



GUINEA

July 2016

2016 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GUINEA

In the context of the 2016 Article IV Consultation, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its July 22, 2016 consideration of the staff report that concluded the Article IV consultation with Guinea.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 22, 2016 following discussions that ended on May 5, 2016, 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 July 6, 2016.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Guinea.

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INTERNATIONAL MONETARY FUND



Press Release No. 16/359
FOR IMMEDIATE RELEASE
July 22, 2016

International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431 USA

IMF Executive Board Concludes the 2016 Article IV Consultation with Guinea

On July 22, 2016, the Executive Board of the International Monetary Fund (IMF) concluded the 2016 Article IV consultation¹ with Guinea.

Guinea's economic performance over the past four years fell significantly short of the authorities' ambitious projections. After a period of early gains (2012–13), the country was buffeted by the Ebola epidemic, a sharp decline in commodity prices, and political uncertainty. Economic growth averaged 1.8 percent during 2012–15, significantly below the performance of peers, and GDP per capita is estimated to have fallen, likely inducing an increase in poverty.

The economy is recovering from the effects of the Ebola epidemic. Growth is projected to rebound to 3.7 percent in 2016, on the back of higher electricity provision from the Kaleta hydroelectric dam and a strong increase in bauxite production. Inflation increased to 7.9 percent in April 2016 driven by stronger domestic demand, and a weaker exchange rate. Bank credit to the private sector continued to grow at rapid rates, and reserve buffers increased and stabilized at 2.4 months of imports, after significant losses in 2014–15.

The medium-term outlook is favorable, but continues to be clouded by downside risks. Growth is projected to average 4.5 percent over the next five years, and inflation would decline gradually to 5 percent by 2019. The basic fiscal balance is projected to remain around ½ percent of GDP, reflecting financing constraints and prudent policies to strengthen reserves. The main risks to the outlook stem from a sharper-than expected global growth

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

slowdown that would delay mining projects, a deterioration in the region's security, a resurgence of the Ebola epidemic, and political uncertainty.

The authorities' economic strategy for 2016–22, under preparation, aims at unlocking broad-based and inclusive growth driven by investments in electricity, roads, and agriculture. The private sector would also play a role through new mining projects, new transformation units of agricultural products, and large residential housing projects and administrative buildings through PPPs.

Executive Board Assessment²

Executive Directors welcomed Guinea's ongoing recovery from the Ebola epidemic and the authorities' progress under their Fund supported program, including a strong fiscal adjustment in the first quarter of 2016. Nonetheless, the epidemic and the decline in commodity prices have caused a serious socio economic setback. Directors took note of the authorities' plan to foster broad based growth and improve the population's living conditions by scaling up public investment. They underscored the need to safeguard fiscal sustainability and urged implementation of structural reforms to strengthen resilience and bolster long term growth and poverty reduction.

Directors stressed the importance of implementing the planned fiscal adjustment this year to further strengthen fiscal buffers, including in view of fiscal risks from the energy sector. They emphasized the need to build fiscal space for priority investment and social spending by improving tax administration and compliance, tapping the unrealized tax potential, containing the government wage bill and energy subsidies, enhancing the efficiency of public spending, and pursuing improvements in public financial management. While better infrastructure services can help unlock higher growth, Directors recommended caution in undertaking large public investments, and urged the authorities to take into account available financing and the need for a strong process for selecting and managing investment projects. They noted the importance of limiting recourse to nonconcessional finance, welcoming in this regard the authorities' intention to seek concessional financing to the extent possible. Directors urged the authorities to redouble efforts to strengthen debt management and reduce domestic arrears.

Directors supported the prudent monetary policy stance aimed at raising the international reserves cover and containing inflation. They welcomed the work on a draft central bank law intended to reduce fiscal dominance and facilitate the conduct of monetary policy, and encouraged the authorities to consider the other recommendations of the updated Safeguards Assessment. They welcomed the reform of the foreign exchange system and recommended

² At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing ups can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

moving ahead with the next steps of the reform in order to close the remaining exchange rate misalignment. They noted that transitioning to exchange rate flexibility in the medium term will help safeguard competitiveness and international reserves.

Directors called for enhancing risk-based supervision in the financial sector and improving financial intermediation and inclusion. They looked forward to the reform of the National Strategy for Financial Inclusion and a strengthening of the AML/CFT regime.

Directors emphasized the importance of addressing structural impediments to higher growth and diversification. They welcomed the authorities' efforts to enact a new mining code and reform agriculture. They urged them to complete the reforms under the ECF-supported arrangement, and highlighted the need to continue to enhance the business climate, strengthen governance, and improve public service delivery.

Guinea: Selected Economic Indicators, 2013–21

	2013	2014	2015	2016		2017	2018	2019	2020	2021
			Est.	Prog. ¹	Proj.			Proj.		
Annual percentage change, unless otherwise indicated										
National accounts and prices										
GDP at constant prices	2.3	1.1	0.1	4.0	3.7	4.3	4.5	4.8	5.0	4.8
Consumer price index (end of period)	10.5	9.0	7.3	8.5	9.1	7.5	6.0	5.0	5.0	5.0
Money and credit										
Net domestic assets ²	14.4	20.6	31.2	4.8	4.3	6.6	4.5	4.3	3.9	3.5
Net claims on government ²	10.2	7.5	17.2	-0.9	-0.9	1.8	-1.0	-1.0	-1.4	-0.9
Credit to non-government sector ²	9.7	13.7	10.8	5.7	5.1	4.8	5.5	5.3	5.3	4.4
Broad money (M2)	14.1	12.3	20.3	11.0	11.2	18.9	11.2	7.7	14.8	12.2
External sector										
Gross available reserves (months of imports) ³	3.0	3.7	2.1	3.0	3.0	3.2	3.4	3.7	3.8	4.0
Current account balance										
Percent of GDP, unless otherwise indicated										
Central government finances										
Total revenue and grants	19.9	21.9	19.0	24.3	23.5	23.9	24.3	24.5	24.6	24.3
Revenue	18.4	17.9	17.5	20.3	19.7	19.8	20.1	20.3	20.3	20.4
Total expenditure and net lending	25.1	26.1	27.8	25.6	24.7	24.8	24.9	24.8	24.8	24.6
Overall budget balance, incl. grants	-5.2	-4.1	-8.7	-1.3	-1.2	-0.9	-0.6	-0.3	-0.2	-0.3
Basic fiscal balance	-2.8	-6.4	-6.9	-0.4	-0.5	-0.7	-0.3	-0.2	-0.2	-0.3
National accounts										
Gross capital formation	20.3	9.3	10.2	20.6	16.9	16.5	16.5	16.5	16.5	16.5
Savings	3.5	-8.0	-8.5	7.5	2.2	3.3	0.7	-1.4	0.4	-3.5
Debt										
External public debt, incl. IMF	21.8	25.5	25.4	28.4	28.4	30.7	31.4	31.2	30.6	28.4
Total public debt, incl. IMF	41.9	43.1	49.1	44.7	48.6	48.1	46.4	44.4	42.1	38.6

¹ Program as established for the 6th and 7th ECF Review.² In percent of the broad money stock at the beginning of the period.³ In months of the following year's imports excluding imports for large foreign-financed mining projects.



GUINEA

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION

July 6, 2016

KEY ISSUES

Context: The economy is recovering from the effects of the Ebola epidemic but is facing severe headwinds from the decline in commodity prices. The authorities' economic strategy for 2016–22 rests on large investments in electricity, transport, and agriculture, and aims at unlocking shared and broad-based growth. GDP per capita is expected to grow by 1½ percent on average per year during the next five years, after remaining broadly stagnant over the last five years.

Challenge: The authorities will need to deliver socioeconomic gains while safeguarding fiscal sustainability, strengthening the central bank's reserves and reducing inflation. This will require prioritizing projects, mobilizing adequate financing, and better governance.

Policy recommendations:

- Effect the 2016 fiscal consolidation consistent with the available financing envelope.
- Anchor the medium-term fiscal deficit to available concessional financing. Tap the property tax base and enforce the automatic fuel pricing mechanism. Rationalize subsidies to reduce them by 1 percentage point of GDP and cap the wage bill to 6 percent of GDP.
- Prioritize investment projects and concessional financing, and enforce the public finance management organic law and the procurement code.
- Implement the Safeguards Assessment's recommendations to strengthen the independence of the central bank. Finalize the foreign exchange market reform to support exchange rate flexibility.
- Finalize the ECF arrangement's structural reform agenda and develop a new set of reforms in the area of inclusive finance, agriculture, electricity, and justice to strengthen Guinea's external competitiveness and resilience to shocks.

Approved By
Abebe Aemro Selassie
and Masato Miyazaki

An IMF team consisting of Mr. Wane (Head), Mr. Bouis, Mrs. Charry and Ms. Perinet (all AFR), Mr. Petit (FAD) and Sulemane (Resident Representative) held discussions with authorities in Conakry, Guinea during April 22–May 5, 2016. The team met with the Minister for Economy and Finance Ms. Kaba, the Governor of the Central Bank of Guinea Mr. Nabé, other senior officials, members of Parliament, the business and donor communities, and the media. Mr. Yambaye, Executive Director for Guinea, and his senior advisors, Messrs. Bah and Alle, participated in the discussions.

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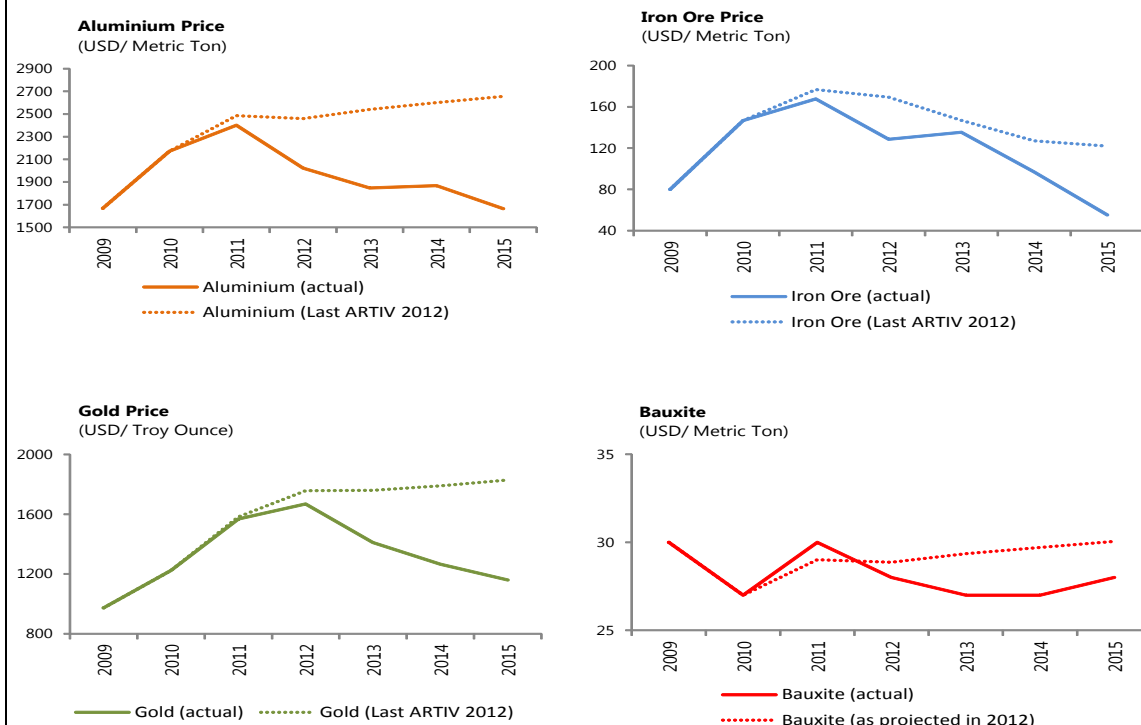
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CONTEXT AND RECENT DEVELOPMENTS

A. A Missed Opportunity

1. Guinea's 2012 Article IV (AIV) consultation was held amidst a favorable environment and outlook. A long history of weak governance, thin state capacity and political instability had left the country as one of the poorest in the world, unable to tap its abundant natural resources and exit fragility. Guinea's prospects improved markedly in 2011 with the inauguration of its first democratically-elected president amidst high and soaring prices of its natural resources (Text Figure 1). In addition, the government's commitment to economic stability and structural transformation, the support of donors, the high appetite of mining investors searching for investment opportunities to meet an increasing demand from emerging markets, the receipt of a 15 percent of GDP revenue windfall (to settle a dispute over transactions on the Simandou iron-ore asset), and substantial debt relief under the HIPC/MDRI initiative paved the way for unlocking significant socioeconomic gains.

Text Figure 1. Guinea: Commodity Prices: 2012 Article IV Projections and Actual, 2009–15¹
(Iron ore, bauxite, alumina, gold)

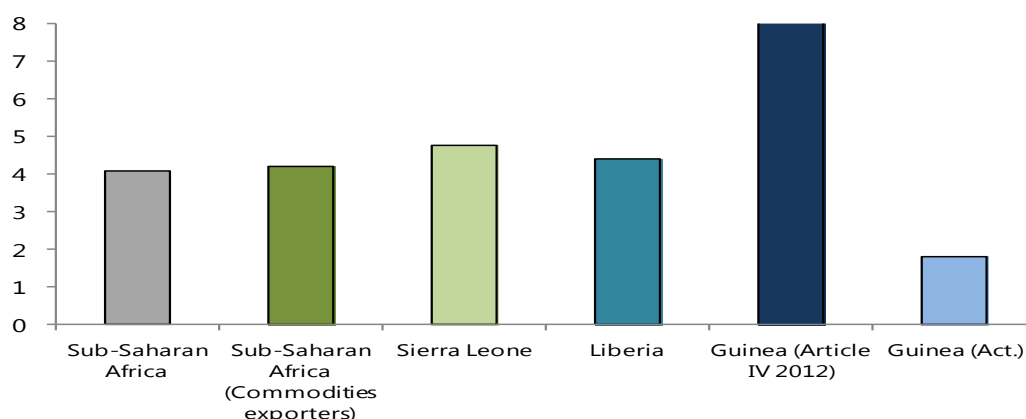


Sources: WEO database, National Minerals Information Center and IMF Staff calculations.

¹ Data for 2009 and 2010 are actual data.

2. However, economic performance fell short of expectations as a result of domestic and external factors. After a period of early gains (2012–13), Guinea was buffeted by a series of shocks that hampered growth, including the political turmoil ahead of the 2013 legislative and the 2015 presidential elections, the Ebola epidemic, and more recently a sharp decline in commodity prices. Economic growth averaged 1.8 percent during 2012–15 (Table 1), significantly below the performance of peers (Text Figure 2), including those hit by similar shocks. GDP per capita is estimated to have fallen, likely inducing an increase in poverty.¹ Despite large investments in the energy sector, electricity provision remains low, as well as access to water services. While most of the growth underperformance can be attributed to the effects of the shocks, delayed policy decisions to unlock the Simandou project, policy slippages and delays in structural reform implementation also played a role (Box 1).

Text Figure 2. Guinea and Comparators: Average Real GDP Growth, 2012–15
(Percent)



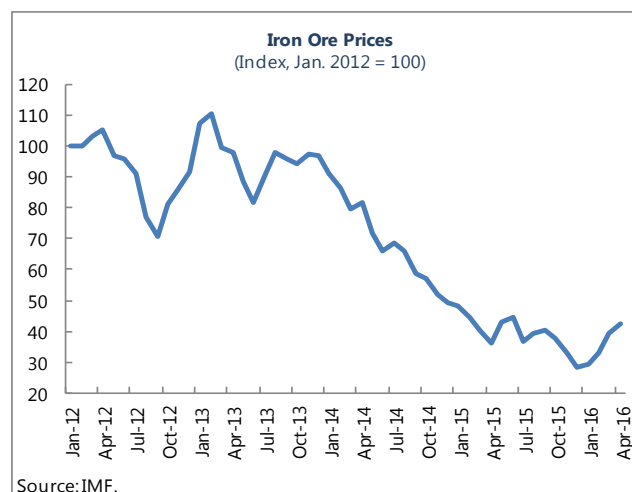
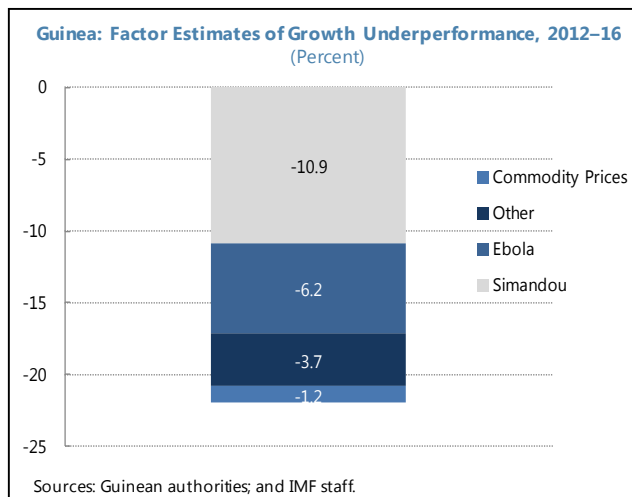
Sources: WEO; Guinean authorities; and IMF Staff estimates.

¹ Poverty was estimated at 55.2 percent in 2012. No household survey was conducted since then.

Box 1. Explaining Guinea's Growth Underperformance

Output in 2016 is estimated to be 22 percent smaller than projected at the time of the last Article IV. Although the Ebola epidemic and the fall in commodity prices were exogenous shocks, delays in the implementation of structural reforms and protracted negotiations to unlock the Simandou project, and policy slippages also played a role.

About half of the revisions to GDP forecasts are estimated to accrue from delays in the development of the Simandou iron-ore deposit. In 2011 the government signed a deal with Rio Tinto to start exporting iron ore by 2015. However, as negotiations over the conditions dragged (660 km of the trans-Guinea railway, majority ownership of the infrastructure, state enablers, etc), iron ore prices fell below the project's breakeven price (estimated at around \$70 per ton) in 2014. Investor appetite also declined reflecting lower emerging markets' growth and higher country risk, effectively closing the 2011 window of opportunity. In May 2016, Rio Tinto announced a large downsizing of the project's workforce after the release of its bankable feasibility study, with an \$18 billion cost for the project. Developing the project under current market conditions will be difficult, unless new measures (shorter export routes for example) are taken to lower its cost. The entry on-stream of two other world-class projects in 2016 and China's plans to reduce its annual steel capacity further limit the prospects for developing the project in the medium term. The decline in commodity prices has also affected other mining projects and none of the projects planned to be implemented at the time of the 2012 article IV has started operating.



Efforts to improve the economy's competitiveness have also lagged. Despite early advances in structural reforms (Annex I), progress slowed down as a result of limited absorptive capacity and a weak institutional framework. Performance in implementing the structural reform agenda under the ECF arrangement was mixed at best. Guinea made no advances since 2002 in the CPIA rating (lower than the SSA IDA average), *Doing Business* indicators remain poor (Guinea ranks 165/189), and the country has ranked last in the World Economic Forum's Competitiveness Index in the past two years. Access to finance, corruption, policy instability and an inadequately educated labor force are considered to be the major obstacles for doing business (Figure 4).

B. Recent Economic Developments

3. The economy is recovering from the effects of the Ebola outbreak (Table 1).² Guinea was declared free of Ebola by the World Health Organization on June 1st 2016, 42 days after its last confirmed case. The disease claimed 2,544 lives and had devastating socioeconomic effects (Country Report 16/95). Growth is projected to rebound to 3.7 percent in 2016, on the back of higher electricity provision from the Kaleta hydroelectric dam (240 MW), a rapid increase in production from a bauxite company that started operations in 2015 (Box 2), and the execution of construction contracts (15 percent of GDP) signed in 2014–15. Inflation increased to 7.9 percent in April driven by stronger domestic demand, and a weaker exchange rate. Bank credit to the private sector continued to grow at rapid rates (24 percent on annual terms as of April 2016), and reserve buffers increased and stabilized at 2.4 months of imports, after significant losses in 2014–15.

4. Socio-political tensions remain elevated. Opposition parties are demanding the restructuring of the electoral commission to make it more independent before the local elections scheduled in the second half of 2016. Labor unions organized strikes against elements of the 2016 budget, and for a reduction in pump prices. Debates are ongoing on President Condé's alleged interest in seeking a third term in office despite the constitutional two-term limit. Finally, the attacks in Mali, Burkina Faso, and Côte d'Ivoire have heightened the domestic security situation.

5. The government appointed in January 2016 is developing an ambitious five-year plan. Consultations within the government and with other stakeholders have led to the prioritization of the electricity and agriculture sectors and a consensus on priority projects for the medium-term. The Prime Minister outlined the economic strategy to the National Assembly on May 4, 2016 in his Statement of Economic Policies. The strategy, which foreshadows the forthcoming five-year plan expected by year-end, is more ambitious than its predecessors (PRSP, and post-Ebola recovery plan). It aims to transform Guinea's economy into a modern emerging one on the back of large investment projects in electricity generation, roads, education and health.

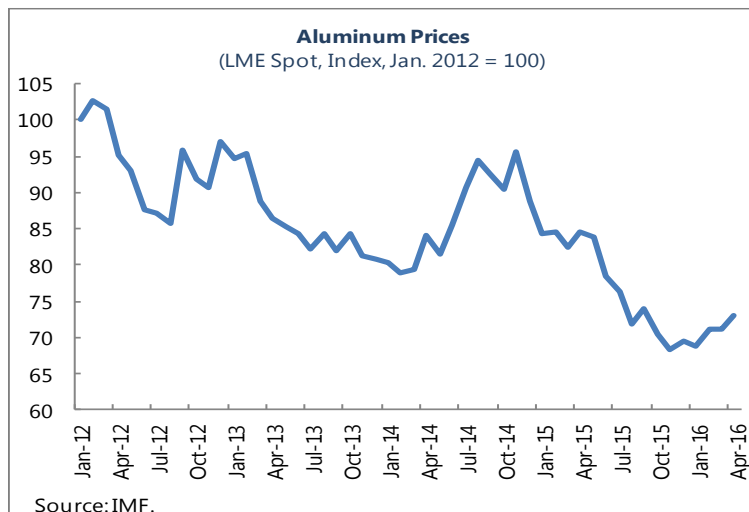
6. Short-term risks to the outlook are tilted to the downside. The main risks stem from (i) the possible inability to deliver the adjustment planned for 2016 (Table 2) leading to a depletion of the central bank's international reserves; (ii) further declines in commodity prices, which could jeopardize mining sector prospects; and (iii) increased political instability and country risk ahead of the local elections. A resurgence of Ebola could also derail economic prospects, while continued weakness in advanced (Euro zone) and emerging economies (China) could delay expansion projects in the mining sector, notably at SMB and CBG,³ and financing for public infrastructure projects. Additional sources of downside risks include the potential deterioration and spillover effects from the security dislocations in North Africa. These risks could be exacerbated if structural reforms continue to stall, especially in the PFM area.

² Guinea was first declared Ebola-free in end-2015, but seven new cases occurred in end-March and early April 2016. On June 1, Guinea was declared Ebola-free for a second time.

³ Compagnie des Bauxites de Guinée, a joint venture between the Guinean government, Alcoa and Rio Tinto, plans a \$752 million expansion to increase its production capacity by 40 percent to 18.5 million tons per year by 2018.

Box 2. Guinea: When a Crisis is an Opportunity?

The Société Minière de Boké (SMB), a vertically integrated joint venture comprising Guinea's UMS (logistics), Singapore's Winning Africa Port (shipping) and ShanDong Weiqiao Group (China's largest non-state aluminum producer) is the first new producer in Guinea's bauxite sector in 15 years. The company started operations in July 2015 after an initial investment of \$200 million. The investment decision was triggered by external and domestic factors. Indonesia's 2014 ban on exports of bauxite ore and



Australia's environmental restrictions on bauxite mining led the Chinese partner company to seek alternative supply sources while Guinea's new mining code enhanced the profitability of new mining ventures. Exports are projected to reach 10–13 million tons in 2016, which would make Guinea the 3rd largest bauxite producer in the world.¹ While initial production forecasts pointed to 410k tons/month, SMB has accelerated its expansion and output has averaged 800k tons/month (partly owing to seasonal factors as the company stockpiles in advance of the rainy season). Company guidance indicates that 2016 production could reach 13 million tons, notwithstanding capacity constraints and labor tensions. Furthermore, the outlook for the aluminum market is still uncertain as suggested by China's reported aluminum inventory overhang, Indonesia's expected resumption of exports in the second half of 2016, and Malaysia's recent ban on bauxite mining (to clear stockpiles, and address environmental damages).

¹ Guinea currently ranks 5th after Australia, China, Brazil and Malaysia.

C. Program Implementation and Risks

7. The authorities are adhering to the agreed adjustment measures to successfully complete the ECF-supported arrangement. To redress the slippages that led to delays in the completion of the 6th review, the authorities adopted a significant fiscal adjustment and deep-rooted reforms to the foreign exchange (FX) market. The fiscal deficit is projected to contract to 0.4 percent of GDP in 2016 from 7.1 percent in 2015, the exchange rate has been allowed to depreciate by about 12 percent since January, and the introduction of a new bilateral FX auction mechanism eliminated the premium between the official and bureaus' exchange rates. Preliminary data indicate that all end-March indicative targets were met with a sizable margin, with the exception of priority sector spending (Table 5).⁴ The end-June and end-2016 objectives are on track to being met if risks to the budget (T19) are addressed.

⁴ The end-April structural benchmark on the audit of domestic arrears was not met, but prospects for implementing the measure are good.

8. The authorities delivered during the first quarter of 2016 a stronger fiscal consolidation than programmed. The basic fiscal balance posted a surplus of 1.2 percent of GDP (Text Table 1), 2.4 percent of GDP above the program target, because of financing constraints. Revenue was on target thanks to higher imports, a better yield on the VAT and improved revenue collection efforts. However, given delays in external financing and difficulties in rolling over domestic bank financing, the authorities curtailed spending, including on investment.

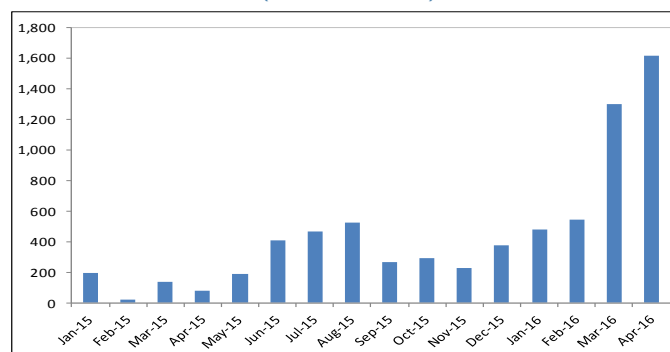
Text Table 1. Guinea: Central Government Operations, 2016Q1 (Percent of GDP)			
	Prog.	Act.	Diff.
Revenue and grants	5.1	4.4	-0.7
Revenue	4.1	4.2	0.1
Grants	1.0	0.2	-0.8
Expenditure	5.7	3.2	-2.5
o/w: Goods and services	1.4	0.8	-0.6
Domestic investment	1.5	0.5	-1.0
Basic fiscal balance	-1.3	1.2	2.4
Overall balance	-0.6	1.3	1.9
Financing ¹	0.6	-1.3	-1.9
Domestic	-0.2	-0.9	-0.7
External	0.8	-0.1	-0.9
Errors and omissions ²	0.0	-0.3	-0.3

Sources: Guinean authorities and IMF staff calculations.
¹ Excluding project grants and loans.
² Includes errors and omissions and accounting differences on central bank financing.

9. The energy sector is the source of the most significant risks to the budget. The 2016 budget was prepared under the assumption that oil prices would be in the range of \$35–\$40 per barrel. With current prices significantly above this range, revenue losses would emerge if pump prices remain unchanged.⁵ In addition, the authorities have increased the installed thermal electricity capacity to ensure a constant power supply during the dry season. At the current pace of electricity production, the total cost of electricity production would increase by 2.1 percent of GDP in 2016, which would translate into higher subsidies and/or arrears barring an increase in electricity tariffs.

10. The authorities have tightened monetary policy to meet the central bank's target on net international reserves (Table 3). The BCRG increased gradually the interest rate on its new liquidity absorbing instrument, the *Titres de Régulation Monétaire* (TRM), from 6.5 percent to 8.5 percent, raised its main refinancing rate, the pension rate, from 11 to 12.5 percent, and maintained the reserve requirement ratio at 18 percent. The TRMs contributed to drying up banks' excess liquidity which

Text Figure 3. Guinea: Pension Operations and TPO
(Billion of GNF)



Sources: BCRG; and IMF staff calculations.

Note: Pension operations are generally for 7 days. For other operations, amounts are weighted based on maturity. The figure for April 2016 includes one overnight credit facility operation (TPO).

⁵ A \$2 increase in oil prices roughly translates into a 0.1 percent of GDP loss in revenue, *ceteris paribus*.

had already tightened with the depreciation of the GNF in early-2016.⁶ As a result of the tighter liquidity, interest rates on Treasury bills increased by 300bp, and banks increased massively their use of the BCRG refinancing facilities, including the *Overnight window* (Text Figure 3) to revamp their liquidity in local currency.

11. Financial soundness indicators deteriorated in 2015 as a result of the rapid credit expansion linked to the guaranteed loans program (Table 6). The NPL ratio reached a 6-year high in April reflecting partly the cascading effects of the rescheduling of loans guaranteed by the central bank and two years of weak economic growth. The rapid expansion in credit also reduced banks' equity-to-risk weighted assets while liquidity indicators, including in foreign currency, deteriorated as evidenced by the nonobservance by several major banks of the FX liquidity ratio.^{7,8} However, net banking income (NBI) increased by more than 23 percent in 2015 on the back of the guaranteed loans program,⁹ as well as the associated waivers on equity capital and reserve requirements, and preferential refinancing rates.¹⁰

MEDIUM-TERM OUTLOOK

12. The authorities' baseline scenario envisions a strong economic recovery over the medium term. The authorities' baseline projections, consistent with policies under the post-Ebola Recovery Plan (Box 3), assume growth would rebound to 5.1 percent from 2.2 percent on average during 2011–15. The growth performance is to be driven by improved infrastructure services—notably, health, energy and transport infrastructure—to reduce Guinea's infrastructure service gap and catch up with peers (Figure 1), and continued support for the agricultural sector to exploit Guinea's comparative advantage. Mining sector projections assume resumption in 2016 of operations at the Simandou iron ore project, and successful expansion projects for the two largest bauxite exporters (CBG and SMB). Inflation would decline gradually to 5 percent in 2019 and stabilize at that level onwards. The current account deficit would increase to around 17 percent of GDP reflecting the deterioration of Guinea's terms of trade and imports linked to large mining projects, and would be financed by FDI. Reserve coverage would increase to 3.8 months of imports.

⁶ For banks holding foreign currency deposits, a depreciation of the GNF mechanically raises reserve requirements as these are constituted in local currency.

⁷ Part of these liquidity problems result from rescheduling of FX loans guaranteed by the central bank. For instance, as of early May, the Treasury owed 2.6 million euro to a bank due mid-April 2016, and \$20.8 million to another bank falling due early March 2016.

⁸ On-site inspections are envisioned to examine the nature of the problem and take corrective measures.

⁹ Banks generated income mainly from credit with their clientele (representing 41 percent of the NBI in 2015). Other contributions to the NBI in 2015 included: banking fees (26 percent, mainly on FX operations); cash and interbank transactions (22 percent, notably interest on Treasury bills); and other products (11 percent).

¹⁰ Banks involved in the central bank-guaranteed loans for a road project obtained uncollateralized refinancing at the central bank at 6 percent interest rates, compared with 11 percent for other banks. Some of these banks were also granted waivers for non-compliance on the reserve requirements.

Box 3. Guinea: The Post-Ebola Recovery Plan, 2015–17

The post-Ebola recovery plan (40 percent of GDP) aims to repair the socio-economic damage of the Ebola epidemic and prepare Guinea for withstanding future health challenges. It complements the 2012–15 PRSP and will serve as basis for the preparation of the successor planning document. Its main objectives in the social sector are to upgrade the health system to meet immediate needs and challenges related to Ebola-like epidemics, and provide universal access to potable water, sanitation and hygiene for schools and health facilities. Priorities in the economic domain include improving the business

environment, accelerating the diversification of the economy; renewing support for agricultural intensification; building economic infrastructure; supporting the processing and storage of agricultural products; and revitalizing and rationalizing advisory support, the organization of producers, and research in the agricultural sector. However, the plan is under-financed as identified financing covers less than half of the estimated costs, highlighting the need to step-up domestic revenue mobilization efforts. The authorities are drumming up support from donors, including by following up on financial pledges made in the context of the 2014–15 donor conferences in Washington, Conakry, and Brussels.

Cost and Funding of the PAPP (Post-Ebola Priority Action Plan) by Sector
(Million of US\$)

	Total	Percentage of total
Health, Nutrition and Water, Sanitation, and Hygiene for All	1,584.4	61.5
Health	1,176.0	45.6
Hydraulics	408.4	15.8
Governance, Peace Consolidation and Social Cohesion	119.3	4.6
Civil service and protection, territorial administration, and communication	74.8	2.9
Public funding	44.5	1.7
Education, Social and Child Protection, and Basic Services	290.2	11.3
Education	163.3	6.3
Social action	126.9	4.9
Socio-economic Revitalization	583.4	22.6
Agriculture, livestock, fisheries, and environment	187.0	7.3
Trade and industry and ICT	214.1	8.3
Transportation and Public works	182.3	7.1
Total Costs	2,577.2	100.0
Total Funding Obtained	812.0	31.5
Government Contribution Fund	231.7	9.0
Funding to be sought	1,533.6	59.5

Source: Guinean authorities.

13. The authorities are also working on an alternative macroeconomic scenario that will reflect the new government's objectives and development strategy (15). Under this scenario, growth is projected to reach 8.6 percent on average based on more ambitious investment plans.¹¹ Compared with the authorities' baseline scenario, the new PIP under the alternative scenario includes the Souapiti project (Box 4), faster upgrades of the country's road infrastructure (3 percent of GDP), and higher investments in irrigation, land fertilization and agricultural equipment. The private sector would also play a role through the execution of 7 projects¹² in the bauxite, iron-ore and gold sectors, the establishment of transformation units of agricultural products to increase the value added of Guinea's exports, and the development of large residential housing projects and administrative buildings through PPPs. The authorities insist that an ambitious investment program is necessary to fulfill the population massive social demands (Figure 1). In addition, the authorities emphasize the importance of good public infrastructure services to attract private investment.

¹¹ As spelled out in the Prime Minister's statement of economic policies to the National Assembly. The projects underpinning this strategy as regards the agriculture sector, the Souapiti project, and the education and health sectors were also presented by the relevant ministers to the mission as priority projects for the years ahead.

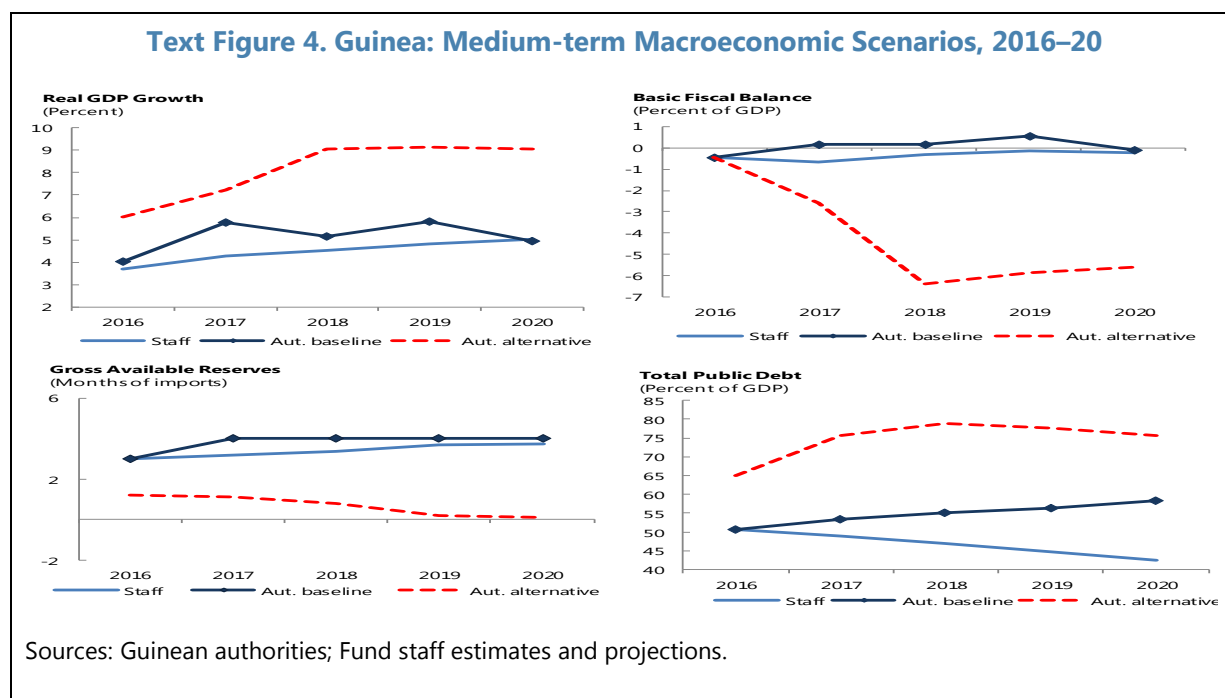
¹² By 2021, these projects would lead to (i) a doubling of the current 20 million tons installed bauxite production capacity; (ii) a slight increase in the installed capacity for gold production; and (iii) the ramping up of iron ore production from 0 to 16 million tons. The cost of these projects is estimated at \$17 billion (260 percent of 2016 GDP).

Figure 1. Guinea and Comparators: Human Development and Infrastructure Indicators



Sources: Human Development Report (2015); World Economic Forum, Global Competitiveness Report, 2015–16.

14. Staff's more conservative scenario takes into account the limited financing available and structural bottlenecks to higher growth (Table 1–5). While higher public investment would indeed be desirable, the authorities' ambitious new plan is not linked to any sustainable source of financing, leaving the projected overall budget deficit above 5 percent of GDP (Text Figure 4). In addition, deep-seated impediments to private investment that are holding back Guinea's competitiveness need to be removed for a noticeable increase in private investment to be realistic. To support the policy discussions, staff prepared a more conservative scenario based on identified financing, the continuation of sound macroeconomic and structural policies (see section on policy discussions below) and capacity constraints.¹³ The scenario does not include the Simandou and Souapiti projects (the financing for the former is uncertain, and is under discussion for the latter), and assumes a less optimistic path for the expansion of capacity in several mining projects (notably SMB and CBG's). Under this scenario, growth would average 4.5 percent over the next five years, and inflation would decline gradually to 5 percent by 2019 and remain at that level thereafter. Given historical external financing trends Guinea would only be able to maintain its public investment rate at 9 percent. The current account would deteriorate reflecting the worsening terms of trade and higher imports to sustain higher economic activity, and would be financed by debt and FDI. The overall balance will improve, allowing reserve coverage to increase gradually to around 3 months of imports.



¹³ The scenario includes only projects for which financing has been secured. The Souapiti project was not included in the scenario, as the financing structure has not been finalized.

15. The authorities are confident in their capacity to mobilize funding for their ambitious PIP. Over the medium term, they project tax revenue to increase significantly, buoyed by high growth, the full application of the VAT increase, the creation of the property taxation unit, higher mining sector revenue from the expansion of existing bauxite production capacity, and closer coordination between the Tax and Customs departments. Additional fiscal space would be mobilized thanks to savings on public pensions and electricity subsidies resulting from the biometric census of pensioners and the deployment of pre-paid electricity meters, respectively. The remaining financing would come from pledges under the Ebola Recovery Plan.

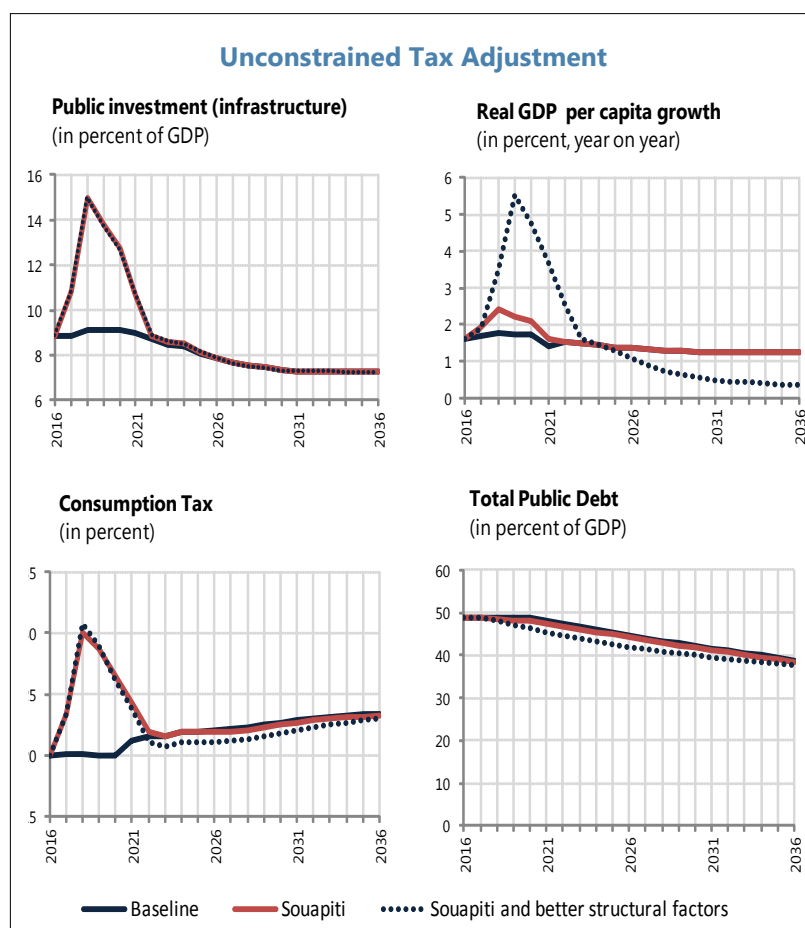
Box 4. Guinea: The Souapiti Hydroelectric Dam Project

The authorities have announced their plan to build the 450-MW hydroelectric Souapiti dam estimated to cost \$1.567 billion (23 percent of GDP). The project will improve electricity services by tapping Guinea's large hydroelectric potential and alleviate a major constraint to private investment and growth. Under the current plans, the project will have an 85/15 debt to equity component. A debt contract of \$1.175 billion is being negotiated. The equity portion would be funded by a divestiture of part of the government's shares in the Kaleta dam.

Given its size, the project will have significant implications on fiscal sustainability. The results of the Debt, Investment and Growth model (see accompanying SIP)¹ suggest strong fiscal adjustment will be needed to maintain debt at sustainable levels, even after taking into account the impact of the Souapiti dam on growth. For example, under optimistic assumptions that the dam will increase growth of GDP per capita by 1 percentage point over the next five years, the authorities would need to increase the VAT rate by 10 percentage points to keep debt sustainable. This would be

equivalent to raising revenues (or reducing spending) by 2–4 percentage points of GDP in the short-run. An improvement in structural factors (higher efficiency of investment, higher rate of return and a higher rate of infrastructure user fees) would have a considerable impact on growth and keep debt below the baseline level, but would still require a large adjustment.

¹ This exercise supports the analysis undertaken in the Debt Sustainability Analysis conducted for the 6th and 7th Reviews under the ECF arrangement (Country Report 16/95).



POLICY DISCUSSIONS: ADDRESSING DEVELOPMENT NEEDS IN A CONTEXT OF LIMITED FINANCIAL RESOURCES

Short-term policy discussions focused on policies to rebuild buffers. Medium term discussions centered on creating fiscal space to scale-up infrastructure spending and maintaining fiscal sustainability, sustaining exchange rate flexibility, and rebuilding the momentum for structural reforms to encourage private sector development and economic diversification.

A. Near-term Priorities: Rebuilding Policy Buffers

16. Authorities and staff concurred that the focus in the near-term should continue to be on rebuilding policy buffers. Given limited financing prospects, the ongoing fiscal consolidation (see ¶15-¶16 Country Report No. 16/95) will preserve macroeconomic stability while putting Guinea's economy on a stronger footing for the medium-term. Staff advised the authorities to address the looming fiscal risks. The authorities ruled-out the possibility of cuts in fuel prices before the end of the year, but did not commit to raising fuel pump prices if international oil prices continue to increase.¹⁴ Staff welcomed their intention to raise electricity tariffs this year to contain electricity subsidies, and encouraged them to keep electricity production at levels consistent with available government support to the loss-making public electricity company. Authorities indicated the willingness to offset any potential revenue losses on petroleum revenue, and reducing arrears to the electricity company.¹⁵

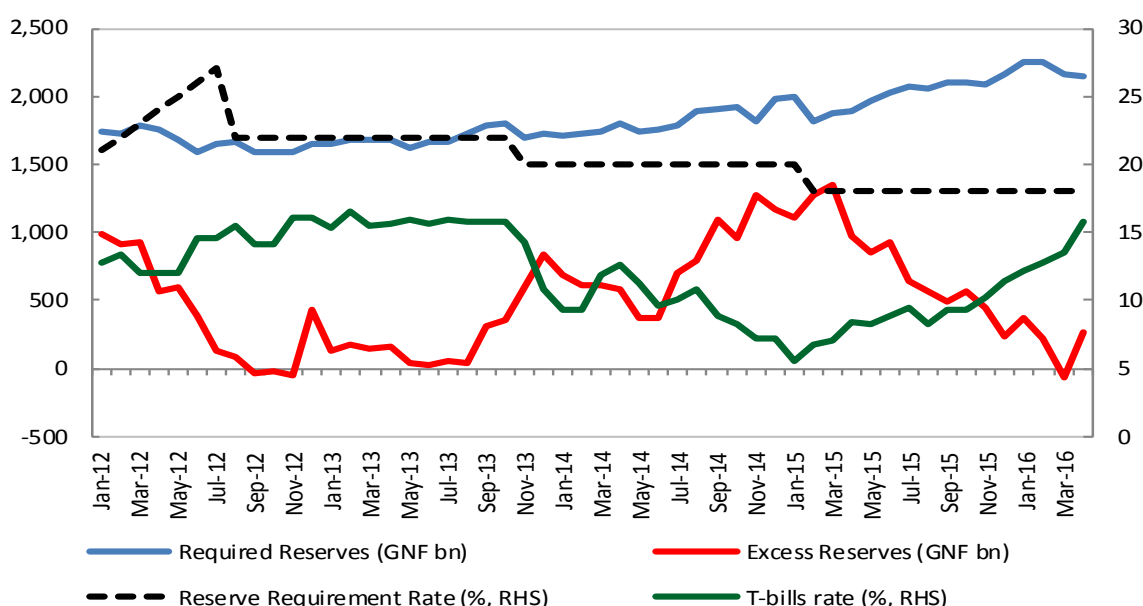
17. Staff urged the authorities to continue negotiations to increase the grant element of a loan to finance the Souapiti dam, currently at 22 percent, and to invite other development partners to contribute to the project's finance in order to limit its impact on Guinea's fiscal and debt sustainability. The authorities indicated they will not sign the loan this year, and are considering hosting a donor roundtable to tap donors' competencies and seek financial support. They will pursue discussions with the lender, while awaiting the results of the valuation of the Kaleta dam, which could reduce the residual financing requirement and debt.

¹⁴ In February 2016 the authorities and labor unions agreed that fuel prices will not be raised in 2016.

¹⁵ In 2014, the ministry of finance put on the government's books a domestic debt (0.5 percent of GDP) contracted by the electricity company. The debt—to be paid off by 2018 in three equal tranches—was not included in the 2016 budget, will be included in the 2016 supplementary budget.

18. The current monetary policy stance is appropriate. Staff and the authorities concurred that given the pick-up in inflation,¹⁶ the monetary policy stance should remain with a tightening bias. While a loosening of monetary policy would provide a stimulus to growth, it could fuel inflationary pressures and prevent the achievement of the end-year international reserve targets. Policy action to improve banks' liquidity in local currency should be limited to allowing them to constitute reserves in FX on their FX-denominated deposits. Staff noted that maintaining excess reserves low (Text Figure 5) will improve the transmission of monetary policy and support an orderly adjustment of the exchange rate. This will also incite banks to tap alternative sources of GNF liquidity, including by (i) raising interest rates on deposits; (ii) using the BCRG's credit facilities;¹⁷ (iii) tapping the nascent interbank market; and (iv) selling FX to the central bank against local currency.

Text Figure 5. Guinea: Required and Excess Reserves, Reserve Requirement and T-Bills Rates
(GNF billions and percent)



Sources: Guinean authorities; IMF staff calculations.

¹⁶ Mostly reflecting the weakening of the exchange rate, increases in the value-added tax and supply shocks in the food sector.

¹⁷ Including the *pensions* facility (term repo) and the new TPO (*Taux des Pensions Overnight*). Banks hold enough Treasury bills to use as collateral, and the central bank has recently extended the set of eligible securities.

19. There are indications of overvaluation of the GNF. Staff's external stability assessment points to a significant appreciation of Guinea's real effective exchange rate (REER) since the last Article IV consultation (Annex II), largely due to the positive inflation differentials against its trading partners and non-price structural factors. As of end-2015, model-based assessments suggest an overvaluation of 17–32 percent that contributed to the depletion of official reserves and of the banking sector's net foreign assets in 2015. However, about half of this misalignment was absorbed in early 2016 with the depreciation of the currency in the context of the reform of the exchange rate determination mechanism aimed at enhancing the role of market forces.¹⁸

20. Next steps in the reforms of the FX market should be geared toward developing it into a two-sided market. Against the backdrop of tighter liquidity, staff advised the central bank to launch a rules-based FX intervention strategy¹⁹ to rebuild reserve and facilitate an orderly correction of the residual exchange rate misalignment (about 12 percent as of April 2016). While this would transform the current market into a bi-lateral market and add new suppliers of FX, the central bank believes such a program could be interpreted by economic agents as signaling FX shortages. Staff advised improving the communication of the central bank on its policies and stressed that the immediate priority is to strictly limit central bank FX purchases to the established market, and discontinue purchases from FX bureaus, artisanal gold miners and private corporations. The BCRG requested TA to improve its capacity to monitor FX bureaus' activities and ensure they are limited to retail transactions.

B. Medium-term Priorities: A Policy Framework to Support the Scaling-up of Infrastructure Services and Diversify the Economy

Fiscal Policy and Public Financial Management

21. In light of external financing constraints and the need to rebuild buffers, staff argued for maintaining the basic fiscal deficit around 0.5 percent of GDP over the medium term. This level of deficit will support Guinea's potential growth by making room for private sector credit, and repaying domestic arrears to the private sector.²⁰ The authorities concurred with the need to rebuild

¹⁸ The authorities introduced in January 2016 a multiple price two-way FX auction; abolished the +/- 4 percent band outside of which banks were not allowed to transact; and allowed banks to freely purchase and sell FX from and to their clients. Some measures still have to be implemented including the adoption of a rule-based strategy to calibrate central bank's interventions on the MEBD; the limitation of FX bureaus' activities to retail transactions; and the replacement of central bank's currency purchases from FX bureaus, artisanal gold miners, and large companies by a purchase program on the MEBD.

¹⁹ The FX intervention strategy would use in the decision making the last auction price, the marginal price of the current auction, the amounts of gross and liquid reserves, and the expected off-market FX flows as exogenous variables, as well as an intervention trigger in terms of exchange rate volatility and the foreign reserves target as endogenous variables. An illustration of this strategy is presented in the MCM TA report "Guinea – Foreign Exchange Operations and Liquidity Management in Transition Toward Exchange Rate Flexibility, March 2016.

²⁰ An audit of domestic arrears is being conducted by the authorities who plan to adopt a schedule of reimbursement of these arrears (structural benchmark under the ECF arrangement). These arrears feature as an important stumbling block for unleashing the potential of the private sector.

buffers, but would like to achieve this goal by boosting growth and exports through higher spending on infrastructure and human capital. They acknowledged the massive financing requirements and implications on debt sustainability of their ambitious growth strategy.²¹ They concurred with staff that rebuilding buffers and improving infrastructure services would require boosting domestic revenue mobilization (¶22 and Box 5), rationalizing expenditure, enhancing value for money of investment spending, and improving debt management. Advances in the area of PFM reforms, including stricter enforcement of existing regulations, will also be important.

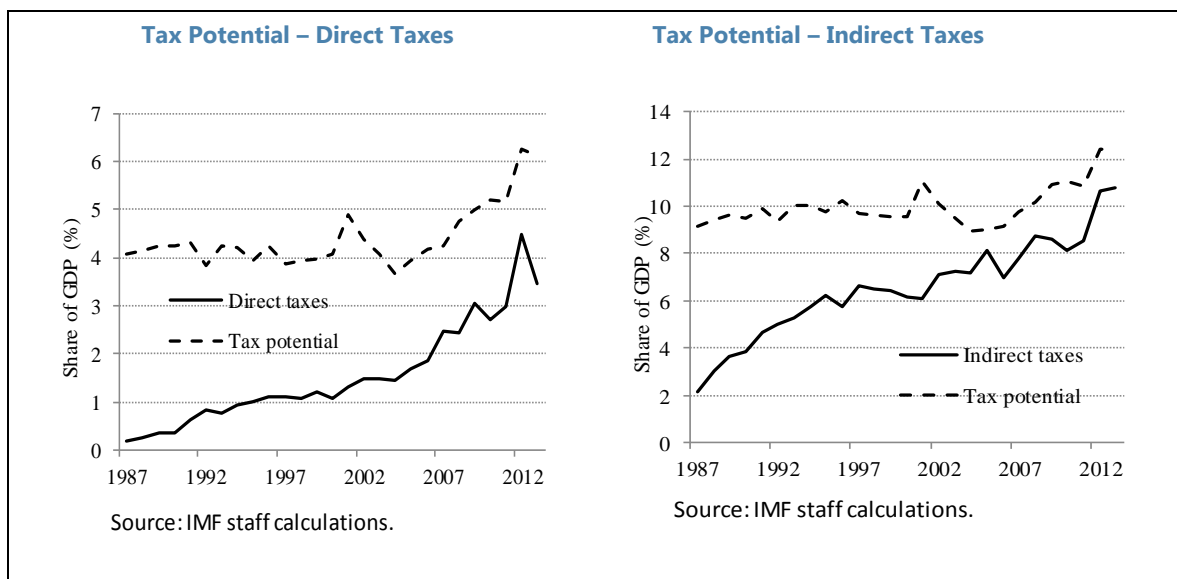
22. Staff presented a blueprint for tax reform that would allow Guinea to tap its unrealized tax potential estimated at 3–5 percent of GDP (Box 5).²² The authorities stressed that efforts are underway in several areas, notably in improving the efficiency of the Tax Department, setting up mechanisms to cross-check and exploit the Customs and Tax databases, eliminating tax exemptions and designing policies to register informal commercial outlets. They also indicated the newly created property taxation unit should start delivering results soon. In view of these efforts and given the need for a strong political and social consensus for further reforms, the baseline scenario retains reforms that would deliver an improvement in revenue performance of 1 percentage point of GDP over the medium term. About half of the projected improvement will come from direct taxes collected from higher income quintiles of the population, and would have limited adverse impact on the poor. The other half would accrue from indirect taxes, including from fuel taxes, and would also be borne mostly by wealthier sectors of the population given the structure of consumption in Guinea.

²¹ See Selected Issues Paper on the application of the Debt Investment Growth nexus model to Guinea.

²² A fuller discussion of Guinea's tax potential can be found in the Selected Issues Paper: "Revenue needs, tax potential and revenue mobilization in Guinea".

Box 5. Guinea: Tapping a Large Tax Potential – A Blueprint for Tax Reform

A country's tax potential is a function of the size of the tax base and its capacity to access and control it. Various factors affect these variables, such as income per capita, openness to trade and the share of manufacturing in the economy. A preliminary statistical analysis of the tax performance of Sub-Saharan (SSA) countries over the period 1980–2014, suggests that given Guinea's economic characteristics, other SSA countries would have collected on average 1 to 2 percent of GDP more in indirect taxes, and 2 to 3 percent of GDP more in direct taxes, for a total of 3 to 5 percent of GDP in tax potential.



Tightening the control of the commercial tax base will be a crucial element to tapping this potential. Available information suggests that over $\frac{3}{4}$ of commercial imports (on which duties are paid) do not show up in turnovers declared to the Tax Department, pointing to a large under-declaration of sales and likely distribution through informal and/or undeclared channels. Advances in taxpayer identification, information collection and strengthening of the audit procedures would improve tax compliance.

Income taxes will need to be simplified and expanded to new taxpayers and the rates and thresholds will need to be revised to increase revenue and correct the imbalances introduced in 2011. Excises will need to be streamlined and revised upwards, and fuel taxes safeguarded within a price structure that automatically adjusts to international prices. Selected additional revisions to mining conventions could be undertaken and the new mechanisms on transfer prices properly implemented. A rapid roll-out of real estate taxation and a gradual elimination of tax exemptions should also be considered.

23. Savings in the recurrent budget can free fiscal space to finance more investment. After large base salary adjustments since 2011, salaries as a share of GDP are now comparable to those of many African countries (Figure 3). The authorities concurred with staff that the wage bill should be kept below 6 percent of GDP to safeguard budget flexibility and allow savings on other spending items to be directed to public investment program, but pointed to the risks the ongoing reform of the public administration could put on the wage bill. Staff argued for developing as a priority a medium-term framework for wage negotiations with unions to contain volatility from ad-hoc wage adjustments, building from the recommendations of the 2014 AFRITAC West (AFW) technical assistance on wage policy. Other options for reducing current spending by up to 1 percent of GDP include cutting recurrent costs of fuel and travel, allowing EDG to automatically adjust electricity tariffs to cost recovery levels (0.5 percent of GDP), and streamlining subsidies for universities. Staff advised directing part of these resources to the nascent social safety net, primary education, and the health system.

24. Strengthening Public Investment Management (PIM) institutions will improve the rates of return of the planned investments. In light of budget rigidities and financing constraints, investment spending should be kept at around 5 percent until fiscal space from the above-mentioned measures materializes. Improving infrastructure services could be achieved by enhancing the quality of spending by implementing better investment processes. The first steps are to enforce the procurement code, including competitive bidding for investment projects,²³ and reform the selection process of investment projects to ensure that projects eligible for public funding have undergone a cost-benefits analysis. The authorities agreed in principle with the policy proposals, but stressed the importance attached to the priority projects in the energy, agriculture and health sectors. Staff presented the results of the DIG model (see SIP) that show that fully implementing these projects would require an adjustment of the consumption tax rate from 20 percent to 25 percent, and increase debt from 49 percent in 2015 to 67 percent by 2036, despite the model's optimistic assumptions in terms of the growth impact of these projects.

25. Staff advised continued reliance on concessional financing, and improved debt management to contain debt vulnerabilities. While Guinea continues to face a moderate risk of external debt distress, short term vulnerabilities have increased significantly (See Country Report 16/95), and could be exacerbated by the results of the ongoing audit of domestic arrears. It will be important to finalize the reform of the institutional framework for debt policy and management and empower the National Committee for Public Debt (CNDP) to ensure all new government borrowing is in line with the statement on national public debt policy.²⁴ Staff encouraged the authorities to approve the PPP law by year-end, and strengthen capacity to conduct DSAs and annex them to the budgets, starting with the 2017 budget. The authorities indicated their intention to prioritize concessional financing as much as possible and requested technical assistance on the management of fiscal risks from PPPs.

26. Aligning PFM processes with the new public finance organic law (LORF) will improve transparency and help unlock donor support (Box 6). Staff suggested priority actions toward this goal and offered Fund support in the context of the new Capacity Building Framework (CBF) for fragile states.²⁵ The authorities agreed with the thrust of the advice, and suggested that after the overhaul of the PFM framework, it is important to train users. The priority actions include:

- Expanding the coverage of the Single Treasury Account to all government bodies collecting public revenue by mid-2017.

²³ An audit report on large procurement contracts is being finalized. The preliminary findings of the report suggest that the majority of large contracts awarded during the 2014–15 did not abide with the procurement code.

²⁴ Several measures are nearing completion, including the National Public Debt Policy Statement, a manual of operational procedures in the debt department, and the adoption of a medium-term debt strategy (2015–19).

²⁵ The IMF Executive Board endorsed on May 22, 2015 a proposal to pilot a more structured approach for capacity development activities in fragile states referred to as CBF. The CBF, under which Guinea has agreed to be a pilot country, involves agreeing with authorities and key stakeholders on a medium-term program for capacity development with specific deliverables and periodic monitoring.

- Rolling out the new budget nomenclature to improve the monitoring of priority spending with a view to protecting them from ad-hoc adjustments to financing shortfalls.

Increasing training activities, especially to enhance the capacity of line ministries in charge of social sectors to initiate and execute their budget appropriations according to the LORF.

Box 6. Guinea: Advancing the Public Financial Management Reform Agenda

In 2011 Guinea embarked in an ambitious overhaul of its Public Financial Management (PFM) framework. Key milestones included the revamping of the legal framework through the adoption of the *Loi organique relative aux finances publiques* (LORF) in 2012, the adoption of the General Regulations on Budget Management and Public Accounting (RGGBCP) in 2013, the adoption in May 2015 of the law on the management of public entities, the adoption in 2015 of a new procurement code, and the establishment of a Treasury Single Account (TSA). The new legislations have been complemented by regulations on fiscal policy formulation, budget preparation and classification, governance of parastatals, and public accounting. However, compliance with the new framework has lagged. Enforcing them fully will improve the efficiency of public spending and the delivery of public services, and facilitate the mobilization of donor support.

- A first step is to adopt a medium term budget framework, based on a consensual medium-term macroeconomic framework that will anchor revenue projections and expenditure planning. Presently, macroeconomic forecasts are not harmonized, and revenue projections reflect historical performance and anecdotal factors instead of an accurate assessment of the tax base. Tracking of foreign aid involves a cumbersome process which increases uncertainty on disbursements. Moreover, the budget envelopes are not aligned with development plans, and hardly reflect stated priorities.
- Second, budget management processes need to be streamlined. Derogatory procedures should be avoided, and all spending must be executed in line with the spending chain. This will involve delegating most budget execution tasks to line ministries.
- Third, data management processes have to be strengthened. Information on budget execution is spread across several IT systems and stand-alone files, which are not always consistent with the approved budget. The core system dates to 2000 is not accessible by line ministries, and data entry can be significantly delayed or incomplete. Financial reporting and controls should be improved, notably through a better management of invoices and netting-out of standing balances.
- Fourth, budget implementation should be fully anchored in the TSA. About 1,400 governmental bank accounts spread in commercial banks in 2012 have been redirected to the BCRG, but the TSA is not yet fully operational in large part due to the weak institutional framework. Many of the balances are not available or not used, and the record-keeping and forecasting functions have shown some deficiencies.
- Finally, work remains to be done regarding the census of public entities and SOEs: the current count stands at 159, but many entities attached to line ministries have not been included.

Monetary, Financial Sector, and Exchange Rate Policies

27. Monetary policy should focus on reducing inflation to 5 percent and on rebuilding reserves to 3–4 months of imports. The level of reserves is in line with the ECOWAS goal and strikes a good balance between the costs and benefits of holding reserves (Box 7). Inflation is projected to be driven mainly by fiscal and monetary developments, given Guinea's robust agricultural potential and projected food production. Against this backdrop, staff and the authorities concurred that loosening monetary policy should only be considered once the 2016 fiscal consolidation is effected and after

international reserves reach the target of 3 months of imports. Other triggers for cutting the reserve requirement rate should be a drying up of banks liquidity combined with a slowdown in private sector credit growth below that of nominal GDP, in a context of downward trending inflation. In the meantime, banks should continue to use the BCRG's refinancing facilities, interbank lending, and FX sales for their liquidity management. Staff stressed that transitioning to exchange rate flexibility over the medium term will support reserves, competitiveness, and economic diversification. Priority actions were specified in the December 2015 MCM technical assistance recommendations and include (i) developing liquidity forecasting based on sound calibration of the BCRG's open market operations; (ii) supporting the development of a yield curve through more regular government security issuances and the publication of reference rates for interbank transactions; and (iii) addressing market segmentation by introducing a two-way FX auction and promoting collateralized transactions in the GNF interbank market to mitigate the perceived counterparty risk.

Box 7. Guinea: Estimates of Reserve Adequacy

This box presents estimates the optimal level of international reserves for Guinea using the new Fund approach for LICs, "Assessing Reserve Adequacy in Credit-Constrained-Economies" (ARA-CC)¹.

The ARA-CC metric is based on an algorithm weighing the benefits of holding reserves against the opportunity cost of holding reserves. The marginal benefit of holding reserves depends on country characteristics: a resource-rich country and a fixed exchange rate regime, for instance, would require a higher level of reserves while a fragile state with a flexible exchange rate arguably would call for lower reserves. The net cost of holding reserves can be approximated either by the external funding cost (for countries with market access), the cost of sterilization, or the marginal product of capital.

Guinea is a fragile resource-based economy with an intermediate exchange rate regime. On average, the results (Text Table below) suggest that 3.3 months of imports could be considered an adequate level for Guinea. However, this level can be considered a lower-bound estimate for at least two reasons: (i) the net cost of holding reserves may be over-estimated given Guinea's positive inflation differential against advanced economies, which implies the GNF may continue to depreciate; thereby reducing the cost of holding reserves; and (ii) the ARA-CC rests on the hypothesis of precautionary motives for holding reserves under risk neutrality, but authorities may wish to hold additional reserves, including because of risk aversion. A higher degree of risk aversion could alter the results. The Guinean authorities expressed a preference for a higher level of reserves in the medium term (between 4 and 5 months of imports) than what is derived from the ARA-CC approach, on the basis of higher risk aversion and macro-prudential motives.

Guinea: Reserve Adequacy Estimates (Months of Imports)					
Fragile / Fixed					
Marginal productivity of capital (MPK)	2.9	2	2.5	1.6	2.1
Sterilization Rate (SR)	4	1.5		2.6	1.9
External Funding (ECF)	4.7	3.5			8.8
Average	3.2				
Resource Rich / Fixed					
Marginal productivity of capital (MPK)	6.5	4.3	5.8	3.4	4.6
Sterilization Rate (SR)	8.8	3.2		5.9	4.1
External Funding (ECF)	9.9	7.8			12.4
Average	6.4				
Fragile / Flexible					
Marginal productivity of capital (MPK)	1.0	0.8	1	0.7	0.8
Sterilization Rate (SR)	1.3	0.7		1	0.8
External Funding (ECF)	1.4	1.2			2.2
Average	1.1				
Resource Rich / Flexible					
Marginal productivity of capital (MPK)	2.1	1.5	1.9	1.3	1.6
Sterilization Rate (SR)	2.9	1.2		2	1.5
External Funding (ECF)	3.4	2.6			6.3
Average	2.4				
Total average	3.3				
Source: IMF staff.					

¹ IMF (2013), "Assessing Reserve Adequacy—Further Considerations," IMF Policy Paper, February, Washington, International Monetary Fund.

28. Improvements in the quality of financial system supervision would allow a better intermediation of local savings. Staff advised the authorities to accelerate the adoption of risk-based supervision in line with the timeline agreed with AFRITAC West (AFW) and asked for strengthening the directorate of banking supervision. The BCRG reiterated its commitment to AFW's recommendations and attributed the implementation delays to capacity constraints, including staffing shortages that are being resolved. Staff welcomed the recent cap on risk concentration to 100 percent of regulatory capital and the requirement to constitute exceptional provision of up to 15 percent of net banking income imposed on banks that breach the prudential norm on the division of risks.²⁶ Staff pointed out that the continued breaches of this norm by banks involved in food and fuel imports call for strengthening banks' capital beyond the GNF 100 billion target of June 2016.

29. Improving competition in the banking sector and lifting structural impediments to microfinance will promote financial inclusion and the sharing of growth dividends. Despite a relatively large number of banks, Guinea's financial system is one of the shallowest in the world. The credit-to-GDP ratio and the proportion of individuals and companies using financial services stand well below peers'.²⁷ At the same time, Guinean banks rank amongst the most profitable in the world, given negative real interest rates on deposits, and high interest rate spreads and banking fees.²⁸ This reflects low income levels, lack of competition,²⁹ limited physical access to financial institutions, financial illiteracy, and other barriers to credit such as weak property rights and bankruptcy procedures. The reform by the authorities of the 2005 microfinance law and the National Strategy of Financial Inclusion (Box 8) under preparation will unlock the potential of this sector. Staff welcomed the strategy and the focus placed on enhancing the poor's access to financial services rather than on keeping interest rates low, and on the stricter enforcement of prudential regulations to lift governance standards. The authorities concurred with the need to supplement the strategy with a comprehensive plan to reduce the cost of bank intermediation, including through reforms of the judicial system to reduce the risks faced by banks.

²⁶ The number of waivers concerning the division of risks stabilized as the central bank decided to limit their granting to the financing of oil imports and essential foodstuffs.

²⁷ See accompanying Selected Issues Paper on Financial Inclusion.

²⁸ Banks argue that about 40 percent of their labor force is unproductive, which could explain the large intermediation costs but not necessarily the high profitability.

²⁹ Three banks hold about 75 percent of total assets of the banking system.

Box 8. Guinea: Advances in Promoting Financial Inclusion

In 2014, Guinea adopted a National Strategy for Financial Inclusion (*Stratégie Nationale d'Inclusion Financière*, SNFI), built around four pillars: the policy and regulatory framework of mobile-based financial services, the regulation frameworks, consumer literacy and protection, and data collection. The SNFI is being revised to broaden its approach, include in the discussions non-bank providers of financial services (insurance and mobile phone companies), and take into account lessons learned, like the Ebola epidemic.

Mobile banking and electronic money services penetration has been very rapid in Guinea thanks to the growth of mobile phone services (21 percent on average since 2010). The number of subscribers soared from 4.2 million in 2010 to 10.7 million in 2015. The BCRG adopted in March 2015 wide-ranging regulation to supervise the provision of e-money financial services. Accordingly, Electronic Money Institutions (EMIs) must now be registered at the central bank, are not allowed to remunerate deposits or supply credit, and must meet minimum social capital standards. Areas also covered include customer protection rights, security and traceability of operations, disclosure of tariff conditions, as well as quarterly reporting and external audit requirements. Amendments will also include: (i) new financial products (like transfer services, domiciliation of salaries, mobile banking, and distribution of insurance products); (ii) deposit protection; (iii) disclosures; and (iv) competition and taxation. Analyses to elaborate national policies of financial literacy are also in progress.

Finally, the central bank intends to develop a framework for the compilation of Financial Soundness Indicators (FSIs) to improve data collection, within the context of a three-year TA project.

30. Strengthening the operational independence of the Central bank will be critical for the success of these reforms. Key measures called for in the updated Safeguards Assessment include enforcing the legal limits to monetary financing of the budget, reforming the appointment rules of the BCRG's board members, and reducing the concentration of power of the Governor. After consulting with staff, the BCRG submitted to Parliament amendments of its law to meet these goals. The central bank is, however, reluctant to ban civil servants from seating at its board, as this would shrink the already shallow pool of competencies. The BCRG consented that Board members holding positions in the economic ministries (budget, finance, planning) will not have voting rights. These reforms will play an important role in reducing fiscal dominance and facilitating the conduct of monetary policy.³⁰

Structural Reforms

31. Discussions on structural reform focused on raising Guinea's low indicators of governance, promoting economic diversification, and improving the delivery of public services.

The authorities agreed on the need to finalize the pending set of the ECF arrangement's structural reforms to improve the credibility of economic institutions by enforcing the public procurement code, implementing the Government's action plan to reform the legal system and the AML/CFT framework. Staff encouraged them to fully enact the new mining code, considered by experts to be in line with international standards, advising caution in the introduction of additional pieces of regulation that could erode its comparative advantage. Reforms in the agriculture sector should be geared toward rolling out support mechanisms aimed at enhancing productivity and poor farmers' income while reducing the need for government support over the medium term. Reforms of the support mechanisms for the education should also be contemplated with a view to aligning them with social returns and boosting human capital.

³⁰ The BCRG sent a letter on November 2015 to the Ministry of Finance to initiate discussions on the reimbursement of the 2014-15 central bank advances, and on the modalities of its recapitalization.

C. Other Issues

32. Data provision is broadly adequate for surveillance with some key data shortcomings in national accounts and fiscal statistics (see Informational Annex). Good progress was made with the approval of the 2013 national accounts statistics. In light with the significant differences with GDP estimates used for policy making, staff encouraged the authorities to swiftly reconcile the different sources of data. The authorities pointed to the significant underestimation of GDP in the data used in the context of the ECF arrangement and asked for AFW technical assistance to reconcile the databases. Staff stressed that improving the coordination between government agencies will be important to correct data discrepancies, and encouraged the authorities to develop indicators for intra-year updates of GDP forecasts. Staff advised updating the base year (2002) of CPI data as soon as the household survey is finalized and starting work to extend its coverage to outside Conakry. Finally, staff encouraged the authorities to modernize the compilation methodology of government financial operations, and ensure consistency with financing data available at the central bank.

33. Capacity building. Staff discussed with authorities the capacity building strategy, including commitments in the context of the Capacity Building Framework for fragile states, under which Guinea is a pilot country. The level of TA is expected to increase significantly in the years ahead, with key areas of assistance focusing on revenue mobilization, debt management, and expenditure rationalization, strengthening public investment processes, monetary and exchange rate policies, and macroeconomic statistics (including inflation, national accounts and balance of payments). The authorities welcomed the expected gains from the CBF in terms of absorptive capacity and called for more long-term experts and hands-on training on TA recommendations.

34. Article VIII. Staff reviewed compliance with Article VIII under the Articles of Agreement and, with respect to the multi-price auction, advised the central bank to avoid the occurrence of a multiple currency practice (MCP) by continuing to ensure that the exchange rates of accepted bids at the auction do not deviate by more than 2 percent. Staff also encouraged authorities to remove the MCP arising from the value of the official rate lagging the weighted average commercial bank rate on which it is based by one day. The central bank requested support from MCM to identify measures to remove the MCP.

35. Safeguards Assessment. An update of the 2012 assessment, completed in June 2016, noted limited progress in some areas. In particular, the recent case of misreporting following the issuance of large BCRG guarantees to commercial banks at the request of the government suggests fiscal dominance in relations between the government and the central bank. Staff's key recommendations included that the BCRG Law be strengthened, oversight of internal controls and operations be enhanced through closer follow up by the Audit Committee, and external auditors continue to verify program monetary data at test dates. The central bank is in the process of finalizing a revised BCRG Law that takes account of staff's recommendations for submission to Parliament.

STAFF APPRAISAL

36. The authorities' commitment to the ongoing fiscal adjustment is appropriate. Delivering the planned fiscal adjustment, rebuilding reserves to three months of imports, and finalizing the reform of the foreign exchange market will lay the basis for strong medium-term growth, improve Guinea's track record and credibility of economic policies and help unlock further donor support.

37. Scaling-up of public investment should be carefully considered based on realistic assessment. Scaling up investment in the energy and transport sectors will increase Guinea's long-term potential, only if they are effective and consistent with macroeconomic stability. The authorities should develop a realistic economic scenario and formulate policies that reflect available financing and capacity constraints. The authorities should implement these projects gradually, while keeping the deficit in line with available financing. Tapping the tax potential, enhancing the quality and value for money of public spending, and relying as much as possible on concessional borrowing will provide additional fiscal space for these priority projects. PPPs carry potentially large fiscal risks and should be used with caution.

38. Addressing structural impediments to growth should be a top priority. Tackling these will play a critical role in strengthening Guinea's external competitiveness and its resilience to shocks. Creating an enabling environment for private sector activity would help Guinea achieve its macroeconomic objectives. In the short term, efforts should focus on finalizing the ECF arrangement reform agenda. For the medium term, reforms should focus on strengthening the electricity and agriculture sectors to boost growth, while safeguarding public resources.

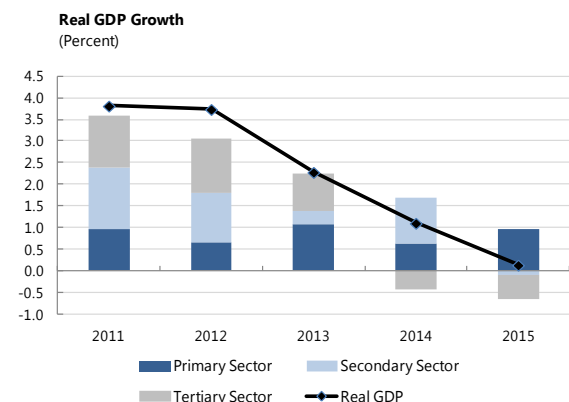
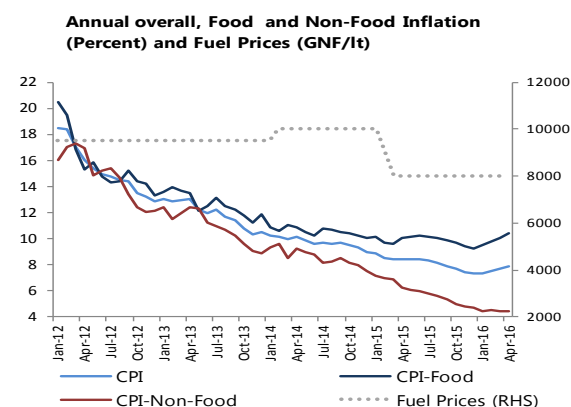
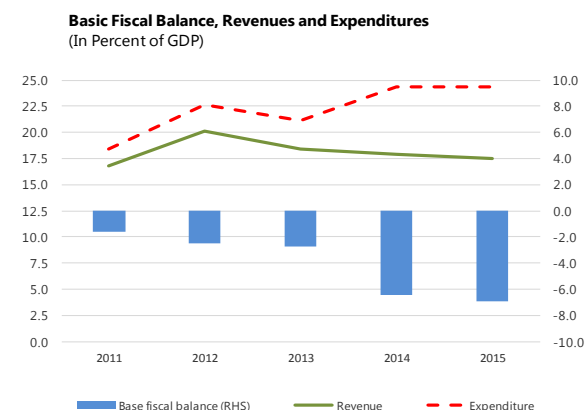
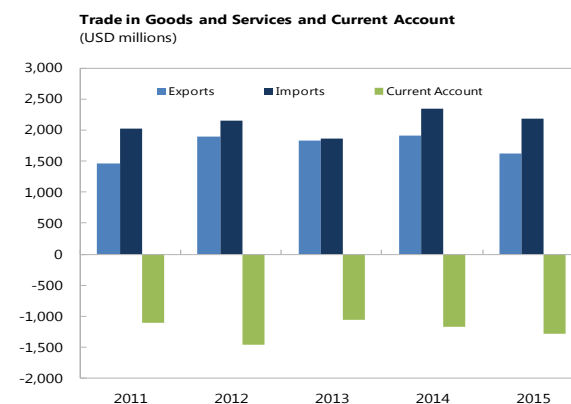
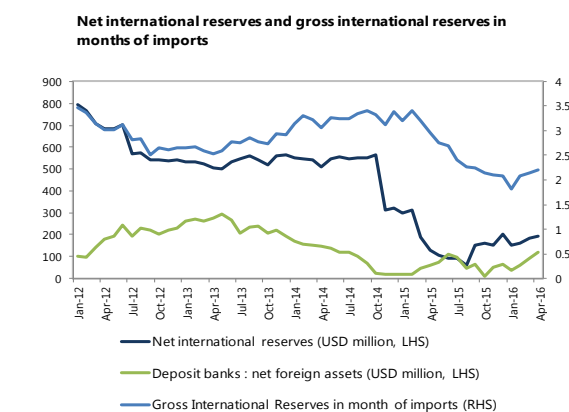
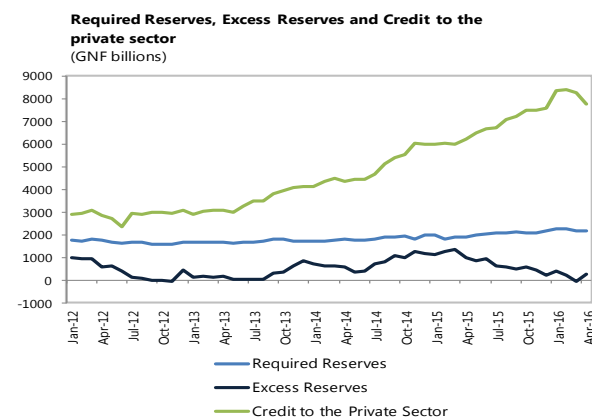
39. A more independent central bank will help reduce fiscal dominance and support external stability. Monetary policy should focus on maintaining price stability and rebuilding external buffers to at least 3 months of imports. Authorities should consider publicly announcing an inflation objective to improve the conduct of monetary policy and accountability of the BCRG. The amendments of the central bank law are an important step forward, but delivering the expected benefits requires strict enforcement.

40. Financial sector policies should aim at increasing domestic savings by improving financial intermediation and inclusion. Strengthening financial supervision and introducing policies to lower the costs of intermediation would also strengthen resilience to economic shocks.

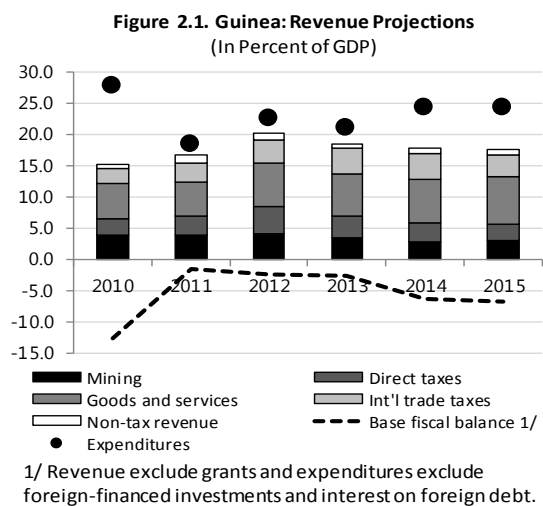
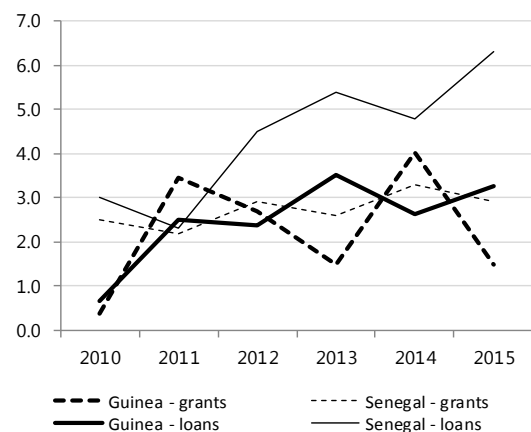
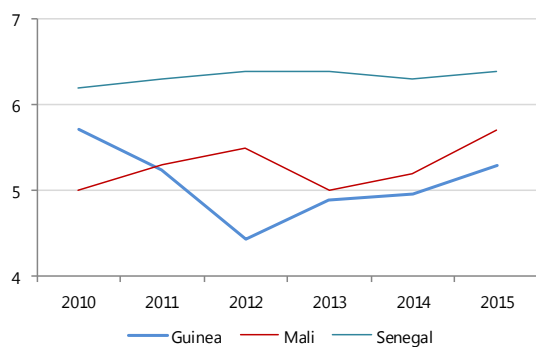
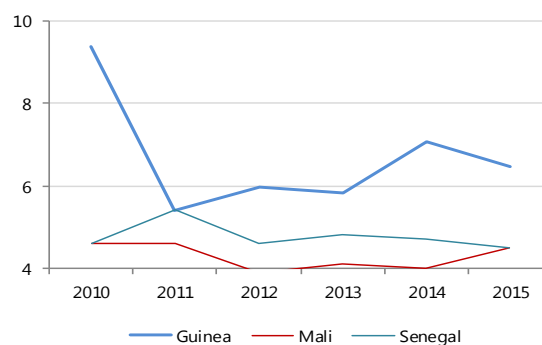
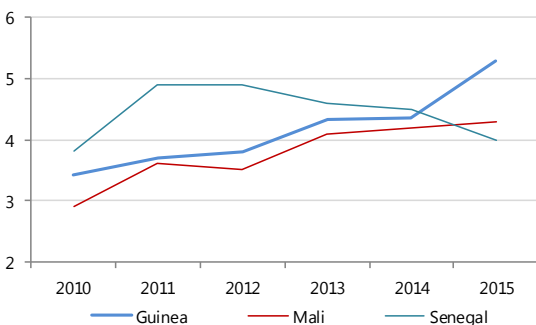
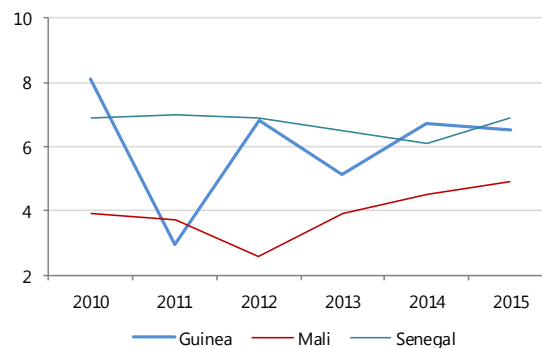
41. Staff's analysis suggests that Guinea's exchange rate remains somewhat overvalued. Staff encourages the authorities to allow more flexibility of the exchange rate, swiftly implement the pending reforms to the FX market, and consider launching a rules-based FX purchase program to rebuild reserves.

42. The authorities did not request and staff does not recommend approval of the multiple currency practice maintained inconsistent with Article VIII obligations. This multiple currency practice arises from the value of the official rate lagging by one day from the weighted average of commercial bank rates. Currently, the authorities have no plans for its removal.

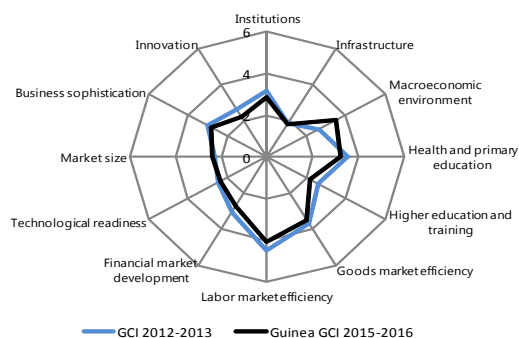
43. The next Article IV consultation is expected to take place on a 24-month cycle.

Figure 2. Guinea: Recent Economic Developments*Shocks and policy slippages adversely impacted growth...**Inflation fell to single digit levels...**The fiscal expansion was more pronounced than envisioned in the last Article IV...**The current account deteriorated on account of lower commodity prices...**Reserve buffers were depleted on account of policy slippages in 2015, and are slowly recovering...**Credit to the private sector increased sharply despite low GDP growth while banks' excess reserves are hovering around zero...*

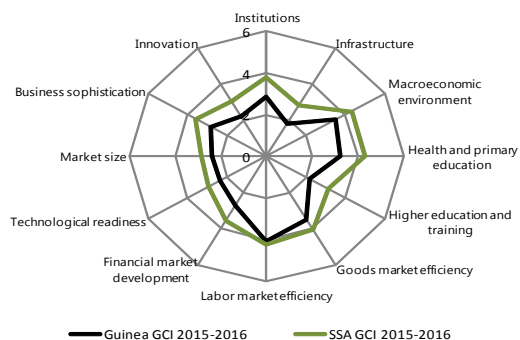
Sources: Guinean authorities; and IMF staff estimates.

Figure 3. Guinea: Fiscal Indicators**Figure 2.2. Guinea: Foreign Financing Compared to Senegal**
(In Percent of GDP)**Figure 2.3. Salaries**
(In Percent of GDP)**Figure 2.4. Goods and Services**
(In Percent of GDP)**Figure 2.5. Transfers**
(In Percent of GDP)**Figure 2.6. Domestically Financed Investments**
(In Percent of GDP)

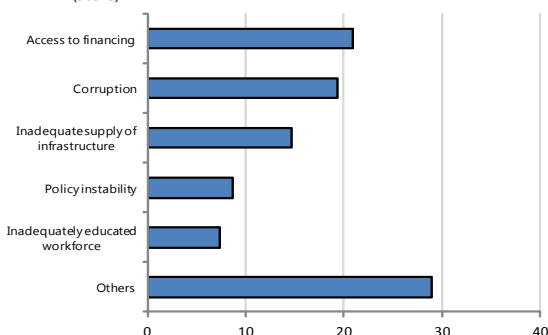
Sources: Guinean authorities; and IMF Staff calculations.

Figure 4. Guinea: Competitiveness Indicators**Figure 3.1 Guinea: Global Competitiveness Index scores**
(score ranging from 1 to 7)

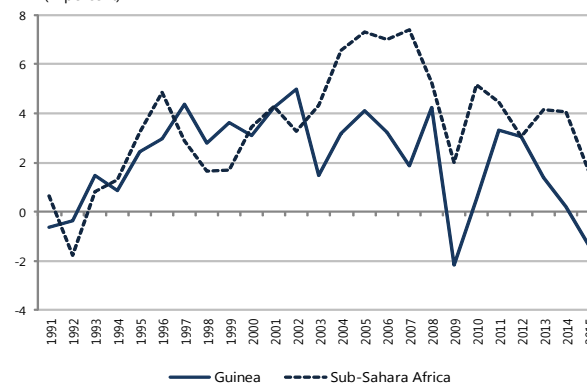
Note: score ranging from 1 to 7, 1 being the worst.

Figure 3.2. Guinea and Sub-Saharan Africa: Global Competitiveness Index scores
(score ranging from 1 to 7)

Note: score ranging from 1 to 7, 1 being the worst.

Figure 3.3 The most problematic factors for doing business
(score)

Note: From the list of factors, respondents were asked to select the five most problematic for doing business in their country and to rank them between 1 (most problematic) and 5. The score corresponds to the responses weighted according to their rankings.

Figure 3.4 GDP per capital growth (PPP dollars)
(in percent)**Figure 3.5 Doing Business Distance to the Frontier, 2015**

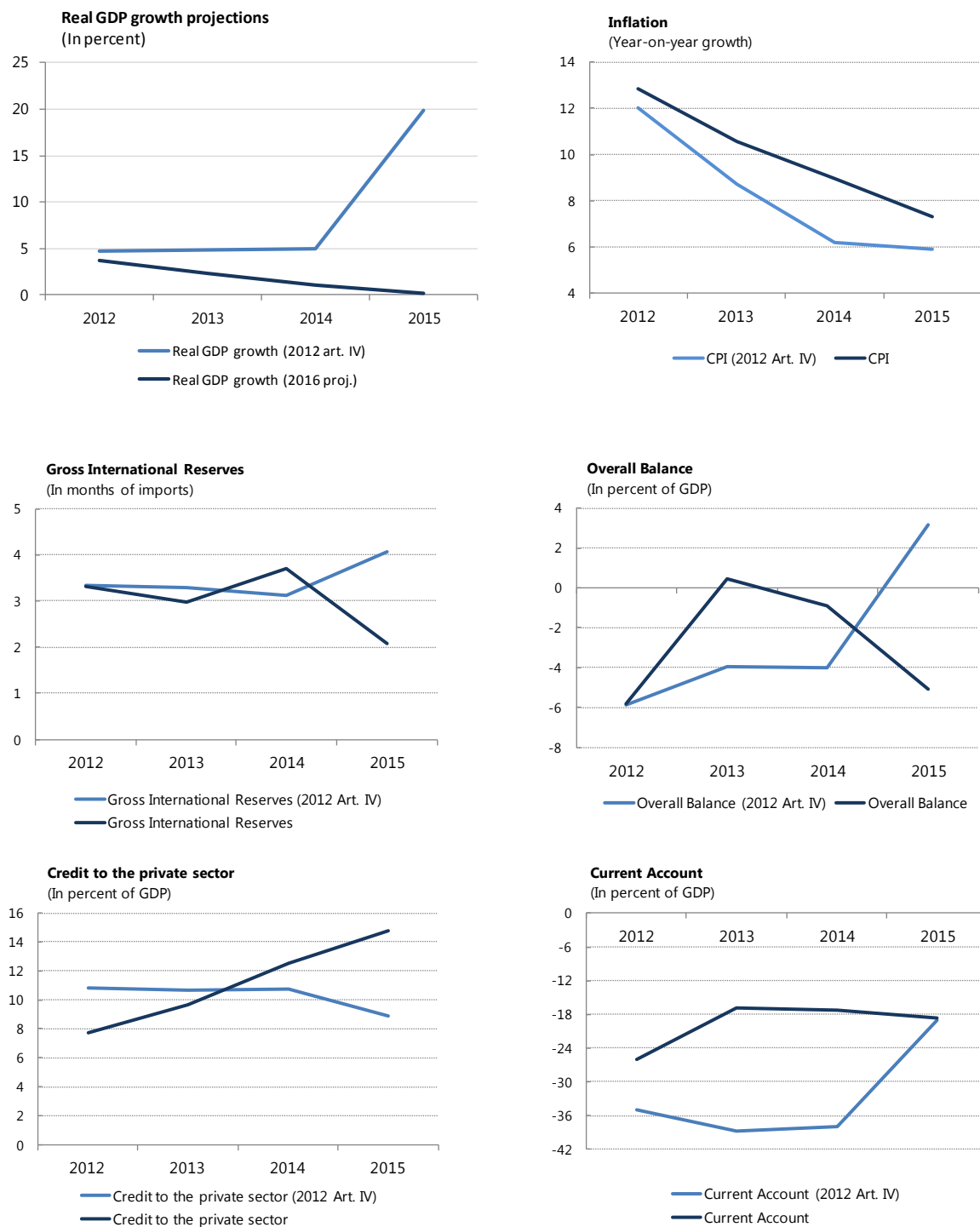
Note: higher 'distance to frontier' values correspond to higher rankings.

Figure 3.6 Guinea: Doing Business Distance to the Frontier, 2012 and 2015

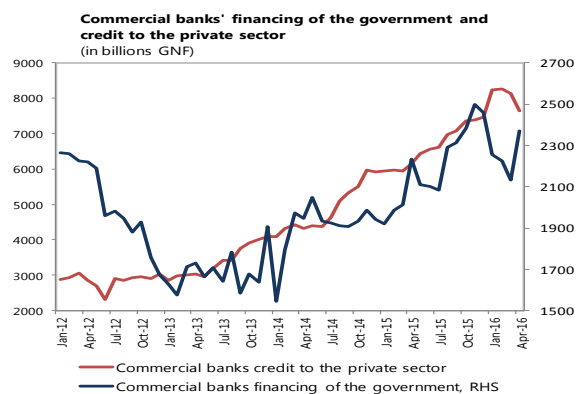
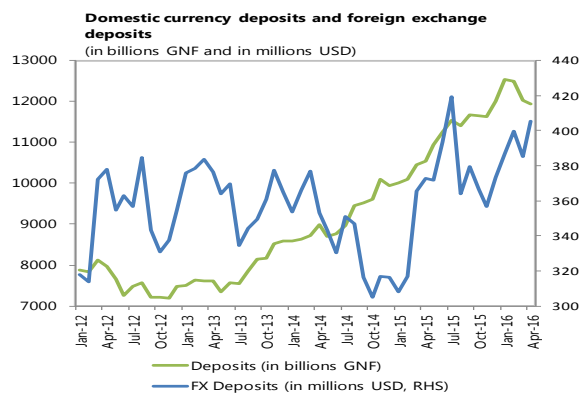
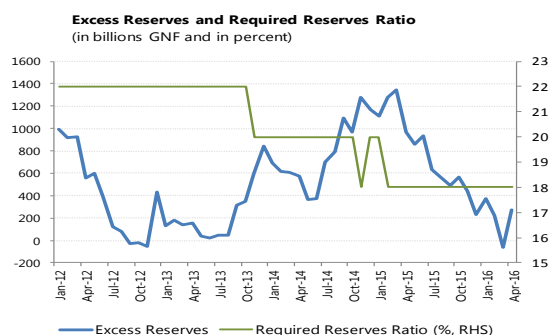
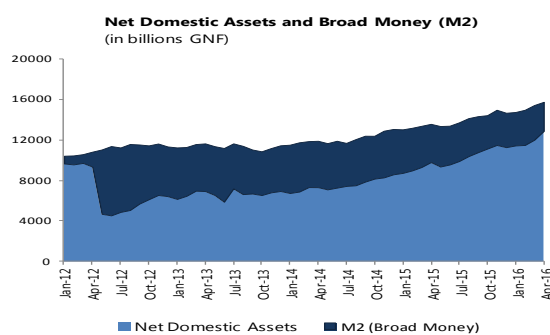
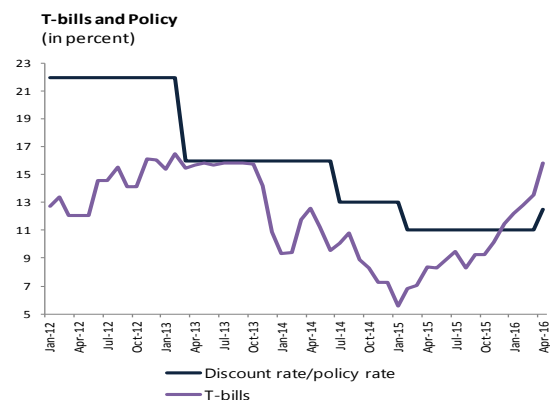
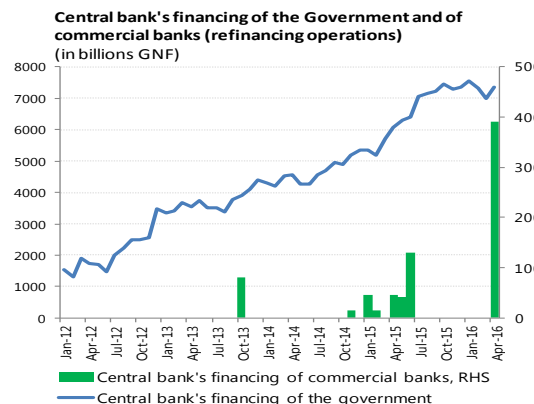
Note: higher 'distance to frontier' values correspond to higher rankings.

Sources: World Competitiveness Report; WEO IMF; World Bank Doing Business Indicators.

Figure 5. Guinea: 2012 Article IV Projections and Outturn



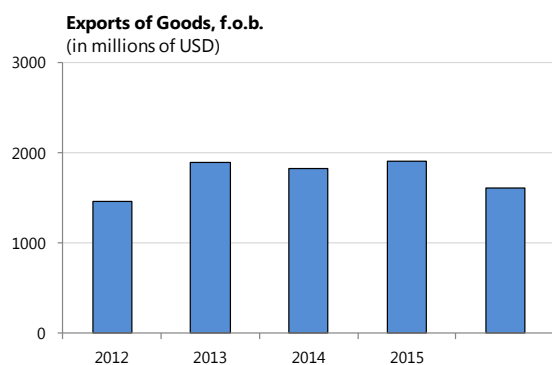
Sources: Guinean authorities; and IMF Staff calculations.

Figure 6. Guinea: Monetary and Financial Sector Developments*Credit to the economy increased significantly...**Along with higher deposits...**Banks' excess reserves have fallen...**Net domestic assets have increased more than broad money...**Interest rates have picked up recently...**As well as Central Bank financing to the government...*

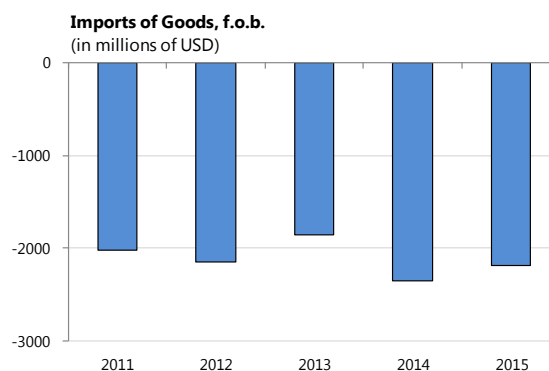
Sources: Guinean authorities and IMF Staff calculations.

Figure 7. Guinea: External Sector Developments

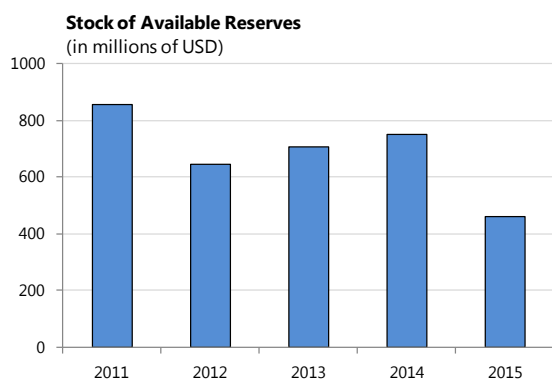
Delays on Simandou and lower commodity prices held exports back...



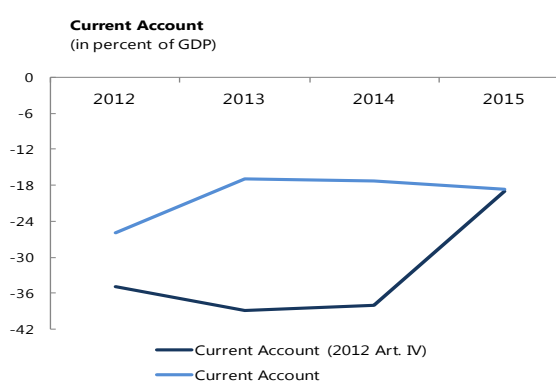
While lower import demand reflected the slower growth...



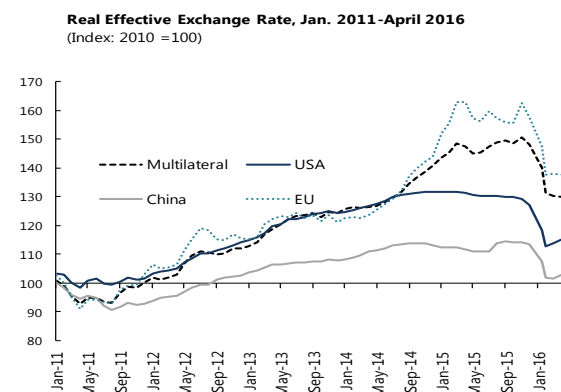
Policy slippages led to a depletion of reserves ...



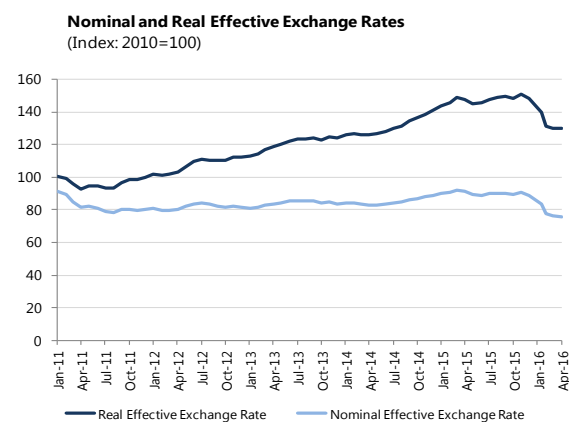
But external imbalances were lower...



The real exchange rate has appreciated....



Mostly reflecting high inflation differentials against the main trading partners...



Sources: Guinean authorities; and IMF staff calculations.

Table 1. Guinea: Key Economic and Financial Indicators, 2013–21

	2013	2014	2015	2016		2017	2018	2019	2020	2021
			Est.	Prog. ¹	Proj.			Proj.		
Annual percentage change, unless otherwise indicated										
National accounts and prices										
GDP at constant prices	2.3	1.1	0.1	4.0	3.7	4.3	4.5	4.8	5.0	4.8
GDP deflator	6.1	9.7	7.5	8.2	9.5	7.9	6.2	5.0	5.0	4.9
GDP at market prices	8.5	11.0	7.6	12.6	13.5	12.5	11.0	10.1	10.3	9.9
Consumer prices (average)										
Average	11.9	9.7	8.2	7.9	8.4	8.3	6.8	5.5	5.0	5.0
End of period	10.5	9.0	7.3	8.5	9.1	7.5	6.0	5.0	5.0	5.0
External sector										
Exports, f.o.b. (US\$ terms)	-3.7	4.7	-15.3	5.6	11.9	9.5	8.8	8.3	8.5	7.8
Imports, f.o.b. (US\$ terms)	-13.6	26.1	-6.8	-14.0	0.7	3.5	8.6	9.4	10.7	5.1
Average effective exchange rate (depreciation -)										
Nominal index	2.9	1.1	6.0	...	...	...	...	...	...	...
Real index	12.2	8.5	12.5	....	...	...	...	...	...	...
Terms of trade	8.4	5.5	15.1	20.1	9.3	-1.4	0.0	-0.2	-0.3	0.7
Money and credit										
Net foreign assets ²	-0.3	-8.3	-11.0	6.2	6.9	12.3	6.7	4.5	9.9	9.8
Net domestic assets ²	14.4	20.6	31.2	4.8	4.3	6.6	4.5	4.3	3.9	3.5
Net claims on government ²	10.2	7.5	17.2	-0.9	-0.9	1.8	-1.0	-1.0	-1.4	-0.9
Credit to non-government sector ²	9.7	13.7	10.8	5.7	5.1	4.8	5.5	5.3	5.3	4.4
Reserve money	15.7	14.5	2.6	8.1	9.5	21.4	10.4	6.3	17.6	17.4
Broad money (M2)	14.1	12.3	20.3	11.0	11.2	18.9	11.2	7.7	14.8	12.2
Interest rate (short-term T-bill)	9.8	9.8	11.5	...	...	...	...	...	...	...
Percent of GDP, unless otherwise indicated										
Central government finances										
Total revenue and grants	19.9	21.9	19.0	24.3	23.5	23.9	24.3	24.5	24.6	24.3
Revenue	18.4	17.9	17.5	20.3	19.7	19.8	20.1	20.3	20.3	20.4
Of which: Non-mining revenue	14.3	14.1	14.5	17.1	16.6	16.6	16.8	17.0	17.0	17.1
Grants	1.5	4.0	1.5	4.0	3.8	4.1	4.2	4.2	4.2	3.9
Total expenditure and net lending	25.1	26.1	27.8	25.6	24.7	24.8	24.9	24.8	24.8	24.6
Current expenditure	16.2	17.6	18.1	16.0	15.5	14.9	14.8	14.7	14.7	14.6
Of which: Interest payments	1.1	1.2	1.1	1.7	1.7	1.2	1.2	1.0	0.9	0.8
Capital expenditure and net lending	8.9	8.3	9.7	9.5	9.1	9.8	10.1	10.1	10.1	9.9
Overall budget balance (cash basis)										
Including grants	-5.2	-4.1	-8.7	-1.3	-1.2	-0.9	-0.6	-0.3	-0.2	-0.3
Excluding grants	-6.7	-8.2	-10.3	-5.3	-5.0	-5.0	-4.9	-4.5	-4.4	-4.2
Basic fiscal balance	-2.8	-6.4	-6.9	-0.4	-0.5	-0.7	-0.3	-0.2	-0.2	-0.3
National accounts										
Gross capital formation	20.3	9.3	10.2	20.6	16.9	16.5	16.5	16.5	16.5	16.5
Savings	3.5	-8.0	-8.5	7.5	2.2	3.3	0.7	-1.4	0.4	-3.5
Current account balance										
Including official transfers	-16.9	-17.3	-18.7	-13.1	-14.7	-13.2	-15.8	-17.9	-16.1	-20.0
Excluding official transfers	-17.3	-19.1	-18.9	-14.5	-16.1	-14.6	-17.2	-19.3	-17.5	-21.3
Overall balance of payments	0.5	-0.9	-5.1	1.6	1.5	3.3	1.8	1.1	2.8	3.3
Memorandum items:										
Exports, goods and services (US\$ millions)	1,928.6	1,958.0	1,674.0	1,507.6	1,895.2	2,074.0	2,256.2	2,444.6	2,653.0	2,859.9
Imports, goods and services (US\$ millions)	2,647.4	2,901.6	2,658.0	2,440.1	2,779.3	2,837.2	3,293.7	3,621.9	3,677.9	4,276.5
Overall balance of payments (US\$ millions)	29.0	-61.7	-347.4	105.6	104.0	224.2	130.5	87.9	231.7	287.9
Net foreign assets of the central bank (US\$ millions)	448.9	453.4	161.2	259.5	267.4	484.4	611.9	698.1	925.7	1,173.4
Gross available reserves (months of imports) ³	3.0	3.7	2.1	3.0	3.0	3.2	3.4	3.7	3.8	4.0
External public debt, incl. IMF (percent of GDP)	21.8	25.5	25.4	28.4	28.4	30.7	31.4	31.2	30.6	28.4
Total public debt, incl. IMF (percent of GDP)	41.9	43.1	49.1	44.7	48.6	48.1	46.4	44.4	42.1	38.6
Nominal GDP (GNF billions)	42,977	47,683	51,315	56,448	58,238	65,513	72,702	80,059	88,274	97,042.8

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

¹ Program as established for the 6th and 7th ECF Review.² In percent of the broad money stock at the beginning of the period.³ In months of the following year's imports excluding imports for large foreign-financed mining projects.

Table 2a. Guinea: Fiscal Operations of the Central Government, 2013–20¹
(Billions of Guinean Francs, unless otherwise indicated)

	2013	2014	2015	2016		2017	2018	2019	2020
				Prog. ²	Proj.			Proj.	
Total revenue and grants	8,544	10,465	9,749	13,714	13,714	15,642	17,677	19,615	21,684
Revenue	7,905	8,537	8,988	11,472	11,472	12,960	14,603	16,229	17,951
Tax revenue	7,619	8,059	8,579	10,837	10,837	12,460	14,048	15,618	17,277
Mining sector	1,489	1,348	1,558	1,814	1,814	2,101	2,379	2,646	2,917
Non-mining sector	6,130	6,711	7,021	9,023	9,023	10,359	11,669	12,973	14,360
Direct taxes	1,484	1,382	1,376	1,650	1,650	1,949	2,271	2,551	2,868
Indirect taxes	4,646	5,328	5,645	7,373	7,374	8,410	9,398	10,422	11,491
Taxes on goods and services	2,943	3,343	3,824	5,133	5,132	5,889	6,601	7,341	8,095
Taxes on international trade	1,703	1,985	1,821	2,241	2,241	2,521	2,798	3,081	3,397
Non-tax revenue	286	478	409	635	635	500	555	611	674
Grants	639	1,928	761	2,242	2,241	2,682	3,075	3,386	3,733
Project grants	462	320	249	1,429	1,429	1,768	2,060	2,268	2,501
Budget support	177	845	89	813	813	914	1,015	1,117	1,232
Other earmarked grants	...	763	423	...	...	...	...	...	...
Expenditures and net lending	10,785	12,443	14,287	14,476	14,406	16,215	18,132	19,841	21,858
Current expenditures	6,954	8,415	9,284	9,032	9,038	9,773	10,767	11,752	12,940
Primary current expenditures	6,461	7,819	8,741	8,056	8,060	8,986	9,888	10,928	12,136
Wages and salaries	2,102	2,370	2,721	3,279	3,280	3,690	4,095	4,509	4,972
Goods and services	2,499	3,368	3,313	2,779	2,781	3,160	3,542	3,939	4,431
Subsidies and transfers	1,860	2,081	2,707	1,997	1,999	2,136	2,252	2,480	2,734
Interest on debt	493	596	543	977	978	788	878	824	804
Domestic debt	421	504	433	659	666	554	607	531	490
External debt	72	92	110	318	313	234	271	293	314
Capital expenditure	3,822	3,939	4,990	5,383	5,307	6,427	7,350	8,075	8,903
Domestically financed	2,201	3,195	3,337	2,951	2,951	3,839	4,329	4,888	5,526
Investment (central budget exec.)	2,184	3,165	3,290	2,893	2,893	3,839	4,329	4,888	5,526
Capital transfers	17	31	47	58	58	0	0	0	0
Externally financed	1,620	743	1,653	2,432	2,356	2,589	3,022	3,187	3,377
Net lending and restructuring expenditures	9	89	13	61	61	15	15	14	15
Adjustment measures	...	...	...	...	0	...	...	...	...
Basic fiscal balance ³	-1,188	-3,070	-3,535	-254	-265	-433	-236	-132	-216
Percent of GDP	-2.8	-6.4	-6.9	-0.4	-0.5	-0.7	-0.3	-0.2	-0.2
Overall balance									
Excluding grants	-2,880	-3,905	-5,299	-3,004	-2,934	-3,255	-3,529	-3,612	-3,908
Including grants	-2,241	-1,978	-4,538	-762	-692	-573	-454	-226	-175
Cash adjustments	0	6	63	0	0	0	0	0	0
Overall balance (cash basis)	-2,241	-1,972	-4,475	-762	-692	-573	-454	-226	-175
Financing	2,242	2,008	4,472	762	692	573	454	226	174
Domestic financing	1,042	1,087	3,011	-301	-391	-967	-937	-870	-891
Bank financing	1,011	1,139	2,578	-155	-155	360	-237	-258	-400
Central bank	901	1,116	1,804	-305	-305	-284	-284	-284	-284
Commercial banks	110	23	774	150	150	643	47	26	-116
Nonbank financing	31	-52	433	-147	-236	-1,327	-701	-612	-491
Privatization revenue	0	0	0	0	0	0	0	0	0
Borrowing/Amortization of domestic debt (net)	200	-101	-150	-115	-204	-1,327	-701	-612	-491
Change in arrears	-178	45	296	-147	-147	0	0	0	0
Other / Exceptional revenue	9	4	287	115	115	0	0	0	0
External financing (net)	1,200	920	1,461	1,063	1,083	1,540	1,391	1,095	1,066
Drawings	1,509	1,254	1,674	1,616	1,597	2,172	1,888	1,788	1,679
Project	1,268	424	1,404	1,003	928	821	962	918	876
Program	242	830	270	613	670	1,352	926	869	803
Amortization due	-341	-419	-388	-553	-515	-632	-496	-692	-613
Debt relief ⁴	0	33	96	811	811	0	0	0	0
Change in cap. arrears (- = reduction) ⁴	26	44	73	-811	-811	0	0	0	0
Change in int. arrears (- = reduction) ⁴	0	8	6	0	0	0	0	0	0
Miscellaneous cash adjustments	6	0	0	0	0	0	0	0	0
Errors and omissions	-0	-36	3	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0	0	0
<i>Memorandum items:</i>									
Nominal GDP (GNF billion)	42,977	47,683	51,315	56,448	58,238	65,513	72,702	80,059	88,274

Sources: Guinean authorities; Fund staff estimates and projections.

¹ Based on GFSM 1986 due to data availability limitations.

² Program as established for the 6th and 7th ECF Review.

³ Revenue minus expenditure excluding interest on external debt and foreign-financed investment.

⁴ For 2014 and 2015 (projected), debt relief is on outstanding loans fully in arrears owed to non-Paris club official and commercial creditors.

Table 2b. Guinea: Fiscal Operations of the Central Government, 2013–20¹
(Percent of GDP, unless otherwise indicated)

	2013	2014	2015	2016		2017	2018	2019	2020
				Prog. ²	Proj.			Proj.	
Total revenue and grants	19.9	21.9	19.0	24.3	23.5	23.9	24.3	24.5	24.6
Revenue	18.4	17.9	17.5	20.3	19.7	19.8	20.1	20.3	20.3
Tax revenue	17.7	16.9	16.7	19.2	18.6	19.0	19.3	19.5	19.6
Mining sector	3.5	2.8	3.0	3.2	3.1	3.2	3.3	3.3	3.3
Non-mining sector	14.3	14.1	13.7	16.0	15.5	15.8	16.1	16.2	16.3
Direct taxes	3.5	2.9	2.7	2.9	2.8	3.0	3.1	3.2	3.2
Indirect taxes	10.8	11.2	11.0	13.1	12.7	12.8	12.9	13.0	13.0
Taxes on goods and services	6.8	7.0	7.5	9.1	8.8	9.0	9.1	9.2	9.2
Taxes on international trade	4.0	4.2	3.5	4.0	3.8	3.8	3.8	3.8	3.8
Non-tax revenue	0.7	1.0	0.8	1.1	1.1	0.8	0.8	0.8	0.8
Grants	1.5	4.0	1.5	4.0	3.8	4.1	4.2	4.2	4.2
Project grants	1.1	0.7	0.5	2.5	2.5	2.7	2.8	2.8	2.8
Budget support	0.4	1.8	0.2	1.4	1.4	1.4	1.4	1.4	1.4
Other earmarked grants	...	1.6	0.8	...	...	...	...	...	...
Expenditures and net lending	25.1	26.1	27.8	25.6	24.7	24.8	24.9	24.8	24.8
Current expenditures	16.2	17.6	18.1	16.0	15.5	14.9	14.8	14.7	14.7
Primary current expenditures	15.0	16.4	17.0	14.3	13.8	13.7	13.6	13.6	13.7
Wages and salaries	4.9	5.0	5.3	5.8	5.6	5.6	5.6	5.6	5.6
Goods and services	5.8	7.1	6.5	4.9	4.8	4.8	4.9	4.9	5.0
Subsidies and transfers	4.3	4.4	5.3	3.5	3.4	3.3	3.1	3.1	3.1
Interest on debt	1.1	1.2	1.1	1.7	1.7	1.2	1.2	1.0	0.9
Domestic debt	1.0	1.1	0.8	1.2	1.1	0.8	0.8	0.7	0.6
External debt	0.2	0.2	0.2	0.6	0.5	0.4	0.4	0.4	0.4
Capital expenditure	8.9	8.3	9.7	9.5	9.1	9.8	10.1	10.1	10.1
Domestically financed	5.1	6.7	6.5	5.2	5.1	5.9	6.0	6.1	6.3
Investment (central budget exec.)	5.1	6.6	6.4	5.1	5.0	5.9	6.0	6.1	6.3
Capital transfers	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Externally financed	3.8	1.6	3.2	4.3	4.0	4.0	4.2	4.0	3.8
Net lending and restructuring expenditures	0.0	0.2	0.0	0.1	0.1	0.0	0.0	0.0	0.0
Adjustment measures	...	...	...	...	0.0	...	...	...	...
Basic fiscal balance³	-2.8	-6.4	-6.9	-0.4	-0.5	-0.7	-0.3	-0.2	-0.2
Overall balance									
Excluding grants	-6.7	-8.2	-10.3	-5.3	-5.0	-5.0	-4.9	-4.5	-4.4
Including grants	-5.2	-4.1	-8.8	-1.3	-1.2	-0.9	-0.6	-0.3	-0.2
Cash adjustments	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-5.2	-4.1	-8.7	-1.3	-1.2	-0.9	-0.6	-0.3	-0.2
Financing	5.2	4.2	8.7	1.3	1.2	0.9	0.6	0.3	0.2
Domestic financing	2.4	2.3	5.9	-0.5	-0.7	-1.5	-1.3	-1.1	-1.0
Bank financing	2.4	2.4	5.0	-0.3	-0.3	0.5	-0.3	-0.3	-0.5
Central bank	2.1	2.3	3.5	-0.5	-0.5	-0.4	-0.4	-0.4	-0.3
Commercial banks	0.3	0.0	1.5	0.3	0.3	1.0	0.1	0.0	-0.1
Nonbank financing	0.1	-0.1	0.8	-0.3	-0.4	-2.0	-1.0	-0.8	-0.6
Privatization revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Borrowing/Amortization of domestic debt (net)	0.5	-0.2	-0.3	-0.2	-0.4	-2.0	-1.0	-0.8	-0.6
Change in arrears	-0.4	0.1	0.6	-0.3	-0.3	0.0	0.0	0.0	0.0
Other / Exceptional revenue	0.0	0.0	0.6	0.2	0.2	0.0	0.0	0.0	0.0
External financing (net)	2.8	1.9	2.8	1.9	1.9	2.4	1.9	1.4	1.2
Drawings	3.5	2.6	3.3	2.9	2.7	3.3	2.6	2.2	1.9
Project	2.9	0.9	2.7	1.8	1.6	1.3	1.3	1.1	1.0
Program	0.6	1.7	0.5	1.1	1.2	2.1	1.3	1.1	0.9
Amortization due	-0.8	-0.9	-0.8	-1.0	-0.9	-1.0	-0.7	-0.9	-0.7
Debt relief ⁴	...	...	...	1.4	1.4	0.0	0.0	0.0	0.0
Change in cap. arrears (- = reduction) ⁴	0.1	0.1	0.1	-1.4	-1.4	0.0	0.0	0.0	0.0
Change in int. arrears (- = reduction) ⁴	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous cash adjustments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HIPC-related financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	-0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Memorandum items:</i>									
Nominal GDP (GNF billion)	42,977	47,683	51,315	56,448	58,238	65,513	72,702	80,059	88,274

Sources: Guinean authorities; Fund staff estimates and projections.

¹ Based on GFSM 1986 due to data availability limitations.

² Program as established for the 6th and 7th ECF Review.

³ Revenue minus expenditure excluding interest on external debt and foreign-financed investment.

⁴ For 2014 and 2015, debt relief is on outstanding loans fully in arrears owed to non-Paris club official and commercial creditors.

Table 3a. Guinea: Central Bank and Deposit Money Banks Accounts, 2013–20¹

(Billions of Guinean Francs, unless otherwise indicated)

	2013	2014	2015	2016		2017	2018	2019	2020
				Prog. ²	Proj.			Proj.	
Central bank									
Net foreign assets	3,163	3,277	1,290	2,303	2,424	4,752	6,248	7,341	10,027
Net domestic assets	3,815	5,244	7,449	7,148	7,144	6,860	6,576	6,293	6,009
Domestic credit	4,462	5,395	7,469	7,169	7,165	6,881	6,597	6,314	6,030
Claims on central government (net)	4,397	5,341	7,353	7,052	7,048	6,765	6,481	6,197	5,913
Of which: to the Treasury (PNT1)	4,566	5,546	7,507	7,206	7,202	6,918	6,634	6,350	6,067
Claims on private sector	50	46	115	115	115	115	115	115	115
Liabilities to deposit money banks (-)	0	0	0	0	0	0	0	0	0
Claims on other public sector	15	7	2	2	2	2	2	2	2
Other items, net (assets +)	-647	-151	-21	-21	-21	-21	-21	-21	-21
Reserve money	6,978	8,521	8,739	9,450	9,567	11,613	12,824	13,634	16,036
Currency outside banks	4,052	4,323	5,178	5,680	5,690	6,768	7,526	8,108	9,306
Bank reserves	2,508	3,790	3,096	3,305	3,412	4,322	4,717	4,886	6,025
Deposits	2,095	3,153	2,392	2,601	2,708	3,530	3,838	3,918	4,958
Required reserves	1,720	1,988	2,160	2,420	2,424	2,888	3,212	3,508	3,974
Excess reserves	376	1,165	231	181	284	641	626	410	983
Cash in vaults of deposit banks	413	636	704	704	704	792	879	968	1,067
Private sector deposits	418	408	465	465	465	523	580	639	705
Deposit money banks									
Net foreign assets	1,345	128	502	585	594	680	753	829	914
Bank reserves	2,508	3,790	3,096	3,305	3,412	4,322	4,717	4,886	6,025
Deposits at the central bank	2,095	3,153	2,392	2,601	2,708	3,530	3,838	3,918	4,958
Cash in vaults of deposits banks	413	636	704	704	704	792	879	968	1,067
Claims on central bank	0	0	0	0	0	0	0	0	0
Domestic credit	6,093	7,925	9,966	11,115	11,024	12,607	13,939	15,339	16,703
Credit to the government (net)	1,908	1,942	2,457	2,608	2,607	3,251	3,298	3,324	3,207
Claims on public enterprises	90	62	40	45	45	51	57	62	69
Claims on the private sector	4,096	5,921	7,469	8,462	8,371	9,306	10,584	11,953	13,428
Other items, net (assets +)	-1,349	-1,902	-1,563	-1,563	-1,563	-1,563	-1,563	-1,563	-1,563
Liabilities to the private sector (deposits)	8,598	9,941	12,001	13,442	13,467	16,046	17,846	19,491	22,080
Memorandum items:									
Net foreign assets of the central bank (US\$ million)	451	453	161	260	267	484	612	698	926
Net international reserves (GNF billion)	3,950	2,331	1,210	3,045	2,557	4,208	5,681	6,757	9,426
Net international reserves (US\$ million)	564	322	151	343	282	429	556	643	870

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

¹ End of period.² Program as established for the 6th and 7th ECF Review.

Table 3b. Guinea: Monetary Survey, 2013–20¹
(Billions of Guinean Francs, unless otherwise indicated)

	2013	2014	2015	2016		2017	2018	2019	2020
				Prog. ²	Proj.			Proj.	
Net foreign assets	4,490	3,404	1,793	2,888	3,017	5,432	7,001	8,170	10,941
Net domestic assets	8,578	11,267	15,852	16,699	16,605	17,905	18,952	20,069	21,150
Domestic credit	10,553	13,320	17,435	18,283	18,189	19,488	20,536	21,653	22,733
Claims on central government	6,305	7,283	9,811	9,660	9,656	10,015	9,778	9,521	9,120
Claims on public enterprises	105	70	41	47	47	53	59	64	71
Claims on private sector	4,144	5,967	7,583	8,577	8,486	9,420	10,699	12,068	13,542
Other items, net (assets +)	-1,975	-2,053	-1,584	-1,584	-1,584	-1,584	-1,584	-1,584	-1,584
Broad money (M2)	13,068	14,672	17,644	19,587	19,622	23,337	25,953	27,959	32,091
Currency	4,052	4,323	5,178	5,680	5,690	6,768	7,526	8,108	9,306
Deposits	9,016	10,349	12,466	13,907	13,932	16,569	18,427	20,131	22,784
(Year-on-year change in percent of beginning-of-period M2, unless otherwise indicated)									
<i>Memorandum items:</i>									
Net foreign assets	-0.3	-8.3	-11.0	6.2	6.9	12.3	6.7	4.5	9.9
Of which: central bank	1.9	1.0	-13.5	5.7	6.4	11.9	6.4	4.2	9.6
Net domestic assets	14.4	20.6	31.2	4.8	4.3	6.6	4.5	4.3	3.9
Of which: central bank	6.9	7.3	15.0	-1.7	-1.7	-1.4	-1.2	-1.1	-1.0
Domestic credit	19.9	21.2	28.0	4.8	4.3	6.6	4.5	4.3	3.9
Net claims on government	10.2	7.5	17.2	-0.9	-0.9	1.8	-1.0	-1.0	-1.4
Credit to the private sector	9.7	13.7	10.8	5.7	5.1	4.8	5.5	5.3	5.3
Broad money (M2)	14.1	12.3	20.3	11.0	11.2	18.9	11.2	7.7	14.8
Reserve money (annual percentage change)	15.7	14.5	2.6	8.1	9.5	21.4	10.4	6.3	17.6
Commercial bank credit to the private sector (Annual percentage change)	35.4	44.5	26.1	13.3	12.1	11.2	13.7	12.9	12.3
Money multiplier (M2/reserve money)	1.8	1.7	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Velocity (GDP/average M2)	3.5	3.4	3.2	2.9	3.1	3.1	3.0	3.0	2.9
Velocity (GDP/M2, EOP)	3.3	3.3	2.9	2.9	3.0	2.8	2.8	2.9	2.8
Consumer prices (Annual percentage change, EOP)	10.5	9.0	7.3	8.5	9.1	7.5	6.0	5.0	5.0
Real GDP (Annual percentage change)	2.3	1.1	0.1	4.0	3.7	4.3	4.5	4.8	5.0
Nominal GDP (Annual percentage change)	8.7	11.0	7.6	12.6	13.5	12.5	11.0	10.1	10.3

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

¹ End of period.

² Program as established for the 6th and 7th ECF Review.

Table 4. Guinea: Balance of Payments, 2013–20
(Millions of US Dollars, unless otherwise indicated)

	2013	2014	2015	2016		2017	2018	2019	2020
		Est.	Est.	Prog. ¹	Proj.		Proj.		
Exports, f.o.b.	1,825	1,911	1,618	1,372	1,811	1,983	2,157	2,336	2,534
Mining products	1,648	1,736	1,441	1,210	1,626	1,827	1,986	2,146	2,323
Other	177	175	177	162	185	155	171	190	211
Imports, f.o.b.	-1,861	-2,348	-2,189	-1,782	-2,204	-2,282	-2,478	-2,710	-3,000
Food products	-243	-295	-275	-249	-284	-314	-322	-331	-341
Other consumption goods	-263	-310	-289	-285	-300	-318	-338	-361	-396
Petroleum products	-402	-533	-497	-224	-443	-537	-583	-635	-690
Intermediate and capital goods	-953	-1,209	-1,127	-1,023	-1,176	-1,113	-1,235	-1,383	-1,574
Services trade balance	-683	-506	-414	-523	-492	-464	-717	-803	-559
Services exports	104	47	56	136	84	91	99	109	119
Services imports	-786	-554	-469	-658	-576	-556	-816	-912	-678
Income balance	-599	-416	-292	-190	-281	-332	-338	-443	-588
<i>Of which: Interest on public debt</i>	-10	-13 0	-15	-37	-36	-25	-27	-28	-29
Transfers	268	184	-6	262	176	185	226	239	283
<i>Of which:</i>									
Net private transfers	242	64	-17	167	82	89	125	131	168
Official transfers	26	120	12	95	94	96	101	108	115
Current account									
Including official transfers	-1,050	-1,175	-1,281	-860	-989	-910	-1,150	-1,382	-1,330
Excluding official transfers	-1,076	-1,296	-1,293	-955	-1,083	-1,006	-1,251	-1,490	-1,445
Capital account	79	61	79	182	182	202	223	236	252
Public transfers	67	46	33	166	166	185	206	219	234
Financial account	939	799	791	784	912	932	1,057	1,233	1,309
Public (medium and long-term)	169	119	172	124	125	162	139	106	100
Project-related loans	183	60	187	117	107	86	96	89	82
Program financing	35	118	36	71	78	142	93	84	75
Amortization due	-49	-60	-52	-64	-60	-66	-50	-67	-57
Public (short-term)	0	0	0	0	0	0	0	0	0
Direct and other private investment (net)	131	68	85	335	224	347	354	361	368
Private short-term	639	612	535	325	562	423	564	767	841
Errors and omissions	61	254	63	0	0	0	0	0	0
Overall balance	29	-62	-347	106	104	224	131	88	232
Financing	-29	62	347	-156	-127	-224	-131	-88	-232
Change in net official reserves	-34	50	387	-156	-104	-224	-131	-88	-232
<i>Of which:</i>									
Use of Fund resources (net)	28	96	33	0	23	0	0	0	-4
Change in gross official reserves (- = increase)	-61	-47	291	-156	-149	-224	-131	-88	-228
Change in arrears (- = reduction) ²	4	7	11	-94	-94	0	0	0	0
Debt relief ²	1	5	13	94	94	0	0	0	0
Financing gap	0	0	0	51	23	0	0	0	0
Expected Fund disbursement	0	0	0	51	23	0	0	0	0
<i>Memorandum items:</i>									
Current account balance (percent of GDP)									
Including official transfers	-16.9	-17.3	-18.7	-13.1	-14.7	-13.2	-15.8	-17.9	-16.1
Excluding official transfers	-17.3	-19.1	-18.9	-14.5	-16.1	-14.6	-17.2	-19.3	-17.5
Overall balance (percent of GDP)	0.5	-0.9	-5.1	1.6	1.5	3.3	1.8	1.1	2.8
Exports-GDP ratio (percent)	31.0	28.8	24.4	22.9	28.1	30.2	31.1	31.6	32.1
Imports-GDP ratio (percent)	-42.6	-42.7	-38.8	-37.1	-41.2	-41.3	-45.4	-46.9	-44.5
FDI-GDP ratio (percent)	2.1	1.0	1.2	5.1	3.3	5.1	4.9	4.7	4.5
Gross available reserves (US\$ millions)	705	752	461	617	610	834	965	1,053	1,280
Gross available reserves (months of imports)	3.0	3.7	2.1	3.0	3.0	3.2	3.4	3.7	3.8
Nominal GDP (US\$ millions)	6,219	6,797	6,852	6,574	6,747	6,871	7,263	7,725	8,270
National currency per US dollar (avg.)	6,910	7,015	7,489	...	...	...	...	...	...

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

¹ Program as established for the 6th and 7th ECF Review.

² For 2015 projected clearance of outstanding debt arrears to non-Paris Club official creditors and commercial creditors through debt relief.

Table 5. Guinea: External Financing Requirements and Sources, 2013–20
(Millions of US Dollars)

	2013	2014	2015	2016		2017	2018	2019	2020
			Est.	Proq. ¹	Proj.	Proj.			
1. Gross financing requirements	1,143	1,283	994	1,254	1,393	1,280	1,414	1,627	1,708
External current account deficit	1,076	1,296	1,293	955	1,083	1,006	1,251	1,490	1,445
Capital account balance ²	-12	-15	-16	-16	-16	-17	-17	-18	-18
Debt amortization	49	60	52	64	60	66	50	67	57
Change in arrears, net ³	-4	-7	-11	94	94	0	0	0	0
Gross reserves accumulation	61	47	-291	156	149	224	131	88	228
IMF Repayments ⁴	-28	-96	-33	0	23	0	0	0	-4
2. Available financing	1,143	1,283	997	1,203	1,325	1,280	1,414	1,627	1,716
Foreign direct investment, net ⁵	770	680	620	660	786	771	918	1,128	1,209
Identified disbursements	311	345	269	449	445	509	496	499	507
Grants	92	166	45	261	260	281	307	327	350
Project	67	46	33	166	166	185	206	219	234
Program	26	120	12	95	94	96	101	108	115
Loans	218	179	223	188	185	228	189	172	157
Project	183	60	187	117	107	86	96	89	82
Program	35	118	36	71	78	142	93	84	75
Other flows	61	254	66	0	0	0	0	0	0
Debt relief ^{2,3}	1	5	43	94	94	0	0	0	0
3. Residual financing	0	0	-3	51	68	0	0	0	-8
ECF and RCF disbursement	28	96	-3	51	23	0	0	0	0

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

¹ Program as established for the 6th and 7th ECF Review.

² Excludes public transfers and capital grant from IMF CCR Trust for debt cancellation.

³ Projected clearance of outstanding debt arrears to non-Paris Club official creditors and commercial creditors through debt relief.

⁴ In 2015 includes debt cancellation (under IMF repayments) and debt relief provided under the IMF's CCR Trust.

⁵ Includes private short-term capital flows.

Table 6. Guinea: Financial Soundness Indicators, 2010–15

Concept	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15
Capital Adequacy						
Total bank regulatory capital to risk-weighted assets	17.0%	14.6%	18.2%	15.6%	17.3%	16.5%
Percentage of banks greater or equal to 10 percent	100.0%	83.3%	92.3%	93.0%	93.0%	100.0%
Share of these banks/total banking system assets	100.0%	58.8%	98.5%	94.5%	94.2%	100.0%
Percentage of banks below 10 and above 6 percent minimum	0.0%	16.7%	7.7%	7.0%	7.0%	0.0%
Share of these banks/total banking system assets	0.0%	41.2%	1.5%	5.0%	5.8%	0.0%
Percentage of banks below 6 percent minimum	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total capital (net worth) to assets	7.8%	8.2%	11.6%	11.8%	12.5%	11.5%
Asset Quality						
Non-performing loans to total loans	5.9%	3.2%	4.8%	6.5%	4.1%	6.2%
Non-performing loans net of provision to capital	2.5%	3.5%	3.5%	11.2%	12.6%	9.9%
FX loans to total loans	36.0%	48.1%	22.6%	23.1%	28.1%	30.7%
Earnings and Profitability						
Net income to average assets (ROA)	2.0%	2.5%	2.2%	2.2%	1.8%	2.2%
Net income to average capital (ROE)	35.1%	41.3%	28.8%	27.8%	21.2%	27.4%
Non interest expense to gross income	14.0%	24.5%	57.9%	93.1%	133.8%	156.5%
Personnel expense to gross income	22.0%	18.5%	20.7%	21.1%	21.1%	20.3%
Non interest income to gross income	48.0%	55.7%	91.1%	124.8%	164.7%	182.4%
Expenses/Income	29.6%	26.5%	29.1%	31.5%	30.5%	27.4%
Liquidity						
Liquid assets to total assets	75.9%	69.0%	67.3%	62.3%	56.6%	46.6%
Liquid assets to short-term liabilities	86.1%	74.1%	77.4%	72.5%	67.1%	60.2%
Loan/deposits	24.6%	38.1%	38.0%	45.7%	56.4%	58.5%
Liquid assets/total deposits	91.4%	91.1%	85.5%	80.6%	74.8%	66.7%
Sensitivity to market/FX risk						
Foreign exchange liabilities/total liabilities	22.0%	28.0%	33.0%	26.5%	23.2%	23.9%
Foreign currency deposits/official reserves	89.0%	36.0%	55.0%			

Source: BCRG.

Table 7. Guinea: Performance Criteria and Indicative Targets, ECF Arrangement 2015–16¹

	2015								2016				
	Jun.				Sep.				Mar.				Jun.
	PC	Adj. PC	Prel.	Status	Indicative Targets	Adj. IT	Prel.	Status	Indicative Targets	Adj. IT	Prel.	Status	PC
Quantitative performance criteria													
Basic fiscal balance (floor; cumulative change for the year)	-1,276	-1,278	-1,373	Not Met	-2,101	-2,115	-3,022	Not Met	-743	-531	664	Met	-682
Net domestic assets of the central bank (ceiling; stock)	4,628	4,510	6,604	Not Met	5,109	4,650	7,437	Not Met	7,414	8,308	7,312	Met	7,329
Net domestic bank financing of the government (ceiling; cumulative change for the year)	794	676	1,074	Not Met	1,194	736	2,535	Not Met	-135	759	-627	Met	-186
Net international reserves of the central bank (floor; stock); US\$ million ²	419	420	93	Not Met	369	375	77	Not Met	248	151	238	Met	256
New non-concessional medium or long-term external debt contracted or guaranteed by the government or central bank (ceiling); US\$ million ^{3,4}	80	80	152	Not Met ⁵	80	80	152	Not Met ⁵	0	0	0	Met	0
Stock of outstanding short-term external debt contracted or guaranteed by the government or the central bank (ceiling); US\$ million ⁴	0	0	0	Met	0	0	0	Met	0	0	0	Met	0
New external arrears (ceiling) ⁴	0	0	0	Met	0	0	0	Met	0	0	0	Met	0
Indicative targets													
Expenditure in priority sectors (floor) ⁶	2,616	2,616	2,121	Not Met	4,124	4,124	2,461	Not Met	1,252	1,252	508	Not Met	2,849
<i>Memorandum items:</i>													
New concessional external debt contracted or guaranteed by the government or central bank (cumulative); US\$ million	...	...	...		...	...	...		780	...	n.a.		780
Reserve money	6,760	...	8,787		6,889	...	8,857		9,016	...	8,787		9,072
Net external assistance	404	...	414		317	...	386		1,193	...	135		1,371
of which, Ebola-related grants and loans	...	...	259		...	...	268		...	...	...		...
Change in the float	-75	...	35		-113	...	290		-100	...	-147		-147

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

¹ Definitions and adjustors are included in the Technical Memorandum of Understanding (TMU).² Calculated using program exchange rates.³ External debt contracted or guaranteed other than with a grant element equivalent to 35 percent or more, calculated using a discount rate based on the OECD commercial interest rates. Excludes borrowing from the IMF.⁴ Continuous performance criterion.⁵ Corresponds to the issuance of a EUR65 million guarantee on a non-concessional loan for the Kankan-Kissidougou road project and of the EUR79 million new debt to finance the Kaleta hydroelectric dam - Conakry transmission line project.⁶ Priority sectors include education, health, agriculture, energy, justice, social affairs, and public works (as defined in the TMU).

Table 8. Guinea: Structural Benchmarks under the ECF-Supported Program, 2016			
Measure	Date	Status of Execution	Macroeconomic Rationale
Approve a timetable for clearing domestic payment arrears, distinguishing between arrears from budget years 2011–13 and those from 2005–10.	End-April 2016	Not met. Ongoing.	Support the Guinean private sector and enhance government credibility.
Bring budget and accounting management of government agencies benefiting from revenues allocated into compliance with the provisions of the LORF and the RGGBCP.	End-August 2016	Ongoing.	Ensure the integrity of the government's budget and improve its cash management.
Adopt a civil service reform plan, based on the results of the ongoing biometric survey and the action plan for the program to reform the State and modernize the government.	End-August 2016	Ongoing.	Restrain the wage bill and improve the productivity of public administration.

Table 9. Guinea: Risk Assessment Matrix (RAM)

Sources of Risks	Relative Likelihood	Impact If Realized	Policy Response if Materialized
Tighter or more volatile global financial conditions (surge in the US dollar).	High	Medium Competitiveness could be further impaired, and strain reserve buffers.	Advance the structural reform agenda to remove bottlenecks and allow greater exchange rate flexibility.
Sharper-than-expected global growth slowdown.	High/Medium (AEs) Low/Medium (EMEs)	High Investment in large-scale mining projects (iron ore, bauxite) would likely be delayed, lowering medium-term growth prospects.	Intensify structural reform to improve the business climate. Allow the exchange rate to adjust.
Heightened risk of fragmentation/security dislocation in the Middle East, Africa, and Europe.	High	Medium Large-scale investment projects would likely be postponed. Progress out of fragility would be in doubt.	Intensify structural reform to remove bottlenecks to growth, and protect buffers. Fiscal policy to focus on revenue mobilization, and delivery of public services.
Deterioration of the domestic socio-political and security situation	Medium	High Investment and growth would be affected; poverty could increase; Implementation of program could weaken. Macroeconomic stability would be at risk.	Refocus reform on areas less sensitive to socio-political environment. Aim to maintain fiscal control.
Resurgence of Ebola	Low	High Additional to the human toll, investor sentiment and consumer confidence would deteriorate further. Mining investments would be delayed.	Intensify structural reform. Fiscal accommodation should remain within the limits of available financing, and focus on priority sector spending.

Annex I. Status of the 2012 Article IV Main Recommendations

Policy Area	Key Policy Recommendations	Status
Medium-Term Macroeconomic Framework	Prepare the economy to manage the prospective large inflows of mining resources and avoid Dutch disease-type effects. Consolidate macroeconomic stabilization, and lay the basis for higher and diversified growth.	Expected inflows did not materialize. Per capita GDP fell despite early advances in structural reform, as political instability, terms of trade shocks and the Ebola epidemic impaired GDP growth prospects.
Monetary and Exchange Rate Policy	Reduce inflation, and maintain a market-determined exchange rate.	Inflation fell from 19 percent in end-2011 to 7.3 percent in end-2015. Reforms introduced in 2015 improved the role of market forces in the FX market.
Fiscal Policy	Contain the budget deficit, and improve PFM and the quality of spending while increasing allocations to priority sectors. Key measures are: reform the tax administration, control the wage bill, limit subsidies by improving the efficiency of public utilities and reforming support to the agricultural sector.	After significant progress during 2012–13, the Ebola epidemic and policy slippages erased some of the gains. PFM, wage bill and subsidies reforms have been lagging mainly due to lack of capacity implementation. Priority sector spending indicative targets have been frequently missed.
Debt Restructuring and Sustainability	Reach the completion point under the enhanced Heavily Indebted Poor Countries Initiative (HIPC) as soon as possible, and ensure post-HIPC debt sustainability.	The HIPC completion point was reached in September 2012. The most recent DSA concludes that Guinea continues to face a moderate risk of debt distress, but external debt vulnerability to adverse shocks has increased. Other commitments under HIPC, such as the audit of large public procurement contracts and the poverty database remain to be finalized.
Structural Reforms	Improve the business climate and remove deep-rooted bottlenecks to investment and growth, including poor governance, a weak judicial system, severe power shortages, and an inadequate road infrastructure.	The lack of competitiveness and enabling business environment continue to pose significant challenges. However, some progress has been made in increasing the electricity supply since 2015H2, thanks to the completion of the Kaleta Dam project.

Annex II. External Stability Assessment

Model-based assessments of the exchange rate using the IMF's External Balance Assessment (EBA-lite) methodology suggest a sizeable misalignment of the real effective exchange rate between 16.2 and 32 percent. By end-2015, the overvaluation of the currency had led to a sharp depletion of usable official reserves and of the banking sector's net foreign asset position. The January 2016 reform of the FX market has reduced the misalignment by about 15 percentage points. Further FX market reforms, the reduction of the fiscal deficit in 2016, and structural reforms will contribute to closing the residual gap.

A. Balance of Payments and Exchange Rate Developments

- 1. Guinea's external current account deficit deteriorated slightly in 2015, standing at 18.7 percent of GDP.** This has been driven by a small decrease in exports because of lower exports of bauxite and artisanal gold. Imports slightly decreased too, due to the decline in imports of services in part due to the impact of the Ebola epidemic and the related decline in economic activity.
- 2. The external current account is expected to improve in 2016 due to the depreciation of the exchange rate which will reduce imports before widening again over the medium term.** By 2021, the current account deficit is expected to reach 20.1 percent of GDP, primarily due to an increase in imports. Imports are expected to grow by 9.2 percent per year on average between 2017 and 2021, primarily to support the construction of infrastructure projects, while exports are projected to grow by almost 8.6 percent per year on average over the same period, reflecting an increase in bauxite extraction and agriculture production.
- 3. Guinea's real effective exchange rate (REER) has appreciated since the last Article IV consultation in 2012.** The appreciation of the REER was largely due to the inflation differential with trading partners, while the nominal effective exchange rate (NEER) was broadly stable until mid-2014 when it began to appreciate because of the depreciation of the euro against Guinean franc (GNF), after which depreciated as GNF weakened against the US dollar. In early 2016, significant reforms to improve the role of market forces in, and the flexibility of, the foreign exchange market resulted in a sharp depreciation of the GNF that has translated into a depreciation of both effective exchange rates.

B. Model-Based Real Exchange Rate Assessments

4. Model-based exchange rate assessments using the IMF's External Balance Assessment (EBA-lite) methodology suggest a sizeable misalignment of the real effective exchange rate.

The assessments use the current account and REER approaches:

- The current account approach suggests that the real exchange rate is overvalued by 16.5 percent in 2015. A model-based analysis indicates a norm of -6.6 percent of GDP for the cyclically-adjusted current account deficit.¹ Assuming an elasticity of the current account balance with respect to the real exchange rate of

Table 1. Summary of EBA-lite Findings
Percent of GDP, unless otherwise stated

(1)	Current account: Actual	-18.7%
(2)	Current account: Fitted	-6.7%
(3)	Policy Gap	0.0%
(4)=(2)-(3)	Current account: norm	-6.6%
(5)=(1)-(4)	Current account: gap	-12.1%
(6)	Elasticity of CA to REER (ratio)	-0.73
(7)=(5)/(6)	Real exchange rate gap (percent)	16.5%

-0.73 (Tokarick, 2010), the exchange rate adjustment necessary to eliminate the gap between the norm and the actual current account is estimated at 16.5 percent (see Figure 2).

- The REER approach indicates that the real exchange rate is overvalued by 32 percent in 2015. Similar to the current account approach, the REER model is based on a reduced form equation of the REER.² The 'fitted' real effective exchange rate is then computed as a product of the level of economic fundamentals to the coefficients of a panel regression. There is an exchange rate misalignment if the real effective exchange rate level cannot be explained by the level of fundamentals using the coefficients of the regression detailed above.

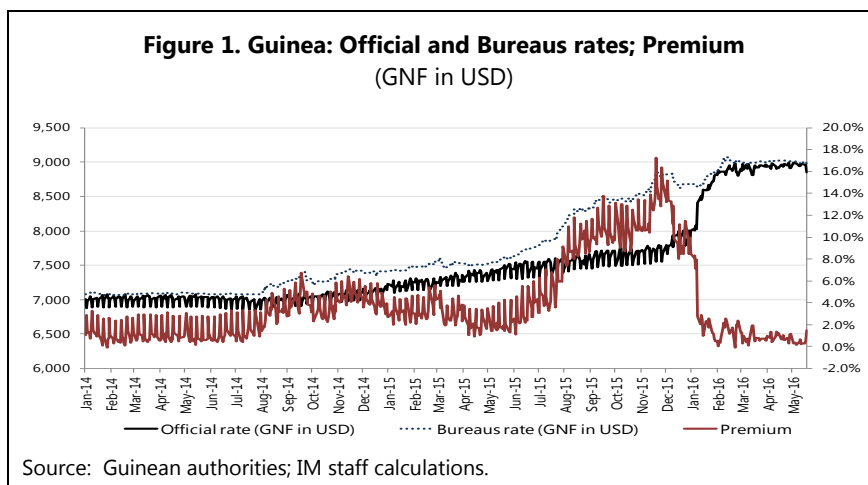
¹ The current account approach estimates the exchange rate adjustment necessary to eliminate the gap between the *current account norm* and the actual current account. The current account norm is made of the *policy gap* (the gap between a country's actual policies and its optimal policies) and the *fitted current account* (a product of the level of economic fundamentals to the coefficients of a regression panel). The regression panel, estimated on a sample of 49 developed and emerging market economies over the period [1986–2010], includes a set of traditional fundamentals, financial factors, cyclical/temporary factors and policy-related regressors, most of these variables being computed as a country's deviation from the 'world' counterpart (see IMF WP/13/272).

² The explanatory variables of this model can be grouped into policy variables and non-policy fundamentals. The policy variables include: FX intervention, interest rates, private credit, and capital controls. The non-policy fundamentals are productivity, financial home bias, terms of trade, trade openness, NFA, output gap, aid and remittances.

5. While these estimates are subject to some error they lead to the conclusion that the external position was substantially weaker than fundamentals in 2015. The models somewhat overstate the magnitude of the overvaluation because of one-off effect of the Ebola outbreak that is not captured.⁴ In the context of the fight against the Ebola outbreak, imports for medicines and medical equipment increased significantly in 2015 and widened the current account deficit. However, the counterpart donor financing of these operations, are underreported in the balance of payments and the fiscal accounts. However, these one-off issues cannot offset the size of the estimated misalignment, which reflect weaknesses stemming from two factors. First, the authorities' intervention policies through the official foreign exchange auctions prevented the exchange rate correction to its market value (Figure 1), and depleted reserves. Second, the expansionary stance of fiscal policy with the overall fiscal deficit rising almost 5 percentage points in 2015. Non-price factors, such as governance and infrastructure quality, also explain part of the misalignment.

6. The authorities took the right steps to correct the misalignment, but further efforts are required. The authorities reformed in January 2016 the operation of the foreign exchange auction mechanism and allowed the exchange rate to fluctuate more freely. As a result, the premium between the official exchange rate and the unconstrained bureau exchange rate has been reduced to below 1 percent; and between December 2015 and April 2016, the real effective exchange rate had depreciated by 12.2 percent. A full adjustment of the exchange rate misalignment will be supported by further reforms in the foreign exchange market, including the possibility of foreign

exchange purchases through two-way (buy-sell) auctions. Central bank purchases of foreign exchange, consistent with the international reserve target, leading to downward pressure on the domestic currency would help reduce the exchange rate misalignment. A correction of the misalignment will also be supported by the sizeable contraction in the fiscal deficit targeted in 2016—the overall deficit (after grants) is projected to be cut by 7½ percent of GDP.



⁴ See Office of United Nations Special Envoy on Ebola, *Resources for Results V, October 2015* for data on the size and distribution of aid flows.

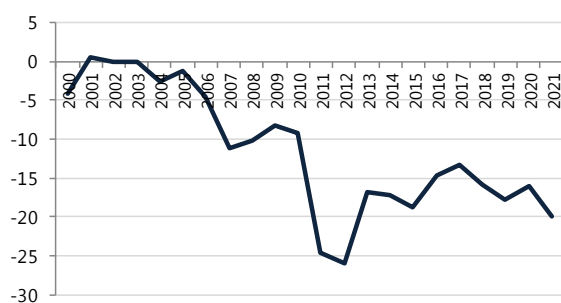
7. A sustained improvement in competitiveness will also require an improvement in non-price factors. Indicators of Guinea's non price competitiveness are weak (see Section below) and only a slight improvement has been achieved in recent years, stressing the need to accelerate reforms to improve these indicators, including by boosting infrastructure.

Structural Competitiveness

8. Guinea's non-price indicators of competitiveness have slightly improved since 2012 but further progress is needed. According to the Global Competitiveness Index (GCI 2016), Guinea ranked last out of 140 countries, from 141 out of 144 in 2012. In almost all the categories, Guinea performs worse than the Sub Saharan Africa average and is often among the worst performers, except in labor market efficiency. In addition, the performance of Guinea worsened in almost all sectors (except macroeconomic environment) between 2012 and 2015. However, Guinea has slightly improved its rankings in the World Bank's survey-based "Doing Business Index" moving from the 171th position to the 165th position in 2016. In addition, the performance of Guinea improved in almost all sectors between the 2012 and 2016 reports.

9. Guinea ranks 135th out of 138th countries in the Enabling Trade index prepared by the World Economic Forum. In terms of constraints to exporting and importing identified by firms, access to trade finance is the most problematic factor for exporting whereas burdensome imports procedures are the most problematic factors for importing.

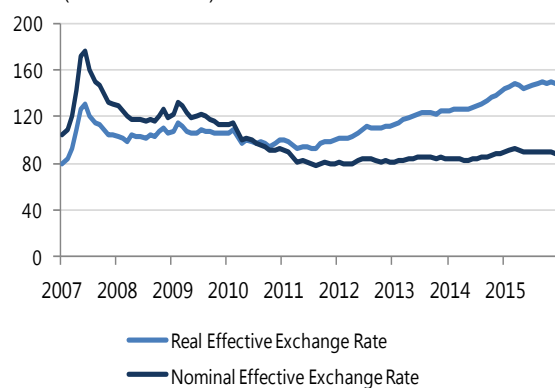
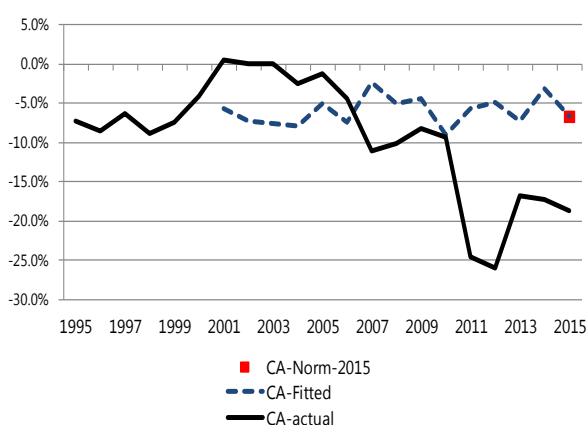
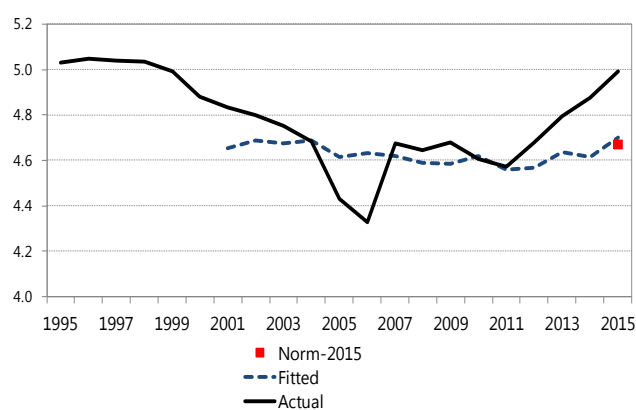
10. Various indicators continue to point to a weak governance situation in Guinea. According to the 2015 Mo Ibrahim index of African Governance, Guinea ranks 40th over 54 in Africa. The 2014 Transparency International report ranks Guinea 139th out of 174 in terms of Corruption Perception Index (CPI). According to the 2016 Index of Economic Freedom, Guinea falls within the category of *mostly unfree economy*, with a rank of 136th out of 165 countries overall.

Figure 2. Guinea: External Assessment**Figure 1. Current Account Balance**
(in percent of GDP)

Source: IMF staff estimates

Figure 2. Imports and exports developments
(in percent of GDP)

Source: IMF staff estimates

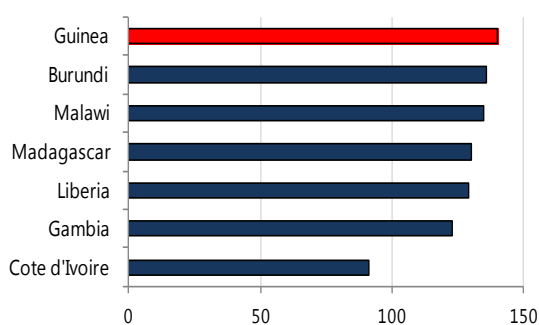
Figure 3. Real and Nominal Effective Exchange Rates
(Index: 2010=100)**Figure 4. Current Account: Norm, fitted and actual****Figure 5: Actual, Fitted, and Norm Real Effective Exchange Rates**

Sources: Guinean authorities; and IMF staff estimates.

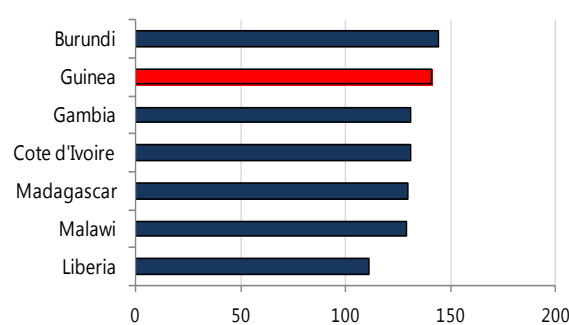
Figure 3. Guinea: Competitiveness Indicators

Table 1. Guinea: Global Competitiveness Index, 2015-16

	Guinea		Sub-Saharan Africa
	Ranking	Points (1-7)	(Average) Points (1-7)
CGI 2015-16 (Out of 140)	140	2.8	3.6
CGI 2014-15 (Out of 144)	144	2.8	3.4
CGI 2013-14 (Out of 148)	147	2.9	3.6
CGI 2012-13 (Out of 144)	141	2.9	3.7
Basic Requirements (60%)	140	2.8	3.8
Institutions	136	2.8	3.7
Infrastructure	139	1.8	2.8
Macroeconomic Environment	129	3.5	4.1
Health and Primary Education	138	3.3	4.3
Efficiency enhancers (35.0%)	137	2.9	3.5
Higher education and training	137	2.2	3.1
Goods market efficiency	135	3.5	4.1
Labor market efficiency	91	4.0	4.2
Financial market development	137	2.7	3.5
Technological readiness	134	2.4	2.9
Market size	128	2.4	2.9
Innovation and sophistication factors (5.0%)	138	2.6	3.3
Business sophistication	137	2.9	3.6
Innovation	139	2.2	3.1

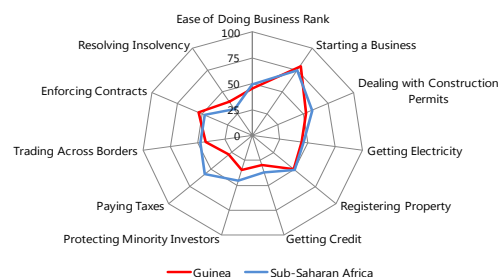
Figure 1. Global Competitiveness Ranking, 2015-2016
(selected countries in fragile situation)

Note: Ranks out of 140 countries

Figure 2. Global Competitiveness Ranking, 2012-2013
(selected countries in fragile situation)

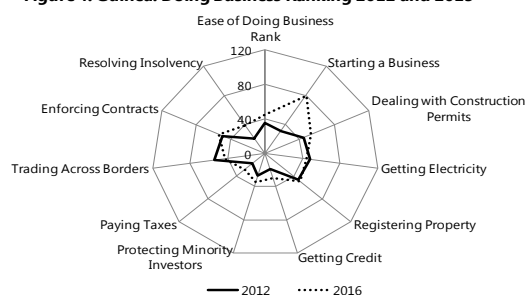
Note: Ranks out of 144 countries.

Figure 3. Doing Business Ranking, 2015



Note: higher 'distance to frontier' values correspond to higher rankings.

Figure 4. Guinea: Doing Business Ranking 2012 and 2015



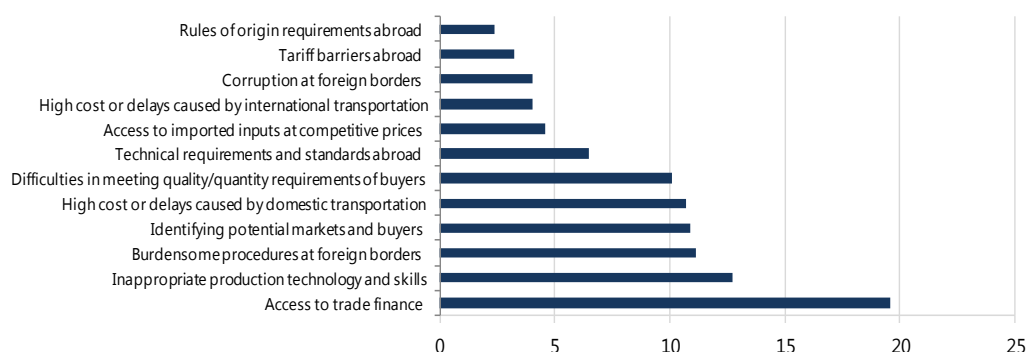
Note: higher 'distance to frontier' values correspond to higher rankings.

Sources: World Economic Forum The Global Competitiveness Report, 2015-16 and 2012-13; World Bank Doing Business Indicators, 2016 and 2013 Reports.

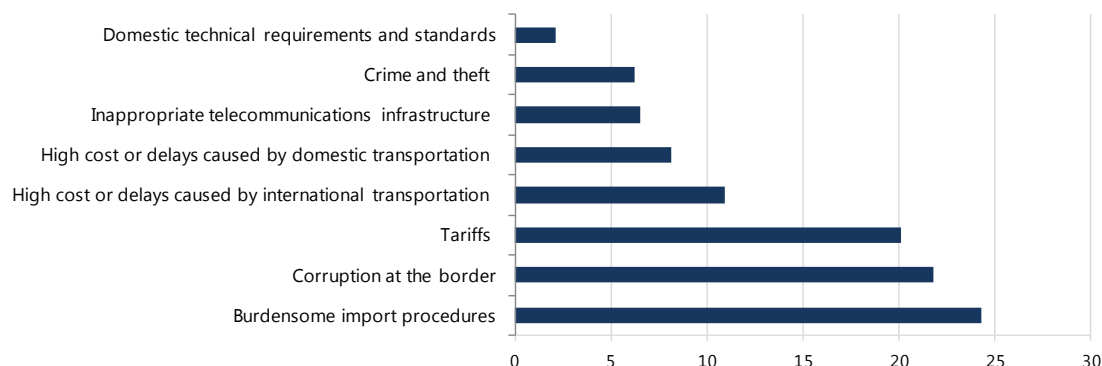
Figure 3. Guinea: Competitiveness Indicators (continued)**Table 2. Enabling Trade Index Ranking, 2014** ^{1/}

	Guinea	SSA
Overall Enabling Trade Index Ranking (out of 138)	135	108
Market Access	131	79
Domestic market access	119	89
Foreign market access	92	60
Border Administration	122	106
Efficiency and Transparency of border administration	122	106
Infrastructure	137	111
Availability and quality of transport infrastructure	137	103
Availability and quality of transport services	131	107
Availability and use of ICTs	136	113
Operating Environment	129	97

^{1/} Lower number indicates better ranking.

Figure 5. Most problematic factors for exporting, 2013

Note: From the list of factors above, respondents were asked to select the five most problematic for trading in their country and to rank them between 1 (most problematic) and 5. The bars in the figure show the responses weighted according to their rankings.

Figure 6. Most problematic factors for importing, 2013

Note: From the list of factors above, respondents were asked to select the five most problematic for trading in their country and to rank them between 1 (most problematic) and 5. The bars in the figure show the responses weighted according to their rankings.

Sources: World Bank Economic Forum: The Global Enabling Trade Report 2014.

Figure 3. Guinea: Competitiveness Indicators (concluded)

	1996	2000	2010	2011	2012	2013	2014
Voice and accountability (-2.5 to 2.5, best)	-1.35	-1.18	-0.95	-0.94	-1.06	-1.06	-0.89
Political stability (-2.5 to 2.5, best)	-1.24	-2.03	-1.68	-1.39	-1.28	-1.22	-0.93
Government effectiveness (-2.5 to 2.5, best)	-1.24	-1.17	-1.13	-1.15	-1.28	-1.23	-1.21
Regulatory quality (-2.5 to 2.5, best)	-0.71	-0.60	-1.08	-1.00	-1.02	-1.01	-1.1
Rule of law (-2.5 to 2.5, best)	-1.51	-1.42	-1.54	-1.47	-1.43	-1.42	-1.38
Control of corruption (-2.5 to 2.5, best)	-0.46	-0.75	-1.19	-1.11	-1.07	-1.05	-1.07

Source: World Bank Institute.

- According to the 2015 Ibrahim index of African Governance, Guinea ranks 40th over 54 in Africa.

It scores 43,7/100, below the African average of 50.1

- The 2014 Transparency International report ranks Guinea 139th over 168 countries in terms of Corruption Perception Index (CPI).

- According to the 2016 Index of Economic Freedom, Guinea falls within the category of 'mostly unfree economy', with a rank of 136th out of 165 countries overall.



GUINEA

July 6, 2016

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION— INFORMATIONAL ANNEX

Prepared By

African Department
(In Consultation with Other Departments)

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RELATIONS WITH THE FUND

(As of May 31, 2016)

Membership Status: Joined: September 28, 1963

Article VIII

General Resources Account:	SDR Million	%Quota
Quota	214.20	100.00
Fund holdings of currency	187.35	87.47
Reserve Tranche Position	26.85	12.54

SDR Department:	SDR Million	%Allocation
Net cumulative allocation	102.47	100.00
Holdings	118.71	115.85

Outstanding Purchases and Loans:	SDR Million	%Quota
RCF Loans	26.78	12.50
ECF Arrangements	134.38	62.74

Latest Financial Arrangements:

<u>Type</u>	<u>Date of Arrangement</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
ECF	Feb 24, 2012	Oct 31, 2016	173.66	155.30
ECF ^{1/}	Dec 21, 2007	Dec 20, 2010	69.62	24.48
ECF ^{1/}	May 02, 2001	May 01, 2004	64.26	25.70

Projected Payments to Fund ^{2/}

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

	<u>Forthcoming</u>				
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Principal				2.95	28.23
Charges/Interest	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.34</u>	<u>0.30</u>
Total	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>3.29</u>	<u>28.53</u>

Implementation of HIPC Initiative:

	Enhanced Framework
I. Commitment of HIPC assistance	
Decision point date	Dec 2000
Assistance committed by all creditors (US\$ Million) ^{3/}	639.00
Of which: IMF assistance (US\$ million) (SDR equivalent in millions)	36.01
	27.80
Completion point date	Sep 2012
II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	27.80
Interim assistance	11.30
Completion point balance	16.49
Additional disbursement of interest income ^{4/}	7.45
Total disbursements	35.25

¹ Formerly PRGF.

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.

³ 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.

⁴ 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.

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable**Implementation of Catastrophe Containment and Relief (CCR):**

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

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

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

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

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

Exchange Rate Arrangement

Guinea's exchange rate arrangement is classified as a managed float system with no predetermined path, after an interruption of the system during 2009–10; the *de facto* exchange rate arrangement has been reclassified to *other managed* from a stabilized arrangement, effective February 5, 2015. The 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. The Central Bank of the Republic of Guinea (BCRG) intervenes twice a week through a multi-price foreign exchange auction market with active commercial banks. The BCRG regularly publishes information regarding foreign exchange market interventions.

Article IV Consultation

The last Article IV consultation was concluded by the Executive Board on February 24, 2012.

Technical Assistance 2011–16**Calendar Year 2011**

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

Source: IMF staff.

Calendar Year 2012

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

Source: IMF staff.

Calendar Year 2013

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

Source: IMF staff.

Calendar Year 2014

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

Calendar Year 2015

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

Source: IMF Staff

Calendar Year 2016

Provider		Main Topic	Dates
Fiscal Affairs			
FAD		Natural Resource Management	January 13 - 26, 2016
FAD		SOEs and Fiscal Risks	January 13 - 24, 2016
FAD		Revenue Administration	March 1 - 14, 2016 ¹
AFW		PFM Resident Advisor	March 3 - 18, 2016 ¹
FAD		Natural Resource Management	March 3 - 18, 2016 ¹
FAD		Natural Resource Management	April 4 - 10, 2016 ¹
AFW		Customs	April 18 - , 2016 ¹
FAD		PFM Resident Advisor	2016 -2017
Monetary and Capital Markets			
AFW		Debt Management	February 2 - March 4, 2016
MCM		Monetary and FX Operations	March 9 - 22, 2016
AFW		Bank Supervision	March 14 - 25, 2016
Statistics			
AFW		National Accounts Compilation	February 2 - 19, 2016
AFW		Government Finance Statistics	March 14 - 18, 2016
STA		Financial Soundness Indicators	April 20 – 26, 2016

Source: IMF Staff

¹ Planned.

JOINT WORLD BANK-FUND MATRIX

(As of June 2016)

Title	Products	Expected delivery date
World Bank work program in the next 12 months	Operations:	
	Mineral Advisory Facility	Ongoing
	Social Safety Nets Project	Q2 2016
	Health Services Project	Q2 2016
	Budget Support Lending (DPO)	Q2 2016
	Economic and Sector Work:	
	Public Expenditure Review (revenue mobilization, public investment management, state-owned enterprises, domestic debt)	Q3 2016
	Mobile Phone Survey of Socio-Economic Impact of Ebola	Q2 2016
	Technical assistance/other analytical:	
	Boosting budget execution	Q1 2016
	Economic and Poverty Monitoring	Ongoing
	Support on EITI implementation	Ongoing
IMF work program in the next 12 months	Program:	
	Sixth and Seventh reviews under the ECF	March 2016
	Article IV Consultation	June 2016
	Eight review under the ECF	October 2016
	Technical Assistance:	
	Mining and general tax policy	Ongoing
	Public financial management	Ongoing
	Monetary and exchange rate policy	Ongoing
	Banking supervision	Ongoing
	National and fiscal accounts, balance of payments	Ongoing
Fund requests to the Bank	Audit of public investment projects	Ongoing
	Assessment of the electricity reform plan and budgetary implications	Ongoing
	Update of poverty analysis	
	Assessment of the major project to build a dam using a PPP framework	Ongoing
	Assessment of reforms in agriculture and the budget implications	Ongoing
	Information sharing on the financing of the large iron ore project	Ongoing
Bank requests to Fund	Regular updates on macro-economic and fiscal projections	Ongoing
	Consultations on program structural benchmarks	Ongoing
	Surveillance of fiscal impact of mining sector reforms	Ongoing
Joint Bank-Fund products	Debt Sustainability Analysis	Q1 2016
	Joint Bank-Fund Support for Medium-Term Debt Strategy	Q3 2016

RELATIONS WITH THE AFRICAN DEVELOPMENT BANK, 2011–16

(As of June 2016)

1. The Bank's Country Strategy Paper (CSP) 2012–16, approved by the Board on March 1, 2012, focuses on two pillars: (i) economic and financial governance; and (ii) infrastructure for development. Under the first pillar, the Bank will assist in building public financial management capacity, improving governance in the extractive sector and strengthening the central government's budget. Under the second pillar, the Bank will contribute to reducing the power generation gap and further developing transport infrastructure. The mid-term review of the CSP, which was delayed due to the Ebola crisis, was done in February 2016. This provided an opportunity for dialogue on the Bank's support to Guinea through the implementation of the PRSP, taking into account the fight against Ebola, the socio-economic recovery process, and outcomes of the Abu Dhabi Conference for the period 2015 to 2017. The Bank and Guinea's authorities agreed to extend the end of the CSP from 2016 to 2017 and to maintain the two pillars. The extension will: (i) allow the government and the Bank to implement the reforms and the operations which were delayed due to the MVE; and, (ii) allow the Bank to better prepare the next country strategy paper (2017–21) which will be aligned on the new national development plan 2016–20 expected to be finalized in October 2016. They agreed also that the Bank will support the development of the agricultural sector and the value chain program Guinea intends to develop in the coming months, targeting sector reforms (including land reform), entrepreneurship and business management (including youth), and financing (credit and guarantees).

2. Lending operations: During the donor and investment conference in Abu Dhabi, AfDB announced UA 163 million (\$250 million) additional resources in targeted support to the country's development program during the 2014–16 period through the mobilisation of all its financial and technical assistance instruments/vehicles. In 2016 (last quarter), the Bank will conduct in close coordination with the IMF a Debt Sustainability and Country Risk Analysis to assess whether Guinea can be allowed more headroom for accessing the Bank's ADB window to finance key infrastructure projects in 2017. The 2017 Indicative Operational Program (IOP) will be fully financed in 2017 if the analysis results in increased access to the ADB window.

3. In the governance sector, the Bank has already approved a budget support allocation of UA20 million in 2011 and support of UA 2.5 million through the Fragile State Facility (FSF). In addition, the Bank restructured some non-performing projects and reallocated UA 7.5 million to an economic governance project in 2011. This was to improve the country's public finance management while supporting the reforms aimed at enhancing governance, especially in the extractive sector. The FSF support also covers public administration capacity building, particularly in statistics and strategic planning. At the end of 2013 the Bank approved an institutional support project of UA 11.4 million focused on improving governance in mining contract management and on enhancing public investment and project management. A budget support operation (UA 12 million) targeting the private sector environment and PPPs frameworks, governance (mining, PFM, and public investment management) was approved by the board in end-June 2014 and UA 6.39 million was disbursed end-December 2014. The Bank intends to submit to board approval by

end-July 2016 a programmatic budget support operation (UA 10.5 million in 2016 and indicative UA 10 million in 2017) targeting public financial management and the business climate. In addition, the Bank intends to submit for Board approval by end-July 2016 a capacity building project aimed at scaling-up and enhancing the government capacity to manage the Simandou Mining project (mining one stop shop, local content policy, communities, etc.). By end 2016 the Bank will support a small dedicated capacity building operations targeting Central Bank (BCRG) for UA 2 million. The Agricultural project the Bank intends to support in 2017 for at least UA 10 million at the beginning of the program will target the governance of the sector, entrepreneurship (including youth), and financing issues (credit and guarantees).

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

5. In the transport sub-sector, the Board approved in December 2014 the road development and Transport Facilitation Programme within the MRU including the road Danané (Côte d'Ivoire)-Frontier of Guinea and from the frontier to N'zoo-Lola (Guinea). This road is part of a regional project including these key roads: Zantiébougou-Kolondiéba-Kadiana-Frontier of Côte d'Ivoire (140 km) linking Bamako to Abidjan and San-Pédro through the axe Tengréla-Boundiali-Séguéla-Daloa; and Duekoué-Guiglo-Bloléquin-Toulepleu-Frontier of Liberia. These roads are part of the Transafrican Dakar-Abidjan-Lagos road. The Bank intends also to co-finance in 2017 with the European Union a road program including the Coyah-Farmoriah-Pamelap road towards Sierra Leone, the Boké (Guinea)-Quebo (Guinea-Bissau) road, which is part of the ECOWAS Regional Transport Programme, and the feasibility studies for the Kankan-Mandiana-Odiene road. Because of their integrative role, construction of these roads is in line with the New Partnership for Africa's Development (NEPAD) Short-Term Action Plan, whose core objective is to have interstate roads without any impediment to the free movement of goods and persons. Contingent on the availability of a headroom related to Debt and Country risk analysis to be discussed with the country and the IMF, the Bank will finance in 2017 the building of interchanges on four key crossroads (Hamdalaye, Cosa, Bambeto, Encho5).

6. Support to private sector operations. During the 2014–17 period, the Bank will support specific private sector operations with high and transformative impact. At the request of the government, AfDB envisages to contribute to efforts to mobilise resources for financing the

infrastructure part of the Simandou mining project. In this regard, AfDB intends to provide an A loan of about UA 200 million equivalent to about USD 300 million which will leverage at least a USD 700 million billion loan. Africa50 will also contribute to the financing of this project at a later stage. AfDB intends to provide an A loan of about USD 100 million for financing part of the Global Alumina Bauxite project. AfDB will also support capacity building and provide technical assistance in order to allow the government to fulfil its commitment pertaining to the implementation of the Simandou project.

7. Non-lending operations: To deepen the analysis and understanding of the country's main challenges and fuel strategic reflexion, the Bank will help the government finalize in 2015, and in collaboration with UNDP, an economic and sector works (ESWs) on (i) private sector profile and (ii) local taxation. The Bank will enhance its dialogue and provide specific technical assistance on PPP (PPP law and PPP Unit) and on mining sector governance. The Bank will also continue to support implementation of PRSP (direct support to CTSP and SP-SRP in charge of coordinating the monitoring of the implementation of economic reforms programs and the PRSP), post-Abu Dhabi commitments implementation, and the link between macroeconomic/budget framework sector policies and the public investment plan. The Bank will continue its support through the FSF programme to the National Statistics Development Strategy (NSDS) and the conduct of the Third General Population and Housing Census (RGPH-III).

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

9. Response to the Ebola crisis. The AfDB has adopted a regional approach to address the Ebola crisis. In April 2014, the Bank provided an emergency support of USD 2 million UA equivalent to USD 3 million grant to support Mano River Union (MRU) countries affected namely Guinea, Liberia and Sierra Leone. In July 2014, the AfDB approved a UA 40 million equivalent to USD 60 million grant for countries fighting against Ebola. In October 2014 the AfDB approved UA 100 million sector budget support in order to support the three most affected countries. AfDB approved also in October 2014 a UA 7.7 million Technical Assistance Capacity Building Programme to support the national and foreign health workers programs. The total Bank's support for Guinea amounts to UA 35 million (USD 52 million) and aims to help the government enhance the immediate response but also structure a medium to long term plan. The AfDB will support the government's 2015-2017 post-Ebola recovery plan by accelerating the execution of planned projects and mobilizing additional resources for new operations/projects.

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

Table 1. Guinea: ADF 13 (2011–16) and FSF Operations Programming
(UA million)

Lending Operations					
	Year	ADF/ADB 12/13/14	FSF (Pillar III)	Regional & Other Funds	Total
Pillar I –Economic and Financial Governance Support					
Budget support	2011	20.0			20.0
Targeted support	2011		2.5		2.5
Budget support	2014/15	12.0			12.0
Capacity building (Mining One-Stop Shop and Simandou)	2016	4.0	2.0		8.0
Targeted support for capacity building (Central Bank)	2016		2.0		2.0
Agriculture (Governance, entrepreneurship, and financing)	2017	10.0			10.0
Sub-Total		46.0	8.5		54.5
Pillar II –Infrastructure Support (Energy, Transport, etc.)					
CLSG Interconnection (electricity)	2013	16.0		24.2	40.2
Rehabilitation of electric power networks	2013	11.0			11.0
Institutional support project - Public investment management and mining	2013	11.4			11.4
Mano River Union road (CI-Liberia, linked to Mali)	2014	13.1		20.3	33.3
OMVG	2015	20.0		30.0	50.0
Coyah-Farmoriah-Pamelap road including a study for the Kankan-Mandiana-Odiene project	2017	44.0		21.0	65.0
Boké-Quebo road	2017	49.0		21.0	70.0
Sanitation and Rural water supply	2017	10.0		5.0	15.0
Guinea-Mali interconnection (energy)	2017	35.0			35.0
Building Interchanges on 4 key crossroads (Hamdalaye, Cosa, Bambeto, Encho5)	2017	100			100
Sub-Total		309.5		121.5	431.0
Total		355.5	8.5	121.5	485.5
Economic and Sector Work (analytical support)					
Study on financial sector reforms	2013		x		
Private sector profile	2015		x		
Private sector strategy	2016				
Guinea Vision 2040	2016				
PPP law	2016				
Local taxation	2016				

MILLENNIUM DEVELOPMENT GOALS¹

	1990	1995	2000	2005	2014	2014 Sub-Saharan Africa	2015 MDG Target
Goal 1: Eradicate extreme poverty and hunger							Halve
Employment to population ratio, 15+, total (%)	69	69	70	70	71	65	
Employment to population ratio, ages 15-24, total (%)	52	52	52	53	54	47	
GDP per person employed (constant 1990 PPP \$)	...	...	...	...	...	...
Income share held by lowest 20%	3	5	...	6	...	...
Malnutrition prevalence, weight for age (% of children under 5)	...	...	29	23	...	...	13
Poverty gap at \$1.90 a day (2011 PPP) (%)	63	19	26	24	...	...	...
Poverty headcount ratio at \$1.25 a day (PPP) (% of population)	92	49	62	60	...	...	...
Vulnerable employment, total (% of total employment)	...	...	...	...	...	...	...
Goal 2: Achieve universal primary education							100
Literacy rate, youth female (% of female ages 15-24)	...	13	..	30	...	...	100
Literacy rate, youth male (% of males ages 15-24)	...	44	...	34	...	...
Persistence to last grade of primary, total (% of cohort)	47	...	...	74	...	...	100
Primary completion rate, total (% of relevant age group)	20	19	31	55	62	69	100
Total enrollment, primary (% net)	26	...	45	65	75	77	100
Goal 3: Promote gender equality and empower women							100
Proportion of seats held by women in national parliament (%)	...	...	9	19	22	22	100
Ratio of female to male primary enrollment (%)	45	51	67	80	85	93	100
Ratio of female to male secondary enrollment (%)	32	33	35	50	...	86	
Ratio of female to male tertiary enrollment (%)	9	7	...	23	44	73	
Share of women employed in the non-agricultural sector (% of total non-agr. emp.)	...	...	...	...	...	...
Goal 4: Reduce child mortality							> 75% reduction
Immunization, measles (% of children ages 12-23 months)	35	61	42	51	52	73	
Mortality rate, infant (per 1,000 births)	141	122	103	85	63	58	
Mortality rate, under 5 (per 1,000)	238	206	170	137	97	86	78
Goal 5: Improve maternal health							> 75% reduction
Births attended by skilled health staff (% of total)	...	...	...	38	...	...
Maternal mortality ratio (modeled estimate, per 100,000 live births)	1,040	964	976	695	688	560	
Contraceptive prevalence (% of women ages 15-49)	...	2	6	9	...	...
Goal 6: Combat HIV/AIDS, malaria and other diseases							Halt/reverse
Incidence of tuberculosis (per 100,000 people)	249	250	228	210	177	...	Halt/reverse
Prevalence of HIV, female (% ages 15-24)	1	1	1	1	1	2	Halt/reverse
Prevalence of HIV, male (% ages 15-24)	0	1	0	0	0	1	Halt/reverse
Prevalence of HIV, total (% ages 15-49)	1	2	2	2	2	5	Halt/reverse
Tuberculosis case detection rate (% of all forms)	13	18	27	34	54	51	Halt/reverse
Goal 7: Ensure environmental sustainability							
CO2 emissions (kg per PPP \$ of GDP)	0	0	0	0	...	...
CO2 emissions (metric tons per capita)	0	0	0	0	...	...
Forest area (% of land area)	30	29	28	27	26	26	
Improved sanitation facilities (% of population with access)	8	11	13	15	20	29	57
Improved water source (% of population with access)	52	58	63	68	77	67	72
Marine protected areas (% of territorial waters)	...	...	4	...	...	...
Net ODA received per capita (current US\$)	48	53	17	21	43	50	
Goal 8: Develop a global partnership for development							
Debt service (PPG and IMF only, % of exports, excluding workers' remittances)	20	24	15	13	4	5	
Internet users (per 100 people)	0	0	0	1	2	19	
Telephone lines (per 100 people)	0	0	0	0	...	...
Fertility rate, total (births per woman)	7	6	6	6	5	5	
Other goals and indicators							
GNI per capita, Atlas method (current US\$)	430	470	380	340	470	1709	
GNI, Atlas method (current US\$ billions)	3	4	3	3	6	1665	
Gross capital formation (% of GDP)	25	21	20	20	14	22	
Life expectancy at birth, total (years)	50	52	51	53	56	57	
Literacy rate, adult total (% of people, ages 15 and above)	...	21	30	...	...	...
Population, total (millions)	6	8	9	10	12	948	
Trade (% of GDP)	65	46	53	70	81	62	

Sources: Millenium Development Goals Database, November 2015.

^{1/} Figures in italics refer to periods other than those specified.

STATISTICAL ISSUES

(As of March 1, 2016)

I. Assessment of Data Adequacy for Surveillance	
<p>General: Data provision is broadly adequate for surveillance with some key data shortcomings in national accounts and fiscal statistics.</p>	
<p>National Accounts: Real sector statistics are incomplete, and published with insufficient timeliness to support economic policymaking. Statistics on economic activities are published less frequently and less regularly; the monthly bulletin of the Guinean economy is trying to include the limited available macroeconomic variables. Monthly surveys of mining, industrial and agricultural production are produced with delays. A series based on 1993 SNA was released in August 2014 along with brief analyses on main aggregates and methodological notes. Following AFRITAC West's recommendation, the National Institute of Statistics plans to implement the 2008 SNA with 2015 as new benchmark year. Employment and population statistics are published on an annual frequency.</p>	
<p>Price Statistics: The monthly consumer price index (CPI), which only covers Conakry, is published in a timely manner with 2002 as base year.</p>	
<p>Government Finance Statistics: The Ministry of Economy and Finance compiles comprehensive monthly budgetary central government data on a cash basis for revenue, and on commitment and cash basis for expenditure based on a national presentation not comparable to international standards. The last Government Finance Statistics (GFS) technical assistance (TA) mission found that public finance reforms are progressing slowly in Guinea, with most progress in the adoption of the new budget nomenclature and the new State's chart of accounts. The current compilation methodology of the government operations tables (TOFE) needs to be modernized, which is currently reconciled with budgetary execution and financing data. The production of the TOFE based on GFSM 2001/2014 will require the use of the data outside the general accounting system, as it lacks comprehensiveness and timeliness. Cash-based general accounts must also be improved along with the gradual implementation of accrual accounting. Implementation of these reforms will require new IT systems, training and manuals. The data produced by the debt office is of fair quality, although it does not yet include the financing of new infrastructural projects. Data on extra-budgetary units, local government and central government investments in public and private corporations is available, but will need to be assessed from a GFS perspective. Complete accounts for the social security funds sub-sector of good quality are also available.</p>	
<p>Monetary and Financial Statistics: Central Bank and deposit money bank accounts as well as the monetary survey are compiled and shared with the African Department on a monthly basis, for the purposes of program monitoring. Some delays have been experienced with commercial banks data, which still needs to be improved. Coordination between the Central Bank and the Ministry of Economy and Finance is improving, reducing discrepancies between monetary and fiscal data. However, the ongoing migration to a new accounting system at the Central Bank has led to frequent data changes and to delays in the provision of monetary statistics. Monetary data used to assess program performance are certified by an independent external auditor on a regular basis. Monetary and financial sector data reports to the Statistics Department (STA) experience significant delays, and the latest available data corresponds to June 2012. In January 2014, STA provided TA to the BCRG to start reporting monetary data using the recommended standardized report forms (SRFs).</p>	
<p>Financial Sector Surveillance: Financial Soundness Indicators (FSI) are consolidated on a quarterly basis by the Central Bank. Guinea does not report FSIs to STA.</p>	
<p>External Sector Statistics: The Central Bank compiles annual Balance of Payments and International Investment Position statistics in line with the fifth edition of the <i>Balance of Payments Manual (BPM5)</i>. Although the quality of external sector statistics (ESS) has improved since 2008, the central bank does not take advantage of all data sources within to compile the ESS. A balance of payments survey has been implemented with a response rate of over 75 percent.</p>	
II. Data Standards and Quality	
Guinea participates in the General Data Dissemination System, but the metadata have not been updated since 2003.	No data ROSC is available.

Table of Common Indicators Required for Surveillance

(As of June 27, 2016)

	Date of Latest Information	Date Received	Frequency of Data ⁶	Frequency of Reporting ⁶	Frequency of Publication ⁶
Exchange Rates	06/23/2016	06/23/2016	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	05/31/2016	06/27/2016	M	M	M
Reserve/Base money	05/31/2016	06/27/2016	M	M	M
Broad Money	05/31/2016	06/27/2016	M	M	M
Central Bank Balance Sheet	05/31/2016	06/27/2016	M	M	M
Consolidated Balance Sheet of the Banking System	05/31/2016	06/27/2016	M	M	M
Interest Rates ²	04/30/2016	05/26/2016	M	M	M
Consumer Price Index	05/31/2016	06/21/2016	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ - General Government ⁴	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing ³ - Central Government	05/31/2016	06/21/2016	M	M	M
Stocks of Central Government and Central Government - Guaranteed Debt ⁵	12/31/2015	04/21/2016	A	A	A
External Current Account Balance	12/31/2015	04/16/2016	Q	NA	A
Exports and Imports of Goods and Services	12/31/2015	04/16/2016	Q	NA	A
GDP/GNP	12/31/2013	03/01/2014	A	A	A
Gross External Debt	12/31/2015	02/24/2016	A	A	A
International Investment Position	NA	NA	NA	NA	NA

¹ Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.² Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.³ Foreign, and domestic bank and non-bank financing.⁴ The general government consists of the central government (budgetary and extra-budgetary funds, and social security funds) and state and local governments.⁵ Including currency and maturity composition.⁶ Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Not Available (NA).

Statement by Ngueto Tiraina Yambaye, Executive Director for Guinea

July 22, 2016

Our Guinean authorities would like to thank staff for their candid reports which reflect the constructive policy dialogue held under the 2016 Article IV consultation in Conakry. The discussions covered the challenges facing the economy as well as the opportunities lying in the country's buoyant natural resource endowment and the authorities' upcoming development plan.

Guinea is implementing an ECF-supported program whose 6th and 7th reviews were successfully completed in March 2016. Despite the country's situation of fragility associated with the shocks of the Ebola pandemic and the sharp decline in commodity prices, our authorities have taken unprecedented measures to boost growth, improve public financial management and create a conducive environment for private sector development. Furthermore, for the period ahead, they are developing an ambitious five-year plan to unlock the development potential and diversify the economy. Key pillars of their strategy include making significant steps to close the energy and infrastructure gaps, boosting production in the mining sector, revamping the agriculture sector and increasing human capital.

I. RECENT DEVELOPMENTS AND OUTLOOK

The recent period is marked by a steady recovery from the Ebola outbreak, which took a huge toll in human lives and socio-economic loss. After averaging 1.8 percent over the 2012–15 period, growth is projected to rebound to 3.7 percent in 2016. Activity will benefit from higher energy provision from the newly built Kaleta hydroelectric dam. Inflation has picked up to 7.9 percent but should decline gradually to 5 percent in 2019.

Our Guinean authorities have initiated a strong fiscal consolidation to reverse the expansionary stance of the past years. As a result, the basic fiscal balance turned to a surplus of 1.2 percent of GDP during the first quarter of 2016, that is 2.4 percent of GDP above the program target. For the whole year, the fiscal deficit is projected to contract sharply to 0.4 percent of GDP from 7.1 percent in 2015. Such effort in an environment of high social demand and required public investment is a clear sign of the authorities' strong commitment to rebuild buffers and enhance macroeconomic stability.

For the medium term, the authorities remain more optimistic while staying alert vis-à-vis some of the risks pointed to by staff. Projections on both sides are consistent with respective perceptions. The authorities' baseline scenario backed by the Post-Ebola Recovery Plan assumes growth to stand at 5.1 percent in the medium term against 4.5 percent under staff's conservative scenario. Moreover, the government's five-year plan under discussion set more ambitious goals. High public and private investments should further boost electricity supply notably through the Souapiti dam, enhance road infrastructure, increase mining output and boost agriculture production.

External stability is benefitting from the recent tightening of monetary policy. The latest developments communicated by the authorities indicate that the level of international buffers points to 3 months of imports.

Our authorities are cognizant that sound policymaking and decisive reforms will be critical in the period ahead to sustain their efforts towards high and inclusive growth and spur economic transformation. In this regard, they remain committed to pursue fiscal and monetary policies conducive to macroeconomic stability while stepping up structural reforms.

II. MACROECONOMIC AND STRUCTURAL POLICIES GOING FORWARD

Fiscal policy

The authorities will continue their efforts to restore fiscal sustainability. In this regard, the ongoing consolidation is viewed as an important step to break from the past and put public finances on a sound footing. Government has adopted a freeze on spending while measures are being taken to boost revenue. Subsidies in the electricity sector are maintained as programmed in the 2016 budget. On the revenue side, an array of measures is underway to enhance tax collection, including: (i) eliminating tax exemptions; (ii) registering informal commercial outlets; (iii) setting up mechanisms to cross-check and exploit the Customs and Tax databases; (iv) creating a property taxation unit; and (v) improving the efficiency of the Tax Department. Our authorities have also welcomed staff presentation of a blue print for tax reform that would help tap the 3–5 percent of GDP tax potential. This analysis will feed into the internal thinking on ways to broaden the tax base and enhance revenue collection.

Our authorities are also taking actions to improve public financial management. Guinea has adopted far-reaching laws and procedures in PFM and the authorities are committed to enhance enforcement of existing regulations from all public officials. In this regard, emphasis will be put on public procurements and value for money of investment spending.

In the same vein, the authorities pay due regard to debt sustainability in their financing strategy and intend to seek concessional resources to the most possible. This principle will guide their efforts in closing the energy infrastructure gap, including on the Souapiti project, which remains critical in the authorities' plan to boost electricity supply as a key factor for high and sustained growth. Financing scenarios are under discussion and assistance from donors is being sought to minimize costs to public finances.

Monetary and exchange rate policy

The reform of the relationship between the fiscal and monetary authorities is key to our authorities; with the goal of enhancing the framework for monetary and exchange rate policies and avoiding the reoccurrence of issues of the like of the recent guaranteed loans. In

this regard, important recommendations from the Safeguards Assessment aimed at strengthening the operational independence of the Central bank have been included in the new BCRG law. The draft law has been discussed by Cabinet and is being further improved before submission to Parliament. The changes include enforcing the legal limits to monetary financing of the budget, reducing the concentration of power of the Governor and limiting intervention from ministry officials seating at the Board to non-voting roles.

In terms of policies, the BCRG has made good progress on the exchange rate policy and management, including the reform of the exchange rate determination mechanism aimed at enhancing the role of market forces. As a result, the gap between the official and the parallel exchange rates has been significantly narrowed in addition to enhancing the transmission mechanisms. Going forward, efforts will continue to be made in strengthening international reserves and in meeting the medium term inflation target.

Financial sector issues

Our authorities share staff assessment made in the Selected Issues paper on the shallowness of the financial sector, the limited competition and access, as well as the many impediments to the development of microfinance institutions. Many initiatives are underway to strengthen banks, improve supervision and competition and promote financial inclusion. On supervision, the BCRG is making steps to address capacity constraints and implement the risk-based supervision as agreed with AFRITAC West. The authorities have adopted in 2014, a multi-pronged National Strategy for Financial Inclusion to address key bottlenecks and promote financial inclusion. The implementation has been slowed by the Ebola outbreak, but should gain traction following the ongoing revision of the strategy. It is built around four pillars - the policy and regulatory framework of mobile-based financial services, the regulation frameworks, consumer literacy and protection, and data collection – and emphasizes actions to enhance access to financial services, especially for the poor. This will be paired with initiatives to strengthen the banks, including lifting governance standards.

The authorities also take good note of staff additional recommendations to increase competition and reduce intermediation costs, facilitate mobile financial services, improving financial literacy, simplify regulations and improve the judicial system to reduce risks for banks. Likewise, they will step up actions to revamp the microfinance sector which has proved effective in increasing access for populations living in rural areas or involved in the informal sector.

It is our authorities' belief that the development of the financial sector and access will go hand in hand with the overall effort to further modernize the economy and reduce informality. As more activities are brought to the formal sector, thus enlarging the tax base, those actors will seek financial services for their growing activities.

Structural reforms

Cognizant of the need to bolster structural reforms for entrenching growth and promoting economic diversification, our authorities endeavor in many areas, including improving the business environment especially enacting the new mining code, enforcing the public procurement code and reforming the agriculture sector.

Agriculture remains with electricity a priority sector the government intends to overhaul through important projects. Traditional and new cash crops such as cashew, palm trees, coffee and cocoa are planned to be developed. A massive undertaking is also envisaged to meet the demand in foodstuffs, rice in particular, which is mainly supplied through large imports. To enhance domestic agricultural production, the government is expecting investments in irrigation technologies, rural road infrastructure and storage facilities. Under their development plan, processing agricultural products is also contemplated as a means to diversify the economy and create jobs.

Improving the business environment with the view to attract more private investment is a major endeavor for our authorities. To this end, a particular emphasis is put on improving the judicial system, in addition to the efforts to upgrade the physical infrastructure notably roads and electricity. The government is also planning campaigns to showcase Guinea as a top destination for investment and business opportunities. In the same vein, our authorities are committed to maintain efforts to enhance democracy and promote peaceful elections.

III. CONCLUSION

Guinea has come a long way. The country was reaping the democratic dividends following the 2011 elections when it was hit hard by the Ebola outbreak. Compounded with the commodity price fall, these shocks slowed the growth momentum. Thanks to the authorities' strong resolve and response, paired with the assistance of the international community, the country is now Ebola-free. The government has resumed its efforts towards economic transformation and poverty reduction. The impressive fiscal adjustment initiated in 2016 is meant to ensure macroeconomic stability, build buffers and create the space for the investment envisaged under the authorities' development plan. In the same vein, structural reforms will be pursued with the view to diversify the economy and create jobs. The support of the financial community, including the Fund, will continue to be instrumental in our authorities' strategy to create prosperity and reduce poverty.