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Guinea: First Review Under the Three-Year Arrangement Under the Extended Credit Facility, Financing Assurances Review, Request for a Waiver of Nonobservance of a Performance Criterion and Request for Modification of Performance Criteria—Staff Report; Informational Annex; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Guinea.

In the context of first review under the three-year arrangement under the extended credit facility, financing assurances review, request for a waiver of nonobservance of a performance criterion and request for modification of performance criteria, the following documents have been released and are included in this package:

- The staff report for the First Review Under the Three-Year Arrangement Under the Extended Credit Facility, Financing Assurances Review, Request for a Waiver of Nonobservance of a Performance Criterion and Request for Modification of Performance Criteria, prepared by a staff team of the IMF, following discussions that ended on August 8, 2012, 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 September 11, 2012. 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 Press Release summarizing the views of the Executive Board as expressed during its September 26, 2012 discussion of the staff report that completed the request and/or review.
- A Statement by the Executive Director for Guinea.

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

- HIPC Initiative Paper
- Joint Staff Advisory Note on the Extended Poverty Reduction Strategy Paper 2011–12 and the 2011 Progress Report
- Letter of Intent sent to the IMF by the authorities of Guinea*
- Memorandum of Economic and Financial Policies by the authorities of Guinea*
- Poverty Reduction Strategy Paper—Progress Report
- Technical Memorandum of Understanding*

*Also included in Staff Report

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

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GUINEA

First Review Under the Three-Year Arrangement Under the Extended Credit Facility, Financing Assurances Review, Request for a Waiver of Nonobservance of a Performance Criterion and Request for Modification of Performance Criteria

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

Approved by Sean Nolan and Masato Miyazaki

September 11, 2012

Guinea is making good progress in recovering from a long period of social unrest and military rule. Macroeconomic imbalances have been reduced, major structural reforms are under way, and long-neglected infrastructure is being rebuilt. However, the political transition process is still incomplete, with parliamentary elections having been delayed, and social tensions persist. Guinea remains vulnerable to developments in international markets, but risks are mitigated by long-term mining contracts; the key food import is rice, where recent international price increases have been modest and where agricultural reforms seek to boost domestic production.

Performance under the program supported under the Extended Credit Facility (ECF) has been satisfactory. The end-June quantitative performance criteria were met but some new short-lived external arrears arose during the first half of 2012 due to technical problems (corrective action has been taken and a waiver is requested). There was also good progress with structural reform, despite some delays. **Staff recommends completing the first review**, following which Guinea is expected to reach the completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative.

Fund relations. The Executive Board concluded the 2011 Article IV consultation with Guinea on February 24, 2012, at which time it also approved a three-year ECF arrangement in the amount of SDR 128.52 million (120 percent of quota). The discussions for the first review under the arrangement took place in Conakry during July 19–August 8, 2012. The staff team comprised Mr. Snoek (Head), Messrs. Ntamatungiro and Razafimahefa (both AFR), Dicks-Mireaux (SPR) and Wane (Resident Representative). The mission met with President Condé; Prime Minister Fofana; President of the interim parliament Diallo; Minister of Economy and Finance Yansané and other ministers; Governor of the Central Bank of Guinea Nabé; and other senior officials; representatives of civil society, trade unions and the press, and the diplomatic community. Mr. Bah (OED) participated in the meetings.

Publication: The authorities have agreed to the publication of the staff report and the Letter of Intent and its attachments.

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ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
AFRITAC	African Regional Technical Assistance Center
BCRG	*Banque Centrale de la République de Guinée* (Central Bank of the Republic of Guinea)
ECF	Extended Credit Facility
EDG	Guinea Electricity Company
GDP	Gross Domestic Product
GNF	Guinea Franc
HIPC	Heavily Indebted Poor Countries
IFAD	International Fund for Agricultural Development
MDRI	Multilateral Debt Relief Initiative
MEFP	Memorandum of Economic and Financial Policies
MEF	Ministry of Economy and Finance
PFM	Public Financial Management
PA	Prior Action
PC	Performance criterion
PRS(P)	Poverty Reduction Strategy (Paper)
SB	Structural benchmark
SOE	State-Owned Entity
SDR	Special Drawing Rights
TMU	Technical Memorandum of Understanding

EXECUTIVE SUMMARY

Macroeconomic developments in the first half of 2012 have been encouraging. Economic activity has been strong, inflation declined, the exchange rate stabilized, and official reserves exceeded 4 months of imports by end-June, despite the fact that expected large exceptional mining revenue did not materialize. Key to progress has been continued prudent fiscal management, based on strong revenue efforts and cash-based expenditure management, supported by central bank foreign exchange sales to absorb excess liquidity. The government and the opposition have been unable to agree on a schedule for legislative elections needed to complete the political transition and the socio-political environment remains fragile.

Performance under the ECF-supported program has been good. The quantitative performance criteria (PCs) for end-June were met. Some short-lived new external arrears, due largely to technical problems, resulted in missing the continuous PC on the non-accumulation of external arrears; corrective action has been taken and the authorities are requesting a waiver. Progress with the ambitious structural reform agenda has been satisfactory; delays were mainly due to additional technical assistance needs, although there were also some policy slippages, including with regard to the re-introduction of the automatic fuel price adjustment mechanism, which was postponed because of concerns about its social impact. Following the completion of the first review under the ECF arrangement, Guinea is expected to reach the completion point under the HIPC Initiative.

Important strides were made in establishing good governance and transparency in the mining sector. The government established two committees to implement the review of the existing mining contracts, ensuring transparency and appropriate due diligence, and recently reinforced government control over a company set up to manage the country's mining assets, pending World Bank and IMF advice on its role. Implementing regulations for the 2011 mining code and technical amendments to the code are expected to be completed before end-2012, providing the basis for the review of the mining contracts. The authorities have not yet taken a decision on the financing of possible government participation in the infrastructure company of the Simandou iron ore project, but stated that any borrowing for the project would be financed only on the basis of future project revenue without guarantees that could impose a burden on the budget.

Program targets for end-2012 have been modified to reflect recent developments, while maintaining the overall objectives of the program. These changes address in particular the shortfall in expected exceptional mining revenue and expenditure overflows from 2011.

The program for 2013 aims at consolidating macroeconomic stabilization. Economic growth is projected to remain strong, pushed by accelerating investment in the mining sector and the impact of the ongoing structural reforms, especially in agriculture and electricity. Inflation is targeted to fall to single digits and gross official reserves will be kept at close to 3 months of imports. Savings from HIPC, MDRI, and other debt relief will make space for increasing priority sector spending. The structural reform agenda for the remainder of 2012 and 2013 focuses on reforms of the tax system and administration, public financial management, debt management, and other key sectors (mining, electricity, agriculture, and the investment climate).

Staff recommends completion of the first review under the ECF arrangement, and approving the waiver for nonobservance of the performance criterion on new external arrears, the modification of the performance criteria for end-December 2012, and of the financing assurances review.

I. Introduction

1. **Guinea continues to make good progress in addressing the large macroeconomic imbalances inherited from the 2009–10 military regime**. Following strong corrective fiscal policies in 2011, the government's medium-term program focuses in the short run on lowering inflation and in the medium term on creating an environment conducive to ensuring that expansion in mining leads to broad-based economic growth and poverty reduction.

2. **The socio-political situation remains fragile**. The government and the opposition remain divided on the process for holding legislative elections, which would complete the transition to normal constitutional rule. Lack of basic services and still high inflation are also sources of social tension, although the authorities are making progress with security sector reform.

II. Recent Economic Developments and Program Performance

3. **Economic activity is strong**, supported especially by agriculture and accelerating investment in the mining sector (Tables 1–4; Figures 1 and 2; MEFP ¶ 6; 8). Inflation continues to decline, falling below 15 percent (y-o-y) in July. The exchange rate remained stable during the first half of 2012 and international reserves exceeded 4 months of imports by mid-year, despite the fact that expected exceptional mining sector revenue did not materialize. The end-June quantitative performance criteria were met (Table 5, and MEFP ¶ 9 and Table 1).[1] The continuous PC on the non-accumulation of external arrears was missed as some external debt service arrears of a short duration arose in April and May 2012, mainly due to technical problems with the central bank's international transfer system; these issues have been addressed and the arrears settled, and the authorities are requesting a waiver for the non-observance of this PC. The indicative target for priority sector spending was also missed.

4. **Budget execution during the first semester of 2012 was satisfactory, despite setbacks (Box 1; MEFP ¶ 10–12)**. Revenue exceeded the program target by almost 1 percent of GDP, as the impact of a tax increase on non-salary income and strong collection efforts more than offset a shortfall on fuel taxes.[2] Current expenditure came in much lower than projected, while delays in implementing projects led to lower domestically-financed investment spending.[3] As a result, the basic fiscal balance was virtually nil, against a programmed deficit of 3.7 percent of GDP. This largely offset the shortfall in exceptional mining revenue and the need to clear sizable unpaid bills accrued in 2011, although some additional bank financing was needed.

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[1] After applying the program adjustor for the shortfall in exceptional mining revenue; see paragraph 20 of the Technical Memorandum of Understanding (TMU), IMF Country Report n° 12/18; February 13, 2012.

[2] The effective tax rate on fuel is adjusted monthly to make up for a gap between pump prices and import costs.

[3] The latter also explains the shortfall with regard to the indicative target for priority sector spending, which includes (large) investment in the electricity sector. The main factor was a delay, for technical reasons, of a shipment of new thermal generators from the first quarter to July 2012. The authorities will review the definition of priority sector spending with the external partners (MEFP ¶ 67).

Box 1. Guinea: Main Factors Affecting Budget Execution in the First Half of 2012

The budget was executed against the following unexpected developments:

- *Non-receipt of expected exceptional mining revenue ($250 million; 4.5 percent of GDP)*. Half of this amount, which was expected to be received during the second quarter, was to be used for budget financing and the rest saved in the Special Investment Fund (SIF) that had been created in early-2012 to manage exceptional mining revenue.[1/] The delay stemmed from the creation of two committees in March 2012, which were charged with reviewing all existing mining contracts, including those expected to generate the 2012 exceptional revenue, to bring them in line with the 2011 mining code while ensuring full transparency and appropriate due diligence. Results of this review, which also depend on the adoption of the amendments to, and the implementation regulations for, the 2011 mining code are not expected until 2013.
- *Sizable payments due on expenditures committed in late 2011 (1.1 percent of GDP),* in part the result of the late approval of the 2011 revised budget (in October).
- *Higher foregone revenue from fuel taxes than expected (1.1 percent of GDP for the first half of 2012).* The 2012 budget assumed that domestic fuel prices would be increased gradually to close the gap with import costs by July 1; in the event, domestic prices were kept unchanged while import costs rose.
- *Unanticipated new concessional loan disbursement to Guinea from Angola ($72 million; 1.3 percent of GDP)*.[2/] The disbursement, reportedly intended for a new public enterprise in the mining sector, was not used and helped contain net bank financing budget through June.

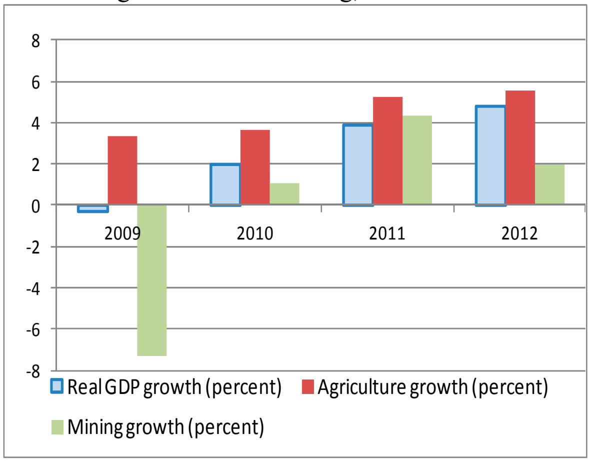
[1] The SIF is discussed in detail in IMF Country Report n° 12/18; February 13, 2012; page 22, Box 4.

[2] In February 2012. The total amount of the loan is $150 million; a second tranche of $39 million is expected in 2013.

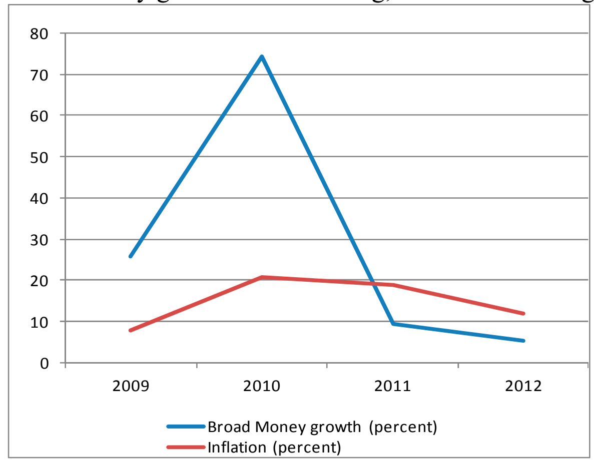
5. **The monetary aggregates contracted during the first half of 2012 (MEFP ¶ 14)**. These developments reflected to a large extent movements in the domestic financing of fuel imports, which increased sharply in 2011 but fell in 2012; banks' foreign liabilities and excess reserves also fell. Government deposits declined as the 2011 exceptional mining revenue was drawn down; the effect on liquidity of this drawdown was offset by central bank foreign exchange sales. Broad money contracted by 1.5 percent, while the market exchange rate premium almost disappeared (Figure 1).

Figure 1. Guinea: Recent Economic Developments, 2009–12

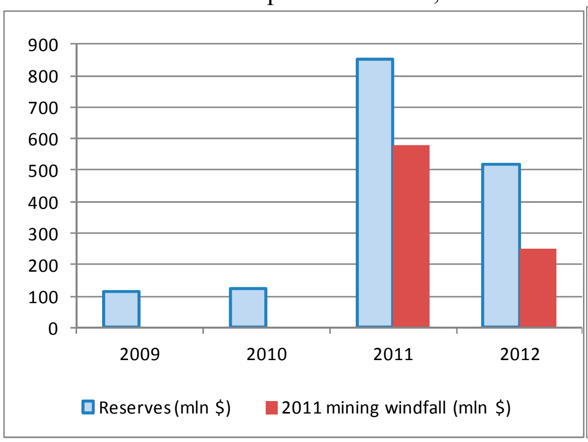
Economic growth is accelerating,



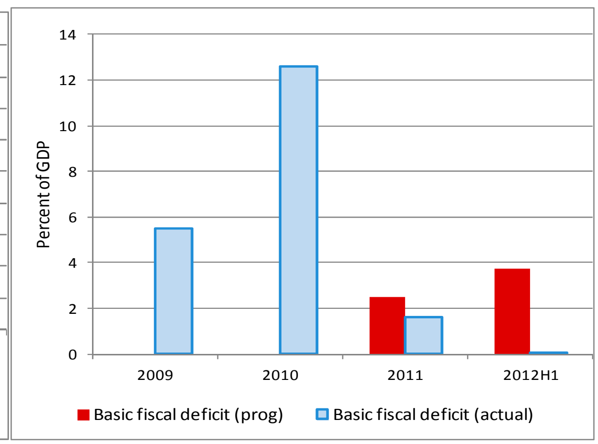
Broad money growth is moderating, inflation declining.



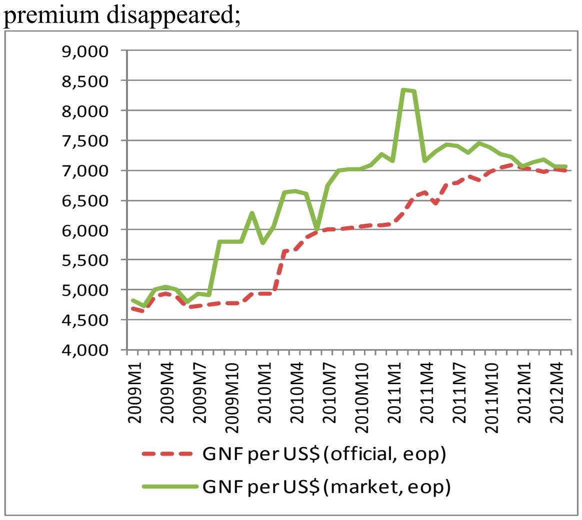
Gross official reserves reflect the receipt and use of the 2011 exceptional revenue;



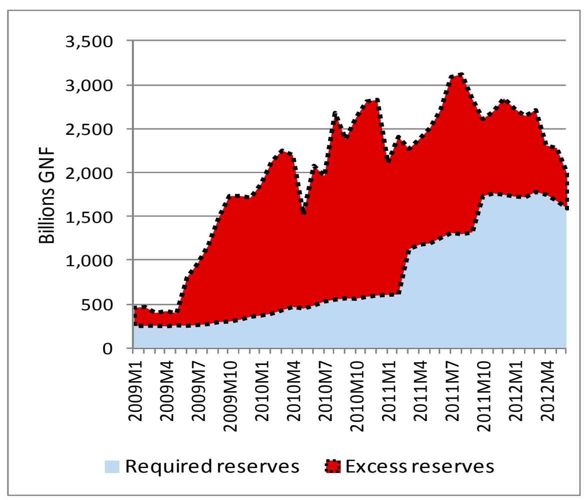
Fiscal adjustment has been strong after 2010;



The exchange rate is stable and the market premium disappeared;



Banking system excess liquidity is falling.



Sources: Guinean Authorities and IMF staff.

Figure 2. Guinea: Fiscal Developments and Projections, 2012–13

Sources: Guinean Authorities and IMF staff.

6. **Guinea made good progress with structural reforms, despite some delays** (MEFP ¶ 16–22 and Table 2). While oversight and coordination of the ambitious reform agenda was much improved, including at the level of the Council of Ministers, there were some delays in implementing program structural benchmarks (SBs). Most delays were due to the need for additional technical assistance although there were also some policy slippages, concerning the delayed implementation (from March to August) of agricultural sector reform, and the failure to re-apply the automatic fuel price adjustment mechanism (postponed amid concerns about a social backlash).

III. Discussions on the Program for the Remainder of 2012 and 2013

Discussions focused on (i) adjusting the program for the second half of 2012 in response to the revised circumstances, especially the delay in exceptional mining revenue; and (ii) the broad outlines for the 2013 program.

7. **The medium-term macroeconomic objectives remain within reach** (MEFP ¶ 28). Real GDP growth should approach 5 percent during 2012–13, while inflation is on track to decline to 12 percent (y-o-y) by end-2012, and into single digits in 2013. The budget may reap considerable benefits from the review of the mining contracts; given the uncertainties involved, no allowance has been made for this in the projections.[4] The target for gross official reserves has been revised down from 3.3 months of imports to 2.9 months by end-2012, but remains well above the medium-term target floor of 2.5 months.

A. Fiscal Policy

8. **On August 30, the government adopted a revised budget for 2012 to adjust to the unforeseen developments during the first half of the year** (prior action; MEFP ¶ 29) (Figure 2). Building on the strong performance during January-June, and additional administrative measures, revenue is estimated to be somewhat higher than in the original budget (MEFP ¶ 30).[5] Allocations for current expenditure have been lowered but increased for development spending to include some projects that had not been implemented in 2011; the revised budget also provides for a transfer to the central bank to bring its capital in line with legal requirements (MEFP ¶ 31–32). The basic balance deficit is targeted to decline from 3.8 percent in the original budget to 3.6 percent (3.1 percent excluding recapitalization of the central bank). The revised budget includes new budget support grants from the African Development Bank (AfDB), France (in large part reflecting return of excess debt service payments in 2009–11)[6] and Angola.

[4] The TMU describes the program adjustor in case new windfall mining revenue is collected (Attachment II to Appendix I).

[5] The revised budget does not anticipate an increase in domestic fuel prices, but the authorities will decide on an increase or on offsetting measures should higher import prices jeopardize attaining the broad fiscal targets.

[6] During 2009-11, Guinea paid debt service to France greater than was assumed under the 2012 Paris Club agreement. As a result France undertook to reimburse the amounts paid.

9. **Fiscal policy in 2013 remains anchored on avoiding bank financing of the budget, aside from a further drawdown of deposits from the 2011 windfall revenue** (MEFP ¶ 35). Consistent with this anchor and given available resources, the basic balance deficit will be reduced to 1.4 percent of GDP. The revenue effort is projected to further increase, primarily due to the reintroduction of the automatic mechanism for fuel price adjustments by January 1, 2013 (SB) (MEFP ¶ 36–38). As regards financing resources, funding from the 2011 exceptional revenue will decline,[7] which is partly offset by lower projected debt service (about 1.7 percent of GDP) resulting from expected HIPC completion point relief and new budget support from France[8] and Angola.

10. **Discussions on the detailed 2013 expenditure allocations continue, but overall spending will be contained in line with the basic balance deficit target** (MEFP ¶ 39–41).[9] Given the lower domestic financing (and somewhat lower external project financing),[10] investment spending is expected to be considerably lower than in 2012 (remaining, however, well above the 2008-11 levels). The SIF is expected to finance almost half of the domestically-financed investment; to this end, the World Bank will provide further technical assistance in order to complete the governance structure of the SIF, while the African Development Bank (AfDB) and the United Nations Development Program (UNDP) are providing assistance in identifying projects that could be submitted for SIF-financing in the context of the public investment program (PIP) that is to be completed by end-December 2012 (SB).

B. Monetary and Exchange Rate Policy

11. **Monetary policy will continue to focus on lowering inflation** (MEFP ¶ 42). Using reserve money as its main intermediate target, the central bank will continue managing domestic liquidity through the weekly foreign exchange auctions, taking into account the target for international reserves. The contraction of monetary aggregates in the first half of 2012 suggests that there is some scope for easing the monetary policy stance, and the central bank (Banque Centrale de la République de Guinée; BCRG) may start lowering its (signaling) policy rate in the months ahead, possibly followed by a reduction in the reserve requirement. The BCRG also plans to further improve the foreign exchange market

[7] Of the $700 million payment received in May 2011, $420 million was allocated for investment during 2011–12, of which 65 percent for the electricity sector. $30 million will be used in 2012 for the recapitalization of the central bank. The remaining $250 million were disbursed into the SIF, of which half will be used in 2013.

[8] Projected debt service includes debt service paid on all ODA post-cut-off date French claims that, in the context of post-HIPC completion point debt relief will be returned to the country in the form of project grants under the Debt Reduction and Development Contracts (C2D) arrangement.

[9] The authorities intend to submit the draft 2013 budget to parliament by October 15, 2012, which would be within the constitutional deadline for the first time since a decade.

[10] The projections assume project assistance by the European Union equivalent to about 2 percent of GDP; this assistance is conditional upon the completion of the political transition process through legislative elections.

(MEFP ¶ 43) and strengthen banking supervision; the government intends to adopt a new banking law by end-2012 (SB; MEFP ¶ 44). The BCRG and the Ministry of Economy and Finance (MEF) intend to sign an agreement on the treatment of the outstanding stock of government advances by the end of 2012 (SB; MEFP ¶ 45) to implement recommendations by the external auditors to shorten the repayment period of the advances. A study on the development of the financial sector has also started, with the assistance of the AfDB and the UNDP.

C. Structural Reforms

12. **Priority areas of structural reform are public financial management; the governance structure for the mining sector; the electricity and agricultural sectors; and the business climate** (MEFP ¶ 46–66). While the agenda is ambitious given Guinea's capacity constraints, considerable progress has been made in most areas, allowing the reforms to be implemented as scheduled.

- ***Fiscal: strengthening revenue and public financial management*** (PFM; MEFP ¶ 46–48*)*. The authorities will start implementing the recently adopted tax reform plan; the medium-sized enterprises unit will start activities, and VAT collection will be expanded to these enterprises, by end-December 2012 (SB) and the VAT refund system will be improved. With the new Organic Budget Law, follow-up actions include issuing a decree on the general regulations on fiscal management and public accounting (RGGBCP) by end-December 2012 (SB), which will strengthen safeguards to avoid expenditure overflows over consecutive fiscal years (MEFP ¶ 47) and will strengthen control of the MEF over external debt for all government entities (MEFP ¶ 48).

- ***Mining sector: key actions focus on governance and transparency in mining contracts and managing government assets in the sector*** (Box 2). The authorities plan to submit, by end-2012, draft amendments to the 2011 mining code to parliament (SB), and to adopt the implementing regulations of the code, including a standard mining convention (SB). Subsequently, the two recently established committees will review all existing mining conventions to bring them in line with the new code (MEFP ¶ 19; 52–53). In 2011, the government created a company (SOGUIPAMI) to manage the country's mining assets. To ensure a sound and fiscally responsible framework for the management of these assets, the independent and largely unsupervised powers of SOGUIPAMI were restricted by presidential decree in August 2012, pending a review of its role and relations with the public administration by March 2013, to be completed with technical assistance from the World Bank and the IMF (SB; MEFP ¶ 54–56).

- ***Electricity sector: the government will continue implementing its rehabilitation and investment program*** (MEFP ¶ 57–60). It will also define the legal status of EDG and create the company's governance institutions, including management, by end-June 2013 (SB).

- ***Agriculture*: *implementation of the action plan to improve the use of public resources in the sector, aimed at promoting food security and agricultural exports*** (MEFP ¶ 61–65).

- ***Business climate: based on recommendations of the International Finance Corporation (IFC) and FAD, the authorities have substantially broadened the scope of the revision of the Investment Code, separating investment policies and access to tax incentives*** (MEFP ¶49–51). Investment policies will be set out in the new Investment Code, to be submitted to parliament by end-March 2013 (SB). Investment tax incentives will be included in a draft law on tax and customs incentives that is expected to be submitted to parliament by end-May 2013 (SB) and subsequently incorpporated in the separate tax and customs codes. The list of companies benefitting from tax incentives under the present investment code is under review by an inter-ministerial committee, with a view to terminating existing exemptions provided to companies that do not satisfy the contractual obligations associated with the advantages in the code, by end-2012 (SB: MEFP ¶22; 30).

Box 2. Guinea: An Evolving Governance Structure for the Mining Sector

Since 2011, the government has taken steps to establish a governance structure for the mining sector in line with best practices, including rules-based and transparent processes. It has also started to build its capacities in this area with extensive technical assistance. Key elements are:

Mining Code, Contracts and Conventions:

- New mining code conforming to international standards (September 2011); and
- Implementing texts of, and technical amendments to, the new mining code and a standard mining contract (to be completed by end-2012).

Renegotiation of existing mining conventions with due diligence:

- Inter-ministerial National Mining Commission (NMC) to examine titles and conventions prior to decisions on modifications or withdrawals (March 2012);
- Two inter-ministerial committees within the NMC to guide the renegotiation of existing contracts (March 2012): (i) Strategic Committee (SC)—in charge of policy, strategic issues, and preparing draft decisions; and (ii) Technical Committee (TC)—examines existing titles and conventions, makes recommendations to SC, and publishes regular reports (review to be completed during 2013–14).

Box 2. Guinea: An Evolving Governance Structure for the Mining Sector (concluded)

Management of public mining sector resources:

- Resumed participation in the Extractive Industries Transparency Initiative (March 2011) to renew progress in validation process. Participates in Kimberly process;
- Special Investment Fund created within the budget framework (March 2012) to receive windfall mining revenues and ring-fence their use for priority investments. Steering committee includes civil society and donor representatives (end-2012). Detailed governance structure based on World Bank advice to be adopted by end-2012; and
- Review of institutional framework for managing government mining assets. The parastatal SOGUIPAMI was established (August 2011) to manage these assets, but with independent and largely unsupervised powers. In August 2012, these were rescinded, pending a review of its role and its relations with the public administration (to be completed by March 2013).

IV. Program Monitoring, Financing, and Risks

13. **Staff proposes to modify the program's performance criteria for end-December 2012** (Table 6, MEFP Table 4). These modifications are in response to the delay in receiving new windfall mining revenue; the associated policy measures adopted by the authorities are described in their supplement to the MEFP. The end-September 2012 indicative targets have been revised in line with the adjustment to end-year targets. Performance criteria are being proposed for end-June 2013 and indicative targets for March, September and December 2013 (Table 6).[11] The government is also requesting a waiver for temporarily accumulating new external debt arrears, for which corrective action has been taken. The list of SBs has been updated (MEFP Table 5).

14. **The program's financing requirements are fully met** (Table 7, MEFP ¶ 68). A debt rescheduling agreement was reached with the creditor members of the Paris Club in April 2012 and the government has initiated good faith discussions with commercial and non-Paris Club official bilateral creditors to obtain debt relief on maturities and arrears on terms comparable to Paris Club terms and in line with the HIPC Initiative, thus ensuring full financing of the program.[12] With respect to its commercial creditors, the government is committed to engaging in collaborative discussions with a view to reaching an agreement through an open and transparent dialogue based on the principle of "inter-creditor equity." Staff believes that the government's approach is consistent with the good faith criterion of the Fund's lending into arrears policy. Guinea also benefited from interim HIPC assistance from the IMF during the first half of 2012. Creditors accounting for 97.5 percent of total HIPC eligible debt have given

[11] There may be a need to fine-tune these targets at the time of the second review, following the completion of the budget negotiations.

[12] In the case of commercial creditors, all outstanding debt is in arrears.

satisfactory assurances of their participation in the enhanced HIPC imitative; expected HIPC, MDRI and additional bilateral debt relief upon reaching the HIPC Initiative completion point in September 2012 will free resources during 2012–13 that will be allocated to priority expenditures. Residual financing requirements will be met through some use of the international reserves accumulated in 2011, consistent with the objective of maintaining an adequate level of international reserves. Disbursements under the ECF-supported program would cover the residual balance of payments financing need (Tables 8 and 9).

15. **To ensure prudent debt management, the authorities will mobilize only grants and concessional loans, apart from possible World Bank enclave financing for the Simandou iron ore project** (MEFP ¶ 69). Discussions on a possible 51 percent government participation (requiring financing of up to $5 billion at present estimates) in the infrastructure company associated with the Simandou iron ore project are ongoing; staff have suggested that direct government participation be minimized. The authorities stated that any borrowing for the project would be financed only on the basis of future project revenue without guarantees that could pose a burden on the budget. In order to assist with the financing, the authorities have requested the World Bank to participate through its enclave financing window.

16. **The authorities have taken steps to strengthen debt management**. In June, they informed the Fund of two loans that had been contracted in 2011 but had not previously been disclosed to the Fund (MEFP ¶ 13); both loans were reportedly intended to finance SOGUIPAMI.[13] In August 2012, as part of the broader review of SOGUIPAMI's role and responsibilities, its power to independently contract loans was curtailed (MEFP ¶ 54–56). Following the issuance of the regulations on fiscal management and accounting (see paragraph 12, first bullet), which will already strengthen central oversight over external borrowing of state-owned entities (SOEs), the government also intends to revise the laws on SOEs to establish a clear framework under which they can borrow, including by adopting, by end-2013, revisions to the statutes on public entities to make them consistent with the new budget framework law and regulations on fiscal management and public accounting (SB; MEFP ¶ 48); this would confirm the Minister of Economy and Finance as the sole authority who can authorize contracting external public debt.[14]

17. **The main risks to the program are domestic rather than stemming from the difficult international economic environment**. Political and socio-economic instability remains a serious risk, especially in the run-up to legislative elections, while adjustment fatigue could undermine support for reforms. Imprudent borrowing for large mining projects could compromise debt sustainability. Guinea is also vulnerable to adverse external shocks, including a fall in mineral export demand and a rise in prices of imported food and oil products. The risks to current mining exports are mitigated by long-term contracts; for the near term, mining sector

[13] One loan, of $25 million on non-concessional terms from a private company, was cancelled and repaid in full in July 2012. The second loan, of $150 million on concessional terms, was from the government of Angola. The loans were contracted in 2011 and do not constitute a breach of conditionality under the ECF arrangement.

[14] The government is receiving technical assistance from the European Union on debt management.

prospects are mainly driven by the very large Simandou project (investment estimated at 3-4 times annual GDP), which is not expected to be materially affected by short-term international developments. Guinea's food imports are dominated by rice, prices of which have risen only modestly recently; vulnerability to international developments will be further reduced by the agricultural reforms, which aim at quickly restoring Guinea's self-sufficiency in rice.

V. Medium-Term Plans, the PRSP, and the HIPC Completion Point

18. **The authorities are completing the investment program to underpin their medium-term development plans**. In May 2012, parliament adopted a 5-year development plan (2011–15), which focuses on government investment in infrastructure, mining, industry, water, energy and tourism. This is further elaborated in the medium-term PIP that is under preparation. The authorities have also started work on a new PRSP for 2013–15, drawing on the annual progress report (APR) on PRSP implementation in 2011,[15] which is expected to be finalized by end-2012.

19. **Following the completion of the first review of the ECF arrangement, Guinea is expected to reach the completion point under the enhanced HIPC Initiative** (MEFP ¶ 66–67 and Table 3) (see recently issued completion point document, including Appendix II on the debt sustainability analysis for low-income countries). With the full delivery of HIPC completion point, MDRI and beyond-HIPC debt relief, the present value of Guinea's external debt would fall by 60 percent. Nevertheless, external debt burden indicators are vulnerable to adverse shocks and thus would be at a moderate risk of debt distress; this compares to the "in debt distress" assessment in February 2012 at the time of the request for the current ECF arrangement. The authorities' commitment to sound macroeconomic policies, improvements in the business environment, and prudent debt management, will help addressing remaining vulnerabilities and maintaining a sustainable external debt position.

VI. Staff Appraisal

20. **Macroeconomic developments have been positive during 2012**. Indications are that growth continues to pick-up, driven by policies to improve agricultural production and reduce infrastructure bottlenecks, and accelerating investment in the mining sector. Tight fiscal and monetary policies and increased availability of foreign exchange have stabilized the exchange rate and lowered inflation. International reserves remain at a comfortable level.

21. **Implementation of the ECF-supported program has been good**. The end-June performance criteria were met and measures have been taken to prevent the technical problems that resulted in the non-observance of the continuous PC on the non-accumulation of external debt service arrears. Good progress was made in most key areas of structural reform. It will be important to build on these early steps and make further advances in the key mining, energy and agricultural sectors, as well as in transparency and good governance.

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[15] The APR was send to the Board on August 30, 2012, see www.imf.org together with the Joint Staff Advisory Note thereon, see www.imf.org

22. **Implementation of an automatic cost-based fuel price adjustment mechanism remains important for Guinea**. The authorities' reluctance to raise fuel prices as long as inflation remains high is understandable. However, foregone fuel tax revenue weighs heavily on the budget, and a rising wedge between import cost and domestic prices could undermine the authorities' overall fiscal objectives. Staff urges the authorities to consider advancing the re-introduction of the automatic mechanism from January 1, 2013 in the event import prices rise above the level assumed in the 2012 revised budget.

23. **The staff welcomes recent progress with reforming public financial management**. It will be important to consolidate the recent progress by completing the implementing regulations for the new Organic Budget Law, which are also expected to safeguard against large expenditure overflows across fiscal years. The authorities should rapidly implement the recently adopted tax reform plan, including measures to expand the coverage of VAT to medium-sized companies and improve the VAT refund system.

24. **Transparency and good governance is essential to unleash the mining sector and Guinea's growth potential**. Staff welcomes the government's approach to reviewing the existing mining contracts through a transparent process. While this led to delays in new exceptional revenue from the sector, full transparency and appropriate due diligence are key for ensuring that Guinea receives a fair share of its natural resource wealth. Staff also welcomes recent measures which intensified government oversight over the company that is to manage the country's mining sector assets, pending a review of its role and place in the government system with World Bank and IMF technical assistance.

25. **Further improvements in external debt management should be undertaken**. The strengthening, in the new Organic Budget Law, of the centralized authority of the Minister of Economy and Finance with regard to contracting public external debt, is a step in the right direction. Staff encourages the authorities to make quick progress with reviewing relevant regulations on public enterprises and other government entities to make sure that they are consistent with the new budget framework law. While staff welcomes the corrective measures taken in the light of recent temporary external arrears, further progress in building capacity in debt management is needed.

26. **Staff notes that the authorities have not yet decided on the financing of possible government participation in the infrastructure company for the Simandou iron ore project**. It remains vital that such financing avoid any burden on the budget to maintain medium-term debt sustainability and staff welcomes the authorities' undertaking to seek assistance from the Fund and the World Bank before committing to possible new large debt.

27. **The medium-term outlook remains positive, with both downside and upside risks**. Guinea remains vulnerable to developments in international markets for minerals, oil and food products. However, economic activity in the near-term will be driven by progress in implementing reform, including in the agricultural and electricity sectors, and by investment in the large Simandou iron ore project, which is less likely to be affected by short-term global developments. The fragile political and socio-economic situation remains an important risk factor, but staff considers the authorities' policies and planned reforms to be appropriate to mitigate such risks.

28. **The staff recommends completion of the first review under the ECF arrangement and of the financing assurances review**. Given that the external debt arrears were minor and short-lived and that corrective action has been taken to prevent reoccurrence of the technical problems that resulted in the arrears, staff recommends approval of the request for a waiver for non-observance of the performance criterion on the non-accumulation of external debt arrears during the first half of 2012. It also recommends the modification of the quantitative performance criteria for end-December 2012, and the setting of new performance criteria for June 2013, and supports the authorities' request for the second disbursement under the ECF arrangement of an amount equivalent to SDR 18.36 million.

Table 1. Guinea: Selected Economic and Financial Indicators, 2008–16

	2008	2009	2010	2011	2012 Prog.	2012 Rev Prog	2013 Prog.	2014 Proj.	2015 Proj. 1/	2016 Proj.
	(Annual percentage change, unless otherwise indicated)									
National accounts and prices										
GDP at constant prices	4.9	-0.3	1.9	3.9	4.7	4.8	5.0	5.2	19.9	19.7
GDP deflator	14.1	6.8	20.2	19.6	12.3	14.7	6.3	7.4	5.2	5.0
GDP at market prices	19.7	6.5	22.5	24.3	17.6	20.2	11.7	13.0	26.1	25.7
Consumer prices										
Average	18.4	4.7	15.5	21.4	15.0	14.7	10.3	7.3	6.0	5.9
End of Period	13.5	7.9	20.8	19.0	12.0	12.0	8.7	6.2	5.9	5.9
External sector										
Exports goods & services (in US$ terms)	32.0	-22.1	13.6	12.1	11.1	3.0	2.2	5.8	77.5	53.3
Imports goods & services (in US$ terms)	19.6	-21.2	26.2	38.3	68.1	48.3	7.2	1.7	13.4	8.8
Average effective exchange rate (depreciation -)										
Nominal index	-13.4	3.3	-17.0	-18.1	…	…	…	…	…	…
Real index	-2.2	7.1	-8.2	-3.2	…	…	…	…	…	…
Money and credit										
Net Foreign Assets 2/	14.3	4.7	-5.5	40.1	-9.6	-11.6	-1.2	…	…	…
Net Domestic Assets 2/	24.7	21.2	79.9	-30.7	15.6	16.9	11.4	…	…	…
Net Claims on government 2/	20.8	28.7	70.2	-44.8	5.4	17.7	7.6	…	…	…
Credit to nongovernment sector 2/	1.9	3.1	8.9	15.0	12.7	2.0	7.0	…	…	…
Reserve Money	13.8	81.7	73.0	-4.9	-7.5	-6.2	8.3	…	…	…
Broad money (M2)	39.0	25.9	74.4	9.4	6.1	5.3	10.2	…	…	…
Interest rate (short term T-bill)	21.5	15.0	13.0	13.0	…	...	...	...	...	...
	(Percent of GDP)									
Central government finances 3/										
Total revenue and grants	16.1	16.5	15.7	20.3	22.0	22.9	24.0	24.9	27.5	28.2
Revenue	15.6	16.2	15.3	16.8	18.8	19.2	20.2	20.8	24.1	26.3
Of which : nonmining revenue	12.1	12.9	11.5	13.0	15.1	15.0	16.2	16.4	16.7	17.9
Grants	0.5	0.4	0.4	3.4	3.2	3.7	3.8	4.1	3.4	1.9
Total expenditure and net lending	17.5	23.7	29.7	21.5	28.7	28.1	26.1	26.2	28.4	29.7
Current expenditure	13.4	16.5	20.5	16.3	16.8	15.6	15.8	15.6	15.2	15.0
Of which: interest payments	2.6	2.1	2.0	2.0	1.8	1.4	0.9	1.3	1.2	1.1
Capital expenditure and net lending	4.0	7.2	9.1	5.2	11.9	12.4	10.3	10.5	13.2	14.6
Overall budget balance										
Including grants (commitment)	-1.3	-7.1	-14.0	-1.3	-6.7	-5.2	-2.1	-1.3	-0.9	-1.5
Excluding grants (commitment)	-1.8	-7.5	-14.4	-4.7	-9.9	-9.0	-5.9	-5.4	-4.3	-3.4
Basic fiscal balance	1.6	-5.6	-12.6	-1.6	-3.8	-3.6	-1.4	-0.6	-0.6	0.6
National accounts										
Gross capital formation	17.5	11.4	10.6	17.6	37.3	37.3	44.1	43.9	33.7	19.1
Savings	7.2	1.6	-1.8	1.3	2.4	-1.7	4.4	4.8	12.4	14.2
Current account balance										
Including official transfers	-10.3	-9.9	-12.4	-16.3	-34.9	-38.8	-39.2	-39.2	-21.3	-5.0
Excluding official transfers	-10.8	-9.9	-12.4	-18.6	-35.0	-39.6	-40.2	-40.3	-22.3	-5.0
Overall balance of payments	-0.9	5.3	-3.6	10.1	-5.9	-7.2	-0.8	-0.2	2.3	1.3
	(US$ millions, unless otherwise indicated)									
Memorandum Items:										
Exports, goods & services	1,578.1	1,229.9	1,397.3	1,566.0	1,751.8	1,613.7	1,648.5	1,743.6	3,095.1	4,745.7
Imports, goods & services	1,810.4	1,427.2	1,800.4	2,490.8	3,459.4	3,693.8	3,958.3	4,026.6	4,564.8	4,966.0
Overall balance of payments	-42.4	245.9	-177.8	520.6	-323.7	-410.8	-48.2	-13.7	171.5	117.1
Net foreign assets (central bank)	-14.1	97.9	39.6	637.6	381.6	265.7	214.8	260.8	460.6	577.7
Gross available reserves (months of imports) 4/	0.6	0.8	0.7	4.6	3.3	2.9	2.9	3.0	3.1	3.7
Nominal GDP (GNF billions)	20,780	22,133	27,118	33,697	39,944	40,494	45,219	51,114	64,439	80,983

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

1/ Production of the Simandou iron ore project is planned to start by mid-2015.

2/ In percent of the broad money stock at the beginning of the period.

3/ Figures in 2015-16 are in percent of GDP excluding the large iron ore project of Simandou.

4/ In months of the following year's imports excluding imports for large foreign-financed mining projects.

Table 2a. Guinea: Fiscal Operations of the Central Government, 2010–16
(Billions of Guinean franc)

	2010	2011		2012				2013	2014	2015	2016
		SMP	Actual	H1 Prog	H1 Act.	Prog.	Rev Prog	Prog.	Proj.	Proj.	Proj.
Revenue and grants	4,258	6,848	6,824	4,186	4,190	8,798	9,278	10,847	12,735	15,556	17,661
Revenue	4,155	5,687	5,662	3,546	3,918	7,526	7,760	9,132	10,629	13,620	16,464
Mining sector	1,032	1,383	1,296	792	747	1,489	1,705	1,798	2,265	4,159	5,257
Non-mining sector	3,123	4,303	4,366	2,754	3,171	6,037	6,055	7,333	8,364	9,461	11,207
Direct taxes	732	934	1,001	580	934	1,168	1,495	1,718	1,971	2,237	2,536
Indirect taxes	2,212	3,020	2,881	2,012	2,051	4,576	4,288	5,222	5,941	6,711	8,090
Taxes on goods and services	1,526	2,180	1,904	1,345	1,373	3,022	2,920	3,487	4,001	4,540	5,147
Taxes on international trade	685	840	978	667	678	1,554	1,368	1,734	1,940	2,171	2,943
Non-tax revenue	180	349	484	163	186	293	272	394	452	513	581
Grants	103	1,161	1,162	640	272	1,272	1,518	1,715	2,106	1,936	1,198
Project grants	103	381	412	612	272	1,223	1,187	1,258	1,534	1,279	1,198
Budget support	0	780	750	28	0	49	331	457	572	657	0
Total expenditures and net lending	8,049	7,650	7,247	6,246	4,390	11,465	11,384	11,818	13,378	16,053	18,581
Current expenditures	5,570	5,419	5,490	3,199	2,527	6,696	6,334	7,147	7,978	8,588	9,418
Primary current expenditures	5,023	4,838	4,826	2,846	2,297	5,961	5,781	6,719	7,327	7,885	8,707
Wages and salaries	1,551	2,061	1,764	1,019	905	2,124	1,974	2,384	2,559	2,753	3,062
Goods and services	2,546	1,618	1,814	1,039	858	2,182	2,276	2,492	2,741	2,950	3,218
Subsidies and transfers	926	1,159	1,248	787	534	1,655	1,531	1,843	2,027	2,182	2,426
Interest on debt	547	580	664	352	230	735	553	428	651	703	711
Domestic debt	356	304	370	169	92	352	337	373	538	572	562
External debt	191	276	293	183	138	383	216	55	112	131	149
Capital expenditures	2,479	2,227	1,750	3,043	1,854	4,759	4,782	4,241	5,377	7,440	9,135
Domestically financed	2,187	1,207	984	2,018	1,452	2,704	2,826	2,225	3,038	5,465	6,792
Capital transfer	13	15	13	5	7	16	16	19	22	24	26
Externally financed	279	1,006	753	1,019	394	2,039	1,939	1,997	2,317	1,951	2,316
Net lending & restructuring expenditure	0	4	7	4	10	11	268	430	22	25	27
Basic fiscal balance 1/	-3,424	-662.5	-539	-1,497	60	-1,518	-1,469	-634	-318	-351	349
in percent of GDP 2/	-12.6	-2.0	-1.6	-3.7	0.1	-3.8	-3.6	-1.4	-0.6	-0.6	0.6
Overall balance, commitment basis											
Excluding grants	-3,894	-1,963	-1,585	-2,700	-473	-3,939	-3,625	-2,686	-2,748	-2,433	-2,117
Including grants	-3,791	-802	-423	-2,060	-200	-2,667	-2,107	-971	-642	-497	-920
Financing	3,897	-1,966	367	2,060	308	-857	-14	-53	642	497	919
Domestic financing	3,837	1,112	605	1,940	-56	2,291	1,503	574	589	684	31
Bank financing	4,073	-3,943	-4,378	197	315	650	2,010	906	517	539	0
Central bank	2,907	-4,243	-4,671	197	494	650	2,010	906	517	539	0
Commercial banks	1,166	300	293	0	-179	0	0	0	0	0	0
Nonbank financing	-236	5,055	4,984	1,743	-371	1,641	-507	-332	72	145	31
Privatization revenue	0	0	0	0	0	0	0	0	0	0	0
Amortization of domestic debt	-124	-206	-6	-74	-3	-179	-179	-179	-197	-118	-130
Change in arrears	-157	0	0	0	0	0	0	0	0	0	0
Change in float	23	30	170	0	-368	0	-332	-154	0	0	0
Exceptional revenue	0	4,981	4,634	1,816	0	1,816	0	0	0	0	0
Other	22	251	186	2	0	4	4	0	269	263	161
External financing	60	-3,077	-238	120	364	-3,148	-1,517	-627	53	-187	888
Drawings	177	624	845	408	632	815	1,263	1,022	784	672	1,119
Project	177	624	341		122	815	752	739			
Program	0	0	504		510	0	510	283			
Amortization due	-605	-1,151	-1,166	-542	-520	-1,243	-1,008	-588	-730	-859	-231
Debt relief	149	122	566	2,974	1,861	0	0	0	0	0	0
Change in arrears (- = reduction)	340	-2,673	-483	-2,721	-1,610	-2,721	-1,771	-1,060	0	0	0
Errors and omissions	-106	0	56	0	-108	0	0	0	0	0	0
Financing gap	0	2,768	0			3,524	2,121	1,024	0	0	0
Possible financing (incl. debt relief) 3/		398	0			3,524	2,121	1,024	0	0	0
Debt relief 3/						3,524	2,121	1,024	0	0	0
HIPC Completion Point debt relief 3/							15,015				
HIPC completion point debt cancellation 3/							-15,015				
Residual financing gap		2,369	0			0	0	0	0	0	0
Of which: forbearance on external debt		2,369	0								
Memorandum items:											
Nominal GDP	27,118	33,145	33,697	39,944	39,944	39,944	40,494	45,219	51,114	64,439	80,983
Nominal GDP excl. Simandou production	27,118	33,145	33,697	39,944	39,944	39,944	40,494	45,219	51,114	56,586	62,586

Sources: Guinean authorities; and Fund staff estimates and projections.
1/ Revenue minus expenditures excluding interest on external debt and foreign-financed investment.
2/ Figures in 2015-16 are in percent of GDP excluding the large iron ore project of Simandou.
3/ For 2012, Paris Club debt relief for end-2011 arrears and maturities falling due agreed under April 2012 Paris Club agreement.
Comparable terms are assumed for other bilateral creditors. HIPC/MDRI relief is assumed to be delivered effective October 2012.

Table 2b. Guinea: Fiscal Operations of the Central Government, 2008–16

(Percent of GDP, unless otherwise indicated)

	2008	2009	2010	2011	2012		2013	2014	2015	2016
					Prog	Rev Prog	Prog.	Proj.	Proj. 1/	Proj. 1/
Revenue and grants	16.1	16.5	15.7	20.3	22.0	22.9	24.0	24.9	27.5	28.2
Revenue	15.6	16.2	15.3	16.8	18.8	19.2	20.2	20.8	24.1	26.3
Mining sector	3.6	3.3	3.8	3.8	3.7	4.2	4.0	4.4	7.4	8.4
Non-mining sector	12.1	12.9	11.5	13.0	15.1	15.0	16.2	16.4	16.7	17.9
Direct taxes	2.4	3.1	2.7	3.0	2.9	3.7	3.8	3.9	4.0	4.1
Indirect taxes	8.7	8.6	8.2	8.6	11.5	10.6	11.5	11.6	11.9	12.9
Taxes on goods and services	6.0	5.8	5.6	5.6	7.6	7.2	7.7	7.8	8.0	8.2
Taxes on international trade	2.7	2.8	2.5	2.9	3.9	3.4	3.8	3.8	3.8	4.7
Non-tax revenue	0.9	1.3	0.7	1.4	0.7	0.7	0.9	0.9	0.9	0.9
Grants	0.5	0.4	0.4	3.4	3.2	3.7	3.8	4.1	3.4	1.9
Project grants	0.5	0.4	0.4	1.2	3.1	2.9	2.8	3.0	2.3	1.9
Budget support	0.0	0.0	0.0	2.2	0.1	0.8	1.0	1.1	1.2	0.0
Total expenditures and net lending	17.5	23.7	29.7	21.5	28.7	28.1	26.1	26.2	28.4	29.7
Current expenditures	13.4	16.5	20.5	16.3	16.8	15.6	15.8	15.6	15.2	15.0
Primary current expenditures	10.8	14.4	18.5	14.3	14.9	14.3	14.9	14.3	13.9	13.9
Wages and salaries	4.1	5.0	5.7	5.2	5.3	4.9	5.3	5.0	4.9	4.9
Goods and services	4.8	6.1	9.4	5.4	5.5	5.6	5.5	5.4	5.2	5.1
Subsidies and transfers	1.9	3.3	3.4	3.7	4.1	3.8	4.1	4.0	3.9	3.9
Interest on debt	2.6	2.1	2.0	2.0	1.8	1.4	0.9	1.3	1.2	1.1
Domestic debt	1.3	1.5	1.3	1.1	0.9	0.8	0.8	1.1	1.0	0.9
External debt	1.3	0.6	0.7	0.9	1.0	0.5	0.1	0.2	0.2	0.2
Capital expenditure	4.0	7.1	9.1	5.2	11.9	11.8	9.4	10.5	13.1	14.6
Domestically financed	1.9	5.8	8.1	2.9	6.8	7.0	4.9	5.9	9.7	10.9
Capital transfer	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Externally financed	2.1	1.3	1.0	2.2	5.1	4.8	4.4	4.5	3.4	3.7
Net lending & Restructuring expenditure	0.0	0.0	0.0	0.0	0.0	0.7	1.0	0.0	0.0	0.0
Basic fiscal balance 2/	1.6	-5.5	-12.6	-1.6	-3.8	-3.6	-1.4	-0.6	-0.6	0.6
Overall balance, commitment basis										
Excluding grants	-1.8	-7.5	-14.4	-4.7	-9.9	-9.0	-5.9	-5.4	-4.3	-3.4
Including grants	-1.3	-7.1	-14.0	-1.3	-6.7	-5.2	-2.1	-1.3	-0.9	-1.5
Financing	1.3	7.1	14.4	1.3	-2.1	0.0	-0.1	1.3	0.9	1.5
Domestic financing (net)	0.8	7.3	14.1	2.0	5.7	3.7	1.3	1.2	1.2	0.1
Bank Financing	2.3	6.1	15.0	-13.0	1.6	5.0	2.0	1.0	1.0	0.0
Central bank, *of which*	0.2	6.2	10.7	-13.9	1.6	5.0	2.0	1.0	1.0	0.0
Commercial banks	2.0	-0.1	4.3	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Nonbank financing	-1.5	1.2	-0.9	15.0	4.1	-1.3	-0.7	0.1	0.3	0.1
Privatization revenue	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization of domestic debt	-1.6	-0.2	-0.5	0.0	-0.4	-0.4	-0.4	-0.4	-0.2	-0.2
Change in arrears	-0.1	0.0	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in float	0.2	0.5	0.1	0.5	0.0	-0.8	-0.3	0.0	0.0	0.0
Exceptional revenue	0.0	0.0	0.0	13.8	4.5	0.0	0.0	0.0	0.0	0.0
Other	0.0	1.2	0.1	0.6	0.0	0.0	0.0	0.5	0.5	0.3
External financing	0.5	-0.2	0.2	-0.7	-7.9	-3.7	-1.4	0.1	-0.3	1.4
Drawings	1.6	0.9	0.7	2.5	2.0	3.1	2.3	1.5	1.2	1.8
Amortization due	-3.1	-2.0	-2.2	-3.5	-3.1	-2.5	-1.3	-1.4	-1.5	-0.4
Debt relief and interim HIPC assistance	1.2	0.0	0.5	1.7	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears (- = reduction)	0.8	0.9	1.3	-1.4	-6.8	-4.4	-2.3	0.0	0.0	0.0
Errors and omissions			-0.4	0.2						
Financing gap	0.0	0.0	0.0	0.0	8.8	5.2	2.3	0.0	0.0	0.0
Possible financing				0.0	8.8	5.2	2.3	0.0	0.0	0.0
Debt relief 3/					8.8	5.2	2.3	0.0	0.0	0.0
HIPC Completion Point debt relief 3/						37.1				
HIPC completion point debt cancellation 3/						-37.1				
Residual financing gap				0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Nominal GDP (billions GNF)	20,780	22,133	27,118	33,697	39,944	40,494	45,219	51,114	64,439	80,983
Nominal GDP excl. Simandou production(bln GNF)	20,780	22,133	27,118	33,697	39,944	40,494	45,219	51,114	56,586	62,586

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

1/ Figures in 2015-16 are in percent of GDP excluding the large iron ore project of Simandou.

2/ Revenue minus expenditures excluding interest on external debt and foreign-financed investment.

3/ For 2012, Paris Club debt relief for end-2011 arrears and maturities falling due agreed under April 2012 Paris Club agreement. Comparable terms are assumed for other bilateral creditors. HIPC/MDRI relief is assumed to be delivered effective October 2012.

Table 3a. Guinea: Central Bank and Deposit Money Banks Accounts, 2008–13 1/
(Billions of Guinean franc; unless otherwise indicated)

	2008	2009	2010	2011	2012			2013
					H1 Prel.	Prog.	Rev Prog	Prog.
Central Bank								
Net foreign assets	-73	482	241	4,538	3,724	2,890	1,898	1,580
Net domestic assets	2,293	3,553	6,739	2,105	2,471	3,854	4,331	5,168
Domestic credit	1,928	3,505	6,491	1,516	1,932	3,596	3,559	4,462
Claims on central government (net)	2,077	3,450	6,456	1,467	1,848	3,552	3,476	4,383
Claims on private sector	9	10	6	9	42	6	42	42
Liabilities to deposit money banks (-)	-208	2	0	1	5	-5	-4	-8
Claims on other public sector	49	42	29	39	38	43	45	45
Other items, net (assets +)	365	48	248	589	539	259	772	707
Reserve Money	2,221	4,035	6,980	6,638	6,195	6,744	6,229	6,748
Currency outside banks	1,652	2,120	3,988	3,262	3,777	2,731	3,104	3,223
Bank reserves	537	1,885	2,961	3,276	2,252	3,968	3,020	3,411
Deposits	434	1,720	2,839	2,856	1,992	3,665	2,760	3,128
Required reserves	289	360	603	1,755	1,597	2,194	1,943	2,185
Excess reserves	145	1,360	2,236	1,101	395	1,471	817	943
Of which : in foreign exchange	102	111	136	196	196	211	193	199
Cash in vaults of deposit banks	103	164	122	420	260	303	260	283
Private sector deposits	32	30	32	100	166	45	105	114
Deposit Money Banks								
Net foreign assets	944	609	524	379	1,697	558	1,700	1,870
Bank reserves	537	1,885	2,961	3,276	2,252	3,968	3,020	3,411
Deposits at the central bank	434	1,720	2,839	2,856	1,992	3,665	2,760	3,128
Cash in vaults of deposits banks	103	164	122	420	260	303	260	283
Claims on central bank	208	-2	0	-1	-5	5	4	8
Domestic credit	1,690	1,829	3,541	5,425	4,324	6,508	5,616	6,454
Credit to the government (net)	714	699	1,865	2,206	1,962	2,164	2,206	2,206
Claims on public enterprises	1	0	43	58	60	41	60	60
Claims on the private sector	975	1,129	1,633	3,161	2,303	4,303	3,351	4,188
Other items, net (assets +)	-338	-525	-678	-1,104	-1,007	-1,112	-1,613	-1,926
Liabilities to the private sector (deposits)	3,040	3,795	6,347	7,976	7,261	9,927	8,728	9,817
Memorandum items:								
Net foreign assets (US$ millions)	-14	98	40	638	523	382	266	215
Net international reserves (US$ millions)	-44	253	222	759	643	458	382	331

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

Table 3b. Guinea: Monetary Survey, 2008–13 1/

(Billions of Guinean franc; unless otherwise indicated)

	2008	2009	2010	2011	2012			2013
					H1 Prel.	Prog.	Rev Prog	Prog.
Net foreign assets	871	1,091	765	4,917	5,420	3,448	3,598	3,450
Net domestic assets	3,853	4,854	9,601	6,421	5,784	9,255	8,339	9,704
Domestic credit	3,826	5,331	10,031	6,940	6,252	10,109	9,180	10,924
Claims on central government	2,791	4,149	8,320	3,673	3,810	5,716	5,682	6,589
Claims on public enterprises	50	43	72	98	98	84	105	105
Claims on private sector	984	1,140	1,639	3,170	2,345	4,309	3,392	4,230
Other items, net (assets +)	27	-477	-430	-520	-468	-854	-841	-1,219
Broad money (M2)	4,724	5,945	10,366	11,338	11,204	12,703	11,937	13,154
Currency	1,652	2,120	3,988	3,262	3,777	2,731	3,104	3,223
Deposits	3,072	3,825	6,379	8,076	7,427	9,972	8,833	9,931
	(Year-on-year change in percent of beginning-of-period M2)							
Memorandum items:								
Net foreign assets	14.3	4.7	-5.5	40.1	4.4	-9.6	-11.6	-1.2
Of which: central bank	2.1	11.7	-4.1	41.5	-7.2	-10.2	-23.3	-2.7
Net domestic assets	24.7	21.2	79.9	-30.7	-5.6	15.6	16.9	11.4
Of which: central bank	5.9	26.7	53.6	-44.7	3.2	5.6	19.6	7.0
Domestic credit	22.6	31.9	79.1	-29.8	-6.1	18.2	19.8	14.6
Net claims on government	20.8	28.7	70.2	-44.8	1.2	5.4	17.7	7.6
Credit to the private sector	1.9	3.1	8.9	15.0	-7.3	12.7	2.0	7.0
Broad money (M2)	39.0	25.9	74.4	9.4	-1.2	6.1	5.3	10.2
Reserve Money (annual percentage change)	13.8	81.7	73.0	-4.9	-6.7	-7.5	-6.2	8.3
Commercial bank credit to the private sector (annual percentage change)	18.4	15.8	44.6	93.5	-27.1	55.0	6.0	25.0
Money multiplier (M2/reserve money)	2.1	1.5	1.5	1.7	1.8	1.9	1.9	1.9
Velocity (GDP/average M2)	5.1	4.1	3.3	3.1	3.6	3.2	3.5	3.6
Exchange rate, GNF per US$ (eop)	5,161	4,924	6,079	6,957	6,951	…	…	…
Nominal GDP (billions GNF)	20,780	22,133	27,118	33,697	40,494	39,944	40,494	45,219
Nomial GDP (percentage change)	19.7	6.5	22.5	24.3	20.2	17.6	20.2	11.7

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

1/ End of period.

Table 4. Guinea: Balance of Payments, 2008–16

(Millions of U.S. dollars; unless otherwise indicated)

	2008	2009	2010	2011	2012 Rev Prog	2013 Prog.	2014 Proj.	2015 Proj.	2016 Proj.
Merchandise trade balance	105	61	-70	-443	-1,428	-1,612	-1,565	-742	602
Exports, f.o.b.	1,471	1,157	1,335	1,489	1,533	1,567	1,660	3,003	4,643
Mining products	1,380	1,097	1,266	1,412	1,437	1,460	1,541	2,867	4,480
Other	90	61	69	76	96	107	119	136	163
Imports, f.o.b	-1,366	-1,096	-1,405	-1,932	-2,961	-3,178	-3,225	-3,745	-4,041
Food products	-227	-204	-181	-267	-266	-261	-263	-266	-261
Other consumption goods	-205	-191	-227	-293	-313	-334	-358	-383	-409
Petroleum products	-356	-296	-298	-448	-459	-446	-457	-473	-485
Intermediate and capital goods	-579	-405	-698	-924	-1,923	-2,137	-2,148	-2,624	-2,886
Of which : imports for large mining projects	-239	-83	-74	-155	-1,188	-1,443	-1,523	-1,999	-1,713
Services trade balance	-337	-259	-333	-482	-652	-698	-718	-727	-823
Services exports	107	73	62	77	80	82	84	92	102
Services imports	-444	-331	-396	-559	-732	-780	-802	-820	-925
Of which : imports for large mining projects	-39	-14	-12	-25	-195	-237	-251	-186	-160
Income balance	-524	-506	-457	-457	-488	-485	-493	-525	-560
Of which: interest on public debt	-61	-29	-35	-45	-31	-8	-14	-15	-17
Transfers, *of which:*	290	246	251	537	338	348	354	402	333
Net private transfers	271	246	251	422	291	285	285	326	333
Official transfers	19	0	0	115	47	63	69	76	0
Current account									
Including official transfers	-467	-457	-609	-845	-2,230	-2,446	-2,422	-1,592	-447
Excluding imports for large mining projects	-188	-360	-523	-665	-847	-765	-648	593	1,425
Excluding official transfers	-486	-457	-609	-960	-2,277	-2,509	-2,491	-1,668	-447
Capital account	27	29	33	778	209	185	197	148	134
Of which : Exceptional mining revenue	0	0	0	700	0	0	0	0	
Financial account	-210	59	-165	317	1,610	2,213	2,211	1,615	431
Public (medium and long-term)	-66	-50	-78	-49	36	60	6	-22	99
Project-related loans	72	43	32	52	107	102	95	78	125
Program financing	0	0	0	77	72	39	0	0	0
Amortization due	-138	-93	-110	-179	-143	-81	-88	-100	-26
Public (short-term)	0	0	0	0	0	0	0	0	0
Direct and other private investment (net)	-162	-193	-280	207	1,322	1,887	1,854	1,555	182
Of which : large mining projects	379	138	108	439	1,608	2,183	2,163	1,869	812
Private short-term	18	302	192	160	252	266	351	82	150
Errors and omissions	608	615	563	270	0	0	0	0	0
Overall balance	-42	246	-178	521	-411	-48	-14	172	117
Financing	42	-246	178	-521	382	-9	-44	-200	-117
Change in net official reserves, of which	-20	-287	90	-598	310	-4	-44	-200	-117
Fund repayments 1/	9	-13	0	0	-23	0	0	0	0
Change in gross official reserves	-24	-274	90	-598	332	-4	-44	-200	-117
Change in arrears 1/	54	40	65	-74	-251	-146	0	0	0
Debt relief 1/	8	1	22	151	301	141	0	0	0
HIPC interim assistance	4	0	1	0	1	0	0	0	0
HIPC Completion Point debt relief 1/					2,151				
HIPC completion point debt cancellation 1/					-2,130				
Financing gap	0	0	0	0	29	58	58	29	0
Memorandum items:									
Current account balance (percent of GDP)									
Including official transfers	-10.3	-9.9	-12.4	-16.3	-38.8	-39.2	-39.2	-21.3	-5.0
Excluding imports for large mining projects	-4.2	-7.8	-10.6	-12.9	-14.7	-12.3	-10.5	7.9	15.8
Excluding official transfers	-10.8	-9.9	-12.4	-18.6	-39.6	-40.2	-40.3	-22.3	-5.0
Overall balance (percent of GDP)	-0.9	5.3	-3.6	10.1	-7.2	-0.8	-0.2	2.3	1.3
Exports-GDP ratio (percent)	34.9	26.5	28.4	30.3	28.1	26.4	28.2	41.4	52.6
Imports-GDP ratio (percent)	-40.1	-30.8	-36.5	-48.2	-64.3	-63.5	-65.2	-61.1	-55.0
Gross available reserves *(US$ millions)*	70	114	124	851	519	523	567	768	885
Gross available reserves (months of imports)	0.6	0.8	0.7	4.6	2.9	2.9	3.0	3.1	3.7
Nominal GDP (US$ millions)	4,517	4,635	4,929	5,170	5,744	6,237	6,180	7,475	9,028
National currency per US dollar (avg.)	4,600	4,775	5,502	6,518	…	…	…	…	…

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

1/ For 2012, Paris Club debt relief for end-2011 arrears and maturities falling due agreed under April 2012 Paris Club agreement. Comparable terms are assumed for other bilateral creditors. HIPC/MDRI relief is assumed to be delivered effective October 2012.

Table 5. Guinea: Indicative Targets under SMP 2011 and Performance Criteria under ECF 2012 1/ 2/

(Billions of Guinean francs unless otherwise indicated)

	2011				2012								
	end-Dec.				end-Mar.			end-Jun.				end-Sep.	end-Dec
	SMP	Est.	Actual	Status	Indicative Targets	Actual	Status	PC	PC 7/ adjust.	Actual	Status	Indicative Targets	PC
Quantitative Performance Criteria													
Basic fiscal balance (floor)	-663	-864	-539	Met	-1,102	-571	Met	-1,497	-1,839	60	Met	-1,418	-1,518
Net domestic assets of the central bank (ceiling)	2,488	3,178	2,105	Met	4,484	3,409	Met	3,385	5,020	2,471	Met	3,541	3,854
Domestic bank financing of the government (ceiling)	-3,943	-3,120	-4,378	Met	1,300	1,206	Met	197	1,832	315	Met	348	650
Net international reserves of the central bank (floor); US$ millions 3/	669	541	759	Met	435	547	Met	585	360	643	Met	504	458
New nonconcessional medium- or long-term external debt contracted or guaranteed by the government or central bank (ceiling); US$ millions 4/ 5/	0	0	0	Met	0	0	Met	0	0	0	Met	0	0
Stock of outstanding short-term external debt contracted or guaranteed by the government or the central bank (ceiling); US$ millions 5/	0	0	0	Met	0	0	Met	0	0	0	Met	0	0
New external arrears (ceiling) 5/					0	0	Met	0	0	0	Not Met 8/	0	0
Indicative targets													
Expenditure in priority sectors (floor) 6/		2,100	1,457		1,765	1,445	Not Met	2,501	2,428	2,341	Not met	3,208	3,910
Memorandum items:													
Reserve money	7,101	7,287	6,638	Met	7,083	6,534	Met	7,078	7,078	6,195	Met	6,644	6,744

Sources: Guinean authorities and IMF staff projections.
1/ Definitions and adjustors are included in the technical memorandum of understanding (TMU).
2/ Flow for fiscal criteria and stock for monetary and external debt criteria.
3/ Calculated using the program exchange rates.
4/ External debt contracted or guaranteed other than with a grant element equivalent to 35 percent or more, calculated using a discount rate based on the OECD commercial interest rates. Excludes borrowing from the IMF.
5/ Continuous performance criterion.
6/ Priority sectors include education, health, agriculture, energy, justice, social affairs, and public works (as defined in the TMU).
7/ PC adjusted to reflect the shortfall in expected exceptional mining revenue and the higher-than-expected external assistance.
8/ During April and May, a relatively small amount of external debt service arrears of a short duration were accumulated and were fully cleared before end-June.

Table 6. Guinea: Performance Criteria (PC) and Indicative Targets, ECF 2012-13 1/ 2/

(Billions of Guinean francs unless otherwise indicated)

	2012			2013			
	Jun. Act.	Sep. Rev. Indicative Targets	Dec. Rev. PC	Mar. Indicative Targets	Jun. PC	Sep. Indicative Targets	Dec. Indicative Targets
Quantitative Performance Criteria							
Basic fiscal balance (floor)	60	-1,005	-1,469	-238	-475	-555	-634
Net domestic assets of the central bank (ceiling)	2,471	3,756	4,331	4,645	4,959	5,064	5,168
Domestic bank financing of the government (ceiling)	315	1,490	2,010	340	680	793	906
Net international reserves of the central bank (floor); US$ millions 3/	643	463	382	363	344	338	331
New nonconcessional medium- or long-term external debt contracted or guaranteed by the government or central bank (ceiling); US$ millions 4/ 5/	0	0	0	0	0	0	0
Stock of outstanding short-term external debt contracted or guaranteed by the government or the central bank (ceiling); US$ millions 5/	0	0	0	0	0	0	0
New external arrears (ceiling) 5/	0	0	0	0	0	0	0
Indicative targets							
Expenditure in priority sectors (floor) 6/	2,341	2,700	4,069	1,105	2,367	2,959	3,945
Memorandum items:							
Reserve money	6,195	6,218	6,229	6,424	6,619	6,683	6,748

Sources: Guinean authorities and IMF staff projections.
1/ Definitions and adjustors are included in the technical memorandum of understanding (TMU).
2/ Flow for fiscal criteria and stock for end-December 2012 for monetary and external debt criteria.
3/ Calculated using the program exchange rates.
4/ External debt contracted or guaranteed other than with a grant element equivalent to 35 percent or more, calculated using a discount rate based on the OECD commercial interest rates. Excludes borrowing from the IMF.
5/ Continuous performance criterion.
6/ Priority sectors include education, health, agriculture, energy, justice, social affairs, and public works (as defined in the TMU).

Table 7. Guinea: External Financing Requirements and Sources, 2011–15

(US$ millions)

	2011	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.
1. Gross financing requirements	1,095	2,321	2,729	2,611	1,968
External current account deficit	960	2,277	2,509	2,491	1,668
Capital account balance	-715	-41	-12	-12	0
Debt amortization	179	143	81	88	100
Change in arrears, net 1/	74	251	146	0	0
Gross reserves accumulation	598	-332	4	44	200
Fund repayments 1/	0	23	0	0	0
2. Available financing	1,095	2,291	2,672	2,554	1,940
Foreign direct investment, net	367	1,574	2,153	2,204	1,637
Identified disbursements	308	394	377	349	302
Grants	178	215	237	255	225
Project	63	168	173	185	148
Program	115	47	63	69	76
Loans	130	179	141	95	78
Project	52	107	102	95	78
Program	77	72	39	0	0
Other flows	270	0	0	0	0
Debt relief 1/	151	301	141	0	0
HIPC Completion Point debt relief 1/		2,151			
HIPC completion point debt cancellation 1/		-2,130			
3. Financing gap	0	29	58	58	29

Sources: Guinean authorities and IMF staff estimates and projections.

1/ For 2012, Paris Club debt relief for end-2011 arrears and maturities falling due agreed under April 2012 Paris Club agreement. Comparable terms are assumed for other bilateral creditors. HIPC/MDRI relief is assumed to be delivered effective October 2012.

Table 8. Guinea: Indicators of Capacity to Repay the Fund, 2012–25

(SDR millions, unless otherwise indicated)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
							Projections							
Fund obligations based on existing credit														
Credit outstanding	42.84	41.46	36.57	31.67	26.78	20.04	12.85	9.18	5.51	1.84	0	0	0	0
Percent of quota	40	38.71	34.14	29.57	25	18.71	12	8.57	5.14	1.71	0	0	0	0
Repayment of principal	0	1.38	4.9	4.9	4.9	6.73	7.19	3.67	3.67	3.67	1.84	0	0	0
Charges and interest	0.02	0.04	0.14	0.12	0.11	0.1	0.08	0.07	0.06	0.05	0.04	0.04	0.04	0.04
Fund obligations from prospective drawings under the ECF														
Credit outstanding	18.36	55.08	91.80	110.16	110.16	110.16	104.65	91.80	71.60	49.57	27.54	11.02	1.84	0.00
Percent of quota	17.16	51.48	85.79	102.95	102.95	102.95	97.80	85.79	66.92	46.33	25.74	10.30	1.72	0.00
Repayment of principal	0	0	0	0	0	0	5.51	12.85	20.2	22.03	22.03	16.52	9.18	1.84
Charges and interest	0	0	0.18	0.26	0.28	0.28	0.27	0.25	0.2	0.15	0.1	0.05	0.01	0
Total obligations based on existing and prospective credit														
Credit outstanding	61.2	96.54	128.37	141.83	136.94	130.2	117.5	100.98	77.11	51.41	27.54	11.02	1.84	0
Percent of quota	57.14	90.14	119.86	132.43	127.86	121.57	109.71	94.29	72	48	25.71	10.29	1.71	0
Percent of gross foreign available reserves	17.93	28.05	34.41	28.10	23.54	19.25	16.05	12.67	9.45	6.14	3.21	1.24	0.20	0.00
Repayment of principal	0	1.38	4.9	4.9	4.9	6.73	12.7	16.52	23.87	25.7	23.87	16.52	9.18	1.84
Charges and interest	0.02	0.04	0.32	0.39	0.39	0.37	0.35	0.31	0.26	0.2	0.14	0.09	0.05	0.04
Total payments to the Fund	0.02	1.42	5.22	5.28	5.28	7.11	13.05	16.84	24.13	25.9	24	16.61	9.23	1.88
Percent of exports of goods and services	0.00	0.13	0.46	0.26	0.17	0.17	0.27	0.32	0.42	0.45	0.42	0.28	0.16	0.03
Percent of external public debt service	0.02	2.30	7.79	6.99	18.94	23.36	36.86	45.33	58.48	64.30	54.79	31.49	15.95	2.92
Memorandum items:														
Prospective purchases	18.36	36.72	36.73	18.36										
Exports of goods and services, US$ millions	1,613.70	1,648.52	1,743.55	3,095.08	4,745.69	6,413.20	7,355.88	7,963.69	8,643.13	8,715.46	8,792.73	8,875.69	8,965.25	9,062.49

Sources: Guinean authorities and IMF staff projections.

Table 9. Guinea: Proposed Schedule of Disbursements and Timing of Reviews under ECF Arrangement, 2012-15
(SDR millions)

In precent of quota	Amount	Date of availability	Condition for disbursement
17.1	18.36	February 23, 2012	Disbursed following Board approval of the three-year arrangement under the ECF.
17.1	18.36	September 25, 2012	Observance of all relevant performance criteria, including the performance criteria for June 2012 and completion of the first review under the ECF arrangement.
17.1	18.36	February 15, 2013	Observance of all relevant performance criteria, including the performance criteria for December 2012 and completion of the second review under the ECF arrangement.
17.1	18.36	August 15, 2013	Observance of all relevant performance criteria, including the performance criteria for June 2013 and completion of the third review under the ECF arrangement.
17.1	18.36	February 15, 2014	Observance of all relevant performance criteria, including the performance criteria for December 2013 and completion of the fourth review under the ECF arrangement.
17.1	18.36	August 15, 2014	Observance of all relevant performance criteria, including the performance criteria for June 2014 and completion of the fifth review under the ECF arrangement.
17.1	18.36	February 15, 2015	Observance of all relevant performance criteria, including the performance criteria for December 2014 and completion of the sixth review under the ECF arrangement.
102.9	110.2	**Total**	

Source: IMF staff.

APPENDIX I—GUINEA: LETTER OF INTENT

Conakry, September 11, 2012

CENTRAL BANK OF THE REPUBLIC OF GUINEA

MINISTRY OF ECONOMY AND FINANCE

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431
USA

Subject: Letter of Intent

Madame Managing Director,

1. **President Alpha Condé's government is implementing the reforms contained in the 2012–14 economic and financial program, supported by the IMF under the Extended Credit Facility (ECF), approved on February 24, 2012**. The aim of the program is to reduce inflation and to lay the foundation for accelerated and diversified growth with a view to achieving significant poverty reduction. It embodies the economic and social vision of the government formed in the wake of the 2010 presidential elections, which consists of capitalizing on the country's agricultural, hydroelectric, and mining potential to improve infrastructure and access to social services, and of strengthening governance. The policies for 2012 are consistent with the objectives of the second Poverty Reduction Strategy Paper (PRSP-II), extended for 2011–12, and with the 2011–15 Five-Year Development Plan.

2. **The program's policies and measures for the first half of 2012 have been satisfactorily implemented**. The sound economic and financial performance achieved in 2011 continued, despite the difficulties arising from delays in collecting the new windfall mining revenues that were expected in the second quarter. The end-June quantitative performance criteria have been met but the continuous performance criterion related to new external arrears was not observed. As a result of technical problems with the central bank's international transfer system, some external debt service payments were delayed by a few days during the course of April and May. However, these incidents triggered no arrears notifications from the concerned creditors. We are seeking a waiver for this temporary and minor nonobservance of the performance criterion on new external arrears for which corrective measures have been implemented. Considerable progress has also been made with regard to structural reforms; actions on which implementation has fallen behind are continuing with assistance from technical and financial partners.

3. **The government is seeking a modification of the program performance criteria for end-December 2012**. The changes take account of recent developments, especially the delay in collecting the windfall mining revenues and the policies to address the resulting shortfall. Overall, the revised criteria are in line with the program's macroeconomic objectives. The attached Supplement to the Memorandum of Economic and Financial Policies sets out the policies and criteria for end-December 2012 for the second program review, and for end-June 2013 for the third review.

4. **The government is requesting completion of the first review of the program**. In view of the solid performance in program implementation, as well as the policies and measures contained in the Supplement to the Memorandum of Economic and Financial Policies, the government is requesting completion of the first review of the ECF-supported program and a second disbursement of SDR 18.36 million (17.1 percent of quota). With the completion of this review, Guinea is expected to reach the completion point under the enhanced HIPC Initiative.

5. **The government firmly believes that the policies and measures described in the attached Supplement are adequate to achieve the program objectives**. However, it will take any further measures that may become appropriate for that purpose. The government will consult with the IMF on the adoption of such measures, either at its own initiative or at the request of the Managing Director of the Fund, prior to adopting such measures, or in advance of revisions to the policies contained in the Supplement, in accordance with the IMF's policies on such consultations. The government undertakes to provide the IMF with any information that may be necessary to monitor implementation of the measures and attainment of the program objectives.

6. **The government authorizes the IMF to publish this Letter, the attached Supplement to the MEFP and the TMU, as well as the Staff Report relating to the first review of the IMF-supported program under the ECF**.

Sincerely yours,

/s/	/s/
Louncény Nabé Governor of the Central Bank of the Republic of Guinea	Kerfalla Yansané Minister of Economy and Finance

Attachments: - Supplement to the Memorandum of Economic and Financial Policies
- Technical Memorandum of Understanding

ATTACHMENT I—GUINEA: SUPPLEMENT TO THE MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

Conakry, September 11, 2012

This Supplement to the Memorandum of Economic and Financial Policies summarizes the implementation of the economic and financial program described in the February 11, 2012 Memorandum of Economic and Financial Policies during the first half of 2012. *Moreover, it sets forth the key program policies and measures for the remainder of 2012 as well as the general outlook for 2013.*

I. INTRODUCTION

1. **As soon as it took office, the government of President Alpha Condé carried out important structural reforms and economic and financial recovery measures under the 2011 IMF staff-monitored program (SMP)**. Management of the International Monetary Fund (IMF) approved this program on June 30, 2011 and submitted it for information to the Executive Board on July 1, 2011. This program aimed at macroeconomic stabilization and jump-starting growth, mainly by lowering the budget deficit and increasing public and private investment. Implementation was quite satisfactory, leading up to the medium-term program supported by the IMF under the Extended Credit Facility (ECF) that was approved on February 24, 2012.

2. **The government continued to satisfactorily implement its program in 2011 and during 2012**. The final data for end-December 2011 show that performance was even better than projected in the February 2012 Memorandum of Economic and Financial Policies (MEFP), based on the results of the first nine months of the year. These positive trends continued during the first half of 2012 despite delays in receiving projected windfall mining revenue. The end-June quantitative performance criteria were met but the continuous performance criterion on new external arrears was not met because of technical difficulties. Notable progress was made with structural reforms, despite the fact that some actions constituting structural benchmarks experienced delays.

3. **The government's program is part of the Second Poverty Reduction Strategy Paper (PRSP II)**, extended for 2011–12. It is consistent with the 2011–15 Five-Year Development Plan. In preparing the Plan, Guinea decided to give new impetus to its development policy. This new strategy is based on a recovery and development program that is both ambitious and realistic, and is based on improving public investment in infrastructure and social services, and in developing the potential of mining, agriculture and hydropower, with the goal of promoting private initiative and investment.

4. **The government is determined to establish the bases for strong economic growth in order to significantly reduce poverty**. For the remainder of 2012 and for 2013, the following specific objectives will be pursued in implementing the Poverty Reduction Strategy:

- consolidate social peace by organizing peaceful elections and completing the reform of the security sector;
- restore confidence and credibility of the economic, financial, and monetary institutions by lowering inflation, stabilizing the exchange rate, and maintaining an adequate level of international reserves;
- reform the public sector to improve its productivity and intensify the efforts to improve governance and the business climate, including combating corruption and strengthening the judicial system;
- improve infrastructures by developing and implementing a public investment program in collaboration with development partners;
- develop mining potential and ensure that there is synergy in terms of diversification and growth with the other sectors of the economy;
- increase agricultural production to rapidly attain food self-sufficiency, reduce the country's dependence on imports, and increase agricultural exports; and
- enhance the production and distribution of electricity by tapping the country's hydroelectric potential.

5. **The government and the people of Guinea wish to reach the completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative by end-September 2012**. With the conclusion of the first review of their ECF-supported three-year program, they will have met the macroeconomic stability completion point trigger. As of end-July 2012, the government had already completed the implementation of the other triggers (Table 3). Moreover, the government will continue to implement the extended PRSP II and by end-December 2012 it will prepare, in a participatory process, the PRSP III for 2013–15. The government will continue to pursue prudent policies after the HIPC Initiative completion point.

II. Macroeconomic Results in 2011

6. **The very good performance under our economic program for 2011, described in the February 2012 MEFP, was confirmed by the end-December 2011 final data**. The real growth rate accelerated to reach nearly 4 percent in 2011, compared to 1.9 percent in 2010; this reflects the normalization of the political and social situation, but also a very good performance in the agricultural and mining sectors. The government improved public finances and lowered the basic fiscal deficit from nearly 13 percent of GDP in 2010 to less than 2 percent in 2011. This adjustment was made possible by implementing a rigorous fiscal policy, including cash-based expenditure management. Moreover, the final data indicate that, thanks to the monetary and foreign exchange policies, the growth of the money supply was contained to less than 10 percent in 2011 as opposed to 74 percent in 2010. These rigorous policies halted the

trend of worsening inflation by stabilizing the increase in the 12-month consumer price index to 19 percent as of end-December 2011, and by curbing the rapid depreciation of the exchange rate. With the windfall mining revenue received in May 2011, international reserves were replenished to 4.5 months of imports of goods and services. Bank financing of the budget deficit, which amounted to more than 1 percent of GDP per month in 2010, was avoided. After Guinea normalized its relations with development partners, in particular by clearing its arrears with the multilateral financial institutions, budget financing benefitted from the resumption of external financing. All end-2011 quantitative targets of the program were met with considerable margins (Table 1). Structural reforms continued as planned, and all benchmarks under the SMP for end-December 2011 were observed.

7. The **initial fiscal objectives under the SMP were achieved** despite pressing demands for additional spending and the postponement of budget support. Due to measures such as the discontinuation of ad hoc exemptions, expansion of the coverage of import inspections, efforts to collect arrears, and other measures, the projected revenue was collected. Basic expenditures were contained to a level below the program target, although the supplemental budget law authorized additional spending after the windfall mining revenue was received. This culminated in a deficit on the budget's basic balance of 1.6 percent, compared to a target of 2 percent of GDP.

III. Economic Developments and Implementation of the Economic and Financial Program (January–June 2012)

A. Recent Macroeconomic Developments

8. **Good macroeconomic performance continued in 2012**. Indications are that activity continued to accelerate, pulled by an increase in investment in the mining sector—especially the Simandou iron ore project—the positive effects of government support on agricultural production, and the improvement in power generation due to public investment to reestablish existing capacity and install new capacity under the electricity sector reform program. Inflation continued its downward trend and fell below 15 percent in July 2012 (y-o-y). The drop in inflation reflects the continued prudent fiscal and monetary policies, higher rice production, and government measures to facilitate the procurement of essential goods by the population. The exchange rate stabilized, the premium in the foreign exchange market practically vanished, and the international reserves of the Central Bank of the Republic of Guinea (BCRG) amounted to the equivalent of 4.2 months of imports at end-June.

9. **The end-June performance criteria under the ECF-supported program—adjusted for the delayed windfall mining revenue—were met, but the continuous performance criterion on the non-accumulation of new external debt service arrears was not met** (Table 1). Strong revenue performance and the continuation of cash-based expenditure management, kept the budget's basic balance practically in equilibrium (compared to the target of a deficit of 3.7 percent of GDP), despite the loss of fuel tax revenue and the fact that the expected new windfall mining revenue was not received. The good

performance with regard to the basic balance more than offset the additional financing need generated by the unanticipated payment of expenditures from fiscal year 2011. External budget financing benefitted from an unexpected disbursement of the first tranche of a budget loan from Angola ($72 million out of a total loan of $150 million). Following these developments, the program performance criteria on net bank financing of the government, the Central Bank's net domestic assets, and net international reserves, were met. Due to the delay in implementing a large investment project in the electricity sector, the indicative target (floor) on expenditures in the priority sectors was not reached. Moreover, due to technical problems with the SWIFT system in the Central Bank, and delays in recording payments made for external debt service owed to two creditors, some external debt service payments were late by a few days in April and May 2012, leading to the temporary and minor nonobservance of the criterion on avoiding new external arrears. Nonetheless, there were no notices of arrears from the creditors in question as a result of these incidents. Corrective measures were taken, including the establishment of direct and regular telecommunication with the internet access supplier assuring the interface with the SWIFT system. The BCRG is planning to install an upgraded version of the SWIFT system in the context of a project on the payments system; moreover, a backup system was made operational at the Kindia site in accordance with the recommendations of the IMF safeguards mission.

B. Budget Execution

10. **Fiscal policy during the first half of 2012 aimed at increasing budget revenue and continuing cash-based expenditure management**. Budget revenue exceeded projections by almost 1 percent of GDP. This performance was primarily due to the tax audits on fiscal years 2009 to 2012. Moreover, revenue from withholding non-salary income increased with the rise in the rate (from 10 to 15 percent) and the growing number of mining-sector expatriates subject to this tax. Customs achieved its revenue target despite the accumulated losses in fuel taxes (over 1 percent of GDP)—particularly in the second quarter—since pump prices remained stable while import costs increased (the government considered that the gradual adjustment of pump prices and the regular mechanism for adjusting fuel prices (structural benchmark for July 1) could not be implemented due to the unfavorable social context). Instead of a lump-sum valuation by container, the valuation of imports based on market value in line with the transaction documents, is being used increasingly. The harmonization of customs clearances at the port and land borders was accelerated to reduce leakage. The thorough review of the tax exemption specifications continued for companies eligible for advantages under the Investment Code. However, a few tax revenue line items were subject to negative externalities. For example, the Treasury's failure to repay VAT credits to the mining companies led the companies not to pay the tax to their subcontractors or suppliers. Finally, the expansion of the VAT base was hampered by the fact that the medium-sized taxpayer unit did not operate as anticipated.

11. **Expenditures were contained to maintain macroeconomic stability**. The retirement of a large number of military personnel; postponement of the coming into effect of some special

personnel statutes in public administration; the continued improvement in the civil service database; and better auditing of new employees generated savings in the wage bill. The start of cleaning up the list of scholarship recipients in higher education lowered subsidy expenditures. Investment expenditures were well below forecasts, mainly due to the change in the contract for purchasing electricity generators and the postponement of contracts to build and renovate military barracks. However, a large share of expenditures not executed in the first half of the year will be executed in the second half, so that there will be no real savings in expenditures for the year as a whole, especially with regard to expenditures for the legislative elections and the subsidies for the agriculture and electricity sectors.

12. **Satisfactory fiscal performance resulted in meeting the program performance criteria for end-June**. The basic fiscal balance for the first half of 2012 was nearly zero, whereas the target was a deficit of 3.7 percent of GDP. Regarding financing, it was not possible to collect the $250 million in new windfall mining revenue (4.5 percent of GDP) that was expected in the second quarter (this revenue was to come from the renegotiation of mining contracts). The government opted for a transparent and inclusive process under two commissions in charge of reviewing the mining titles and conventions established in March 2012, the results of which are expected in 2013. Moreover, a sizeable amount (over 1 percent of GDP) of expenditures for fiscal year 2011 was paid in 2012. This was mainly due to the late adoption of the 2011 supplemental budget law, and the inability of the administration to commit some expenditure before the normal commitment closing date. Expenditure commitments continued until the end of the fiscal year, which forced the Treasury to make the related payments in 2012.

13. **In June, the government informed IMF staff of two loan agreements for a total amount of US$175 million contracted in 2011 that had not previously been included in the debt database**: (i) a loan from Palladino Capital ($25 million on nonconcessional terms), intended for a public enterprise that was then in the process of being created (*Société Guinéenne du Patrimoine Minier* - SOGUIPAMI), was disbursed in May 2011. The amount was deposited into a suspense account with the Central Bank; it was never used, and in July 2012 the government canceled the loan agreement and repaid in full the amount that had been disbursed; and (ii) in October 2011, the government signed an agreement for a $150 million concessional loan with the government of Angola, also to finance SOGUIPAMI. An initial disbursement of $72 million was received in February 2012; pending the finalization of SOGUIPAMI's management structure, this amount was not used either.

14. **The BCRG continued a monetary policy aimed at further reducing inflation and stabilizing the exchange rate**. The BCRG's policy rate and the reserve requirement ratio remained unchanged at 22 percent. To strengthen the official foreign exchange market, the Central Bank held twenty-six (26) foreign exchange auctions, selling a total amount of $123 million, equivalent to a net liquidity contraction of GNF 847 billion. Indications are that the banking system's interest rates fell in line with lower inflation. However, bank credit to the private sector was down by 26 percent in the first six months of 2012 (after increasing

94 percent in 2011). This was in part a reflection of paying back loans after foreign financing was replaced by domestic financing for petroleum product imports in 2011, as well as seasonal effects. Broad money also declined (by 1.2 percent during the first half of 2012), indicating that the monetary policy objective of lowering excess liquidity in the economy is being attained. The Guinean franc appreciated against the dollar and the euro by 2.0 percent and 5.9 percent respectively during January-June 2012, and the average exchange rate differential for the dollar between the official and parallel markets was roughly 0.5 percent versus almost 11 percent in June 2011.

15. **In April, Paris Club creditors reached an agreement with the government of Guinea to provide relief for its external public debt on exceptional terms**. Discussions have started with other official bilateral and commercial creditors on debt restructuring under terms comparable to those of the Paris Club. Regarding commercial creditors, the government continued these discussions in a manner consistent with IMF policy on loans to countries in arrears, in particular regarding the transparency of information, equity among creditors, and dialogue. The government of the United States of America announced its decision to cancel 100 percent of the arrears and debt service owed during 2012–14. Moreover, a bilateral agreement was signed with France in June 2012, also including additional debt relief.

C. Implementation of Structural Reforms

16. **The government placed the utmost importance on implementing and monitoring the structural reforms, including with regard to both structural benchmarks and other measures**. To ensure a good program coordination, the Council of Ministers, chaired by the Prime Minister, took on a major role in monitoring the execution of program reforms, and each minister is aware not only of the measures for which her department is responsible, but also of the measures for which her other colleagues are responsible. Under these conditions, the ambitious structural reform program continued to progress apace, even though there were lags in meeting the structural benchmarks under the ECF program, due mainly to the need for additional technical assistance from our development partners (Table 2).

17. **Several actions were taken in tax administration and tax policy reform and in strengthening public financial management (PFM)**. The Ministry of the Economy and Finance prepared a tax reform action plan in June, including comments from the IMF, which will be submitted to the development partners before end-December 2012. With considerable support from several external partners, the government also made good progress in PFM reform; it adopted a new procurement code, which was sent to Parliament in July 2012; and on July 27, Parliament approved the Organic Budget Law, prepared in collaboration with the IMF's Fiscal Affairs Department (FAD), establishing the principles, rules and procedures for directing and managing expenditures and government resources. With the goal of ensuring long-term cost-effectiveness and viability of the projects financed through windfall mining revenue, a decree prepared with IMF and World Bank assistance was issued in March 2012 on the accounting procedures governing the Special Investment Fund (SIF); $250 million was

deposited in the fund's account, which will operate as an account earmarked to finance priority investments, beginning in 2013. Work began on preparing a medium-term public investment program (PIP) for 2013–15 (a structural benchmark for end-September) with assistance from the UNDP and the AfDB.

18. **The Central Bank made further progress with strengthening and developing the financial system**. Following reinforcement of the Banking Supervision Department, including with the help of technical assistance from West AFRITAC, the BCRG continues to intensify banking supervision, including for microfinance institutions; substantial progress was made in strengthening prudential regulations. The number of banks that do not meet the minimum capital requirement fell from five at end-2011 to two at end-June 2012. As a result of poor management and insufficient capital endowment, one small bank—with 0.4 percent of bank deposits and a government participation of 55 percent—specialized in financing for agriculture and mining, was placed under receivership in January 2012. The licensing committee approved four new banks and is currently reviewing four applications. The Central Bank also completed the external audit work on the financial statements as of December 31, 2011. The audited financial statements were published on the BCRG website. The BCRG is now completing the process of hiring a new external auditing firm of international renown and has continued implementing the recommendations of the IMF safeguards assessment mission.

19. **Major progress was made in mining sector reforms, which aim to improve governance and ensure that Guinea receives its fair share of revenue from the country's mineral resources**. The institutional framework of awarding mining titles and conventions was strengthened with the decree of March 26, 2012 that created the National Mining Commission (CNM), charged with discussing new mining titles and conventions. Moreover, another decree established two interministerial committees, a strategic committee and a technical committee, in charge of reviewing all existing mining titles and conventions. The technical committee is the only discussion forum for the revision of mining contracts. It reports to the strategic committee consisting of four ministers. An audit of the mining registry was also performed, which identified and listed all the mining titles and permits. Although the government has been unable to sign and publish the implementing regulations for the new Mining Code and the standard mining convention (a structural benchmark for end-June 2012), most of these texts and the standard convention were prepared by end-June; the finalization of the text on the fiscal regime was awaiting a technical assistance mission from the IMF Fiscal Affairs Department early in September.

20. **In March 2012, the government adopted an action plan for reforming the electricity sector** in accordance with the recommendations of the donor roundtable held in Conakry in January 2012 (a structural benchmark). Since then, notable progress was made in implementing the action plan, especially with the rehabilitation of hydroelectric and thermal generators, as well as the repair of poles, transmission lines and distribution grids with support from development partners, including the World Bank, the African Development Bank, and the Islamic Development Bank. These investments allowed increasing substantially the supply of

electricity, especially in the capital Conakry. Available capacity increased from 109 MW at end-2010 to 162 MW currently, and average availability of electricity rose to 15 hours per day. Management of the public company (*Electricité de Guinée* - EDG) has been strengthened, including through audits, an update of the customer database, and improvements in billing and collecting, contributing to doubling average monthly revenue from private customers from GNF 8 billion in 2011 to GNF 16 billion during the first six months of 2012. Construction has begun on the Kaléta Hydroelectric dam and power plant. This should increase the share of cheaper hydroelectricity in overall electricity production by 2015. Finally, the government established a monitoring committee, whose main task is to monitor and coordinate the implementation of this action plan.

21. **The agricultural sector reforms aim at achieving food self-sufficiency in 2014**. After the reforms began in 2011 (which contributed significantly to the increased agricultural production during that year), the measures in 2012 aimed at ensuring that assistance to the sector would remain sustainable over the medium term by raising the loan collection rate and controlling budget subsidies. However, there were delays in implementing the harmonization of the methods and procedures of assistance to the agricultural sector with those under projects supported by the World Bank and the International Fund for Agriculture Development (IFAD) (structural benchmark for end-March 2012). In June, the Prime Minister signed an order organizing the distribution of farm inputs and cost recovery. A circular letter on arrangements for implementing this order was widely distributed, and a three-party convention on its implementation was signed on August 7 by the Ministry of Agriculture, the Chamber of Agriculture and five organizations of farmers, including the National Confederation of Guinea Farmer Organizations (CNOPG). Under the convention, the CNOPG and other organizations are charged with distributing seeds, inputs and agricultural materials, and with collecting loans, in accordance with the Prime Minister’s order and in line with the methods and procedures for assistance under projects funded by the World Bank and IFAD.

22. **The revision of the Investment Code is continuing with technical assistance from the World Bank, the International Finance Corporation (IFC), and the IMF**. The agency to promote private investment was established and the one-stop-shop for registering new companies is operational. Based on IFC recommendations, the revision of the Code will now be made together with the revision of the General Tax Code, the Customs Code and the Customs Tariff; this requires additional technical assistance and the revision of the code is now scheduled for the end of June 2013. A workshop with all the stakeholders will be held in September to prepare an investment policy letter. A comprehensive list of the companies that benefit from the incentives under the Investment Code was prepared in March. An inter-ministerial commission, set up in June, started reviewing those companies, with the aim to terminate the benefits for companies that do not comply with the contractual obligations under the code by end-December 2012 (structural benchmark).

IV. Implementation of the Extended PRSP for 2011–12

23. **As part of the program to fight poverty, as soon as the government took office, it implemented an emergency program based on the Second Poverty Reduction Strategy Paper (PRSP II**). PRSP II (2007–10) was extended to cover 2011–12 to achieve some of its goals that had not been reached during the period of the military regime in 2009–10; the extension was presented to the members of the government governmental seminar in January 2011 and to the National Transition Council (CNT) in February 2011.

24. **The government also adopted a 2011–15 Five-Year Development Plan that is consistent with PRSP II**. The goals of this development plan are to reduce poverty by implementing the PRSP and to lift Guinea to the rank of emerging countries. The CNT adopted this plan in May 2012, and it includes a priority public investment program, particularly in infrastructure in the mining, industrial, water and energy, and tourism sectors.

25. **An annual progress report on the implementation of the PRSP II for 2011 was produced and submitted to the Bretton Woods institutions** in May 2012. This report was validated after comments from technical and financial partners were taken into account. It examines the results achieved in 2011 and presents the outlook for 2012. It also shows the continuing increase in expenditures in the priority sectors.

26. **The preparation of the PRSP III is in progress**. An outline of the document and a roadmap for preparing it were submitted to technical and financial partners. The PRSP III will be divided into two major parts. The first part will present the present situation by assessing poverty and reviewing the lessons learned from the strategy since the second PRSP was prepared. The second part will present the government's vision and the strategies of the different sectors, arranged around six pillars: (i) macroeconomic stability; (ii) improved governance and institutional reforms; (iii) development of economic infrastructures; (iv) rural development; (v) mining and industrial development; and (vi) development of human capital. Moreover, an implementation process will be established and specified for financing the strategy and the priority action plans, along with the communication strategy and the evaluation of the strategy's impact on the living conditions of Guinea's population with a view to pursuing the Millennium Development Goals.

V. Policies for the Remainder of 2012 and 2013

27. **The government is determined to implement the macroeconomic and structural policies in the ECF-supported medium-term program (2012–14)**. The government will continue the prudent fiscal and monetary policies that broke the spiral of inflation and depreciation of the exchange rate. The government is also determined to continue the structural reforms to reduce the obstacles to unlocking the country's vast economic potential and to support strong, sustainable and diversified growth. With the debt relief following the HIPC Initiative completion point, additional resources can be set aside for priority spending programs, including financing for basic infrastructure and social expenditures. The government intends to take advantage of the experience gained while developing and implementing the program to strengthen reforms in the post-HIPC period.

A. Macroeconomic Outlook for 2012–13

28. **Despite the sluggish international economic environment, the macroeconomic outlook for Guinea remains favorable for the rest of 2012 and 2013**. Investment in developing deposits of iron ore and other minerals should continue, even if risks remain regarding international prices, particularly for aluminum. With the reforms, the growth in agricultural production, especially rice, is estimated to continue apace, which should also decrease risks from the increase in international food prices. The forecast for real GDP growth for 2012 was revised slightly upward (4.8 percent compared to a forecast of 4.7 percent early in the year) and, also based on the rapid acceleration of investments in the large Simandou iron ore project, is projected to reach 5 percent in 2013. The trend in inflation during the first six months of 2012 is consistent with the program target for end-2012 of 12 percent (y-o-y); the target for 2013 is still to lower the rate to 8.7 percent. Nonetheless, even if the macroeconomic program targets for 2012–13 remain broadly unchanged, the fact that the windfall mining revenue initially planned for 2012 (equivalent to 4.5 percent of GDP) was not received, required an adjustment of the budget and monetary policies for the second half of 2012. The target for international official reserves also had to be revised, although the good performance in 2011 and budget support from Angola mitigated the reduction. The revised program targets a floor on international reserves equivalent to 2.9 months of imports for end-2012 (compared to 3.3 months in the initial program) and 2.9 months of imports for 2013.

B. Fiscal Policy for July-December 2012

29. **Fiscal policy for the rest of 2012 will seek to meet the macroeconomic targets under the ECF-supported program, taking into account the shortfall from the expected windfall mining revenue and the expenditure overflow from 2011**. The main objective of fiscal policy remains avoiding bank financing of the budget deficit besides that stemming from the decrease in deposits due to the use of the 2011 windfall mining revenue for investments. In this context, the government prepared a supplementary budget law for 2012 (prior action), which was recently submitted to the CNT taking into account the shortfall in the windfall mining revenue and the payment in 2012 of expenditures from fiscal year 2011. The revised budget aims for a basic balance deficit of 3.6 percent of GDP (compared to 3.8 percent in the initial budget for 2012), including the recapitalization of the Central Bank for an amount equivalent to 0.5 percent of GDP. Net bank financing in the revised budget rises to 5.0 percent of GDP (compared to 1.6 percent of GDP in the initial budget).

30. **Revenue projections for the year as a whole exceed initial forecasts (by 0.4 percent of GDP)**. This reflects the substantial collection efforts in the first half of the year, higher mining revenue, and lower losses in fuel tax revenue following the fall in international oil prices compared to the projections in the initial budget. The revenue estimates are also based on additional measures to increase tax revenue, in particular: (i) the medium-size enterprise unit starts activities and VAT collection is expanded to such enterprises by end-December 2012 (structural benchmark); (ii) the gradual repayment of VAT credits, lowering the stock by 50 percent in 2012—the resumption of efficient repayment of such credits should promote

compliance with collecting and paying VAT, especially in the mining sector; and (iii) the termination of tax advantages under the Investment Code for companies that do not meet the contractual obligations associated with the advantages in the code by end-2012 (structural benchmark). The government will also analyze the cross debts between the Treasury and public enterprises in order to make a decision by end-November 2012 regarding the frozen tax revenue of these enterprises (*Electricité de Guinée, Port Autonome de Conakry, Société de Télécommunications de Guinée*, and *Société des Eaux de Guinée*). Pending a decision on the regular price adjustment mechanism, the revised budget does not include an increase in the price of fuel. However, if prices in international markets were to rise above the assumption used for the budget estimate, the government will adjust pump prices to prevent further tax losses or take revenue and/or expenditure measures to offset such losses.

31. **Basic expenditures were lowered compared to the initial budget (by about 0.5 percent of GDP)**. Current expenditures were reduced, but allocations for investment expenditures were increased to accommodate some projects (mainly in the electricity sector) that were scheduled for 2011 but could not be executed at that time. Savings are expected from the continued cleaning of the civil service payroll database, including through (i) better monitoring of the wage bill through on-site inspections; (ii) the continuous updating of contracts instead of the automatic renewal that existed; and (iii) the continuation of actions necessary for the interconnection of the budget payroll and civil service databases. The savings from lower recruitment during the first half of the year will be carried forward as the government will not grant any retroactive payment. Moreover, in subsidies, savings are expected to come from continuing improvement in the database for student scholarships, and from managing transfers to the decentralized authorities.

32. **Net expenditure savings are expected despite recent developments that had not been anticipated when the initial budget law was prepared but require some additional expenses**. The government plans to gradually clear the stock of VAT credit arrears (0.25 percent of GDP). A provision has been set aside to deal with the restructuring or liquidation of a bank currently under Central Bank receivership; the authorities will choose the least costly option for the budget. While awaiting technical assistance from the World Bank and the IMF on SOGUIPAMI's role, institutional organization and relations with the Treasury, a provision was also included in the budget to provide financing for its administrative costs. Moreover, an amount of GNF 220 billion was budgeted to bring the capital of the Central Bank up to the minimum statutory level.

33. **The government considers that the 2012 budget can be financed**. As planned in the program, the budget will use the amount remaining from the 2011 windfall mining revenue after the $250 million was transferred to the SIF. The revised budget also includes a provision equivalent to 1.1 percent of GDP for paying the expenditure overflow from 2011. With assistance from the *Agence Française de Développement*, the government will audit the stock of domestic debt, including arrears, before end-March 2013, to determine its exact nature and the treatments required.

34. **Financing of the budget will benefit from external debt relief**. In addition to the relief from the Paris Club, the budget will benefit from debt service savings in the fourth quarter after reaching the HIPC completion point, including relief from the MDRI and additional relief provided by Paris Club members. Discussions have begun with the other official bilateral creditors and with the commercial creditors on debt rescheduling under terms comparable to that of the Paris Club. Regarding commercial creditors, the government will continue these discussions in a manner consistent with IMF policy on lending to countries in arrears. Moreover, the budget will benefit from budget support from Angola and the AfDB, and the repayment by the *Agence Française de Développement* of excess debt service payments during 2009–11.

C. Fiscal Objectives for 2013

35. **Fiscal policy for 2013 will aim at consolidating the basic balance deficit and limiting bank financing to the gradual use of SIF resources, as provided for in the initial ECF-supported medium-term program**. Additional resources are expected to be generated from lower external debt service payments following the HIPC completion point, including from relief under the MDRI. The basic balance deficit would fall from 3.6 percent of GDP in 2012 to 1.4 percent of GDP in 2013. The use of SIF resources will be spread out over 2013–15 to ensure a sufficient level of public investment before the expected permanent increase in mining revenue following the start of production at the Simandou iron mine, planned for mid-2015. The use of external financing will be consistent with the objective of ensuring debt sustainability. The government is aiming at submitting the draft budget to the CNT on October 15, 2012, which would be within the constitutional requirement for the first time in a decade.

36. **Budget revenue is projected to increase from 19.2 percent of GDP estimated for 2012 to 20.2 percent of GDP**. These projections are based on the assumption that, as of January 1, 2013, the price of petroleum products at the pump will be adjusted regularly to cover the import cost to prevent revenue losses. The 2012 decision to terminate the benefits for companies that do not comply with the contractual obligations under the current Investment Code will affect the full fiscal year 2013.

37. Since **petroleum products are a major source of government revenue, it is important to prevent losses caused by the gap between import costs and the price at the pump in order to protect priority expenditures**. To this end, an automatic system for adjusting monthly petroleum prices, based on changes in the international prices and the exchange rate, will be applied starting in January 2013 (continuous structural benchmark). The special committee on petroleum products will decide on the price adjustments; the Director General of Customs and the Special Customs Collector will henceforth participate in this committee. The new system should aim at limiting erratic fluctuations of pump prices while safeguarding government revenue.

38. **The revenue agencies will begin to implement the measures provided for in the action plans for tax and customs reform, with assistance from technical and financial partners**. The action plan of the tax department is based on (i) streamlining the organization to allow more effective administration; (ii) harmonizing and simplifying the tax legislation; (iii) promoting taxpayer compliance; (iv) strengthening employee skills; (v) expanding the tax base; and (vi) strengthening management and supervision of the administration. The action plan of the customs department aims at: (i) strengthening the customs agency; (ii) improving human and financial resources; and (iii) modernizing customs procedures and strengthening risk-based control. The following priority activities will be carried out:

- Revise the General Tax Code, the Customs Code and Customs Tariff to include recent tax changes, as well as the various tax incentives that are presently included in the Investment Code or disseminated in other statutes;
- Conduct a study, with IMF assistance, to provide recommendations on reforming real estate taxation;
- Make the tax appeal commission operational to accelerate the settlement of disputes and tax collection;
- Clear the backlog in VAT credits and put in place an appropriate system to refund the VAT for exporters;
- Implement risk-based customs control by selectively using ASYCUDA ++ declarations and computerizing customs offices at the in-land frontiers;
- Develop a partnership with the private sector by signing an agreement on the gradual payment of customs duties; importers will have the possibility to take just a portion of imported goods and to pay a portion of customs duties; the unpaid portion of customs duties will be guaranteed by the goods that are not taken;
- Interconnect computers between the two tax agencies and with the other administrations, in particular Procurement and the Treasury, to accelerate services for users, including payment of taxes and customs clearance of goods, and to limit fraud;
- Start using the mobile scanner already available at the Port of Conakry.

39. **Even though discussions between ministries on expenditures are still taking place at the time this Memorandum is prepared, the government has already set the guidelines for expenditures in 2013**. Expenditures will aim at achieving the target for the basic balance deficit within the envelope of available resources. Thus, current primary expenditures will slightly rise in percentage of GDP, implying a nominal increase of about 20 percent. The main factors are: (i) offset the impact of inflation on civil service wages; (ii) hiring in the social sectors and police of about 8,500 new staff, while continuing the reforms begun in the civil service, such as cleaning up the payroll database; (iii) start applying the special statutes for a few functional groups in public administration; (iv) keep spending on goods and services constant in real terms despite the growing number of ministerial departments; (v) reduce agricultural subsidies for the crop year by increasing the part of input cost paid by farmers and

use funds collected and deposited in the revolving account; and (vi) reduce subsidies to the electricity sector by stemming technical and commercial losses and by adjusting rates.

40. **Domestically-financed investment expenditures will fall from 7 percent of GDP in 2012 to 4.9 percent in 2013 as the balances from the 2011 exceptional mining revenue are gradually exhausted**. This reflects the completion of a number of priority projects in the electricity sector in 2012. Based on the public investment program prepared in 2012, the government will select projects to be submitted to the SIF for approval. With assistance from the World Bank, mainly for setting up the management bodies, the SIF will be operational by end-December 2012. Projections for externally-financed investment (4.4 percent of GDP) are based on the assumption that the financing envelope from the European Union under the 10th EDF—which depends on holding legislative elections—will continue to be available as planned.

41. **The budget will benefit from the impact of debt relief**. The savings on external debt service expected for 2013 from the HIPC completion point, the MDRI and the additional relief from bilateral creditors are estimated at about $148.3 million compared to if only the Paris Club agreement of April 22 would be applied. The 2013 budget provides that half of the deposits in the SIF as of end-2012 ($125 million or 2.5 percent of GDP), will be used in 2013. Net bank financing will be avoided, other than resulting from the planned use of SIF resources. The budget also includes grants in the context of the Debt Reduction and Development Contracts (C2Ds) with France to finance approved projects. Under the C2Ds, Guinea will make regular debt service payments, which will, in the context of the HIPC initiative debt relief, be returned as grants to finance development projects. The government intends to organize a donor round table in early-2013 that could generate additional financing.

D. Monetary and Exchange Policy

42. **The main objective of monetary policy remains lowering inflation**. BCRG monetary policy will continue to be based on containing base money. Given the absence of a developed financial market and the low use of indirect instruments, the intervention in the weekly foreign exchange auction (FEA) will remain the main monetary policy instrument; the FEA allows the BCRG to sterilize excess liquidity by selling foreign exchange. The BCRG will monitor liquidity developments very closely to reduce any excess that may arise from the government's drawdown of deposits of the 2011 windfall mining resources for local expenses, within the limit of the target for international reserves. Nonetheless, the drop in the inflation rate and the slower bank lending in the first half of 2012 give the BCRG leeway to lower the policy rate. If the growth in bank lending remains low, the BCRG could also consider gradually lowering the reserve requirement ratio. The BCRG will align the discount rate with the policy rate, setting it at a level that will encourage the banks to develop an interbank market for Guinean francs and to mobilize deposits. Since July 10, the banks have been authorized to include their cash in vault in meeting reserve requirements; this exemption will be suspended once the operation for replacing older GNF 10,000 banknotes is completed before end-2012.

43. **Now that the parallel market premium has nearly disappeared, the monetary authorities will consider the possibility of widening the band around the FEA rate, from ±3 percent to ±5 percent, around which banks purchase or sell foreign exchange**. In line with the recommendations of the March 2012 IMF Fiscal Affairs Department technical assistance mission on the implementing texts of the SIF, the monetary authorities are considering keeping the SIF account in Guinean francs instead of in US dollars, in agreement with the Ministry of Finance. To further enhance transparency, the BCRG will adopt a memorandum clarifying the FEA operating regulations, such as the modalities for allocating foreign exchange and setting the exchange rate, validated by the Exchange Commission (by end-December 2012).

44. **The BCRG is pursuing its policy of strengthening the financial sector**. The Central Bank will continue on-site and off-site supervision of financial institutions to ensure that all the banks observe the prudential ratios. The government will adopt the draft banking law by end-December 2012 (structural benchmark) and the BCRG will continue preparing a new bank chart of accounts with the goal of completing it by end-2014. To upgrade the payments system, the BCRG has started setting up a payment incidents clearinghouse with assistance from the Banque de France. It is also planning to organize a workshop to disseminate the new instructions on the microfinance institutions and to strengthen regulation in the insurance sector. To increase the sector's contribution to the country's development, a study on the development of the financial sector was launched with assistance from the AfDB, the UNDP, and other economic and financial partners, which is expected to be adopted by the government by June 2013.

45. **BCRG's instruments of intervention will be strengthened**. With IMF assistance, the BCRG plans to review the overall monetary policy framework, including the setting-up of permanent facilities. In this regard, it will sign a framework agreement with the Ministry of the Economy and Finance to update the 2010 convention on the outstanding stock of advances by end-December 2012 (structural benchmark). Once its statutory capital has been replenished, as provided for in the 2012 supplemental budget law, the BCRG is expecting additional requirements due to the growth in the banking system. To that end, it submitted a request to the IMF Monetary and Capital Markets Department to prepare a financial assessment of its entire balance sheet in order to more precisely determine capital requirements. The Central Bank will also work to establish its investment policy, set up the trading room for its outside investments, and train staff with technical assistance from the IMF and the World Bank. With regard to audits, work will primarily consist of the following:

- ✓ Review the agreed procedures to validate the level of net domestic assets and net international reserves indicated in the June 30, 2012 monetary survey. The new independent auditor will certify by end-October the monetary statistics that are used to evaluate the program's performance on June 30, 2012;
- ✓ Continue implementing the recommendation of the IMF safeguards assessment mission of January 2012;
- ✓ Prepare the audit of the accounts for December 31, 2012.

E. Structural Reforms

Fiscal management:

46. **The government continues to implement the public financial management modernization program with support from the technical and financial partners**. Over the next twelve months, the government plans to implement the following activities:

- Strengthen the operationalization of the Treasury single account (TSA) by finalizing the identification of accounts that are to be transferred under the TSA, and move from the current monthly leveling to daily leveling of the balances in credit accounts into the account of the National Treasury Directorate (DNT), except for the bank accounts of public accountants in the regions.

- Sign the regulatory instructions on closing the fiscal year;

- Regularize suspense accounts to produce financial statements for the 2011 budget review law, and to ensure reliable financial reports for fiscal year 2012.

- Reintroduce the oversight of the budget implementation process through budget review laws; prepare the administrative and management accounts for 2010–11 in order to submit the draft budget review laws to Parliament for 2010 and 2011.

- Put in place the governance structure of the SIF and submit projects that could be financed by it in 2013, based on a medium-term public investment program; a medium-term public investment program, based on advice provided by the development partners, will be adopted before end-December 2012 (structural benchmark);

- Adopt, by end-December 2012, the implementing decree for the Procurement Code that was adopted by the government in July 2012 and submitted to Parliament.

- Revise and harmonize the budget classification with the new government chart of accounts that is scheduled to come into effect in 2014; and

- Audit domestic payment arrears and prepare a plan to clear these arrears with support from the *Agence Française de Développement* (AFD).

47. **The overflow of expenditures between fiscal years will be avoided through the budget framework law (LORF) and the General Regulations on Fiscal Management and Public Accounting (*Règlement Général de Gestion Budgétaire et de Comptabilité Publique - RGGBCP*)**. A decree on the RGGBCP will be signed by December 31, 2012 (structural benchmark). In the context of these two legal frameworks, no expenditure commitments can be made after November 30 of the fiscal year; no payments for expenditure from a fiscal year can be made after January 31 of the following year (i.e. a supplementary period of one

month). Transactions that are made under special procedures will also be limited through these two texts. The revised budget law for 2012 includes a clause that closes expenditure commitments on November 30, 2012 and sets the supplementary period until January 31, 2013. This clause is meant to limit expenditure overflow from 2012 into 2013.

48. **The government took measures to strengthen the management of the country's external debt**. The recent loan agreements for SOGUIPAMI have highlighted a few weaknesses in the country's debt management system. The government has taken measures to limit the borrowing framework for public entities and public enterprises to minimize the financial risks to the government. The government will adopt, by end-December 2013, revisions to the legal texts on public entities to make them consistent with the new budget framework law and the General Regulations on Fiscal Management and Public Accounting (*RGGBCP*) (structural benchmark). In this context, the texts on public entities—and in particular Order O/91/025 of March 11, 1991 on the institutional framework of public enterprises and Decree D92/133/PRG/SGG of May 26, 1992—will include provisions to control their recourse to borrowing and therefore limit the risks for the government budget. Similarly, Law L/93/021/CTRM/SGG of May 6, 1993 on public administrative entities (EPAs) that allows EPAs to borrow, will be reviewed in line with the LORLF and the RGGBCP, which will forbid those entities from borrowing.

Improve the business climate

49. **The work on revising the Investment Code continues with technical assistance from our partners, with the aim to promote the private sector, improve the business environment, and give incentives for investment**. With the assistance of IFC, the World Bank, and the IMF, the government decided to separate investment regulations and tax incentives. The new Investment Code will be limited to non-tax and non-customs related incentives, while all the tax and customs incentives for investment will be included in the General Tax Code, the Customs Code and the Customs Tariff. The program for 2012–13 includes the adoption by Parliament of the new Investment Code by end-June 2013. This consists of the following stages:

(i) The draft investment policy letter will be discussed with the private sector during a workshop in September 2012; the policy letter will be submitted to the Council of Ministers for approval by end-November 2012. A draft law revising the Investment Code will be submitted to parliament by end-March 2013 (structural benchmark).

(ii) The government will submit a draft law on tax incentives to parliament by end-May 2013 (structural benchmark); this law, which is expected to be adopted before end-June 2013, will incorporate all the tax and customs investment incentives with precise triggering thresholds. The law will include all the incentives ministries grant outside the Investment Code; to this end, the Ministry of the Economy and Finance will prepare a report on these incentives, with the assistance from IFC and the IMF, by end-April 2013.

Afterwards, projects and businesses will no longer be required to seek approval for the incentive systems. In 2013, the government will prepare, with assistance from the IFC and the IMF, new Tax and Customs Codes and a new Customs Tariff, incorporating the investment incentives;

(iii) Pending parliament adoption of the law on tax incentives, the National Investment Commission (CNI) will continue to operate under the Minister of Industry and SMEs;

(iv) To complete the operationalization of the private investment promotion agency (APIP), the government will appoint its executive board and nominate the deputy managing director and the heads of the four departments provided for under its statutes, by end-October 2012; and

(v) To monitor the reforms, the government will put in place a private-sector reform coordination unit in the Ministry of Industry and SMEs by end-November 2012.

50. **The government will further focus on additional improvements in the "Doing Business Index" indicators**. To this end, the government will launch reforms on three indicators by May 30, 2013. On the basis of performance criteria for (a) the delays; (b) the number; and (c) the cost of procedures, the government will ensure the monitoring of effective implementation of reforms. It will also work with the private sector to streamline the professional organizations, including the organization of a roundtable early in 2013 with support from the development partners and the participation of all the stakeholders from the private sector.

51. **In 2012–13, the government will implement a permanent education program for judges and other officers of the court** and will assist in strengthening the capacities of the associations of attorneys, notaries, court clerks and auctioneers, to better execute court decisions. It will submit to Parliament a draft anticorruption law that transposes into domestic law the provisions of the UN and the African Union conventions on controlling corruption, and will launch a second survey to evaluate the level of corruption in the country by end-June 2013. As part of the fight against money laundering, a decree on the operation and duties of CENTIF (National Financial Information Processing Unit) will be issued by end-June 2013, providing the unit with human, financial and technical resources.

Mining policy

52. **The government plans to adopt and publish the implementing texts of the 2011 mining code as well as a standard mining convention (structural benchmark), and to submit to Parliament for adoption the draft technical amendments to the code, by end- December 2012 (structural benchmark)**. The implementing texts and the amendments to the code that pertain to the tax system will be based on IMF recommendations. They will address primarily: (1) fees; (2) the export tax; (3) tax barriers to operation; (4) capital gain taxation; (5) the provision for replenishing deposits; (6) restricted capitalization; and (7) tax

regime stabilization. As soon as this revision is enacted, the government will adopt and publish the implementing texts of the Mining Code, as well as the new standard mining convention for Guinea that is consistent with these provisions.

53. **The technical committee in charge of reviewing all existing mining conventions is expected to exercise its term until end-December 2014**. The government budget will pay for its operations and equipment. An initial allocation of GNF 400 million was included in the 2012 supplemental budget law. To strengthen the technical committee's negotiating capacity, the government will hire specialized firms that can mobilize expertise in legal, technical and financial areas. To cover the costs of this assistance, discussions are in progress to create a trust fund that could be financed by partners, the government budget, and contributions from mining companies. Nonetheless, to allow the committee to begin as soon as possible, the 2012 supplemental budget law includes an allocation of GNF 21 billion for this purpose. Moreover, the authorities will conduct an audit of the mining companies, with assistance from partners, to ensure that past business of the companies was consistent with the provisions of the existing conventions.

54. **The government intends to review the role and institutional framework of the *Société Guinéenne du Patrimoine Minier* (SOGUIPAMI)**. Based on the 2011 law on the creation and management of mining resources, SOGUIPAMI was founded in August 2011 as a government-held joint stock company. By decree of August 11, 2011, it was granted broad powers, including obtaining ownership of all government assets and equity investments in the mining sector, collecting all revenue from these assets and equity investments, as well as the possibility to contract loans and make other commitments. However, although SOGUIPAMI has begun operating—two loan agreements were contracted for it and the company participates in the possible management and financing of the government's participation in the Simandou iron ore infrastructure project—it does not yet have institutional structures to guarantee the oversight and supervision of its governance. In view of the very high financial and fiscal risks under the current system, the government requested technical assistance from the World Bank and the IMF to conduct a study on SOGUIPAMI's role and its relationship with the public administration, with a view to bringing it in line with best international practices with regard to public wealth managing entities; to ensure that the government's assets in the mining sector remain under full government control and parliamentary supervision; that government revenue is protected; and that the fiscal risks from external debt and other commitments are contained within the limits of debt sustainability. The government plans to complete this study by end-March 2013 at the latest (structural benchmark).

55. **The envisaged revisions in the role of SOGUIPAMI will be based on the following principles**: (i) SOGUIPAMI's activities should be limited to managing the portfolio of the government's mining assets (equity investments); the Public Treasury remains the owner of the government's portfolio of securities and other stocks, including in the mining sector; (ii) SOGUIPAMI will work in liaison with the Department of Government Portfolio and Private Investments of the Ministry of the Economy and Finance and the Ministry of Mines and

Geology; (iii) it will not be able to contract loans or collect government revenues; (iv) its activities will be funded through an annual allocation in the government budget. Moreover, SOGUIPAMI will not be able: (v) to make investments in activities outside the mining sector; (vi) to manage in a discretionary manner the use of funds other than the allocations from the government budget; (vii) to independently own real estate, securities, intangible assets and tangible personal property, and any assets other than assets that are necessary for its usual operations; and (viii) to raise funds. SOGUIPAMI's activities will be monitored regularly by a supervisory council including the Minister of the Economy and Finance and the Minister of Mines and Geology. The budget appropriations allocated to this company in the 2012 supplemental budget law will be disbursed after SOGUIPAMI's business plan has been finalized and approved by the Ministry of Economy and Finance and the Ministry of Mines and Geology.

56. **Pending the finalization of this review, the government decided that SOGUIPAMI should not exercise its rights as an independent entity** with financial autonomy and that it should operate in strict compliance with the rules that govern government entities. Specifically, it should carry out those operations that it is explicitly authorized to carry out under the government budget adopted by the National Assembly and should not: (i) collect revenue from any source other than sources approved in the government budget. Any other income outside budget allocations will be deposited into a special account with the Central Bank from which transfers can be executed only by the Minister of the Economy and Finance to the principal Treasury account; (ii) contract foreign or domestic debt or other types of debts or commitments directly or through its subsidiaries; or (iii) create or hold equity investments in subsidiaries or business activities. These precautionary provisions are included in a presidential decree of August 10, 2012.

Energy sector

57. **The government will continue implementing its recovery plan and investment program in the electricity sector**. With regard to the statutory and regulatory framework and the EDG management structure, the government will implement the following activities, with support from the development partners:

- Submit to Parliament a draft revision of the law on electricity, a draft law on BOT projects (Build, Operate, and Transfer), and a draft law on the regulatory agency for the sector by end-June 2013; and approve the implementing texts for these laws;
- Define EDG's legal status and establish the company's governance institutions, including management, by end-June 2013 (structural benchmark);
- Negotiate and sign with EDG a performance contract that will be audited periodically by independent auditing firms;
- Select a strategic partner; and with it, enter into a management contract for EDG, or sign a contract for management technical assistance, by end-December 2013; and
- Develop a program to communicate with, and inform the people on, the recovery of the electricity sector.

58. **EDG will place in service new thermal generators for a total capacity of 50 MW** at Tombo I and Tombo II by end-November 2012, and an additional 50 MW at Kipé (in Conakry) by end-March 2013, and 22 MW in the interior prefectures. These thermal generators will provide service for an average of 18 hours per day in the Conakry metropolitan area, beginning in the second quarter of 2013. However, operating costs for these generators are high, and it is projected that EDG will use the 250 billion Guinean francs in subsidies planned for 2012 in the government budget, with the same amount in 2013. To limit subsidies in 2013 despite the significant increase in power generation, the government (i) will adjust rates by end-January 2013 in accordance with the principle of flexibility that was adopted recently; (ii) will continue to install meters on the premises of identified customers; and (iii) will discourage the use of incandescent light bulbs to promote energy-saving bulbs during 2013. The government will conduct an audit of the billing of industrial companies, with the assistance of development partners; the monitoring committee will ensure implementation of the audit recommendations with regard to upgrades in billing to industrial companies, to ensure that the payments EDG receives reflect the services that are provided.

59. To **control costs in the medium term and to streamline investments, the government will adopt a public investment program for 2013–15** which, in the electricity sector, will place emphasis on hydroelectric dams, transmission lines and distribution grids. Moreover, in 2013, it will conduct a public expenditure review in the electricity sector with support from the World Bank. Finally, the government will update the electricity rate study in June 2013 with assistance from the World Bank. By 2015, the government will complete the construction of the Kaléta Dam, funded for one-fourth from the national development budget's own resources, and for the remainder by China Exim Bank.

60. **In the water sector, the government will conduct a diagnostic study and prepare investment scenarios by end-March 2013**. It subsequently will hold a donor roundtable with support from the AFD and the World Bank by end-June 2013. As is the case for the electricity sector, this process is expected to culminate in identifying a restructuring and investment program, including the selection of a strategic partner for technical assistance.

Agricultural sector

61. **To achieve its objectives of food security and promoting agricultural exports**, the government plans to implement an action plan in the second half of 2012 and in 2013 to (1) improve the use of resources in its agricultural support programs; (2) assess the execution of operations for crop years 2011–12 and 2012–13; and (3) increase the competitiveness of agricultural products relative to imported food staples and promote agricultural exports.

62. **Regarding the proper use of resources,** the government prepared the National Agricultural Investment and Food Security Plan (PNIASA), which is consistent with the Comprehensive Africa Agriculture Development Policy (CAADP), launched by the African Union and spelled out by ECOWAS under the Regional Agricultural Policy for West Africa

(ECOWAP). During April 23–27, 2012, it organized a joint mission in Conakry to review the rural sector with the participation of development partners. After the mission, it was agreed to organize a roundtable on the rural sector with the participation of all the national stakeholders and development partners. To prepare for the roundtable, scheduled to be held by end-March 2013, the government will carry out the following five activities:

- Review public expenditures in the agricultural sector by end-January 2013, with technical and financial assistance from the World Bank; the findings from this study will be used to lower budget subsidies to the sector.
- Hold a dialogue workshop with stakeholders representing the national private sector in two agricultural subsectors important for the country's food security or agricultural exports, such as rice, potatoes or vegetable farming. The goal will be to specify, in light of the expectations and investment capacities of private stakeholders, the needs for essential government interventions and/or disengagement.
- Hold a dialogue meeting with mining companies on the medium-term estimates of their requirements for agricultural products, as well as their vision of the impact of their investments on the development of agriculture;
- Prepare an employment and resource matrix for the period covered by the PNIASA, consistent with the programs and sub-programs of the PNIASA; and
- Streamline PNIASA monitoring.

63. **The roundtable will review the findings and recommendations of the five activities** described above and will propose an action plan that the government will approve by end-June 2013 to improve the use of resources and the quality of assistance services in the agricultural sector.

64. **The government will select independent consultants under an open competitive procedure** with technical and financial assistance from the World Bank, IFAD and the *Agence Française de Développement* to prepare a detailed assessment of the execution of operations for the 2011–12 and 2012–13 crop years in comparison with best practices in Africa and in the world, and propose an action plan to achieve the objectives of food security and promoting agricultural exports, including an institutional reform project in the sector. This assessment mission is expected to submit its report by end-June 2013. Its findings and recommendations will be discussed at a national workshop that the government would like to organize by end-October 2013 with technical and financial partners and key players in the sector to draw conclusions from past crop years, with a view to improving the quality and effectiveness of expenditures in agriculture.

65. **With regard to improving the competitiveness of agricultural products** relative to imports of food commodities, the objective is to ensure a better connection of farms to markets. This entails the adoption and implementation of a public investment program for 2013–15 which, in the agriculture sector, would focus on several activities, the most important of which are as follows:

- Implement an ambitious program of bringing the large crop production areas out of isolation;
- Launch an ambitious irrigation development program;
- Build multifunctional storage infrastructures in villages;
- Support agricultural product processors through their organizations to facilitate access to loans for materials and for harvesting; and
- Revitalize the agricultural product information system and involve the private sector in marketing agricultural products.

F. HIPC Initiative Completion Point

66. **The status of the completion point triggers is described in Table 3**. These were all met by end-July 2012, except for the audit of all government procurement contracts over GNF 100 million, which was not fully met, even though the broad objective was maintained. The macroeconomic performance trigger, which is addressed in this memorandum, will be met once the IMF Executive Board completes the first review under the ECF-supported program.

67. **Debt relief will be allocated entirely to expenditures for the priority sectors under budget laws to reduce poverty** in accordance with government commitments under the economic and financial program. To this end, with assistance from the technical and financial partners, the government will prepare a functional budget classification that will better target priority expenditures.

G. Program Financing

68. **The financing requirements for the program are met**. The financing requirements in 2012 and in 2013 will be met in part by external assistance in the form of budget support and investment financing. In addition, a debt rescheduling agreement was reached with the creditor members of the Paris Club in April 2012, and the government will continue to hold discussions with the other foreign creditors to obtain debt rescheduling under terms comparable to the Paris Club terms and in line with the HIPC Initiative. Guinea also benefited from the fourth allocation of interim HIPC assistance from the IMF during the first half of 2012. Reaching the HIPC Initiative completion point in September 2012 and implementing the MDRI will free resources from servicing the debt beginning in the fourth quarter of 2012. Moreover, residual financing requirements will be met through the use of international reserves accumulated in 2011 thanks to the exceptional mining revenue, while maintaining an adequate level of international reserves. Disbursements under the ECF-supported program will cover the residual balance of payments financing need.

69. **To ensure prudent debt management, the authorities will mobilize only grants and concessional loans**. The government's equity investment in the project to develop Simandou blocks 3 and 4 of the iron deposit will be financed without any direct loans or government guarantees, apart from possible World Bank enclave financing. The financing should be covered entirely by project revenue. In any event, the government will provide IMF staff with the details on the financing for its equity investment. To ensure debt sustainability, once the HIPC Initiative completion point is reached, the authorities will adopt a new debt strategy and a

program to strengthen debt management capacities, in consultation with the Fund, with the goal of maintaining debt sustainability. The authorities agree to submit to the National Debt Directorate all proposals for new loan agreements and loan guarantees to ensure that the terms are concessional. Moreover, the government agrees to consult with IMF staff on the conditions and concessionality of all new debt agreement proposals before contracting or guaranteeing any external debt. Regarding debt service to the IMF, the BCRG will keep sufficient funding in its SDR account with the IMF to cover all payments falling due during the next quarter.

VI. Statistics and Strengthening Program Monitoring Capacities

70. **The government intends to continue its efforts to improve the statistics system to ensure the steady production and supply of quality statistical data**. It will also strive to launch the implementation of capacity-building programs already negotiated with the development partners.

71. **The government has identified a broad range of technical assistance needs in macroeconomic management**. Institutional capacities, already weak, declined further in 2009–10 when normal procedures and regulations were largely bypassed. To make a fresh start, the authorities requested technical assistance from the partners, including the IMF and its regional technical assistance center West AFRITAC. There have been several missions of these two organizations for this purpose since February 2011. The missions made recommendations in the areas of tax policy, tax and customs administration, public financial management, the foreign exchange market, monetary policy, banking supervision, the balance of payments and the national accounts.

72. **To monitor the implementation of the measures and the attainment of its objectives under its ECF-supported program, the government of Guinea created a monitoring system** consisting of a Reform Coordination Committee (CCR) chaired by the Prime Minister, and a Technical Support Committee for the CCR, as well as a Program Monitoring Technical Unit (CTSP) in the Ministry of Economy and Finance. With these mechanisms, the government, the Central Bank, the international financial institutions and Guinea's development partners will receive periodic reports on the progress made, the outlook, and the measures envisaged.

73. **The program will be reviewed semiannually by the IMF Executive Board on the basis of quantitative monitoring indicators and structural benchmarks** (Tables 4 and 5 attached). These indicators are defined in the attached Technical Memorandum of Understanding (TMU) (Attachment II). The first year of the program will finish in end-December 2012 and the second year covers the period from January to December 2013. The second (third) program review based on the performance criteria at end-December 2012 (June 2013) should be completed no later than March 2013 (October 2013).

74. **During the program period, the government agrees** not to introduce or intensify restrictions on the balance of payments or transfers pertaining to current international transactions, introduce multiple currency practices, enter into bilateral payment agreements inconsistent with Article VIII of the IMF Articles of Agreement, or impose or intensify import restrictions for balance of payments purposes. Moreover the authorities agree to adopt, in consultation with IMF staff, any new financial or structural measures that may prove necessary for the program's success.

Table 1. Guinea: Indicative Targets under SMP 2011 and Performance Criteria under ECF 2012 1/ 2/

(Billions of Guinean francs unless otherwise indicated)

	2011				2012								
	end-Dec.				end-Mar.			end-Jun.				end-Sep.	end-Dec
	SMP	Est.	Actual	Status	Indicative Targets	Actual	Status	PC	PC 7/ adjust.	Actual	Status	Indicative Targets	PC
Quantitative Performance Criteria													
Basic fiscal balance (floor)	-663	-864	-539	Met	-1,102	-571	Met	-1,497	-1,839	60	Met	-1,418	-1,518
Net domestic assets of the central bank (ceiling)	2,488	3,178	2,105	Met	4,484	3,409	Met	3,385	5,020	2,471	Met	3,541	3,854
Domestic bank financing of the government (ceiling)	-3,943	-3,120	-4,378	Met	1,300	1,206	Met	197	1,832	315	Met	348	650
Net international reserves of the central bank (floor); US$ millions 3/	669	541	759	Met	435	547	Met	585	360	643	Met	504	458
New nonconcessional medium- or long-term external debt contracted or guaranteed by the government or central bank (ceiling); US$ millions 4/ 5/	0	0	0	Met	0	0	Met	0	0	0	Met	0	0
Stock of outstanding short-term external debt contracted or guaranteed by the government or the central bank (ceiling); US$ millions 5/	0	0	0	Met	0	0	Met	0	0	0	Met	0	0
New external arrears (ceiling) 5/					0	0	Met	0	0	0	Not Met 8/	0	0
Indicative targets													
Expenditure in priority sectors (floor) 6/		2,100	1,457		1,765	1,445	Not Met	2,501	2,428	2,341	Not met	3,208	3,910
Memorandum items:													
Reserve money	7,101	7,287	6,638	Met	7,083	6,534	Met	7,078	7,078	6,195	Met	6,644	6,744

Sources: Guinean authorities and IMF staff projections.

1/ Definitions and adjustors are included in the technical memorandum of understanding (TMU).

2/ Flow for fiscal criteria and stock for monetary and external debt criteria.

3/ Calculated using the program exchange rates.

4/ External debt contracted or guaranteed other than with a grant element equivalent to 35 percent or more, calculated using a discount rate based on the OECD commercial interest rates. Excludes borrowing from the IMF.

5/ Continuous performance criterion.

6/ Priority sectors include education, health, agriculture, energy, justice, social affairs, and public works (as defined in the TMU).

7/ PC adjusted to reflect the shortfall in expected exceptional mining revenue and the higher-than-expected external assistance.

8/ During April and May, a relatively small amount of external debt service arrears of a short duration were accumulated and were fully cleared before end-June.

Table 2. Guinea: Structural Benchmarks Under the ECF-Supported Program, 2012[1]

Measures	Date	Status	Rationale
Prior actions			
Adopt a 2012 budget law that is consistent with the discussions of the November 2011 mission		Completed	Protect the program's budgetary targets
Provide IMF staff with a copy of the Rio Tinto contract with the government		Completed	Promote transparency in government operations
Hold a roundtable on the electricity sector to establish a sector reform program		Completed	Reduce the burden of transfers and subsidies on the budget
Publish the BCRG audited financial statements and the auditors' opinion on the BCRG web site		Completed	Promote transparency and accountability in management
Structural benchmarks			
Consult with the IMF before making any changes in the new Mining Code that have a tax impact (MEFP ¶ 47)	Continuous	Met	Protect budget revenue
Adopt a comprehensive plan for reform of the electricity sector MEFP ¶ 49	End-March 2012	Completed	Reduce the burden of transfers and subsidies on the budget
Harmonize the methods and procedures for assistance to the agricultural sector (distribution of inputs, seeds, and agricultural materials) as well as the extension and collection of agricultural loans, based on advice provided by the World Bank and IFAD (MEFP ¶ 32)[2]	End-March 2012	Completed with delays. New system was implemented in early-August 2012	Ensure control of agricultural subsidies and improve the rate of collections for producers

Table 2. Guinea: Structural Benchmarks Under the ECF-Supported Program, 2012 (continued)

Measures	**Date**	**Status**	**Rationale**
Adopt implementing texts and general terms and conditions of operation for the implementation of the Special Investment Fund, based on advice provided by IMF and World Bank (MEFP, Box 2)[2]	End-March 2012	Completed	Improve public infrastructures while preserving the viability of public finances
Reintroduce the mechanism for regularly adjusting petroleum product prices based on changes in international market prices and in the exchange rate (MEFP ¶ 27)	Continuous, starting July 1, 2012	Not implemented. Postponed to January 1, 2013	Protect revenue and ensure budget viability
Adopt and publish implementing decrees for the new Mining Code as well as a standard mining contract (MEFP ¶ 47)	End-June 2012	Not completed pending additional technical assistance on the fiscal regime from FAD. Draft decrees and new standard convention are expected to be completed and published before end-December 2012	Ensure a larger share for the government in the country's mining revenues
Develop a plan to implement tax reforms (MEFP ¶ 26)	End-June 2012	Completed	Promote predictability in public finance reforms
Certify, by an independent external auditor, the statistical data on program performance at test dates submitted to the IMF by the BCRG, and approve the investment policy and investment procedure guidelines for its assets by end-December 2012 by the BCRG board of directors. (MEFP ¶ 42, 43)	End-December 2012	In progress. The BCRG selected a new auditor that will certify the data from end-June 2012.	Ensure appropriate utilization of resources entrusted to the BCRG

Table 2. Guinea: Structural Benchmarks Under the ECF-Supported Program, 2012 (concluded)

Measures	**Date**	**Status**	**Rationale**
Based on an exhaustive list of companies benefitting from the Investment Code and their tax advantages, terminate the benefits of companies whose eligibility periods have expired, and adopt a revised Investment Code. (MEFP ¶ 27)	End-August 2012	Not completed; on the basis of technical assistance recommendations of the IFC and FAD, the authorities have broadened the objective of the revision of the Investment Code, requiring additional technical assistance. The Investment Code will be revised by end-March 2013, once the new investment policy has been finalized with assistance from the IFC. The government prepared a list of companies that benefit from the Investment Code and their tax advantages. It will terminate the benefits of companies that do not comply with the contractual obligations under the code by end-December 2012.	Reduce tax expenditures and improve the business environment
Adopt a medium-term public investment program, based on advice provided by the development partners (MEFP, Box 2)[2]	End-September 2012	The PIP is being prepared with assistance from the UNDP and the AfDB; completion expected to be delayed to end-December 2012.	Create a pipeline of viable projects that could receive funding from the SIF

[1] The references to the MEFP concern the MEFP attached to Appendix I of IMF Country Report n° 12/18; February 13, 2012.
[2] The IMF is solely responsible for assessing compliance with the conditions.

Table 3. Guinea: Status of HIPC Initiative Completion Point Triggers
(As of end-July 2012)

Triggers	Assessment
Poverty Reduction	
Preparation of a full PRSP through a participatory process and its satisfactory implementation for one year as evidenced by the Joint Staff Assessment of the country's annual progress report.	**Met**. Implementation of the PRSP-II issued in 2007 was interrupted by the military coup of December 2008. The Government formed after the presidential election at end-2010 extended the PRSP-II over the 2011–12 period. A full one-year progress report on implementation of the strategy during 2011 was submitted to the World Bank and the IMF in May 2012. A Joint Staff Assessment Note on the annual progress report, confirming satisfactory implementation of the PRSP during 2011, will be presented to the Boards of the World Bank and the IMF.
Improvement of the poverty database and monitoring capacity by preparing a living standards measurement survey that establishes poverty lines and indicators based thereon, and establishment of a poverty monitoring system involving key stakeholders.	**Met**. A comprehensive poverty assessment survey was conducted in 2002/3. Thereafter the poverty database was improved and updated. Based on the household survey, 54 poverty indicators were formulated. Two new surveys were conducted in 2007/8 and 2012. The results of the 2012 survey were validated in a meeting including key stakeholders on July 30, 2012.
Continued maintenance of macroeconomic stability as evidenced by satisfactory implementation of the PRGF-supported program.	**Met**. A PRGF-supported program approved on December 21, 2007 went off-track after the first review. Since 2011 the Government has established a strong track record under the IMF Staff-Monitored Program and under a program supported under the Extended Credit Facility (ECF) for 2012–15, approved by the IMF Board on February 24, 2012. The report on the satisfactory first review of the ECF-supported program will be presented to the Board of the IMF with this Supplement to the MEFP.
Develop and take steps to provide an appropriate regulatory framework for microcredit institutions.	**Met**. A new law was passed by Parliament in November 2005, establishing a regulatory framework for microcredit institutions; and implementing regulations were approved.
Governance and Anticorruption	
Make publicly available a one-year progress report (showing resources and activities) of the Anti-Corruption Committee (CNLS).	**Met**. Activity reports of the CNLS, covering the years 2007–11, have been published, and are accessible on the Government's website (http://www.srp-guinee.org/).

Table 3. Guinea: Status of HIPC Initiative Completion Point Triggers
(As of end-July 2012) (concluded)

Triggers	Assessment
Audit all government procurement contracts over GNF 100 million and publish results of these audits on a quarterly basis.	Not **completed, but satisfactory progress has been made**. The government commissioned a comprehensive audit of all government contracts over 2002–04 and a final audit report was completed in 2007. A system of quarterly audits based on a representative sample of large government contracts was put in place in 2008. Reports covering 2007, 2008, 2009, 2010, and the first semester of 2011 have been completed. The audited sample represented 70 percent of the public contracts in 2009–10. The audit reports were published (in the Official Journal of the Government of Guinea in May 2012 and the Procurement Gazette). Reports covering 2007, 2008, 2009, 2010, and the first semester of 2011 have been completed. The audited sample represented 70 percent of the public contracts in 2009–10. The audit reports were published (in the Official Journal of the Government of Guinea in May 2012 and the Procurement Gazette)
Education	
Increase the gross enrollment rate for primary school students from 56 percent in 1999 to 62 percent in 2001 and 71 percent in 2002, of which the gross enrollment rate of girls should be 40 percent in 1999, 51 percent in 2001 and 61 percent in 2002.	**Met**. Gross enrollment increased significantly after 2002, reaching 79 percent in 2006 and 80 percent in 2011. Gross enrollment for girls reached 71 percent in 2006 and 73 percent in 2011.
Increase the number of new primary school teachers hired by at least 1,500 a year for each year until the HIPC completion point, from an estimated base of about 15,000 primary school teachers in 2000.	**Met**. On average 1,673 primary school teachers have been recruited and trained each year from 2001 through 2011.
Health	
Increase immunization (DTP3: diphtheria, tetanus, pertussis) rates for children under 1 year of age, from 45 percent in 2000, to 50 percent in 2001, and to 55 percent in 2002.	**Met**. Immunization coverage of DPT3 reached 88 percent in 2011.
Improve the percentage of pregnant women benefiting from at least 1 prenatal consultation from 70 percent in 2000, to 80 percent in 2001, and to 85 percent in 2002.	**Met**. 88 percent of pregnant women had at least one ante-natal care consultation in 2011.

Table 4. Guinea: Performance Criteria (PC) and Indicative Targets, ECF 2012-13 1/ 2/

(Billions of Guinean francs unless otherwise indicated)

	2012			2013			
	Jun. Act.	Sep. Rev. Indicative Targets	Dec. Rev. PC	Mar. Indicative Targets	Jun. PC	Sep. Indicative Targets	Dec. Indicative Targets
Quantitative Performance Criteria							
Basic fiscal balance (floor)	60	-1,005	-1,469	-238	-475	-555	-634
Net domestic assets of the central bank (ceiling)	2,471	3,756	4,331	4,645	4,959	5,064	5,168
Domestic bank financing of the government (ceiling)	315	1,490	2,010	340	680	793	906
Net international reserves of the central bank (floor); US$ millions 3/	643	463	382	363	344	338	331
New nonconcessional medium- or long-term external debt contracted or guaranteed by the government or central bank (ceiling); US$ millions 4/ 5/	0	0	0	0	0	0	0
Stock of outstanding short-term external debt contracted or guaranteed by the government or the central bank (ceiling); US$ millions 5/	0	0	0	0	0	0	0
New external arrears (ceiling) 5/	0	0	0	0	0	0	0
Indicative targets							
Expenditure in priority sectors (floor) 6/	2,341	2,700	4,069	1,105	2,367	2,959	3,945
Memorandum items:							
Reserve money	6,195	6,218	6,229	6,424	6,619	6,683	6,748

Sources: Guinean authorities and IMF staff projections.

1/ Definitions and adjustors are included in the technical memorandum of understanding (TMU).

2/ Flow for fiscal criteria and stock for end-December 2012 for monetary and external debt criteria.

3/ Calculated using the program exchange rates.

4/ External debt contracted or guaranteed other than with a grant element equivalent to 35 percent or more, calculated using a discount rate based on the OECD commercial interest rates. Excludes borrowing from the IMF.

5/ Continuous performance criterion.

6/ Priority sectors include education, health, agriculture, energy, justice, social affairs, and public works (as defined in the TMU).

Table 5. Guinea: Prior Actions and Structural Benchmarks, ECF-Supported Program (2012–13)

Measures	**Date**	**Macroeconomic rationale**
Prior action		
Adoption by the government of a revised budget for 2012 as agreed with the July–August 2012 mission, including a clause that closes expenditure commitments on November 30, 2012 and sets the end of the supplemental period as January 31, 2013	August 30, 2012	Implement the revised program.
Structural benchmarks		
Adoption of a medium-term public investment program, based on advice provided by the development partners (MEFP, ¶ 46)	End-December 2012[1]	Create a pipeline of viable projects that could receive funding from the SIF
Signing of a decree on the General Regulations on Fiscal Management and Public Accounting **(**RGGBCP) (MEFP ¶ 47)	End-December 2012	Strengthen budget management; limit the possibility of expenditure overflows between fiscal years; strengthen central control over public external debt.
Signing by the BCRG and the Ministry of Economy and Finance of a framework agreement to update the 2010 convention on the outstanding stock of advances (MEFP ¶ 45)	End-December 2012	Shorten repayment period in line with recommendations by external auditors.
Adoption by the government of the draft new banking law (MEFP ¶ 44)	End-December 2012	Strengthen the banking system.
Termination of tax advantages under the Investment Code for companies that do not meet the contractual obligations associated with the advantages in the code (MEFP ¶ 30)	End-December 2012[1]	Lower tax exemptions.
Submission to Parliament of the draft technical amendments to the 2011 Mining Code (MEFP ¶ 52)	End-December 2012[1]	Ensure that the Mining Code is competitive and a larger share for the government in the country's mining revenues.
Adoption and publication of the implementing texts of the 2011 Mining Code as well as a standard mining convention (MEFP ¶ 52)	End-December 2012[1]	Ensure that the Mining Code is competitive and a larger share for the government in the country's mining revenues.
The medium-size enterprise unit starts activities and VAT collection is expanded to medium-sized enterprises (MEFP ¶ 30).	End-December 2012	Increase budget revenues.

Table 5. Guinea: Prior Actions and Structural Benchmarks, ECF-Supported Program (2012–13) (concluded)

Measures	**Date**	**Macroeconomic rationale**
Apply an automatic system to monthly adjust the price of petroleum products based on changes in the international market price and the exchange rate (MEFP ¶ 37)	Continuous, beginning January 1, 2013[1]	Protect budget revenues.
Completion of a study on the role of SOGUIPAMI and its relationship with the public administration (MEFP ¶ 54)	End-March 2013	Maintain government control over its assets in the mining sector, protect budget revenue, and limit financial risks.
Submission to parliament a draft law revising the Investment Code (MEFP ¶ 49)	End-March 2013[1]	Reduce tax expenditures and improve the business environment.
Submission to parliament of a draft law on tax and customs incentives (MEFP ¶ 49)	End-May 2013[1]	Separate the function of investment regulation from tax incentives.
Definition of the legal status of EDG and establishment of the company's governance institutions, including management (MEFP ¶ 57)	End-June 2013	Improve EDG's governance and performance, and reduce budget subsidies.
Adoption of a revision to legal texts on public entities to make them consistent with the new budget framework law and the General regulation on budget management and public accounting (RGGBCP) (MEFP ¶ 48)	End-December 2013	Limit the risks for the government budget; improve central control over external public debt.

[1]Rescheduled measures.

ATTACHMENT II—GUINEA: TECHNICAL MEMORANDUM OF UNDERSTANDING

September 11, 2012

VII. INTRODUCTION

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

2. The quantitative performance criteria, indicative targets, and cut-off dates are detailed in Table 4 of the Supplement to the Memorandum of Economic and Financial Policies of September 11, 2012 (Supplement).

VIII. KEY DEFINITIONS

3. Unless otherwise indicated, the government is defined as the central government of the Republic of Guinea and does not include local governments, the Central Bank of the Republic of Guinea (BCRG), or any other public entity with autonomous legal personality, notably administrative public entities (*établissements publics administratifs*).

A. Quantitative Performance Criteria

4. The **basic fiscal balance** is calculated as the difference between government **revenue**, excluding grants, and **basic government expenditure**. Definitions of bolded terms above are consistent with the definitions in the government flow of funds table (TOFE), for which the calculation method is described in Section IV below.

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

6. **Domestic bank financing of the government**, or net domestic bank credit to the government from banks, comprises: (i) central bank financing of the Treasury, i.e., the change in the net position of the Treasury with the central bank (NTP1), including the HIPC account and accounts for exceptional resources, such as the Special Investment Fund (SIF), but excluding changes in the net position of "satellite" government accounts with the central bank (PNT2); and (ii) commercial bank financing of the Treasury, which includes changes in the stock of Treasury bills held by banks, but excludes changes in the net position of "satellite" government accounts held in commercial banks.

7. **Net international reserves** (NIR) of the BCRG are, by definition, equal to the difference between the reserve assets of the BCRG (i.e., the external assets readily available to and controlled by the BCRG as per the sixth edition of the IMF's *Balance of Payments Manual*) and the foreign exchange liabilities of the BCRG to residents and nonresidents (including the foreign exchange deposits of the local banks with the BCRG and off-balance sheet liabilities). These foreign exchange liabilities, which are used to calculate the NIR, do not include long-term liabilities, such as SDR allocations. In the context of the program, the gold holdings of the BCRG will be valued at the gold price in effect on June 29, 2012 (US$1598.50 per oz.) for the second half of 2012 and at the price in effect on December 28, 2012 for the first half of 2013. For the test dates, the U.S. dollar value of the reserve assets (other than gold) and foreign exchange liabilities will be calculated using the program exchange rates in effect on June 29, 2012**,** namely: for the second half of 2012, the exchange rates between U.S. dollar and the Guinean franc (6950.09 GNF/US$), SDR (1.5176 US$/SDR), Euro (1.2667 US$/EUR), and other currencies as published in *International Financial Statistics*; and for the first half of 2013, the exchange rates in effect on December 28, 2012.

8. **Medium- and long-term external debt** contracted or guaranteed by the government or the central bank is defined as the amount of external debt (see Subsection C below) contracted by the government or the central bank for a period of one year or more during the period under review. Debt is considered concessional if it has a grant element equivalent to 35 percent or more of the net present value (NPV). The net present value (NPV) of the debt is calculated using the average of the OECD commercial interest reference rates (CIRRs) for the previous 10 years for debts with a maturity of 15 years or more. For debts with a maturity of less than 15 years, the average OECD CIRRs for the previous six months (January 1 to June 30 or July 1 to December 31) are used to calculate the NPV. The same margins for different repayment periods (0.75 point if the repayment period is less than 15 years, 1 point if the repayment period is between 15 and 19 years, 1.15 points if the repayment period is between 20 and 29 years, and 1.25 points if the repayment period is 30 years or more) are added to the two averages (over 10 years and over six months).[1] This definition does not apply to financing granted by the IMF.

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

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

10. **New external arrears** include all debt-service obligations (principal and interest) arising from loans contracted or guaranteed by the government or the BCRG that are due but not paid on the due date, and unpaid penalties or interest charges associated with these loans. For the purposes of this performance criterion, an obligation which has not been paid within 30 days after falling due will be considered a "program" arrear. Arrears not to be considered as arrears for the performance criteria or "non-program" arrears are defined as: (i) arrears accumulated on the service of an external debt for which there is a request for rescheduling or restructuring; and/or (ii) litigious amounts.

11. **The float is the flow** of expenditures accepted by the Treasury that is not yet paid. The **net change in the float** is the difference between the accumulation and the payments.

B. Indicative Target and Memorandum Item

12. **Expenditure in priority sectors**, an indicative target for the program**,** includes spending under Title 2 (wages and salaries), Title 3 (goods and services), Title 4 (transfers and subsidies), and Title 5 (domestically financed investment) by the Ministries of (i) Justice,(ii) Agriculture, (iii) Fisheries and Aquaculture; (iv) Livestock; (v) Public Works and Transport; (vi) Urban Planning, Housing and Construction; (vii) Health and Public Hygiene; (viii) Social Affairs, Women **Promotion** and Children; (ix) Pre-University Instruction and Civic Education; (x) Labor, Te**chnical Education and P**rofessional Training; (xi) Higher Education and Scientific Research; (xii) Alphabetization and Promotion of National Languages ; and (xiii) Energy and Environment. This expenditure also includes spending under Title 6 (Financial Investment and Capital Transfers) by the Ministry of Public Health as well as utility charges for water, electricity, and telephone (Title 3 of the ministries listed above). However, they exclude spending under Title 4 (transfers and subsidies) of the Ministry of Higher Education and Scientific Research.

13. **Reserve money,** a memorandum item, comprises local banks' deposits and other private sector deposits with the BCRG (including bank reserve requirements) denominated both in Guinean francs and in foreign currencies, Guinean francs in circulation, and Guinean francs in the vaults of local banks. The amounts in foreign currencies will be converted to Guinean francs at the program exchange rate (as defined above in the paragraph on net international reserves).

C. External Debt

14. The term "external debt" is understood as specified in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by the Executive Board of the IMF on August 31, 2009.[2] For purposes of the program, "debt" will be understood to mean current, i.e., not contingent, liabilities, created under a contractual arrangement through the

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

provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. External debt can take a number of forms, the primary ones being the following:

- loans, i.e., advances of money to the obligor by the lender on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' or suppliers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements, official swap arrangements, swaps, or leases);

- suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

- leases, i.e., arrangements under which property is provided that the lessee has the right to use for one or more specified periods of time, which are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of this memorandum, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments that cover the operation, repair, or maintenance of the property.

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

16. The government and the central bank agree not to contract or guarantee any nonconcessional external debt under the conditions defined in paragraph 8 above, with the exception of debt in the form of reschedulings. To this end, the government undertakes to consult with IMF staff on the terms and concessionality of all proposed new loan agreements before contracting or guaranteeing any external debt.

IX. Adjustments to program Performance Criteria

17. The quantitative performance targets are calculated on the basis of projected amounts of (1) net external assistance; (2) exceptional revenues of the mining sector (see table below); (3) the net change of "program" arrears; and (4) the net change in the float. For program purposes, net external assistance is defined as the difference between:
(a) cumulative budgetary assistance (grants and loans), the impact of debt relief granted by external creditors, and the net change in "non-program" arrears; and (b) cumulative payments of external debt service due after relief, for loans on which debt relief is secured.

Guinea: External assistance, exceptional mining revenue and the float, 2012-13
(Billions of Guinean Francs, cumulative from the beginning of the fiscal year)

	2012		2013	
	Sept.	Dec.	Mar.	Jun.
Net external assistance	-13	-33	-279	-328
Budgetary assistance (grants + loans)	739	841	0	0
Extrnal debt service	-1,112	-1,740	-512	-1,057
Interest	198	273	50	116
Principal	913	1,467	462	941
Payment of external arrears	-1,617	-1,771	-61	-79
Debt relief	1,977	2,637	294	808
Exceptional mining revenues expected	0	0	0	0
Net change in the float	-384	-332	-58	-115

Sources: Guinean Authorities and IMF staff estimates

18. The floor for NIR, the ceilings on NDA of the BCRG and bank financing of the government, and the floor for the basic fiscal balance will be adjusted if net external assistance, the net change in "program" arrears, exceptional mining revenues and/or the net change in the float differ from the projected amounts.

19. **Adjustments for net external assistance**:

- *If net external assistance exceeds the program forecasts,* the floor for the basic fiscal balance will be adjusted downward by an amount equal to the surplus external assistance (allowing the entire surplus to be used for supplementary expenditures). The floor for NIR and the ceilings on NDA of the BCRG and bank financing of the government will not be adjusted.

- *If net external assistance is below program forecasts,* the floor on NIR will be adjusted downward by 80 percent of the shortfall, and the ceilings for NDA of the BCRG and bank financing of the government will be adjusted upward by 80 percent of the shortfall. The floor for the basic fiscal balance will be adjusted upward by 20 percent of the shortfall (requiring a fiscal adjustment equivalent to 20 percent of the shortfall).

20. **Adjustment related to the net change in "program" arrears**:

- *If the net change in "program" arrears exceeds program projections,* the floor for NIR will be adjusted upward by an amount equal to the surplus net change in arrears. The ceilings on NDA of the BCRG and bank financing of the government will be adjusted downward by an amount equal to the surplus net change in arrears. The floor for the basic fiscal balance will not be adjusted.

- *If the net change in "program" arrears is below program projections,* the floor on NIR will be adjusted downward by 80 percent of the difference, and the ceilings for NDA of the BCRG and bank financing of the government will be adjusted upward by 80 percent of the difference. The floor for the basic fiscal balance will be adjusted upward by 20 percent of the difference (requiring a fiscal adjustment equivalent to 20 percent of the difference).

21. **Adjustments for exceptional mining revenues**:

- *In the case of surplus exceptional mining revenues of up to US$125 million,* the floor for NIR will be adjusted upward and the ceilings on NDA of the BCRG and bank financing of the government will be adjusted downward by 80 percent of the surplus, while the floor for the basic fiscal balance will be adjusted downward by 20 percent of the surplus (allowing the surplus to be used for supplementary expenditures up to the amount of US$25 million or 0.4 percent of GDP).

- *For surplus exceptional mining revenues in excess of US$125 million,* the floor for NIR will be adjusted upward and the ceilings on NDA of the BCRG and bank financing of the government will be adjusted downward by an amount equal to 100 percent of the surplus beyond US$125 million, while the floor for the basic fiscal balance will not be adjusted (resulting in the saving of the surplus beyond US$125 million pending a review of the budget outlook and a cost-benefit and sustainability analysis before these excess revenues are committed). Surplus exceptional mining revenues between US$125 million and US$250 million will be saved in the Special Investment Fund (SIF).

22. ***Adjustment related to the net change in the float****:*

- In case the net change in the float exceeds the projected amounts under the program, the ceilings on NDA of the BCRG and bank financing of the government will be adjusted downward by an amount equal to the excess.

X. Definitions for Purpose of the TOFE

23. Government **revenue** includes tax and nontax revenue. It does not include external grants, the proceeds of privatizations, or exceptional mining revenues (the latter two being recorded as financing). Tax and nontax revenue are defined in accordance with Section IV.A.1 of the 1986 edition of the IMF's *Government Finance Statistics Manual (GFS)*, using the following categories. For tax revenue, the main categories are taxes on income, profit, and dividends (Title 1); taxes on property (Title 2); taxes on international trade (Title 3), including import duties, export duties, the surtax on consumption, the liquidation levy (*redevance de liquidation*), and penalties related to international trade; taxes on goods and services (Title 4), including general sales taxes, value-added taxes on domestic sales and on imports, the single tax on vehicles (TUV), the business tax (TAF), taxes on petroleum products, and export taxes on mining products, including the tax on mining products, taxes on diamonds, and the tax on precious metals. Other tax revenues (Title 5) include stamp taxes and registration fees. Tax receipts also include the taxes borne by the government for the purchase of externally financed capital goods. Nontax revenue consists of royalties and dividends (excluding revenue from the sale of telephone licenses), administrative duties and fees, and fines and forfeitures (Title 6), other nontax revenue (Title 7), including incidental revenues, and capital revenues (Title 8). Capital revenues include the proceeds from the sale of government assets, but exclude privatization proceeds.

24. Government **expenditure** is measured at the stage of acceptance by the Treasury, regardless of the execution procedure followed. In the case of both the regular procedure and the simplified delegated spending authority procedure, expenditures are accepted by the Treasury immediately after the payment order is issued. In the case of simplified procedures and delegated spending authority or payments without prior issuance of a payment authorization, the Treasury accepts the expenditure at the time that payment is ordered and in such cases no expenditure is measured on the basis of the adjusting payment orders (*mandatements de régularisation*) when the adjustment to a payment order basis is done. For refunds of VAT credits, acceptance by the Treasury occurs when refund requests are transmitted by the National Tax Directorate to the National Director of the Treasury. Government expenditure includes all expenditure of the central government, including subsidies and transfers to autonomous public entities, and loans granted or on-lent by the government to public enterprises and other sectors of the economy, net of repayments on such loans.

25. **Basic expenditure** is defined as total fiscal expenditure, less expenditure on interest on the external debt and expenditure financed by external grants or loans or by counterpart funds.

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

V. Data Reporting for Program Monitoring Purposes

27. The information on implementation and/or execution of the structural benchmarks under the program (as specified in Table 5 of the Supplement) will be reported to the IMF's African Department within two weeks of the planned date of implementation. The status of the implementation of other structural measures included in the program will be transmitted within 30 days of the end of each month.

28. The authorities will report the information summarized in Table 1 below to the IMF's African Department by the deadlines set in this table. Barring any indication to the contrary, the data will take the form mutually agreed upon by the authorities and the IMF. The authorities will supply the Fund with any additional information that its staff may request for program monitoring purposes.

Table 1. Guinea: Data Reporting Requirements for Program Monitoring

Category of Data	Table/Report	Frequency	Deadline
Financial and monetary data	Central bank balance sheet, consolidated commercial bank balance sheet, monetary survey (at the current exchange rate as well as at the program exchange rate)	Monthly	30th of the month for the previous month
	Detailed net treasury position (NTP) and net government position (NGP)	Monthly	30th of the month for the previous month
	Interest rates and stock of government and central bank securities (*BDT* and *TRM*)	Monthly	30th of the month for the previous month
	Prudential indicators for commercial banks	Quarterly	One month after the end of the quarter
	Foreign exchange budget	Monthly	30th of the month for the previous month
Fiscal data	Status report, including a detailed statement of revenue, expenditure, and cash-flow operations	Monthly	30th of the month for the previous month
	General Treasury balances	Monthly	30th of the month for the previous month
	Cash-flow plan	Monthly	30th of the month for the previous month
	Government fiscal reporting table (TOFE)	Monthly	30th of the month for the previous month
	Use of exceptional mining revenues	Quarterly	30th of the month after the end of the quarter
	Execution of budgetary expenditures from HIPC resources and other priority expenditures	Monthly	30th of the month for the previous month
	Balance of current expenditures, VAT credits to be refunded, and domestic debt arrears	Monthly	30th of the month for the previous month

Table 1. Guinea: Data Reporting Requirements for Program Monitoring (concluded)

Category of Data	Table/Report	Frequency	Deadline
	Nonbank financing, indicating operations in Guinean francs and those in foreign currencies	Monthly	30th of the month for the previous month
Real sector data and prices	Consumer price index, Conakry	Monthly	30th of the month for the previous month
	National accounts	Annually	Summary estimates three months after the end of the year
Balance of payments data	Imports by use and exports by major product, trade balance	Quarterly	Three months after the end of the quarter
	Price and volume indices of imports and of exports	Quarterly	Three months after end of quarter
	Consolidated balance of payments estimates	Annual	Summary estimates: six months after the end of year
External debt	Debt service due before and after debt relief	Monthly	30th of the month for the previous month
	Debt service paid	Monthly	30th of the month for the previous month
	Debt service reconciliation table	Monthly	30th of the month for the previous month
	End-of-month outstanding debt and stock of daily debt service outstanding (after relief) and unpaid, stock of daily arrears according to the program definition	Monthly	30th of the month for the previous month
	Drawings on new loans	Monthly	30th of the month for the previous month
External grants and loans	Disbursements	Quarterly	30th of the month for the previous quarter
	Monthly transfers of debt relief amounts under the HIPC Initiative, by creditor	Monthly	30th of the month for the previous month

INTERNATIONAL MONETARY FUND

GUINEA

First Review Under the Three-Year Arrangement Under the Extended Credit Facility, Financing Assurances Review, Request for a Waiver of Nonobservance of a Performance Criterion and Request for Modification of Performance Criteria

Informational Annex

Prepared by the African Department

(In consultation with other departments)

September 11, 2012

Approved by Seán Nolan and Masato Miyazaki

Contents Page

I. GUINEA: RELATIONS WITH THE FUND

(As of July 31, 2012)

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

II. General Resources Account:	**SDR Million**	**%Quota**
Fund holdings of currency	107.03	99.93
Reserve Tranche Position	0.08	0.07

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	102.47	100.00
Holdings	60.13	58.68

IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ECF Arrangements	42.84	40.00

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Feb 24, 2012	Feb 23, 2015	128.52	18.36
ECF [1/]	Dec 21, 2007	Dec 20, 2010	69.62	24.48
ECF [1/]	May 02, 2001	May 01, 2004	64.26	25.70

[1/] Formerly PRGF.

VI. Projected Payments to Fund [2/]
(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2012	2013	2014	2015	2016
Principal		1.38	4.90	4.90	4.90
Charges/Interest	0.02	0.04	0.14	0.12	0.11
Total	0.02	1.42	5.03	5.02	5.01

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

VII. Implementation of HIPC Initiative:

I. Commitment of HIPC assistance	Enhanced Framework
Decision point date	Dec 2000
Assistance committed	
by all creditors (US$ Million) [1/]	545.00
Of which: IMF assistance (US$ million)	31.40
(SDR equivalent in millions)	24.24
Completion point date	Floating

II. Disbursement of IMF assistance (SDR Million)

Assistance disbursed to the member	11.30
Interim assistance	11.30
Completion point balance	--
Additional disbursement of interest income [2/]	--
Total disbursements	11.30

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

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

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

IX. Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable

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

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

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

X. Safeguards Assessment

An update of the 2007 safeguards assessment of the Central Bank of the Republic of Guinea (BCRG) was completed in April 2012. It found that risks of misuse and misreporting remain high, but are somewhat improved since the 2007 assessment. To mitigate risks to the prospective program, staff proposed that external auditors continue to verify monetary data, the BCRG publish audited annual financial statements within statutory deadlines (immediately for 2010), and the Board approve an investment policy and guidelines. These measures are needed in the short run, but equally important are steps to exercise better oversight on controls and to strengthen the autonomy of the central bank. The BCRG has initiated implementation of these recommendations.

XI. Exchange Rate Arrangement

Guinea is returning to a managed float system with no predetermined path, after an interruption of the system during 2009–10; the de facto arrangement is classified as "other managed arrangement". The system includes a multiple currency practice as the value of the official rate lags the weighted average commercial bank rate on which it is based by one day. A technical assistance mission from the Fund (MCM) visited Conakry in 2011 and made suggestions on the exchange rate system, including on the lag between the official and commercial banks rate. A resident advisor financed by the IMF is assisting the BCRG in analyzing the recommendations. Guinea has accepted the obligations under Article VIII, sections 2, 3 and 4 of the IMF's Articles of Agreement.

XII. Article IV Consultation

The last Article IV consultation was concluded by the Executive Board on February 24, 2012.Technical Assistance 2011–12

Calendar Year 2011

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

Source: IMF staff.

Calendar Year 2012

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

Source: IMF staff.
1/ Planned.

II. Guinea: Joint World Bank-IMF Work Program
(As of July 2012)

Title	Products	Expected delivery date
World Bank work program in the next 12 months	**Operations**:	
	Economic Governance TA and Capacity-Building Project	March 2012
	Agricultural and Food Security Project	June 2012
	Productivity Safety Nets Program	July 2012
	Mineral Governance Support Project	September 2012
	Additional Financing for Electricity Sector Efficiency	Q4 2011
	Development Growth Corridor Project	Q3 2013
	Economic and Sector Work:	
	Agriculture Growth and Competitiveness	Q3 2012
	Electricity Sector Review	Q4 2012
	Public Expenditure Review (Education)	Q4 2013
	Technical assistance/other analytical:	
	Support to MOP on the Core Welfare Indicators Questionnaire survey (CWIQ) and PRS III	Ongoing
	Social Protection Strategy	Q4 2013
	Public Private Partnership project	Q4 2013
	Policy Dialogue for National Backbone (Telecom)	Q4 2013
	Economic and Poverty Monitoring	Ongoing
	Support on EITI implementation	Ongoing
IMF work program in the next 12 months	**Program**:	
	1st ECF review under ECF / HIPC completion point	September 2012
	Second ECF review under ECF	March 2013
	Technical Assistance:	
	Mining and general tax policy	Ongoing
	Public financial management	Ongoing
	Monetary and exchange rate policy	Ongoing
	Banking supervision	Ongoing
	Safeguards (Central Bank)	Q1 2012
	National and balance of payments accounts	Ongoing
Fund requests to the Bank	Assessment of the investment projects financed with the mining exceptional resources Assessment of the electricity reform plan and the budgetary implication Assessment of the next steps on the new mining code and renegotiation of mining contracts Information sharing on the financing of the large iron ore project Information sharing on the PRSP III	Ongoing Ongoing Ongoing Ongoing Ongoing
Bank requests to Fund	Regular updates on macro-economic and fiscal projections Consultations on program structural benchmarks	Ongoing Ongoing
Joint Bank-Fund products	Joint Staff Assessment Note on the PRSP III	TBD

III. Guinea: Relations with the African Development Bank, 2011–13

(As of July 2012)

1. **The Bank's new strategy, approved by the Board on 1st March 2012, focuses on two pillars:** (i) economic and financial governance; and (ii) infrastructure for development. Under the first pillar, the Bank will assist in building public financial management capacity, improving governance in the extractive sector and strengthening the central government's budget. Under the second pillar, the Bank will contribute to reducing the power generation gap and further developing transport infrastructure.

2. **Lending Operations**: Units of Accounts (UA) 20 million was allocated for the first Pillar, through the Budget Support Programme approved by the Bank's Board in May 2011. Guinea also has access to UA 2.50 million under the Fragile States Facility (FSF) Window III that was allocated for implementing two capacity building programmes. The available balance on the African Development Fund (ADF) 12 for 2011–13 estimated at UA 28.70 million was fully allocated to activities planned under Pillar II.

3. **In the governance sector**, the Bank has already approved budget support of UA 20 million and FSF Targeted Support of UA 2.5 million. In addition, the Bank restructured some non-performing projects and reallocated UA 7.5 million to an economic governance project in 2011. This will improve the country's public finance management while supporting the reforms aimed at enhancing governance especially in the extractive sector. The targeted support will also cover public administration capacity building, particularly in statistics and strategic planning.

4. **In the energy sub-sector**, two projects are scheduled for implementation by end 2013. The first is a contribution to financing the project of the Gambia River Basin Development Organization (OMVG) involving the construction of a dam and a 240 MW hydro-power plant at Kaleta. The second project is the Côte d'Ivoire-Liberia- Sierra Leone -Guinea power interconnection project that will see the construction of 1,360 km of 225 kV transmission lines and 12 sub-stations. Implementation of these two projects will result in: (i) an increase in the average electricity access rate; (ii) a reduction in the kWh generating cost; (iii) a reduction in the number of power outages; (i) the creation of temporary and permanent jobs; and (vi) a reduction in greenhouse gas emissions.

5. **In the transport sub-sector**, the Bank intends to finance the Boké-Quebo Road which is part of the ECOWAS Regional Transport Programme. Because of its integrative role, construction of this highway is in line with the New Partnership for Africa's Development (NEPAD) Short-Term Action Plan, one of whose core objectives is to have interstate roads without any impediment to the free movement of goods and persons. The completion of the Boké–Quebo missing link should provide a year-round paved road link between Conakry and Bissau.

6. **Non-Lending Operations**: To deepen the analysis and understanding of the country's main challenges and fuel strategic reflexion, the Bank has already initiated economic and

sector works in collaboration with the UNDP, under the first FSF programme, on the following themes: (i) private sector profile; (ii) Guinea's Vision 2035; (iii) study on financial sector reforms; (iv) study on the feasibility of the PPP framework; and (v) study on Economic Partnership Agreements (EPA). Within this framework, the FSF is providing support to: (i) build the PRSP III (2012–15) steering capacity; (ii) good governance monitoring and promotion; and (iii) build aid mobilization and coordination capacity. That component also includes support to the organization of the Guinea Partnership Conference scheduled for early 2012 and aimed at mobilizing international community aid around the following six themes: (i) rural development and food security; (ii) infrastructure; (iii) education; (iv) social development; (v) mining, energy, water, environment and industry; and (vi) macroeconomic framework and institutional development.

7. Furthermore, a second FSF programme will support the National Statistics Development Strategy (NSDS) and the conduct of the Third General Population and Housing Census (RGPH-III). The Bank also intends to support mining sector governance through its private sector window and legal support facility. This will entail: (i) support for Guinea's accession to the EITI; (ii) support to Mining Code Reform, which includes a 15 percent State participation in all mining concessions, the strengthening of transparency and introduction of penalties for non-compliance with the legislation; (iii) support for the revision of mining agreements; (iv) involvement in the operational audit of mining companies; and (v) the conduct of economic and financial studies on mining contracts (their value, production costs and transfer prices, etc.).

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

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

Table 1-ADF 13 (2011–13) and FSF Operations Programming (UA million)

Lending Operations					
	Year	**ADF 12**	**FSF (Pillar III)**	**Regional Funds**	**Total**
Pillar I – Support Good Economic and Financial Governance					
Budget Support	2011	20.00			20.00
Targeted Support	2011		2.50		
Sub-Total		**20.00**	**2.50**		**22.50**
Pillar II – Support Energy and Transport Infrastructure					
CLSG Interconnection (electricity)	2012	16.00		32.00	48.00
Rehabilitation of Electric Power Networks	2013	12.70			12.70
OMVG (postponed)	2014				
Boké-Quebo Road (Postponed)	2015				
Sub-Total		28.70		32,00	60,7
Total		**48.70**	**2.50**	**32,00**	**83,2**
Economic and Sector Work					
Private Sector Profile	**2012**		**x**		
Guinea Vision 2035	**2013**		**x**		
Study on Financial Sector Reforms,	**2013**		**x**		
PPP Framework Feasibility Study	**2013**		**x**		
Study on Economic Partnership Agreements (EPA).	**2012**		**x**		

IV. GUINEA: MILLENNIUM DEVELOPMENT GOALS

	1990	1995	2000	2005	2010 Sub-Africa	2010	2015 MDG Target
Goal 1: Eradicate extreme poverty and hunger							halve
Employment to population ratio, 15+, total (%)	69	69	69	69	64	70	
Employment to population ratio, ages 15-24, total (%)	51	51	51	51	46	52	
GDP per person employed (constant 1990 PPP $)	..	..	..	..	3,549	..	
Income share held by lowest 20%	3.0	5.0	..	6.0	..	..	
Malnutrition prevalence, weight for age (% of children under 5)	..	21.0	29.0	23.0	22	*21*	13.4
Poverty gap at $1.25 a day (PPP) (%)	63.0	30.0	..	15.0	21	..	…
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	93.0	64.0	..	43.0	48	..	…
Poverty headcount ratio at national poverty line (%)	..	..	..	..	..	*53.0*	…
Vulnerable employment, total (% of total employment)	..	..	..	..	0	*53.0*	…
Goal 2: Achieve universal primary education							100
Literacy rate, youth female (% of females ages 15-24)	..	..	..	34	*67*	54	100
Literacy rate, youth male (% of males ages 15-24)	..	..	..	59	*77*	68	
Persistence to last grade of primary, total (% of cohort)	..	..	..	74	*60*	66	100
Primary completion rate, total (% of relevant age group)	19	20	32	58	*70*	64	100
Total enrollment, primary (% net)	25	..	47	69	*76*	77	100
Goal 3: Promote gender equality and empower women							100
Proportion of seats held by women in national parliament (%)	..	7	9	19	*20*	19	100
Ratio of female to male primary enrollment (%)	47	52	69	82	*93*	84	100
Ratio of female to male secondary enrollment (%)	34	36	40	51	*82*	59	
Ratio of female to male tertiary enrollment (%)	9	10	14	24	*63*	33	
Share of women employed in the nonagricultural sector (% of total nonagricultural e	..	..	24	29	..	29	
Goal 4: Reduce child mortality							>75% reduction
Immunization, measles (% of children ages 12–23 months)	35	61	42	51	75	51	
Mortality rate, infant (per 1,000 live births)	135	121	106	93	77	81	
Mortality rate, under 5 (per 1,000)	229	203	175	151	122	130	78
Goal 5: Improve maternal health							
Births attended by skilled health staff (% of total)	*31*	..	*35*	*38*	46	..	
Maternal mortality ratio (modeled estimate, per 100,000 live births)	1,200	..	740	980	*500*	*610*	> 75% reduction
Contraceptive prevalence (% of women ages 15–49)	..	*2*	*6*	*9*	22	..	
Goal 6: Combat HIV/AIDS, malaria, and other diseases							halt/reverse
Incidence of tuberculosis (per 100,000 people)	119	158	193	236	271	318.0	halt/reverse
Prevalence of HIV, female (% ages 15–24)	..	..	..	..	3.9	0.9	halt/reverse
Prevalence of HIV, male (% ages 15–24)	..	..	..	..	1.6	0.4	halt/reverse
Prevalence of HIV, total (% of population ages 15-49)	1.1	1.8	1.7	1.5	5.5	1.3	halt/reverse
Tuberculosis case detection rate (%, all forms)	29.0	30.0	33.0	29.0	60	33.0	halt/reverse
Goal 7: Ensure environmental sustainability							
CO2 emissions (kg per PPP $ of GDP)	0	0	0	0	0	0	
CO2 emissions (metric tons per capita)	0	0	0	0	1	0	
Forest area (% of land area)	29.6	..	28.1	27.4	28	26.6	
Improved sanitation facilities (% of population with access)	10.0	12.0	14.0	16.0	31	18.0	57
Improved water source (% of population with access)	51.0	58.0	63.0	69.0	61	74.0	72
Marine protected areas (% of territorial waters)	0	0	0	0	6	0	
Net ODA received per capita (current US$)	51	55	18	22	52	22	
Goal 8: Develop a global partnership for development							
Debt service (PPG and IMF only, % of exports, excl. workers' remittances)	20.0	24.0	15.0	13.0	3.0	5.0	
Internet users (per 1,000 people)	0	0	0.1	0.5	11.3	1.0	
Mobile cellular subscriptions (per 100 people)	0	0	1.0	2.0	45.0	40.0	
Telephone lines (per 100 people)	0	0	0	0	1.0	0	
Fertility rate, total (births per woman)	7.0	6.0	6.0	6.0	5.0	5.0	
Other goals and indicators							
GNI per capita, Atlas method (current US$)	450	480	400	420	1,178	390	
GNI, Atlas method (current US$ billions)	3	4	3	4	1,005	4	
Gross capital formation (% of GDP)	25	21	20	20	21	20	
Life expectancy at birth, total (years)	44	46	48	51	54	54	
Literacy rate, adult total (% of people ages 15 and above)	..	..	..	29	62	39	
Population, total (millions)	0	0	0	0	0.9	0	
Trade (% of GDP)	65	46	52	69	65	74	

Sources: World Development Indicators database, June 2012; and Guinean authorities, Second Poverty Reduction Strategy Paper, August 2007.

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

V. GUINEA: STATISTICAL ISSUES

<table>
<tr><th colspan="2">I. ASSESSMENT OF DATA ADEQUACY FOR SURVEILLANCE</th></tr>
<tr><td colspan="2">General: Guinea’s data provision has some shortcomings, but is broadly adequate for surveillance. Official data provision was suspended during 2009–10 when the ability of the government agencies in charge of statistics to collect data on government operations and private sector activities was seriously hindered. Following the return to a normal functioning of the Guinean administration, the mechanism of data collection is being gradually restored and the authorities are making efforts to resume data provision to allow Fund staff to restart surveillance.</td></tr>
<tr><td colspan="2">National Accounts: Real sector statistics are incomplete, and published with insufficient timeliness to support economic policymaking. Statistics on economic activities are published less frequently and less regularly; the monthly bulletin of the Guinean economy is trying to include the limited available macroeconomic variables. Monthly surveys of mining, industrial and agricultural production are produced with delays. Employment and population statistics are only published annually. A program supported by international partners, expected to lead to the production of annual input-output matrices, was interrupted in 2009. The regional technical assistance center (West AFRITAC) have sent several missions to Conakry to work with the authorities on methodologies and provisional estimates of national accounts for 2009–10; the work is nearly completed.</td></tr>
<tr><td colspan="2">Price statistics: The monthly consumer price index (CPI) is being published in a timely manner.</td></tr>
<tr><td colspan="2">Government finance statistics: The Ministry of Economy and Finance compiles comprehensive monthly budgetary central government data on a cash basis for revenue and on commitment and cash bases for expenditure. During 2009–10, many operations executed on behalf of the government were not recorded under the government financial operations tables (TOFE). The new government took corrective measures to produce an accurate presentation of the situation. Provision of monthly data to AFR has resumed, and within a short period in recent months. AFR also receives treasury plans. The budget includes the bulk of all government operations, although it excludes a number of “satellite” accounts that are not directly incorporated into the budget. Following the adoption of the law on Treasury Single Account in 2011, efforts are now underway to include those satellite accounts, including autonomous government agencies, into the budget and the government finance statistics.</td></tr>
<tr><td colspan="2">Monetary statistics: During 2009–10, many government accounts were created at the central bank and commercial banks outside the control of the treasury, creating large inconsistencies between the government finance statistics and monetary accounts statistics. The new government is closing these accounts and bringing all government operations under the net position of the treasury. Central bank and deposit money bank accounts as well as the monetary survey are compiled and shared with AFR on a monthly basis. Some delays have been experienced with regard to data from the commercial banks, which still needs to be improved. Coordination between the central bank and the ministry of finance is improving, leading to a system to reduce discrepancies between monetary and fiscal data. Some technical problems have been noted in recent months regarding the coverage of monetary statistics.</td></tr>
<tr><td colspan="2">Balance of payments: A technical assistance mission from the IMF statistical department visited Conakry in April 2012 to assist improving balance of payments statistics, including the migration from the fifth edition to the sixth edition of the Balance of Payments Manual. The Technical Committee on Balance of Payments Harmonization has reportedly been reactivated. Results of the weekly foreign exchange auctions are reported regularly on line and in the main newspapers in Guinea. Exchange rates are published daily</td></tr>
<tr><th colspan="2">II. DATA STANDARDS AND QUALITY</th></tr>
<tr><td>Guinea participates in the General Data Dissemination System since 2003.</td><td>No data ROSC is available.</td></tr>
</table>

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 12/364
FOR IMMEDIATE RELEASE
September 26, 2012

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes First Review Under the Three-Year Arrangement Under the Extended Credit Facility for Guinea and Approves US$ 28.3 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the first review of Guinea's economic performance under a program supported by the Extended Credit Facility (ECF). Completion of the review enables the disbursement of an amount equivalent to SDR 18.36 million (about US$28.3 million), bringing total disbursements under the arrangement to SDR 36.72 million (about US$56.6 million). In completing the review, the Executive Board approved the requests for a waiver for nonobservance of the performance criterion on new external arrears and the modification of the performance criteria for end-December 2012

The Executive Board approved a three-year ECF arrangement with an amount equivalent to SDR 128.52 (about US$198.1 million) for Guinea on February 24, 2012 to support the government's economic program (Press Release No. 12/57).

The Executive Board also agreed that Guinea has taken the steps necessary to reach its completion point under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative. The Executive Board of the World Bank reaching a similar decision on September 25 (Press Release No. 12/363).

Following the Board's discussion of Guinea, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, issued the following statement:

"Guinea continues to make good progress in addressing large macroeconomic imbalances. Growth is picking up, inflation is declining, and the exchange rate has stabilized. Key factors have been strong fiscal adjustment and tight monetary policies, while large exceptional mining revenue in 2011 also helped rebuild international reserves. Progress with structural reform has been good.

"The authorities' macroeconomic policies are appropriately geared toward reducing inflation and maintaining adequate international reserves. The revised budget for 2012 was made necessary by a shortfall in exceptional mining revenue, while fiscal policy in 2013 will remain based on limiting domestic bank financing of the budget. Weekly foreign exchange auctions will continue to play an important role in managing the economy's liquidity.

"The structural reform agenda focuses on improving the tax system and tax administration, public financial management, and the investment climate, and removing bottlenecks in key sectors such as mining, electricity, and agriculture. Implementation of the new mining code and conduct of the planned review of mining contracts with full transparency are crucial to unlock Guinea's mineral wealth.

"Guinea has reached the completion point under the enhanced HIPC Initiative. Almost all of Guinea's creditors have agreed to participate in the Initiative, and Guinea will also receive additional debt relief under the Multilateral Debt Relief Initiative and various bilateral initiatives. The external debt burden will fall significantly, releasing resources for investment and poverty reduction. To safeguard future debt sustainability, the authorities plan to strengthen debt management and pursue prudent debt policies," Mr. Shinohara added.

Statement by Kossi Assimaidou, Executive Director for Guinea
September 26, 2012

I. INTRODUCTION

My Guinean authorities would like to express their sincere appreciation to the Board, management and staff for the continued support to Guinea. The ongoing ECF-supported program, has enabled the country to stabilize its macroeconomic framework and lay the foundations for strong and sustainable economic growth. The authorities' strong commitment to reforms and sound policies coupled with support from the international community has led to a good performance in implementing the program, reflected by significant progress made in economic recovery and in the reduction of financial imbalances.

Under the ECF-supported program, strong fiscal and monetary measures as well as structural reforms are being implemented with positive results. In this regard, all quantitative performance criteria set out for end-June 2012 have been met, except for the continuous performance criterion on new external arrears that was missed due to technical problems experienced by the central bank with its international transfer system. My authorities are requesting a waiver for this minor nonobservance of the performance criterion on external arrears for which adequate corrective measures have been taken, including the settlement of the arrears. Considerable progress has also been made as regards structural reforms, albeit with some delays, with the technical and financial support from development partners. In addition, the authorities made important strides in establishing good governance and transparency in the mining sector.

To ensure the achievement of the program's objectives and to place Guinea on the path of strong sustainable growth, the Guinean authorities will also pursue efforts to create all required conditions conducive to these objectives, including the organization of the legislative elections that will take place before the end of the 2012 with the support of the international community. In this regard, a new law governing the *Commission Electorale nationale Independante* (CENI) was adopted by the interim parliament, the *Conseil National de Transition* (CNT) on September 17, 2012.

Based on the progress made in implementing the program and their strong commitment to sound policies and reforms, my Guinean authorities are requesting the support of the Board for the completion of the first review, the waiver for nonobservance of performance criterion on new external arrears, the modification of the performance criteria for end-December 2012 and the financing assurances review.

II. COMPLETION POINT UNDER THE ENHANCED HIPC INITIATIVE

Guinea has made good progress in meeting the requirements for reaching the completion point under the HIPC Initiative. The authorities have met nine of the ten triggers, with good progress made in achieving the objectives of the remaining trigger, in regard to the audit of government procurement contracts over GNF 100 million. Capacity constraint was the main reason for missing this trigger and the authorities are requesting a waiver for it. The financing requirements for the program are met. Moreover, to ensure prudent debt management, the authorities will mobilize only grants and concessional loans, and will consult the IMF staff on the conditions and concessionality of all new debt agreement proposals. In addition, the authorities are committed to allocate the debt relief resources to expenditures for the priority sectors to substantially reduce poverty.

In the circumstances, my Guinean authorities would appreciate Executive Directors' approval that Guinea has met the requirements for reaching the completion point under the HIPC Initiative to enable the country to benefit from debt relief. This approval would reduce considerably Guinea's external public debt and enable the country to implement fully policies conducive to sustainable growth and poverty reduction.

III. Achievements Under the ECF-Supported Program

The Guinean authorities' commitment to reforms and sound policies has led to a satisfactory implementation of the ECF-supported program over the first half of 2012. Prudent fiscal and monetary policies have been steadfastly implemented to curb inflation, stabilize the exchange rate and significantly reduce the fiscal deficit. Economic activity increased due mainly to accelerating investment in agricultural and mining sector. As a result, real GDP growth in 2012 is expected to reach 4.8 percent against 3.9 percent in 2011 and 1.9 percent in 2010. Inflation decreased from 19 percent at end-2011 to below 15 percent in July 2012, and is projected to continue on a declining trend, thanks to tight liquidity management together with a cash-based public expenditure management. As for official reserves, their accumulation level exceeded 4 months of imports by end-June 2012.

In the fiscal sector, the authorities pursued their efforts aimed at increasing revenue and containing expenditures. Budget revenue exceeded projections by 1 percentage point of GDP, helped by a strengthening of administrative measures, including the audits on fiscal years 2009 to 2012. Customs achieved its revenue target despite the losses in fuel taxes and increases in import costs. The harmonization of customs clearances at the seaports and land borders was accelerated to reduce leakages and the thorough review of tax exemptions continued for companies eligible for advantages under the investment code. As for expenditures, the authorities continued the cash-based expenditure management and were able to contain expenditures to the level required under the program. The authorities also proceeded with the retirement of more than 4000 military personnel, postponement of the implementation of special civil personnel statutes and better auditing of new employees thus generating savings in the wage bill. Their fiscal approach was very successful, in that the basic fiscal balance for the first semester of 2012 was nearly zero against a deficit target of 3.7 percent of GDP for the year.

In the structural area, important progress was made as the authorities strengthened their commitment to coordinate and monitor the structural reforms' implementation. The Council of Ministers, chaired by the Prime Minister, is playing a major role in monitoring the execution of reforms and policy measures under the program, as each minister is accountable for measures and actions for which his ministry is responsible. In this context, good progress was made in improving the public financial management with the IMF's Fiscal Affairs Department. Among others, this includes the tax reform action plan prepared in June, the adoption of a new procurement code and the organic budget law. In addition, the accounting procedures governing the Special Investment Fund were adopted through a presidential decree. With the technical assistance from West

AFRITAC, the Central Bank strengthened the banking supervision framework and prudential regulations including those for microfinance institutions.

Important strides were made in implementing policy and institutional reforms in the mining, electricity and agricultural sectors. The framework for awarding mining titles and conventions was strengthened with the creation of the National Mining Commission supported by a strategic committee and a technical committee. The fiscal regime of the new mining code adopted in 2011 will be finalized under the FAD technical assistance. In January, an action plan to reform the electricity sector was adopted followed by the establishment of a monitoring committee to oversee and coordinate its implementation. As regards the agricultural sector, the objective is to achieve food-self-sufficiency by 2014. The harmonization of methods and procedures of assistance to the sector with those under projects supported by development partners was achieved although with some delays due to capacity constraints. The authorities are also revising the investment code together with the General Tax Code, the Customs Code and the Customs tariff with technical assistance provided by the Fund, IFC and the World Bank.

On external debt, the authorities reached in April 2012 an agreement with Paris Club creditors to benefit from relief on exceptional terms. They have also initiated discussions with other official creditors on debt restructuring under terms comparable with those of the Paris Club.

IV. Policies and Reforms for 2012 and 2013

Going forward, my Guinean authorities will pursue the implementation of prudent policies and sound reforms. In this regard, reform momentum built under the run-up towards the completion point will be enhanced. Policies being implemented are expected to raise real GDP growth to about 5 percent in 2012–13, reduce inflation further by end 2012 and to single digits in 2013. The target for gross official reserves will remain well above the medium-term target floor of 2.5 months of imports. As for the basic balance deficit, the target set in the revised budget is 3.6 percent against 3.8 percent of GDP. The authorities will continue implementing their structural reform agenda to spur strong and sustainable growth in a pro-business environment.

Fiscal policy and reforms

The authorities will pursue their fiscal efforts to meet the macroeconomic targets under the program. In particular, they will avoid bank financing of the budget deficit, which generated the high levels of inflation experienced in recent years. Due to lower windfall mining revenue and payments that occurred earlier, a revised budget was adopted with additional measures to increase tax revenue and reduce current expenditures. As a result of the measures being implemented in the area of tax and customs reforms, and measures to expand the coverage of VAT and improve the VAT refund system, budget revenue is projected to increase to 20.2 percent in 2013. Expenditures will aim at achieving the target for the basic balance deficit within the envelope of available resources. Domestically-financed investment expenditures are projected to fall to about 5 percent of GDP with the completion of a number of projects. However, allocations for investment mainly in the electricity sector will increase. The authorities will continue to implement the public financial management program with the support of partners including the regulations for the new Organic Budget Law, the recently adopted tax reform plan.

Public debt management

The authorities are mindful of the need for further improvements in external debt management. In this regard, they are committed to strengthen the management of the country's external debt to fully observe the program's performance criterion related to arrears. Among other measures in this regard, the minister of economy and finance is the now the sole authority who can authorize contracting external public debt. Only grants and concessional loans will be mobilized to finance projects. Moreover, the laws on the SOEs to establish a clear framework under which they can borrow will be revised.

Monetary and financial issues

The Central Bank will continue to focus on lowering inflation through an adequate liquidity management including the weekly foreign exchange auctions while taking into account the target for international reserves. Based on progress made with the decline in inflation and the stabilization of the exchange rate, the authorities are committed to further improve the foreign exchange market, strengthen banking supervision and adopt a new banking law by end-2012. In addition, an agreement on the treatment of the outstanding stock of advances to the Treasury will be signed before end of 2012. The authorities are also conducting a study on the financial sector's development with the assistance of development partners. This study will help address the weaknesses of the sector and identify measures to strengthen it so that it can contribute positively to economic growth.

Structural reforms and economic growth

My Guinean authorities are committed to implementing far-reaching structural reforms with a view to create a conducive environment for increased investment and economic growth. To this end, their efforts to improve the public financial management, business climate, governance structure for the mining sector and increase investment in electricity and agricultural sector will be intensified, as described in the authorities' letter of intent.

V. CONCLUSION

My Guinean authorities' determination to implement sound reforms and prudent policies under the ECF-supported program has helped to restore macroeconomic stability, improve public financial management and make progress in structural reforms. Based on their good performance, I would appreciate Directors' support for my Guinean authorities' requests for the completion of the first review and waiver for non-observance of performance criterion and waiver for modification of performance criteria. I would also appreciate Director's support for the approval of the completion point for Guinea under the Enhanced HIPC Initiative.