August 2011
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Guinea—Staff-Monitored Program

In the context of the Staff-Monitored Program, the following documents have been released and are included in this package:

- The staff report for the Staff-Monitored Program, prepared by a staff team of the IMF, following discussions that ended on June 16, 2011, with the officials of Guinea on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 30, 2011. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

The documents listed below have been 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

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

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INTERNATIONAL MONETARY FUND

GUINEA

Staff-Monitored Program

Prepared by the African Department
(In consultation with other departments)

Approved by
Doris Ross and Jan Kees Martijn

June 30, 2011

Background: Mr. Alpha Condé was elected President in November 2010 in Guinea's first free elections since independence in 1958. The new government inherited an economy in crisis, with budgetary discipline having evaporated. Political instability and weak governance have long impeded exploitation of Guinea's rich natural resources; it remains among the poorest countries in the world.

Fund relations: The last Article IV consultation was concluded on December 21, 2007, at which time the Fund also approved a three-year PRGF arrangement. The first program review was completed in July 2008, but the program drifted off track in the wake of a military coup in December 2008. The Fund withdrew its recognition of the military government in September 2009; full relations were restored in January 2011, following the lead of the Fund's membership.

SMP: The authorities are requesting staff monitoring of their economic program for 2011 through end-year. The program seeks to restore macroeconomic stability as an initial step in laying the basis for sustained growth over the medium term. The authorities have requested staff monitoring of the program to build a strong track record of program implementation ahead of a request for a Fund arrangement under the Extended Credit Facility.

Exchange rate regime: Guinea maintains a managed float system with no predetermined path; the de facto arrangement is classified as "other managed arrangement". The system includes a multiple currency practice as the value of the official rate lags the weighted average commercial bank rate on which it is based by one day. Guinea has accepted the obligations under Article VIII, sections 2, 3 and 4 of the IMF's Articles of Agreement.

Missions: Discussions on the program took place in Conakry (February 3–22 and March 22–April 3) and Lisbon and Conakry (June 6–16). Staff met with President Condé, Prime Minister Fofana, the President of the Interim Parliament Ms. Diallo, Minister of Economy and Finance Yansané, Minister of Planning Cissé, Governor of the Central Bank of Guinea Nabé, Deputy-Minister of Budget Diaré, other senior officials, and representatives of the donor community. The mission teams included Messrs. Snoek (Head), Camard, Razafimahefa, Orav, and Ncuti (all AFR) and Mr. Dicks-Mireaux (SPR).

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Abbreviations and Acronyms

AfDB	African Development Bank
AFRITAC	African Technical Assistance Center
BCRG	Central Bank of the Republic of Guinea
CPI	Consumer Price Index
DPO	Development Policy Operation
ECF	Extended Credit Facility
EIB	European Investment Bank
EITI	Extractive Industries Transparency Initiative
FDI	Foreign Direct Investment
FIN	Finance Department
FOB	Free on Board
GDP	Gross Domestic Product
GNF	Guinea Franc
HIPC	Heavily Indebted Poor Countries
MCM	Monetary and Capital Markets Department
MEFP	Memorandum of Economic and Financial Policies
MEF	Ministry of Economy and Finance
MOU	Memorandum of Understanding
PFM	Public Financial Management
PRS	Poverty Reduction Strategy
RCF	Rapid Credit Facility
RT	Rio Tinto
SDR	Special Drawing Rights
SMP	Staff Monitored Program
TMU	Technical Memorandum of Understanding
UNDP	United Nations Development Program

EXECUTIVE SUMMARY

Guinea is emerging from a prolonged period of political crisis. After several years of intermittent civil unrest and a two year military regime (2009–10), Mr. Alpha Condé won a hotly contested presidential election (the first free elections since independence in 1958). The population's expectations for a rapid improvement in living conditions from the change in the political environment are high.

Economic growth stagnated and serious economic imbalances developed during 2009–10. A loss of fiscal control and unchecked spending, especially for the military, led to a rapid expansion of the budget deficit to over one percent of GDP per month. This was financed by money creation and the accumulation of external arrears. Inflation increased rapidly, the exchange rate depreciated sharply, and a sizeable liquidity overhang was created. The central bank's lack of international reserves led to the accumulation of external debt service arrears to all groups of creditors; arrears to the World Bank were cleared in April 2011.

The new government has moved quickly and decisively to stabilize the economy. Policies aim to achieve a major fiscal adjustment—11 percent of GDP—by restoring fiscal control and reining in excessive spending. This will permit a sharp reduction in bank financing and monetary growth to support a reduction in inflation and stabilization of the exchange rate.

Reliance on external financing to fund the budget deficit is extensive. Budget support from multilateral sources should cover the basic balance deficit in 2011 without recourse to non-concessional borrowing. In addition, the authorities intend to request creditors to defer debt service falling due and clearance of arrears until they can be addressed in the context of the HIPC Initiative.

Monetary and foreign exchange policy measures seek to absorb the large pool of excess liquidity and unify segmented foreign exchange markets. The reserve requirement and the central bank interest rate have been raised and the official exchange rate has been aligned with market rates.

The authorities' immediate priorities for structural reform are the mining sector and public utilities. A new mining code is being prepared and reform plans for the utility sector are being updated.

The government attaches high priority to attaining the completion point under the HIPC Initiative as soon as possible and intends to request an ECF-supported program later in the year. A strong track record of performance under the staff-monitored program would provide the basis for discussions on such a program.

I. Background and Recent Developments

1. **Guinea is emerging from a prolonged period of political crisis**. After several years of intermittent civil unrest and a two year military regime (2009–10), Mr. Alpha Condé won the first free elections since independence in 1958 against the backdrop of a tense security situation. His inauguration as President on December 21, 2010 completed the first phase of the process toward restoring constitutional order, which will be concluded by parliamentary elections expected by November 2011. The population's expectations for a rapid improvement in living conditions from the change in the political environment are high. However, the new government will have to first tackle serious macroeconomic imbalances, while starting work on deeply-entrenched sources of past political instability, especially through security sector reform, and on strengthening governance and technical capacity.

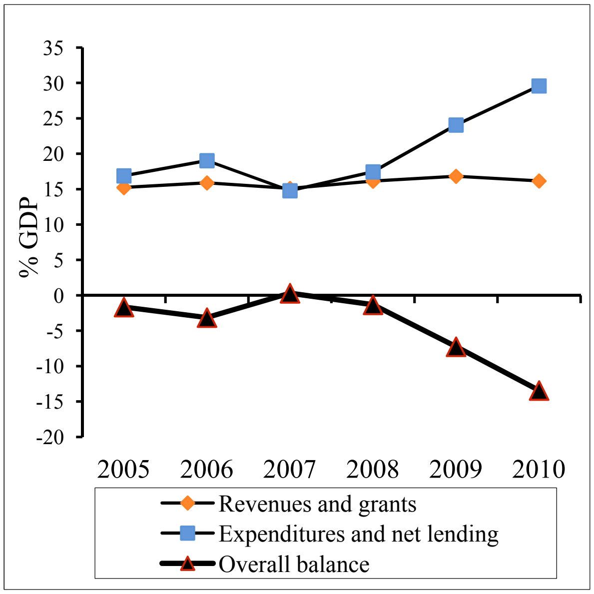
2. **The new government inherited a very difficult economic situation (Figure 1)**. GDP growth averaged less than 1 percent per year during 2009–10, reflecting the impact of the international economic crisis on Guinea's mineral exports (accounting for over 90 percent of all exports) and the deteriorating political situation. However, the main source of serious imbalances was the fiscal sector. The military government abandoned fiscal control in mid-2009, and attempts by the interim government, nominated in January 2010, to restore control were short lived. Government expenditure doubled, driven by a tripling of military expenditure to almost 10 percent of GDP. In an agreement with trade unions, public sector wages were increased by 50 percent in 2010; the agreement also included a sharp upward adjustment in fuel prices. Public procurement procedures were largely circumvented and the government concluded new (multiannual) contracts for goods and services and investment projects totaling 40 percent of GDP during this period (Box 1). Consequently, compared with an overall budget deficit of slightly over 1 percent of GDP for 2008, by 2010 the deficit exceeded 1 percent of GDP per month.

3. **The government's financing needs were mainly met by domestic bank financing**. Net credit to the government tripled during 2009–10. In particular, advances by the central bank (*Banque Centrale de la République de Guinée* (BCRG)) to the government increased in terms of GDP from 0.2 percent in 2008 to 6 percent in 2009 and to 11 percent in 2010. Consequently, broad money more than doubled.

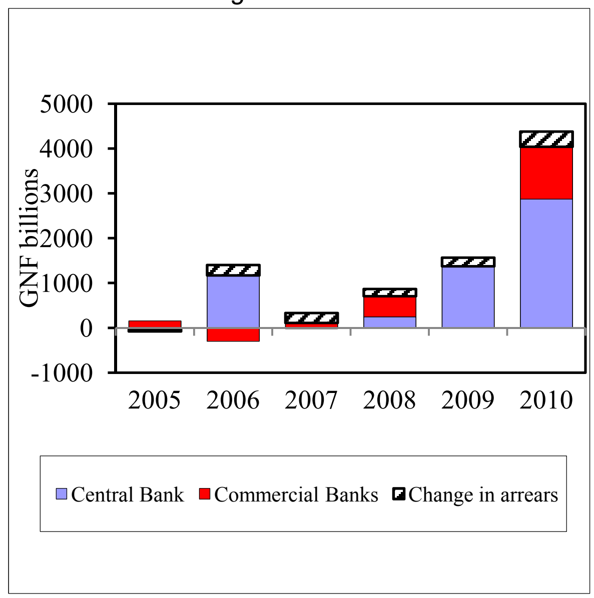
4. **The excessive growth in broad money contributed to a rapid depreciation of the Guinea franc (GNF) and a surge in inflation**. Guinea's low level of international reserves allowed little scope to support the exchange rate. When pressure from the monetary expansion mounted in the second half of 2009, the market exchange rate depreciated, losing more than 35 percent of its value against the U.S. dollar over 2009–10; at the same time, the BCRG stopped adjusting the official rate, which previously had been set as the weighted average of the rates applied by the commercial banks. The depreciation of the market rate drove up the cost of imported food and fuel, together accounting for roughly 40 percent of non-mining imports. As a result, inflation rose from an annual rate of 8 percent at end-2009 to 21 percent by end-2010.

Figure 1. Macroeconomic Developments, 2009 to mid-2011

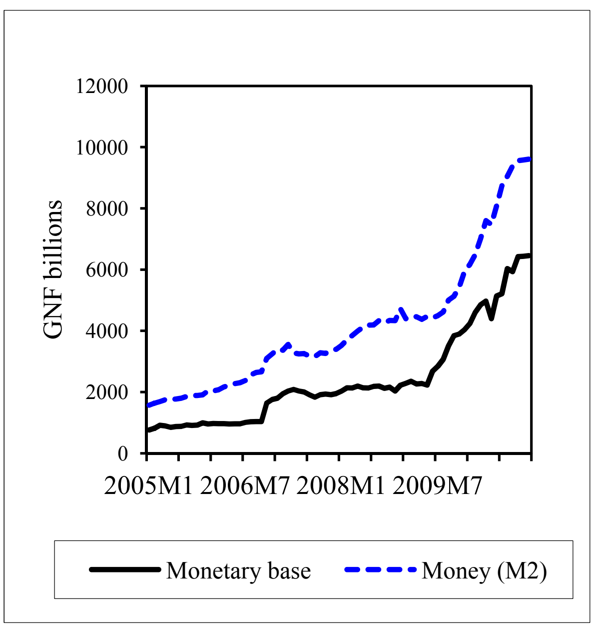
Fiscal expenditures accelerated in 2009-10…



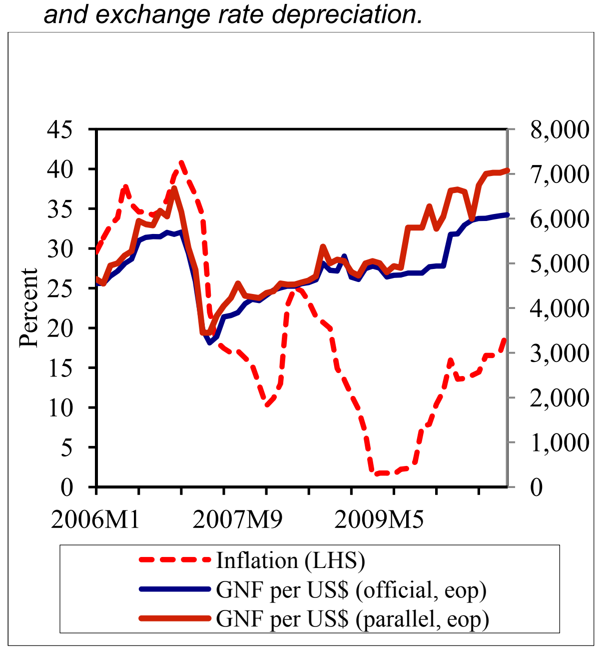
…resulting in deficits covered by bank financing and arrears…



…leading to a large increase in broad money..



…and a pickup in inflation and exchange rate depreciation.



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

Box 1. Government Procurement Contracts, 2009–10

During 2009–10, the government entered into procurement contracts amounting to GNF 13 trillion (equivalent to almost $2 billion or 40 percent of GDP). Most contracts spanned 2–3 years and about 40 percent (in value terms) was for the military.

With assistance from the World Bank, the new government completed an initial review of the contracts in February 2011. The review concluded that: (i) all contracts had been awarded on a single source basis; (ii) in many cases, the projects appeared to be largely overpriced with large advance payments and risks disproportionally shifted to the government; and (iii) on-site inspection revealed most projects to be behind schedule, weakly supervised, and of poor quality.

Following the review, the government froze all projects and suspended payments until the completion of a full audit. They have been cut from the budget, which instead includes a provision of nearly 1 percent of GDP for possible costs associated with winding down or restarting projects.

5. **The use of central bank advances avoided the accumulation of domestic payment arrears but the BCRG's low level of foreign reserves led to new external arrears amounting to about $376 million by end-2010 (8 percent of GDP)**. Reflecting the long delay in attaining the completion point under the enhanced Heavily Indebted Poor Countries Initiative (HIPC Initiative)—following the decision point in 2000—interim debt relief has been exhausted and rescheduling agreements for 2009–10 did not come into force with the lapse of the PRGF arrangement. While some external creditors that continued to disburse were paid in 2010, the government continued to incur arrears to others, including to the World Bank, the largest creditor.

6. **Provisional data indicate that most poverty indicators deteriorated during 2009–10**. Implementation of the 2007–10 Poverty Reduction Strategy came to a halt as expenditure was largely diverted to the military. Low economic growth and rising inflation also contributed to an estimated increase in the poverty rate from 54 percent in 2007 to 58 percent in 2010.

II. The Staff-Monitored Program (SMP) for 2011

7. **The main objective of the government's economic program for 2011 is to stabilize the economy**. The main target is to contain inflation to below the 2010 level of 21 percent by sharply reducing the fiscal deficit, supported by tight monetary policies (Memorandum on Economic and Financial Policies (MEFP), Attachment I to Annex I). To this end, the basic fiscal balance[1] is targeted to decline from 13 percent of GDP in 2010 to

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

2 percent in 2011. The government intends to refrain from central bank financing and to rebuild international reserves. The authorities attach high priority to attaining the completion point under the HIPC Initiative as soon as possible. Thus, a key objective of the authorities is for the SMP to build a track record to support a request for an arrangement under the Extended Credit Facility (ECF) later in 2011.

8. **The thrust of the policies under the SMP was in place at the start of 2011**. After earlier information exchanges, discussions on a program started immediately after the official resumption of relations with Guinea in late January, and by end-February most elements were in place and performance has since been closely monitored by the staff. Initially, it was intended that the economic policies agreed with the authorities would provide the basis for financial support to Guinea under the Rapid Credit Facility (RCF). In the event, a large cash payment from mining company Rio Tinto to the government in early May, which had not been anticipated, and the resulting large jump in international reserves eliminated the urgent balance of payments need and thus the justification for a disbursement under the RCF. Instead, the authorities requested that their economic program be monitored by the staff. This required some adjustments to the program and delayed concluding the program discussions.

A. Fiscal Policy

9. **Key elements of the 2011 budget are a sharp reduction in expenditure and restoring fiscal control**. The budget was approved by the interim parliament on May 30. The revenue to GDP ratio is being increased in 2011, but the bulk of the adjustment comes from the expenditure side (Text Table 1). As a result, the basic balance deficit is projected to be sharply reduced from almost 13 percent of GDP in 2010 to 2 percent in 2011. Financing is expected to come from domestic sources and approved budget support from the World Bank and the African Development Bank (AfDB). However, external debt service and arrears clearance operations impose a heavy burden —some 8 percent of GDP—and the government is requesting creditors to assist it in finding solutions in the context of a possible future ECF arrangement and the HIPC Initiative.

Text Table 1. Guinea: Summary Fiscal Operations of the Central Government
2010-11
(In percent of GDP)

	2010 Actual	2011 Program	Change
Revenue	15.6	17.2	1.6
Primary current expenditure	18.8	14.6	-4.2
Wages and salaries	5.8	6.2	0.4
Goods and services	9.5	4.9	-4.7
Subsidies and transfers	3.5	3.5	0.0
Interest on domestic debt	1.3	0.9	-0.4
Domestically-financed capital expenditure	8.2	3.6	-4.6
Total domestically-financed expenditure	28.4	19.2	-9.2
Basic balance	-12.8	-2.0	10.8

Source: Guinean authorities.

10. **Revenue measures aim to reverse slippages in implementing existing policies and in collection efforts (MEFP ¶8)**.

a. *The main measure is the reapplication of the automatic mechanism to adjust fuel prices to changes in import costs* (Box 2). Adjustments have lagged rising import costs in recent years, resulting in a gap of some 30 percent between actual and calculated pump prices, and a potential revenue loss of about 0.25 percent of GDP per month in 2011. The authorities considered that the fragile political and social situation precluded a rapid adjustment early in the year and required time to review the pricing formula. Nevertheless, owing to mounting tax losses and a rapidly rising import bill due to smuggling to neighboring countries, the authorities intend to eliminate the gap and reapply the automatic adjustment mechanism in the third quarter of the year. The budget includes a provision for possible offsetting measures for those most vulnerable to the adjustment.

b. *The authorities are strengthening control over autonomous government agencies,* to ensure that they forward taxes and fees they collect and owe to the Treasury. To this end, the interim parliament adopted a law on the treasury single account in March 2011, which will facilitate Treasury monitoring of the accounts of these agencies. An inventory of all such accounts is under way, following which they will be centralized at the BCRG.

c. *Other important measures under way include the elimination of ad-hoc tax exemptions (mainly customs) and intensifying efforts to collect income tax arrears*.

Box 2. Arrangements for Adjusting Fuel Prices

A 2006 decree established a formula for setting domestic fuel prices:

- The domestic price was to be set equal to cost plus a markup ("retail cost"), and to be based on the following: the import price (FOB) in U.S. dollars; additions for cost, insurance, and freight; the market exchange rate; fixed (in GNF) margins for wholesale and retail traders; and taxes and custom duties; and
- The domestic price would be adjusted on a monthly basis whenever it diverged from retail cost by more than five percent.

Initially, gains or losses arising from the difference between the pump price and retail costs were lodged in an *arrondi* account as contingent assets or liabilities of the government. The expectation was that accrued losses and gains would cancel out over time. However, the required adjustment in domestic prices was not always implemented and domestic prices lagged market conditions. The government failed to regularly settle the resulting liability, resulting in a weakening of the financial situation of the oil companies and jeopardizing the supply of fuel. Beginning in early-2007, the government decided to absorb the shortfall between retail costs and pump prices by adjusting tax and custom duty collections.

11. **On April 22, 2011, the government and Rio Tinto reached agreement on a long-standing dispute over an iron ore concession, resulting in a payment by Rio Tinto of $700 million (15 percent of GDP; Box 3).**[2] The authorities recognize the challenges of efficiently and effectively spending a large one-off windfall and have requested the assistance of the IMF and the World Bank to establish a special fund to manage these resources over the medium term (MEFP ¶11). Given the serious fiscal situation, up to $100 million may be used to reduce the 2011 budget's use of domestic bank financing. Pending further discussions in the second half of the year on the management of these resources, the remainder of the windfall, which is kept in an account held by the central bank, will not be used. The agreement also allows the government to take a considerable stake in the mining project and related transportation infrastructure, which, if taken up, could lead to large investment obligations.

Box 3. The Rio Tinto Agreement

Rio Tinto (RT) announced the signing of an agreement with the government of Guinea regarding the southern concession of Simandou (Blocks 3 and 4) on April 22, 2011. The authorities have confirmed the agreement, which includes the intention to start production in 2015, but have provided scant detail on its contents; most information comes from RT's press release on the agreement. According to RT, "In recognition of the resolution of all outstanding issues and finalization of new investment agreement terms, RT's subsidiary Simfer will pay $700 million to the Guinea Public Treasury upon promulgation of presidential decrees granting its mining concession and the approval of the proposed Chinese mining company, Chalco, and Rio Tinto Simandou joint venture." [1/] In return:

- The government has the right to take a total stake of up to 35 percent in the project, including 15 percent at no cost. At the time of the signing of the presidential decrees, the government can acquire 7.5 percent noncontributing; and 10 percent contributing (at historic cost) stakes. Additional stakes can be bought at five-year intervals.
- The tax regime includes (i) an income tax holiday of eight years starting from the year of the first taxable profit, a 30 percent income tax rate thereafter;
  (ii) royalties of 3.5 percent FOB for all exported ore; (iii) exemption from withholding tax on dividends; and (iv) exemption from VAT and customs duty for imported goods for construction and maintenance. This regime will apply for the duration of the project.
- The government and the other Simfer partners will set up an infrastructure company to construct a railway to the coast and a port in which the government will hold a 51 percent share. The railway will be available for passenger and freight trains and be operated by Simfer.

The authorities confirmed receipt of the $700 million payment on May 4, 2011. The amount is held in a separate account of the Central Bank of Guinea with a foreign correspondent bank, pending advice from the IMF and other partners on its use.

1/ The new joint venture will hold RT's 95 percent stake in Simfer; the remaining 5 percent is held by the IFC. Chalco will acquire a 47 percent interest in the new joint venture.

[2] The payment is included under nonbank domestic financing in the 2011 fiscal accounts.

12. **The budget's expenditure policy (MEFP ¶12) is to eliminate as much as possible the excesses of the last two years, while addressing some of the population's most urgent needs**. Expenditures for the 2009–10 procurement contracts were suspended early in 2011. Allocations for goods and services were scaled back to roughly the same level in GDP terms as in 2008, the year before the start of the military regime. The same adjustment has been applied to subsidies and transfers and capital expenditure, although some hold-overs from 2009–10 remain: subsidies include an amount for the military of about 1 percent of GDP, which will be addressed in the context of a security sector reform. Also, capital expenditures include a provision, equal to about 1 percent of GDP, for possible costs associated with unwinding the suspended 2009–10 procurement contracts. New expenditure allocations in the context of the government's Priority Action Plan amount to about 3 percent of GDP (MEFP ¶14). The focus of this plan is restoring critical infrastructure and promoting agriculture with an emphasis on creating employment opportunities for youth and women, as articulated under Guinea's updated Poverty Reduction Strategy. To alleviate the impact of rising international food prices, the Action Plan includes measures to facilitate imports of rice and agricultural inputs.

Text Table 2. Guinea: Developments in Domestically-financed Expenditures, 2008-11
(In percent of GDP)

	2008 Actual	2009 Actual	2010 Actual	2011 Program
Wages and salaries	4.1	5.1	5.8	6.2
Goods and services	4.8	6.2	9.5	4.9
Subsidies and transfers	1.9	3.3	3.5	3.5
Interest on domestic debt	1.3	1.5	1.3	0.9
Domestically-financed capital expenditure	1.9	5.8	8.2	3.6
Memorandum item:				
Military expenditures	2.3	5.8	10.3	3.8

Source: Guinean authorities.

13. **The program also includes measures to start addressing the rapid increase in the wage bill in recent years**. The size of the civil service has almost doubled since 2006, and the military has also grown substantially. In the short run, the government: (i) does not anticipate a general wage increase for the civil service following last year's large raise (the increase in the salary bill from 2010 to 2011 mainly reflects the full-year impact of the 2010 wage increases); and (ii) is implementing a freeze on civil service hiring, except for education, health and justice. It is intended that hiring in those sectors will be offset by cleaning the payroll of ghosts and duplicates as a result of ongoing work to reconcile the databases of the Ministry of the Civil Service and the MEF (MEFP ¶13). Preparations are underway to complete a biometric census of the civil service and the military by end-2011, which is expected to form the basis for a medium-term civil service reform program (MEFP ¶17).

14. **The efforts to reduce expenditure are supported by measures to reassert fiscal control, including cash-based expenditure management (MEFP ¶16)**. The latter will be guided by the Treasury Committee, chaired by the Prime Minister, which was reinstated in January and approves monthly treasury plans. This is supported by other regulations to strengthen fiscal control, including re-enforcing the implementation of the procurement regulations, which now again cover military procurement (MEFP ¶18). With the assistance of development partners, the government has also restarted the broader reform of public financial management (PFM), based on the 2008 Strategy of Public Financial Management Reform (MEFP ¶19).

15. **The SMP's fiscal policies have shown encouraging results during the first four months of 2011**. Provisional data indicate that the SMP revenue targets were achieved, as lower tax revenue was offset by higher non-tax revenue stemming from the review of contracts in the port and mobile telephone sectors. Cash-based expenditure management was effective and expenditure was less than planned, also reflecting strict enforcement of procurement regulations which slowed the pace of approval of capital projects. Consequently, the government reduced its stock of credit from the banking sector by 0.5 percent of GDP.

B. Monetary and Exchange Rate Policy

16. **Monetary policy aims to limit monetary expansion so as to reduce pressures on inflation and the exchange rate of the liquidity overhang (MEFP ¶20)**. Given the weak transmission mechanism of indirect monetary instruments, which reflects Guinea's underdeveloped financial system, policy intervention is focused on limiting monetary growth with reserve money as the monetary anchor. Domestic government financing and foreign exchange intervention are the main factors affecting money growth. Hence, the program's limit on bank financing of the government and the floor on net international reserves are designed to contain monetary growth while safeguarding a minimum level of international reserves. The reserve requirement and the central bank rate have been increased to help absorb the liquidity overhang and monetary growth (MEFP ¶ 21) while any domestic government financing will be raised through Treasury bill auctions. The BCRG also stands ready to take further measures to contain monetary growth, if indicated by inflation and exchange rate developments, including by selling Treasury bills or its own bills to manage bank liquidity.

17. **Fiscal and monetary tightening have resulted in a slow-down in monetary expansion in line with the SMP target during the first four months of 2011**. In addition to the net reduction in domestic bank credit, the government used the proceeds from the sale of Treasury bills to the commercial banks to further reduce its outstanding stock of central bank advances. In March, the BCRG almost doubled the reserve requirement to 17 percent and raised its reference interest from 16.75 percent to 22 percent. Reflecting these policies, broad money growth slowed down from on average almost 5 percent per month during 2010 to less than 1.4 percent per month during January–April 2011.

18. **The exchange rate rapidly depreciated in early 2011**. The market exchange rate is the most visible macroeconomic indicator in Guinea and its movements have an immediate effect on such basic commodities as rice and cooking oil, most of which are imported. During January-February, the market rate depreciated by about 20 percent, which the authorities believed was partly driven by speculation and capital flight. In response, and without prior consultation with Fund staff, the government closed the exchange bureaus in early-March.

19. **The BCRG's exchange rate policy under the SMP focuses on mitigating the pace of depreciation of the Guinea franc while the tightening of liquidity progressively takes hold (MEFP ¶ 22–24)**. The improved reserve position and the relicensing of foreign exchange bureaus from April under stricter reporting requirements to strengthen regulatory compliance have helped to reduce volatility in the foreign exchange market. Moreover, since March 2011 the authorities have conducted foreign exchange auctions to promote more stability in the movement of the exchange rate. The auctions were initially limited to a small group of basic commodities but extended to all documented imports by May. While the auction amounts have remained relatively small (totaling some $30 million from March to May, compared to average monthly imports of about $150 million), the market rate appreciated to about the same level as at the beginning of the year. During January–April 2011, inflation remained at about 21 percent compared to the same period last year; food prices increased by almost 10 percent since December 2010.

20. **In April 2011, the BCRG restored the system whereby the official rate is set at the weighted average commercial bank exchange rate (MEFP** ¶22). However, due to technical limitations, the official rate lags the commercial bank rate by one day, potentially giving rise to a multiple currency practice.[3] Initially, in an effort to avoid large swings in the rate, commercial banks were instructed to maintain their rates within a band of plus or minus 2 percent of the official rate. This band was later widened to plus or minus 3 percent and the BCRG will review the possibility of further widening in light of market conditions. It has also requested urgent technical assistance from the IMF for improving the exchange rate system, including the auctions. MCM technical assistance needs assessment and FIN safeguard assessment missions are scheduled for the near term.

C. Structural Reforms

21. **Two key areas of structural reform are a revision of the mining code and the preparation of studies on the reform of the public utilities (MEFP ¶27–29)**. While the SMP focuses on short-term stabilization, work has also started on structural reform. The authorities are well advanced in a revision of the mining code with the aim of submitting a proposal to the government by mid-year; they intend to use the new code as the basis for a

[3] The same methodology for setting the official rate was applied in 2007–08 as described in the staff report for the 2007 Article IV consultation when it was identified as a multiple currency practice.

review of all mining contracts later in the year. Irregular electricity supply is a principal structural bottleneck for Guinea's near- to medium-term growth potential. With the help of several partners, studies on the reform of the utilities will be completed by end-2011; priority is being given to the struggling electricity sector.

D. External Debt, Arrears, and Program Financing

22. **Guinea's external debt is unsustainable**. Public external debt is estimated at $3.2 billion (69 percent of GDP) at end-2010, and Guinea had accumulated external arrears estimated at $376 million (8 percent of GDP) by end-2010, with the bulk owed to multilaterals (2.1 percent of GDP; primarily the World Bank and the European Investment Bank (EIB)) and Paris Club creditors (3.5 percent of GDP). Arrears with the World Bank were cleared in the context of new budget support on April 21, 2011, and a framework to clear arrears with the EIB by late 2011 has been agreed.

23. **The projected 2011 external and budget financing gaps are large, amounting to more than 8 percent of GDP**. The budget financing gap (Text Table 3) is expected to be closed with additional budget support and a further increase in external debt arrears. Given the modest basic balance deficit, the large financing gap mainly reflects current external debt service obligations (equivalent to 25 percent of revenue) and the need to clear the large amount of external arrears accumulated during 2009–10. The World Bank and the AfDB have approved budget support amounting to $108 million (2.4 percent of GDP).[4] Projected domestic financing amounts to 3.4 percent of GDP which will be raised by issuing Treasury bills and the possible use of $40–100 million of the Rio Tinto payment to contain the need for bank financing. A small part of the remaining financing gap is expected to be filled by additional budget support from the World Bank and bilateral donors. However, for the bulk of the gap, the authorities intend to request creditors to defer arrears and current debt service due until they can be addressed in the context of the HIPC Initiative. Furthermore, the authorities do not intend to undertake any new external borrowing on non-concessional terms. The government also intends to ensure that any potential future financial obligations arising from the Rio Tinto agreement, or any other project, will be met from concessional resources on a scale commensurate with achieving debt sustainability, taking into account prospects for debt relief under the HIPC Initiative.[5]

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[4] The European Union is providing assistance under an emergency program until parliamentary elections will allow completing the process under Art. 96 of the Cotonou Agreement and renewed access to support under the European Development Fund.

[5] These obligations could arise from the government's possible contributing shares in the mining concession and a related infrastructure joint venture company.

Text Table 3. Guinea: Financing of the Budget Deficit 2010-11
(in percent of GDP)

	2010 Actual	2011 Program	Change
Basic balance	-12.8	-2.0	10.8
External debt service	-1.7	-12.4	-10.7
Interest	-0.7	-0.8	-0.1
Amortization	-2.3	-3.5	-1.2
Change in arrears	1.3	-8.1	-9.3
Financing need	-14.5	-14.4	0.1
Domestic financing	14.3	3.4	-10.9
Bank financing	15.1	-11.9	-27.0
Regular treasury accounts	15.1	0.9	-14.2
Special account for Rio Tinto payment		-12.8	-12.8
Other	-0.9	15.3	16.1
Of which : Rio Tinto payment		15.0	15.0
External financing	0.6	2.7	2.2
Debt rescheduling and HIPC assistance	0.6	0.4	-0.2
Budget support grants	0.0	2.4	2.4
Errors and omissions	-0.3		
Financing gap (-=financing need)	0.0	-8.3	-8.3
Possible financing		1.2	
Residual financing need		7.1	

Source: Guinean authorities.

E. The PRSP and the HIPC Process

24. **In December 2010, the government decided to extend the 2007–10 Poverty Reduction Strategy Paper (PRSP)**.Work on a progress report and extension started in mid-2010 with the assistance of the United Nations Development Program, the World Bank, and other partners. In January, the new government discussed the report and extension through mid-2012, which, after regional workshops to ensure participation by a broad range of the population and the interim parliament, were officially adopted in May 2011. The authorities are also continuing to implement other triggers for attaining the completion point under the enhanced HIPC Initiative (Table 6). Attainment of the trigger on access to prenatal care is being validated with the relevant partners, which would leave the requirement for an audit of the 2009–10 procurement contracts the sole remaining trigger aside from one-year of PRSP implementation and establishing a track record of satisfactory policy performance of at least 6 months under an ECF-supported program.

III. Program Monitoring

25. **The SMP will be monitored through quantitative targets and structural benchmarks (MEFP ¶35 and MEFP tables 3 and 4)**. The quantitative targets have been set for end-June, end-September, and end-December 2011. The structural benchmarks cover key macro-critical measures. The authorities have reactivated the program monitoring committee, which will monthly report to the Minister of Economy and Finance and the Governor of the BCRG on progress under the program.

IV. Risks

26. **The main risks to the program are disruptions to social peace and limited implementation capacity**. Continued progress toward a normal constitutional situation will be important to ensure social peace and external assistance; in this regard, security sector reform remains critical. Moreover, the benefits of improved fiscal management and lower inflation will take time to be realized, thus testing the population's high expectations; against this background, the government's Priority Action Plan focuses on areas with quick returns to show progress. Lack of policy coordination and, more general, weak technical capacity could also affect program implementation. However, technical assistance (TA) has resumed very quickly; eleven Fund missions have been conducted by West AFRITAC since end-January, together with two missions from headquarters to assess the TA needs in PFM and tax and customs administration. Further assistance is being planned for the second half of 2011, and the Fund is expected to assign a Resident Representative to Guinea in the coming months.

V. Staff Appraisal

27. **The new government has taken bold steps to address the serious macroeconomic imbalances and the staff support the SMP as a strong initial step toward restoring macroeconomic stability**. The key elements of the authorities' stabilization policies, which started to be implemented in January, are appropriately fiscal adjustment, restoring fiscal control, and sharply reducing bank financing of the deficit. This is being supported by foreign exchange policy and a tightening of monetary conditions aimed at reining in the rapid pace of monetary expansion and absorbing a large liquidity overhang. This policy mix is expected to contribute to achieving a more sustainable fiscal position and bringing inflation back to moderate levels.

28. **The authorities' fiscal response to the deterioration in the economy while addressing urgent needs is appropriate**. While the budget seeks a balance between cutting expenditure in areas of past excessive growth and new allocations to address urgent needs, to ensure a reduction in inflation the authorities may want to consider further fiscal adjustment to eliminate any need for bank financing in the second half of the year. A clear break with high inflation would in staff's and the authorities' view help assure broad support for the adjustment policies. Strong action with regard to adjusting fuel prices would be very important to ensure that the revenue targets are met.

29. **The authorities' intention to establish a special fund to govern spending from the recent windfall from the mining sector is commendable**. It will be important to ensure that these one-off resources are spent effectively, efficiently and transparently, taking into account absorptive capacity and external and fiscal sustainability; Fund staff stands ready to assist the authorities in this regard. Staff support the authorities' intention to allocate these resources to specific investment projects over the medium-term and recommends that they design an investment plan with the assistance of the World Bank.

30. **The financing of the 2011 budget critically depends on the cooperation of external creditors**. Reflecting the long delay in reaching the completion point under the enhanced HIPC Initiative, Guinea's external debt burden remains unsustainable. It will be important for Guinea to remain in close contact with its creditors to establish a cooperative solution to its large outstanding arrears and its inability to meets its debt service obligations. In this context, it will be essential for new external financial assistance to be on concessional terms, preferably grants, including with respect to the government's possible participation in mining projects.

31. **The tightening of monetary policy is expected to help drain some of the excess liquidity out of the economy**. However, Guinea's financial system remains undeveloped and it will take some time to assess the impact of the recent measures. In light of uncertainties in policy channels, the central bank should be prepared to take further measures as needed to reduce pressure on inflation and the exchange rate, such as a further increase in the reserve requirement, the sale of treasury or BCRG bills, and foreign exchange sales.

32. **Guinea's foreign exchange market remains fragmented and underdeveloped and the authorities' caution in allowing the market to establish the rate without limits is understandable**. Staff support the establishment of a market-based exchange rate and measures to improve the foreign exchange market. The Fund will provide early technical assistance to assist the BCRG with improving the auction system, the functioning of the foreign exchange market, and to identify and eliminate the risk of additional multiple currency practices.

33. **Completing the revision of the mining code will be important for establishing a better investment environment and improving governance**. Staff encourage the authorities to cooperate closely with the World Bank in finalizing the mining code.

34. **Staff support the authorities' ambition to achieve the completion point under the HIPC Initiative as soon as possible**. To achieve this, the authorities will need to continue their firm commitment to their stabilization policies and invigorate structural reforms under the SMP and establish a strong track record of performance as a stepping stone to discussions on a possible ECF-supported program. In particular, the authorities should strengthen collaboration with the staff, providing timely information on planned measures and actions, including possible new mining contracts, that may affect program implementation or the policies included in the program.

Table 1. Guinea: Selected Economic and Financial Indicators, 2008–11

	2008	2009	2010 Est.	2011 Prog.
	(Annual percentage change, unless otherwise indicated)			
National accounts and prices				
GDP at constant prices	4.9	-0.3	1.9	4.0
GDP deflator	14.1	5.1	20.1	19.6
GDP at market prices	19.7	4.8	22.5	24.3
Consumer prices				
Average	18.4	4.7	15.5	19.6
End of Period	13.5	7.9	20.8	17.1
External sector				
Exports, f.o.b. (in US$ terms)	38.2	-35.8	19.5	17.9
Imports, f.o.b. (in US$ terms)	12.2	-19.8	19.1	28.5
Terms of trade (deterioration -)	-20.3	25.3	4.2	-3.4
Average effective exchange rate (depreciation -)				
Nominal index	-13.4	3.3	17.0	…
Real index	-2.2	7.1	8.2	…
Money and credit				
Net Foreign Assets 1/	14.3	4.7	-5.5	43.4
Net Domestic Assets 1/	24.7	21.2	79.9	-36.6
Net Claims on government 1/	20.8	28.7	67.9	-38.0
Credit to nongovernment sector 1/	1.9	3.1	8.9	3.5
Reserve Money	13.8	81.7	73.0	1.7
Broad money (M2)	39.0	25.9	74.4	6.8
Interest rate (short term T-bill)	21.5	15.0	13.0	...
	(Percent of GDP)			
Central government finances				
Total revenue and grants	16.1	16.8	16.0	20.7
Revenue	15.6	16.5	15.6	17.2
Of which : nonmining revenue	12.1	13.1	11.7	13.0
Grants 2/	0.5	0.4	0.4	3.5
Total expenditure and net lending	17.5	24.1	30.2	23.1
Current expenditure	13.4	16.8	20.9	16.3
Of which: interest payments	2.6	2.1	2.1	1.8
Capital expenditure and net lending	4.0	7.3	9.3	6.7
Overall budget balance				
Including grants (commitment)	-1.3	-7.2	-14.2	-2.4
Excluding grants (commitment)	-1.8	-7.6	-14.6	-5.9
Basic fiscal balance	1.6	-5.6	-12.8	-2.0
National accounts				
Gross capital formation	17.5	11.4	10.5	18.1
Government	2.4	4.8	6.1	5.5
Private	15.1	6.6	4.3	12.6
Domestic savings	16.7	5.2	2.7	8.0
Government	5.0	1.6	-3.2	2.2
Private	11.7	3.6	5.9	5.8
Current account balance				
Including official transfers 2/	-7.5	-11.4	-11.9	-9.7
Excluding official transfers 2/	-7.9	-11.4	-11.9	-12.1
Overall balance of payments	-0.9	5.4	-3.8	11.3
	(US$ millions, unless otherwise indicated)			
Memorandum Items:				
Exports f.o.b.	1,666.1	1,070.1	1,279.1	1,508.6
Imports f.o.b. 3/	1,366.1	1,096.1	1,305.0	1,677.0
Overall balance of payments	-42.4	245.9	-174.0	527.1
Net foreign assets (central bank)	-14.1	97.9	44.3	603.6
Gross available reserves (months of imports) 4/	0.6	0.9	0.9	5.5
External debt stock (percent of GNFS exports)	174.8	263.8	223.8	199.9
Nominal GDP (GNF billions)	20,778	21,774	26,663	33,145

Sources: Guinean authorities; and Fund staff estimates and projections.
1/ In percent of the broad money stock at the beginning of the period.
2/ Excluding grants that are expected but not officially approved yet.
3/ Excluding imports by large mining projects.
4/ External assets immediately available to and controlled by the central bank.

Table 2a. Guinea: Fiscal Operations of the Central Government, 2008–11
(Billions of Guinean franc)

	2008	2009	2010 Est.	2011 Prog.	2011Q1 Est.
Revenue and grants	3,352	3,662	4,258	6,848	1,224
Revenue	3,249	3,582	4,155	5,687	1,215
Mining sector	738	725	1,032	1,383	223
Non-mining sector	2,511	2,857	3,123	4,303	992
Direct taxes	508	677	732	934	212
Indirect taxes	1,814	1,902	2,212	3,020	722
Taxes on goods and services	1,244	1,292	1,526	2,180	480
Taxes on international trade	570	610	685	840	243
Non-tax revenue	189	278	180	349	58
Grants	103	81	103	1,161	9
Project grants	103	81	103	381	9
Budget support	0	0	0	780	0
HIPC/MDRI Debt Relief	0	0	0	0	
Total expenditures and net lending	3,627	5,240	8,049	7,650	1,060
Current expenditures	2,787	3,655	5,570	5,419	964
Primary current expenditures	2,237	3,195	5,023	4,838	891
Wages and salaries	860	1,109	1,551	2,061	418
Goods and services	988	1,361	2,546	1,618	308
Subsidies and transfers	388	725	926	1,159	165
Interest on debt	550	461	547	580	73
Domestic debt	274	326	356	304	12
External debt	276	135	191	276	62
Capital expenditures	837	1,577	2,479	2,227	96
Domestically financed	396	1,273	2,187	1,207	41
Capital transfer	5	19	13	15	3
Externally financed	436	285	279	1,006	52
Net lending & restructuring expenditure	3	8	0	4	
Basic fiscal balance 1/	342	-1,211	-3,411	-663	272
in percent of GDP	1.6	-5.6	-12.8	-2.0	0.8
Overall balance, commitment basis					
Excluding grants	-379	-1,658	-3,894	-1,963	156
Including grants	-276	-1,578	-3,791	-802	165
Financing	332	1,650	3,861	-1,966	-106
Domestic financing	225	1,686	3,801	1,112	-120
Bank financing	472	1,349	4,037	-3,943	-91
Central bank	50	1,364	2,871	-4,243	-621
Commercial banks	422	-15	1,166	300	530
Nonbank financing	-247	337	-236	5,055	-29
Privatization revenue	69	0	0	0	0
Amortization of domestic debt	-339	-39	-124	-206	0
Change in arrears	-25	0	-157	0	0
Change in float	48	118	23	30	-50
Rio Tinto payment	0	0	0	4,981	
Other	0	258	22	251	21
External financing	108	-36	60	-3,077	15
Drawings	333	204	177	624	43
Amortization due	-636	-443	-605	-1,151	-226
Debt rescheduling and HIPC assistance	251	11	149	122	23
Change in arrears (- = reduction)	159	192	340	-2,673	175
Errors and omissions	-57	-73	-70	0	-59
Financing gap	0	0	0	2,768	
Possible financing				398	
Of which: World Bank				242	
Residual financing gap 2/				2,369	
Memorandum items:					
Nominal GDP	20,778	21,774	26,663	33,145	33,145

Sources: Guinean authorities; and Fund staff estimates and projections.
1/ Revenue minus expenditures excluding interest on external debt and foreign-financed investment.
2/ Correponds to the possible forbearance on external debt service and arrears.

Table 2b. Guinea: Fiscal Operations of the Central Government, 2008–11
(Percent of GDP)

	2008	2009	2010 Est.	2011 Prog.	2011Q1 Est.
Revenue and grants	16.1	16.8	16.0	20.7	3.7
Revenue	15.6	16.5	15.6	17.2	3.7
Mining sector	3.6	3.3	3.9	4.2	0.7
Non-mining sector	12.1	13.1	11.7	13.0	3.0
Direct taxes	2.4	3.1	2.7	2.8	0.6
Indirect taxes	8.7	8.7	8.3	9.1	2.2
Taxes on goods and services	6.0	5.9	5.7	6.6	1.4
Taxes on international trade	2.7	2.8	2.6	2.5	0.7
Non-tax revenue	0.9	1.3	0.7	1.1	0.2
Grants	0.5	0.4	0.4	3.5	0.0
Project grants	0.5	0.4	0.4	1.2	0.0
Budget support	0.0	0.0	0.0	2.4	0.0
HIPC/MDRI Debt Relief	0.0	0.0	0.0	0.0	
Total expenditures and net lending	17.5	24.1	30.2	23.1	3.2
Current expenditures	13.4	16.8	20.9	16.3	2.9
Primary current expenditures	10.8	14.7	18.8	14.6	2.7
Wages and salaries	4.1	5.1	5.8	6.2	1.3
Goods and services	4.8	6.2	9.5	4.9	0.9
Subsidies and transfers	1.9	3.3	3.5	3.5	0.5
Interest on debt	2.6	2.1	2.1	1.8	0.2
Domestic debt	1.3	1.5	1.3	0.9	0.0
External debt	1.3	0.6	0.7	0.8	0.2
Capital expenditure	4.0	7.2	9.3	6.7	0.3
Domestically financed	1.9	5.8	8.2	3.6	0.1
Capital transfer	0.0	0.1	0.0	0.0	0.0
Externally financed	2.1	1.3	1.0	3.0	0.2
Net lending & Restructuring expenditure	0.0	0.0	0.0	0.0	
Basic fiscal balance 1/	1.6	-5.6	-12.8	-2.0	0.8
Overall balance					
Excluding grants	-1.8	-7.6	-14.6	-5.9	0.5
Including grants	-1.3	-7.2	-14.2	-2.4	0.5
Financing	1.3	7.2	14.5	-5.9	-0.3
Domestic financing (net)	0.8	7.4	14.3	3.4	-0.4
Bank Financing	2.3	6.2	15.1	-11.9	-0.3
Central bank	0.2	6.3	10.8	-12.8	-1.9
Commercial banks	2.0	-0.1	4.4	0.9	1.6
Nonbank financing	-1.5	1.2	-0.9	15.3	-0.1
Privatization revenue	0.3	0.0	0.0	0.0	0.0
Amortization of domestic debt	-1.6	-0.2	-0.5	-0.6	0.0
Change in arrears	-0.1	0.0	-0.6	0.0	0.0
Change in float	0.2	0.5	0.1	0.1	-0.2
Rio Tinto payment	0.0	0.0	0.0	15.0	
Other	0.0	1.2	0.1	0.8	0.1
External financing	0.5	-0.2	0.2	-9.3	0.0
Drawings	1.6	0.9	0.7	1.9	0.1
Amortization due	-3.1	-2.0	-2.3	-3.5	-0.7
Debt rescheduling and HIPC assistance	1.2	0.0	0.6	0.4	0.1
Change in arrears (- = reduction)	0.8	0.9	1.3	-8.1	0.5
Errors and omissions			-0.3		
Financing gap	0.0	0.0	0.0	8.3	
Possible financing				1.2	
Of which: World Bank				0.7	
African Development Bank				0.0	
Residual financing gap 2/				7.1	
Memorandum items:					
Nominal GDP (billions GNF)	20,778	21,774	26,663	33,145	33,145

Sources: Guinean authorities; and Fund staff estimates and projections.
1/ Revenue minus expenditures excluding interest on external debt and foreign-financed investment.
2/ Correponds to the possible forbearance on external debt service and arrears.

Table 3a. Guinea: Central Bank and Deposit Money Banks Accounts, 2008–11 1/
(Billions of Guinean franc; unless otherwise indicated)

	2008	2009	2010 Est.	2011 Prog.	2011Q1 Est.
Central Bank					
Net foreign assets	-73	482	241	4,614	228
(US$ millions)	-14	98	44	604	32
Of which : net international reserves	-226	1,248	1,353	5,985	1,489
(US$ millions)	-44	253	205	783	209
Net domestic assets	2,293	3,553	6,741	2,488	6,327
Domestic credit	1,928	3,505	6,356	2,104	5,841
Claims on central government (net)	2,077	3,450	6,321	2,078	5,729
Of which: on the Treasury (PNT1)	2,241	3,618	6,489	2,246	5,904
Claims on private sector	9	10	6	6	6
Liabilities to deposit money banks (-)	-208	2	0	-10	80
Of which : refinancing (+) / sterilization (-)	-264	0	0	-10	0
Claims on other public sector	49	42	29	29	26
Other items, net (assets +)	365	48	384	384	486
Reserve Money	2,221	4,035	6,982	7,101	6,555
Currency outside banks	1,652	2,120	3,988	3,765	3,884
Bank reserves	537	1,885	2,961	3,302	2,642
Deposits	434	1,720	2,839	3,180	2,279
Required reserves	289	360	603	1,243	1,133
Excess reserves	145	1,360	2,236	1,938	1,146
Of which : in foreign exchange	102	111	136	158	104
Cash in vaults of deposit banks	103	164	122	122	363
Private sector deposits	32	30	33	34	30
Deposit Money Banks					
Net foreign assets	944	609	524	649	639
Bank reserves	537	1,885	2,961	3,302	2,642
Deposits at the central bank	434	1,720	2,839	3,180	2,279
Cash in vaults of deposits banks	103	164	122	122	363
Claims on central bank	208	-2	0	10	-80
Of which : sterilization bills	264	0	0	10	0
Domestic credit	1,690	1,829	3,541	4,199	4,302
Credit to the government (net)	714	699	1,865	2,164	2,400
Claims	825	816	1,936	2,235	2,507
Of which : Treasury Bills	422	-15	1,166	300	
Deposits	112	117	71	71	107
Claims on public enterprises	1	0	43	43	62
Claims on the private sector	975	1,129	1,633	1,993	1,841
Other items, net (assets +)	-338	-525	-678	-884	-840
Liabilities to the private sector (deposits)	3,040	3,795	6,347	7,275	6,662

Sources: Guinean authorities; and Fund staff estimates and projections.
1/ End of period.

Table 3b. Guinea: Monetary Survey, 2008–11 1/

(Billions of Guinean franc; unless otherwise indicated)

	2008	2009	2010 Est.	2011 Prog.	2011Q1 Est.
Net foreign assets	871	1,091	765	5,262	867
Net domestic assets	3,853	4,854	9,603	5,812	9,709
Domestic credit	3,826	5,331	9,897	6,312	10,063
Claims on central government	2,791	4,149	8,186	4,242	8,129
Claims on public enterprises	50	43	72	72	87
Claims on private sector	984	1,140	1,639	1,999	1,847
Other items, net (assets +)	27	-477	-294	-500	-354
Broad money (M2)	4,724	5,945	10,368	11,074	10,576
Currency	1,652	2,120	3,988	3,765	3,884
Deposits	3,072	3,825	6,380	7,309	6,692
Of which : in foreign currency	1,342	1,065	1,371	1,420	1,561
	(Year-on-year change in percent of beginning-of-period M2)				
Memorandum items:					
Net foreign assets	14.3	4.7	-5.5	43.4	-6.2
Of which : central bank	2.1	11.7	-4.1	42.2	-6.0
Net domestic assets	24.7	21.2	79.9	-36.6	56.9
Of which : central bank	5.9	26.7	53.6	-41.0	30.3
Domestic credit	22.6	31.9	76.8	-34.6	53.9
Net claims on government	20.8	28.7	67.9	-38.0	46.3
Credit to the private sector	1.9	3.1	8.9	3.5	7.6
Reserve Money (annual percentage change)	13.8	81.7	73.0	1.7	35.2
Commercial bank credit to the private sector (annual percentage change)	18.4	15.8	44.6	22.0	36.8
Money multiplier (M2/reserve money)	2.1	1.5	1.5	1.6	1.6
Velocity eop (GDP/M2 eop)	4.4	3.7	2.6	3.0	3.1
Deposit dollarization	43.7	27.8	21.5	19.4	…
Exchange rate, GNF per US$ (eop)	5,161	4,924	6,585	…	…
Nominal GDP (billions GNF)	20,778	21,774	26,663	33,145	33,145
GDP at constant prices (percentage change)	4.9	-0.3	1.9	4.0	...
Consumer prices (percentage change,eop)	13.5	7.9	20.8	17.1	21.0
Broad money (M2)	39.0	25.9	74.4	6.8	50.7

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

1/ End of period.

Table 4. Guinea : Balance of Payments, 2008–11
(Millions of U.S. dollars; unless otherwise indicated)

	2008	2009	2010 Est.	2011 Prog.
Merchandise trade balance	300.0	-26.0	-25.8	-168.5
Exports, f.o.b.	1666.1	1070.1	1279.1	1508.6
Mining products	1575.6	1009.4	1210.2	1432.2
Other	90.5	60.7	68.9	76.4
Imports, f.o.b	-1366.1	-1096.1	-1305.0	-1677.0
Food products	-227.2	-204.1	-189.6	-204.1
Other consumption goods	-204.5	-190.6	-237.0	-251.1
Petroleum goods	-355.7	-296.1	-312.5	-434.2
Intermediate and capital goods	-578.7	-405.3	-565.8	-787.7
Of which : imports for large mining projects	-238.9	-81.6	-60.2	-252.6
Services trade balance	-337.1	-258.6	-333.1	-304.0
Services exports	107.2	72.5	62.4	64.7
Services imports	-444.3	-331.1	-395.5	-368.8
Of which : imports for large mining projects	-39.3	-13.4	-9.9	-41.6
Income balance	-592.1	-482.5	-446.5	-414.1
Of which: interest on public debt	-61.0	-29.4	-33.7	-39.7
Transfers, *of which:*	290.6	247.6	252.2	433.7
Net private transfers	271.6	247.6	252.2	324.1
Official transfers	19.0	0.0	0.0	109.6
Current account				
Including official transfers	-338.6	-519.5	-553.3	-453.0
Excluding imports for large mining projects	-60.4	-424.5	-483.2	-158.8
Excluding official transfers	-357.6	-519.5	-553.3	-562.6
Capital account	26.6	28.5	32.0	768.6
Of which : Rio Tinto payment	0.0	0.0	0.0	700.0
Financial account	-278	82	-169	212
Public (medium- and long-term)	-65.7	-50.0	-74.4	-74.0
Project-related loans	72.5	42.8	30.7	87.8
Amortization due	-138.2	-92.8	-105.1	-161.8
Direct and other private investment (net)	-230.3	-170.0	-280.9	127.1
Of which : large mining projects	378.5	136.0	97.3	419.3
Private short-term	18.0	302.2	185.9	158.5
Errors and omissions	547.7	654.6	516.7	0.0
Overall balance	-42.4	245.9	-174.0	527.1
Financing	42.4	-245.9	174.0	-916.9
Change in net official reserves, of which	-20.4	-286.7	89.9	-558.4
Fund repayments	9.1	-12.8	0.0	0.0
Change in gross official reserves	-24.4	-273.9	89.9	-558.4
Change in arrears	54.5	40.3	62.4	-375.7
Debt rescheduling	4.8	0.5	20.8	17.2
HIPC interim assistance	3.5	0.0	0.9	0.0
Financing gap	0.0	0.0	0.0	389.8
Memorandum items:				
Current account balance (percent of GDP)				
Including official transfers	-7.5	-11.4	-11.9	- 9.7
Excluding imports for large mining projects	-1.3	-9.3	-10.4	-3.4
Excluding official transfers	-7.9	-11.4	-11.9	-12.1
Overall balance (percent of GDP)	-0.9	5.4	-3.8	11.3
Exports (percent of GDP)	39.3	25.1	29.0	33.8
Imports (percent of GDP)	-40.1	-31.3	-36.7	-43.9
External medium and long-term public debt	3,099	3,015	3,210	3,326
Percent of GDP	68.6	66.1	69.3	71.4
Debt-service ratio, before interim debt relief	10.1	9.5	10.3	12.8
Gross available reserves *(US$ millions)*	70	114	124	812
Of which: Rio Tinto Payment				600
Gross available reserves (months of imports)	0.65	0.85	0.89	5.50
Nominal GDP (US$ millions)	4,517	4,560	4,633	4,659
National currency per US dollar (avg.)	4,600	4,775	5,755	…

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

Table 5. Guinea: Status of HIPC Completion Point Triggers

Triggers	Assessment
Poverty Reduction	
A full PRSP has been prepared through a participatory process and satisfactorily implemented for one year as evidenced by the Joint Staff Assessment of the country's annual progress report.	**Not Implemented**. The first PRSP was presented to the Boards in July 2002. Its implementation suffered from macroeconomic instability and weakness in governance. The authorities issued the second PRSP (PRSP-II) in August 2007; its implementation was interrupted by the military coup in December 2008. The new government, in office following the presidential election in end-2010, extended the PRSP-II for the period 2011-2012. A 12-month-implementation report will be prepared by the government, to be reviewed by the World Bank and the IMF.
Improvement of the poverty database and monitoring capacity by preparing a living standards measurement survey that establishes poverty lines and indicators based thereon, and establishment of a poverty monitoring system involving key stakeholders.	**Implemented**. A comprehensive poverty survey was conducted in 2002–03 and finalized in 2004–05. Based on the survey, the poverty database was improved and updated. Five income lines were established, differentiated for rural and urban areas, together with poverty lines ranging from 37 cents to 50 cents a day. Based on the household survey, 54 poverty indicators were defined and discussed during a three-day workshop in October 2005 with more than 100 participants from government and civil society. These indicators have since then been used to monitor poverty.
Maintain macroeconomic stability as evidenced by satisfactory implementation of the ECF-supported program.	**Not Implemented**. The PRGF-supported program that was approved on December 21, 2007 went off-track following the first review. The government intends to build strong track record under the IMF Staff-Monitored Program to start negotiations of an ECF-supported program as soon as possible.
Develop and take steps to provide an appropriate regulatory framework for microcredit institutions.	**Implemented**. A new law that establishes an adequate framework for microcredit institutions was adopted in November 2005.
Governance and Anticorruption	
Make publicly available a one-year progress report (showing resources and activities) of the Anti-Corruption Committee (CNLS).	**Implemented**. The CNLS issued activity reports for 2002 and 2003.
Audit all government procurement contracts over GNF 100 million and publish results of these audits on a quarterly basis.	**Partially implemented**. The authorities did not start this action promptly after the decision point. To make up for the delay, the government commissioned a comprehensive audit of procurement contracts for 2002–04; the final report of the audit was presented in 2007. To support a more operational and less resource-intensive system, a system of quarterly audits based on a sample of large procurement contracts was put in place in 2008. The first audit report, which covers 13 contacts and 20 percent of procurement contracts of more than 100 GNF million signed during the first quarter of 2007) was published in October 2008. A second quarterly audit of large procurement contracts is available in draft form and was expected to be published in January 2009. In 2009-10, reports indicate that the government entered into contracts amounting to 40 percent of GDP. A comprehensive audit of these contracts is required to fulfill this trigger.

Table 5. Guinea: Status of HIPC Completion Point Triggers (cont.)

Education	
Increase gross enrollment rate for primary school students from 56 percent in 1999 to 62 percent in 2001 and 71 percent in 2002, of which the gross enrollment rate of girls should be 40 percent in 1999, 51 percent in 2001 and 61 percent in 2002.	**Implemented**. Gross enrollment gradually increased after 2002, reaching 79 percent in 2006 and 2007. Gross enrolment for girls increased even more, reaching 71 percent in 2006 and 2007 and significantly reducing the enrollment gap between boys and girls.
Increase the number of new primary school teachers hired by at least 1,500 a year for each year until the HIPC completion point, from an estimated base of about 15,000 primary school teachers in 2000.	**Considered implemented**. On average 1,859 primary school teachers have been trained and recruited each year from 2001 through 2008, for a total of 13,014 recruits. For the period 2009-2011, given the significant delays in reaching the completion point, hiring every year 1,500 new teachers for primary schools does not correspond to the education needs and priorities. Upon request from the Authorities, a waiver could be considered.
Health	
Increase (DTP3: diphtheria, tetanus, pertussis) immunization rates for children younger than 1, from 45 percent in 2000 to 50 percent in 2001, and to 55 percent in 2002.	**Implemented**. Immunizations rates were 52 percent in 2001 and 58 percent in 2002. Rates continued to increase to reach 85 percent in 2007.
Improve the percentage of pregnant women benefiting from at least 1 prenatal consultation from 70 percent in 2000 to 80 percent in 2001 and 85 percent in 2002.	**Considered implemented**. The government and the international partners in the health sector are currently verifying data on this trigger. Indications are that the objectives are met.

APPENDIX I. LETTER OF INTENT

Conakry, June 30, 2011

Mr. John Lipsky
Acting Managing Director
International Monetary Fund
Washington, DC 20431
USA

Dear Mr. Lipsky:

Guinea is emerging from a prolonged period of political crisis. After several years of intermittent civil unrest, a military coup in December 2008 led to a break in our relations with the international community, including the international financial institutions. The first free and democratic elections since independence in 1958 led to a new political regime and a new government in December 2010 and relations with the IMF and the World Bank resumed in January 2011. The government intends to complete the transition process with the conduct of legislative elections by the end of 2011.

Based on the improvement in the political environment and the entering into office of the new government, the population's expectations for a rapid improvement in living conditions are high, but the government inherited a very difficult financial and macroeconomic situation. During the military regime of 2009–10, fiscal control collapsed and inflation and poverty increased. The government's first task is to stabilize the economy and reduce inflation, which is a condition for longer-term development policies to be effective and for poverty reduction and social peace to be sustained.

Guinea has ample natural resources and our efforts to use these to raise additional revenue for development have already resulted in a substantial contribution to the budget with the conclusion of an agreement with a mining company. However, despite the country's immense needs, these funds have been put aside for the moment so as to be able to reflect, in cooperation with our international partners, how best to use them for the development of the country in the context of a medium-term framework.

Against this background, the government has started implementing a short-term macro-economic stabilization program for the period January–December 2011 as described in the attached Memorandum on Economic and Financial Policies (MEFP). We request that the implementation of this program be monitored by the staff of the IMF so as to pave the way for a formal Fund arrangement later in the year, also in view of our objective to attain the completion point under the Enhanced Heavily Indebted Poor Countries' Initiative as soon as possible. In this regard, we intend to further strengthen our policies during the second half of the year.

To benchmark our progress, we expect to meet a set of indicative targets for end-June, end-September, and end-December 2011 provided in Table 3 of the attached MEFP and detailed in the attached Technical Memorandum of Understanding (TMU). Table 4 shows the target dates for putting in place some of the main structural reforms we are planning.

The government believes that the policies set forth in the attached MEFP will achieve the objectives of the program but will take any additional measures that may become necessary for this purpose. The government will consult with IMF staff on the adoption of such additional measures, at its own initiative or on the request of the IMF's staff, and in advance of any revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultations. Moreover, the government will refrain from commitments that could endanger the HIPC process, including government- or government-guaranteed borrowing at non-concessional terms or, more generally, at terms that would endanger attaining the post-HIPC debt-sustainability targets. The government undertakes to provide the IMF with any information that may be necessary to monitor implementation of the proposed measures and attainment of the objectives.

We hereby grant our permission for publication on the IMF's website of the staff report, the MEFP, the TMU, and this Letter of Intent.

Sincerely,

__________/s/__________
Lounceny Nabé
Governor of the Central Bank
of the Republic of Guinea
for the Governor,
First Vice Governor
Abdoulaye Yero Baldé

_________/s/_________
Kerfalla Yansané
Minister of Economy and Finance

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

ATTACHMENT I. GUINEA: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES FOR 2011

JUNE 2011

I. INTRODUCTION

1. **Guinea is emerging from a prolonged period of political crisis**. After several years of intermittent civil unrest, a military coup in December 2008 led to a break in our relations with the international financial organizations. The first free and democratic elections since independence in 1958 led to a new political regime and a new government in December 2010. Relations with the IMF and the World Bank were resumed in January 2011. This memorandum describes the government's economic and financial policies for 2011 to address the serious macroeconomic and financial imbalances that have arisen in recent years. The government attaches high priority to bringing Guinea back on the road toward the HIPC completion point and reducing the high external debt burden, which is crucial for reducing the fragility of public finances and to make scarce resources available for poverty reduction and growth enhancing policies.

2. **The macroeconomic situation deteriorated sharply during 2009–10 as fiscal control collapsed**. Government expenditure doubled during this period, especially reflecting a tripling of military expenditure to almost 10 percent of GDP and a 50 percent increase in public sector wages in 2010. Procurement procedures were largely circumvented; the contracts signed considerably exceeded available resources. The budget deficit was over 1 percent of GDP per month. This deficit was mostly financed by advances from the central bank (BCRG), by selling treasury bills to the commercial banks, and the accumulation of external arrears. Consequently, broad money more than doubled, the 12-month inflation rate, which had initially declined to 7.9 percent by December 2009, rebounded to reach 21 percent by end-2010, and international reserves remained much below a level equivalent to one month of imports. The parallel market exchange rate of the Guinea franc (GNF) depreciated by 25 percent during 2010.

3. **The immediate challenge for the government is to regain fiscal and macroeconomic stability**. The population's expectations for a rapid improvement in poverty and living conditions following the first democratic elections are high and Guinea's ample natural resources provide an excellent basis for those expectations. However, policies to unblock these resources will only bear fruit in a stable macroeconomic environment. The government's first task is to bring the fiscal deficit under control and reduce the high inflation rate, which disproportionally affects the poorest in our society and threatens social stability. The success of these stabilization policies will allow the government to shift the focus toward medium-term policies to reduce poverty and enhance growth, which will also allow a resumption of the HIPC debt relief process.

4. **On structural reform, the first priority of the government is to remove distortions stemming from weak governance in the past**. To this end, a review of major contracts concluded under previous regimes is under way. Most importantly, we recently settled a long-standing dispute with a mining company, resulting in very substantial additional government revenue. Following the adoption of a new mining code, we also intend to review other mining contracts to ensure that Guinea obtains a fair share of its natural resource wealth. Reviews of contracts regarding Conakry's container port and in the mobile telephone sector have also led to additional revenue. Efforts are underway to eliminate monopolies in the wholesale and retail sectors so as to reduce prices of basic necessities.

5. **Guinea is emerging from a period in which governance sharply deteriorated**. Therefore, 2011 will remain a very difficult year, and it will be important to ensure consensus among all stakeholders in our society to implement the measures needed to restore stability. Reducing inflation and security sector reform are crucial elements in reducing the risks to the program. This memorandum describes our policies to address inflation. With regard to security sector reform, a workshop on a joint ECOWAS/UN report took place from March 28–31, and the government will implement the recommendations from this workshop.

II. Economic and Financial Policies for 2011

6. **The economic and financial policies for 2011 aim at reversing the upward inflation trend and stopping the depreciation of the Guinean franc.** The objective of the 2011 budget is to avoid additional financing of the deficit by the central bank and to minimize possible financing by commercial banks, as these are the main sources of inflationary pressures. This approach will be supported by a restrictive monetary policy that will also address the issue of excess liquidity in the economy. In this context, the main macroeconomic objectives will be to raise economic growth to 4 percent and contain inflation to below that of 2010. Moreover, to strengthen confidence in the national currency, international reserves will be increased to 5.5 months of imports of goods and services, while keeping a majority of the IMF's 2009 special SDR allocation.

A. Fiscal Policy

7. **The budget for 2011 that was approved by the government on April 21 and by the interim parliament on May 30 aims to drastically reduce expenditures and the need for bank financing.** Expenditures are being cut sharply in areas where growth was excessive in recent years, but increased in other areas under the President's Action Plan to respond to the immediate needs of the population. Moreover, we have taken additional measures, equivalent to about 4 percent of GDP to keep domestically financed expenditures in line with domestic revenue, thereby improving the basic fiscal balance from a deficit of about 13 percent of GDP in 2010 to a deficit of about 2 percent in 2011. These measures are detailed below.

Revenue

8. **We have taken and will take measures to increase revenue by GNF 646.5 billion (about 2 percent of GDP) (Box 1).**

- **The government intends to reinstate the mechanism for the regular adjustment of fuel prices in relation to international price changes and exchange rate movements**. Following substantial increases in international prices and the depreciation of the exchange rate, which were not fully passed-on to domestic prices, government petroleum product tax revenues have declined, and petroleum products are being re-exported to neighboring countries where fuel prices are higher. The re-application of the automatic adjustment mechanism will be applied during the third quarter of 2011The budget provides funding for measures to mitigate the impact of this adjustment on the most vulnerable segment of the population. The net revenue effect is estimated at GNF 400 billion.

- **Better control over autonomous public agencies is expected to raise additional resources for the budget**. Some of the larger autonomous government agencies collect revenue or realize profits, which in recent years have not—or only partially—been transferred to the budget. Under the principle of the Treasury Single Account, a law laying down the general principles of treasury management of funds belonging to autonomous government agencies was enacted on March 29, 2011. The government is now working on the practical arrangements for implementing this Act. In addition, the Ministry of Economy and Finance is strengthening the capacity of the Treasury department and the National Department of Government Assets and Private Investment to improve the oversight of the autonomous agencies. Henceforth, the agencies must submit quarterly financial statements.

- **Excise taxes on beer and tobacco were raised on April 21, 2011**. Moreover, the valuation basis for import duties on cigarettes was changed from the Brussels system to transaction-based system. These measures are estimated to generate additional revenue of GNF 15.5 billion.

- **Measures affecting import duties are expected to raise approximately GNF 100 billion in additional revenue**. First, all ad-hoc exemptions on import-tax and customs duties and the exemption for heavy fuel oil were abolished and no new ad-hoc exemptions will be granted. The budget provides for an additional subsidy to the state-owned power company, Electricité de Guinée, to offset the effects of this increase. Second, from March 10, 2011 the list of products that require pre-shipment verification was extended to include 85 previously exempted products, thus covering all imports. Third, exemptions on imports by mining companies will be strictly limited to the items specified in their contracts and they will be encouraged to purchase as much as possible on the local market. At the same time, we have reduced the protective import duties on flour (from 37.5 percent to 10 percent) and cooking oil (from 10 percent to 0 percent), bringing them in line with the rates under the WAEMU's Common External Tariff.

9. **Measures in the area of income taxes, including recovering tax arrears, are estimated to raise an additional GNF 50 billion**. The government will take all appropriate measures to accelerate the procedures for recovering tax arrears. The regulation under which all companies with an annual turnover of less than GNF 500 million must pay a fixed tariff of 10 percent on government contracts will be strictly applied. Also, rigorous control will be put in place to prevent large companies from fraudulently benefiting from this regulation. The Tax Department is reviewing the list of large government contracts concluded in 2009 and 2010 and will submit to the Minister of Economy and Finance before end-2011 (with a preliminary report before end-June) the list of companies where this provision was applied erroneously and will suggest measures to recover the correct amounts.

10. **Meeting the revenue targets will require a strong effort of all revenue agencies**. To this end, the Ministry of Economy and Finance has concluded performance contracts with the Customs and Tax Departments. It also intends to set performance objectives with other agencies that collect revenue on behalf of the government.

11. **On April 22, the government renegotiated an agreement with the mining company Rio Tinto on an iron ore concession that led to a payment to the government of $700 million (equivalent to 15 percent of GDP) on May 4, 2011.** The agreement and the large revenue windfall it provided create opportunities to accelerate growth and reduce poverty in our country, but also pose new challenges.

- *First, it will be important to ensure that the money will be spent efficiently, effectively and transparently, without creating further pressure on inflation*. To this end, we are considering the creation of a special fund (which would also receive possible up-front payments from other natural resource agreements). This fund could disburse to the budget for specific investment projects, taking into account the limited capacity in managing large investment projects and the need to safeguard fiscal sustainability by limiting possible related future claims on the budget, such as for operations and maintenance. We expect that annual disbursements would be spread more or less evenly over the years before production in the mining sector increases by 2015. Management assistance for the fund, including capacity building, could be provided under the World Bank's Reserves Advisory and Management Program (RAMP); full transparency could include representation on the fund's board of members of parliament and appointees from civil society. The government intends to finalize plans for such a fund by the time of the discussions on a successor program with the IMF.

- *Second, the agreement allows for substantial government participation in the mining project and the required infrastructure*. In this regard, the government intends to carefully assess the financing modalities of such participation to avoid commitments that could put debt sustainability at risk or interfere with progress toward the HIPC completion point and will consult the staffs of the IMF and the World Bank before finalizing agreements on such financing.

Expenditure

12. **The government has taken measures to address the excessive growth in expenditures in recent years**. A main factor in the rapid expansion has been the conclusion of procurement contracts for a total amount of GNF 13,400 billion (40 percent of 2010 GDP) during 2009–10. A first review of these contracts, conducted with assistance of the World Bank, indicated that they were mostly awarded outside normal procurement procedures at inflated costs, while providing limited benefits for the country. In March, the government suspended all such contracts and stopped payments and will undertake a full review of these contracts before taking further actions. The 2011 budget provides for a contingency for possible audit and legal costs and for unavoidable payments. The decisions on those contracts will be reflected in a revised budget later in the year, on which the government will consult the IMF.

13. **The government has initiated a reform of the civil service, particularly in the areas of the number of civil servants and payroll**. Civil service recruitment will be frozen during 2011, except for hiring for education, health, and justice. We expect that the new hiring in these three ministries will be offset by the elimination of fictitious or duplicate workers. In this regard, efforts to clean up the civil service roster have already led to the identification of 1,327 fictitious employees from 2,619 cases of duplication.

14. **The government has formulated an Action Plan to meet some of the most urgent needs of the population**. Total expenditure under the Plan is estimated at GNF 1,207 billion, of which GNF 1,091 billion has been included in the budget and will be financed from domestic resources and GNF 116 billion is expected to be financed from external resources. In order to make room for the high-priority expenditure projects under the Plan, we had to delay implementing other investment projects, for which we will now seek external financing.

15. **When these measures are included, the 2011 budget's basic balance (domestic revenue minus domestically-financed expenditure) shows a small deficit of 2 percent of GDP, compared to a deficit of 13 percent of GDP in 2010**. Including debt service obligations and providing for clearing external arrears, the overall financing gap of the budget would amount to 11.5 percent of GDP (US$535 million). After the approval by the World Bank and the African Development Bank of budget support operations of US$78 million and about US$30 million, respectively, possible additional budget support in 2011 amounts to about US$55 million. The government plans to use a small part of the recent windfall revenue from the mining sector and issue treasury bills for a total of about 3 percent of GDP. For the remaining financing need, about US$340 million, the government intends to open discussions with its external creditors on the clearance of arrears and deferment of current debt service falling due with the aim of finding a solution in the context of the HIPC Initiative.

Box 1. Fiscal Adjustment Measures 2011
(GNF billion)

Measures	Expected impact
REVENUE	**646.5**
Tax Department	**50.5**
Recovery of tax arrears	50
Raising excise taxes on alcoholic drinks	0.5
Customs Department	**596**
Petroleum product-related revenue	480
Expanding the list of products requiring pre-shipment inspection	21
Raising excise taxes on tobacco	15
Control of imports by mining companies and sub-contractors benefiting from exemptions	30
Levy on heavy oil	16
Elimination of ad-hoc exemptions	50
Adjustment to CET on flour and cooking oil	-16
EXPENDITURE	**-664**
Suspension/Renegotiation of contracts signed in 2009-10	-660
Accompanying measures for the fuel price mechanism	80
Reduction in projected civil service recruitment	-5
Reduction in projected expenditures on vehicle purchases, fuel and overseas missions	-79
TOTAL	**1,310.5**

Sources: Guinean authorities, and IMF staff estimates.

Other measures

16. **Spending will be broadly implemented on a cash-management basis during 2011**. The 2011 budget projections reflect our best estimates on revenue and existing expenditure commitments and available financing. However, uncertainties are larger than usual due to the deterioration of the budget over 2009–10 and the only recently restored relations with donors. In this context, to reach our fiscal targets, we will limit expenditure to available resources. To this end, the Treasury Committee, chaired by the Prime Minister, was reinstated in January 2011, and, while bank financing amounted to 1.5 percent of GDP in December 2011, we were able to avoid any further such financing during January–April 2011. Our cash flow plan for the first six months of 2011 (Table 1) provides for bank financing of GNF 300 billion for the purpose of smoothing. Should available resources exceed forecasts, the government will use all or part of these additional resources to reduce bank financing. Consistent with the cash-flow plan, we have limited the opening of budgetary credits for ministries and departments to through end-June 2011. If needed, the government will consult the IMF in mid-2011 to implement corrective actions under a supplementary budget law.

17. **There is an urgent need to reform the civil service**. Civil service employment has risen from 56,000 in 2006 to 98,344 in January 2011, when outlays on wages and salaries equaled almost 40 percent of revenue. In addition to reconciling civil service employee records and the payroll and other efforts underway to update the civil service database, the government has started preliminary work on a biometric census of all civil service employees

and the army. With regard to civilian personnel, a draft project outline for the selection of a technical contractor has been submitted to the World Bank to ensure its conformity with the procurement rules for technical and financial partners. The objective is to deliver the biometric database at the time when the computing systems of the Ministries in charge of civil service, finance, and budget are reconciled; this is planned for December 2011. In February 2011, the government created a High Commission for Reform of the State responsible for leading the modernization of the public administration.

18. **The sharp deterioration of public financial management during 2009–10 is the main cause of the large financial problems we now face and strengthening measures are underway or will be implemented in the short term**. In the area of budget management, we issued a ministerial decree on March 22 that strictly limits the use of exceptional procedures for the execution of expenditure commitments, including penalties for noncompliance. Furthermore, we prepared and circulated a decree on March 11, 2011 that restored normal procedures to ensure that all procurement contracts will be awarded on a competitive basis (including army contracts that were previously excluded). At the same time, we are working to ensure that the procedure for regularly taking stock of public accounts is reestablished. With regard to cash management, we have conducted a comprehensive inventory of bank accounts opened by public enterprises at commercial banks, including project-related accounts. A report outlining the steps taken and actions required to ensure convergence toward establishment of a Single Treasury Account at the central bank was designed for this purpose. In addition, we intend to finalize the process for reforming the legal framework of public financial management (e.g. the organic law of the finance laws, budget classification, government chart of accounts, the organic law of the court of auditors, and the procurement code) to bring this in line with regional standards. Finally, it is essential that internal control of budget execution be reestablished through the restoration of budgetary procedures and controls on costing. The implementation of these actions, included in the matrix of priority actions, will be given special attention by the relevant departments of the Ministry of Economy and Finance.

19. **With the aid of our technical and financial partners, we will also restart implementation of broader public financial reform, based on the 2008 Strategy of Public Financial Management Reform**. The matrix of actions under this strategy, which was based on extensive technical assistance from the Fiscal Affairs Department of the IMF (FAD), is being updated in close cooperation with several partners, including, in addition to FAD, the World Bank, the African Development Bank, the European Union, UNDP, and France. To coordinate its implementation, the government has set up a technical secretariat headed by a high-level official of the Ministry of Economy and Finance.

A. Monetary and Foreign Exchange Policies

20. **Monetary policy will focus on reducing pressure on inflation and the exchange rate from the strong growth in the money supply during 2009–10**. The main causes of this excessive growth have been advances from the BCRG to finance the budget. Avoiding

additional such financing will be essential in achieving a reduction in inflation. This policy will be supported by measures to sterilize the excessive liquidity in the economy and promote positive interest rates in real terms, which could in turn encourage private savings and discourage capital flight.

21. **The BCRG is taking all the measures necessary to reduce inflation and stabilize the Guinean franc**.

- As a first step, it raised the reserve requirement for commercial banks from 9.5 percent to 17 percent on March 23, 2011.
- If needed, it plans to place non-negotiable Treasury bills with particularly liquid commercial banks. To this end, and in close collaboration with the Ministry of Economy and Finance, the BCRG could convert part of its existing stock of advances to the government into treasury bills. In order to further reduce excessive liquidity, the authorities also plan to review the possibility of issuing securities to the public.
- It will make no further advances to the government. The government's financing needs will be covered by issuance of treasury bills through the existing auction system, which is expected to generate interest rates sufficiently to encourage savings and discourage flight into foreign currency holdings.
- The BCRG's policy rate (taux directeur) was increased from 16.75 percent to 22 percent on March 23 and will henceforth be adjusted in line with the results of the Treasury bill auctions.
- The issuance of central bank bills could complement other measures in support of the implementation of the monetary program and a stable level of liquidity.

Finally, the BCRG will monthly publish a summary balance sheet and brief analysis of monetary developments in the main local press to reduce uncertainties in our nascent financial market.

Exchange policy

22. **On April 7, the BCRG started to reopen the foreign exchange bureaus, allowing the market to freely determine the exchange rate.** The official rate is determined by the commercial bank average on the previous day. Based on this, all central bank foreign exchange transactions, including with the government, will henceforth be made within the limit of 1 percent around the daily weighted average exchange rate of the commercial banks. This measure will remove the distortions arising from the existence of different prices for this important economic indicator, thus providing the same signal to all economic actors.

23. **The BCRG is undertaking a number of additional measures to improve the working of the foreign exchange market**. To strengthen monitoring, on March 29 the central bank adopted new regulations on foreign exchange bureaus, and on April 13 it did the same for money transfer offices. The BCRG is requiring that all offices renew their operating

licenses. These measures are expected to encourage a deepening of the formal foreign exchange market and together with other measures for banks to promote development of an interbank market, for which the BCRG has also requested IMF technical assistance.

24. Following some limited auctions in March 2011, on May 20, 2011, the BCRG began conducting foreign exchange auctions, in which participants are invited to offer sales or submit bids for purchases to pay for purchases, documented in line with foreign exchange regulations. Bids and sales are settled at the auction market-clearing rate.

Bank supervision

25. **The BCRG attaches high priority to strengthening the supervision of the commercial banks**. Following the redeployment of its staff, the capacity of the supervisory authority (Banking Department) at the BCRG has significantly weakened. Based on technical assistance provided by the IMF's Regional Technical Assistance Center for Africa (AFRITAC West), the BCRG will reinforce the staffing of the Banking Department and develop a training program to rapidly rebuild its capacity. In this regard, the BCRG has requested further technical assistance from the IMF and AFRITAC West.

Safeguards

26. **The BCRG will request an update of the 2007 safeguards assessment**. To this end, it has already issued an authorization for Fund staff to hold discussions with the external auditors and to have access to the central bank's external audit reports.

B. Other Structural Reform Measures

27. **The government plans to implement measures to improve management of public enterprises for water, electricity, and telephony**. With the support of technical and financial partners, a study on the institutional reform of these enterprises, especially Electricité de Guinée, will be completed by end-2011. We plan to update the study on electricity pricing by end-2011, launch a study on tariffs in the water sector, and expect to confirm these studies and determine whether energy sector policy needs further review by end-2011. We will ensure that financial statements of prior years will be produced, audited, and certified by end-2011. We will also ensure that commercial losses will be reduced through measures to reduce transmission losses and improved billing rates and recovery.

28. **The government intends to complete a new Mining Code and a Standard Mining Convention**. A first draft of the new mining code has been reviewed by external consultants with financing provided by France. The completed draft and relevant regulations, including the standard convention (initially prepared with World Bank assistance), were presented in a seminar with a broad range of domestic and external stakeholders and partners during May 10–12, 2011. The draft mining code will be submitted for government review no later than June 2011.

29. **Other economic governance initiatives are moving forward**: (i) the secretariat of the EITI reinstated Guinea's status as a candidate member in March 2011. The 2006

and 2007 financial audits have been completed and published on the government's website. The audits for 2008 and 2009 will be completed following reactivation of the World Bank grant in this regard; (ii) the government created an audit committee in the President's office to look into suspected cases of mismanagement; (iii) the national anti-corruption agency will resume the publication of its report from the second half of 2011; and (iv) while an anti-money laundering law was passed by the National Assembly in 2006, its implementation has been hindered by weak institutional capacity. We are committed to providing the BCRG's financial intelligence unit with the resources necessary for the effective implementation of this law.

HIPC Initiative

30. **The government attaches high priority to reaching the completion point under the enhanced HIPC initiative as soon as possible**. An extension of the PRSP II through June 2012, including a progress report on implementation during 2009–10, has been prepared with assistance from the World Bank, the UNDP, and other partners. Following two regional workshops to ensure participation of a broad range of the population it was validated at a February 17–18, 2011 national seminar and obtained government approval in May 2011. We will ensure continued implementation of the completion point triggers.

C. External financing

31. **Guinea continues to face serious financial constraints and has not been servicing its debt to most of it creditors including some multilateral creditors, leading to external arrears accumulation**. The government intends to regularize its financial relations with its external creditors. To this end, it has cleared its arrears with the World Bank, allowing the latter to provide budget support and resume project support. Regarding our arrears to the European Investment Bank (EIB), we have agreed with the EU on the steps by both parties needed to clear these arrears, which would open up the possibility of renewed interim HIPC assistance from the EIB; we are committed to fulfilling those steps required of Guinea. With respect to creditors with which it has accumulated arrears, the government intends to open discussions to reach an agreement on the clearance of arrears and deferment of current debt service falling due, with the aim of finding a solution to these arrears in the context of the HIPC Initiative. For other creditors, it will remain current on debt service falling due. Regarding debt service to the IMF, the BCRG will continue to maintain adequate funding in its SDR account to cover all payments falling due in the following quarter. Based on our strategy regarding external debt service obligations and prospective donor financial assistance, the program for 2011 is fully financed.

32. **The government will refrain from incurring or guaranteeing external debt on non-concessional terms**. As such, it undertakes to submit to the National Debt Department all prospective loans so that it can assess the concessionality of these loans. In 2009, the then-government agreed to a joint venture with a foreign private company (the China Investment Fund-CIF) that allowed for a broad range of infrastructure investments with a possible government guarantee for non-concessional debt. On the basis of information gathered by the

government, only one loan (amounting to $78 million) has been contracted, to be reimbursed through royalties and dividends realized through the investments made by the companies set up with the CIF in Guinea. The government will refrain from any non-concessional borrowing or the issuance of guarantees under this contract.

D. Technical Assistance Needs

33. **The government has identified a broad range of technical assistance needs in macroeconomic management**. Our already weak institutional capacity has been further eroded during the last two years when normal procedures and regulations were largely by-passed. To make a new start, we have requested technical assistance from the IMF's Fiscal Affairs Department (tax policy, tax administration, customs reform; public financial management) and Monetary and Capital Markets Department (foreign exchange market; central banking). In February 2011, a mission of the IMF's AFRITAC West identified other areas of possible assistance, including in national accounts statistics and banking supervision and its assistance program for Guinea has resumed.

E. Program Monitoring

34. **The government plans to complete the actions indicated in the attached Table 2 prior to signing the letter of intent for the program**.

35. **The government intends to closely monitor the implementation of its program**. To this end, and also to establish a track record toward a possible medium-term program that can be supported by the IMF under the Extended Credit Facility, we have established a number of quantitative and structural indicators for end-June, end-September, and end-December 2011 listed in the attached Tables 3 and 4, respectively. The definitions of the relevant variables are contained in the Technical Memorandum of Understanding (Attachment 1). The program monitoring committee has been reactivated to closely follow developments and the implementation of the measures included in the program. It will provide a monthly report to the Minister of Economy and Finance and the Governor of the BCRG on progress under the program. The Ministry of Economy and Finance will also submit a monthly report on budget execution to the Council of Ministers.

Table 1. Guinea: Cash Flow Estimates 2011
(in billions GNF)

	Jan. real.	Feb. real.	Mar. real.	Apr. real.	May real.	Jun. proj.	Jul. proj.	Aug. proj.	Sep. proj.	Oct. proj.	Nov. proj.	Dec. proj.
Resources	**1,067.60**	**923.84**	**1,092.52**	**1,961.15**	**1,282.12**	**1,351.69**	**868.68**	**744.96**	**616.17**	**1,367.09**	**1,324.75**	**1,194.95**
Resources available at the beginning of the month		576.88	512.06	575.49	698.63	725.41	0.00	75.36	35.40	-0.04	70.76	29.44
Revenue	**329.56**	**346.96**	**343.53**	**528.08**	**557.68**	**485.94**	**415.46**	**418.10**	**516.87**	**485.59**	**478.99**	**480.91**
Taxes	101.26	113.26	115.71	143.30	268.42	197.21	172.23	144.06	198.12	186.12	182.11	161.05
Customs	106.10	117.14	153.83	185.25	189.56	208.15	169.92	211.72	211.72	206.98	204.89	228.49
Treasury	122.20	116.56	73.99	199.53	99.70	80.58	73.31	62.32	107.03	92.49	91.99	91.37
Other revenue				328.42		140.34						
Treasury bills	738.04	0.00	236.93	0.00	0.00	0.00	0.00	251.50	63.90	0.00	775.00	684.60
Other financing							284.60			426.90		0.00
Budget support	0.00	0.00	0.00	529.16	25.81	0.00	168.63	0.00	0.00	454.65	0.00	0.00
Expenditures	**490.72**	**411.78**	**517.03**	**1,262.52**	**556.71**	**1,351.69**	**793.32**	**709.56**	**616.22**	**1,296.34**	**1,295.31**	**1,194.95**
Salary	115.13	51.31	137.66	132.81	172.81	265.20	191.00	127.30	157.40	200.10	187.40	190.88
Debt service	164.18	250.34	150.00	851.02	95.48	225.20	356.92	322.06	75.42	680.24	701.31	593.28
Domestic debt	125.00	200.00	150.00	175.00	0.00	200.00	300.00	300.00	0.00	315.95	600.00	485.80
Of which: Treasury bills	125.00	200.00	150.00	175.00	0.00	200.00	300.00	300.00	0.00	0.00	600.00	400.00
External debt	39.18	50.34	0.00	676.02	95.48	25.20	56.92	22.06	75.42	364.29	101.31	107.48
Other expenditures	87.33	93.89	182.99	238.21	176.13	781.24	225.40	250.20	363.40	406.00	396.60	400.79
Other treasury operations	124.08	16.24	46.38	40.48	112.29	80.05	20.00	10.00	20.00	10.00	10.00	10.00
Of which: 2010 payments	116.60	6.85	39.46	36.59	106.34	37.05	10.00	10.00	10.00	0.00	0.00	0.00
Resources available end-month	**576.88**	**512.06**	**575.49**	**698.63**	**725.41**	**0.00**	**75.36**	**35.40**	**-0.04**	**70.76**	**29.44**	**0.00**
Memorandum item:												
Net bank financing												**-3,943.00**

Sources: Guinean authorities; and IMF staff projections.

Table 2. Guinea: Actions to be Completed before Signing the Letter of Intent of the Staff-Monitored Program

Actions	Macroeconomic Rationale	Status
Adopt the 2011 budget in line with commitments under the program.	To enforce fiscal control and consolidation.	Implemented (May 30, 2011)
Reopen foreign exchange bureaus and let the market freely determine the exchange rate. The BCRG official exchange rate continues to be determined as the average rate used by commercial banks on the previous day.	To eliminate exchange rate distortions.	Implemented. Commercial bank rates limited to +/- 3 percent of the official rate as established in the last foreign exchange auction.
Collect the details of the contracts signed with China Sonangol and China International Fund and initiate a review of the terms of these agreements to ensure that the government does not contract or guarantee non-concessional loans.	To help assure debt sustainability.	Implemented

Table 3. Guinea: Indicative Targets for 2011 Under the SMP /1
(in billions of Guinean francs unless otherwise indicated)

	2010	2011			
	end Dec./2 Est.	end Mar. Est.	end Jun. Prog.	end Sep. Prog.	end Dec. Prog.
Quantitative targets					
Basic fiscal balance (floor) /3	-3,410.9	-58.9	-330.0	-429.1	-662.5
Net domestic assets of the central bank (ceiling)	6,740.8	6,740.8	1,760.3	2,044.9	2,487.9
Domestic bank financing of the government (ceiling) /3	4,037.4	-76.5	-4,681.5	-4,396.9	-3,943.0
Net international reserves of the central bank (floor); US$ millions /3, 4, 5	21.5	102.8	801.5	773.5	668.9
New nonconcessional medium- or long-term external debt contracted or guaranteed by the government or central bank (ceiling); US$ millions /6	n.a.	0.0	0.0	0.0	0.0
Stock of outstanding short-term external debt due or guaranteed by the government or the central bank (ceiling); US$ millions	n.a.	0.0	0.0	0.0	0.0
Memorandum items:					
Reserve money	6,981.7	6,979.0	6,983.9	6,998.3	7,101.4

Sources: Guinean authorities; and IMF staff projections.
1/ Definitions and adjustors are included in the technical memorandum of understanding (TMU).
2/ Flow over 2010 for fiscal criteria and stock for end-December 2010 for monetary and external debt criteria.
3/ Cumulative change from end-December 2010.
4/ Calculated using the program exchange rates.
5/ End 2010 figure excludes 2009 SDR allocation.
6/ External debt contracted or guaranteed other than with a grant element equivalent to 35 percent or more, calculated using a discount rate based on the OECD commercial interest rates. Excludes borrowing from the IMF.

Table 4. Guinea: Structural Reforms Under the Staff-monitored Program

Continuous	**Macroeconomic Rationale**	**Status**
No payment by the central bank for the account of the government without the prior signature of the Minister of Economy and Finance or his official representative. (MEFP ¶ 6)	To restore fiscal control and procedures	Observed in Q1 2011
No new ad hoc tax and customs exemptions (MEFP ¶ 8)	To restore fiscal discipline and ensure government revenue	Observed in Q1 2011
Monthly publication in local media of a brief summary and analysis of the monetary outlook. (MEFP ¶ 21)	To inform economic agents on monetary developments	
No new extra-budgetary expenditures. (MEFP ¶ 18)	To restore fiscal control and prevent expenditure overruns	
No net increase in the civil service. Any recruitment in health, education, and justice will be offset by the elimination of ghost workers or duplicates. (MEFP ¶ 13)	To prevent a structural increase in wage expenditures (to improve efficiency of expenditures)	Observed in Q1 2011
Execute a cash-basis budget with no central bank financing in 2011. (MEFP ¶ 6, 16)	To enforce fiscal consolidation and contain inflation	Observed in Q1 2011
March 31, 2011		
Publication of a decree restoring normal procedures ensuring that procurement contracts are awarded on a competitive basis. (MEFP ¶ 18)	To enforce public financial management rules	Completed
April 30, 2011		
Adoption of the law on treasury single account. (MEFP ¶ 18)	To improve control over government funds and reduce cost of government borrowing	Completed
June 30, 2011		
Submission to the government of a standard mining contract based on international best practices. (MEFP ¶ 28)	To improve business environment in the mining sector and ensure government revenue	
June 30, 2011		
Publication of the promulgation decree on the treasury single account. (MEFP ¶ 18)	To improve control over government funds and reduce cost of government borrowing	

Table 4. Guinea: Structural Reforms Under the Staff-monitored Program (cont.)

September 30, 20011	
Submission by the Tax Department to the Minister of Economy and Finance of an initial report on the fiscal control of government contracts signed during 2009–10. (MEFP ¶ 12)	To enforce fiscal discipline and improve revenue collection
October 31, 2011	
Publish the central bank's audited financial statements for 2010 on its website together with the auditors' opinions.	To inform economic agents on the central bank's activities and situation
December 31, 2011	
Carry out an institutional audit of the electricity sector in partnership with the World Bank and the Agence Française de Développement. (MEFP ¶ 27)	To initiate a restructuring of the electricity sector, a main bottleneck for economic growth

ATTACHMENT II. GUINEA: TECHNICAL MEMORANDUM OF UNDERSTANDING

JUNE 2011

I. INTRODUCTION

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

2. The indicative targets and cut-off dates are specified in Table 3 of the Memorandum of Economic and Financial Policies (MEFP).

II. MAIN DEFINITIONS

A. Indicative Targets

3. The **basic fiscal balance** is calculated as the difference between **government revenue excluding grants** and **basic government expenditure**. Definitions of bolded terms above are specified in the Table of Financial Operations of the Government (TOFE), as described in Section V below.

4. **Domestic bank financing of the government** is calculated as the sum of the change in **central bank financing** and **commercial bank financing of the Treasury**. Definitions of bolded terms above are specified in the Table of Financial Operations (TOFE), as described in Section V of the TMU.

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

6. **Net international reserves (NIR) of the BCRG** are, by definition, equal to the difference between the reserve assets of the BCRG (i.e. the external assets readily available to, and controlled by, the BCRG as per the fifth edition of the IMF's *Balance of Payments Manual*) and the foreign exchange liabilities of the BCRG to residents and nonresidents (including foreign exchange deposits of the local banks in the BCRG). Allocations of Special Drawing Rights (SDRs) shall not be deducted in the calculation of NIR. In the program context, the gold holdings of the BCRG will be evaluated at the gold price in effect on December 31, 2010 (US$1224.8 per oz.). For the test dates, the US dollar value of the reserve assets (other than gold) and foreign exchange liabilities will be estimated using the program exchange rates, namely: the exchange rates between US dollar and the Guinean franc (7115 GNF/US$), the SDR (1.53561 US$/SDR), the Euro (1.32185 US$/EUR) and other currencies as published in the IFS.

Medium- and long-term external debt contracted or guaranteed by the government or the central bank is defined as the amount of **external debt** (see Section B) incurred or guaranteed by the state or central bank for a period of one year or more during the period January to June 2011. Debt is considered **concessional** if it has a grant element equivalent to 35 percent or more using the available currency-specific commercial interest reference rate (CIRR) and following the methodology set out in staff papers SM/96/86 (April 8, 1996) and EBS/00/128 (June 30, 2000).[1] This definition criterion does not apply to financing granted by the Fund.

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

8. **Reserve money,** which is a memorandum item in the table of indicative targets, comprises local banks' deposits and other deposits with the BCRG (including required reserves of the banks) denominated both in Guinean francs and in foreign exchange, Guinean franc cash in circulation, and cash in Guinean francs in vaults of local banks. The amounts in foreign exchange will be converted to Guinean francs at the program exchange rate as specified above (in the section on net international reserves).

B. External Debt

9. With regard to the term "external debt," as specified in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by the Executive Board of the IMF on August 31, 2009,[2] for purposes of the program, "debt" will be understood to mean current, i.e., not contingent, liabilities, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. **External debt** can take a number of forms, the primary ones being the following:

- **loans**: advances of money to the obligor by the lender on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' or suppliers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the

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

[2] See "Guidelines on Performance Criteria with Respect to Foreign Debt"—IMF Executive Board Decision No. 12274, as amended by Decision No. 14416-(09/91) (SM/09/215, suppl. 1, August 20, 2009).

collateral from the buyer in the future (such as repurchase agreements, official swap arrangements, swaps, or leases);

- **suppliers' credits:** contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and
- **leases**: arrangements under which property is provided that the lessee has the right to use for one or more specified periods of time, which are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of this memorandum, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments that cover the operation, repair, or maintenance of the property.

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

III. Adjustments to Program Targets

11. **Domestic bank financing of the government**, in other words, **bank financing of the Treasury**, is calculated based on the projected amounts of revenue and external grants and financing. For program purposes, revenue includes tax and non-tax revenue as defined in Section V, grants include non-refundable financing, and external financing includes loans from governments, financial institutions, or external private entities.

12. The ceiling on domestic bank financing to the Treasury will be adjusted downward if revenue and budget support (either grants or loans) exceed the amounts projected in the budget.

IV. Information For Program Monitoring

13. The information necessary for monitoring the indicative targets under the program, as specified in Table 3 of the MEFP, will be reported to the IMF's African Department. The required data information and time limits are specified in Table 1. Barring any indication to the contrary, the data will take the form mutually agreed by the authorities and the IMF. The authorities will supply the Fund with any additional information that the Fund requests in connection with monitoring performance under the program on a timely basis. In addition, the authorities will consult with IMF staff if they obtain any information or new data pertinent for assessing or monitoring performance against the program objectives.

14. The status of implementation of structural measures pertaining to the program, as specified in Table 4 of the MEFP, will be transmitted to the IMF's African Department within two weeks of the date of implementation.

15. The authorities will inform IMF staff of any new external borrowing and the associated terms as soon as external debt is contracted or guaranteed by the state. The BCRG will communicate to IMF staff reports on the meetings of the inter-bank foreign exchange market.

V. Definition of TOFE Items

16. Unless otherwise indicated, the **government** is defined as the central administration of the Republic of Guinea and does not include local administrations, the Central Bank of the Republic of Guinea (BCRG), or any other public entity with autonomous legal personality, notably public administration (*établissements publics administratifs*) and public enterprises of an industrial or commercial nature (*établissements publics à caractère industriel et commercial*).

17. **Government revenue** includes tax and nontax revenue. It does not include external grants or the proceeds from privatization (recorded as financing). Tax and nontax revenue are defined in accordance with *GFSM* 1986, section IV.A.1, using the following categories. For tax revenue, the main categories are taxes on income, profit, and dividends (Title 1); taxes on property (Title 2); taxes on international trade (Title 3), including import duties, the export duty (*droit fiscal de sortie*), the surtax on consumption, the liquidation levy (*redevance de liquidation*) and penalties related to international trade; taxes on goods and services (Title 4), including general sales taxes, value-added taxes on domestic sales and on imports, the single tax on vehicles (TUV), the TAF, taxes on petroleum products, and export taxes on mining products, including the tax on mining products, taxes on diamonds, and taxes on precious metals. Other tax revenues (Title 5) include stamp taxes and revenue from recording taxes. Tax receipts also incorporate the taxes assumed by the State for the purchase of externally-financed capital goods. Nontax revenue consists of royalties and dividends (excluding revenue from the sale of telephone licenses), administrative duties and fees, and fines and forfeitures (Title 6), other non-tax revenue (Title 7), and incidental revenue and capital receipts (Title 8).

18. **Government expenditure** will be measured at the stage of incurrence of expenditure (*prise en charge*) by the Treasury, regardless of the execution procedure followed. Under regular or simplified procedures, expenditures will be incurred by the Treasury once the payment order (*ordonnancement*) is issued; in the case of decentralized government appropriations (*délégations de crédit*) or payments without prior authorization, the expenditure will be incurred by the Treasury at the time of recording of the payment order (*mise en paiement*), and in the latter case, no expenditure will be measured on the basis of the regularization orders. For refunds of VAT credits, incurrence by the Treasury occurs when refund requests are transmitted from the National Tax Directorate to the National Directorate of the Treasury. Government expenditure includes all expenditure of the central government, including subsidies and transfers to autonomous public entities, and loans granted or on lent by the government to public enterprises and other sectors of the economy, net of repayments on such loans.

19. **Basic expenditure** is defined as the sum of (i) current expenditure, excluding expenditure on interest on external debt and (ii) domestically-financed capital expenditure.

20. **Bank financing**, or **domestic credit the government from banks** comprises: (i) **central bank financing of the Treasury**, that is to say the change in net position of the Treasury with respect to the central bank (PNT1) excluding changes in the net position of "satellite" government accounts with the central bank; and (ii) **commercial bank financing of the Treasury**, which includes changes in the stock of Treasury bills held by banks, but excludes changes in the net position of "satellite" government accounts held in commercial banks.

21. **Non-bank financing** includes: (i) privatization receipts, including proceeds from the sale of telephone licenses; (ii) suppliers' credits falling due in more than three months received (with positive sign) or refunded (with negative sign); and (iii) retirement of other domestic debt.

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

23. **Payment float**, an item contained in the cash plan, is defined as the stock of expenditure borne by the Treasury (see definition above) and not yet paid.

Table 1. Guinea: Data Reporting Requirements

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	30^{th} of the month for the previous month
	Repayment schedule, interest rates and outstanding volumes of the government and central bank securities (*BDT* and *TRM*)	Monthly	30^{th} of the month for the previous month
	Budget of foreign exchange operations (*Budget en Devises*)	Monthly	30^{th} of the month for the previous month
Fiscal data	Table of indicators (*tableau de bord*), including details on revenues, expenditures, and cash-flow operations	Monthly	30^{th} of the month for the previous month
	TOFE	Monthly	30^{th} of the month for the previous month
	Treasury balances (*balance générale du Trésor*)	Monthly	30^{th} of the month for the previous month
	Cash-flow plan for most recent month (in preparation and execution) and the plan for the current month (in preparation)	Monthly	15^{th} of the current month
	Stock of expenditures in process	Monthly	30^{th} of the month for the previous month
Real sector data	Consumer price index, Conakry	Monthly	30^{th} of the month for the previous month
	Quarterly summary of macroeconomic developments	Quarterly	60 days after the end of the quarter
Balance of payments data	Imports by use and exports by major product, trade balance	Quarterly	Three months after the end of the quarter
	Price and volume indices of imports and of exports	Quarterly	Three months after end of quarter
	Consolidated estimates of the balance of payments	Annual	Summary estimates: six months after the end of year
External debt	Debt service due before and after debt relief	Monthly	30^{th} of the month for the previous month
	Debt service paid	Monthly	30th of the month for the previous month
	Debt service reconciliation table	Monthly	30th of the month for the previous month
	Stock of outstanding debt and arrears	Monthly	30th of the month for the previous month
	Drawings on new loans	Monthly	30th of the month for the previous month
Grants	Disbursements	Monthly	30th of the month for the previous month

INTERNATIONAL MONETARY FUND

GUINEA

Staff-Monitored Program

Informational Annex

Prepared by the African Department
(In consultation with other departments)

June 30, 2011

- **Relations with the Fund**. Describes financial and technical assistance from the Fund and provides information on the safeguards and assessment and exchange rate system.
- **Relations with the World Bank**
- **Millennium Development Goals**
- **Statistical Issues**. Assessment of the quality of the statistical data.

Contents Page

VI. Guinea: Relations with the Fund

(As of May 31, 2011)

I. Membership Status: Joined: September 28, 1963.

II. General Resources Account:	**SDR Million**	**Percent Quota**
Quota	107.10	100
Fund holdings of currency (Exchange rate)	107.03	99.93
Reserve Tranche Position	0.08	0.07

III. SDR Department:	**SDR Million**	**Percent Allocation**
Net cumulative allocation	102.47	100
Holdings	72.80	71.05

IV. Outstanding Purchases and Loans:	**SDR Million**	**Percent Quota**
ECF Arrangements	29.62	27.66

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF [1/]	Dec 21, 2007	Dec 20, 2010	69.62	24.48
ECF [1/]	May 02, 2001	May 01, 2004	64.26	25.70
ECF [1/]	Jan 13, 1997	Jan 12, 2001	70.80	62.94

[1/] Formerly PRGF.

VI. Projected Payments to Fund:

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

	Forthcoming				
	2011	2012	2013	2014	2015
Principal	1.29	2.57	1.38	4.90	4.90
Charges/Interest	0.08	0.22	0.21	0.21	0.19
Total	1.36	2.79	1.59	5.10	5.09

[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/	545.00
Of which: IMF assistance (US$ million)	31.40
(SDR equivalent in millions)	24.24
Completion point date	Floating
II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	10.02
Interim assistance	10.02
Completion point balance	--
Additional disbursement of interest income 2/	--

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

Not applicable

IX. Safeguards Assessment

A safeguards assessment of the Central Bank of the Republic of Guinea (BCRG) was completed in October 2007. It found critical vulnerabilities in the BCRG safeguards framework, including in the system of internal controls, financial governance, and accountability. An international firm is currently conducting an audit of the 2010 financial statements. The authorities have committed to the publication of the audit results.

X. Exchange Rate Arrangement

Guinea is returning to a managed float system with no predetermined path, after an interruption of the system during 2009–10; the de facto arrangement is classified as "other managed arrangement". The system includes a multiple currency practice as the value of the official rate lags the weighted average commercial bank rate on which it is based by one day. A more full description of the exchange system will be needed in order to assess whether the current system may give rise to additional multiple currency practices. Guinea has accepted the obligations under Article VIII, sections 2, 3 and 4 of the IMF's Articles of Agreement.

XI. Article IV Consultation

The last Article IV Executive Board Consultation was on December 21, 2007.

XII. Technical Assistance January–June 2011

Dates	Domain	From	Main Tasks
February 3-18	All AFRITAC-relevant areas	AFW	Resumption of contact with the authorities Needs assessment
February 3-11	Statistics Real Sector	AFW	Implementation of the SNA 1993
February 3 -18	Banking supervision	AFW	Strengthening of bank supervision (design of an assistance and training program)
March 7-11	Government finance statistics	AFW	Assistance for the publication of government finance statistics
March 15 - April 8	Banking supervision	AFW	Review of the legal framework Computerization of collection of data from commercial banks Assistance for the finalization of the accounting system
April 4-15	Public expenditure management	AFW	Treasury management (treasury plan, steering committee, institutional framework)
April 12-25	Tax administration	AFW	Strengthening of tax administration, including tax arrears recovery
April 18-29	Statistics Real Sector	AFW	Review of current methodologies (sectoral data and national account) Finalization of "Comptes rapides 2003 - 2008" Action plan for "Comptes rapides 2009-2010"
April 27 - May 10	Public financial management	FAD	Treasury Single Account, Cash management Expenditure chain, Legal and regulatory framework Budget and accounting classifications, Fiscal reporting Management of one-off resources
May 9-20	Public expenditure management	AFW	Review of the government accounting system (plan comptable de l'Etat)
May 19 - 26	Customs administration	AFW	Computerization of customs procedures Training program for the staff
May 19 - June 1	Revenue administration	FAD	Re-launch of the reform initiated in 2007 but interrupted by the political context
May 30 - June 10	Tax administration	AFW	Tax arrears and recovery

VII. Guinea: Relations with the World Bank

The World Bank ceased its engagement in Guinea after the military coup of December 2008. Subsequently, disbursements were formally suspended on September 30, 2009, when the country fell into arrears. The Bank has been operating under the auspices of OP/BP 7.30, "Dealings with De Facto Governments" until January 2011. Prior to disengaging, the Bank had maintained an active portfolio of nearly US$360 million comprised of eleven projects including three regional operations.

Following the return to constitutional order, the World Bank resumed its engagement, starting with a DPO which facilitated arrears clearance. After the presidential election a new government was formed in January 2011 and the World Bank initiated discussions on a DPO of US$78 million, approved on April 21, 2011.The grant primarily facilitated Guinea's arrears clearance to IDA and allowed a resumption of Bank disbursements under the existing portfolio of projects. Prior actions under the DPO included important measures aimed at improving (i) public financial management; (ii) public administration reform; (iii) revenues; and (iv) transparency in the mining sector.

In preparation for the re-activation of investment projects, the World Bank proposed to support Government immediate priorities under its Priority Action Plan (PAP) and strengthen safety nets. Investment projects in health, urban and rural communities' development, electrification and transport with remaining balances of approximately US$160 million, are expected to be disbursed in part in 2011 and the remainder in 2012. Furthermore, from the remaining US$45.2million under the EFA-FTI project, US$21 million could be disbursed in 2011 and the remainder in 2012.

The African Development Bank approved a parallel Development Policy Operation on May 18, 2011. The design of the AfDB-DPO relied on similar diagnostic and joint dialogue with authorities and retains the same prior actions as that of the World Bank DPO. The AfDB-DPO amounts to about US$30 million and will be disbursed in two tranches within 2011, of respectively US$22.5 million and US$ 7.5 million. The disbursements are subject to a conclusion of a program with the Fund. The European Union is also planning a budget support operation for Guinea.

Fund staff have collaborated closely with the World Bank and other donors. Since the return to constitutional order, several joint missions have been organized with staff participation from the World Bank, the African Development Bank, the European Union and the Fund. IMF staff provided an assessment letter on the latest macroeconomic developments and policy, as required by other donors to allow a resumption of their operations. Fund staff are coordinating with other donors on the planning of future activities.

VIII. GUINEA: MILLENNIUM DEVELOPMENT GOALS

	1990	1995	2000	2005	2009 Sub-Africa	2009	2015 MDG Target
Goal 1: Eradicate extreme poverty and hunger							halve
Income share held by lowest 20%	..	..	..	*7.0*	..	*6*	
Malnutrition prevalence, weight for age (% of children under 5)	26.8	..	32.7	..	29.6	*21*	13.4
Poverty gap at $1 a day (PPP) (%)	..	..	..	..	..	…	…
Poverty headcount ratio at $1 a day (PPP) (%)	..	..	..	..	41.1	…	…
Poverty headcount ratio at national poverty line (%)	..	*40.0*	..	..	..	*53.0*	…
Prevalence of undernourishment (%)	*39*	*31*	..	*24*	*30*	…	19.5
Incidence of poverty			*49.2*	*53.6*		…	…
Goal 2: Achieve universal primary education							100
Literacy rate, youth total (% of people ages 15–24)	44	..	..	*47*	*73*	61	100
Persistence to grade 5, total (% of cohort)	*59*	..	..	*76*	..	*69*	100
Primary completion rate, total (% of relevant age group)	19	20	33	55	58	62	100
School enrollment, primary (% net)	*27*	..	47	67	66	73	100
share of current expenditures on education in State equity resources	…	…	…	*14.2*	…		…
Goal 3: Promote gender equality and empower women							100
Proportion of seats held by women in national parliament (%)	..	*7*	*19/114*	*22/114*	*19*	19	100
Ratio of girls to boys in primary and secondary education (%)	*45*	..	63	74	86	77	100
Ratio of young literate females to males (% ages 15–24)	43	..	..	*57*	*88*	79	
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	30.3	..	..	..	..	…	
Goal 4: Reduce child mortality							>75% reduction
Immunization, measles (% of children ages 12–23 months)	35	61	42	71	68	51	
Mortality rate, infant (per 1,000 live births)	139	124	110	91	81	88	
Mortality rate, under 5 (per 1,000)	234	209	183	163	130	142	78
Goal 5: Improve maternal health							
Births attended by skilled health staff (% of total)	*31*	..	*35*	*38*	44	*46*	
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	740	980	*645*	*680*	> 75% reduction
Goal 6: Combat HIV/AIDS, malaria, and other diseases							halt/reverse
Contraceptive prevalence (% of women ages 15–49)	*2*	..	*6*	*7*	21	…	
Incidence of tuberculosis (per 100,000 people)	130	158	193	236	342	318.0	halt/reverse
Prevalence of HIV, female (% ages 15–24)	..	..	..	1.4	3.8	0.9	halt/reverse
Prevalence of HIV, pregnant womenl (% of population ages 15–49)	..	..	*2.8*	..	…	…	halt/reverse
Tuberculosis cases directly observed (%)	..	43	54	56	49	…	halt/reverse
Goal 7: Ensure environmental sustainability							
CO2 emissions (metric tons per capita)	0.2	0.2	0.2	*0.1*	*0.9*	0.1	
Forest area (% of land area)	30	..	28	27	28	27	
GDP per unit of energy use (constant 2000 PPP $ per kg of oil equivalent)	..	..	..	..	*3.2*	…	
Improved sanitation facilities (% of population with access)	14	..	..	*18*	*31*	*19*	57
Improved water source (% of population with access)	44	..	..	*50*	*60*	*71*	72
Nationally protected areas (% of total land area)	..	..	..	*6.4*	11.7	6.8	
Proportion of population with access to a beter sanitation system (urban/rural)	..	..	..	*70.1*	…	…	
Goal 8: Develop a global partnership for development							
Aid per capita (current US$)	47	55	18	19	44	25	to increase
Debt service (PPG and IMF only, % of exports, excl. workers' remittances)	19.6	24.3	14.2	11.3	3.1	11.2	
Fixed line and mobile phone subscribers (per 1,000 people)	2	2	8	*20*	*142*	*22*	
Internet users (per 1,000 people)	0	0	1	1	1	1	
Personal computers (per 1,000 people)	..	1	3	*5*	*15*	..	
Total debt service (% of exports of goods, services, and income)	20.0	25.0	20.4	*19.9*	*8.8*	*10*	
Unemployment, youth female (% of female labor force, ages 15–24)	..	..	..	..	..	..	
Unemployment, youth male (% of male labor force ages 15–24)	..	..	..	..	..	..	
Unemployment, youth total (% of total labor force ages 15–24)	..	..	..	..	..	..	
Other goals and indicators							
Fertility rate, total (births per woman)	6.5	6.3	5.6	5.6	5.0	5.3	
GNI per capita, Atlas method (current US$)	430	490	400	420	1,134	370	
GNI, Atlas method (current US$ billions)	2.6	3.7	3.4	3.9	952.6	3.8	
Gross capital formation (% of GDP)	17.5	16.6	22.0	12.0	20.8	21.6	
Life expectancy at birth, total (years)	47	51	53	54	53	58	
Literacy rate, adult total (% of people ages 15 and above)	27	..	..	*29*	*61*	39	
Population, total (millions)	6.2	7.5	8.4	9.4	840.3	10.1	
Trade (% of GDP)	61.5	45.3	52.3	55.7	63.3	86.2	

Sources: World Development Indicators database, June 2011; and Guinean authorities, Second Poverty Reduction Strategy Paper, August 2007.

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

IX. Statistical Issues

Data for Surveillance

1. Official data provision was suspended during 2009–10. The ability of the government agencies in charge of statistics to collect data on government operations and private sector activities was seriously hindered during this period. Following the return to a normal functioning of the Guinean administration, the mechanism of data collection is being gradually restored. The publication of the monthly bulletin on the Guinean economy was re-launched, but its frequency remains irregular. The authorities are making efforts to resume data provision to allow Fund staff to restart surveillance, although shortcomings in some areas hamper staff's analysis.

Real Sector Statistics

2. Real sector statistics are incomplete, and published with insufficient timeliness to support economic policymaking. The monthly consumer price index (CPI) is being published in a timely manner. Other statistics on economic activities are published less frequently and less regularly; statistics included in the monthly bulletin of the Guinean economy are rather limited. Monthly surveys of mining, industrial and agricultural production are produced with long delays. Employment and population statistics are only published annually. A program supported by international partners, expected to lead to the production of annual input-output matrices, was interrupted in 2009. The regional technical assistance center (West AFRITAC) sent two missions to Conakry in February and April 2011 to determine with the authorities the priority actions in the near future including a review of current methodologies and work on provisional estimates of national accounts.

External Sector Statistics

3. Statistics on balance of payments are weak. The presentation of the balance of payments statement follows BPM5 recommendations. The quality of data is poor, mainly because of insufficient work input at the BCRG and weak coordination with other institutions involved in the collection of data. In particular, the Technical Committee on Balance of Payments Harmonization ceased operations. In this context, almost all items related to the balance of payments need improvements, in particular in the current account. The balance of payments unit at the central bank needs to be reinforced; the activities of the technical committee should be resumed and should include the Customs Directorate and Ministry of Mining and Geology; a questionnaire should be sent to the main actors, including to the mining companies and the foreign exchange bureaus. Exchange rates are reported daily.

Government Finance Statistics

4. The Ministry of Economy and Finance compiles comprehensive monthly budgetary central government data on a cash basis for revenue and on commitment and cash bases for expenditure. During 2009–10, many operations executed on behalf of the government were not recorded under the government financial operations tables (TOFE). The new government took corrective measures to produce an accurate presentation of the situation. Provision of monthly data to AFR has resumed, albeit still with some delays. AFR also receives sporadically the treasury plan and is now requesting the document on a monthly basis. The budget includes the bulk of all government operations, although it excludes a number of "satellite" accounts that are not directly incorporated into the budget. Efforts are now underway to include those satellite accounts, including autonomous government agencies, into the budget and the government finance statistics.

Monetary Accounts Statistics

5. During 2009–10, many government accounts were created at the central bank and commercial banks outside the control of the treasury, creating large inconsistencies between the government finance statistics and monetary accounts statistics. The new government is closing these accounts and bringing all government operations under the net position of the treasury (PNT). Central bank and deposit money bank accounts as well as the monetary survey are compiled and shared with AFR on a monthly basis. Some delays have been experienced with regard to data from the commercial banks, which still needs to be improved. Some discrepancies have been frequently noted between the government finance statistics and monetary accounts statistics; the Ministry of Economy and Finance, the central bank, and Fund staff have been working together to reconcile the data.