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The Acting Chair's Summing Up
Guinea—2007 Article IV Consultation and Requests for Three-Year Arrangement Under the Poverty Reduction and Growth Facility and for Additional Interim Assistance Under the Enhanced Heavily Indebted Poor Countries Initiative
Executive Board Meeting 07/112
December 21, 2007

Executive Directors agreed with the thrust of the staff appraisal. They commended the new government for engineering an impressive shift in policies over the past eight months to support macroeconomic stabilization and reverse the deterioration in economic performance and governance that occurred in 2006. Directors noted that the recent improvement in economic discipline, including restored control of budget execution and avoiding monetary financing of the deficit, had contributed to rapid disinflation and a strengthening of the Guinean Franc. They viewed that continued solid policy performance would promote economic growth and help stabilize the external situation.

Directors agreed that the priorities set out in the authorities' new poverty reduction strategy are appropriate. Successful implementation of the strategy will depend on well-prioritized action plans, and close monitoring and evaluation. They underscored that the consolidation of macroeconomic stabilization, an improved business environment, the adoption of international best practices for the development of extractive industries, and targeted infrastructure investment will play a critical role in achieving growth targets. Directors stressed the importance of rehabilitating public utilities. They welcomed the authorities' implementation of the Extractive Industries Transparency Initiative.

Directors observed that an appropriately tight fiscal policy will be essential to further stabilizing the economy and shoring up Guinea's external position. In order to meet the ambitious targets set for non-mining revenues, revenue collection will need to be improved and the tax base broadened. The reinstatement of normal budgetary procedures will be essential to maintaining control over public spending and eliminating extrabudgetary outlays.

Directors viewed that the maintenance of a tight monetary policy will be critical to limiting inflationary pressures and improving Guinea's external position. The associated buildup of official reserves will help absorb external shocks, smooth daily fluctuations of the volatile exchange rate, and support the launching of a much-needed foreign exchange interbank market. The use of indirect instruments of monetary policy, along with close coordination with the Treasury, will provide needed support in limiting monetary expansion.

Directors underscored the importance of addressing the serious deficiencies revealed by the recent external audit of the central bank accounts and the safeguard assessment update. They welcomed the strong mitigating measures already taken, and encouraged the authorities to follow through with their action plan for addressing the remaining vulnerabilities in the safeguards framework. Directors looked forward to Guinea's participation in the FSAP, which will support the strengthening of the financial sector.

Directors concurred with the debt sustainability analysis prepared by the staffs of the Fund and of the World Bank, which shows that the delivery of debt relief under the enhanced HIPC and MDRI initiatives can bring external debt back to sustainable levels. They encouraged the authorities to take the necessary steps to promptly reach the HIPC completion point and qualify for debt relief under these initiatives. Directors emphasized that Guinea should persevere with efforts to engage all its external creditors and to seek debt relief from non-Paris Club creditors on HIPC terms. They also welcomed the authorities' intention to avoid external borrowing on nonconcessional terms.

Directors considered the current level of the real exchange rate to be adequate, given the prospective debt relief and the largely untapped sources of export and productivity growth. They encouraged the prompt removal of the remaining bans on exports of agricultural, forestry and fish products by year-end, in order to strengthen Guinea's external position and improve employment opportunities for the poor. Directors called for the elimination of the existing multiple currency practice.

Directors stressed the need for continued efforts to improve the provision of economic and financial data, in particular in the area of national accounts and balance of payments statistics.

It is expected that the next Article IV consultation with Guinea will be held within 24 months, subject to the applicable Executive Board decision on consultation cycles.