International Monetary Fund

Guinea and the IMF

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

November 27, 2017

Letter of intent

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

Conakry, November 27, 2017

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

Dear Ms. Lagarde:

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

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

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

3. **In order to achieve our objectives, we request the support of the International Monetary Fund (IMF) for a successor three-year Extended Credit Facility Arrangement (ECF) in an amount equivalent to SDR 120.488 million (56.25 percent of quota)**. This arrangement will provide the appropriate framework for continuing the implementation of sound macroeconomic policies and achieve our goal to foster higher and more inclusive growth. To this end, our economic policy and reform program will aim at: i) further strengthening Guinea's macroeconomic resilience; ii) scaling-up much needed investments in infrastructure to support higher growth and economic diversification while preserving macroeconomic stability; iii) strengthening our social safety nets programs to reduce poverty and foster inclusiveness; and iv) advancing key growth-supporting structural reforms to strengthen governance and foster the development of private sector.

4. **The attached Memorandum of Economic and Financial Policies (MEFP) lays out the medium-term economic policies and reform program of the government of Guinea and the policies of the Central Bank of the Republic of Guinea that we plan to implement during 2017–20**. It also describes the performance targets and structural benchmarks for the first year of the ECF arrangement, setting forth the underpinning economic policies and structural reforms needed to achieve these objectives.

5. **Our program will be monitored through semi-annual reviews with quantitative performance criteria, indicative targets and structural benchmarks, as described in the attached MEFP and Technical Memorandum of Understanding.** There will be six reviews to monitor progress in program implementation and to agree on eventual additional corrective measures to achieve the program objectives. We request that the disbursements be made in equal installments. The first and the second reviews of Guinea's performance under the ECF-supported arrangement will be completed on or after June 11, 2018 and December 11, 2018, based on performance criteria at end-December 2017 and performance criteria at end-June 2018, respectively. Given our objective of generating higher and inclusive growth through a significant increase in public investment in infrastructure, the effectiveness of public investment and progress in implementing the reforms envisaged to strengthen the management of public investment will be a key element in the evaluation of program performance.

6. **We are confident the policies outlined in the attached MEFP are adequate to achieve the objectives of our economic program, but we will take any further measures that may become appropriate to attain these objectives**. The government of Guinea will consult with IMF staff on

the adoption of these measures, and in advance of revisions to the macroeconomic policies contained in the MEFP, in accordance with IMF's policies on such consultations. We will provide to IMF staff with all information and necessary for monitoring the implementation and the achievement of our program objectives.

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

Sincerely,

/s/	/s/
Malado Kaba	Lounceny Nabé
Minister of Economy and Finance	Governor of the Central Bank of Guinea

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

Attachment I. Memorandum of Economic and Financial Policies

November 27, 2017

A. Recent Economic and Financial Developments

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

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

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

accumulated equivalent to 0.2 percent of GDP. External public debt slightly increased to 21.5 percent of GDP at end-2016, while domestic public debt was 19.4% of GDP.

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

5. Credit to the private sector remains weak due to banks' tight liquidity conditions and crowding out effects of government financing. Reserve money increased by 15.5 percent at end-2016 while private sector credit growth was contained at 2.9 percent. The decision to lower reserve requirements (from 18 to 16 percent) in March 2017 freed up liquidity in the banking system. However, most of the additional liquidity was absorbed by the banks' subscription of the GNF500 billion government bond to finance road development. After recording a negative growth in the first quarter of 2017, credit growth to the private sector resumed in April-May but declined again by 1.4 percent in July (y-o-y). Constrained liquidity in the banking system coupled with crowding out effects of commercial bank financing of the government have contributed to tight credit conditions for the private sector. Furthermore, the rise in non-performing loans (NPLs) to 9.6 percent in June (6 percent in 2015), has also led three banks to limit credit to the private sector.

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

B. Program Objectives and Key Elements

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

- **Reinforcing Guinea's macroeconomic resilience and preserving hard-won stability gains.** We will build external buffers against shocks, in view of Guinea's vulnerability to terms-of-trade shocks, and strengthen our fiscal position to contribute to preserve inflation and medium-term debt sustainability and ensure healthy credit growth to the private sector. To this end, we will contain budgetary financing needs to a level that will allow us to avoid borrowing from the Central Bank (excluding the statutory advances that are refunded within a period of 92 days), reduce borrowing from the banking sector and ensure an appropriate credit growth to the private sector, and avoid accumulating domestic and external arrears. We will maintain the stability of the financial sector.

- **Scaling-up public investments in infrastructure to put our economy on a higher growth path and support economic diversification while preserving macroeconomic stability and medium-term debt sustainability**. We will create budgetary space to step-up the implementation of infrastructure projects—notably in energy production, transport and agriculture—so as to support achieving higher growth and diversifying our economy. To this end, we will mobilize domestic revenues on the back of our tax policy and administration reform and contain non-priority spending. Notably, we will gradually reduce untargeted energy subsidies while putting in place appropriate mitigating measures to protect the most vulnerable. In parallel, we will mobilize the necessary external financing for our ambitious investment program while preserving medium-term debt sustainability and ensuring that the risk of distress of our external debt does not exceed a moderate level. To this end, we are committed to maximize the concessionality of our external borrowing and to limit non-concessional borrowing that will be contracted or guaranteed during the three years of the ECF arrangement at a maximum of US$650 million to maintain medium-term debt sustainability and contain debt vulnerabilities. In addition, we will implement a sustainable domestic debt policy, notably with the gradual clearing of arrears to the private sector toward which we remain indebted with a considerable debt stock. This clearance of arrears will support the recovery of the private sector, which has been severely affected by the recent health crisis, economic growth and job creation. At the same time, it will support private companies to pay their debt owed to the banking system.

- **Mobilizing additional domestic resources to strengthen our social safety nets programs aimed at reducing poverty and foster inclusiveness.** We will move ahead with the implementation of our recently adopted social protection strategy. In this vein, we will increase the envelope of domestic budgetary resources that we devote to our social safety nets programs which are aimed at reducing poverty, fostering inclusion and generate employment opportunities for the most vulnerable. This will be key to start building a basis to reduce over-reliance on donors' external financing over time and ensure the sustainability of our social safety net programs.

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

C. Economic Policies and Reforms Program

Macroeconomic outlook

8. Near- and medium-term growth is expected to be strong, thus contributing to improving the living standards of the population. Real growth is expected at 6.7 percent in 2017 on the back of strong performance in the mining and agricultural sector and a pick-up in construction activity. Medium-term growth is projected to be 6 percent supported by a scaling-up of investments in mining and infrastructure, strengthening exports, a stable macroeconomic environment and the implementation of growth-supporting structural reforms. However, a stronger than assumed pace of investments and pace of new mining capacity production would support higher medium-term growth. We aim to contain inflation at a moderate level, reflecting a prudent monetary policy.

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

Fiscal Policy

10. Our fiscal policy will aim at strengthening macroeconomic stability while creating needed fiscal space to scale-up growth-supporting public investments, notably in infrastructure, and priority social spending. As outlined in our PNDES, we are committed to implement an ambitious scaling-up of public investments, notably in infrastructure, by about

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

Fiscal strategy for 2017

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

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

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

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

Medium-term Fiscal Strategy

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

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

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

- **Tax administration reform:** we will focus on measures that will strengthen tax payment and collection. To this end, we will: (i) finalize the development of online tax declaration and payment modalities; (ii) further advance informatization, with projects RAN and MERCURY allowing to connect TVA payments from businesses to the network of the National Directorate of Taxes (DNI) by end-2018, and enable real-time processing of tax obligations and consolidate information and data from various tax units into a centralized network (SFIG); (iii) reinforce the capacity of the DNI notably by separating management and operations; (iv) finalize the development of a procedural manual and an internal audit protocol for the DNI, with the support of the EU; (v) increase tax control by improving tax-payer identification and cross-checking tax-payers' imports with declared turnover; and (vi) strengthen human and material resources to improve the collection and processing of tax data.

1. Implementing the automatic adjustment price mechanism for petroleum products, while putting in place appropriate mitigating measures to protect the most vulnerable, will support our revenue mobilization strategy and increase budgetary transparency. We have kept the retail prices of fuel products constant since early 2015 at 8,000 Guinean francs per liter and the TSPP has been used as an adjustment variable to bridge the gap between import and retail prices, after taking into account cost recovery for distribution and other charges, leading to revenue losses in 2017. We are convinced that ensuring the mobilization and the predictability of TSPP revenues is key to support higher fiscal revenues and step-up public investments, and allow better budgetary planning. To this end, we will implement the automatic adjustment price mechanism (SB) and fix the TSPP at a level consistent with our revenue targets by end-March 2018. Notably, we have been studying the petroleum products pricing system in other countries to draw appropriate lessons for our reform initiative. We are also reviewing the different components of the petroleum price structure to evaluate where we can generate additional revenue without compromising appropriate margins for distributors and other costs in the structure. As a key step to facilitate and inform our petroleum products price reform, we have initiated discussions with key stakeholders to build consensus. To this end, we are also preparing a communication strategy to inform the public of the importance of reforming the system and how petroleum price subsidies disproportionally benefit more the wealthy. In parallel, we will put in place targeted mitigating measures, including strengthening social safety nets, to minimize the impact of the reform on the most vulnerable segments of society. In the event the implementation of the automatic adjustment price system is delayed beyond March 2018, we will undertake additional tax revenue measures to achieve our revenue target.

2. In parallel, we will mobilize additional mining revenues on the back of buoyant mining activity over the program period and the application of the tax provisions of the new mining code. We have made significant progress towards strengthening governance and transparency in the mining sector. Guinea joined the Extractive Industries Transparency (EIT) initiative in 2013, and we implemented a new Mining Code in 2014, which introduced taxation provisions which are in line with international standards. In addition, we have conducted a review of mining agreements and titles and set-up a more transparent system for issuance, renewing and transfers of permits. In view of anticipated large projects in the mining sector, we will ensure that the tax provisions of the new code will be applied to new companies to mobilize additional fiscal revenues. We will also continue our efforts to bring under the provisions of the new code, the existing agreements that will expire.

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

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

- **Continue to maintain a sustainable wage bill, and move ahead with the administration and civil service reform to reduce fiscal cost**. We have conducted a survey of civil servants, initiated the distribution of biometric cards for a number of pilot ministries and we will finalize the distribution to all civil servants by December 2017. During this process, we have discovered discrepancies with our civil servants' database (reflecting ghost and deceased workers still registered) and we have started to clean our registries, which should generate budgetary savings. We are establishing a permanent system to monitor staff and ensure the enforcement of organizational laws and regulations. With the support of the World Bank, we have put in public work places 120 machines to monitor the work data of civil servants (collected from the biometric cards) to discourage fraud. Thanks to this, we have already exposed 2800 ghost workers, which is expected to bring in budgetary annual savings. We will install 150 additional machines by end-2018. In the medium-term we also aim to establish a new electronic platform that can monitor and consolidate data on civil servant work activity and salaries. Furthermore, we have reformed our grade system, making it more refined and motivating for staff and we are in the process of reforming our salary grades.

4. We will increase domestically-financed public expenditures directed towards social safety nets programs to support achieving our ultimate goal of reducing poverty. We have finalized our first National Social Protection Policy in November 2016, which supports our objective to reduce poverty by: i) strengthening social protection; ii) providing access to employment opportunities; iii) improving the living conditions of the poorest and most vulnerable; iv) improving access to health and education services; v) improving access to food and nutrition security; vi) preventing and managing crises and disasters and building resilience; and vii) improving access to social housing. In order to support the implementation of our strategy, we will use the equivalent of our programmed budgetary savings from the electricity subsidy reform to increase domestically-financed public expenditures on non-contributory social safety nets programs under the Program Filet Social Productive (PFSP) and the Social Development Fund. This would allow us to strengthen the coverage of these program and start reducing over-reliance on donor financing to ensure the continuation of these programs over time. These include labor-intensive public works projects providing employment and training to women and the youth; conditional transfers to vulnerable households to support children's school enrolment and provision of health services; non-conditional cash transfers to poor households particularly in rural areas to reduce the poverty gap; social projects aimed at reducing gender inequality and fostering women's integration in the labor force; social assistance to the most vulnerable, including the elderly and the disables, and those impacted by HIV/AIDS and Ebola. We will also make further efforts to improve the quality of and accessibility to health services and prevent epidemiological risks. We will establish a unified social register of vulnerable populations to strengthen the targeting of the delivery of social programs by February 2019 (SB). To this end, we have started capacity building and discussions with stakeholders and donors.

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

6. We will strengthen public investments management to improve transparency, efficiency and maximize returns of our envisaged national investment plan. We will prioritize public investments projects with higher growth and poverty reduction impact, conduct a full cost-benefit analysis of projects (cost-advantages for social projects), strengthen our public investment management on the basis of the PIMA (Public Investment Management Assessment) methodology with the support of IMF TA and ensure the implementation of our procurement framework. With the support of AfDB, we will finalize the implementation of a platform for integrated investment management by the end of December 2017, which will allow us to have a better knowledge of the investment portfolio and improve the coordination and monitoring of investment projects. In 2014, we adopted a new procurement code, which established competitive bidding for public investment projects (above a certain threshold). In 2016, we conducted and published an audit of public contracts. We reduced the delays in procurement by streamlining processes, we will finalize our ongoing survey of providers' prices to ensure the transparency of contracts by end-2017 and we are developing a related system of sanctions. Furthermore, we have prepared the first report on public contracts and we have published it on the Ministry of Finance website. We will enforce the provisions of the new procurement code, and conduct competitive bidding for public investment projects. We will adopt a manual for procurement procedures by end-2017, we will set up a central agency for the purchases of the public administration, and we will establish a monitoring system of the execution of the different phases of public contracts.

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

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

Debt Policy and Management

9. We are committed to preserve medium-term debt sustainability and ensure not to exceed a moderate level of external debt distress. We will carefully manage our external borrowing to finance the planned increase in public investments to preserve the sustainability of our debt and contain debt vulnerabilities. In view of Guinea's moderate risk of external debt distress and the large non-concessional loan we are finalizing to finance the construction of the Souapiti dam project (about 13 percent of GDP), which is critical to improve our electricity capacity production, we will maximize the concessional element of our new external borrowing and limit contracting or guaranteeing any additional non-concessional debt to preserve medium-term debt sustainability. To this end, we are notably committed to limit non-concessional debt that will be contracted or guaranteed during the three years of the ECF arrangement to a maximum of US$650 million so that Guinea's risk of debt stress does not exceed a moderate level.

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

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

12. We will continue to strengthen our debt management framework. We published an operational procedures manual and the National Debt Policy statement and concluded in 2016 the audit of domestic arrears. We have strengthened our debt management capacities and we will continue to build on these efforts, with the support of technical assistance from the IMF, U.S. Treasury, AFD and other development partners, to update bond issuance practices, operationalize the national technical group focused on the debt sustainability analysis (DSA) by March 2018, and update the medium-term debt management strategy (MDTS). We will finalize and publish a statistical bulletin on public debt by December 2017, upgrade statistical IT systems, and strengthen procedures to manage domestic debt. We are committed to conduct the DEMPA exercise (Debt Management Performance Exercise) with the support of the World Bank, which will allow us to identify key measures to reinforce the management of our debt.

Monetary and Exchange Rate Policies

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

14. We will finalize the foreign exchange market reform to strengthen the role of market forces, and support greater exchange rate flexibility. The BCRG made significant progress in reforming the exchange rate mechanism by replacing the foreign exchange allocation system with a bilateral foreign exchange market (MEBD) in early 2016. This allowed greater exchange rate flexibility, and reduced the differential between the official rate and the rate of the foreign exchange bureaus. We have made MEBD operations more regular and predictable by issuing an instruction in early 2016 that details how the MEBD and auctions are organized. Auctions are held twice a week (on Tuesday and Friday) and are preceded by a communiqué the day before. We are committed to finalize our reform of the foreign exchange market with the support of IMF technical assistance to make markets more competitive, including gradually eliminating the limit on auction allocations to make it more competitive. We will develop a rule-based intervention strategy for BCRG by March 2019 (SB), supported by IMF TA, to limit discretion. We will also establish an electronic platform to make MEBD operations more fluid and secure by end 2018, and strengthen foreign exchange liquidity forecasting by better sharing of information and regular meetings between the BCRG and the Ministry of Finance. We discontinued the practice of fixing the official ER one day after receiving banks' foreign exchange transactions reports. We will ensure that the premium between the official exchange rate (which is the reference rate for all market participants) and the foreign exchange bureaus rate does not exceed 2 percent.

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

16. We will continue to strengthen our monetary policy framework by improving liquidity management. The BCRG has re-introduced monetary regulation instruments (short-term securities) to absorb excess liquidity and injections operations (refinancing windows) to meet liquidity needs, and creating an interest rate corridor. Furthermore, the BCRG has improved its capacity to monitor liquidity by preparing a daily monitoring liquidity table and a weekly liquidity report. In line with recent TA recommendations, we will move towards using on a regular basis our liquidity management tools, and develop a full-fledged liquidity forecasting framework to calibrate liquidity injections and absorption operations by March 2018, supported by the IMF TA. Furthermore, we will establish an emergency liquidity framework for illiquid but solvent banks, supported by IMF TA, by February 2019.

17. We made significant progress towards addressing remaining recommendations of the 2016 Safeguards Assessment on the BCRG autonomy, transparency and accountability. We are committed to continue to strengthen the autonomy of the BCRG. To this end, we have amended the published version of the new BGRG Law to strengthen its autonomy, which was approved by the Parliament in November 2016, to include all key amendments (prior action). In particular, the law prohibits the issuance of guarantees by the BCRG to the private sector. To ensure to maintain the operational autonomy of the BCRG, we will sign a Memorandum of Understanding between the BCRG and the Ministry of Economy and Finance by February 2018, which will specify the modalities and a timeline for the needed recapitalization of the BCRG (estimated at about U$100 million) (SB). The BCRG has made significant progress toward the implementation of the International Financing Reporting Standards (IFRS) and we will publish IFRS compliant financial statements for 2017 by September 2018 (SB).

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

Structural Reforms

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

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

21. We are committed to strengthening governance, a central pillar of our growth-enhancing strategy. The Parliament adopted in July 2017 the anti-corruption law, which represents an important step towards improving governance and which follows the criminalization of all acts of corruption in compliance with the United Nations Convention against Corruption (UNAC). We will move ahead with the adoption of the law implementing decrees in line with best international practices, including criminalizing all acts of corruption and the publication of asset declarations of high-officials, with the support of IMF TA. We will strengthen the enforcement of the rule of law and the judiciary system, and the overall anti-corruption framework to improve governance. Notably, we will strengthen the National Agency to Fight Corruption (NAFC) by improving its human, technical, and logistic capabilities, strengthening its independence and its financial autonomy with a proper budget allocation and we will create a pool of specialized magistrates on the issues of corruption and a judicial police brigade within the NAFC. We are committed to continue to strengthen our AML/CFT regime and move ahead with the implementation of the recommendations of the assessment conducted by the Inter-Governmental Action Group Against Money Laundering in West Africa (GIABA), including measures related to politically-exposed persons, and enhancing the legal framework, with the support with IMF TA. We have made progress in improving our AML/CFT regime, including by operationalizing the Fraud Investigation Unit—in line with recommendations from IMF TA —and by setting-up an inter-ministerial committee and a steering committee.

22. We will strengthen financial inclusion to support the development of the private sector. To this end, we have adopted in July 2017 a new Financial Inclusion Law which will provide a framework for the activity of microfinance institutions and support increasing credit access of SMEs, women and the youth. Notably, the law introduces new regulations governing the activity and control of microfinance institutions as well as of the electronic money institutions and the financial services of the Guinean Post. The law will support the facilitation of banking services and credit to those marginalized in the financial system. We will adopt the new Financial Inclusion law and related implementing decrees by end-2017.

D. Program Monitoring

23. The program will be monitored on a semi-annual basis, through quantitative performance criteria and indicative targets (Table 1) and structural benchmarks (Table 2). Quantitative targets set for end-December 2017 and end-June 2018 are performance criteria, while those for end-March 2018 and end-September 2018 are indicative targets. The first review under the Fund-supported program should be completed on or after June 11, 2018 and the second review on or after December 11, 2018. We will evaluate the implementation of our macroeconomic policies and reforms through the government's program coordination and monitoring bodies (CCER and CTSP).

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

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

(Billions of Guinean Francs; unless otherwise indicated)

	2017	2018			
	Dec	March	June	Sept.	Dec
	PC	IT	PC	IT	IT
Quantitative performance criteria					
Basic fiscal balance (floor; cumulative change for the year)	519	346	957	948	566
Net domestic assets of the central bank (ceiling; stock)	7,208	7,137	7,066	6,995	6,924
Net government budgetary borrowing from the central bank (ceiling; stock)	7,179	7,108	7,037	6,966	6,895
Net international reserves of the central bank (floor; stock); US$ million [1]	345	420	456	491	527
Continuous performance criteria					
New non-concessional external debt contracted or guaranteed by the central government or central bank (cumulative ceiling); US$ million[2]	650	650	650	650	650
New external arrears of the central government and central bank (ceiling)[3]	0	0	0	0	0
Indicative targets					
Tax revenues collected (floor)	12,893	3,115	8,071	11,909	15,472
Domestically financed social safety programs to reduce poverty (cumulative floor)	138	76	153	229	306
Memorandum items:					
New concessional external debt contracted or guaranteed by the central government or central bank (cumulative)[4,5]; US$ million	315	365	365	365	365

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

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

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

[3] Continuous performance criterion.

[4] To be monitored continuously.

[5] Reflect projected disbursements.

Table 2. Guinea. Prior Actions and Structural Benchmarks		
Measures	**Date**	**Objectives**
Prior Action		
Publish the corrected version of the amended BGRG Law in line with the recommendations of the 2016 Safeguards Assessment	End-Aug-17	Strengthen the autonomy of the BCRG
Structural Benchmarks		
I. Fiscal Policy		
First Review		
Adoption of an action plan for a targeted tax policy and administration reform by the Ministry of Budget	End Dec-17	Mobilize additional tax revenues
Adoption of the Government's strategy for the clearance of internal arrears by the Ministry of Finance	End-Dec-17	Improving fiscal management and transparency, and strengthening the private sector
Implementation the 25 percent increase in electricity tariffs for industrial consumers and large consumers adopted in October 2016 by the Government	End-Dec-17	Reduce electricity subsidies
Completion of the electricity tariff study, including the impact analysis by the Ministry of Energy and Hydraulics	End Feb-18	Establish tariffs that cover medium-term electricity costs and accompanying measures to protect the most vulnerable
Implementation of the existing automatic price adjustment mechanism for petroleum products by the Government	End Mar-18	Protect budget revenues
Finalization of feasibility studies for public investment projects financed by non-concessional borrowing	End Mar-18	Ensuring efficiency and good management of public investments
Second Review		
EDG to install electricity consumption meters in the premises of the Prime Ministry and fifteen Ministries and provide a complete report on the installation of meters for the rest of the consumers	End Jun-18	Increase the revenues of the electricity public utility to reduce budgetary transfers to the company
Third Review		
EDG to complete the installation of electricity meters in all buildings of all Ministries and complete the installation of meters for 80 percent of the rest of the consumers	End Feb-19	Increase the revenues of the electricity public utility to reduce budgetary transfers to the company
Establish a unified social register of vulnerable populations by the Ministry of Social Affairs	End Feb-19	Improving the targeting of social protection programs
II. Monetary and foreign exchange policy		
First Review		
Signing a Memorandum of Understanding between the BCRG and the Ministry of Economy and Finance with modalities and timeline for the recapitalization of the BCRG	End Feb-18	Ensure the operational autonomy of the BCRG
Second Review		
BCRG to establish a liquidity forecasting framework	End Mar-18	Strengthen monetary policy framework and improve liquidity management
BCRG to publish IFRS compliant financial statements for 2017	End-Sep-18	Strengthening the BCRG financial accountability

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

Measures	Date	Objectives
Third Review		
BCRG to strengthen its intervention strategy in the foreign exchange market	End Feb-19	Limit discretion in interventions and increase foreign exchange market transparency
BCRG to establish an emergency liquidity assistance framework for illiquid but solvent banks	End-Feb-19	Strengthening the monetary framework
III. Structural reforms		
First Review		
Adoption of an action plan to improve the business climate by the Government	End Feb-18	Foster the development of the private sector
Submission to the Parliament of the SOEs' annual financial reports by the Ministry of Finance	End Dec-17	Improve transparency and governance

Attachment II. Technical Memorandum of Understanding

November 27, 2017

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

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

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

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

Source: IMF (International Financial Statistics).
[1]Rates and prices as of end-December 2016.
[2] LBM connotes London Bullion Market.

DEFINITIONS OF PERFORMANCE CRITERIA, INDICATIVE TARGETS, AND MEMORANDUM ITEM

A. Performance Criteria and Indicative Benchmarks

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

Performance Criteria

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

Continuous Performance Criteria

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

Indicative Targets

- Floor on tax revenues collected.
- Floor on domestically-financed social safety nets program.

Memorandum Item

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

B. Central Government Definition

5. The central government of the Republic of Guinea (the government) is defined as all ministries and agencies subject to central budgetary administration in accordance with the organic law on the government budget. Unless otherwise indicated, the central government does not include local governments, the Central Bank of the Republic of Guinea (BCRG), or any other public entity with autonomous legal personality, notably administrative public entities (*établissements publics administratifs*).

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

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

D. Ceiling on Net Domestic Assets of the Central Bank

7. Net domestic assets (NDA) of the BCRG are, by definition, equal to the difference between reserve money (defined below) and net foreign assets (NFA) of the BCRG (defined below), both calculated at the program exchange rate. NFA are equal to the difference between the gross foreign assets of the BCRG, including foreign assets that are not part of reserve assets, and foreign liabilities of the BCRG.

8. Reserve money comprises of (i) local banks' deposits and other private sector deposits with the BCRG (including bank reserve requirements) denominated both in Guinean francs and in foreign currencies; and (ii) Guinean francs in circulation, and Guinean francs in the vaults of local banks. The amounts in foreign currencies will be converted to Guinean francs at the program exchange rate (as defined above in paragraph 3).

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

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

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

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

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

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

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

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

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

14. Definition of concessional external debt. The definition of debt, for program purposes, is set out in paragraph 8a of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to IMF Executive Board Decision No. 15688-(14/107), adopted on December 5, 2014.[1] For program purposes a

[1] The definition of debt set forth in the IMF Debt Limit Policy (2014) reads as the outstanding amount of those actual current, and not contingent, liabilities, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which require payment(s) of principal and/or interest by the debtor at some point(s) in the future and that are owed to nonresidents by residents of an economy. Debts owed to nonresidents can take a number of forms, the primary ones being as follows: (i) loans, that is, advances of money to obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, that is, contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered

(continued)

debt is considered to be concessional if it includes a grant element of at least 35 percent. The grant element is the difference between the nominal value of the loan and its present value, expressed as a percentage of its nominal value. The present value of the debt is calculated on the date on which it is contracted by discounting the future stream of payments of debt service due on this debt. The grant element is calculated using a discount rate of 5 percent.[2] The ceiling on concessional external debt applies to the contracting and the guaranteeing of debt with nonresidents by the central government and the BCRG. For program monitoring purposes, concessional external debt is deemed to be contracted or guaranteed at the date of its signature.

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

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

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

17. New external arrears: For purposes of the PC on the non-accumulation of new external payment arrears, arrears are defined as external debt obligations of the central government or the BCRG that have not been paid when due in accordance with the relevant contractual terms (taking into account any contractual grace periods). This PC excludes arrears on external financial obligations of the government subject to rescheduling.

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or services are provided; and (iii) leases, that is, arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property.

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

I. Floor on Tax Revenues Collected

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

J. Domestically-financed Social Safety Nets Programs

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

ADJUSTMENT FACTORS FOR THE PROGRAM PERFORMANCE CRITERIA

K. Adjustor for Basic Fiscal Balance

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

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

Table 2. Guinea: External Financing Assumptions (Non-cumulative)
(Millions of U.S. Dollars)

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

L. Adjustor for Net International Reserves

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

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

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

M. Adjustor for Net Domestic Assets of the Central Bank

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

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

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

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

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

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

MONITORING AND REPORTING REQUIREMENTS

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

Data Reporting to IMF Staff for Program Monitoring			
Category of Data	**Table/Report**	**Frequency**	**Deadline**
Financial and monetary data	Central bank balance sheet, consolidated commercial bank balance sheet, monetary survey (at the current exchange rate as well as at the program exchange rate).	Monthly	30th of the month for the previous month.
	Detailed net treasury position (NTP) and net government position (NGP).	Monthly	30th of the month for the previous month.
	Interest rates and stock of government and central bank securities (*BDT* and *TRM*).	Monthly	30th of the month for the previous month.
	Prudential indicators for commercial banks.	Quarterly	One month after the end of the quarter.
	Foreign exchange budget.	Monthly	30th of the month for the previous month.
	Central Bank gross advances to the Treasury above the statutory limit and advance amounts not paid within 92 days.	Monthly	30th of the month for the previous month.
Fiscal data	Status report, including a detailed statement of revenue, expenditure, and cash-flow operations.	Monthly	30th of the month for the previous month.
	General Treasury balances.	Monthly	30th of the month for the previous month.
	Cash-flow plan.	Monthly	30th of the month for the previous month.
	Government fiscal reporting table (TOFE).	Monthly	30th of the month for the previous month.
	Execution of budgetary expenditures from HIPC resources and other priority expenditures.	Monthly	30th of the month for the previous month.
	Balance of current expenditures, VAT credits to be refunded, and domestic debt arrears.	Monthly	30th of the month for the previous month.