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Guinea: 2003 Article IV Consultation—Staff Report; and Public Information Notice on the Executive Board Discussion

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2203 Article IV consultation with Guinea, the following documents have been released and are included in this package:

- the staff report for the 2003 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **May 11, 2003,** 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 2, 2003.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during its July 16, 2003 discussion** of the staff report that concluded the Article IV consultation.

The document(s) listed below have been or will be separately released.

Selected Issues and Statistical Appendix

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

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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GUINEA

Staff Report for the 2003 Article IV Consultation

Prepared by the Staff Representatives for the 2003 Consultation with Guinea

Approved by Donal Donovan and Michael T. Hadjimichael

July 2, 2003

- The discussions on the 2003 Article IV consultation were conducted in Conakry during April 28-May 11, 2003. The staff team consisted of Mr. van den Boogaerde (head), Ms. Nkusu, Mr. Blavy, Mr. Gudmundsson (all AFR), Mr. Jones (PDR), the designated Fund Resident Representative in Guinea, and Ms. Malouf-Hardesty (Staff Assistant) (AFR).

- The Guinean representatives included Mr. Camara, Minister of Economy and Finance; Mr. Bah, Governor of the Central Bank of the Republic of Guinea; Mr. Sagno, Minister of Planning; the ministers in charge of priority sectors; and other senior officials in selected ministries. The mission met also with the Prime Minister, members of the National Assembly, the financial and business community, the donor community, and the press.

- Guinea has accepted the obligations under Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement. Nonetheless, over the past year, the authorities have been using moral suasion vis-à-vis commercial banks participating in the central bank auctions in order to de facto peg the official exchange rate.

- In December 2000, the Executive Boards of the Fund and the World Bank declared that Guinea had reached the decision point and was eligible for debt relief under the enhanced HIPC Initiative. They also decided to provide interim assistance. The earliest the country could reach the completion point would be end-2004, contingent upon establishment of a satisfactory track record under a Fund-supported program and observance of the remaining completion point triggers.

- At the conclusion of the previous Article IV consultation on July 24, 2002, Directors stressed the need to establish a sound policy environment conducive to sustained economic growth. They underscored the importance of maintaining a stable macroeconomic environment through greater discipline in budget implementation and monetary management, and the acceleration of key structural reforms. They urged the authorities to step up the fight against corruption. Directors also welcomed Guinea's poverty reduction strategy paper and the participatory process underlying the strategy.

- Guinea's relations with the IMF and the World Bank are summarized in Appendices I and II. Statistical issues are discussed in Appendix III. Statistics are weak in Guinea, with major deficiencies in balance of payments, national accounts, price, and external debt data. Progress has been made in recent years, including with technical assistance from the Fund, but further improvements are needed. A review of progress under the Expenditure Accountability Assessment and Action Plan is presented in Appendix IV, and a draft PIN is included in Appendix V.

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I. Executive Summary

Guinea's macroeconomic management deteriorated significantly in 2002. A highly expansionary fiscal stance was accompanied by an accommodating monetary policy and a de facto fixing of the exchange rate, resulting in rising inflationary pressures and a low level of gross reserves. Real GDP growth reached 4.2 percent, driven by a good harvest and robust construction activity. Average inflation was only 3 percent on account of the abundance of foodstuffs but accelerated toward year's end. There was progress in the area of structural reforms and implementation of the poverty reduction strategy.

The outlook for 2003 is not favorable. The presidential elections scheduled for late 2003 and the declining health of President Conté have led to a slowdown in the administrative decision-making process. Growth is expected to falter, owing mostly to disruptions caused by the frequent outages in the supply of electricity and water. There was a further acceleration in inflation. The authorities continue to control de facto the official exchange rate, and the spread with the parallel rate has widened to over 5 percent.

With the PRGF-supported program off track as of December 2002, negotiations started on a six-month staff-monitored program. However, no agreement could be reached, as expenditure overruns and excessive bank financing continued in the first quarter of 2003, making the achievement of the full-year fiscal and monetary targets very unlikely. The authorities have asked that the staff informally monitor their efforts until end-2003.

The immediate threat to Guinea's economy is the resurgence of inflation. This has to be addressed by bringing the budget under control and tightening monetary policy. The exchange rate should also be determined by market forces to redress the macroeconomic imbalances and stem the decline in foreign exchange reserves, which are at a low level.

The main challenge for the medium term is to enhance growth prospects so as to reduce poverty. This requires improving the political and security situation, restoring good macroeconomic management, improving basic infrastructure, enhancing financial intermediation, forcefully addressing governance issues, implementing structural and institutional reforms to attract investments and foster a viable formal private sector, and making a commitment to trade liberalization and privatization.

The continued implementation of the poverty reduction strategy is starting to have a positive impact on social indicators, in particular in the area of education. Achieving the PRSP goals will require a reduction in the wage component of social spending, a deepening of the consultation process, and credible efforts to reestablish a good track record, so as to secure the necessary donor support.

II. RECENT DEVELOPMENTS

- Political developments have been dominated by the deteriorating health of the President and the preparation of the presidential elections scheduled for late 2003. The ailing President has announced that he will stand for reelection. There has been some unrest recently, linked to recurring power and water cuts, and the run-up to the election might lead to further tensions. At the regional level, lingering incursions by Liberian rebels and skirmishes along the border with Côte d'Ivoire continue to endanger the security situation and have exacerbated the refugee problem.

- In 2002, growth was driven by a good harvest and robust housing construction. However, significant spending overruns led to a large fiscal deficit, which was essentially financed by central bank credit, resulting in a monetary overhang and acceleration of inflation toward year's end. Net foreign reserves were reduced by more than half. Progress was made in the structural area.

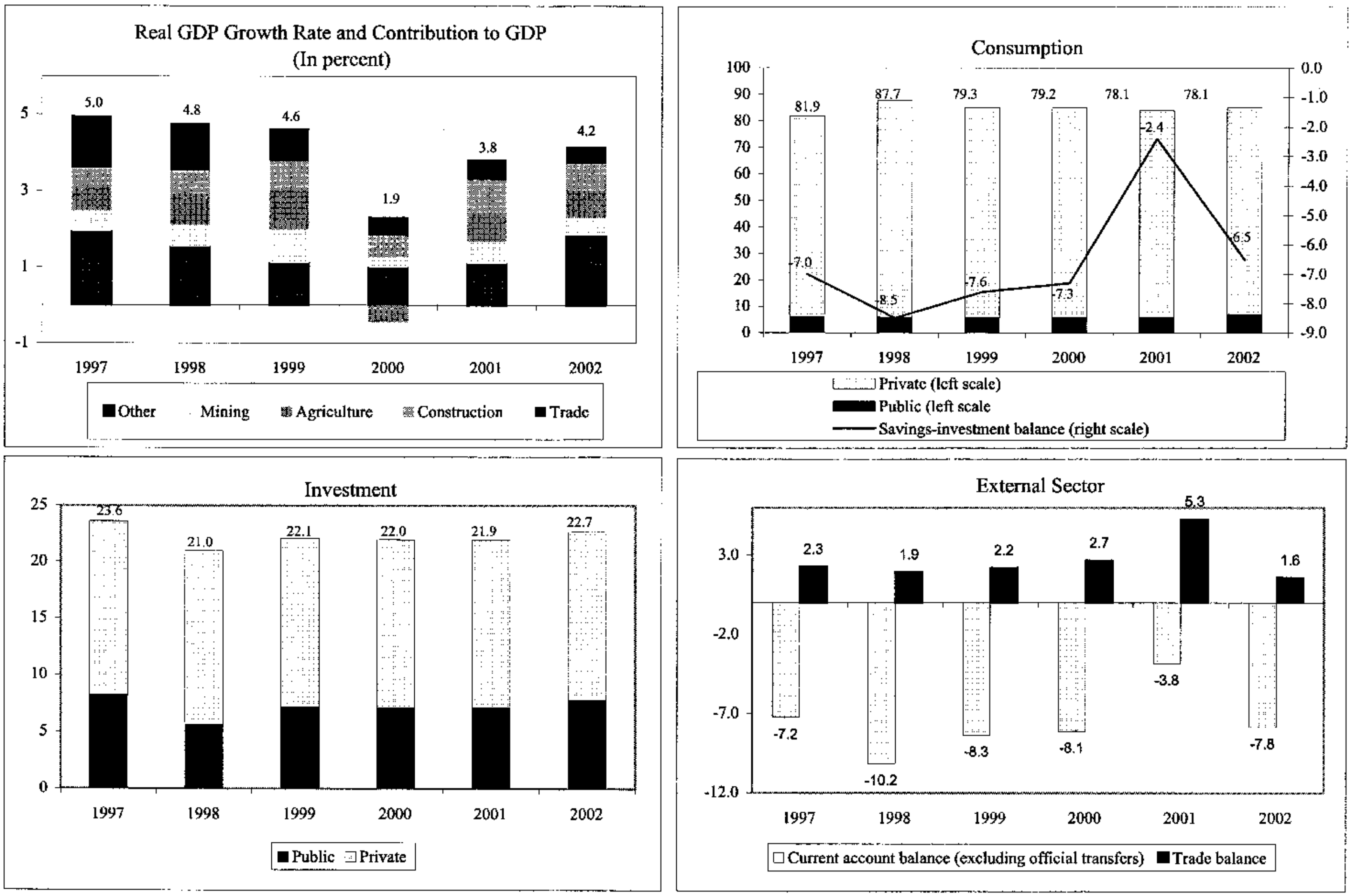
- The outlook for 2003 is worrisome, with prospects for a slowdown in growth, accelerating inflation, very low official reserves, and a structural foreign exchange deficit in the formal economy.

1. **Guinea's macroeconomic management deteriorated significantly in 2002, and the prospects for 2003 are uncertain at best**. A highly expansionary fiscal stance was accompanied by an accommodating monetary policy and a de facto fixing of the exchange rate, resulting in rising inflationary pressures and a decline in gross reserves to a low level. Real GDP growth, buoyed by a favorable harvest and solid construction activity, reached 4.2 percent (see table at right and Figure 1). The outlook for 2003 is not favorable. Real GDP growth for 2003 has been revised downward by almost 1 percentage point to 3.6 percent, in order to reflect the lower value added of the mining sector and the disruptions to economic activity emanating from the frequent outages in the supply of electricity and water. The average rate of inflation, which was contained within 5 percent for the last five years, declined in 2002 to 3 percent on account of the abundance of foodstuffs. However, owing to the rapid growth in broad money during the second half of the year, the year-on-year inflation rate reached 6.1 percent at end-2002 and rose further to 11.9 percent at end-May 2003.

Guinea: Core Indicators, 1999 - 2002

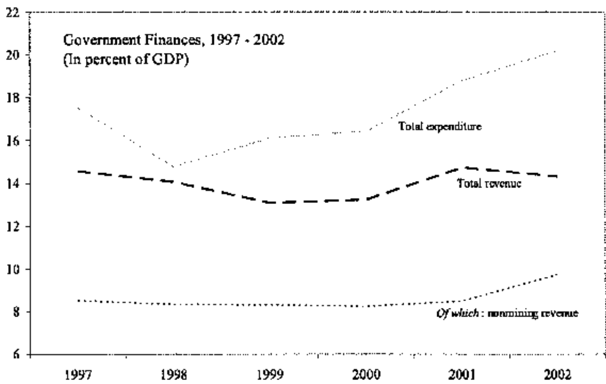
	1999	2000	2001	2002
	(Annual percent change)			
Real GDP at 1996 market prices	4.6	1.9	3.8	4.2
Broad money	8.8	23.4	14.8	19.2
Reserve money	15.0	17.0	11.0	18.3
Consumer prices (avg.)	4.6	6.8	5.4	3.0
	(In percent of GDP, unless otherwise specified)			
Total revenue and grants	13.1	13.2	14.7	14.3
Current expenditure	8.9	9.3	11.6	12.2
Primary balance	2.4	2.5	0.6	0.0
External current account (incl. transfers)	-7.6	-7.3	-2.4	-6.5
Gross int. reserves (US$ billions)	207.5	150.3	208.4	170.0

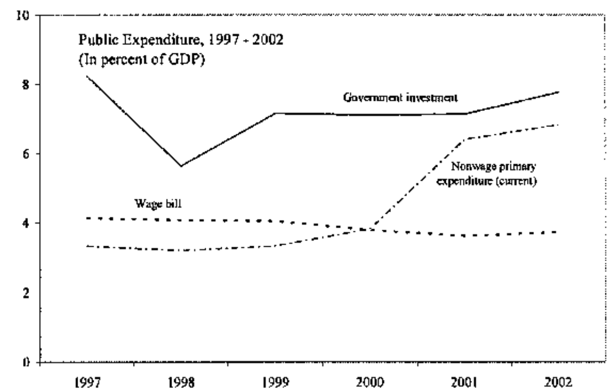
Figure 1. Guinea: Real Sector Developments, 1997–2002
(In percent of GDP, unless otherwise indicated)

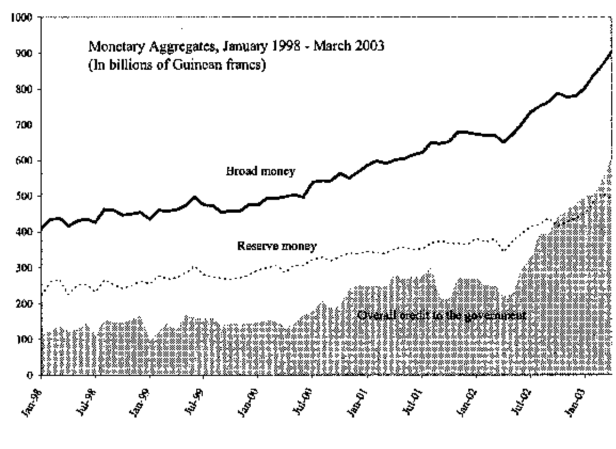


Sources: Guinean authorities; and staff estimates.

2. **Performance under the 2002/03 Poverty Reduction and Growth Facility (PRGF)-supported program was weak**. On the positive side, nonmining revenue rose by 1.2 percent of GDP in 2002, and there was progress in the execution of social sector spending and the structural reform agenda. However, a decline in mining revenue because of lower international prices and alumina content of the bauxite extracted, and expenditure overruns of about 1½ percent of GDP[1] led to a larger-than-projected fiscal deficit, which, in the absence of external budgetary assistance, was essentially financed by bank credit (see figure at right). Notwithstanding a sharp decline in net foreign assets of the central bank, and owing to poor liquidity management, base (reserve) money rose by 18.3 percent and broad money by 19.2 percent (Table 5). The central bank failed to mop up excess liquidity and kept interest rates at the 12-14 percent range throughout the year. Credit to the private sector increased by only 7.5 percent.







3. **With the program off track as of December 2002, negotiations started in early 2003 on a six-month staff-monitored program (SMP)**. The proposed SMP aimed at improving the fiscal stance to allow for a gradual decline in net credit to the government and base money, while rebuilding the net foreign asset position of the central bank. However, no agreement could be reached largely because (i) the expansionary policies continued in the first quarter of 2003, particularly because of a large amount of transfers, which made the achievement of the full-year fiscal and monetary targets unlikely; and (ii) the spread between the de facto controlled official exchange

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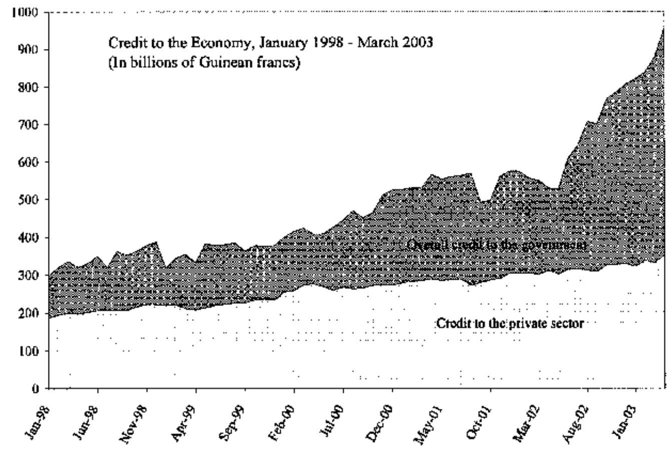
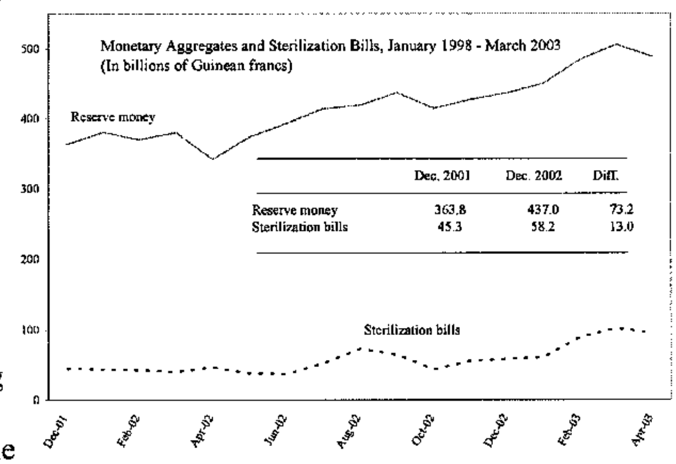
[1] About half of the overruns were due to the exogenous deterioration of the security situation and one tenth was related to extra spending for the June 2002 legislative elections. The balance reflected essentially overruns on transfers, in particular to other public administrations, due to general weaknesses in budgetary management.

rate and the parallel rate widened. In these circumstances, the authorities asked that the staff informally monitor their efforts until year's end.

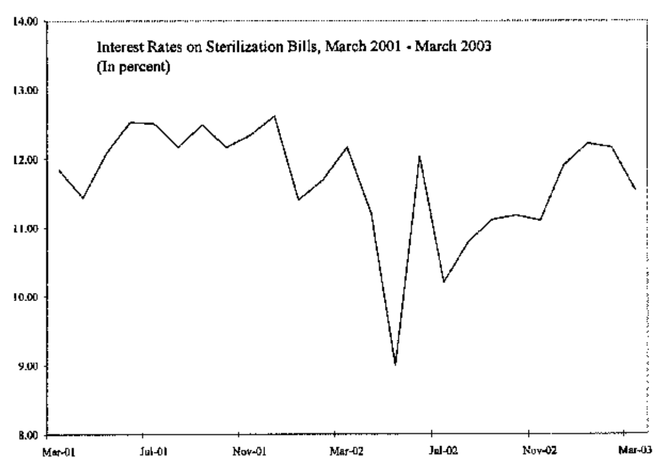
4. **The authorities used moral suasion vis-à-vis commercial banks participating in the central bank auctions in order to de facto fix the official exchange rate vis-à-vis the U.S. dollar.** However, in 2002 the exchange rate depreciated by 13 percent against the euro and by 2.3 percent in real effective terms (see figure at right and Table 1). The differential between the parallel and official rates remained around 2 percent. While this modest differential could be interpreted as a sign of the absence of foreign exchange market pressures, notwithstanding the insufficient supply of foreign exchange in the official market, disintermediation became more pronounced as a growing volume of imports was financed from export proceeds not repatriated and held in deposits abroad. Because of increasing demand pressures in the first quarter of 2003, the spread between the official and the parallel rate widened to over 5 percent.



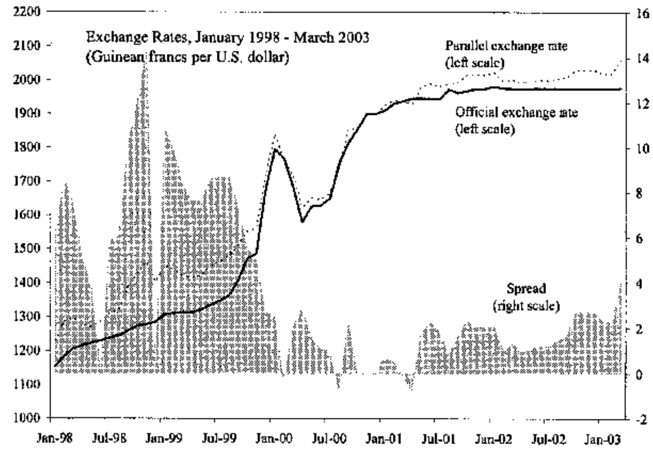
5. **As indicated in the last Article IV consultation report (EBS/02/126; 7/11/02), owing to the absence of a mechanism to prevent the rates in the official and parallel markets from diverging by more than 2 percent, Guinea's exchange arrangement constitutes a multiple currency practice subject to IMF jurisdiction under Article VIII.** Since the authorities have not yet set a clear timetable for introducing such a formal mechanism, the staff does not recommend the approval of the multiple currency practice.



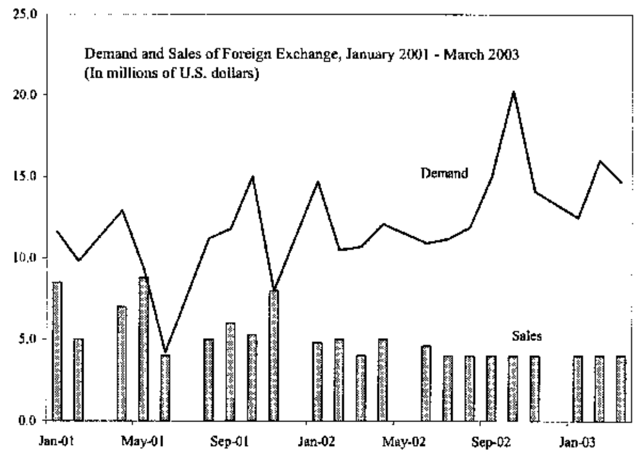
6. **The external current account deficit (excluding official transfers) widened in 2002 to 7.8 percent of GDP from 3.8 percent in 2001 (Table 6).** Exports declined by 3 percent in U.S. dollar value terms, reflecting lower mining receipts, which were affected by a decline in both the quality and price of

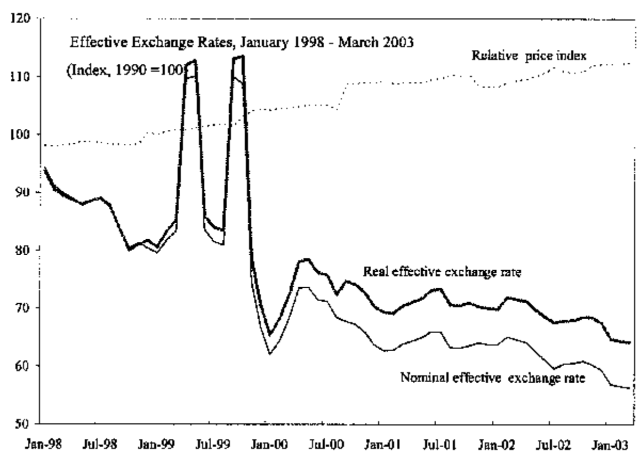


bauxite. The expansionary demand policies exerted pressures on imports, which expanded by 16 percent. Petroleum products imports rose by 32 percent, reflecting higher world market prices and increased demand to meet domestic electricity generation needs, as well as opportunities for arbitrage by reexporting through informal channels to neighboring countries (particularly Senegal and Mali), where prices are substantially higher.[2] Official budgetary support fell to virtually zero, but debt-service commitments continued to be met in full. As a result, the gross international reserves of the central bank declined to US$170 million (two months of imports) at end-2002 from US$208 million (2.6 months of imports) at end-2001.



7. **There was continued progress in the area of structural reforms.** In the public finance area, this included the implementation of a single customs clearance procedure and a uniform database for taxpayers' identification. The decentralization of budget execution was pursued, notably by devolving spending authority for all social outlays to administrative regions and prefectures, and by raising the limits granted to local government officials for public procurement contracts. This decentralization was accompanied by the increased accountability of service providers to users





[2] Guinea's petroleum price structure is adjusted periodically in light of movements in international prices and does not entail any subsidization. Higher prices in neighboring countries are due to higher levels of taxation in those countries.

through a greater involvement of local communities.[3]

8. **Key measures in the monetary and financial area were the adoption of new prudential ratios aligned with the Basel Core Principles, finalization of the banks' accounting plan and their computerization, and implementation of regulations to fight money laundering**. Moreover, the banking law has been revised and is expected to be submitted to the National Assembly by September 2003.[4] The foreign exchange exposure of the banking sector is relatively low, limiting the risk that the financial sector will be destabilized by exchange rate variations. The share of nonperforming loans in the overall loan portfolio remains large, reflecting in part difficulties in loan recovery as a result of weaknesses in the legal infrastructure and the administration of justice; however, provisions are adequate. Two small banks undergoing restructuring have been recapitalized. As regards microfinance institutions, the four major institutions that currently operate in the sector appear relatively sound. Accreditation by the central bank is required for all microfinance institutions, and off-site and on-site audits have been initiated in 2003.[5]

9. **Progress remained slow in the area of public enterprise restructuring and privatization**. The government privatized or liquidated seven of the eight small enterprises slated for privatization/liquidation by end-2002. However, it has yet to make progress in the restructuring of the public utilities in the areas of electricity, water, and telecommunications. The severe power and water shortages—a reflection of past low investment and low rainfall—that have badly affected the economy in recent months underscore the need for decisive actions in this area, so as to correct the weaknesses and boost the country's development potential.

III. REPORT ON THE DISCUSSIONS

A. Immediate Policy Challenges

10. **The immediate threat to Guinea's economy is the resurgence of inflation**. The mission argued that under current policies double-digit inflation would persist, and that efforts to bring it down could be prolonged and costly in terms of output losses and adverse impact on the poor. However, if domestic petroleum prices could be lowered later in the year in line with the decline in international prices, and if immediate steps were taken to control the budget deficit and to tighten monetary policy, annual average inflation for 2003 could be contained at about 6 percent, and the targeted medium-term inflation rate of about 3 percent would remain

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[3] In education, for instance, parents' associations, which are informed about resources allocated to their communities, are active in monitoring whether the services provided are commensurate with resources.

[4] The staff provided extensive comments on the draft revised law, which were well-received by the authorities.

[5] These issues are covered in the accompanying selected issues paper.

achievable, provided that the momentum of reforms and sound macroeconomic management is sustained.

11. **The fiscal stance in 2003 aims at reducing the budget deficit, but there is considerable uncertainty as to whether the targets envisaged can be attained.** Projections are for the revenue-to-GDP ratio to increase by almost ⅓ of 1 percentage point to 12.3 percent of GDP notwithstanding a further decline in mining revenue, reflecting further efforts to increase the collection of nonmining revenue, and for primary current expenditure to decline by 0.9 percentage point to 9.7 percent of GDP from the overruns registered in 2002 (Table 4). However, the staff warned of significant risks to this stance. In particular, pressures on security outlays and expenditures related to the forthcoming presidential elections could cast doubts as to whether the allotment for the year will be respected. With very limited external budgetary assistance, and in view of the increased reliance on bank financing to cover previous overruns, this situation could lead to further monetary creation and higher inflation. The authorities recognized the risks but indicated that they were taking steps to adhere strictly to expenditure ceilings.

12. **A tightening of monetary policy is urgently needed.** During the past several years, monetary policy contributed to macroeconomic stability in Guinea. However, monetary management started to weaken sharply from the second quarter of 2002 onward. The staff urged action on several fronts, notably the following:

- interest rates, which have fallen in real terms since the middle of last year, should be allowed to rise as liquidity management becomes more active, notably via the use of sterilization bills;

- the mix of budget deficit financing should be redirected away from central bank advances toward issuance of treasury bills purchased by commercial banks and the nonbank private sector;[6] and

- international reserves, whose low level heightens the economy's vulnerability to adverse shocks, should be rebuilt.

The authorities generally concurred with this assessment but were concerned that higher interest rates could further dampen growth. The mission emphasized that, if inflation were not checked, output losses could be far greater and more prolonged, and the impact on the poor much more acute.

13. **The staff expressed strong concerns about the authorities' recent policy of a de facto fixing of the exchange rate and urged them to let the market determine the**

[6] As of April 1, 2003, the subsidized central bank credit to the government was eliminated by increasing the lending rate to the level of the treasury bill rate.

appropriate rate. The authorities defended their recent policy as helping to keep inflation in check without significantly damaging Guinea's overall competitiveness. They stated that, since past depreciations had not encouraged increased exports through official channels, they would rather control the exchange rate than risk a price pass-through of a depreciated exchange rate. The staff indicated that inflation could be better controlled by strengthening monetary management and by implementing reforms to encourage an increased supply of goods and services. It underscored the important role that a market-determined exchange rate could play in the adjustment of aggregate demand, in light of Guinea's serious macroeconomic imbalances. Furthermore, the staff emphasized the disruptive impact on the economy that a sharp discrete exchange rate depreciation, the possibility of which was raised by private sector representatives with whom the mission interacted, might entail.

B. The Medium-Term Prospects and Challenges

14. **The main challenge facing Guinea is to promote and sustain the strong private-sector-led growth that is necessary to achieve the poverty reduction objectives set out in the poverty reduction strategy paper (PRSP).** Guinea's economic performance in recent years has been erratic, with intervals of satisfactory progress under Fund-supported programs followed by periods of noncompliance. The 1997-2001 PRGF-supported program, as well as the first-year program under the 2001-04 PRGF, went off track on several occasions. This overall disappointing performance reflects mainly weak political will and implementation capacity, and insufficient efforts to tackle the underlying structural problems that have been exacerbated by the unstable security situation in the region. Internally, growth and the investment climate have been affected by unstable macroeconomic policies, an insufficient degree of monetization, widespread governance issues, an interventionist public sector, the poor efficiency of public expenditures, unreliable and high-cost utilities, a dilapidated transportation infrastructure, institutional constraints on regional trade, weak financial intermediation, and the continued high vulnerability to external shocks. The authorities have made efforts over the past decade to address some of these issues. Progress has been encouraging in some areas but very modest in others (Box 1). Against this background, the discussions focused on the need to tackle more forcefully Guinea's deep-rooted problems, which have held back investment and the development of a viable formal private sector.

Guinea: Selected Indicators, Medium-Term Scenarios, 2003 - 06
(In percent of GDP, unless otherwise indicated)

	2003	2004	2005	2006
Current-policy scenario				
Real GDP growth (annual percent change)	2.4	3.3	3.4	3.5
Consumer prices (avg. change, in percent)	14.9	16.0	17.0	18.0
Central government finances				
Total revenue and grants	15.5	14.9	15.0	15.2
Current expenditure	10.9	10.9	10.8	10.8
Primary balance	0.5	0.3	0.7	0.8
Gross investment	18.1	19.2	19.4	19.5
Domestic savings	14.3	15.8	15.8	15.7
Good-policy scenario				
Real GDP growth (annual percent change)	3.6	5.0	5.7	6.0
Consumer prices (avg. change, in percent)	6.2	3.0	3.0	3.0
Central government finances				
Total revenue and grants	16.5	16.4	16.7	16.7
Current expenditure	11.4	10.9	10.6	10.4
Primary balance	0.6	1.4	1.9	2.0
Gross investment	19.1	20.9	22.6	24.5
Domestic savings	15.4	18.6	19.9	20.6

15. **Under current policies, characterized by the authorities' wavering commitment to sound macroeconomic policies, slow progress in the area of good governance, and risks to political stability, combined with exogenous risks related to lower commodity prices, in particular for bauxite, and increased instability in the region, GDP is projected to grow at a little above 3 percent per annum** (see box above).

Box 1. Guinea: Structural Reforms and Macroeconomic Adjustment Policies over the Past Decade and Lessons from Past Performance

Over the past decade, in the context of the Guinea's development strategy and the associated programs undertaken with its development partners, including the Fund, the authorities implemented a number of measures aimed at promoting growth and poverty reduction by improving macroeconomic management, liberalizing and diversifying the economy, improving the investment climate, strengthening revenue mobilization, and improving public service delivery.

Key reforms implemented

Public finances measures

Revenue measures include the following: (i) introduction of the value-added tax (1995); (ii) establishment of the Large Taxpayers' Unit (1995); and (iii) increased coordination between the customs administration and the preshipment inspection company to improve collection of customs duties.

Expenditure measures include the following: (i) restructuring of public expenditure in favor of priority sectors; and (ii) strengthening budgetary procedures and public expenditure management, including through the establishment, in 2000, of a computer-based budget monitoring system.

Monetary and financial sector measures include the following: (i) introduction of indirect instruments of monetary policy (1993) to improve liquidity management and liberalize interest rates; (ii) strengthening of bank supervision; and (iii) promotion of sustainable microfinance institutions.

External sector reforms include the following: (i) Full liberalization of current account transactions (1994); (ii) legalization of foreign exchange bureaus and liberalization, in 2001, of the conditions governing residents' holding of foreign exchange deposits in the banking system; and (iii) avoidance of external payment arrears and improvement of external debt management in the past few months.

Public enterprise restructuring measures include the following: (i) reducing the stock of cross debts between the government and public enterprises; and (ii) reduction in excess of 60 percent in the number of state-owned enterprises (SOEs), from almost 240 in the 1980s to less than 80 currently.

The following **poverty reduction** actions were taken: (i) elaboration of a development strategy (*Guinée, Vision* 2010, 1996), an interim PRSP (2000), and a PRSP (2002), with the objective of reducing the incidence of poverty from 40 percent in 1994/95 to 30 percent by 2010, by promoting economic growth, improving service delivery, and improving governance; (ii) adoption and updating of the National Health Sector Policy (1995, 1998); and (iii) utilization of resources made available by HIPC Initiative debt relief to increase spending in social sectors.

Key reforms delayed or poorly implemented

Some of these reforms cover the areas of expenditure management, public enterprise restructuring, and governance. In this context, it is important to mention the following:

Expenditure management has not been strengthened enough. There is a need a need for further strengthening to avoid the slippages that derailed the implementation of the 2002/03 program.

Public enterprise restructuring has been slow in recent years. While the reduction in the number of SOEs is impressive, restructuring of key public utility enterprises has been very slow and is overdue.

Reforms to improve governance, including by fighting corruption, have been sluggish and not forceful enough to deter abuses and to break away from a culture of impunity.

Box 1. Guinea: Structural Reforms and Macroeconomic Adjustment Policies over the Past Decade and Lessons from Past Performance (concluded)

Guinea does not have a long track record of good policy implementation under Fund-supported programs. Fund ESAF/PRGF arrangements with Guinea have been characterized as "stop and go," which has damaged donors' perception of the government's commitment to good macroeconomic policies and structural reforms. While weak political commitment on some key reforms has been a problem, technical assistance provided by the donor community has been instrumental in strengthening technical capabilities, which, in turn, have helped some motivated officials to make progress in their areas of expertise. The authorities have usually acknowledged the merits of the different macroeconomic policies and structural reforms, even the ones they have failed to implement properly. During the May 2003 discussions, they indicated their awareness of, and concerns about, the damages to the economy from recent lax demand policies and delays in the restructuring of public utility enterprises. They also expressed their commitment to implement corrective measures and advance reforms in other important areas. The situation should improve if the words of commitment were followed by concrete actions.

Lessons from past performance

In addition to delaying the provision of external budgetary support, slippages in the implementation of Fund-supported programs have been costly to the Guinean economy. For instance, delays in tackling corruption have been an impediment to increased revenue mobilization, improvement in public service delivery, and attracting private investment, which could have helped diversify exports away from the current significant reliance on bauxite and alumina. Private investment has also been hindered by delays in reforming the public utilities, divesting the government's shares in many other enterprises, and implementing reforms in the justice system.

Macroeconomic stability has improved greatly. In particular, monetary management through market-oriented indirect monetary policy instruments has been successful in containing annual average inflation within single digits for a decade. However, recent developments, which have put inflation on an upward trend, are a serious threat to macroeconomic stability, unless actions are taken to reverse these developments. During the past several months, because of the de facto lack of independence of the central bank, fiscal slippages have been readily accommodated, disrupting the implementation of monetary policy. Strengthening the independence of the central bank would help to improve macroeconomic management.

Financial sector reforms have improved the health of the banking sector but have not been sufficient to encourage the formal banking sector to become a source of finance for private sector development. Cross-cutting reforms in other sectors, including justice and training of entrepreneurs on managerial skills and the preparation of projects that could be submitted to banks for financing, are needed to increase the financial sector's contribution to the development of the economy.

The liberalization of the foreign exchange market allowed for greater flexibility in the exchange rate for many years. However, the central bank policy during the past several months of de facto fixing the exchange rate is a setback that sends a bad signal of policy reversal.

Reforms aimed at improving revenue mobilization have not been deep enough to raise revenue to the country's potential. Exemptions and corruption have subdued revenue, notwithstanding progress made in the past year to increase nonmining revenue.

While public expenditure restructuring and decentralization have allowed for an increase in the share of resources allocated to priority sectors and an improvement in the execution of social spending, efforts are needed to better prioritize expenditure within ministries in charge of priority sectors so as to improve efficiency. HIPC Initiative debt relief has contributed to an increase in social outlays. In line with increased priority sector spending, progress has been made in improving social and development indicators, in particular in education and rural roads.

The PRSP process has contributed to the democratization process in Guinea and increased people's involvement in the monitoring of government activities.

As indicated above, the fight against corruption is slow. Unless progress is made in improving governance in general, it will be very difficult to achieve the poverty reduction objectives.

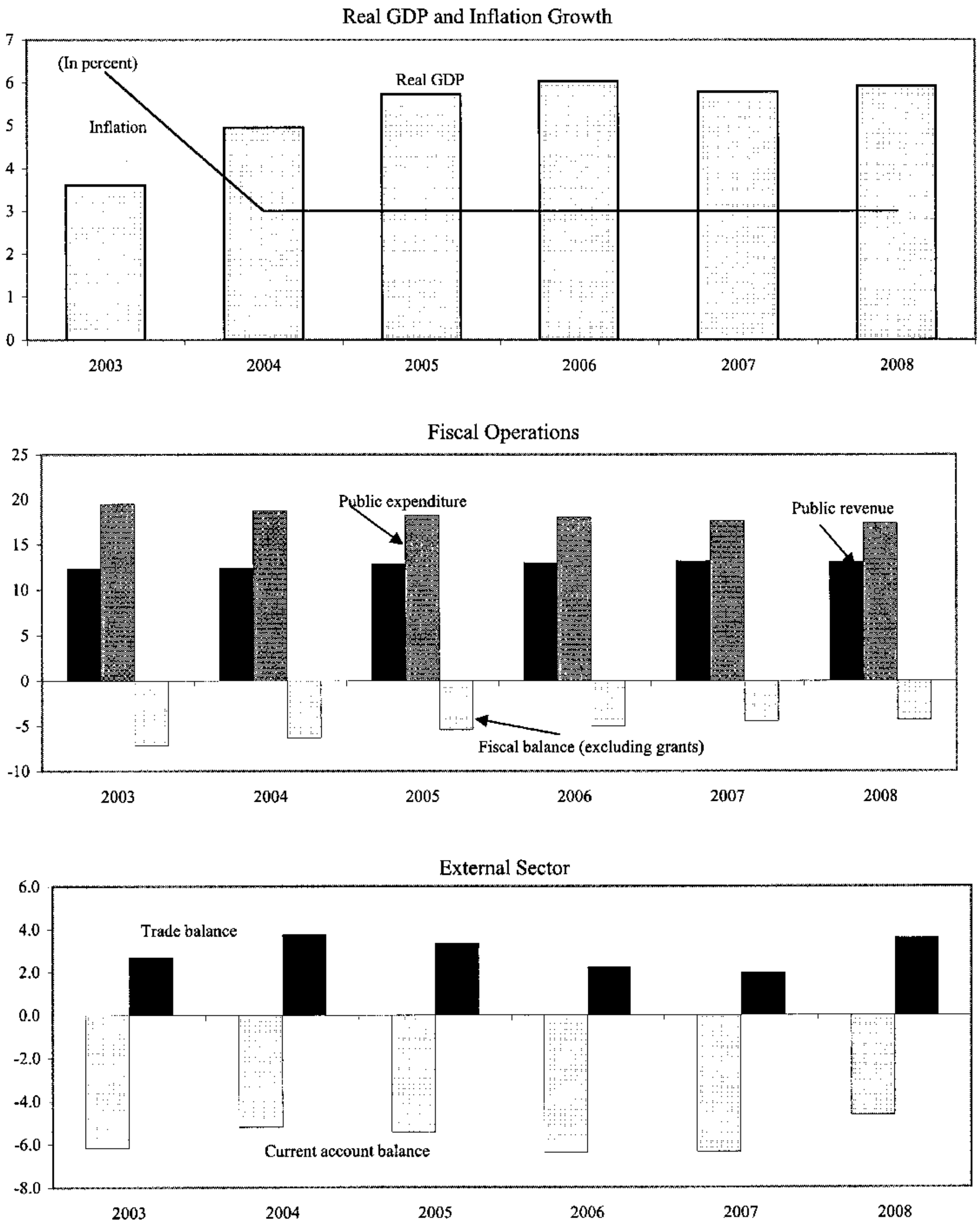
Such a growth rate is roughly in line with population growth and significantly below the target set in the PRSP. Domestic savings and investment would remain subdued. Under this likely scenario, which staff views as unsustainable, an expansionary fiscal policy and accommodating monetary policy would lead to inflation levels well into double digits. Overall, a prolonged deterioration in macroeconomic stability would ensue.

16. **The staff urged the authorities to adopt appropriate fiscal and monetary policies and step up the implementation of structural reforms (good-policy medium-term macroeconomic scenario).** Under such a scenario, which the authorities agreed to try to pursue, the authorities would adopt (hopefully soon after the presidential elections) policies consistent with movement toward the adjustment path implied by the PRGF-supported program, entailing the implementation of structural and institutional reforms that can generate a positive response from the private sector and the donor community. In particular, this scenario would involve continued efforts to raise the level of nonmining revenue and to contain nonpriority current outlays, resulting in a gradual decline in the overall fiscal deficit. The anticipated renewal of donor financing would allow for a net repayment of domestic bank credit, particularly to the central bank, which would lead to a decline in base money, leaving more room for an expansion in credit to the private sector. Output growth could increase from the 3.6 percent projected for 2003 to an average of 5.6 percent during 2004-06, in line with the poverty reduction objectives, while annual average inflation could decline from 6.2 percent in 2003 to 3 percent during 2004-06 (see Figure 2). The renewed macroeconomic stability and the end of the uncertainty linked to the 2003 Presidential election, could improve the domestic savings rate from 15.4 percent of GDP in 2003 to 20.6 percent in 2006. Domestic investment would rise, buoyed by the construction sector, while structural and institutional reforms centered on trade liberalization and accelerated privatization could attract substantial foreign direct investment, particularly in the mining sector (this would have only a lagged impact on growth, however). As a result, gross domestic investment could increase from 19.1 percent of GDP in 2003 to 24.5 percent of GDP in 2006. The sectoral contribution to growth is discussed in Box 2.

Fiscal policy

17. **Strengthening the fiscal framework remains a key ingredient in the pursuit of Guinea's development objectives.** This strengthening would require a deepening of reforms, so as to boost the revenue mobilization effort and improve expenditure management. On the **revenue side**, the staff indicated that, while efforts made in the past few years had helped to reach revenue targets, much more needed to be done to increase the revenue-to-GDP ratio, which, at 12 percent, was below Guinea's potential and the average in the subregion. The authorities acknowledged that continued efforts were required, but pointed out that the large size of the informal sector remained a drag on their revenue mobilization efforts. With the projected leveling off of mining revenue in terms of GDP, progress will hinge on enhancing the collection of nonmining revenue by widening the tax base, curbing tax exemptions, simplifying the prevailing complex tariff regulations in the context of the adoption of the

Figure 2. Guinea: Medium-Term Framework (Good-Policy Scenario), 2003–08
(In percent of GDP, unless otherwise indicated)



Source: Fund staff projections.

common external tariff (CET) of the West African Economic and Monetary Union (WAEMU),[7] and continuing to address institutional and governance problems in the customs and tax administrations.

18. **The goals on the expenditure side are to achieve strict adherence to budgetary procedures and prioritization in favor of social outlays**. The allocation of budgetary resources and execution of social sector spending have undergone significant improvements in recent months. Nonetheless, a reorientation of expenditures away from nonpriority outlays, notably defense, and a better prioritization of outlays within social sector could benefit productive investments and the delivery of essential public services. The authorities pointed to the difficulties in controlling expenditures, given the security situation in the region. They indicated their willingness to curb defense spending, provided that such action did not interfere with the need to address threats to the country's security that might emerge. They also indicated that they would continue their efforts to strengthen public expenditure management by processing all outlays through the computerized expenditure tracking system and by drawing on the recommendations of the public expenditure review conducted with the World Bank.

19. **The staff encouraged the authorities to press ahead with the implementation of the measures included in the Expenditure Accountability Assessment and Action Plan (AAP), so as to improve not only the tracking of poverty-reducing expenditures but also overall budget management and fiscal transparency**. An assessment of progress in implementing the action plan, conducted by the World Bank in March 2003, in collaboration with Fund staff, revealed that performance was mixed (Appendix IV).

Monetary and financial policies

20. **The staff indicated that monetary and financial policies should aim at fostering low and stable inflation and improving financial intermediation, in order to facilitate the provision of adequate financing for private sector development**. While recognizing that an expansionary fiscal policy had placed a heavy burden on the conduct of monetary policy, the staff stressed the need to focus on the stability of monetary aggregates while rebuilding net official reserves. A progressive reduction in credit to the government and a more active liquidity management, including by drawing on recommendations made by the Fund MFD technical assistance missions, would be instrumental in pursuing these goals. Central bank officials expressed concerns that, without fiscal tightening, appropriate monetary management would significantly increase interest rates, which, they felt, would be detrimental to the economy. The staff reiterated its position that, if inflation were not contained, output losses could be far greater and more prolonged, and the adverse impact on the poor acute.

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[7] To promote regional trade, member countries of ECOWAS that are not members of WAEMU decided in 2001 to adopt WAEMU's CET in line with the WTO principle of harmonization towards the lowest existing tariff.

Box 2. Guinea: Sectoral Contribution to Growth

The pace of economic growth in Guinea is well below the country's potential. In order to unlock the country's growth potential and advance the implementation of its poverty reduction strategy, it will be essential in the years ahead to (i) improve the climate for private investment by enhancing the regulatory environment and the rule of law; (ii) strengthen the country's infrastructure, notably with regard to transport, energy, and telecommunications; and (iii) diversify the economy's export structure, including by identifying new areas of comparative advantage that would allow the country to benefit from ongoing regional integration efforts, as well as multilateral efforts to enhance market access for the exports of low-income countries. Specific actions are envisaged in different sectors of the economy.

In the area of **agriculture**, the authorities indicated that a key objective was to move from an agricultural system based on the expansion of cultivated areas to one based on improvements in productivity, notably through greater use of machinery, fertilizers, and research into higher-yielding varieties. Research has already allowed production of a high-yield variety of rice, Nerica, which has changed many people's lives in rural areas by raising farmers' incomes. The different initiatives will not only help the authorities ensure food security and increase the production of crops for exports, but also contribute to the sustainable management of natural resources and, in particular, reverse the worrisome trend in deforestation. Another key priority will be to enhance the rural roads in order to improve access to markets of isolated rural areas, where poverty levels are the highest. Efforts are also envisaged to improve marketing infrastructure and increase privatization efforts, based on the successful experience of livestock production in recent years, and to promote rural financial services.

With regard to **fisheries**, the authorities' efforts cover both maritime and inland fishing. Their priorities include improving management of fishing and fresh water resources and strengthening surveillance of territorial waters, so as to monitor the activities of foreign fishing boats. One of the problems the authorities are confronted with is the lack of equipment to improve the surveillance of territorial waters. Nonetheless, the number of boardings for inspection has recently increased, and subregional efforts involving six countries are under way to reduce illegal fishing activities. Moreover, the authorities will renegotiate their fishing agreements with the European Union in June 2003 and China in 2004. These initiatives should help increase the contribution of the fishing industry to the economy, which has been very limited in recent years. The authorities also intend to continue efforts to encourage the development of fish farming and the emergence of a national fishing industry whose products meet international quality standards.

Fostering growth in the **mining** sector will require significant investments. The government is aware that, to attract foreign direct investment, it needs to deepen reforms to improve the institutional framework, clarify the fiscal regime for mining investments, and reorient public administration in the sector.

The development of **manufacturing activities will** hinge on progress in agriculture, mining, and trade aimed at providing raw material and intermediate goods, as well as on infrastructure (water, electricity, and transportation) and institutional changes to give entrepreneurs incentives to establish or expand transformation activities that increase value added in the domestic economy. It will also depend on improvements in financial intermediation.

The authorities intend to intensify actions **to improve the environment for trade**. These actions include the elimination of bothersome administrative procedures, the simplification of the tariff system, and various regional integration initiatives.

Assuming that progress will be made in all the areas indicated above, real GDP growth is projected at an annual average of almost 5.6 percent during 2004-06, with annual growth rates of the primary, secondary, and tertiary sectors averaging 5.1 percent, 6.2 percent, and 5 percent, respectively (Table 2).

21. **Guinea's banking system is generally sound, with the key prudential indicators remaining at healthy levels** (Box 3). The mission commended the government for the prudent manner in which the liquidation of the largest microfinance institution (MFI), the Crédit Mutuel de Guinée, had been undertaken, thereby preventing major disruptions to other MFIs and to the financial sector as a whole. The staff also commended the central bank for its prompt action in strengthening the regulatory and supervisory framework for the sector. The staff recommended that the central bank implement fully and without delay the recommendations of the May 2002 safeguards assessment mission to limit the vulnerabilities in the bank's financial reporting, external audit, and internal control systems. The authorities indicated that international accounting standards had already been adopted, the onetime special audit of the foreign reserves would be finalized by July 2003, the audit committee would be established by September 2003, and an international external auditor would be appointed by October 2003 to audit the central bank.

External sector policies and regional integration

22. **Guinea maintains a relatively open trade system,[8] and the real effective exchange rate depreciation over the last five years has helped Guinea's external competitiveness.** However, the diagnosis of the integrated trade framework study confirmed that this depreciation had not resulted in export gains because of structural impediments to an effective diversification of the export base, complex tariff regulations, institutional and governance problems in the customs and tax administration, and inefficiencies in the operation of the port and the international airport. The staff urged the adoption of reforms to foster regional integration and to remove the numerous bottlenecks to the expansion of trade—actions that would enhance Guinea's growth prospects by boosting competitiveness.[9] In particular, the adoption of WAEMU's CET would lower Guinea's trade restrictiveness index rating to 2 and could significantly expand the country's trade with its neighbors. The authorities pointed to their recent measures to dismantle administrative barriers to trade and pledged to persevere with these efforts.

23. **On regional integration, the authorities reaffirmed their commitment to achieve the convergence criteria of the proposed West African Monetary Zone (WAMZ), whose implementation had been postponed to mid-2005**. As Guinea's performance with regard to the primary criteria has deteriorated over the last two years (Box 4), significant efforts will be needed, notably in mobilizing revenue, reducing the outstanding stock of government borrowing from the central bank, and rebuilding international reserves, if the criteria are to be met. The staff welcomed the envisaged efforts to improve compliance with WAMZ

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[8] Guinea's trade restrictiveness index rating stands currently at 3 on a scale of 0-10, where 10 represents the most restrictive trade regime.

[9] Trade and competitiveness are discussed in the accompanying selected issues paper.

Box 3. Guinea: Soundness of the Banking Sector

The financial soundness indicators below reveal that the banking sector in Guinea has remained relatively sound. Since June 2001, average net capital and the capital adequacy ratios for the seven banks operating in Guinea have improved significantly. The liquidity ratio is, at 160 percent, substantially above the 100 percent prudential minimum. The share of unpaid loans to total loan portfolio has been stable at about 30 percent over the last three years, while nonperforming loans account for 26.6 percent of total loan portfolio. A significant improvement is noted in the provisioning of nonperforming loans, which has thus strengthened the overall soundness of the banking sector. In the first quarter of 2003, a slight deterioration in the ratios is explained by the difficulties experienced by a single bank. After the recapitalization of this bank has been completed, all the commercial banks will be complying with the new prudential regulations set by the Central Bank of the Republic of Guinea (BCRG) in the fall of 2002, except for the ratio of risk concentration. Four (five, including the bank in difficulty) out of the seven banks have excessive exposure to a few clients, with individual loans accounting for more than 25 percent of net capital.

Guinea: Banking Sector Soundness Indicators, 1999 - 2002

	Net Capital	Capital Adequacy			Liquidity
		Ratio of capital to risk-weighted assets	Total of loans larger than 15 percent of capital	Total of loans larger than 25 percent of capital	Ratio of liquid assets to short-term liabilities
Prudential Limits	GNF 5 billion [1/]	8% (10% [2/])	Eight times capital	0	70% (100% [2/])
		(In number of banks respecting the prudential ratios)			
December-00	4	3	4	1	7
December-01	5	4	5	2	7
March-02	5	5	5	1	7
June-02	4	5	6	3	7
September-02	4	2	6	4	7
December-02	5	7	7	3	7
March-03	6	5	6	4	6
	(Average, in GNF billion)	(Average; in percent, unless otherwise specified)			
June-01	4.7	13.5	22.5	3.7	161.4
September-01	6.5	13.7	17.2	5.2	215.6
December-01	4.8	11.6	20.6	3.4	164.5
March-02	7.1	20.3	15.7	3.8	175.0
June-02	8.2	22.9	16.1	2.3	223.8
September-02	8.4	22.7	17.2	2.0	244.1
December-02	9.2	24.1	17.3	2.1	286.6
March-03	9.3	26.6	20.3	3.0	160.0

Source: BCRG.
1/ The minimum regulatory net capital was GNF 2 billion before March 2002.
2/ Corresponds to the new prudential ratios, effective in June 2003.

Structure of Portfolio Credits of the Commercial Banks, 2000-02
(In billions of Guinean francs, unless otherwise indicated)

	2000				2001				2002			
	Mar.	June	Sep.	Dec.	Mar.	June	Sep.	Dec.	Mar.	June	Sep.	Dec.
1. Total credit outstanding	282.8	277.7	284.7	288.7	297.5	292.8	291.4	302.7	307.5	311.9	324.9	310.7
2. Performing credits	207.9	198.1	205.6	211.7	215.0	206.0	199.9	213.3	219.3	225.1	234.5	225.5
Of which: nonimputed values (NIV)	5.2	4.6	4.5	5.2	5.1	4.9	5.1	5.2	5.1	5.8	5.9	6.3
3. Frozen credits	4.5	5.6	5.2	4.9	5.2	3.6	5.7	4.9	4.8	3.5	3.2	5.3
4. Doubtful and contentious loans	16.9	17.5	15.8	12.1	15.1	11.9	12.0	10.4	8.8	8.4	10.0	9.2
5. Provisions	53.6	56.4	58.2	60.0	62.2	71.3	72.9	73.5	74.7	74.9	77.2	70.7
6. Nonperforming loans (NPL) (4+5)	70.5	73.9	74	72.1	77.3	83.2	84.9	83.9	83.5	83.3	87.2	79.9
7. Unpaid loans (NIV+3+4+5)	80.2	84.1	83.7	82.2	87.6	91.7	95.7	94.0	93.3	92.7	96.3	91.5
Ratios (in percent)												
Unpaid loans to total loan portfolio (7/1)	28.4	30.3	29.4	28.5	29.4	31.3	32.8	31.1	30.3	29.7	29.6	29.4
NPL to total loan portfolio (6/1)	24.9	26.6	26.0	25.0	26.0	28.4	29.1	27.7	27.1	26.7	26.8	25.7
Coverage of NPL (5/6)	76.0	76.3	78.6	83.2	80.5	85.7	85.9	87.6	89.5	89.9	88.5	88.5

Source: BCRG, Direction Générale de l'Inspection et Direction des Banques.

convergence criteria. However, it expressed skepticism about the desirability and feasibility of shifting to a fixed exchange rate by 2005.

24. **At the decision point in December 2000, debt relief was committed under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC) to bring Guinea's external debt to the threshold of the net present value (NPV) of debt-to-exports ratio of 150 percent.** However, the NPV of debt-to-exports ratio (NPVR) has turned out to be higher than projected at the decision point for 2000-02 and looks likely to be higher in the medium term, mainly due to lower mining export receipts.[10] The debt sustainability analysis for Guinea was recently updated by the World Bank in the context of its Country Assistance Strategy (CAS), which was approved by the World Bank's Board on June 10.[11] Guinea is in the CAS low-case scenario, whose lending profile implies that the NPVR would peak at about 135 percent at the end of the projection period (2018).[12]

25. **The staff emphasized, and the authorities agreed, that the deterioration of the NPVR called for a prudent level of new borrowing and continued vigilance in debt management.** Guinea remains vulnerable to external shocks or a setback in the reform agenda, which could seriously affect export performance and increase the debt-service burden. The Fund and Bank staff indicated their concern about these potential risks and will, therefore, monitor debt sustainability indicators on a regular basis to assess whether they are exceeding prudent levels.[13] The authorities acknowledged this continued vulnerability, which in the short term would only be eased by improved conditions in the market for Guinea's main exports. They indicated that they would take a prudent approach as regards any new borrowing, and they expected the new debt-management unit to be fully operational by end-June 2003, which would allow debt developments to be monitored on a continuous basis. Efforts will be pursued to reconcile external debt statistics and reach agreements with creditors on the delivery of HIPC Initiative assistance.

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[10] Debt-to-revenue ratios are also turning out to be higher for essentially the same reason.

[11] See Report NO. 25925-GUI, pp. 30-32 and Annex E.

[12] Compared with a projection of around 120 percent in the HIPC Initiative decision point document. If Guinea were to move the CAS high case scenario, the additional IDA lending would raise the NPVR to a peak of 167 percent by 2018.

[13] During the World Bank Executive Board discussion of the CAS, it was agreed that if the NPVR becomes too high, the intention is to reduce IDA lending and try to incrementally replace loans with grants from donors.

Box 4. Guinea's Position Relative to the Convergence Criteria for the Second Monetary Zone in West Africa (WAMZ)

The convergence criteria established for the new monetary zone are divided into four primary and six secondary criteria:

Criterion	Regional Objective	Status in Guinea at End-2001	Status in Guinea at End-2002
Primary criteria			
Budget deficit (Commitment basis; in percent of GDP)	< 4.0 percent by 2002	-4.1	-5.9
Inflation (end-of-period; in percent)	≤ 3 in 2001 and ≤ 3 percent by 2003	1.1	6.1
Central bank financing of budget deficit (percent)	≤ 10 percent of previous year's tax receipts by 2003	0	27
International reserves (months of imports)	≥ 4	2.6	2.0
Secondary criteria			
Domestic arrears	No new accumulation and reduction of existing stock	Met	Met
Tax revenue/ GDP (percent)	≥ 20	10.2	10.9
Wage bill/tax revenue	≤ 35	35.4	34.2
Real exchange rate	Broad stability	-3.2	-2.3
Interest rates	Positive real interest rates	Met	Met
Self-financed investment/tax revenue (percent)	≥ 20	5.7	11.3

C. Structural Reforms

26. **The staff underscored the importance of accelerating the momentum of structural reforms to improve the overall investment climate**. The authorities indicated that actions planned in the public finance area related to the preparations for the adoption of the WAEMU's CET and important steps to improve expenditure management. The staff pointed out that more needed to be done to ensure that public resources were used for their intended purposes in a transparent manner, including via a reinforced system of checks and balances. Other areas were also in need of reform, notably the modernization of the civil service, which was expected to lead to the introduction of a merit-based remuneration and promotion policy, and the restructuring of the financially distressed social security system.

27. **The restructuring of public utilities—water and electricity, in particular—is urgently needed to foster growth**. The authorities reaffirmed their commitment to a divestiture strategy. They indicated that, following the withdrawal of private foreign partners from the management of the electricity and water companies in 2001, identifying potential investors had been more difficult than previously thought, and that a transition period of 18–24 months would likely be required before divestiture. During this period, the government aims to determine an appropriate tariff policy, seek the support of external partners to improve the production and distribution infrastructure, and gradually transfer the management of operational aspects of both utilities to private contractors, including for the collection of payments due. While welcoming the authorities' action plan, the staff underscored the need for a forceful commitment in this area and immediate action to improve the collection of receivables, so as to improve the financial health of these public utilities.

28. **The staff also encouraged the authorities to work closely with the World Bank to accelerate the sale of 62 additional firms slated for privatization, especially in those areas where private investors had expressed interest**. These include the commercial banks, tourism, mining, and the cement works. The staff emphasized that, for privatization efforts to succeed, it would be crucial to improve the investment climate by reducing government interference and ensuring respect for property rights. The authorities indicated that they will continue their efforts to improve the institutional and regulatory framework for investment.

29. **According to many observers, governance continues to be an area of concern, and corruption remains widespread, notwithstanding the actions of the national anticorruption committee (CNLC) during the last three years to investigate allegations of fraud and embezzlement**. The authorities have taken steps to define and clarify public procurement procedures and their enforcement. However, representatives of the CNLC expressed concerns about the slow pace at which existing cases of corruption had been dealt with so far by the judiciary system and the leniency of the sentences. They welcomed the recent appointment of a new Minister of Justice, a renowned professional who had expressed his commitment to an agenda of judicial reforms and to strictly enforce laws and regulations, thereby deterring abuse and contributing to the fight against corruption. A national anticorruption strategy is to be adopted in the near future, and the authorities plan to reinforce the operation of the CNLC. The staff welcomed these steps and reiterated the need also to

vigorously pursue the judicial reform, so as to improve the business climate and foster investment, in particular through the effective implementation of the agreements of the Organization for the Harmonization of Business Laws in Africa (OHADA).

IV. Statistical and Technical Assistance Issues

30. **Notwithstanding the efforts made in recent years to improve statistics, problems remain in the areas of public finances, the real sector, balance of payments, and external debt (see Appendix III)**. Public finance statistics continue to suffer from the existence of numerous extra budgetary accounts. These statistics have improved in recent years, notably through the setup of a computer-based budget monitoring system, with World Bank assistance, and the closure of some extra budgetary accounts. Further improvements are expected with the consolidation of all government cash flows under a unified accounting framework, scheduled for mid-2004.

31. **Real sector statistics have weaknesses relating to the quality of the data, as well as the coverage, including the lack of an industrial production index and a consumer price index (CPI) for areas other than the capital, Conakry, the sporadic nature of information collection surveys, and methodological flaws**. The authorities indicated that a revised national accounts series for the years 1995-98 was drawn up based on an improved methodology and that the work under way with the assistance of the Gesellschaft füer Technische Zusammenarbeit (GTZ) will help to improve GDP accounting. Staff pointed to the need for appropriate allocation of resources to deal with the numerous weaknesses in this area.

32. **Debt statistics are weak because of lax recordkeeping, insufficient coordination among government entities, and inadequately trained personnel**. These statistics have improved significantly owing to the implementation of the recommendations of two technical assistance missions from Debt Relief International (DRI). Further improvements are expected in the near future as trained staff members have started working with new computer hardware and debt-management software.

33. **The authorities identified capacity-building needs in the areas of real sector statistics, monetary policy formulation, and public debt management**. The World Bank will continue to provide assistance under the Capacity Building for Service Delivery (CBSD) project. The staff encouraged the authorities to continue implementing the recommendations of previous technical assistance missions and to work closely with the recently established West Africa Regional Technical Assistance Center (West AFRITAC) to address capacity-building needs.

V. The PRSP, Social Policies, and the HIPC Initiative

34. **The staff commended the authorities for continuing to improve the poverty reduction strategy after completing their PRSP at end-December 2001, with the aim of making it more effective in addressing the population's needs**. In that context, the regional consultations revealed that, while the strategy as laid out in the PRSP was appropriate, there were unique poverty-related problems facing some regions, owing to location and resource

endowments. The regional poverty reduction strategies, conceived as subsets of the country's PRSP, are expected to be finalized by September 2003. The government has also been making efforts to collect and analyze social indicators. The core welfare indicator questionnaires have been completed and the results should be published before year's end. The integrated household survey for evaluating poverty in Guinea is in progress, and the first annual PRSP progress report is being prepared.

35. **Officials in charge of budget execution in social sectors pointed to a significant improvement, which was having a positive impact on service delivery**. Recent data show progress in education—for example, the enrollment of girls in urban areas equaled that of boys in 2001. Though Guinea embraces the Education for All–Fast Track objectives, it needs to address serious disparities and management issues in order to meet the Millennium Development Goals of having all children complete primary school by 2015. Efforts should aim at boosting enrollment rates in rural areas and increasing completion rates countrywide. In health, in contrast, progress has been slow. The authorities indicated that the prevalence of HIV/AIDS had increased and was threatening public health and the implementation of the poverty reduction strategy (Box 5). The staff observed that improving health outcomes will require substantial investments to strengthen the primary health care facilities. In this regard, the staff noted that the share of wages and salaries in total social spending remained large, and in some cases may be diverting much-needed funds from other necessary goods and services, and investments (Figure 3); this situation posed questions as to the strategy's sustainability once HIPC Initiative debt relief tapered off.

36. **The mission shared the authorities' view that the decentralization of resources and authority to local levels and pursuit of the participatory process were central to the strategy**. It noted, however, that decentralization should be achieved through a further consolidation of the medium-term expenditure framework, and that the effectiveness of the participation could be enhanced by strengthening civil society, increasing literacy rates, and improving communications within the country.

37. **In light of the poor program implementation, which has resulted in the suspension of Fund disbursement under the PRGF arrangement, some of the interim assistance provided under the enhanced HIPC Initiative has expired**. The assistance by the Paris Club member countries expired on April 30, 2003. The authorities have requested forbearance for amounts that would be subject to interim debt relief by the Paris Club under the Initiative in light of the adverse circumstances faced by Guinea. The Fund's current tranche of interim assistance expired on June 30, 2003, but the World Bank's assistance will continue. Guinea has made progress on the completion point triggers, as nearly all triggers have been met, with the notable exception of the unsatisfactory performance under the PRGF-supported arrangement (Box 6). Assuming that the authorities make efforts to sustain the implementation of sound macroeconomic policies, Guinea could reach the completion point under the enhanced HIPC Initiative by end-2004 at the earliest.

Box 5. Guinea: The HIV/AIDS Pandemic

HIV prevalence has been on the rise in Guinea, posing a serious risk to the achievement of the country's growth and poverty reduction objectives on three fronts. First, the cost of treating HIV/AIDS patients is very high, exerting pressures on the country's limited financial resources. Second, HIV/AIDS prevalence undermines economic growth by reducing the productivity of infected patients. Third, HIV/AIDS disturbs the social equilibrium in the country and exacerbates poverty.

In 1998, HIV prevalence in the adult population was estimated at 2–4 percent. The gender ratio among infected adults was more than five men to one woman. According to a July 2001 survey, adult HIV/AIDS prevalence had reached 5 percent. The gender ratio of HIV/AIDS infected patients had shifted drastically to two women for one man. Among pregnant women, HIV/AIDS prevalence had reached 4.4 percent in urban areas (5 percent in Conakry). At 7 percent, prevalence rates were even higher in the war-affected parts of the Guinée Forestière region. Among vulnerable groups, the latest surveys show a 42 percent prevalence among commercial sex workers, 7.3 percent among truck drivers, 6.7 percent among the military, and 4.7 percent among people working in the mining sector.

HIV/AIDS exacerbates poverty in the families of infected patients. It decreases their available income as the result of either their reduced availability to work and generate income, or the cost of treating their illnesses, or both. The average cost of treating AIDS patients in public and parapublic hospitals in Guinea for about 21 days of hospitalization was estimated at US$560, which is far above what an average Guinean family can afford. The exacerbation of poverty associated with the HIV/AIDS pandemic comes also from the increase in the number of orphans as a result of parents dying from HIV/AIDS.

Thorough analyses have not been made of the impact of the pandemic on productivity and output in Guinea. At any rate, as HIV/AIDS affects the productive population, spanning all socioprofessional categories, there is no doubt that, through sickness and absenteeism, it imposes a toll on output that could escalate unless appropriate actions are taken.

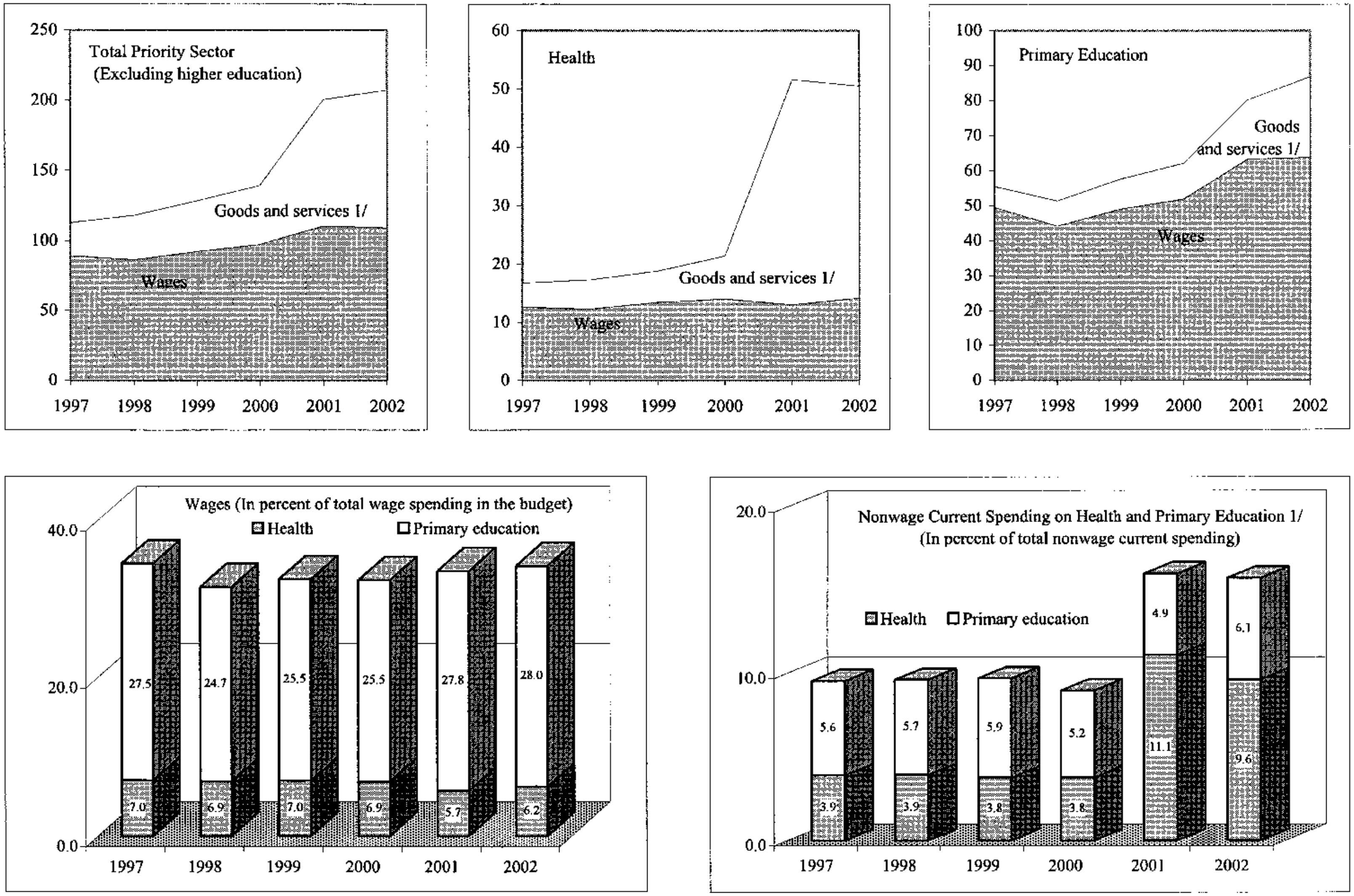
Since the end of 2001, the fight against HIV/AIDS has gained momentum. The personal commitments of the President and the First Lady, the Prime Minister, and various members of government have accelerated efforts to fight HIV/AIDS. In this context, a national multisectoral HIV/AIDS committee was created under the leadership of the Prime Minister, and similar committees were created at the prefectoral level. Moreover, a national strategy and sector-specific strategies have been prepared.

The implementation of these strategies necessitates large amounts of financial resources. For instance, on the basis of the cost of $560 per 21 days estimated in 1995 to treat a patient infected with HIV/AIDS, the cost of treating all AIDS patients was projected at US$12 million in 2000, rising to US$21 million in 2005. Guinea has succeeded in mobilizing external resources to finance the fight against HIV/AIDS, including a grant of US$20.3 million from the World Bank covering 2003-08. A number of bilateral and multilateral donor agencies are assisting through micro AIDS-prevention projects. However, more resources are needed to fight this terrible pandemic.

Box 6. Guinea: Triggers for the Floating Completion Point under the Enhanced HIPC Initiative

Area/Measures	Status
Poverty reduction	
Prepare through a participatory process a full-fledged PRSP considered by the Bank/Fund Boards as appropriate, and one progress report showing satisfactory implementation of the full PRSP.	The final PRSP was adopted in January 2002. The first annual progress report is under preparation and will be completed in late 2003—early 2004.
Improve of the poverty database and monitoring capacity by preparing a living standards measurement survey, which will include establishment of poverty lines and indicators based thereon and the establishment of a poverty-monitoring system involving key stakeholders.	The integrated household survey launched in November 2001 would be completed in 2004.
Macroeconomic and structural reforms	
Maintain a stable macroeconomic environment, as evidenced by satisfactory performance under a program supported by an arrangement under the PRGF.	The first review under the PRGF arrangement was concluded in July 2002. Implementation of the 2002/03 program was poor. The program went off track as of end-December 2002.
Implement legislation for micro credit institutions.	The regulatory framework, including diverse on-site and off-site inspection rules issued in 2002, is being finalized, and its submission to the National Assembly expected for June 2003.
Governance and anticorruption	
Make publicly available a one-year progress report (showing resources and activities) of the Anticorruption committee.	Completed for 2001. The elaboration of the 2002 report is in progress.
Implement procedures to audit large (over GF 100 million) government procurement contracts.	In progress.
Education	
Increase gross enrollment rate for primary school students from 56 percent in 1999 to 62 percent in 2001 and to 71 percent in 2002, of which the gross enrollment rate of girls should be 40 percent in 1999, 51 percent in 2001 and 60 percent in 2002.	Objectives met for 2001 and 2002.
Increase the number of new primary school teachers hired by at least 1,500 per year for each year until the HIPC Initiative completion point is reached.	Met.
Health	
Increase immunization rates for children under 1 year of age (for DTP3: diphtheria, tetanus, pertussis) from 45 percent in 2000 to 50 percent in 2001, and to 55 percent in 2002.	Objectives met for 2001 and 2002.
Improve the percentage of pregnant women benefiting from at least one prenatal consultation from 70 percent in 2000 to 80 percent in 2001 and 85 percent in 2002.	Objectives met for 2001; 2002 to be verified.

Figure 3. Guinea: Priority Sector Spending, 1997–2002
(In billions of Guinean francs, unless otherwise specified)



Source: Guinean authorities.

1/ Includes transfers.

VI. STAFF APPRAISAL

38. **Guinea's macroeconomic management in 2002 and early 2003 reflected a repeat of earlier stop-and-go policies, which had not generated any sustained forward movement over much of the last decade and had produced significant adverse effects on the economy.** Weakness in budgetary management led to sizeable expenditure overruns, which monetary policy accommodated, resulting in a monetary overhang and accelerating inflation. At the same time, the authorities de facto pegged the exchange rate, thereby exacerbating the loss in official reserves, associated in part with the lack of external budgetary assistance. If prolonged, such policies would result in an unsustainable situation, characterized by double-digit inflation and rates of economic growth barely above population growth. These policy weaknesses need to be immediately and forcefully addressed by strengthening budgetary control and tightening monetary policy through an increase in interest rates via a more active liquidity management. Moreover, there is an urgent need to allow the exchange rate to be determined by market forces, in order to redress the macroeconomic imbalances and raise the low level of foreign exchange reserves, and to eliminate the persistent spread between the official and parallel market rates, as well as the resultant multiple currency practice. Regrettably, the implementation of appropriate corrective policies could not realistically be expected to resume before the end-2003 Presidential elections.

39. **The staff believes that the implementation of the financial policies and structural reforms needed to bring Guinea closer to the path envisaged in the PRSP is urgently needed.** Beyond the immediate need for stabilization, the central policy challenge is to improve the investment climate, in order to foster higher growth and lessen the vulnerability of the economy to downside risks, as well as to fulfill the PRSP goals. Success in addressing this challenge hinges on improving the political and security situation, and enhancing the institutional, legal, and regulatory environment. In addition, unlocking the country's growth potential will require increased diversification, improved basic infrastructure (specifically in the areas of electricity, water, telecommunications, and transport), better financial intermediation, and a forceful commitment to trade liberalization and privatization.

40. **Significant risks remain to achieve fiscal stabilization**. A fundamental problem is the inability to collect sufficient nonmining revenue (coupled with shrinking mining revenue). While some progress has been achieved in this area during the last two years, efforts to streamline exemptions, simplify the complex tariff regulations, and address the institutional and governance problems in the customs and tax administrations will need to be accelerated. A critical element is the containment of spending. Areas of high spending pressure, notably defense, must be reined in, so as to make room for increased outlays on investments and essential public services, particularly in the social areas. This situation underscores the desirability of developing a more explicit medium-term fiscal framework that emphasizes a commitment to expenditure ceilings and draws on the recommendations of the public expenditure review being undertaken by the World Bank.

41. **Monetary policy should be aimed at increasing the level of official reserves and containing inflation**. To rein in the monetary overhang, the staff urges that interest rates, which have fallen in real terms since the middle of 2002, be allowed to rise as liquidity management becomes more active. Also, the issuance of treasury bills should become the main

instrument to finance fiscal deficits, and reliance on central bank borrowing should be avoided. Beyond the immediate need for monetary tightening, the staff believes that central bank independence would facilitate monetary policies that foster growth. The authorities should implement fully and without delay the measures recommended by the May 2002 safeguards assessment mission. While Guinea's financial systems remains generally sound, there remains a need to improve the environment for financial intermediation, including by continuing to develop microfinance institutions.

42. **Guinea's capacity to achieve broad-based growth hinges to a large extent on progress in fostering trade and attaining regional integration.** External competitiveness has been broadly maintained, as measured by the level of the real effective exchange rate, but this has not translated into increased exports because of structural impediments to trade and the lack of diversification policies. The recent scaling down of some of the bureaucratic bottlenecks to international trade is a positive step, but more efforts are needed to reduce the significant obstacles to trade, in particular, a simplification of Guinea's complex tariff regulations and administrative procedures, notably through the adoption of WAEMU's common external tariff. Also, the backtracking on progress in meeting the convergence criteria of the WAMZ needs to be rectified. In addition, while efforts to improve compliance with WAMZ convergence criteria are welcome, moving to a fixed exchange rate by 2005 may not be desirable or feasible.

43. **An acceleration of structural reforms is key to bolstering competitiveness.** The slow pace of public enterprise reform and divestiture, as well as reversals in regulatory policy, has raised doubts about the government's commitment to privatization, in particular as regards public utilities. This situation should be addressed so as to help increase efficiency and attract foreign investment. **Judicial reform** should also be pursued vigorously to improve the business climate and foster investment. Finally, the **fight against corruption**, which remains a top priority, calls for actions to adopt and enforce the national anticorruption strategy and to prosecute diligently the identified cases of corruption.

44. **The government is making determined efforts to fight poverty, but continued efforts are required to achieve the PRSP goals.** The proportion of wages and salaries remains high in overall social spending, thereby limiting the amounts devoted to necessary goods and services and investments. The consultation process needs to be deepened in the face of the weak civil society, low literacy rates, and difficult communications within the country, so as to contribute more substantively to the process. Finally, credible efforts to reestablish a good overall policy track record would be necessary to rally donor support and enable the long-delayed donors' roundtable to be organized in support of the PRSP.

45. **Guinea's economic data remain weak, with significant deficiencies in public finance, national accounts, balance of payments, and external debt data.** The fiscal and monetary data provided to the Fund and generally to the public are adequate for surveillance, but further improvements are needed as regards their detail, frequency, and timeliness. The staff encourages the authorities to continue addressing these weaknesses with the assistance of development partners, notably by drawing on the resources of the West AFRITAC.

46. **It is expected that the next Article IV consultation with Guinea will be held within 24 months, subject to the provisions of decision No. 127 94- (02/76) on Article IV consultation cycles, as amended.**

Table 1. Guinea: Selected Economic and Financial Indicators (Good-Policy Scenario), 2001-06

	2001	2002	2003	2004	2005	2006
		Est.		Proj.		
	(Annual percentage change, unless otherwise indicated)					
Income						
GDP at constant prices	3.8	4.2	3.6	5.0	5.7	6.0
GDP at current prices	9.0	7.2	8.7	8.7	8.3	8.8
GDP deflator	5.0	2.9	4.9	3.5	2.4	2.7
Consumer prices						
Average	5.4	3.0	6.2	3.0	3.0	3.0
End of period	1.1	6.1	5.5	3.0	3.0	3.0
External sector						
Exports, f.o.b. (in U.S. dollar terms)	8.4	-3.1	10.8	7.3	4.8	2.6
Imports, f.o.b. (in U.S. dollar terms)	-3.7	15.6	5.6	2.2	6.6	7.7
Terms of trade						
Percentage change	8.0	-5.6	-2.6	4.1	3.5	1.5
Average effective exchange rates (depreciation -)						
Nominal index	-6.0	-3.3	...	...	...	...
Real index	-3.2	-2.3	...	...	...	...
Money and credit						
Net foreign assets 1/	12.6	-11.9	1.6	...	...	...
Net domestic assets 1/	2.1	31.2	13.4	...	...	...
Net claims on government 1/	3.7	34.2	11.4	...	...	...
Credit to nongovernment sector 1/	4.3	3.5	2.1	...	...	...
Broad money	14.8	19.2	15.0	...	...	...
Reserve money	11.0	18.3	6.6	...	...	...
Interest rate 2/	7.5	8.2	...	...	...	...
Velocity (GDP/average year-end M2)	9.4	8.6	8.0	...	...	...
	(In percent of GDP)					
Central government finances						
Total revenue and grants	14.7	14.3	16.5	16.4	16.7	16.7
Of which: nonmining revenue	8.5	9.7	10.7	10.8	11.1	11.3
Current expenditure	11.6	12.2	11.4	10.9	10.6	10.4
Capital expenditure and net lending 3/	7.2	8.0	8.1	7.9	7.7	7.6
Overall budget balance						
Including grants (commitment)	-4.1	-5.9	-3.0	-2.4	-1.6	-1.3
Excluding grants (commitment)	-7.5	-8.2	-7.2	-6.3	-5.4	-5.0
Primary balance	0.6	0.0	0.7	1.4	1.9	2.0
Gross investment	21.9	22.7	19.1	20.9	22.6	24.5
Government 4/	7.1	7.8	7.9	7.8	7.6	7.5
Nongovernment	14.8	14.9	11.2	13.1	15.0	17.0
Domestic savings	20.0	17.2	15.4	18.6	19.9	20.6
Government	1.3	1.5	2.6	3.2	3.7	3.9
Nongovernment	18.8	15.7	12.8	15.4	16.2	16.8
External current account balance						
Including official transfers	-2.4	-6.5	-5.0	-4.2	-4.5	-5.5
Excluding official transfers	-3.8	-7.8	-6.1	-5.2	-5.4	-6.4
Overall balance of payments	-0.5	-2.6	-1.9	-0.4	-0.1	-1.7
	(In percent of export earnings)					
External public debt	390.9	395.9	337.8	302.4	278.5	260.3
Memorandum items:	(In millions of US dollars, unless otherwise indicated)					
Exports 5/	722.8	700.4	775.9	832.5	872.2	894.9
Imports 5/	561.9	649.6	686.1	701.5	747.8	805.5
External current account (including official transfers)	-72.8	-208.1	-167.4	-147.2	-166.8	-220.0
Overall balance of payments	-15.1	-83.5	-63.1	-13.3	-5.5	-68.5
Net foreign assets (central bank)	60.7	26.4	27.9	125.8	243.6	280.7
Gross official reserves (in months of imports)	2.6	2.0	1.9	2.8	3.9	3.9
Gross reserves (in percent of broad money)	61.3	41.9	38.0	...	...	...
Nominal GDP (in billions of Guinean francs)	5,924.9	6,350.2	6,903.3	7,501.1	8,124.7	8,843.3

Sources: Guinean authorities; and staff estimates and projections.

1/ In percent of broad money stock at beginning of period.
2/ Minimum annual rate on bank savings deposits, at end of period.
3/ Includes expenditure for restructuring.
4/ Fixed capital formation.
5/ Merchandise trade figures only.

Table 2. Guinea: Gross Domestic Product at Constant 1996 Prices by Sectors (Good-Policy Scenario), 2001-06

	2001	2002	2003	2004	2005	2006
	(In billions of 1996 Guinean francs)					
GDP at factor cost	4,559.4	4,715.2	4,866.4	5,098.4	5,380.1	5,693.6
Primary sector	857.2	901.2	943.6	990.1	1,039.7	1,096.3
Agriculture	549.4	582.5	613.4	648.9	687.7	732.6
Livestock	164.7	171.1	177.9	184.1	189.8	196.1
Fisheries	35.8	37.1	38.4	39.9	41.5	43.2
Forestry	107.3	110.5	113.8	117.2	120.8	124.4
Secondary sector	1,464.8	1,532.6	1,593.6	1,688.6	1,794.2	1,907.4
Mining	778.5	801.2	823.2	852.0	882.1	912.7
Manufacturing	189.6	201.1	203.1	216.7	231.2	246.7
Water, electricity	28.3	29.1	28.5	30.0	31.9	34.2
Construction	468.4	501.2	538.8	589.9	648.9	713.8
Tertiary sector	2,237.5	2,281.3	2,329.2	2,419.7	2,546.1	2,689.9
Trade	1,225.8	1,247.8	1,266.6	1,310.9	1,383.0	1,470.1
Transport	275.3	281.3	287.0	299.6	317.9	337.9
Administration	250.8	257.0	264.7	272.7	280.8	289.3
Other	485.7	495.1	511.0	536.5	564.4	592.6
Indirect taxes	166.0	207.3	234.0	254.7	279.4	307.4
GDP at market prices	4,725.4	4,922.4	5,100.4	5,353.1	5,659.5	6,001.0
	(Annual percent change)					
GDP at factor cost	3.8	3.4	3.2	4.8	5.5	5.8
Primary sector	6.3	5.1	4.7	4.9	5.0	5.4
Agriculture	6.7	6.0	5.3	5.8	6.0	6.5
Livestock	3.4	3.9	4.0	3.5	3.1	3.3
Fisheries	9.7	3.6	3.7	3.9	4.0	4.1
Forestry	7.3	3.0	3.0	3.0	3.0	3.0
Secondary sector	5.3	4.6	4.0	6.0	6.3	6.3
Mining	3.5	2.9	2.7	3.5	3.5	3.5
Manufacturing	5.5	6.0	1.0	6.7	6.7	6.7
Water, electricity	3.0	3.0	-2.0	5.0	6.5	7.0
Construction	8.5	7.0	7.5	9.5	10.0	10.0
Tertiary sector	2.0	2.0	2.1	3.9	5.2	5.6
Trade	2.0	1.8	1.5	3.5	5.5	6.3
Transport	1.8	2.2	2.0	4.4	6.1	6.3
Administration	0.6	2.5	3.0	3.0	3.0	3.0
Other	2.9	2.0	3.2	5.0	5.2	5.0
Indirect taxes	2.8	24.9	12.9	8.9	9.7	10.0
GDP at market prices	3.8	4.2	3.6	5.0	5.7	6.0

Sources: Guinean authorities; and staff estimates and projections.

Table 3. Guinea: Gross Domestic Product at Current Prices by Demand Components (Good-Policy Scenario), 2001-06

	2001	2002	2003	2004	2005	2006
		Est.	Projections			
	(In billions of Guinean francs)					
GDP at market prices	5,924.9	6,350.2	6,903.3	7,501.1	8,124.7	8,843.3
Consumption	4,738.3	5,260.8	5,838.3	6,105.5	6,508.5	7,018.9
Public	349.0	446.8	425.4	477.8	506.5	547.1
Private	4,389.4	4,814.0	5,412.9	5,627.7	6,002.0	6,471.7
Investment	1,299.8	1,438.4	1,319.1	1,569.3	1,837.2	2,166.5
Fixed capital formation	1,252.8	1,426.2	1,315.7	1,568.4	1,836.8	2,166.3
Government	423.4	493.4	543.7	584.4	617.4	662.2
Other sectors	829.5	932.8	772.1	984.0	1,219.3	1,504.1
Change in stocks	47.0	12.2	3.3	0.9	0.4	0.2
Foreign balance	-113.3	-349.1	-254.1	-173.7	-221.1	-342.0
Exports of goods and nonfactor services	1,601.7	1,539.3	1,782.9	1,985.4	2,107.3	2,190.8
Imports of goods and nonfactor services	1,715.0	1,888.5	2,036.9	2,159.0	2,328.4	2,532.9
	(In percent of GDP)					
GDP at market prices	100.0	100.0	100.0	100.0	100.0	100.0
Consumption	80.0	82.8	84.6	81.4	80.1	79.4
Public	5.9	7.0	6.2	6.4	6.2	6.2
Private	74.1	75.8	78.4	75.0	73.9	73.2
Investment	21.9	22.7	19.1	20.9	22.6	24.5
Fixed capital formation	21.1	22.5	19.1	20.9	22.6	24.5
Government	7.1	7.8	7.9	7.8	7.6	7.5
Other sectors	14.0	14.7	11.2	13.1	15.0	17.0
Change in stocks	0.8	0.2	0.0	0.0	0.0	0.0
Foreign balance	-1.9	-5.5	-3.7	-2.3	-2.7	-3.9
Exports of goods and nonfactor services	27.0	24.2	25.8	26.5	25.9	24.8
Imports of goods and nonfactor services	28.9	29.7	29.5	28.8	28.7	28.6
Domestic savings	20.0	17.2	15.4	18.6	19.9	20.6
Government	1.3	1.5	2.6	3.2	3.7	3.9
Nongovernment	18.8	15.7	12.8	15.4	16.2	16.8
Gross national savings	19.5	16.2	14.1	16.7	18.1	19.0

Sources: Guinean authorities; and staff estimates and projections.

Table 4. Guinea: Financial Operations of the Government (Good-Policy Scenario), 2001-06

	2001	2002	2003	2004	2005	2006
		Est.		Proj.		
			(In billions of Guinean francs)			
Revenue and grants	873.0	909.7	1,136.9	1,230.6	1,356.7	1,476.5
Revenue	670.2	763.9	850.4	933.4	1,044.5	1,151.6
Mining sector	166.6	145.4	114.0	126.8	140.0	149.0
Nonmining sector	503.6	618.5	736.3	806.5	904.4	1,002.6
Direct taxes	78.1	94.9	110.6	127.1	147.6	160.7
Indirect taxes	362.5	452.4	548.4	608.8	677.1	755.1
Goods and services	248.5	313.2	378.8	424.9	475.2	532.2
International trade	114.0	139.1	169.6	184.0	201.9	222.9
Nontax revenue	63.1	71.3	77.3	70.6	79.7	86.8
Grants	202.8	145.8	286.6	297.3	312.3	324.9
Project	159.6	109.4	220.5	237.3	249.3	261.7
Program	3.2	0.3	4.5	0.0	0.0	0.0
HIPC initiative	40.1	36.1	61.6	59.9	62.9	63.2
Total expenditures and net lending	1,113.8	1,281.8	1,347.3	1,408.2	1,484.7	1,593.7
Current expenditures	684.7	776.1	790.2	816.2	859.4	923.4
Primary current expenditures	595.0	670.8	670.5	695.2	742.0	809.9
Salaries and Wages	215.1	236.9	248.6	261.0	274.1	287.8
Goods and services	133.9	209.9	176.8	216.7	232.5	259.3
Transfers and subsidies	246.1	224.0	245.1	217.4	235.5	262.8
Interest on debt	89.6	105.3	119.7	121.0	117.3	113.5
Domestic debt	27.5	31.2	36.9	38.8	40.7	42.7
External debt	62.1	74.1	82.8	82.2	76.6	70.8
Investment expenditures	423.4	493.4	543.7	584.4	617.4	662.2
Domestically financed	34.7	78.4	118.7	126.9	136.8	157.8
Externally financed	388.7	415.0	425.0	457.5	480.6	504.4
Net lending	1.3	4.4	3.1	3.3	3.3	3.5
Restructuring expenditures	4.5	7.9	10.3	4.4	4.6	4.6
Primary balance 1/	34.7	2.3	47.8	103.6	157.7	175.8
Overall balance, commitment basis						
Excluding grants	-443.6	-517.9	-496.9	-474.9	-440.3	-442.1
Including grants	-240.8	-372.1	-210.3	-177.6	-128.0	-117.2
Change in arrears	-4.4	-52.4	0.0	0.0	0.0	0.0
Domestic 2/	-4.1	-49.5	0.0	0.0	0.0	0.0
Interest on external debt	-0.3	-2.9	0.0	0.0	0.0	0.0
Change in check float		...	20.0	0.0	0.0	0.0
Adjustment for balances of public administrations	-15.9	-26.8	0.0	0.0	0.0	0.0
Overall balance, cash basis	-261.1	-451.2	-190.3	-177.6	-128.0	-117.2
Financing	261.1	457.3	190.3	65.2	-8.2	-1.0
Domestic financing	16.2	261.1	117.8	-42.9	-135.8	-127.9
Banking financing	21.8	230.3	91.4	-35.4	-112.4	-109.5
Central bank	-2.8	164.2	37.8	-25.4	-100.6	-90.8
Of which: HIPC account	-37.2	-6.1	...	...	...	...
Other banks	24.6	66.2	53.6	-10.0	-11.8	-18.7
Nonbank financing	-5.6	30.8	26.4	-7.5	-23.4	-18.4
External financing	244.8	196.2	72.6	108.1	127.6	126.9
Drawings	346.5	307.5	214.4	220.1	231.3	242.7
Projects	229.1	305.5	204.5	220.1	231.3	242.7
Program	117.4	1.9	9.9	0.0	0.0	0.0
Amortization due	-234.1	-191.1	-267.6	-244.8	-228.4	-232.6
Debt rescheduling	93.8	55.1	117.2	114.0	108.1	92.5
Debt relief: HIPC initiative	39.8	28.1	19.2	30.0	28.4	24.3
Change in amortization arrears	0.5	-1.7	0.0	0.0	0.0	0.0
Debt repurchase	-1.6	-1.7	-10.6	-11.2	-11.7	0.0
Errors and omissions / financing gap	0.0	-6.1	0.0	112.4	136.2	118.2
			(In percent of GDP, unless otherwise indicated)			
Memorandum items:						
Nonwage current expenditure in priority sectors (in billions of Guinean francs) 3/	69.5	100.7	112.0	...	...	...
Nonwage current expenditure in priority sectors 3/	1.2	1.6	1.6	...	...	...
Revenue and grants	14.7	14.3	16.5	16.4	16.7	16.7
Revenue	11.3	12.0	12.3	12.4	12.9	13.0
Mining	2.8	2.3	1.7	1.7	1.7	1.7
Nonmining	8.5	9.7	10.7	10.8	11.1	11.3
Expenditures and net lending	18.8	20.2	19.5	18.8	18.3	18.0
Primary current expenditures	10.0	10.6	9.7	9.3	9.1	9.2
Wage bill	3.6	3.7	3.6	3.5	3.4	3.3
Public investment	7.1	7.8	7.9	7.8	7.6	7.5
Primary balance	0.6	0.0	0.7	1.4	1.9	2.0
Overall balance, commitment basis						
Including grants	-4.1	-5.9	-3.0	-2.4	-1.6	-1.3
Excluding grants	-7.5	-8.2	-7.2	-6.3	-5.4	-5.0
Overall balance, cash basis	-4.4	-7.1	-2.8	-2.4	-1.6	-1.3
Nominal GDP (in billions of Guinean francs)	5,924.9	6,350.2	6,903.3	7,501.1	8,124.7	8,843.3

Sources: Guinean authorities; and staff estimates and projections.

1/ Revenue minus noninterest expenditure, excluding foreign-financed investment projects.
2/ Comprises the change in outstanding domestic arrears and the change in the float between expenditure commitments and cash payments for the current fiscal year.
3/ From December 2002 onward, includes outlays financed by resources from the enhanced HIPC Initiative.

Table 5. Guinea: Monetary Survey, 2001-03

	2001	2002				2003			
		March	June	Sep.	Dec.	March	June	Sep.	Dec.
					Est.	Est.		Proj.	
	(In billions of Guinean francs, unless otherwise indicated)								
Central bank									
Net foreign assets	119.9	133.8	120.0	76.1	52.1	-6.9	16.1	39.0	62.0
(in millions of U.S. dollars)	60.7	67.7	60.7	38.5	26.4	-3.5	7.7	18.1	27.9
Net domestic assets	261.1	208.4	294.4	338.8	397.0	495.6	476.5	449.6	418.2
Domestic credit	227.5	170.8	262.1	324.9	392.8	474.4	460.8	439.5	413.5
Government, net	249.7	186.7	286.4	340.1	413.9	536.1	482.4	467.0	451.7
Of which: gold revaluation claims	17.6	17.6	17.6	17.6	17.6	55.4	55.4	55.4	55.4
Public enterprises	6.0	6.4	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Private sector	12.9	13.9	15.4	17.5	26.6	29.3	26.4	26.2	26.1
Claims on deposit money banks	-41.2	-36.2	-42.3	-35.3	-50.4	-93.6	-50.6	-56.4	-67.0
Of which: sterilization bills (-)	-44.3	-47.0	-52.0	-43.5	-60.8	-95.3	-61.0	-66.8	-77.3
Other items, net (assets +)	33.6	37.6	32.3	13.8	4.2	21.2	15.7	10.2	4.7
Reserve money	381.0	342.2	414.4	414.9	450.6	488.7	492.6	488.7	480.2
Currency outside banks	310.1	291.4	332.5	325.8	349.8	401.0	404.2	397.9	386.9
Bank reserves	64.3	46.2	78.3	84.7	97.2	84.3	84.8	87.2	89.8
Deposits	50.0	33.9	63.2	66.0	78.4	68.8	70.1	72.9	75.9
Required reserves	19.5	19.5	22.1	23.1	24.8	27.5	27.2	28.2	29.2
Excess reserves	30.5	14.4	41.1	42.9	53.5	41.3	42.9	44.7	46.7
Cash in till	14.3	12.3	15.1	18.7	18.9	15.4	14.7	14.3	13.9
Private sector deposits	6.6	4.6	3.6	4.4	3.6	3.4	3.6	3.6	3.6
Deposit money banks									
Net foreign assets	81.8	89.2	93.6	89.9	69.5	76.2	103.8	88.6	72.1
Bank reserves	64.3	46.2	78.3	84.7	97.2	84.3	84.8	87.2	89.8
Deposits at the central bank	50.0	33.9	63.2	66.0	78.4	68.8	70.1	72.9	75.9
Cash in till	14.3	12.3	15.1	18.7	18.9	15.4	14.7	14.3	13.9
Liabilities to central bank (-)	41.2	36.2	42.3	35.3	50.4	93.6	50.6	56.4	67.0
Of which: sterilization bills	44.3	47.0	52.0	43.5	60.8	95.3	61.0	66.8	77.3
Domestic credit	311.5	329.6	342.5	420.0	389.9	401.0	420.7	440.4	461.2
Credit to the government	19.5	30.9	41.8	100.9	84.9	68.1	106.8	122.0	138.5
Claims	47.0	60.3	71.4	132.4	115.0	97.6	136.9	152.1	168.6
Deposits	27.5	29.4	29.7	31.5	30.1	29.6	30.1	30.1	30.1
Claims on public enterprises	0.1	0.1	0.4	10.2	10.0	10.0	10.0	10.0	10.0
Claims on the private sector	292.0	298.6	300.4	308.8	295.1	322.9	304.0	308.4	312.8
Other items, net (assets +)	-143.7	-147.2	-158.5	-172.6	-159.4	-157.7	-159.4	-159.4	-159.4
Liabilities to the private sector (deposits)	355.1	354.0	398.2	457.2	447.6	497.4	500.5	513.2	530.7
Monetary survey									
Net foreign assets	201.7	223.0	213.6	166.0	121.6	69.3	119.8	127.7	134.1
Net domestic assets	470.1	427.0	520.8	621.4	679.4	832.5	788.4	787.0	787.0
Domestic credit	580.2	536.6	646.9	780.2	833.1	969.1	932.2	936.3	941.7
Credit to the government	269.2	217.6	328.1	441.0	498.8	604.2	589.2	589.0	590.1
Claims on public enterprises	6.1	6.5	3.0	12.9	12.6	12.7	12.6	12.6	12.6
Claims on the private sector	304.9	312.5	315.7	326.3	321.7	352.2	330.3	334.6	338.9
Other items, net (assets +)	-110.1	-109.6	-126.2	-158.8	-153.8	-136.5	-143.8	-149.3	-154.7
Broad money (M2)	671.8	650.0	734.4	787.4	801.0	901.8	908.3	914.7	921.1
Currency	310.1	291.4	332.5	325.8	349.8	401.0	404.2	397.9	386.9
Deposits	361.7	358.6	401.8	461.6	451.2	500.8	504.1	516.8	534.2
Of which: foreign currency deposits	106.5	107.6	121.2	137.2	120.3	138.6	144.9	143.6	132.4
Memorandum items:	(Year-on-year change in percent of beginning-of-period broad money, unless otherwise indicated)								
Net foreign assets	12.6	17.3	13.8	-6.8	-11.9	-23.6	-12.8	-4.9	1.6
Net domestic assets	2.1	-8.9	4.4	27.5	31.2	62.4	36.4	21.0	13.4
Domestic credit	8.1	-6.2	12.4	42.5	37.7	66.5	38.8	19.8	13.6
Net claims on government	3.7	-10.1	8.7	35.4	34.2	59.5	35.6	18.8	11.4
Credit to nongovernment sector	4.3	3.9	3.7	7.0	3.5	7.1	3.3	1.0	2.1
Broad money	14.8	8.4	18.2	20.7	19.2	38.8	23.7	16.2	15.0
Velocity (GDP/average M2)	9.4	...	...	...	8.6	...	...	...	8.0
Credit to the nongovernment sector (annual percentage change)	8.9	7.9	7.9	15.6	7.5	14.4	7.6	2.4	5.1
Reserve money (annual percentage change)	11.0	-2.8	17.8	13.0	18.3	42.8	18.9	17.8	6.6

Sources: Guinean authorities; and staff estimates and projections.

Table 6. Guinea: Balance of Payments (Good-Policy Scenario), 2001-08
(In millions of U.S. dollars, unless otherwise indicated)

	2001	2002	2003	2004	2005	2006	2007	2008
		Est.			Proj.			
Merchandise trade balance	160.9	50.8	89.8	130.9	124.4	89.4	85.8	168.4
Exports, f.o.b.	722.8	700.4	775.9	832.5	872.2	894.9	963.6	1,118.4
Of which: mining products	636.5	611.8	669.0	709.4	755.4	777.0	842.1	990.9
Imports, f.o.b.	-561.9	-649.6	-686.1	-701.5	-747.8	-805.5	-877.8	-949.9
Food products	-104.7	-123.2	-121.0	-124.8	-127.2	-130.8	-142.6	-152.8
Other consumption goods	-83.0	-100.3	-108.7	-108.3	-115.9	-124.4	-126.1	-135.3
Petroleum goods	-87.9	-116.6	-125.0	-116.3	-115.1	-116.5	-116.0	-126.5
Intermediate and capital goods	-286.3	-309.5	-331.5	-352.1	-389.6	-433.8	-493.1	-535.3
Services trade balance	-219.1	-227.6	-212.4	-211.5	-225.5	-243.6	-258.7	-278.2
Services exports	99.5	78.9	84.4	88.7	91.0	92.7	106.1	112.8
Of which: transport	25.8	22.7	25.1	27.0	28.3	29.0	31.2	36.2
Services imports	-318.6	-306.5	-296.8	-300.2	-316.5	-336.3	-364.8	-391.0
Of which: transport	-143.6	-97.6	-92.8	-87.3	-89.3	-92.3	-98.8	-105.1
Income balance	-66.2	-59.2	-66.4	-83.3	-82.4	-81.8	-83.4	-86.1
Of which: dividend payments	-20.0	-20.0	-19.8	-19.9	-20.8	-21.7	-22.7	-23.7
interest on public debt 1/	-31.9	-37.5	-39.9	-38.1	-35.0	-31.9	-30.9	-30.9
Transfers	51.5	27.9	21.6	16.7	16.7	16.0	14.2	12.1
net private transfers	-12.9	-15.9	-15.8	-16.8	-17.9	-18.5	-19.3	-20.1
official transfers	43.8	25.5	7.7	5.7	5.8	6.0	6.2	6.4
HIPC Initiative assistance (multilat.)	20.6	18.3	29.7	27.8	28.8	28.5	27.3	25.8
Current account								
Including public transfers	-72.8	-208.1	-167.4	-147.2	-166.8	-220.0	-242.1	-183.8
Excluding public transfers	-116.6	-251.9	-204.8	-180.7	-201.4	-254.5	-275.6	-216.0
Capital account	81.9	55.4	106.4	110.1	114.0	118.0	122.1	126.4
Public transfers (project grants)	81.9	55.4	106.4	110.1	114.0	118.0	122.1	126.4
Financial account	-0.3	90.1	-2.1	23.8	47.3	33.5	58.4	82.9
Public (medium and long term)	57.7	58.9	-25.7	-11.5	12.7	20.9	37.7	54.2
Project-related loans	117.6	154.7	98.7	102.1	117.2	125.8	137.1	147.3
Program financing	60.3	1.0	4.8	0.0	0.0	0.0	0.0	0.0
Amortization due 1/	-120.2	-96.8	-129.1	-113.6	-104.4	-104.8	-99.4	-93.1
Direct and other private investment (net) 2/	-58.0	31.2	23.6	35.3	34.6	12.6	20.7	28.7
Errors and omissions	-23.9	-20.9	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-15.1	-83.5	-63.1	-13.3	-5.5	-68.5	-61.6	25.5
Financing	15.1	83.5	63.3	-46.8	-72.7	-0.5	-4.8	-83.5
Change in official reserves	-58.1	38.5	12.1	-92.9	-115.9	-35.5	-38.1	-117.9
Net use of Fund resources	4.6	5.2	-14.6	-20.7	-19.2	-17.7	-18.8	-15.9
Changes in arrears and government assets (net)	0.1	-2.3	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief	68.6	42.1	65.8	66.8	62.4	52.7	52.2	50.3
Of which: HIPC Initiative assistance (Cologne terms)	20.4	14.2	9.3	13.9	13.0	11.0	10.9	10.5
Residual financing gap	0.0	0.0	0.0	60.1	78.2	69.0	66.4	58.0
Memorandum items:								
Current account-GDP ratio (in percent)								
Including public transfers	-2.4	-6.5	-5.0	-4.2	-4.5	-5.5	-5.6	-3.9
Excluding public transfers	-3.8	-7.8	-6.1	-5.2	-5.4	-6.4	-6.3	-4.6
Overall balance	-0.5	-2.6	-1.9	-0.4	-0.1	-1.7	-1.4	0.5
Exports of GNFS-GDP ratio (in percent) 3/	27.0	24.2	25.8	26.5	25.9	24.8	24.6	26.4
Importsof GNFS-GDP ratio (in percent) 3/	-28.9	-29.7	-29.5	-28.8	-28.7	-28.6	-28.6	-28.7
Gross reserves	208.4	170.0	157.8	250.8	366.7	402.1	440.3	558.2
In months of imports of the following year	2.6	2.0	1.9	2.8	3.9	3.9	3.9	4.6

Sources: Guinean authorities; and staff estimates and projections.

1/ Including debt-service payments on publicly guaranteed debt.
2/ Turnaround in private investment flows is due to the end of amortization of some private sector debt in 2001.
3/ GNFS: goods and nonfactor services.

Guinea: Relations with the Fund
(As of April 30, 2003)

I. **Membership Status**: Joined on September 28, 1963; Article VIII

II. **General Resources Account**:	SDR million	Percent of Quota
Quota	107.10	100.00
Fund holdings of currency	107.03	99.93
Reserve position in Fund	0.08	0.07

III. **SDR Department**:	SDR million	Percent of Allocation
Net cumulative allocation	17.60	100.00
Holdings	0.17	0.97

IV. **Outstanding Purchases and Loans**:	SDR million	Percent of Quota
Enhanced Structural Adjustment Facility (ESAF)/Poverty Reduction an Growth Facility (PRGF) arrangements	99.00	92.44

V. **Financial Arrangements**:

Type	Approval date	Expiration date	Amount approved (SDR million)	Amount drawn (SDR million)
PRGF[1]	05/02/2001	05/01/2004	64.26	25.70
ESAF/PRGF	01/13/1997	01/12/2001	70.80	62.94
ESAF	11/06/1991	12/19/1996	57.90	46.32

VI. **Projected Payments to the Fund** (without HIPC Assistance)
(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2003	2004	2005	2006	2007
Principal	8.46	15.23	14.20	13.09	13.98
Charges/interest	0.71	0.72	0.65	0.58	0.51
Total	9.17	15.95	14.85	13.67	14.49

[1] The PRGF went off track as of end-December 2002.

Projected Payments to the Fund (with Board-approved HIPC Initiative Assistance) (SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2003	2004	2005	2006	2007
Principal	7.87	15.23	14.20	13.09	13.98
Charges/interest	0.71	0.72	0.65	0.58	0.51
Total	8.58	15.95	14.85	13.67	14.49

VII. Implementation of HIPC Initiative:

A. Commitment of HIPC assistance	Enhanced Framework
Decision point date	12/20/2000
Assistance committed by all creditors (US$ million) [1]	545.00
Of which: IMF assistance (US$ million)	31.40
(SDR equivalent in millions)	24.24
Completion point date	Floating
B. Disbursement of IMF assistance (SDR million)	
Amount disbursed to the member	5.17
Interim assistance	5.17
Completion point balance	0.00
Additional disbursement of interest income [2]	0.00
Total disbursements	5.17

[1] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point.

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

VIII. Safeguards Assessments:

Under the Fund's safeguards assessment policy, the Banque Centrale de la Republique de Guinée (BCRG) is subject to a safeguards assessment under the PRGF arrangement that was approved on May 2, 2001. An on-site safeguards assessment of the BCRG was completed on July 11, 2002; it concluded that substantial risks existed in the central bank's external audit mechanism, financial reporting framework, and system of internal controls. The authorities have yet to implement all the corrective actions recommended.

IX. Exchange Arrangements:

Guinea has a managed floating exchange rate with no preannounced path. The official exchange rate of the Guinean franc is determined monthly in the auction market for foreign exchange at the central bank. On March 5, 2003, the official rate of the Guinean franc was GF 1,977 per U.S. dollar. Commercial banks are, in principle, free to buy and sell foreign exchange at any rate.

X. Article IV Consultation:

Guinea is on the 12-month cycle. The last consultation was concluded by the Executive Board on July 24, 2002 (EBS/02/126; 7/11/02).

XI. Technical Assistance:

Department	Purpose	Timing
FAD	Advise on customs reform.	March 1999
FAD/resident advisor	Assist on treasury management.	January-June 1999
FAD/resident advisor	Advise on customs reform.	Sep. 1999-Oct. 2000
FAD	Advise on introduction of West African Economic and Monetary Union (WAEMU) common external tariff.	September 2002
MAE/resident advisor	Advise the governor of the BCRG.	1998-2000
MAE	Advise on monetary operations	June 21-30, 2000
MAE	Examine foreign exchange auctions system at the BCRG.	October 10-24, 2000
MAE	Advise on liquidity forecasting, review foreign exchange operations, and advise on supervisory framework for microfinance institutions.	End-November 2001
MAE	Advise on bank supervision.	March 2003
MAE	Advise on liquidity management	Nov.-Dec. 2002

STA	Examine the overall compilation of real sector statistics.	March 2000
	Review the coverage of the monetary Statistics, as well as data collection and compilation practices.	November 2000

XII. Resident Representatives:

Mr. Nascimento's term ended in February 2003. The newly selected Resident Representative, Mr. Jones, will take up his post in July 2003.

Guinea: Relations with the World Bank Group

Partnership in Guinea's development strategy

1. Guinea's development strategy is laid out in the government's poverty reduction strategy paper (PRSP), which was endorsed by the Executive Board of the Bank on July 25, 2002. The PRSP rests on three main pillars: first, to sustain faster economic growth and create income-earning and employment opportunities, particularly for the rural poor; second, to increase and extend access to basic services; and third, to improve governance and strengthen institutional and human capacity. The PRSP builds on the groundwork of Guinea's poverty reduction policies as formulated in the "Guinea—Vision 2010" document of December 1996 and the interim PRSP of 2000.

2. The IMF is taking the lead in assisting Guinea's poverty reduction strategy throughout its three-year arrangement under the Poverty Reduction Growth Facility (PRGF) for the period May 2001–May 2004. Besides the overall macroeconomic quantitative targets, which include public debt supervision, the program has established structural performance criteria in key reform areas, namely, tax administration, banking supervision, and microfinance. Also, structural benchmarks have been set in the areas of revenue and expenditure-tracking management and money laundering. The Bank has complemented the Fund's work through social sector and structural adjustment credits supporting reforms in the areas of public expenditure management, governance, improved public sector management, regulatory reform, and privatization.

3. The World Bank is taking the lead in the policy dialogue and areas of structural reforms, including banking sector restructuring; privatization; administrative decentralization; capacity building; sectoral programs in the priority areas of health, education, rural development, and road maintenance; and the anticorruption program. Overall, noticeable improvement has been made in the above-mentioned areas; however, in the judicial sector and utilities sector (telecommunications, electricity, and water), progress has been slow.

Bank Group strategy

4. The current Country Assistance Strategy (CAS) for Guinea was approved by the Board in November 1997. It focused on macroeconomic stability, private sector development, and public sector reform through a grassroots decentralization process. The next CAS, currently under preparation, will be presented to the Board by the end of fiscal year (FY) 2003. The new CAS would support elements of the country's PRSP (approved by the authorities in March 2002) and would also support the government's desire to enter into new relationships with its development partners, based on a gradually phased change from projects to programmatic lending for more effective and efficient use of aid resources.

IDA provided a fourth Structural Adjustment Credit (SAC IV) to Guinea in 2001, which is designed to support the country's poverty reduction strategy in the areas of public expenditure management, governance, and public goods delivery to the poor. The SAC IV has had a satisfactory impact on the country's macroeconomic performance in the medium term. The credit was disbursed in one tranche (US$50 million) on the grounds that, despite the lack of any external budget support for a two-year period, Guinea had kept its economy broadly on track and had demonstrated commitment to the program reforms with regard to public expenditure management, governance, and the decentralization of basic service delivery. The adjustment program supported by SAC IV has paved the way for programmatic lending to support the Government's poverty strategy and, to a large extent, provides the foundation for a Poverty Reduction Support Credit (PRSC) in FY 04, which will depend on a track record of overall reform implementation. The PRSC would provide an adequate time frame and resources for tackling medium- and long-term reforms in the key areas of decentralization, governance, and divestiture.

5. As of January 6, 2003, the IDA had approved sixty-one credits for Guinea, of which three were in the transport and infrastructure sector; eight in the energy, water, and telecommunications sector; five in strengthening the country's management capability (Technical Assistance (TA)/Economic Management), six in financing rural sector development; four in the urban sector; three in the health sector; four in the education sector; three in mining sector development; four in structural adjustment; four in the financial sector; and one in private sector development. The total value of these projects amounts to about US$1,310 million equivalent, of which US$1,159 million has been disbursed. During FY 98-02, the Board approved one adjustment operation (Public Expenditure Management Adjustment Credit) and six investment operations: the Village Community Support Program, the Capacity Building for Service Delivery Program, the Microfinance LIL, the Pre-service Teacher Education LIL, the Urban Project, and the Population and Reproductive Health Project. In July 2001, the Fourth Structural Adjustment Credit (US$50 million), the Education-for-All Project (US$70 million), and the Rural Electrification LIL (US$5 million) were approved. The Bank's active portfolio in Guinea comprises seven projects, totaling US$197.6 million, of which US$160.8 million is undisbursed. Other projects in the interim program in FY 02–03 are the Reconstruction Project (US$10 million); the HIV/AIDS operation (US$10 million); the Judicial Capacity Building Project (US$10 million); and the Mining LIL (US$5 million). The nonlending program includes fiduciary assessment; analysis management systems and cross-cutting assessment of Guinea's social, structural, and key sectoral development under PRSP work; sectoral programs; and Bank/Fund collaborative work on social impact analysis.

6. The proposed World Bank medium-term lending program will support microfinance restructuring (US$5 million), mining communities' development (US$5 million), rural infrastructure (US$63 million), public enterprise reforms (US$20 million) and village community support (US$30 million) in FY 04, and a health sector project (US$30 million) in FY 06.

Bank-Fund collaboration in specific areas

7. The IMF and World Bank staff maintain a collaborative relationship in supporting the government's structural reforms. As part of its overall assistance to Guinea through lending, country analytic work, and technical assistance, the Bank supports policy reforms in the following areas in collaboration with the Fund.

Public expenditure management

8. Improvements in public expenditure management have been one of the top priorities of the Guinean government since 1996. The Bank, the Fund, and other donors have worked closely together to provide the government the needed support for institutional and policy reforms. While the Fund is leading the dialogue on tax policy, the Bank is focusing on strategic resource allocation and operational efficiency of public expenditures. To enhance strategic resource allocation and operational efficiency, the Bank has assisted the government in the preparation of the medium-term expenditure framework (MTEF) and is supporting the strengthening and opening up of the budget process as well as the allocation of resources to pro-poor priority areas at the decentralized level. A public expenditure review (PER) has been designated to be fully participatory, with overall management by the Bank but substantial participation by the authorities. The Bank and Fund collaborate closely to support institutional budget and expenditure management reforms. A Country Procurement Assessment Review (CPAR) was undertaken in 2002; a recent rapid Country Financial Assessment Analysis (CFAA) was also undertaken in 2001, and a full CFAA is scheduled for 2003.

Poverty and social impact analysis

9. The Bank and Fund's respective Guinea country teams are currently discussing the Poverty and Social Impact Analysis. It is envisaged that a few selected areas may be analyzed over the coming years. These might cover: an analysis of the impact on social output indicators of government spending in health and education, an assessment of the impact of the adoption of the Common External Tariff of the West African Economic and Monetary Union on the taxation of basic consumer goods, an assessment of the impact of exchange rate flexibility on consumer prices, a social impact analysis of trade reforms, and an analysis of the impact of taxation on growth and income distribution. The selection of the few reforms to analyze will be based on the importance of the expected poverty and social impacts of each reform, the prominence of the issue in the government's agenda, the timing and urgency of the reform, and the level of national debate surrounding the reform.

Public service reform and improved service delivery

10. In recent years, the government of Guinea, with the support of the Bank and other donors, has launched a number of major initiatives to improve performance and to foster greater accountability, transparency, and integrity in the public sector. These include (i) the Public Finance Management Reform Program; and (ii) the National Anti-Corruption Strategy and Action Plans for Guinea. Among these reforms, the public service reform program plays a central role, since its objective is to improve accountability, transparency, and resource management for service delivery. The program is closely linked with other major reforms in public finance and decentralization. Cooperation between the Bank and the Fund covers those areas where public sector reform has a direct impact on fiscal stability and public sector financial management.

Trade reforms

11. The Bank and the Fund also are working together closely to assist Guinea in establishing a pro-growth trade framework. While the Fund has taken the lead in reforms in the tariff regime, the Bank is trying to foster trade through the Integrated Trade Framework. The Bank is also involved in a dialogue on trade reforms in the context of the West African Economic and Monetary Union (WAEMU) at the regional level.

World Bank contact person: Mr. Ezzeddine Larbi (Phone: 458-2996).

Guinea: Financial Relations With the World Bank Group—
Statement of Loans and Credits
(As of January 06, 2003; in millions of U.S. dollars)

IBRD and IDA Operations Portfolio

Closed Projects **54**

IBRD/IDA

Total disbursed (active)	39.46
Of which: has been repaid	0.00
Total disbursed (closed)	1,193.46
Of which: has been repaid	194.55
Total disbursed (active + closed)	1,232.91
Of which: has been repaid	194.55
Total undisbursed (active)	160.81
Total undisbursed (closed)	16.45
Total undisbursed (active + closed)	177.26

Active Projects

		Original Amount in US$ Millions				Difference Between Expected and Actual Disbursements	
Project ID	**Project Name**	**Fiscal Yr.**	**IBRD**	**IDA**	**Undisb.**	**Orig.**	**Revised**
P049716	Capacity Building for Service Delivery	2000		19.0	13.8	19.6	
P050046	Education for All Project	2002		70.0	69.9	-4.7	
P074288	Guinea: Decentralized Rural Electrification	2003		5.0	5.6	0.1	
P073378	Multi-Sectoral Aids Project (MAP)	2003		20.3	20.7		
P041568	Population & Reproductive Health	1999		11.3	0.4	-2.5	
P001075	Third Water Supply	1997		50.0	38.2	12.5	6.3
P050732	Village Community Support Program	1999		22.0	12.3	12.4	
Overall Result		**Result**		**197.6**	**160.8**	**37.5**	**6.3**

IFC and MIGA Program, FY2000-2003

	2000	2001	2002	2003
IFC Approvals (US$m)	0.50			
Sector (%)				
Transportation & Warehousing	100			
Total	100	0	0	0
Investment Instrument (%)				
Loans	100			
MIGA Guarantees (US$m)	3.99			

Guinea: Statistical Issues

1. Although improvements have been made in recent years in the availability of detailed government finance data, serious problems remain, in particular in the compilation of real sector statistics and in balance of payments statistics. Changes in the financial system in recent years have affected the quality of data for deposit money banks. A law on statistics that organizes the institutional setting for producing statistics at a decentralized level was approved in 1995. However, neither the National Council of Statistics, responsible for coordinating the production of statistics, nor a technical committee responsible for providing recommendations on the statistical program—both created under the new law—seem to have improved the quality of statistics.

2. Data are generally adequate for program monitoring, although frequently problems are encountered with the internal consistency of fiscal data and their consistency with monetary data.

Real sector statistics

3. Statistics on the real sector are weak and incomplete. Only the consumer price index (CPI) is published on a regular basis, with other statistics published on an irregular basis; in addition, they are not widely distributed and are often not reliable. There is no regular survey on mining and industrial production, nor are there statistics on employment and population.

4. After extensive work in 1990-93 to build a solid database for the national accounts, the authorities, with technical assistance from the World Bank, produced final national accounts tables for the years 1986 to 1988 and provisional data for the years 1990 and 1991; an input-output table was produced for the year 1990. A comprehensive household survey was prepared for the year 1994. Provisional national accounts were produced for the years 1992-96, but they do not use fully the results of the household survey and have serious shortcomings. The Ministry of Planning and Cooperation prepared updates of macroeconomic data and projections on the basis of the 1994 national accounts before it was eliminated in June 2000 and some of its functions allocated to the Ministry of Finance. In October 2000, the authorities presented final national accounts data for the years 1995-96, and provisional ones for the years 1997-98. All national accounts data were significantly revised on that occasion. A program to reinforce the national accounts is being carried with the technical assistance of the regional statistical office (AFRISTAT) and the Gesellschaft für Technische Zusammenarbeit (GTZ). The work is expected to lead to the production of input-output matrices on an annual basis.

5. The CPI for Conakry is available on a monthly basis, with a one-month lag. Export prices are estimated on the basis of information supplied directly by the mining companies, while import prices are based on a weighted average of partner countries' export prices. Exchange rates are reported weekly.

6. Data on the agriculture sector have been published only sporadically in the form of Food and Agriculture Organization/United Nations Development Program surveys. No data on employment or labor costs are available.

7. In March 2000, an STA mission presented detailed recommendations on how to improve real sector statistics. The mission identified the lack of a budget for the compilation of current statistics and poor professional training as the main causes of the statistical system's weakness. Guinea has developed an action plan to address these weaknesses, but financial resources for many of these measures still need to be identified.

Balance of payments statistics

8. The authorities have implemented some of the recommendations made by a balance of payments statistics mission in May 1995. Notably, coverage of trade in services, private transfers, and capital flows has been expanded by surveying service providers and large companies on an annual basis. However, the survey is not comprehensive, and there is no penalty for noncompliance. In view of the difficulties encountered with the compilation of annual statistics, the mission's recommendation to compile data on a quarterly basis has not yet been implemented.

9. Merchandise trade statistics are reported in the standard Harmonized System of Customs Classification, net of imports by diplomats and transit trade. In spite of the technically advanced method of presentation, the presented data are clearly inconsistent with actual developments in the country. Some of these inconsistencies may be due to smuggling, as exports of gold and diamonds are subject to modest export taxes and imports are subject to import duties. However, the trade statistics also report significant exports of aluminum products, which, according to the Ministry of Mining and Energy, are not produced in the country. Thus, these data are substantially adjusted prior to publication.

10. The balance of payments statistics also affect national accounts data. The national accounts are based on trade data that include transit trade and imports by diplomats, and thus overestimate the openness of the economy. However, the national accounts use estimates of trade in services, which are well below those estimated on the basis of the surveys conducted by the central bank. The authorities have requested additional technical assistance from STA for balance of payments statistics.

Government finance statistics

11. Comprehensive monthly budgetary data are compiled by the Ministry of Finance on a cash basis for central government revenue, and on commitment and cash bases for central government expenditure. AFR receives preliminary data within 15 days and main final data within one month. Estimates for consolidated central government operations come from treasury data. Budgetary data are often not internally consistent.

12. The government budget includes the bulk of all government spending, although it excludes a number of "satellite" accounts that are not directly incorporated in the budget. There are also significant coverage differences between the Government Finance Statistics' (GFS) definitions of general government and the national general government sector. Moreover, autonomous funds, such as the Road Fund, are only partly incorporated in the budget. For the Road Fund, the largest autonomous fund, 100 percent of resources are "committed" through the budget and transferred from the budget to the fund. Actual disbursements are made at the Road Fund's discretion (monitored, however, through its account at the central bank). The fuel tax is not expressly earmarked for the Road Fund, but it is received by the general budget and transferred to the Road Fund through the budget.

13. The latest data published in the *GFS Yearbook* are for 1999. Guinea does not report fiscal data for publication in *International Financial Statistics (IFS)*.

Monetary accounts statistics

14. Monthly data on monetary authorities, deposit money banks, and interest rates are available. Data for the monetary authorities and the deposit money banks through December 2002 have been published in *IFS*. Developments and changes in the financial system during the last few years, including the liquidation and restructuring of some banks, are not fully reflected in the monetary statistics, owing to problems of data collection, the classification of instruments, and the sectorization of economic activities. A monetary and financial statistics mission visited Conakry in the second half of November 2000 to review the coverage of the monetary statistics, as well as data collection and compilation practices. The mission summarized its main findings and recommendations in a report and action plan left with the authorities. The authorities have made good progress in taking the measures the report proposed; in particular, efforts are being made to strengthen the commercial practices, especially the classification of nonperforming loans.

15. Beginning 2001, the authorities undertook regular reporting of monetary data for publication in *IFS*. However, in early 2003, there has been a lag in data reporting as the latest data provided in March 2003 were for December 2002.

Guinea: Core Statistical Indicators
(As of May 10, 2003)

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/GNP	External Debt
Date of latest observation	5/07/03	3/31/03	3/31/03	3/31/03	3/31/03	3/7/03	3/31/03	12/31/02	12/31/02	1/31/03	12/31/02	12/31/02
Date received	5/08/03	4/30/03	4/30/03	4/30/03	4/30/03	4/30/03	4/30/03	4/30/03	4/30/03	3/8/03	1/20/03	1/20/03
Frequency of data 1/	M	M	M	M	M	M	M	A	A	M	A	Q
Frequency of reporting 1/	M	M	M	M	M	M	M	A	A	M	A	Q
Source of data 2/	BCRG	BCRG	BCRG	BCRG	BCRG	BCRG	MEF	Fund Mission	Fund Mission	MEF	MEF	MEF
Mode of reporting 3/	C/M	C/M	C/M	C/M	C/M	M	C/M	V	V	C/M	V	M/V
Confidentiality 4/	U	U	U	U	U	U	U	U	U	U	U	U
Frequency of publication 1/	D	M	M	M	M	M	M	M	A	M	A	Q

1/ D = daily; W = weekly ; M = monthly; Q = quarterly; A = annual.
2/ BCRG = Central Bank of the Republic of Guinea; MEF = Ministry of Economy and Finance; MOP = Ministry of Planning.
3/ C = cable or facsimile; M = mail; V = staff visits/missions.
4/ U = unrestricted.

Guinea: Expenditure Accountability Assessment and Action Plan (AAP)
(Updated December 2002)

	Indicator	Actions to Strengthen[1] from Agreed Action Plans and Time Horizon (S/M[2]) (From AAP)	Status[3]	Progress to Date on Action Plans and Indicated Improvements (Outcomes)
I.	**Budget Formulation**			
1	Consolidated positions Adherence to Standard Public Finance Manual (MSFP) public administration standards.	Unified budget objective: joint preparation of the 2003 budget law by the National Budget Office and the National Directorate of Investment (S).	II	Although completion of this activity is still a long way off, work was done in this area, particularly at the time of budget analysis within the PRSP framework. In particular, a method of assessing recurrent costs needs to be decided upon, as well as the incorporation of the execution of donor-financed investment spending into budgetary transactions. The implementation of the medium-term expenditure framework (MTEF) should provide an opportunity to strengthen cooperative efforts between the respective directorates.
		Consolidate the general government budget with the Public Administrative Institutions (EPAs) and the local authorities (M).	NS	This activity is expected to start and be carried out in 2003. It is understood that an accounting plan for local authorities, compatible with that of the government, will be prepared within the framework of the World Bank's capacity-building program (PRCI).
2	Government activities are not carried out through extrabudgetary transactions to a great extent.	Make the budget more comprehensive: calculate government revenue that has not been paid back to the treasury (S);	II	The government incorporated in the 2002 budget some allocated revenue that was not so far included. The government made a commitment to continue this effort in order to achieve a single treasury account. To that end, the closing of extrabudgetary accounts has started.

	Indicator	Actions to Strengthen[1] from Agreed Action Plans and Time Horizon (S/M[2]) (From AAP)	Status[3]	Progress to Date on Action Plans and Indicated Improvements (Outcomes)
		pay back all state revenue to the Treasury (M); and close all satellite accounts, with the exception of project accounts subject to double signature — donor/government (S).		Their consolidation in a unique accounting framework will be confirmed by mid-2004.
3	Budget execution is very close to budget forecasts (in terms of the volume and operational allocation).	Improve the rate of execution of expenditure.	II	The execution of priority expenditures for FY 2002, with the exception of investment financed using HIPC resources, was roughly as projected; a great improvement compared with previous fiscal years. A number of Financial Administration Directors (DAF) have been replaced, with a view to achieving this objective. The execution of nonpriority expenditures for FY 2002 exceeded budget forecasts partly because of security expenditures.
4	The budget includes donor-financed capital and current expenditure.	n.a. (meets benchmark).		
5	Budgetary classifications are administrative, economic, and functional in nature.	n.a. (meets benchmark).		
6	Poverty reduction expenditure is clearly identified in the budget.	Codify the budgetary lines identified in order to monitor poverty reduction expenditure (S).	II	The government has identified and indicated the budgetary lines that involve expenditure using HIPC resources. However, poverty reduction expenditures

	Indicator	Actions to Strengthen[1] from Agreed Action Plans and Time Horizon (S/M[2]) (From AAP)	Status[3]	Progress to Date on Action Plans and Indicated Improvements (Outcomes)
				include also expenditure of the priority sectors financed on non-HIPC resources. A number of expenditures of the non-priority sectors that support the management of expenditures using HIPC resources were added to this category. At the time of the mission, this information was obtained from the system using a query covering multiple criteria. A specific identifier will be introduced in the coming months to obtain information in a simpler and more reliable manner, with a view to determining the level of execution of the expenditures allocated to poverty reduction.
7	Medium-term expenditures are incorporated into the budget cycle.	Improve the programming of medium-term expenditure for the priority ministries (S). Train staff in the Directorates of Administrative and Financial Affairs (DAAF) (S).	II	The government has already a fairly comprehensive procedure in place, which, for the past two fiscal years, has been facilitating the establishment of a medium-term macroeconomic fiscal account by the year 2005, based on the sectoral policies developed in the PRSP. The next step is to include in the process a number of objectives to be attained by the ministerial departments and to take into account progress made with the deconcentration of expenditures. These two areas (implementation of the Medium-Term Expenditure Framework and support for deconcentration) are specifically covered in the World Bank's capacity-building program (PRCI).
II. Budget Execution				
8	Low level of the arrears build up; slow buildup of new arrears during the previous year.	Avoid buildup of arrears.	II	Remarkable progress has been made. At end-2002, the government reduced the totality of domestic arrears previously audited that were scheduled for reduction during 2002. It has made significant efforts to avoid the

	Indicator	Actions to Strengthen[1] from Agreed Action Plans and Time Horizon (S/M[2]) (From AAP)	Status[3]	Progress to Date on Action Plans and Indicated Improvements (Outcomes)
				buildup of arrears, whether or external.
9	Internal control is effective and efficient.	Prepare an overall control policy (M). Train financial controllers and ministries'inspectors (M). Overhaul the Inspectorate General of Finance (IDF) (M). Improve the follow-up of inspection reports (M).	II	With regard to communication between the control entities, the financial control office submits semi-annual budget execution reports to the Inspectorate General of Finance, in order to achieve an overall control policy. Joint missions of these two entities will also be held. A number of training activities are already under way, particularly as regards training of financial controllers at both the central and deconcentrated levels. A training program geared towards financial inspectors is already being prepared. Lastly, the Inspection Office of the National Treasury Directorate has been improved through the recruitment of young inspectors.
10	Audit monitoring conducted in addition to internal control.	Conduct physical and financial monitoring in all the priority sectors.(M).	NS	In addition to internal control, the anticorruption committee has conducted a number of audits that target the effectiveness of expenditure. However, ministerial departments have not taken any action in this area. The Public Account Chamber of the Supreme Court is unable to perform its functions in the area of public accounts audits and management control. Activities aimed at training magistrates and improving their working conditions should be undertaken, in order to allow this critical entity to carry out overall activities related to the management of public finance.

	Indicator	Actions to Strengthen[1] from Agreed Action Plans and Time Horizon (S/M[2]) (From AAP)	Status[3]	Progress to Date on Action Plans and Indicated Improvements (Outcomes)
11	Banking and accounting data are reconciled on a systematic basis.	n.a. (meets benchmark).		
III.	**Budget Reporting**			
12	Internal data from ministries are received within four weeks of the reference period.	n.a. (meets benchmark).		
13	Periodic statements are classified by function.	Improve the information system (M).	NS	Regular improvements are made to the information system; however, in specific terms, this task has not yet been executed.
14	Accounts are closed two months after the end of the fiscal year.	Reduce the duration of the supplementary period to two months (S). Observe the term of the complementary period and the closing of accounts by the National Treasury Directorate even if there are suspense accounts that have not been balanced. (S)	II	The duration of the three-month supplementary period to close transactions has not been shortened. However, the date for the closing of accounts has been significantly brought forward, compared with previous fiscal years.
15	Accounts are audited and submitted to parliament within 12 months of the end of the fiscal year.	Shorten the time period for the auditing of accounts and preparation of the draft budget law. Increase the number of magistrates in the Public Account Chamber and make provisions for their training. (S)	II	The new expenditure information system has made it possible to close accounts more rapidly and the draft budget settlement law [*loi de règlement*] for FY 2001 was prepared in September 2002 and submitted to the Audit Office of the Supreme Court. It will be submitted to parliament as soon as possible, depending on when the relevant certificate of conformity is issued by the Public Account Chamber. The December 31, 2002

Indicator	Actions to Strengthen[1] from Agreed Action Plans and Time Horizon (S/M[2]) (From AAP)	Status[3]	Progress to Date on Action Plans and Indicated Improvements (Outcomes)
			deadline was not met. The National Treasury Director has started submitting the documents related to the management account from the Public Account Chamber on a quarterly basis to the Audit Office. This will make it possible for magistrates to balance their accounts throughout the fiscal year. In order to carry out its mission, the Public Account Chamber should, however, receive assistance to build capacity in management tools.

[1] Action plans were agreed by the government, the IMF and the World Bank.
[2] S = short term, i.e., action that is expected to be completed in one year. M = medium term, i.e., action that is expected to be completed in two-three years.
[3] Progress to date should include short description of progress and improvements; note degree of implementation, i.e., whether implementation has been initiated (II), has not yet been started (NS), or is complete (FI, for fully implemented). If FI, state date of completion.

INTERNATIONAL MONETARY FUND
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700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes 2003 Article IV Consultation with Guinea

On July 16, 2003, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Guinea.[1]

Background

Guinea's real GDP growth increased to an estimated 4.2 percent in 2002, from 3.8 percent in 2001, on account of higher agricultural production and the continued strong performance in housing construction. The annual average inflation rate declined to 3 percent in 2002 from 5.4 percent in 2001, notwithstanding an acceleration in the last quarter of the year because of a combination of lax liquidity management and excessive bank financing of a higher-than-projected government deficit. The overall fiscal deficit (excluding grants) widened to 8.2 percent in 2002 from 7.5 percent of GDP in 2001, owing to expenditure overruns that overshadowed progress achieved in revenue mobilization. There was a significant reduction in domestic arrears as the authorities cleared arrears audited in 2001, amounting to almost 0.5 percent of GDP. The external current account deficit (excluding official transfers) widened to 7.8 percent of GDP in 2002 from 3.8 percent of GDP in 2001, mostly because of an increase in imports, in particular of petroleum products, while exports were subdued in part by lower world commodity prices. The Guinean franc/US dollar exchange rate has been kept broadly stable, notwithstanding increasing macroeconomic imbalances, but the real effective exchange rate

[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. 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.

depreciated on average by almost 2.3 percent in 2002. As a result of the deterioration in the external position and near absence of external budgetary assistance, Guinea's gross official reserves declined to 2 months of imports from 2.6 months of imports in 2001. Progress was made in the execution of social spending and the implementation of structural reforms, in particular in the monetary and public finance areas. About eight small enterprises were liquidated or privatized as scheduled by end-2002, but more remains to be done in this area, notably for the public utilities, in especially in light of recurrent interruptions in the supply of water and electricity that continue to affect economic activity.

Developments in 2003 indicate that macroeconomic performance is likely to weaken. Real GDP growth is expected to abate to 3.6 percent, owing mostly to disruptions caused by the frequent outages in the supply of electricity and water. The 12-month rate of inflation rose further because of expansionary policies, reaching 10.6 percent in April 2003. Bringing inflation down would require significant efforts to contain the budget deficit and tighten monetary policy. Reflecting increased net demand for foreign exchange, the spread between the official and the parallel exchange market rates widened to above 5 percent in March 2003.

Executive Board Assessment

Executive Directors agreed with the thrust of the staff appraisal. They welcomed Guinea's higher economic growth in 2002, and commended the implementation of structural reforms and priority spending and the continued servicing of the debt despite budgetary difficulties. However, they expressed concern that recent expansionary fiscal and accommodative monetary policies and an inflexible exchange rate policy have aggravated macroeconomic imbalances, raised inflation, and lowered international reserves. Directors regretted that these policy slippages prevented the conclusion of the second review under the Poverty Reduction and Growth Facility (PRGF) and the adoption of a staff-monitored program and led to the virtual cessation of budgetary assistance from donors. They urged the restoration of fiscal and monetary discipline and a deepening of structural reforms to promote macroeconomic stability, enhance private sector confidence and governance, and improve the investment climate, all of which are crucial to foster economic growth and reduce poverty.

While welcoming the improvement in revenue collection, Directors underscored the need for further progress in this area to achieve the objective of fiscal consolidation, given that Guinea's revenue effort remains both below the country's potential and the average in the sub-region. They therefore supported continuing efforts to bolster nonmining revenue, especially as mining revenue is projected to remain subdued because of the declining quality of bauxite extracted and aluminum price trends.

Directors observed that spending overruns have outweighed the impact of higher revenue collection on the budget, leading to rising budget deficits. They noted that these overruns have been due both to security needs in the context of the unstable regional environment and to weaknesses in expenditure management. They welcomed the commitment to strengthen expenditure controls by processing all outlays through the computerized expenditure tracking system, and urged strict adherence to expenditure ceilings.

Directors emphasized the need to better prioritize public spending in order to increase investment productivity and the delivery of essential public services. They encouraged further reorientation of expenditure away from lower priority areas and defense toward the social sector and infrastructure. Furthermore, they recommended a reduction in the share of wages and salaries within priority spending.

Directors agreed that slippages in budget execution have weakened the monetary program. They emphasized that more efficient liquidity management and higher real interest rates are needed to contain the growth of the monetary aggregates and limit inflationary pressures. They also advised that treasury bills replace central bank advances as the preferred instrument of fiscal deficit financing. Directors stressed that in practice, increased central bank independence is also needed to enhance monetary control.

Directors welcomed actions taken to strengthen the financial system, including the recapitalization of banks, the adoption of new prudential ratios aligned with the Basel Core Principles, the finalization and computerization of commercial banks' accounting plans, the implementation of regulations to fight money laundering, and the preparation of a regulatory framework for the supervision of microfinance institutions. However, they observed that financial intermediation needs to be developed further, including by promoting micro-finance institutions. They regretted the delay in implementing the recommendations of the Fund's May 2002 safeguards assessment of the central bank, and urged adherence to the agreed timeline of reforms.

Directors expressed concern that the de facto pegging of the Guinean franc to the US dollar over the past several months has resulted in a significant loss in official reserves and worsened macroeconomic imbalances, and underscored the need for the exchange rate to be determined by market forces.

Directors welcomed the authorities' commitment to regional integration and the steps taken to prepare for the introduction of the common external tariff (CET) of the West African Economic and Monetary Union (WAEMU), noting that the CET would simplify Guinea's tariff system and enhance trade liberalization. They urged stepped-up efforts to meet the primary convergence criteria for the proposed second monetary zone among West African states.

Directors stressed that structural reforms are crucial to bolstering external competitiveness and increasing economic growth. They called for acceleration of the pace of reforms in the public enterprise sector, including privatisation, particularly in the water, electricity, and telecommunications subsectors. They emphasized the need to improve governance, notably by diligently pursuing cases of corruption and moving ahead with reforms of the justice system, and commended plans to adopt a national anti-corruption strategy.

Directors welcomed Guinea's progress in implementing its poverty reduction strategy, which is partly reflected in the improvement of social indicators in education. They supported efforts underway to assess the state of poverty, including the finalization of the integrated household survey and the preparation of the first Poverty Reduction Strategy Paper progress report. They encouraged the authorities to address regional disparities in poverty levels in order to increase the chances of meeting the Millennium Development Goals. Directors commended the progress in achieving the completion point triggers under the enhanced Heavily Indebted Poor Countries Initiative, other than those related to the implementation of the PRGF-supported program. However, they were concerned about the deterioration of the debt indicators and stressed the need to keep developments under closer review.

Directors observed that, notwithstanding the efforts made in recent years to improve Guinea's statistical apparatus, data deficiencies remain in the areas of public finance, the real sector, balance of payments, and external debt statistics. They encouraged close collaboration with the international donor community, including the IMF's West Africa Technical Assistance Center, to strengthen the statistical database and, more broadly, to address capacity-building needs.

It is expected that the next Article IV consultation with Guinea will be held within 24 months, subject to the provisions of the decision on Article IV consultation cycles, as amended.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. The Staff Report for the 2003 Article IV Consultation with Guinea is also available.

Guinea: Selected Economic Indicators, 1999-2003

	1999	2000	2001	2002	2003 Proj.
	(Annual changes in percent)				
Domestic economy					
Changes in real GDP	4.6	1.9	3.8	4.2	3.6
Changes in consumer prices (period average)	4.6	6.8	5.4	3.0	6.2
	(In millions of U.S. dollars, unless otherwise indicated)				
External economy					
Exports, f.o.b.	635.7	666.6	722.8	700.4	775.9
Imports, f.o.b.	559.4	583.3	561.9	649.6	686.1
Current account balance, excluding official transfers)	-288.6	-252.1	-116.6	-251.9	-204.8
(in percent of GDP)	-8.3	-8.1	-3.8	-7.8	-6.1
Capital and financial account balance	244.0	70.5	81.6	145.5	104.3
Gross official reserves	207.5	150.3	208.4	170.0	157.8
(in months of imports of goods and nonfactor services)	2.8	2.0	2.6	2.0	1.9
Debt service (including to the Fund) 1/	16.2	19.6	20.0	18.7	21.5
Change in real effective exchange rate (in percent) 2/	-6.0	-10.3	-3.2	-2.3	...
	(In percent of GDP, unless otherwise indicated)				
Financial variables					
Government revenue	10.8	10.9	11.3	12.0	12.3
Domestic primary balance 3/	2.4	2.5	0.6	0.0	0.7
Velocity (GDP/average M2)	10.6	10.3	9.4	8.6	8.0
Interest rate 4/	7.5	7.5	7.5	8.2	...

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

1/ In percent of exports of goods and nonfactor services.
2/ Increasing figures indicate an appreciation.
3/ Excluding external aid.
4/ Minimum annual rate on bank savings deposits.