

SUR/00/127

December 28, 2000

**The Acting Chairman's Summing Up at the Conclusion  
of the 2000 Article IV Consultation with Guinea  
Executive Board Meeting 00/128—December 20, 2000**

Executive Directors agreed with the thrust of the staff appraisal. They noted that the overall performance of the Guinean economy in 2000 continues to be mixed. Exogenous factors, in particular the deterioration in the terms of trade, have adversely affected economic growth and the financial situation, and the worsening security situation arising from political instability in neighboring countries has resulted in severe domestic budgetary pressures. In addition, delays in implementing key measures have resulted in shortfalls in the disbursement of external budgetary assistance. Directors regretted the slippages in fiscal and monetary management that occurred in the first part of the year, and welcomed the firm measures taken subsequently by the authorities to correct them. Looking ahead, they stressed that considerable efforts will continue to be necessary to establish a sound policy environment conducive to sustained economic growth.

Directors regretted the authorities' reliance on central bank credit to finance the budget deficit. They underscored the importance of fiscal consolidation, and stressed the need for a durable improvement in revenue mobilization. They welcomed the steps taken in reforming customs, and emphasized the need to broaden the tax base by reducing significantly the widespread exemptions, especially for parastatals, and by executing promptly the recommendations of the tax audits of key public enterprises. Directors welcomed the implementation of the computerized expenditure monitoring system, and the production of monthly treasury balances—steps that will help ensure strict control of the level and composition of expenditure. This is particularly important to make room for the necessary increase in spending in priority sectors, given the higher defense spending needed to deal with the security situation, as well as shortfalls in external financing.

Directors welcomed the authorities' plan to use the additional resources made available through interim debt relief under the enhanced HIPC Initiative for poverty-related spending. In this context, they encouraged the authorities to continue to track poverty-related expenditures, and to enhance their capacity to monitor government spending, including through decentralized administrative units.

Directors noted that the foreign exchange auction has been operating in a satisfactory manner since its introduction in late 1999. They underscored the importance of allowing the Guinean franc to float freely, and welcomed the authorities' intention to deepen the official market for foreign exchange by bringing the foreign exchange bureaus into the auction.

Directors stressed that the authorities should continue with the reform of the banking system, including restructuring banks and fostering competition among them. They urged the authorities to take measures to strengthen the financial system in accordance with the recommendations of recent technical assistance missions from the Fund.

Directors commended the authorities on reestablishing the momentum of structural reforms. They welcomed the progress in revitalizing the public enterprise privatization and restructuring program, and encouraged greater trade liberalization. Directors also encouraged the authorities to rationalize the domestic petroleum price structure, and to put in place the planned comprehensive adjustment mechanism for domestic petroleum prices. With respect to the ongoing administrative decentralization, they urged the authorities to ensure that fiscal discipline is observed at all levels of government.

Directors observed that improvements in governance remain an important issue in Guinea. They welcomed the establishment of the National Anticorruption Committee and urged the authorities to show their determination to combat corruption by dealing with cases of corruption in a swift and fully transparent manner. They noted the measures taken to enhance the monitoring of public expenditure and the regular public reporting on budget execution, and encouraged the authorities to intensify their efforts to enhance transparency and accountability in the management of public resources. Directors also underscored the importance of strengthening the judicial and regulatory framework.

Directors urged the authorities to improve the coverage, quality, and timeliness of economic data.

It is expected that the next Article IV consultation with Guinea will be held on the standard 12-month cycle.

**Summing Up by the Acting Chairman  
of Points Relating to Guinea's First Review Under the Third Annual  
Arrangement Under the Poverty Reduction and Growth Facility (PRGF);  
Interim Poverty Reduction Strategy Paper; and Decision Point Document Under  
the Enhanced Initiative for Heavily Indebted Poor Countries (HIPC)  
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**Interim Poverty Reduction Strategy Paper (I-PRSP)**

Directors noted the considerable progress made with respect to the poverty reduction strategy and welcomed the authorities' schedule for completing the full PRSP by end-2001. They agreed that the I-PRSP provides a sound basis for the development of the full PRSP for Fund concessional assistance, and for reaching the decision point under the enhanced HIPC Initiative.

Directors commended Guinea's poverty reduction strategy and the participatory approach followed in completing the I-PRSP. They encouraged the authorities to expand the involvement of civil society in monitoring and evaluating public policy. They also urged the authorities to update their poverty reduction strategy as better and more recent data become available.

Directors supported the staff's recommendations on the full PRSP. In particular, they indicated that the full PRSP should outline the authorities' growth strategy, including with regard to rural development, assess the structural reasons that have led to weak policy implementation in the past, and expand on the current governance strategy to address corruption more broadly. The PRSP should also address the important issue of refugees now living in Guinea.

**Poverty Reduction and Growth Facility (PRGF)**

Directors considered that the delay in considering the first review under the third annual arrangement under the PRGF caused by the macroeconomic slippages in the first half of this year was regrettable. However, they commended the Guinean authorities for their remedial actions taken, despite the tense security situation in the region, and the difficult external environment. They noted that Guinea's track record of program implementation has been mixed, and that a challenge now is to demonstrate the ability to consistently maintain the adjustment effort in implementing the strong economic and financial program for 2001. In this regard, the authorities would need to strengthen their human and institutional capacity in order to implement their poverty reduction strategy successfully. Strong efforts to mobilize revenues will also be critical. Directors noted that the extension of the medium-term expenditure framework to all budgetary expenditures will be a critical step toward ensuring that the level and composition of public expenditures are appropriate. It would be important

also to keep track of the use of interim debt relief to ensure that those resources are used properly.

Directors stressed that it will be essential in the next few months to improve the management of bank liquidity, and to reduce in 2001 the exceptionally high level of government indebtedness to the banking system.

Directors welcomed the recent acceleration of structural reforms. They noted that continued progress in this area, particularly in the public enterprise privatization and restructuring program, will send a clear signal of the authorities' intention to redefine the role of the state and create an environment conducive to private investment. A demonstrable and sustained effort to redress weaknesses in accountability and to strengthen governance supported by reforms of the civil service and of the legal and regulatory framework will contribute to establishing the credibility of government policy and building a consensus for reform.

### **HIPC Decision Point**

Nearly all Directors agreed that Guinea has reached the decision point under the enhanced HIPC Initiative. Several Directors, however, noted that they would have preferred to consider the HIPC decision point in conjunction with the expected new PRGF arrangement. Directors agreed that Guinea should reach a floating completion point when the conditions contained in Box 5 of the HIPC decision point document (EBS/00/243) have been met. These include satisfactory implementation of the PRSP for one year, strong implementation of measures to fight corruption and strengthen governance, and monitoring of the use of budgetary savings from interim debt relief. Directors noted that the full participation of all of Guinea's creditors, including non-Paris Club creditors, in providing debt relief is critical for Guinea to achieve debt sustainability. They urged the authorities to seek to normalize debt relations with all of these creditors in general, and in particular sign a formal debt settlement agreement with the Russian Federation at an early date.