

International Monetary Fund

[Guinea](#) and the IMF

Guinea: Letter of Intent and Technical Memorandum of Understanding

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The following item is a Letter of Intent of the government of Guinea, which describes the policies that Guinea intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Guinea, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

Guinea—Letter of Intent

Conakry, September 18, 2014

Madame Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
USA

Subject: Letter of Intent on Economic and Financial Policies

Dear Madame Managing Director:

1. We hereby request additional financial support from the IMF for an amount of 25 percent of quota (SDR 26.775 million) under the Rapid Credit Facility (RCF) to help Guinea mitigate the adverse impacts of the Ebola epidemic. We also request that the full amount of this disbursement be made available immediately upon approval of this request by the IMF Executive Board, and that the disbursement be made to the Treasury account at the Central Bank of the Republic of Guinea to provide immediate budget support.
2. Guinea continues to implement the program supported under the Extended Credit Facility (ECF) satisfactorily. Preliminary data suggest that the end-June 2014 performance criteria under the program have been met. This good performance was achieved despite the Ebola epidemic, the impact of which was already felt in the first half of the year. The government is also continuing to make progress with structural reform.
3. The Ebola epidemic is causing large loss of life and is having a significant impact on the economy, risking social unrest and undoing hard-won macroeconomic stabilization gains. Our preliminary assessment suggests that GDP growth would be lower by 1½ percentage points compared to the estimates of only some months ago, and the projection for 2014 inflation has been raised by about one percentage point. Gross reserves coverage also risks missing the program target.
4. The government of Guinea remains fully committed to meeting the objectives of the ECF-supported program. This was confirmed by a recent government retreat to reassess the policy priorities, which also addressed the impact of the Ebola crisis. In consultation with IMF staff, the government has formulated a revised budget for 2014, focused on rapidly stemming the EVD crisis. This revised budget was submitted to the National Assembly in September for its consideration and approval. In addition to maintaining macroeconomic stability, the government will continue to press for progress on structural reform.

5. The EVD crisis is having a substantial impact on the budget. Lower growth, reflecting especially the impact of the EVD epidemic on the commerce and services sectors, is causing a drop in tax revenue, which is projected to fall short of the target by 0.6 percent of GDP. The estimated total cost of our emergency response plan, including social spending, is estimated at US\$85 million (1.3 percent of GDP) in 2014 (Text Table 1). During the first half of the year, modest efforts to contain the outbreak were financed by donors, with a small contribution from our budget.¹ Additional financing during the second half of the year is expected to come from international donors, including the World Bank and the African Development Bank, although some contribution from the budget may be needed.^{2,3}

Text Table 1. Guinea: Changes to Fiscal Projections, 2014

	GNF Billions	USD Millions	Percent of GDP
	2014	2014	2014
Revenue (- Lower)	-522	-74.6	-1.1
Tax Revenue	-350	-50.0	-0.7
Grants	-172	-24.6	-0.4
Spending (+ Higher)	359	51.2	0.8
Current spending	753	107.5	1.6
Salary and Wages	0	0.0	0.0
Goods and services	66	9.4	0.1
Transfers and subsidies	98	14.1	0.2
Ebola-related	595	85.0	1.3
Capital spending	-394	-56.3	-0.8
Domestically financed	-394	-56.3	-0.8
<i>Of which</i> : Measures of offset non-Ebola related revenue shortfalls and higher spending	-222	-31.7	-0.5
Externally financed	0	0.0	0.0
Total Impact (+ = Higher Deficit)	881	125.8	1.9
<i>Memorandum items:</i>			
Fund Contribution ^{1/}	287	41	0.6

^{1/} Additional financing.

Sources: Guinean authorities and IMF staff estimates.

6. The Ebola outbreak is expected to worsen our external accounts. The current account deficit is projected to widen by US\$75 million, reflecting lower exports of agricultural products and from artisanal gold production, and higher food imports. Inflows related to expatriate workers and business travelers are also projected to be lower. Moreover, indications are that private capital outflows are increasing. Pressure on the exchange rate has increased and the projections show an external financing gap of US\$129 million.

¹ Only US\$8.5 million was spent on combating the outbreak in the first half of the year, of which the government contributed US\$1.4 million.

² The plan focuses on breaking the transmission chain of the Ebola epidemic and providing food support to those affected. It would be supported by the UN Joint Ebola Support Plan, which provides humanitarian life-saving support, as well as support to strengthen the resilience and recovery of affected households, and social services.

³ Several donors, including the World Bank (US\$200 million), the African Development Bank (US\$60 million), and the African Union (US\$25 million), pledged new support for the region, to be split between Guinea, Sierra Leone, and Liberia.

7. The government remains fully committed to structural reform, but the agenda risks being delayed because of difficulties in mobilizing technical assistance. Several missions have been postponed because of the Ebola outbreak, and it has also hindered our capacity building efforts, as many of our staff could not attend planned external workshops. While the government will seek alternative solutions to receive the assistance needed, including through desk review of our draft laws and videoconferencing, some delays in structural reform implementation appear unavoidable.
8. The impact of the Ebola outbreak on the financial sector should be limited. Given banks' limited exposure to people and districts affected by the Ebola outbreak we do not anticipate significant impact on our banking system. However, the anticipated lower economic activity will reduce demand for bank credit. Higher expected inflation could also reduce banks' profitability, which should however remain solid.
9. The basic balance deficit of the 2014 budget is estimated at 5.5 percent of GDP compared to the program target of 4.0 percent of GDP, reflecting the impact of the Ebola epidemic. Expenditure will increase by 1.3 percent of GDP, reflecting the cost of our revised emergency plan to stem the EVD crisis. Additional expenditure (0.3 percent of GDP) relating to the need to further extend the lease of emergency power generating capacity and a delay in part of the planned budget support from Abu-Dhabi, will be financed or offset by cuts in investment spending. In the event donors do not fully finance our emergency response plan, and to avoid scaling down further the investment budget as much as possible, the government intends to seek additional domestic (bank) financing.
10. The Central Bank of the Republic of Guinea (BCRG) intends to maintain a more conservative policy stance than envisioned under the ECF. Given the indications of increasing capital outflows, the BCRG will delay considering a further relaxation of monetary policy. Also, it intends to temporarily increase sales in the weekly foreign exchange auctions to bolster confidence in the currency, avoid depreciation, and thus contain upward pressures on inflation.
11. We request modifications to the end-September 2014 indicative targets and the end-December 2014 performance criteria under the ECF arrangement to reflect the changes in policies described above. The requested modifications include modifications of the ECF-supported program adjustors, to allow for the use of domestic financing for the emergency response plan if external contributions fall short.
12. The requested disbursement under the Rapid Credit Facility arrangement will help close the immediate balance of payments and fiscal financing need resulting from the Ebola outbreak. With the assistance of the international community we have put in place a coordinated response plan, in consultation with other countries affected by the Ebola outbreak and our neighbors. The plan is estimated to cost US\$85 million, of which assurances of only US\$31 million have been mobilized so far from the World Bank (US\$25 million) and the African Development Bank (US\$6 million). The Fund disbursement under the RCF will provide a signal that will help catalyze support from others.
13. Our capacity to repay the Fund remains strong. Taking into account the disbursement under the RCF, while our repayments to the Fund will increase over the medium-term, repayment ratios to fiscal revenue and exports of goods and services will remain manageable, peaking at 1.5 percent in 2020 and 1.1 percent in 2020, respectively. We will continue to meeting on a timely basis our financial obligations to the IMF. Furthermore, our external debt distress indicators will not change significantly because of the additional financing to cope with the Ebola crisis.

14. The government remains convinced that the policies and measures set forth herein are adequate to address the immediate needs resulting from the Ebola outbreak while achieving the program objectives, including the advancement of our poverty reduction and growth objectives. However, the government will take any additional measures that prove necessary to that end. The government will consult IMF staff with respect to the adoption of such measures, either on its own initiative or at the request of the IMF Managing Director, before adopting such measures or before modifying the policies set out herein, in accordance with IMF policy regarding such consultations. The government undertakes not to introduce measures or policies that would compound Guinea's balance of payments difficulties, and to provide the IMF with any information required to monitor the implementation of measures and the achievement of program objectives. Moreover, the Central Bank of the Republic of Guinea (BCRG) is committed to undergo a safeguards assessment update by the IMF in the context of the proposed new arrangement. It will continue to provide IMF staff with access to its most recently completed external audit reports and to authorize the BCRG's external auditors to hold discussions with IMF staff.

15. In line with our commitment to transparency in government operations, we agree to the publication of all the documents submitted to the Executive Board in relation to this request.

Sincerely yours,

_____/s/_____
 Mohamed Diaré
 State Minister of Economy and Finance
 Republic of Guinea

_____/s/_____
 Lounceny Nabé
 Governor
 Central Bank of the Republic of Guinea

Attachment:

- Supplement to the Technical Memorandum of Understanding under the ECF-Supported Program

Table 1. Guinea: Performance Criteria (PC) and Indicative Targets, ECF 2013–14
(Billions of Guinean francs; unless otherwise indicated)

	2013				2014				2014				2014		
	Dec.				Mar.				Jun.			Sep.		Dec.	
	PC	PC Adjusted ¹	Act.	Status	Indicative Targets	Adj. Targets ¹	Act.	Status	PC	Prel.	Status	Indicative Targets ⁷	Indicative Targets ⁸	PC ⁹	PC ¹⁰
Quantitative performance criteria															
Basic fiscal balance (floor; cumulative change for the year)	-1,486	-1,355	-1,188	Met	-354	-429	-2	Met	-635	-109	Met	-1,399	-1,570	-1,915	-2,628
Net domestic assets of the central bank (ceiling; stock)	4,540	4,757	3,815	Met	4,785	4782	4,372	Met	5,018	4,117	Met	4,789	4,789	5,028	5,318
Net domestic bank financing of the government (ceiling; cumulative change for the year)	1,221	1,438	1,165	Met	639	636	209	Met	879	43	Met	1,077	1,077	1,162	1,452
Net international reserves of the central bank (floor; stock); US\$ millions ²	427	352	567	Met	481	481	542	Met	459	552	Met	513	513	516	516
New nonconcessional medium- or long-term external debt contracted or guaranteed by the government or central bank (ceiling); US\$ millions ^{3,4,6}	363	...	363	Met	0	0	0	Met	0	0	Met	80	80	80	80
Stock of outstanding short-term external debt contracted or guaranteed by the government or the central bank (ceiling); US\$ millions ⁴	0	0	0	Met	0	0	0	Met	0	0	Met	0	0	0	0
New external arrears (ceiling) ⁴	0	0	0	Met	0	0	0	Met	0	0	Met	0	0	0	0
Indicative targets															
Expenditure in priority sectors (floor) ⁵	4,200	...	3,321	Not Met	1,060	...	743	Not Met	2,167	...	...	2,633	2,633	4,706	4,706
Memorandum items:															
Reserve money (ceiling)	6,770	...	6,978	...	7,360	...	7,413	...	7,441	7,129	...	7,306	7,306	7,855	7,830

Sources: Guinean authorities; and IMF staff projections.

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

² Calculated using the program exchange rates.

³ External debt contracted or guaranteed other than with a grant element equivalent to 35 percent or more, calculated using a discount rate based on the OECD commercial interest rates. Excludes borrowing from the IMF.

⁴ Continuous performance criterion.

⁵ Priority sectors include education, health, agriculture, energy, justice, social affairs, and public works (as defined in the TMU).

⁶ For 2013 the ceiling is for 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. The \$80 million ceiling for 2014 is tied to new debt to finance the Kaleta hydroelectric dam-Conakry transmission line project.

⁷ Indicative targets for the 4th Review under the ECF arrangement.

⁸ Proposed revised indicative targets.

⁹ PCs for the 4th Review under the ECF arrangement.

¹⁰ Proposed revised PCs.

Table 2. Guinea: Prior Actions for the Completion of the Fourth Review and Revised Structural Benchmarks Under the ECF-Supported Program for 2014

Measures	Date	Implementation Status	Macroeconomic Rationale
Prior Actions			
Adoption by the Board of Directors of the Central Bank of the investment policy for international reserves in accordance with IMF recommendations and international standards	June 25, 2014	Implemented	Minimize risk of losses and ensure the liquidity of Central Bank reserves
Approval by the government of a draft law revising the investment code	Before July 25, 2014.	Implemented	Reduce tax expenditures and improve the environment for the private sector
Adoption by the government of the implementing regulations particularly those relating to (i) the Public Procurement Regulatory Authority (ARMP); (ii) the Administration and Control of Large Projects and Public Procurement (ACGP); (iii) the National Directorate of Public Procurement (DNMP); and the thresholds for awarding public contracts	Before July 25, 2014.	Implemented	Bring the procurement framework in line with international standards
Joint instructions by the Minister of State for the Economy and Finance and the Ministry of Energy and Hydrology to EDG, ordering EDG to manage its operations in such a way that there is no need for government's financial support over and above the amount included in the revised budget and to avoid supplier arrears	Before July 25, 2014.	Implemented	Reduce fiscal risks
Structural Benchmarks			
Adopt the draft law on public entities to make them consistent with the new Budget Framework Law (LORF) and the General Regulations on Fiscal Management and Public Accounting (RGGBCP)	End-September 2014	A draft law was reviewed by the reform coordination committee and submitted to the Government for its approval on August 21 st 2014.	Limit the risks for the government budget and strengthen central control over external public debt

Table 2. Guinea: Prior Actions for the Completion of the Fourth Review and Revised Structural Benchmarks Under the ECF-Supported Program for 2014 (concluded)

Measures	Date	Implementation Status	Macroeconomic Rationale
Revise the relations between autonomous agencies collection public revenue with a view to transferring the accounts from autonomous public entities (EPAs) and local governments to the Treasury master account at the BCRG	End-September 2014	Discussions have started with the autonomous agencies to clarify their relations with the Treasury.	Ensure the integrity of the government's budget and improve its cash management
Adopt and implement the recommendation of the study on the role of SOGUIPAMI and its relationship with the public administration	End September 2014	The consultant's final report has been approved by the surveillance committee and will be sent to the government for its approval.	Maintain the government's assets in the mining sector under government control, protect government revenues, and limit financial risks
Adopt, in consultation with donors, a new budget nomenclature, including a functional classification.	End-September 2014	A draft budget nomenclature developed with IMF TA has been reviewed in two validation workshops in mid-June and mid-July.	Improve the monitoring of poverty reduction efforts
Produce management and administrative government accounts for 2011–12	End-December 2014	A large proportion of the accounts of the main accounting posts have been deposited and are being reviewed before they are sent to accounts chamber of the supreme court.	Improve public financial management and transparency
Adopt a civil service reform plan, based on the results of the ongoing biometric survey and the action plan for the program to reform the State and modernize the government administration (HCREMA)	End-December 2014	Work is ongoing with the assistance of a cabinet recruited with WB support.	Restrain the wage bill and improve the productivity of the public administration
Recruit a management partner for EDG with the assistance of the World Bank and the IFC	End-December 2014	The call for bids was launched in mid-August.	Improve power supply and reduce fiscal risk
Approve a timetable for clearing domestic payment arrears, distinguishing between arrears from the budget years 2011–13 and those from 2005–10	End-December 2014	The call for bids was launched by the AFD on April 30 2014. Three bids were received and opened at the AFD on July 1. The review of the bids is ongoing.	Support private sector growth and enhance government credibility.

Attachment I. Supplement to the Technical Memorandum of Understanding Under the ECF-Supported Program

September 19, 2014

1. This memorandum updates the understandings between the Guinean authorities and staff of the International Monetary Fund (IMF) set out in the Technical Memorandum of Understandings (TMU) attached to the staff report for the 4th review under the ECF arrangement and dated July 18 2014 regarding the baseline projections for foreign assistance and (ii) the methodology for calculating the program's adjusted performance criteria and indicative targets.

2. The quantitative performance criteria and indicative targets have been modified as specified in Table 1 attached to the authorities Letter of Intent dated September 18 2014. The quantitative performance targets are calculated on the basis of projected amounts of (1) net external assistance; (2) exceptional revenues from the mining sector (see table below); (3) the net change in program arrears; and (4) the net change in the float. The definitions for net external assistance and net change in program arrears remain as specified in the TMU dated July 18 2014.

	2013				2014				2015		
	Sept.		Dec.		Mar.		Jun.		Sept.		
	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Prel.	Prog.	Dec.	
Net external assistance	365	-127	689	32	-140	-7	94	364	425	1,210	230
Net external assistance, excluding Ebola	365	-127	689	32	-140	-7	94	364	425	615	230
Budget support	626	174	1,051	419	0	0	446	369	594	993	590
Grants			768	177	0	0	309	369	594	720	590
Loans			283	242	0	0	137	0	0	273	0
External debt service	-242	-280	-314	-413	-140	-16	-352	-27	-195	-389	-361
Interest	-56	-57	-76	-72	-37	28	-54	185	94	104	153
Principal	-186	-223	-238	-341	-103	-43	-298	-212	-289	-492	-513
Net change in non-program arrears and debt relief	-19	-21	-48	26	0	8	0	22	26	11	0
Net change in non-program arrears	-340	-21	-1,011	26	-218	8	-720	22	-31	-878	-214
Debt relief	321	0	963	0	218	0	720	0	57	889	214
External assistance for Ebola response plan ^{1/}	...	...	...	...	...	...	...	...	...	595	...
Program arrears			0	0	0	0	0	0	0	0	0
Exceptional mining revenue	0	0	0	0	0	0	0	0	0	435	1,750
Change in the float	-185	42	-244	-178	-101	-104	-72	0	5	5	0

Sources: Guinean authorities and IMF staff calculations.

^{1/} The distribution between grants and loans, except for the IMF contribution, is undetermined at this time.

3. The floor for net international reserves (NIR), the ceilings on net domestic assets (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.¹

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

- *If net external assistance exceeds 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).

Adjustments for other deviations from program parameters, including those related to the net change in “program” arrears, the exceptional mining revenues, and the net change in the float remain as specified in the TMU dated July 18 2014.

¹ Any surpluses or shortfalls will be calculated using the program exchange rate.