**5.6**	**3.6**			**1.9**	**2.6**	**2.5**	**3.4**	**3.1**	**3.7**		**4.8**	**5.4**	
PPG debt service-to-exports ratio (in percent)	**2.3**	**5.6**	**3.6**			**1.9**	**2.6**	**2.5**	**3.4**	**3.1**	**3.7**		**4.8**	**5.4**	
PPG debt service-to-revenue ratio (in percent)	**3.7**	**7.6**	**7.1**			**4.2**	**6.2**	**6.1**	**8.1**	**7.3**	**8.5**		**10.4**	**11.0**	
Total gross financing need (Billions of U.S. dollars)	1.2	1.2	1.2			0.8	0.9	0.4	0.4	0.4	0.5		1.0	2.8	
Non-interest current account deficit that stabilizes debt ratio	9.7	13.7	31.4			24.4	13.1	7.0	16.0	15.0	12.7		10.1	8.4	
Key macroeconomic assumptions															
Real GDP growth (in percent)	3.7	3.5	6.6	4.3	2.4	6.7	5.8	5.9	6.0	6.0	5.2	5.9	5.0	5.0	5.0
GDP deflator in US dollar terms (change in percent)	1.2	-3.7	-9.3	4.0	16.1	1.6	1.5	1.7	1.7	1.6	2.0	1.7	2.0	2.0	2.0
Effective interest rate (percent) 5/	1.0	0.8	1.5	1.2	0.3	2.2	2.2	1.7	1.7	1.6	1.6	1.8	1.6	1.7	1.6
Growth of exports of G&S (US dollar terms, in percent)	1.5	-16.4	51.1	9.8	22.8	29.5	19.0	16.5	8.3	7.0	7.3	14.6	6.2	6.9	6.4
Growth of imports of G&S (US dollar terms, in percent)	9.6	-7.1	90.8	19.2	33.2	4.8	3.2	-8.5	23.4	0.7	2.1	4.3	4.8	1.4	4.8
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	32.2	29.5	26.8	30.6	29.4	29.2	29.6	28.3	23.3	25.8
Government revenues (excluding grants, in percent of GDP)	13.8	13.7	15.0			15.4	16.2	17.1	17.8	17.9	18.0		18.5	18.6	18.5
Aid flows (in Billions of US dollars) 7/	0.2	0.1	0.1			0.2	0.4	0.3	0.4	0.4	0.4		0.5	0.5	
of which: Grants	0.2	0.1	0.1			0.1	0.2	0.1	0.1	0.1	0.1		0.1	0.1	
of which: Concessional loans	0.0	0.0	0.0			0.1	0.2	0.2	0.3	0.3	0.3		0.4	0.4	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			2.4	4.8	3.1	2.7	2.1	1.9		1.4	0.6	1.2
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			51.3	40.9	38.8	42.7	47.5	43.2		40.3	30.3	36.1
Memorandum items:															
Nominal GDP (Billions of US dollars)	8.8	8.8	8.5			9.2	9.9	10.6	11.4	12.3	13.2		18.6	36.7	
Nominal dollar GDP growth	5.0	-0.3	-3.3			8.3	7.3	7.7	7.8	7.7	7.3	7.7	7.0	7.0	7.0
PV of PPG external debt (in Billions of US dollars)			1.3			1.4	2.0	2.5	2.8	3.1	3.3		4.6	6.1	
(PVt-PVt-1)/GDPt-1 (in percent)						0.8	6.9	4.8	3.2	2.0	1.9	3.3	1.2	0.1	1.0
Gross workers' remittances (Billions of US dollars)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of PPG external debt (in percent of GDP + remittances)	...	...	16.0			15.5	21.1	24.1	25.4	25.5	25.6		25.4	17.1	
PV of PPG external debt (in percent of exports + remittances)	...	...	54.9			44.5	54.6	57.7	60.5	61.1	61.4		63.7	45.0	
Debt service of PPG external debt (in percent of exports + remittanc	...	...	3.6			1.9	2.6	2.5	3.4	3.1	3.7		4.8	5.4	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. Projections include price and exchange rate changes.
It includes donors' financing expected to be mobilized during the program (US$ 40 million in 2018 by the World Bank and Euro 55 million over 2017-19 by the European Union).

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

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

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 3b. Guinea: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2017–37

(Percent)

	Projections							
	2017	2018	2019	2020	2021	2022	**2027**	2037
PV of debt-to GDP ratio								
Baseline	16	21	24	25	25	26	**25**	17
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	16	21	27	32	36	40	**51**	32
A2. New public sector loans on less favorable terms in 2017-2037 2	16	23	27	29	30	30	**32**	26
Weak policies	15	21	24	25	26	26	**27**	20
Frontloaded Disbursement	15	22	26	28	28	28	**27**	17
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	16	21	25	27	27	27	**27**	18
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	16	28	44	44	44	43	**36**	17
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	16	24	31	33	33	33	**33**	22
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	16	30	38	39	39	39	**33**	17
B5. Combination of B1-B4 using one-half standard deviation shocks	16	35	56	57	56	55	**44**	20
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	16	29	33	35	35	35	**35**	23
PV of debt-to-exports ratio								
Baseline	44	55	58	60	61	61	**64**	45
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	44	53	65	76	86	95	**129**	83
A2. New public sector loans on less favorable terms in 2017-2037 2	44	58	64	69	71	72	**81**	69
Weak policies	43	53	57	61	62	63	**68**	53
Frontloaded Disbursement	43	57	62	68	68	68	**67**	45
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	44	53	56	59	59	60	**62**	44
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	44	98	192	194	193	191	**165**	82
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	44	53	56	59	59	60	**62**	44
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	44	77	92	93	93	92	**82**	44
B5. Combination of B1-B4 using one-half standard deviation shocks	44	101	163	164	163	161	**135**	64
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	44	53	56	59	59	60	**62**	44
PV of debt-to-revenue ratio								
Baseline	101	130	141	143	142	142	**137**	92
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	101	127	159	180	201	221	**277**	170
A2. New public sector loans on less favorable terms in 2017-2037 2	101	139	157	163	165	168	**173**	140
Weak policies	98	128	140	143	144	145	**147**	108
Frontloaded Disbursement	98	135	153	160	158	157	**145**	93
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	101	131	148	150	149	149	**143**	96
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	101	171	257	250	245	242	**193**	91
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	101	146	184	186	185	185	**178**	119
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	101	184	225	220	217	214	**176**	91
B5. Combination of B1-B4 using one-half standard deviation shocks	101	216	330	320	313	308	**240**	109
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	101	179	195	197	196	196	**189**	126

Table 3b. Guinea: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2017–37 (continued)

	Projections							
	2017	2018	2019	2020	2021	2022	**2027**	2037
Debt service-to-exports ratio								
Baseline	2	3	3	3	3	4	**5**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	2	3	2	3	3	4	**8**	10
A2. New public sector loans on less favorable terms in 2017-2037 2	2	3	3	4	4	4	**6**	8
Weak policies	2	3	3	4	3	4	**5**	6
Frontloaded Disbursement	2	3	3	3	3	4	**5**	5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	2	3	3	3	3	4	**5**	5
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	2	4	5	8	7	8	**17**	10
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	2	3	3	3	3	4	**5**	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	2	3	3	4	4	4	**8**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	2	3	4	6	6	7	**14**	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	2	3	3	3	3	4	**5**	5
Debt service-to-revenue ratio								
Baseline	4	6	6	8	7	9	**10**	11
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	4	6	6	8	8	9	**16**	21
A2. New public sector loans on less favorable terms in 2017-2037 2	4	6	7	9	9	10	**14**	17
Weak policies	4	6	6	8	8	9	**11**	13
Frontloaded Disbursement	4	6	6	8	7	9	**10**	11
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	4	6	7	9	8	9	**11**	12
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	4	6	7	10	9	10	**20**	11
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	4	7	8	11	10	11	**14**	15
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	4	6	7	10	9	10	**17**	11
B5. Combination of B1-B4 using one-half standard deviation shocks	4	7	9	12	11	13	**25**	14
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	4	9	9	11	10	12	**15**	15
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	30	30	30	30	30	30	**30**	30

Sources: Country authorities; and staff estimates and projections.

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

Table 4a. Guinea: Public Sector Sustainability Framework, Baseline Scenario, 2013–37

(Percent of GDP, unless otherwise indicated)

	Actual						Estimate	Projections								
	2013	2014	2015	2016	Average 5/	Standard Deviation 5/	2017	2018	2019	2020	2021	2022	2017-22 Average	2027	2037	2023-37 Average
Public sector debt 1/	31.3	37.5	43.8	42.9			39.9	44.8	46.4	46.2	44.6	43.5		38.4	24.1	
of which: foreign-currency denominated	16.4	23.1	23.4	23.0			22.1	30.1	34.2	36.1	36.0	36.2		35.0	23.4	
Change in public sector debt	6.9	6.2	6.3	-0.9			-3.1	4.9	1.6	-0.2	-1.6	-1.1		-1.4	-1.5	
Identified debt-creating flows	1.5	2.0	6.2	-2.4			-3.7	-1.0	-1.5	-1.7	-1.7	-1.0		-1.2	-1.2	
Primary deficit	3.2	2.6	6.2	-0.7	1.9	3.6	-0.7	1.3	1.2	1.0	1.0	1.4	0.9	0.9	0.0	0.8
Revenue and grants	14.6	16.7	14.7	16.0			16.8	18.1	18.4	18.9	19.0	18.9		19.1	18.8	
of which: grants	0.9	2.8	1.0	1.0			1.3	1.9	1.3	1.1	1.1	0.9		0.6	0.2	
Primary (noninterest) expenditure	17.8	19.2	20.9	15.3			16.1	19.4	19.6	19.9	20.1	20.3		20.0	18.8	
Automatic debt dynamics	-1.7	-0.5	0.9	-1.7			-3.1	-2.3	-2.7	-2.8	-2.7	-2.4		-2.1	-1.3	
Contribution from interest rate/growth differential	-1.8	-1.0	-1.4	-4.9			-4.3	-3.5	-4.3	-4.5	-4.6	-4.3		-4.0	-2.6	
of which: contribution from average real interest rate	-0.9	0.2	-0.2	-2.1			-1.7	-1.4	-1.8	-1.9	-1.9	-2.1		-2.1	-1.4	
of which: contribution from real GDP growth	-0.9	-1.1	-1.3	-2.7			-2.7	-2.2	-2.5	-2.6	-2.6	-2.2		-1.9	-1.2	
Contribution from real exchange rate depreciation	0.1	0.5	2.4	3.1			1.3	1.2	1.6	1.8	1.8	1.9		...	...	
Other identified debt-creating flows	0.0	-0.1	-1.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	-0.1	-1.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	5.4	4.2	0.1	1.6			0.7	5.9	3.1	1.6	0.1	0.0		-0.2	-0.3	
Other Sustainability Indicators																
PV of public sector debt	...	...	...	36.8			33.3	35.8	36.3	35.6	34.0	32.9		28.7	17.8	
of which: foreign-currency denominated	...	...	...	16.9			15.5	21.1	24.1	25.4	25.5	25.6		25.4	17.1	
of which: external	...	...	...	16.0			15.5	21.1	24.1	25.4	25.5	25.6		25.4	17.1	
PV of contingent liabilities (not included in public sector debt)	...	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	4.5	52.2	9.9	3.3			3.0	4.2	4.1	3.9	3.8	3.8		3.1	2.1	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	...	230.6			198.8	197.3	197.8	188.5	178.7	174.5		150.6	95.0	
PV of public sector debt-to-revenue ratio (in percent)	...	...	...	245.2			215.9	220.6	212.9	200.1	190.0	183.0		155.3	96.0	
of which: external 3/	...	...	...	106.7			100.6	130.2	141.5	142.9	142.2	142.3		137.1	91.7	
Debt service-to-revenue and grants ratio (in percent) 4/	8.6	298.1	25.3	24.8			21.9	15.6	15.6	15.4	14.2	12.9		11.6	11.3	
Debt service-to-revenue ratio (in percent) 4/	9.2	358.5	27.2	26.3			23.7	17.5	16.8	16.4	15.1	13.6		11.9	11.4	
Primary deficit that stabilizes the debt-to-GDP ratio		-3.7	0.0	0.2			2.4	-3.6	-0.4	1.2	2.7	2.5		2.3	1.5	
Key macroeconomic and fiscal assumptions																
Real GDP growth (in percent)	3.9	3.7	3.5	6.6	4.3	2.4	6.7	5.8	5.9	6.0	6.0	5.2	5.9	5.0	5.0	5.0
Average nominal interest rate on forex debt (in percent)	0.9	1.0	0.7	1.4	1.2	0.4	2.1	2.2	1.7	1.7	1.6	1.6	1.8	1.6	1.7	1.6
Average real interest rate on domestic debt (in percent)	0.6	3.0	2.0	-3.7	-0.6	5.4	-2.7	-1.7	-1.5	-1.0	-1.0	-1.3	-1.5	-1.4	-0.6	-1.1
Real exchange rate depreciation (in percent, + indicates depreciation)	0.5	3.2	10.7	15.3	6.1	15.2	6.2	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	7.9	2.8	2.8	8.5	8.8	5.5	7.8	7.7	7.8	7.6	7.5	7.9	7.7	8.0	8.0	8.0
Growth of real primary spending (deflated by GDP deflator, in percent)	0.0	12.0	12.8	-22.3	0.4	9.5	12.5	27.7	6.7	7.6	7.0	6.1	11.3	3.5	4.0	4.4
Grant element of new external borrowing (in percent)	...	...	...	...	...	...	32.2	29.5	26.8	30.6	29.4	29.2	29.6	28.3	23.3	...

Sources: Country authorities; and staff estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

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

3/ Revenues excluding grants.

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

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

Table 4b. Guinea: Sensitivity Analysis for Key Indicators of Public Debt 2017–37
(Percent)

	Projections							
	2017	2018	2019	2020	2021	2022	2027	2037
PV of Debt-to-GDP Ratio								
Baseline	33	36	36	36	34	33	29	18
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	33	37	38	39	38	37	35	32
A2. Primary balance is unchanged from 2017	33	34	34	32	29	27	17	4
A3. Permanently lower GDP growth 1/	33	36	37	36	35	35	33	31
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-20	33	38	41	41	40	40	39	33
B2. Primary balance is at historical average minus one standard deviations in 2018-201	33	39	42	41	39	38	33	20
B3. Combination of B1-B2 using one half standard deviation shocks	33	38	41	41	40	40	38	29
B4. One-time 30 percent real depreciation in 2018	33	41	41	40	38	37	33	24
B5. 10 percent of GDP increase in other debt-creating flows in 2018	33	42	43	42	40	39	34	21
PV of Debt-to-Revenue Ratio 2/								
Baseline	199	197	198	188	179	175	151	95
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	199	202	208	204	199	198	185	168
A2. Primary balance is unchanged from 2017	199	190	184	169	154	143	91	21
A3. Permanently lower GDP growth 1/	199	198	200	193	185	183	174	164
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-20	199	206	219	214	208	209	204	176
B2. Primary balance is at historical average minus one standard deviations in 2018-201	199	213	228	217	206	202	173	108
B3. Combination of B1-B2 using one half standard deviation shocks	199	211	225	218	210	209	197	156
B4. One-time 30 percent real depreciation in 2018	199	228	224	211	200	196	176	130
B5. 10 percent of GDP increase in other debt-creating flows in 2018	199	234	233	222	211	206	176	110
Debt Service-to-Revenue Ratio 2/								
Baseline	22	16	16	15	14	13	12	11
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	22	16	16	16	15	14	14	16
A2. Primary balance is unchanged from 2017	22	16	15	15	14	12	9	5
A3. Permanently lower GDP growth 1/	22	16	16	16	15	13	13	16
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-20	22	16	17	17	16	14	14	17
B2. Primary balance is at historical average minus one standard deviations in 2018-201	22	16	16	16	15	13	14	12
B3. Combination of B1-B2 using one half standard deviation shocks	22	16	17	17	15	14	14	16
B4. One-time 30 percent real depreciation in 2018	22	17	18	19	18	17	17	19
B5. 10 percent of GDP increase in other debt-creating flows in 2018	22	16	16	16	15	14	15	12

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

Statement by Daouda Sembene, Executive Director for Guinea and Marcellin Alle Senor Advisor to Executive Director

December 11, 2017

The Guinean authorities are thankful to the Board, Management and Staff for enabling the Fund's invaluable support under the recent ECF arrangement. This arrangement—the first-ever to be brought to a successful end by Guinea—was instrumental in helping the country advance key macroeconomic and structural reforms and strengthening the recovery from the Ebola pandemic. The authorities appreciate the constructive policy dialogue held with staff during the course of program negotiations and they broadly share the thrust of staff assessment and recommendations.

Guinea's new program aims to provide a framework for supporting the authorities' efforts to consolidate the important gains achieved under the first ECF arrangement, facilitate structural transformation and diversification of the economy, and promote good governance, foster higher and more inclusive growth and reduce poverty in line with the new National Social and Economic Development Plan (PNDES) for 2016–20. On November 16–17, the authorities convened a Consultative Group to mobilize public and private financing for the implementation of the PNDES. The favorable outcome of the event bodes well for the successful execution of the authorities' development agenda.

RECENT DEVELOPMENTS AND OUTLOOK

The Guinean economy has performed well in recent years. After being hit by a series of shocks that constrained average GDP growth below 2 percent during 2012–15, the economy rebounded and growth is estimated to pick up at 6.6 percent in 2016. The main drivers of this strong growth performance were mining production, construction, agriculture, paired with an improved electricity provision to the whole economy.

Thanks to the authorities' prudent macroeconomic policies and tax reforms, the country has continued to post positive fiscal balances since 2016, recording an estimated 0.9 percent surplus in the first half of 2017. The dynamism in economic activity was also accompanied by a broadly stable environment, with inflation contained at 8.2 percent (y-o-y) on average in 2016. The external position was characterized by a widening of the current account deficit resulting from a strong pick-up in investment-related imports, mainly in the mining sector. International reserves stood at 2.5 months of imports at end-September 2017. The financial sector needs further improvements and the authorities are committed to stepping up efforts in this regard. Subscription to government bonds compounded by rising NPLs has thus far crowed out credit to private sector.

The authorities share staff positive assessment of the economic outlook. Growth is projected to remain strong, reaching 6.7 percent in 2017 and average 6 percent over the medium term. A combination of the large FDI flows in the mining sector and the scaling-up of infrastructure investment with the authorities' planned reforms should back the growth momentum. External imbalances are expected to gradually narrow as stronger mining, agricultural exports and increased repatriated profits help balance FDI-related imports. Yet, the authorities are fully aware of the downside risks and stand ready to take the appropriate measures should they materialize. In particular, they will endeavor to maintain sociopolitical stability through democratic and peaceful elections in 2018 onward.

PROGRAM OBJECTIVES AND KEY POLICIES

To achieve the program objectives mentioned above, Staff and the authorities have agreed on a set of key policies for the period. These policies aim to help sustain macroeconomic stability, scale up growth-enhancing public investment while preserving debt sustainability and step up structural reforms to promote broad-based growth.

Enhancing macroeconomic stability

Maintaining macroeconomic stability ranks high on the authorities' agenda. They are determined to preserve the hard-won results of the previous ECF arrangement, create fiscal space for investment and ensure debt sustainability going forward. To this end, fiscal policy will be geared on increasing domestic revenue mobilization while containing non-priority spending. The fiscal anchor will be a basic fiscal surplus of 0.6 percent in 2017 and an average basic surplus of 0.9 percent over 2018–20. To further the continuous improvement in revenue performance, tax policy and administration reforms coupled with sustained growth and buoyant mining activity are expected to increase tax revenue by about 3 percent under the program. With IMF technical assistance, an action plan for a targeted tax policy and administration reform will be adopted with the aim at widening the tax base, simplifying the tax regime, and strengthening tax collection and controls.

Specific tax policy measures envisaged include rationalizing tax exemptions, reviewing corporate income taxes, facilitating electronic payments, and streamlining excises. The tax administration will also be improved through a number of measures, including the separation of management and operations within the National Directorate for Taxes, stricter controls over the tax base, improved taxpayers' identification, introduction of on-line tax declarations and payments; and modernization of tax administration.

The authorities will take additional revenue-enhancing measures. In this vein, the automatic price adjustment mechanism for petroleum products is scheduled to be implemented by March 2018. The authorities have previously conducted missions in peer countries to garner experience, and they intend to precede the reform with communication campaigns, consensus building with social partners, and measures to protect vulnerable households. Likewise, the authorities will take steps to enforce the new mining code and the new legislation on state-owned enterprises.

On the spending side, many reform measures aim to phase out untargeted electricity subsidies and contain the wage bill. Untargeted electricity subsidies will be reduced by bringing electricity tariffs closer to cost recovery on the one hand and improving the electricity company, EDG's efficiency on the other.

The authorities' fiscal strategy also emphasizes the importance of strengthening public financial management. In this regard, key actions are planned to strengthen the medium-term budget framework (MBT) for a better monitoring of public expenditure, especially public investment. They include "(i) implementing the new budget nomenclature for the execution of the 2018 budget; (ii) establishing a top-down budgetary approach by setting MBT targets in line with the program targets; and (iii) modernizing the information system for the preparation and execution of the budget."

As regards monetary and exchange rate policies, they will aim at preserving moderate inflation while ensuring private sector credit growth and at building comfortable external buffers respectively. The central bank, BCRG, has planned a set of measures to boost liquidity and ensure that activity is well supported by bank lending. More specifically, it will address impediments to the well-functioning interbank market. As well, the authorities are committed to work on a comprehensive approach to address the high concentration of credit. In particular, the establishment by end-2017 of a new credit information system aimed at providing better data on the creditworthiness of costumers is expected to enlarge the lending base and boost credit.

The authorities will step up their effort to ensure greater exchange rate flexibility. Following the recent gains from the reform of the exchange rate mechanism, further steps are envisaged with the support from Fund TA. Measures are also underway to further strengthen the BCRG's autonomy, transparency and accountability. Following the recent publication of the amended BCRG law, next steps include the signing of a memorandum of understanding between the BCRG and the Ministry of Economy and Finance, specifying the modalities and timetable for recapitalizing the BCRG. These are important steps to strengthen the BCRG's capacity for further improving monetary and exchange rate policies and banking supervision.

Scaling up growth-enhancing investment while preserving debt sustainability

Scaling up public investment especially in infrastructure to lay the ground for broad-based growth is of the utmost importance for our authorities. The infrastructure gap, from electricity to roads, has been for long a binding constraint to growth and the authorities are committed to address it as a prerequisite of their development agenda. Yet, they are mindful of the potential impact of such scaling up of infrastructure investment on debt, and they are committed to prioritize financing options which preserve medium-term debt sustainability.

The authorities are committed to taking the necessary measures needed to strengthen public investment management and ensure the value for money. In this regard, they will pursue their efforts to complete feasibility studies for the priority infrastructure projects. The management framework will be strengthened for ensuring transparency through competitive bidding for public investment projects, and for better monitoring and coordination. The authorities will also explore Fund TA for conducting a Public Investment Management Assessment (PIMA). A new PPP law has also been adopted in early July with the view to seek the private sector's contribution in implementing projects envisaged in the PNDES. In completing the legal framework, the authorities will emulate best practices, especially for monitoring and minimizing potential contingent liabilities.

The authorities have set a priority on maintaining debt sustainability in their public investment strategy. In this vein, their borrowing strategy emphasizes concessional resources.

The current envelope of non-concessional loans to finance key growth-enhancing investments has factored in the need to preserve Guinea's moderate risk of debt distress. Going forward, the authorities are committed to further improving debt sustainability including by tapping Fund TA to enhance their debt management capacity.

Stepping up other structural reforms

The authorities have planned to advance structural reforms in other areas to support private sector-led and inclusive growth. Improving the business climate with non-infrastructure measures is important in that regard. An action plan will be developed accordingly, by March 2018, with key measures aiming at: (i) easing procedures to start a business; (ii) introducing a business identification number and online tax declarations to facilitate paying taxes; (iii) strengthening the credit information system to improve access to credit for SMEs; (iv) establishing a one-stop-shop to facilitate trade; and (v) developing a framework for the dialogue between the private sector and the government.

Strengthening governance is of utmost importance to the authorities' strategy to boost private sector-led growth. Among their actions in this regard, they intend to strengthen the enforcement of the rule of law, the judicial system and the overall anti-corruption framework. They have adopted a new anti-corruption law which will be supplemented with measures aimed criminalizing all acts of corruption and publicizing asset declarations by high-officials. The AML/CFT regime is also being further strengthened.

Promoting financial inclusion to improve access to credit is also on the authorities' agenda. They have adopted a new Financial Inclusion Act in July 2017 aimed at providing a framework for microfinance institutions and improving access to credit for SMEs, women and the youth. Furthermore, the authorities have emphasized using savings from cutting non-priority spending to strengthen social safety nets programs and invest in poverty reduction.

CONCLUSION

Guinea has demonstrated strong resilience in successfully implementing the first ECF-supported program amid daunting challenges. The economy has rebounded strongly on the back of the dynamism in traditional sectors, mainly mining and agriculture, and the authorities' reform efforts in many areas. Going forward, sustaining the growth momentum will require keeping the pace of macroeconomic and structural reforms. The policy package agreed upon by Staff and the authorities form an adequate program aimed at enhancing macroeconomic resilience, scaling up public investment while preserving debt sustainability, and strengthening social safety nets for fostering sustained and inclusive growth.

A successor ECF arrangement will provide the appropriate anchor to help achieve the authorities' policy objectives. It will also be instrumental in mobilizing the external partners for a successful implementation of the authorities' PNDES for 2016–20. In view of the strong reform agenda and the authorities' strong commitment to the objectives of the program, we would appreciate Directors' support to their requests for an ECF arrangement.