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Guinea and the IMF

Press Release:
Press Release: IMF Executive Board Completes Second Review Under the Extended Credit Facility for Guinea and Approves US$27.4 Million Disbursement
May 20, 2013

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

May 03, 2013

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LETTER OF INTENT

Conakry, May 3, 2013

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

Dear Ms. Lagarde:

1. On behalf of the government of Guinea, we would like to provide you with an update on the progress we have achieved under our economic program supported by the IMF's Extended Credit Facility (ECF). Since the first review under the program in September last year, continued tight fiscal and monetary policies have contributed to a further decline in inflation. The exchange rate has remained stable and our international reserves' position is satisfactory. Economic growth was negatively affected by the closure of an alumina refinery and, towards the end of the year, a slowdown in investment in a major mining project, but still amounted to close to 4 percent in 2012.

2. The implementation of the program's policies and measures continues to be satisfactory. Important progress has been made with regard to structural reform, in spite of delays in the implementation of some measures. The end-December 2012 quantitative performance criteria have been met, with the exception of the continuous performance criterion of no contracting of new medium- or long-term nonconcessional external debt. Four such loans were contracted, of which three were due to capacity constraints in external debt management; they are relatively small amounting to about $28 million. The fourth loan is larger, amounting to $335 million. It is intended to finance the Kaleta hydroelectric dam project, which has been evaluated to have a high economic return and will help close the country's energy shortfall, export electricity to the neighboring countries, and boost growth prospects. This loan, which was deemed concessional at the conclusion of the negotiations in early-December 2012, became nonconcessional at the time of its signing in January 2013, following a change in the discount rate used for the calculations of the grant element on December 15, 2012. Corrective measures have been taken to strengthen debt management to ensure that new external debt complies with the program; the impact of the nonconcessional nature of these loans on debt sustainability is minor. Based on this, we request a waiver for the nonobservance of the performance criterion on no new medium- or long-term nonconcessional external debt.

3. The attached second Supplement to the Memorandum of Economic and Financial Policies (MEFP) sets out the government's objectives and policies for 2013. The policies build on the

progress made in 2011–12 and are consistent with the objectives of the third Poverty Reduction Strategy Paper (2013–15), which has just been approved by the government, and with the 2011–15 Five-Year Development Plan. Our medium-term objective remains to reverse the increase in the poverty rate that occurred during the last decade, develop our country's abundant natural resources, and promote broad-based economic growth. For 2013, we will maintain tight fiscal and monetary policies, aiming at reducing inflation to the single digits. Several important structural reforms, such as in the mining sector and in investment incentives, are expected to be completed during 2013 while others, such as restoring the viability of the electricity sector, will be accelerated.

4. The government is seeking a modification of the program performance criterion on no new nonconcessional external debt. The requested change will set a limit on the total amount of nonconcessional debt equal to the four above-mentioned already contracted loans. In this context, the government remains committed to mobilizing only grants and concessional loans to finance its program. The modified performance criterion for end-June 2013 and the performance criteria for end-December 2013 are included in Table 1 of the attached MEFP.

5. In view of the good performance in program implementation, as well as the policies and measures contained in the attached MEFP, the government is requesting completion of the second review of the ECF-supported program and a third disbursement of SDR 18.36 million (17.1 percent of quota) under the ECF agreement.

6. The government firmly believes that the policies and measures described in the attached MEFP 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 MEFP, 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.

7. The government authorizes the IMF to publish this Letter, the attached Supplement to the MEFP and Technical Memorandum of Understanding, and the Staff Report relating to the second review of the IMF-supported program under the ECF.

Sincerely yours,

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

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

ATTACHMENT 1. SUPPLEMENT TO THE MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

Conakry, May 3, 2013

This second supplement to the February 11, 2012 Memorandum on Economic and Financial Policies (MEFP) summarizes implementation of the program supported by the IMF's Extended Credit Facility (ECF) since the first program review in September 2012. It also sets forth the key program policies and measures for 2013.

Introduction

1. **Having achieved the completion point of the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative in September 2012**, **the government of President Alpha Condé has continued its efforts to consolidate macroeconomic stability and strengthen structural reforms**. End-December 2012 data show that the country's macroeconomic performance has been maintained, despite a slowdown in the rate of growth of real gross domestic product (GDP). All but one of the end-December 2012 quantitative performance criteria (PCs) under the program were met. Considerable progress was made with structural reforms, despite the fact that a number of structural benchmark actions experienced delays.

2. **The government's program is in line with the Second Poverty Reduction Strategy Paper (PRSP II) and the Third Poverty Reduction Strategy Paper (PRSP III) covering the period 2013–15**, **which was approved by the government on May 2, 2013**. Following attainment of the HIPC completion point and a favorable conclusion of the second review of their three-year program, the government and people of Guinea will continue to implement prudent policies in line with the PRSP III.

Macroeconomic Results and Implementation of the Program in 2012

A. Recent Macroeconomic Development

3. **The very good performance under the program recorded in the first half of 2012 continued during the second half of the year**.[1] Real GDP growth remained at around 4 percent in 2012, the same as in 2011, compared to a program target of 4.8 percent. The shortfall in relation to the target is explained mainly by the weakness of the recovery in the mining sector, following the halt at the Fria alumina factory and the slower pace of investments in the main large-scale mining projects, including the Simandou iron ore project and the Guinea Alumina Corporation's alumina project. Agricultural production continued to improve, benefiting from government

[1] Developments during the first half of 2012 were described in the September 11, 2012 supplement to the MEFP (IMF Country Report n° 12/301, September 12, 2012).

support to the rural sector, although the growth rate was slower than expected, owing to delays in implementing a new support system for the crop season. Economic activity was also held back by delays in the rehabilitation of the Conakry power plants (Tombo) and in bringing into the electricity grid the new power plants purchased by the government under the electricity sector reform plan.

4. **Inflation continued to trend downward, falling to 12.8 percent in December 2012 year-on-year (or an annual average of 15.2 percent), compared to a program target of 12 percent and down from the 19 percent recorded at end-December 2011**. The drop in inflation reflects the implementation of policies to strengthen public finances, tight monetary policies, and higher rice production; government measures to help the population purchase essential goods also helped. The monetary and exchange rate policies made it possible to stabilize broad money at its end-2011 level. The real effective exchange rate appreciated against the main currencies, while the foreign exchange market premium vanished; international reserves of the Central Bank of the Republic of Guinea (Banque de la République de Guinée—BCRG) amounted to the equivalent of more than three months of imports at end-December 2012.

5. **The end-December 2012 PCs under the ECF-supported program were met, except for the continuous PC on no new nonconcessional external debt (Table 1)**. Strong performance on government revenue and continuation of cash-based expenditure management allowed holding the government's fiscal basic balance deficit at 2.5 percent of GDP, compared to a program target of 3.6 percent of GDP, despite a shortfall on fuel taxes. This facilitated maintaining the PC on net bank credit to the government (including a net repayment of treasury bills of about GNF 400 billion (almost 1 percent of GDP) to the commercial banks) and on the BCRG's net domestic assets. The PC on net international reserves of the BCRG was met with a good margin.

6. **The breach of the PC on no new nonconcessional external debt was not met because of four new loans with grant elements below the program's floor of 35 percent**. The four nonconcessional loans were:

- A large loan from Exim Bank of China ($335 million) to finance the Kaléta hydroelectric dam. This loan was considered concessional when its terms were finalized early in December 2012, but was no longer concessional at the time of signature in January 2013, because the benchmark interest rates used for the calculation of the minimum grant element had fallen on December 15, 2012, resulting in a drop in the grant element to 33.2 percent; and

- Three small loans, of which two loans contracted by the government from the OPEC Fund in March 2012 and January 2013, to finance agriculture ($10 million) and water ($7 million) projects, together with a $10.53 million loan from the Investment and Development Bank (BIDC) of the Economic Community of West African States (ECOWAS), contracted in August 2012 to finance projects to rehabilitate the distribution network in the electricity sector; the grant elements of these loans range between 22–30 percent.

7. **The government is requesting a waiver for the breach of the PC concerning these four loans**. Projects in the agriculture, water, and power distribution sectors are important for the welfare of the rural population; moreover the amounts involved are relatively small and the concessionality level below the floor of 35 percent has a minor impact on external debt

sustainability. The Kaléta project and the project to reestablish and extend the power distribution network have very high rates of return and are beneficial for growth and poverty reduction. Moreover, the Kaléta project is of primary importance for West African regional integration, since 30 percent of its output is intended for export to neighboring countries. The government has taken corrective measures to ensure that new external debt henceforth complies with the undertakings under the program: (i) the Minister for Economy and Finance has created a technical public debt monitoring committee in April 2013 (prior action under the ECF-supported program) to ensure, amongst other things, that external loans comply with a grant element of at least 35 percent before they are put forward for signature; and (ii) the Debt Department of the Ministry of Economy and Finance (MEF) is receiving technical assistance financed by the European Union (EU) and its staff will also receive training from the IMF's Regional Technical Assistance Center for West Africa (AFRITAC West).

B. Budget Execution

8. **Fiscal policy in 2012 continued to aim at avoiding net bank financing** other than from the use of deposits from the 2011 exceptional mining revenue. In this regard, measures focused on increasing revenue while expenditure continued to be managed on a cash basis.

9. **Government revenue exceeded projections by more than 0.9 percent of GDP due to a combination of increases in tax rates, administrative measures, and strong collection efforts**. In direct taxes, an important factor was the collection of tax arrears following tax audits performed for fiscal years 2009 to 2012. Revenue from the withholding tax on non-wage income grew following a rise in the rate (from 10 to 15 percent) and the large number of mining-sector expatriates subject to this tax. The customs department exceeded its revenue target despite accumulated losses in fuel taxes (pump prices remained stable while import costs increased, and the gap was closed by reducing the tax rate—the loss is estimated to have amounted to 1.8 percent of GDP in 2012). Important administrative measures were (i) increased use of levying customs taxes on the market value of imports instead of on a lump-sum valuation by container; (ii) harmonization of customs clearance at the port and land borders to reduce leakage; and (iii) close monitoring of tax exemptions for companies eligible for advantages under the Investment Code. However, some problems persisted: (i) clearing the backlog of VAT credits started in the second half of 2012, but delays persist at the treasury in refunding VAT credits to mining companies, which, in turn, have begun to default on their VAT obligations; and (ii) the expansion of the VAT base was hampered by delays in establishing the medium-sized taxpayer unit.

10. **Expenditures were lower than budgeted**. Savings in the wage bill were generated as a result of the retirement of a large number of military personnel, postponement of the implementation of a number of special personnel statutes in public administration, the continued cleaning up of the civil service database, and better management of new recruitment. The start of cleaning up the list of scholarship recipients in higher education lowered subsidies. Investment expenditures were well below forecasts, mainly due to a change in the procurement contract for new thermal power plants and the postponement of contracts to build and renovate military barracks.

C. Monetary, Exchange Rate, and External Debt Developments

11. **In 2012, the BCRG maintained its monetary policy aimed at further reducing inflation and stabilizing the exchange rate**. The central bank's policy interest rate and the reserve requirement ratio remained unchanged at 22 percent. To strengthen the official foreign exchange market, the central bank continued to organize weekly foreign exchange auctions, selling a total of $251.6 million in 2012, equivalent to a net liquidity contraction of GNF 1,728 billion. Although indicators show that interest rates fell in the banking system, bank credit to the private sector declined in 2012 (by 4.3 percent, compared to an increase of 94 percent in 2011). This partly reflected the repayment of loans after foreign financing was replaced by domestic financing for petroleum product imports in 2011, as well as the drastic reduction in bank liquidity. The fact that broad money stabilized relative to end-December 2011 indicates that the monetary policy objective of absorbing excess liquidity in the economy is being achieved. The Guinean franc appreciated by 1.7 percent against the U.S. dollar, but depreciated by 0.6 percent in relation to the euro during the course of 2012. The better supply of foreign exchange in the market is also evident from the sharp decline in the average spread between the official and parallel markets from almost 11 percent in June 2011 to almost zero during most of 2012.

12. **Guinea is starting to benefit from reaching the HIPC completion point in September 2012**. In October 2012, Paris Club creditors reached agreement with the government to cancel 99 percent of its eligible external public debt on exceptionally favorable terms. Several bilateral agreements under the agreement were signed in recent months, including with the government of the United States, which cancelled 100 percent of the arrears and outstanding debt owed by Guinea in January 2013. In early February 2013, a bilateral agreement was signed with France, cancelling 100 percent of its debt except for debt eligible for conversion into debt reduction and development contracts (C2D). For the latter, two C2Ds were proposed for a total amount of €171 million, covering the future debt service due on the eligible debt, which will be converted into grants for development projects. Discussions have started with other official bilateral and commercial creditors on debt restructuring on comparable terms. In the case of multilateral creditors, following the World Bank, the European Investment Bank and the African Development Bank (AfDB) cancelled outstanding debt in line with the Multilateral Debt Relief Initiative (MDRI) in early November 2012. The government continued discussions with its commercial creditors, in a manner consistent with the IMF's policy on lending to countries in arrears, in particular regarding the transparency of information, equity between creditors, and a collaborative approach in discussions with creditors.

D. Implementation of the Structural Reforms

13. **The government continued to implement and monitor structural reforms at the highest level, by reviewing them regularly in the Cabinet chaired by the Prime Minister**. This made it possible to coordinate and rapidly implement an ambitious structural reform program and the majority of the structural benchmarks (SBs) under the program were met. The draft technical amendments to the 2011 Mining Code were sent to the interim parliament (*Conseil National de Transition*—CNT) in March 2013 and adopted in April; the delay was due to consultations with the mining sector and civil society that lasted longer than expected; the adoption and publication of the implementing regulations for the new Code and the standard

mining convention are expected to follow shortly. Nonetheless, delays have occurred in meeting some of the SBs; most of these are expected to be completed during the first half of 2013. The government decided that the mechanism for adjusting fuel prices on a monthly basis (continuous SB from January 1, 2013) could not be implemented owing to an unfavorable social context.

14. The government continued to implement its major program for strengthening tax administration and public financial management. In late September 2012, it adopted a three-year rolling public investment program (PIP) 2013-15 with support from the AfDB and the United Nations Development Program (UNDP). This PIP served as the basis for preparing investment expenditure for the 2013 budget. Following promulgation, on August 6, 2012, of the Budget Framework Law (*loi organique relative aux lois de finances* – LORLF), which was drafted in collaboration with the IMF's Fiscal Affairs Department, the government continued to implement its public financial management reform program. In particular, it: (i) promulgated a new Government Procurement Code; (ii) signed a new decree on General Regulations of Budgetary Management and Public Accounting (*Règlement Général de Gestion Budgétaire et de Comptabilité Publique* –RGGBCP), and started work on a procedural manual for budgetary management and public accounting, as well as a decree on governance and transparency in budget preparation and execution; (iii) instituted a new medium-sized enterprise unit in the National Tax Directorate, and extended the scope of VAT to cover medium-sized enterprises (in April 2013); and (iv) signed a framework agreement between the BCRG and the Ministry of Economy and Finance, updating the 2010 securitization agreement (also in April 2013). The government also consolidated the operational rules of the Treasury Single Account (TSA), with assistance from the IMF, and launched an audit of domestic payment arrears, with support from the French development agency (AFD). Lastly, it strengthened procedures for closing government accounts at December 31, 2012, by implementing new closure instructions, transmitted throughout the entire accounting network.

15. The central bank maintained its policy to strengthen and develop the financial system. A new draft banking law was adopted by the government in December 2012 and sent to the CNT. The BCRG started to implement a payment incidents clearing house to upgrade the payments system, with support from de Banque de France; disseminated new instructions on microfinance institutions; and strengthened regulation in the insurance sector. With technical assistance from AFRITAC West, the BCRG also continued to strengthen the supervision of banks and microfinance institutions, for which purpose 16 young inspectors were recruited in late 2012. A decision was taken to put the African Agriculture and Mining Bank (BADAM) into liquidation, and its license was withdrawn. In accordance with recommendations made by the IMF safeguards assessment mission in January 2012, the BCRG's new independent auditor approved the monetary statistics used to evaluate the performance of the program as of June 30, 2012.

Implementation of the Extended PRSP II for 2011–12 and Adoption of the PRSP III for 2013–15

16. The government started implementing an emergency program to combat poverty, **based on the Second Poverty Reduction Strategy Paper (PRSP II**). The latter, which initially covered the period 2007–10, was extended to cover 2011–12 to achieve some of the goals that had not been attained during the period of the military regime in 2009–10. The 2011–15 Five-Year Development Plan adopted by the government is consistent with the extended PRSP II.

It includes a priority public investment program, particularly in infrastructure, but also in the mining, industrial, water and energy, tourism, education and health sectors. The annual progress report on the implementation of the PRSP II for 2011, which was submitted to the IMF and World Bank in May 2012, shows the continuing increase in expenditures in the priority sectors.

17. The PRSP III, **covering 2013–15**, **was completed and adopted by the government on May 2, 2013**. The document was prepared in a highly inclusive participatory process, involving stakeholders from the regions, boroughs and local communities of Guinea, along with civil society, labor unions, the private sector and technical and financial partners, as well as the government and the CNT. The PRSP III is divided in two major parts. The first lays out the present situation by assessing poverty and reviewing the lessons learned from the implementation of the PRSP I and II. The second part sets out the government's vision and sectoral strategies, arranged around six pillars: (i) macroeconomic stability; (ii) governance and institutional reforms; (iii) development of economic infrastructures; (iv) rural development; (v) mining and industrial development; and (vi) human capital development. The PRSP III defines a process for implementing the strategy and the priority action plan, along with a communication program and mechanisms for evaluating the strategy's impact on the living conditions of Guinea's population measured against the Millennium Development Goals.

Economic and Financial policies and Structural Reforms for 2013

18. The government will continue to implement the rigorous macroeconomic policies and structural reforms of its medium-term ECF-supported program, with a view to unlocking the country's vast economic potential and supporting strong, sustainable and diversified growth. It will use the savings from debt relief under the HIPC Initiative, as well as remaining funds available in the Special Investment Fund (SIF) from the 2011 exceptional mining revenue, to finance priority expenditure programs—including for the energy sector, basic infrastructures and social spending—formulated with assistance from the country's development partners.

A. Macroeconomic Outlook for 2013

19. Despite the persistence of the global economic crisis and other risks, **macroeconomic prospects for Guinea remain favorable for 2013**. Output growth in agriculture, particularly rice, should remain strong; and the mining sector is set to expand due to the expected recovery of alumina production from the second half of the year. The objective for the real GDP growth rate for 2013 is 4.5 percent. Nonetheless, there are major uncertainties stemming from delays in the large Simandou mining project and the impact of legislative elections on investment. The government aims to undertake new priority public investments in the energy and agriculture sectors—drawing on targeted budgetary support from the government of the United Arab Emirates—and EU funding. The letter, which is predicated on the completion of the legislative elections now scheduled for June 30, 2013, is expected to increase during the second half of the year. On the inflation front, the aim is to reduce the rate of increase in the consumer price index to 9.7 percent year-on-year by December 2013, which will correspond to an annual average rate of 11.2 percent. Given the large wage rises awarded in 2012–13, achieving this target will require prudent budgetary and monetary policies. The central bank's foreign exchange reserves should be equivalent to at least 2.9 months of imports by end-2013.

B. Fiscal policy

20. Fiscal policy for 2013 will continue to aim at avoiding net bank financing of the budget other than from drawing down resources stemming for the 2011 exceptional revenue. The 2013 budget was approved by the CNT in line with the program, in December 2012; updated provisions indicate that the overall targets remain attainable. Priority expenditures will benefit from the savings on external debt service obtained from attainment of the HIPC completion point and the MDRI. The government's basic balance deficit is expected to rise from 2.5 percent of GDP in 2012 to 3.3 percent in 2013. The latter is consistent with the initial program objective of 1.4 percent of GDP for 2013, after adjusting for additional net external financing (especially additional budget support from the United Arab Emirates and higher-than-projected debt relief), and a shift of expenditure to be financed by the balance of the 2011 exceptional mining revenues from 2012 to 2013. Special Investment Fund (SIF) resources—$250 million by end-2012—will be used on a staggered basis in 2013-15, to ensure a sufficient level of public investment before the expected increase in mining revenues in the second half of this decade. External financing will be consistent with the goal of keeping the debt sustainable after achievement of the completion point.

21. Budget revenue is projected to drop slightly, from 20.1 percent of GDP in 2012 to 19.6 percent in 2013. The projections assume continued strong collection efforts but also continuing losses on fuel taxes (estimated at 0.7 percent of GDP) due to a delay in bringing fuel prices in line with import costs. Key measures are: (i) the cancelation of tax benefits for companies that no longer comply with the obligations under the Investment Code; (ii) the recent implementation of the medium-sized enterprise unit within the National Tax Directorate (DNI), and extension of the scope of VAT to cover medium-sized enterprises; and (iii) clearance of the backlog of VAT credits by end September 2013—restoring the system for refunding these credits should enhance incentives for taxpayers, particularly in the mining sector, to collect and pay the tax.

22. The government intends to introduce a mechanism for monthly adjusting fuel prices starting by August 2013 (SB). The government is aware of the importance of avoiding large subsidies on oil products. However, instruments to protect the poorest groups in society against increases in fuel prices are not yet available. For the time being, the government has chosen to emphasize efforts to collect other revenue to offset the losses for fuel taxes; however, the losses have been substantial and they reduce resources available for priority sector spending such as education and health, which also benefit the poorest in society. Guinea plans to set up a framework social protection strategy, which may allow adjusting fuel prices while mitigating the impact on poverty. Starting August 2013, the price adjustments will be set by the Joint Committee on Petroleum Products, of which the Director General of Customs and the Special Customs Collector will be members.

23. The revenue agencies will continue to implement the measures provided for in the action plans for tax and customs reform, with assistance from development partners. The action plan of the National Tax Directorate (DNI) is based on (i) streamlining the organization to allow more effective administration; (ii) harmonizing and simplifying 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 Directorate-General of Customs (DGD) aims at: (i) strengthening the customs agency; (ii) improving its human and financial resources; and (iii) modernizing customs procedures and strengthening risk-based control. The following priority activities will be carried out:

- Revision of the General Tax and Customs Codes and the Customs Tariff to take account of recent tax changes and to incorporate the tax incentives that are presently included in the Investment Code and other statutes;

- Preparation of a study, with IMF assistance, to provide recommendations on reforming real estate taxation;

- Operationalization of the Tax Appeal Commission to speed up the settlement of disputes and tax collection;

- Implementation, by end-September 2013, of a VAT refund system to ensure that refunds to enterprises are made within a reasonable timeframe and with the necessary safeguards, in line with IMF recommendations;

- Implementation of risk-based customs control by selectively using SYDONIA ++ declarations, followed by SYDONIA World, and by computerizing customs offices at inland border posts;

- Forging of 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 the 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 collected; and

- Interconnection of computers between the two tax agencies and with the other administrations—in particular the National Procurement Directorate, the Treasury, and the BCRG—to speed up services for users, including payment of taxes and customs clearance of goods, and to limit fraud.

24. **Current expenditure is projected to decline slightly in percent of GDP in 2013 compared to the 2012 outcome**, **despite a sharp increase in civil service wages**. The wage bill declined sharply in percent of GDP during 2012 in line with the government's strict expenditure management policy, but is projected to return in 2013 to about the same level, relative to GDP, as in 2011. Expenditure on goods and services will rise by 4 percent in real terms, reflecting more effective budgeting of public consumption of water and electricity, but agriculture and electricity sector subsidies will be restricted to their nominal 2012 values.

25. **The government intends to maintain the wage bill at around 5.2 percent of GDP over the medium-term**, **while creating additional space for wage increases through administrative improvements and civil service reform**. Following two years of decline in real wages and in light of high expectations following attainment of the HIPC completion point, the government agreed to raise civil service basic wages by 50 percent over the period October 2012–December 2013 (Box 1); the timing of the third tranche in the increase, during the

second half of the year, will depend on budgetary and inflation developments. It will also hire about 10.000 new employees (about 10 percent of the end-2012 payroll) in the priority sectors (education, health, environment, justice, and police). The effects of these additional expenditures over the medium-term will be partly offset by measures aimed at cleaning up the civil service database and improving workforce management, including: (i) harmonizing the civil service database and payroll administrations; (ii) securing the database through a biometric census, carried out with support from the World Bank; (iii) correcting anomalies, including the removal of duplicate and fictitious workers and better monitoring of contractual workers; (iv) strengthening recruitment practices; and (v) establishing line managers and strengthening employee management with support from the World Bank. To this end, the government intends to adopt, before end-September 2013, a civil service reform plan, based on the results of the ongoing biometric census and the action plan of the state reform and public sector modernization program (HCREMA) (**SB**).

Box 1. Guinea: The Increase in the 2013 Wage Bill

Following demands by civil service unions for a 200 percent wage increase, the government, trade unions, and employers' organizations reached agreement on an increase in civil service wages and other issues in December 2012. The September 2012 basic wage of civil servants would be increased in a phased manner: (i) 10 percent starting from October 2012; (ii) 15 percent from January 2013; and (iii) 25 percent before end-2013. The government also agreed to implement, starting in January 2013, the special employment conditions (charters) for personnel in the education and health sectors that had been agreed in 2008 and to create a Social Security Fund and a system of health insurance for civil servants. The agreement also introduced a minimum monthly wage for the public and private sector of GNF 440,000 (about $60; 1.3 times monthly per capita GDP).

The salary increase accounts for about half of the budgeted growth of 35 percent (0.8 percent of GDP) in the 2013 wage bill by (see text table below). The impact is mitigated by the fact that the increase applies to only about 40 percent of the budget's wage bill as (i) civil service wages account for only about 65 percent of the total wage bill and other government wages are not expected to follow the same increase; and (ii) about 40 percent of total civil service pay consists of allowances; following a 10 percent increase in October 2012, the latter will not be raised further during 2013. Other important elements in the increase in the wage bill are provisions for the full implementation of the special charters (23 percent of the increase) and additional recruitment (19 percent).

Guinea: Details of the Increase in the 2013 Wage Bill

	GNF billions	In percent of total
Total increase in the 2013 wage bill	609.1	100
Civil service wage increase	297.3	49
Special charters	139.5	23
Adjustment to minimum wage	15.5	3
Recruitments	113.9	19
Education	64.6	11
Health	5.1	1
Security	30.0	5
Justice	0.2	0
Environment	14.0	2
Promotions	77.7	13
Retirement	-34.8	-6

Source: Guinean authorities.

26. In 2013, the government will incur a number of exceptional expenses to improve tax compliance and help strengthen the financial sector. In this regard, it will clear the backlog of VAT credits (GNF 45 billion; 0.1 percent of GDP). Budgetary credits are also expected to finance the operating expenses of the government-owned entity set up to manage the government's economic and financial activities in the mining sector (SOGUIPAMI). The budget includes a provision of GNF 20 billion for the liquidation of BADAM; the BCRG will appoint a liquidator for this bank by the end of June 2013, under terms of reference that will ensure, in particular, that the advances from BCRG to BADAM and deposits up to GNF 10 million will be reimbursed (**SB**). The liquidator will also recover the assets of the bank in liquidation and of its managers. Lastly, projections for 2013 include the second tranche of the recapitalization of the BCRG (GNF 138 billion).

27. As a ratio of GDP, **domestically financed investment expenditure is expected to drop slightly to 6.6 percent of GDP in 2013**. This fall reflects the lesser availability of financing from the 2011 exceptional mining revenues. During 2012, the equivalent of $250 million of the exceptional revenue was used, mainly to finance projects in the electricity sector; the 2013 budget provides for the use of $125 million (2.5 percent of GDP), which is half of the exceptional revenue that was transferred to the SIF in 2012. Nonetheless, the reduction was mitigated by retargeting external budgetary assistance toward investments and by reprogramming expenses that could not be executed in 2012, specifically with regard to the installation of new thermal power generating plants. Projects to be financed from SIF resources are based on the three-year public investment program prepared in 2012. With assistance from the World Bank, the government will set up the governance structure for the SIF to make the fund operational by June 2013. Projections for externally financed investment (3.4 percent of GDP) assume, among other things, that EU financing under the 10th European Development Fund (EDF) that is contingent upon legislative elections, will remain available.

28. The budget is expected to be fully financed, **including due to debt relief from achievement of the HIPC completion point**. The external debt service savings from the HIPC completion point, the MDRI, and from additional relief from bilateral creditors are estimated at about $203 million. The budget also includes grants associated with the debt reduction and development contracts (C2Ds) with France to finance jointly agreed projects. Under the C2Ds, Guinea will make debt service payments on debts under the C2D which will be returned as grants to finance development projects. The government also received $90 million in budget support from Abu Dhabi, targeted on the electricity and agriculture sectors. The government is planning to organize a consultative group meeting of donors and private investors towards the end of 2013 in Abu Dhabi, which could generate additional financing. Net bank financing of the Treasury will be avoided, other than the planned use of SIF resources and the remainder (outside the SIF) of the deposits from the 2011 exceptional mining revenue, amounting to $43 million.

C. Monetary and Exchange Rate Policy

29. The main objective of monetary policy remains to lower inflation; the BCRG will continue to focus on containing reserve money growth. Given the absence of indirect instruments, interventions in the weekly foreign exchange auctions (*marché interbancaire des changes*—MIC) will continue to be the main monetary policy instrument, allowing the BCRG to control the level of liquidity by selling foreign exchange, within the limit of the target for international reserves. Nonetheless, the sharp drop in the inflation rate in 2012, a decline in bank lending, and a reduction in the banks' demand for treasury bills while rates increased, shows that bank liquidity is drying up. Against this background, the BCRG lowered the central bank's policy rate—which mainly fulfills a signaling function—by six points to 16 percent on February 28, 2013 (while maintaining a spread of six percentage points for the interest rate on special overdrafts at the BCRG to encourage banks to develop an interbank market). A further loosening of monetary policy by reducing the reserve requirement in the coming months will depend on evidence of a sustained downward trend in inflation and stability in international reserves.

30. The exchange rate is largely market-determined, **and BCRG interventions have been limited to the weekly auctions**. The weekly offered amounts in the MIC have fluctuated very little and banks' purchases have been mainly used to satisfy marginal needs. To further enhance transparency, the BCRG will adopt new regulations to clarify the MIC's operating regulations, such as the modalities for allocating foreign exchange and setting the exchange rate, based on IMF technical assistance.

31. The BCRG is pursuing its policy to strengthen the financial sector. The BCRG will continue to strengthen banking supervision, with technical assistance from the IMF. Key measures for strengthening the financial sector include (i) adoption of a plan for the recapitalization of banks that are not compliant with the minimum capital requirement; (ii) an increase in the minimum capital requirement for banks from GNF 50 billion to GNF 100 million. By end-December 2013, the central bank will adopt a plan for the liquidation of banks that have not complied with their recapitalization plans; (iii) a study the feasibility of setting up a deposit insurance fund; and (iv) preparation of a new draft chart of accounts for banks in accordance with the new banking law, targeted for completion by end-2014. It is also planning to strengthen supervision on microfinance institutions and the insurance sector. To increase the sector's contribution to the country's development, a study on the development of the financial sector, prepared with assistance from the AfDB, the UNDP, and other economic and financial partners, was recently completed; its recommendations are expected to be adopted by the government by June 2013.

32. The BCRG will also continue to strengthen its own financial position and implement the recommendations of the IMF's safeguard assessment. The planned second capital contribution for the budget would bring the central bank's capital up to the statutory minimum in 2013. A further increase in the bank's capital may be needed to bring it in line with the growing banking system; to this end, it has asked the IMF's Monetary and Capital Markets Department to prepare a financial assessment of its entire balance sheet to more precisely determine such additional capital requirements. The central bank will also work to define its investment policy, set up the trading room for its foreign exchange investments, and train staff with technical assistance from the IMF and the World Bank. The new external auditors will review the agreed procedures to validate the level of net domestic assets and net international reserves indicated in the December 31, 2012 monetary survey. The new independent auditor will certify the monetary data used to evaluate the program's performance on December 31, 2012 and audit the central bank's accounts for December 31, 2012 by end-June 2013; the latter will subsequently be published on the BCRG's external web site. In March 2013, the BCRG received comments from the IMF's Legal and other Departments on a new draft central bank act, which it intends to submit for government approval in the first half of 2013.

D. Structural Reform

33. Structural reform is crucial to remove bottlenecks to economic growth and reduction in poverty, **and for unlocking Guinea's abundant natural resources**. During 2013, and following much preparatory work in 2011–12, a number of important reforms are expected to be completed, such as in the mining sector and with regard to the revision of the investment code. In other areas, such as in public financial management (PFM), our actions will build on the important progress made in 2012. Efforts to restore the viability of the energy sector are planned to be intensified, while part of the work in the agricultural sector will be to evaluate the effectiveness of previous reform measures.

Fiscal management

34. The government will continue to implement its public financial management modernization program in 2013, **with support from its technical and financial partners**. Many actions focus on the implementation of the 2012 Budget Framework Law (LORLF) and the new Decree on the General Regulations on Fiscal Management and Public Accounting (*Règlement Général de Gestion Budgétaire et de Comptabilité Publique – RGGBCP)*. It will implement the following action plan:

- By end-June 2013, finalize the transfer of accounts to be integrated into the Treasury Single Account (TSA) and perform a weekly leveling of the balances in credit accounts of financial administrations in the account of the National Treasury Directorate (DNT), except for the bank accounts of public accountants in the regions.
- Produce and disseminate accounting and budgetary procedures, under the new regulatory framework, to units that execute the government budget.
- Regularize suspense accounts and produce administrative and general financial management accounts for 2005-2012 by end-December 2013 (**SB**).
- Adopt a new order to limit the use of special budget execution procedures, providing modalities for their regularization, pursuant to the new regulatory framework.
- Reintroduce oversight of the budget implementation process through budget review laws; prepare the administrative and management accounts for 2010–12, in order to submit the draft expenditure laws for 2010, 2011, and 2012 to Parliament.
- With technical assistance from the World Bank, put the SIF governance structure in place by end-June 2013 (**SB**), including the management committee, consultative and

monitoring committee, and the executive secretariat; and submit projects that could be financed by it in the framework of the 2013-15 triennial public investment program.

- Adopt a public investment program for 2014-16, based on recommendations made by the country's development partners.

- By end-October 2013, adopt the implementing regulations for the Procurement Code that was adopted by the CNT and promulgated in 2012.

- Adopt the procedural manual for budgetary management and public accounting, and the computerization master plan; and, with assistance from the development partners, computerize the expenditure chain and public accounting on a secure basis, with real-time access for authorized personnel.

- Adopt the decree on budgetary governance and transparency in the management of government finances—the second implementing regulation of the LORLF—which sets rules on the formulation of budgetary policy and the preparation of the budget laws.

- Adopt orders in relation to the government chart of accounts and budget nomenclature, to be applied for the first time in fiscal year 2014;

- Prepare a functional budgetary classification, targeting priority expenses;

- Prepare a plan, by end-September 2013, to clear domestic payment arrears, based on the findings of the ongoing audit, supported by AFD; and

- Implement the regulations, requiring that expenditure commitments cannot be made after November 30, and complete payments on related expenses on January 31 of the following year (i.e. a supplementary period of one month). These provisions will make it possible to limit the overflow of 2013 expenses into fiscal 2014. Transactions made under special procedures will also be limited.

35. To strengthen the management of the country's external debt, the government will adopt, by end-December 2013, revisions to the statutes of public entities to align them with the new LORLF and the RGGBCP (**SB**). In this context, Order O/91/025 of March 11, 1991 concerning the institutional framework of public enterprises, and Decree D92/133/PRG/SGG of May 26, 1992, will be amended to control recourse to borrowing and thus limit the risks for the government budget. Similarly, a draft revision of Law L/93/021/CTRN/SGG of May 6, 1993 on public administrative entities (EPAs) will be submitted to Parliament, forbidding those entities to borrow. The government has requested technical assistance from the IMF for this purpose.

Improve the business climate

36. To implement the reforms needed to promote the private sector, **improve the business climate, and provide incentives for investment**, **work on reviewing the Investment Code is continuing**, **with technical assistance from the World Bank**, **the International Finance Corporation (IFC), and the IMF**. The government decided to separate investment regulation from tax incentives: a new Investment Code will be limited to nontax regulations while all tax and customs incentives will be included in the General Tax Code, the Customs Code, and the Customs Tariff. A draft national private investment policy letter was prepared during a workshop with stakeholders in September 2012, and adopted by the government in March 2013 (**prior action**). Key actions for 2013 will be:

(i) Submission of a draft law on tax and customs incentives to Parliament by end-May 2013 (**SB**); this law will encompass all tax and customs incentives for private investment, including those that are presently granted by Ministries outside the Investment Code, and have precise triggering thresholds. Once this law has been adopted, projects and businesses will no longer be required to seek approval for the incentive systems, because the tax and customs administrations will apply the advantages according to the legally defined trigger thresholds. The government will submit to parliament a draft law revising the Investment Code, by end-June 2013 (**SB**). This draft law will contain provisions relating only to nontax and non-customs incentives.

(ii) Preparation, with assistance from the IMF and IFC, and submission to Parliament, of new General Tax and Customs Codes and a new Customs Tariff, incorporating the tax incentives for private investment, between September 2013 and June 2014.

Pending parliamentary adoption of the law on tax incentives, the National Investment Commission (CNI) will continue to operate under the Ministry of Industry and SMEs. Then, the government will set up a private-sector reform coordination unit in the Ministry of Industry and SMEs, to monitor the reforms. Lastly, 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, before end-June 2013.

37. Guinea rose three places on the "Doing Business" indicators ranking in 2013 and the government will continue efforts toward further improvement. The improvement in the country's ranking resulted from the intensification of its reforms on three indicators during 2012 and the first four months of 2013, based on the following performance criteria: (a) the delays; (b) the number; and (c) the cost of procedures, while monitoring effective implementation of the reforms. For the remainder of 2013, the government will focus on the remaining four indicators. It will also work with the private sector to streamline professional organizations, including the organization of a round table in 2013 with support from the country's development partners and the participation of all stakeholders from the private sector.

38. Strengthening the legal system is an important condition for improving the business climate. In 2013, the government will maintain its continuous training program for judges and other court officers, and it will continue to help strengthen the capacities of the associations of attorneys, notaries, court clerks and auctioneers, and accounting experts and auditors, to execute court decisions more effectively and strengthen shareholder control of enterprise management and accounts. It will submit a draft anticorruption law to Parliament by end-September 2013, which transposes the provisions of the United Nations and African Union conventions on controlling corruption into domestic law; and it will launch a second survey to evaluate the level of corruption in the country by end-December 2013. As part of the fight against money laundering, a decree on the operation and duties of the National Financial Information Processing Unit (CENTIF) will be issued by end-June 2013. This will provide the unit with human, financial and technical resources, pursuant to the provisions of Articles 19 and 20 of the law to combat money-laundering and the financing of terrorism.

Mining policy

39. Mining policy will continue to focus on the development of investments in the sector to promote growth and employment. This entails providing the necessary support for projects currently under development to facilitate their transition to the production phase in line with initially planned schedules. In addition, the government intends to foster mining exploration so as to diversify the exploitation of mining resources and make the mining sector more resilient to shocks on mineral prices in international markets. Further, with a view to enhancing added value from the sector and strengthening its contribution to poverty reduction, the government plans to encourage local processing of mining products. With support from the World Bank, the government intends to commission a study on a master plan for mining sector-related infrastructure (port and rail), which is expected to be finalized in September 2013, as well as a study on the organization of artisanal gold exploration, which is expected to be finalized by end-December 2013. To maintain a comprehensive and updated database on the mining cadaster and permits, the government will mobilize resources to modernize the information system of the Mining Promotion and Development Center (CPDM). The government will take delivery of the findings of the geological study.

40. In addition to the revision of the mining code, **an important aspect of the government's policies in the mining sector is a review of all existing contracts**. The adoption of the amendments to the mining code by the CNT in April 2013 removed the last remaining obstacle to the effective start of the renegotiating process. To reduce the uncertainty facing companies, the Technical Committee charged with reviewing the mining titles and agreements will publish its work program by mid-2013; it will be supported by four international law firms that combine the necessary legal, technical, and financial skills. To promote transparency, the technical committee published all mining conventions on its web site. An audit of the 18 mining companies whose contracts will be subject to review will be finalized by end-December 2013. The renegotiating process for three priority contracts is scheduled to be finalized by end-2013, together with the adoption of the outcome of the negotiations by the Strategic Committee overseeing the Technical Committee and their immediate implementation. With assistance from the AfDB, the Technical Committee will hire a financial analyst to provide guidance on applying, improving, and maintaining the financial models used to steer the renegotiating process. Renegotiation of all the mining titles to be renegotiated is scheduled to be finalized in 2014.

41. The government's policies will continue to focus on improving the governance of the sector so as to attract investment. Following the adoption of the new mining code by the CNT, the government will adopt and publish the implementing regulations of the new mining code as well as a model mining contract by end-June **(SB**). The findings of the audit of the mining cadaster have given rise to increased opportunities for obtaining mining licenses and concessions. The government is, therefore, actively seeking professional partners for purposes of reallocating the 818 inactive permits that were withdrawn following the audit. The reallocation process will be transparent and consistent with the stipulations of the mining code. To facilitate the development of oil and gas potential, with the support of the AfDB, the government has launched the preparation of the petroleum code and its implementing regulations. The new petroleum code is slated to be adopted by the government and submitted to Parliament by September 2013. This will facilitate the development of exploration initiatives along the lines of the Tullow Oil plc deepwater well project on which drilling is scheduled to start by end-June 2013. The government expects to finalize the investment framework for the Simandou South project and specify the financing strategy for the project soonest. The *Compagnie de Bauxite de Guinée* (CBG), in which the government holds a 49 percent share, recently concluded an agreement requiring a substantial increase in production; the World Bank is assisting the government in the evaluation of CBG's worth, which should pave the way for continuing discussions on possible financing arrangements for increasing production capacity. Lastly, the government will agree on a timetable with the bauxite company Rusal for bauxite mining in the Dian-Dian concession as well as for the resumption of work at the Friguia alumina factory.

42. The government reaffirms its commitment to reforming the institutional framework of SOGUIPAMI. Efforts to clarify its role are being pursued with World Bank assistance, with the purpose of: (i) limiting its activities to management of the state's portfolio of mining assets, with the Treasury retaining ownership of state securities and shares; and (ii) defining its relationship with the Ministry of Economy and Finance and the Ministry of Mines. A first request for bids for a consultant in these areas was not successful and a second request is under preparation. Due to the resulting delays, the government is now aiming at adopting and implementing the recommendations of the study by end-December 2013 (**SB**). In the meantime, a Steering Committee will ensure that all activities undertaken by SOGUIPAMI remain strictly within the limits of the allocations assigned to it by the budget law and are in conformity with the rules governing public entities. By end-June 2013, the Steering Committee will meet to take decisions on SOGUIPAMI's business plan, including on conditions for the acquisition of geodetic data to streamline the use of resources for mining exploration.

Energy Sector

43. The government will continue to implement the policies and reforms outlined in the Policy Letter on Energy Sector Development, **as revised in December 2012**. The medium- to long-term objectives are to (i) increase access to electricity for the general population; (ii) improve governance of EDG; and to (iii) reduce dependence on fossil fuels, especially by developing Guinea's large potential for hydroelectricity. To that end, over time, the government intends to withdraw from commercial activities and open up the sector to competition. With respect to the short- and medium-term, the principal measures of the Letter are included in the recovery plan for the electricity sector.

44. For 2013, **the government will give priority to improving the governance of EDG**. Despite substantial government support, progress with restoring financial viability to the state-owned power company *Electricité de Guinée* (EDG) has been slow. To accelerate the process, in March 2013, EDG was placed under the supervision of an oversight board; the board is assisted by a financial controller, who will supervise EDG's financial management on a daily basis, ensuring that EDG's expenses remain in line with its revenue and that the government subsidy of a maximum of GNF 250 billion is strictly adhered to. Further, efforts will be made to improve commercial and demand management, including by installing meters (150,000 meters in three years at a cost of $8.3 million) and installing low consumption bulbs (close to two million lamps).

45. The government also recently updated the action plan for the restructuring of the electricity sector, with assistance from the World Bank. Five priority projects were defined based on the revised plan: (i) rehabilitation and strengthening of hydroelectric production; (ii) rehabilitation of the thermal power plants of Tombo III and V in Conakry; (iii) support to the reform of EDG's governance, in particular the establishment of a management contract with a strategic operator; (iv) restructuring and strengthening of the sector through technical advice to the reform of the electric power sector; review of the electricity law; adoption of a law on public-private partnerships in Guinea; and (v) rehabilitation and strengthening of the electric power transport network. The government presented these five projects at a Donor Round Table on April 19, 2013 in Washington, D.C., to seek external financing in an amount estimated at about $280 million; donors agreed to start preparing their respective support to the priority projects, with the view to making them available in 2014.

Agricultural sector

46. Relaunching the agriculture sector, **with the aim of achieving food self-sufficiency by 2014**, **is an important objective for the government**. A key issue in 2012 was to ensure that assistance to the sector remains sustainable over the medium term by raising the loan collection rate and controlling budget subsidies. However, despite strong government support to boost yields, the increase in food crop production (in particular rice) over the past two crop seasons is mainly attributable to an increase in the area under cultivation. To identify the reasons why the expected substantial improvement in yields failed to materialize, the government will carry out an in-depth evaluation, including a technical and financial audit of the last two seasons. The audit is also expected to examine the distribution of subsidies to farmers by income level so as to draw conclusions on the equity of the program and its contribution to poverty reduction. The evaluation, including the findings of a public expenditure review by the World Bank, is expected to be completed by end-June 2013, following which it will be discussed at a national workshop, tentatively planned for end-October 2013. In the context of achieving the objective of food security, the government approved the National Agricultural Investment and Food Security Plan 2012-16 in December 2012. It will prepare a work program for the recently created National Agency for the Development of Agriculture and for Food Security entrusted with policy coordination in the agricultural sector as a whole and with promoting food security, including by building grain stocks to help stabilize grain product prices.

E. External Program Financing

47. The program's financing requirements in 2013 are expected to be met in part by external assistance in the form of budget support and financing for investment projects. In addition, achieving the HIPC initiative completion point and implementation of the MDRI has released significant resources from debt service in 2013. In this regard, the World Bank and the

AfDB cancelled their MDRI-eligible outstanding debt with Guinea.[2] A debt reduction operation was agreed with the creditor members of the Paris Club in October 2012; and the government will continue to hold discussions with its other foreign creditors to obtain debt reduction under terms comparable to those of the Paris Club and in line with the HIPC Initiative. In the case of commercial creditors, the government will continue to hold discussions, in line with the IMF's policy on lending to countries in arrears. In addition, disbursements from the IMF under the ECF arrangement are expected to cover the residual balance of payments financing need.

48. To ensure prudent debt management, **the authorities will seek only grants and concessional loans**, although this may be difficult owing to the limited availability of concessional resources from lenders. In addition, as discussed above, the loan from Exim Bank of China to finance the Kaléta hydroelectric dam; a loan with the BIDC; and two loans from the OPEC Fund, have a grant element of less than 35 percent. The government's equity in the project to develop the Simandou iron-ore deposits (blocs 3 and 4) will be financed without any direct loans or government guarantees, and should be fully covered by project revenue. In any event, the government will provide IMF staff with details on the financing for its equity participation. To ensure debt sustainability after the HIPC Initiative completion point, the authorities will adopt a new medium-term debt management strategy and a program to strengthen debt management capacities, in consultation with the Fund. The authorities intend to submit to the newly created public debt monitoring committee all proposals for new loan agreements and loan guarantees to ensure that the terms are concessional. The government also intends to consult with IMF staff on the conditions and concessionality of all new debt agreement proposals before contracting or guaranteeing any external debt. By end-October 2013, the government will prepare a medium-term action plan to strengthen external debt management, with technical assistance from the European Union (**SB**). In this context, by end September 2013, it will finalize a procedural manual and set up management teams for the National Debt Directorate; and by end-December 2013, it will establish a National Debt Committee that will prepare a National Debt Policy and a medium-term debt strategy, and oversee their implementation. To service the debt owed to the IMF, the BCRG will keep sufficient funds in its SDR account with the Fund to cover all payments falling due over the next quarter.

F. Statistics and Strengthening Program Monitoring Capacities

49. The government will persevere in its efforts to upgrade the statistics system to ensure the steady production and supply of quality statistical data. In line with the National Strategy for the Development of Statistics (NSDS), the government is preparing the draft statistical law and the institutional framework of the National Statistical System. It will also start implementing the capacity-building programs negotiated with the development partners.

50. The government has identified a broad range of technical assistance needs in macroeconomic management. To make a fresh start, the authorities requested technical assistance from the partners, including the IMF and its regional technical assistance center

[2] At the time of reaching the HIPC completion point, Guinea did not have any outstanding MDRI-eligible debt to the IMF.

AFRITAC West, the European Union, and the AFD in several areas, including fiscal policy, tax and customs administration, public financial management, the foreign exchange market, monetary policy, bank supervision, debt management, the balance of payments and the national accounts.

51. To monitor implementation of the measures and the attainment of its objectives under its ECF-supported program, **between now and end-June 2013**, **the government will strengthen the monitoring system**. The system will consist of a Reform Coordination Committee (CCR) chaired by the Prime Minister, a Technical Support Committee for the CCR, and 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, prospects, and the measures envisaged.

52. The program will be reviewed semiannually by the IMF Executive Board on the basis of quantitative monitoring indicators and structural benchmarks (Tables 1, 2 and 3 attached). These indicators are defined in the attached Technical Memorandum of Understanding (TMU) (Attachment II). The second year of the program will finish at end-December 2013. The third (fourth) program review based on the performance criteria at end-June 2013 (December 2013) should be completed no later than October 2013 (April 2014).

53. 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 that are 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: Performance Criteria (PC) and Indicative Targets, ECF 2012–13 [1, 2]

(Billions of Guinean francs, unless otherwise indicated)

	2012									2013			
	Jun.	Sep.				Dec.				Mar.	Jun.	Sep.	Dec.
	Act.	Indicative Targets	Adjusted [1]	Est.	Status	PC	PC Adjusted [1]	Est.	Status	Indicative Targets	PC	Indicative Targets	PC
Quantitative performance criteria													
Basic fiscal balance (floor)	60	-1,005	-984	8	Met	-1,469	-1,436	-982	Met	-238	-475	-1,115	-1,486
Net domestic assets of the central bank (ceiling)	2,471	3,756	3,802	2,892	Met	4,331	4,283	3,513	Met	4,645	4,959	4,596	4,540
Domestic bank financing of the government (ceiling)	315	1,490	1,536	555	Met	2,010	1,962	1,470	Met	340	680	1,069	1,221
Net international reserves of the central bank (floor); US$ millions [3]	643	463	379	541	Met	382	250	535	Met	363	344	458	427
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	Met	0	0	10	Not Met	363	363	363	363 [7]
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	Met	0	0	0	Met	0	0	0	0
New external arrears (ceiling) [5]	0	0	0	0	Met	0	0	0	Met	0	0	0	0
Indicative targets													
Expenditure in priority sectors (floor) [6]	2,341	2,700	2,700	2,673	Not Met	4,069	4,069	4,197	Met	1,105	2,367	3,077	4,200
Memorandum items:													
Reserve money	6,195	6,218	6,218	5,723	Met	6,229	6,229	6,380	Not Met	6,424	6,619	7,028	6,770

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).

[7] Ceiling established on loans contracted with China's EXIMBANK (US$334.65 million), ECOWAS (US$10.53 million), and the OFID (US$17 million). These loans were contracted in 2012-13; they became effective starting from late 2012.

Table 2. Guinea: Prior Actions and Structural Benchmarks Under the ECF-Supported Program, 2012–13[1]

Measures	Date	Implementation status	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	Completed	To 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	Completed	To 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	Completed	To 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 securitization agreement (MEFP ¶ 45).	End-December 2012	Completed with delays The agreement was signed in April 2013	To implement recommendations by the external auditor to shorten the repayment period of the advances.

Table 2. Guinea: Prior Actions and Structural Benchmarks Under the ECF-Supported Program, 2012–13 (continued)

Measures	**Date**	**Implementation status**	**Macroeconomic rationale**
Structural benchmarks			
Adoption by the government of the draft new banking law (MEFP ¶ 44)	End-December 2012	Completed	To 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[2]	Completed	To reduce tax exemptions.
Submission to Parliament of the draft amendments to the 2011 Mining Code (MEFP ¶ 52)	End-December 2012[2]	Completed with delays. The draft was submitted to Parliament in early March 2013 and adopted in April 2013	To ensure that the Mining Code is competitive and increase the government's share in the country's mining revenues.
Adoption and publication of the implementing texts of the new Mining Code as well as a standard mining convention (MEFP ¶ 52)	End-December 2012[2]	Not completed. Postponed to end-June 2013	To ensure that the Mining Code is competitive and increase the government's share in the country's mining revenues.
Operational implementation of the medium-sized enterprises unit and extend VAT collection to medium-sized enterprises (MEFP ¶ 30)	End-December 2012	Completed with delays. The unit became operational in April 2013.	To increase budget revenues.
Application of a monthly adjustment system to the price of petroleum products based on changes in the international market price and the exchange rate (MEFP ¶ 37)	Continuous, beginning January 1, 2013[2]	Not completed. Postponed to August 1, 2013	To protect budget revenues.

Table 2. Guinea: Prior Actions and Structural Benchmarks Under the ECF-Supported Program, 2012–13 (concluded)

Measures	Date	Implementation status	Macroeconomic rationale
Structural benchmarks			
Completion of a study on the role of SOGUIPAMI and its relationship with the public administrations (MEFP ¶ 54).	End-March 2013	Not completed. Postponed to end-October 2013	To maintain government control over its assets in the mining sector, protect budget revenue, and limit financial risks.
Submission to Parliament of a draft law revising the Investment Code (MEFP ¶ 49)	End-March 2013	Not completed, owing to delays in adopting the investment policy letter.. Postponed to end-June 2013	To 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	Ongoing	To separate the function of investment regulation from tax incentives.
Definition of the legal status of the EDG and establishment of the company's governance institutions, including management (MEFP ¶ 57)	End-June 2013	Ongoing	To improve the 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	Ongoing	To limit the risks for the government budget; improve central control over external public debt.

[1] Throughout Table 2, references made to the MEFP concern the 1st supplement to the MEFP attached to the letter of intent dated September 11, 2012 (IMF Country Report n° 12/301, September 12, 2012).

[2] Rescheduled actions.

Table 3. Guinea: Prior Actions and Structural Benchmarks January–December 2013

Measure	Date	Macroeconomic Rationale
Prior actions		
Adoption by the government of the investment policy letter.	Completed on March 22, 2013	Lay the foundation for improving the business environment.
Creation of an external debt supervisory commission.	Completed on April 8, 2013	Promote debt sustainability by ensuring that the terms of new external loans are consistent with program provisions regarding the minimum grant element prior to submission for signature by the Minister of Finance.
Structural benchmarks		
Submit to Parliament a draft law on tax and customs incentives.	End-May 2013	Separate the function of investment regulation from that of tax and customs incentives.
Adopt and publish the implementing texts for the new Mining Code as well as the standard mining convention.	End-June 2013[1]	Ensure the Mining Code is competitive and guarantee a larger share for the government in the country's mining revenues.
Submit to Parliament a draft law revising the Investment Code.	End-June 2013[1]	Reduce tax expenditures and improve the business environment.
Adopt a program to reform the electricity sector and the governance of Electricité de Guinée (EDG), in keeping with the recommendations made during the energy development partners meeting in April 2013.	End-June 2013	Improve EDG's governance and performance, and reduce budget subsidies.
Adopt the Special Investment Fund governance structure, with technical assistance from the World Bank.	End-June 2013[2]	Promote fiscal sustainability and economic growth through better cost-effective use of windfall mining revenues.
Appoint a liquidator for the BADAM bank with terms of reference ensuring, in particular, that advances from BCRG to BADAM and deposits up to GNF 10 million will be reimbursed.	End-June 2013[2]	Protect the banking system and small depositors, while limiting use of the government budget.

Table 3. Guinea: Prior Actions and Structural Benchmarks January–December 2013 (concluded)

Measure	Date	Macroeconomic Rationale
Structural benchmarks		
Apply a monthly adjustment system to the price of petroleum products based on fluctuations in the international market price and the exchange rate.	Continuous starting August 1, 2013[1]	Protect fiscal revenues.
Adopt a civil service reform plan, based on the results of the biometric census and the HCREMA action plan.	End-September 2013[2]	Restrain the wage bill and improve government productivity.
Prepare a medium-term action plan to strengthen external debt management with technical assistance from the European Union.	End-October 2013[2]	Strengthen external debt management.
Adopt and implement recommendations for a study on the role of SOGUIPAMI and its relationship with public administrations.	End-December 2013[1]	Maintain the government's assets in the mining sector under government control, protect government revenues, and limit fiscal risks.
Regularize suspense accounts and produce administrative and general financial management accounts for 2005–12.	End-December 2013[2]	Strengthen public financial management and transparency.
Adopt revisions of legal texts on public entities to make them consistent with the new Organic Budget Law (LORLF) and the General Regulations on Fiscal Management and Public Accounting (RGGBCP).	End-December 2013	Limit the risks for the government budget and strengthen central control over external public debt.

[1] Readjusted actions.

[2] New actions.

Attachment 2. Technical Memorandum of Understanding

May 3, 2013

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 1 of the Supplement to the Memorandum of Economic and Financial Policies of May 3, 2013 (Supplement).

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. 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 December 28, 2012 (US$1657.50 per oz.) for the first half of 2013 and at the price in effect on June 28, 2013 for the second half of 2013. For the test dates, the U.S. dollar value of the reserve assets (other than gold) and foreign exchange liabilities will be calculated using the program exchange rates in effect, namely: on December 28, 2012 for the first half of 2013, the exchange rates between U.S. dollar and the Guinean franc (6951.33 GNF/US$), SDR (1.5369 US$/SDR), Euro (1.3183 US$/EUR), and other currencies as published in *International Financial Statistics*; and for the second half of 2013, the exchange rates in effect on June 28, 2013.

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. This performance criterion on new nonconcessional medium- or long-term debt includes an allowance for four project loans totaling $362.53 million. The debts, all of which are nonconcessional, are (i) from the Export-Import Bank of China, for a loan of $335 million—dated January 4, 2013—to finance the Guinea Kaleta Hydroelectric Plant Project (Loan Number China Exim Bank PBC No. 49 Total No. 437); (ii) from the from the ECOWAS Investment and Development Bank, for a loan of $10.53 million—dated August 24, 2012—to finance the rehabilitation and extension of th electricity distribution network (Loan Number 67/AP/LA/BIDC/EBID/08/2012); (iii) from the OPEC Fund for International Development, for a loan of $10 million—dated March 7, 2012—to finance the National Program to Support Agricultural Value Chains (Loan Number 1429P); and from the OPEC Fund for International Development, for a loan of $7 million—dated January 29, 2013—to finance the Five Towns Water Supply Project (Loan Number1481P).

10. 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

[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.

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.

11. **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.

12. **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

13. **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.

14. **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

15. 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.,

[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).

not contingent, liabilities, created under a contractual arrangement through theprovision 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.

16. 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.

17. 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.

D. Adjustments to program Performance Criteria

18. 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.					
	Prog.	Act.	Prog.	Est.	Mar.	Juin	Sept.	Dec.
Net exetrnal assistance	-12	-117	-33	-198	-60	-112	365	688
Budgetary support (grants and loans)	739	713	841	904	0	77	626	1051
External debt service	-1111	-1175	-1740	-963	-60	-170	-242	-315
Interest	198	195	273	272	21	33	56	76
Principal	913	980	1467	692	39	137	186	238
Payment of arrears	-1617	-14	-1771	-1755	0	-340	-340	-1011
Debt relief	1977	359	2637	1616	0	321	321	963
Exceptional mining revenue expected	0	0	0	0	0	0	0	0
Chenge in the float	-384	-346	-332	-152	-58	-115	-185	-244

Sources: Guinean authorities and IMF staff estimates.

19. 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.

20. 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).

21. 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).

22. 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).

23. 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.

E. Definitions for Purpose of the TOFE

24. 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.

25. 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.

26. **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.

27. **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).

F. Data Reporting for Program Monitoring Purposes

28. 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.

29. 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. 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. 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