

“Uncertainties about the impact and duration of the Ebola epidemic dampen the near-term macroeconomic outlook, and real GDP is projected to contract in 2015. The 2015 budget, which appropriates resources to combat Ebola and maintain a strong public investment effort, envisages an expansion in the fiscal deficit. The January 2015 agreement on increases in civil service wages is within the limits of the 2015 budget, but will reduce budgetary flexibility over the medium term. Nevertheless, it is important to ensure that recruitment in the social sectors is implemented as planned. Going forward, the authorities should press ahead with their civil service reform to ensure that the wage bill remains affordable and creates space for priority expenditure.

“The international community’s continued assistance, through the provision of highly concessional loans and grants and technical assistance, remains critical. The authorities’ commitments to ensure transparency in Ebola-related spending and complete their structural reform agenda under the program, to help underpin a revival in growth in the period ahead, are reassuring.

“The Central Bank’s intention to relax monetary policy to provide adequate liquidity to the private sector is appropriate given the downturn in growth. Inflation is also expected to remain in check and international reserve coverage to remain satisfactory.

“Growth and poverty reduction goals will be spurred by key reforms to strengthen the business climate, including in the mining and electricity sectors and through improved monitoring and supervision of the banking sector. Sustained efforts are also needed to strengthen the health sector and social safety nets.

“Executive Directors approved the completion of the fifth review and the disbursement of an amount equivalent to SDR 45.135 million under the ECF arrangement, including SDR 26.775 million as budget support to help meet part of the fiscal cost of the Ebola response, as well as the financing assurances review. They approved the authorities’ request for an extension of the current arrangement to end-2015, and augmentation in access.”

**Statement by Ngueto Tiraina Yambaye, Executive Director for Guinea and  
Siradiou Bah, Senior Advisor to Executive Director  
February 11, 2015**

**I. INTRODUCTION**

Our Guinean authorities would like to express their appreciation to the Executive Board, Management and Staff for their continued support to Guinea in its efforts to address the challenges caused by the Ebola Virus Disease and also in its continued efforts to implement the ECF-supported program. Despite the difficult environment made worse by unfavorable export commodities prices, our authorities remain committed to the objectives of the program. This commitment has enabled them to meet all quantitative criteria and targets set for end-June and end-September 2014. However, the implementation of structural reforms advanced at a slower pace than envisaged, with only two structural benchmarks being satisfied, due notably to the constraints resulting from the authorities' increased focus on the fight against the Ebola Virus Disease.

The ongoing Ebola epidemic has placed a heavy toll on the Guinean population and economy. Recent data indicate that around three thousand people have been infected, with the number of deaths estimated at over 1700 by end-2014. On the economic front, activities have been heavily impacted following the closing of borders by neighboring countries, displacements of population, sharp decline in agricultural output, transport, trade, tourism and foreign investments. As a result, growth is estimated to have slowed down sharply in 2014 and the fiscal deficit has widened in response to revenue shortfalls and higher Ebola - related spending, including external assistance. The central bank has maintained its prudent approach which helped to bring inflation down to below 10 percent from 12 percent in 2013, and international reserves increased above the program's objective.

In the fight against the Ebola epidemic, the authorities have steadily increased their efforts to contain its expansion, taken care of the patients and sustained the public health system. With the assistance of the international community, they have established a vigorous health plan to respond to the Ebola shock and have created a special earmarked budget (BAS) that will record the related international community's financial assistance as well as the government's own resources to fight the epidemic. Our Guinean authorities take this opportunity to express their appreciation to the international community, their development partners and to the Fund for their strong support through policy advice and financial assistance to fight this epidemic.

In spite of the difficult environment they face, the Guinean authorities remain strongly committed to continue implementing their ECF-supported program and meet its objectives to strengthen macroeconomic stability, promote stronger and inclusive growth and end the Ebola crisis. Based on the good performance achieved in implementing the program, the Guinean authorities are requesting the Executive Board to approve the fifth review of ECF-supported arrangement. They are also requesting an extension of the ECF-arrangement to end-December 2015 to further support their reform agenda as well as an increase in the

Fund's financial support of 42.1 percent of quota of which 25 percent of the quota disbursed in the form of budget support under the fifth review and the remaining 17.1 percent will be disbursed in connection with the seventh ECF review. The increased access will enhance international reserves; help cover the budget and balance of payments financing needs resulting from the fight against the Ebola crisis.

## II. RECENT DEVELOPMENTS AND PERFORMANCE UNDER PROGRAM

The continued implementation of prudent policies under the ECF-supported program has led the authorities to enhance macroeconomic stability and advanced in structural reforms despite the severe impact of the epidemic of Ebola in the second half of 2014 and capacity constraints resulting from difficulties to mobilize the needed technical assistance. All performance criteria for end-June 2014 were met and most of indicative targets for end-September 2014 have also been met. According to preliminary information, the performance criteria at end-December 2014 have also been met.

**In the fiscal sector**, the authorities have continued implementing the cash-based budget which has helped them to maintain expenditure within the limit of available financing. With the persistence of the Ebola crisis, budget revenue fell short of projections at end-September 2014 and budget support remained below projections. To offset this shortfall, the authorities continued to limit spending to ensure the achievement of program objectives. In this context, cuts in investment spending resulted to the nonobservance of the program indicative targets for priority expenditures. Nevertheless, good progress was made in strengthening public finance with the adoption of the draft law on the financial governance of public enterprises, the signature of the decree on the governance framework of public finances governance, the adoption of the new budget nomenclature and the adoption of the revised draft of the custom code. In addition, the authorities are implementing the medium-term action plan for the debt management improvement. Remarkable inroads were also achieved in the civil service reforms with the biometric census completed in August 2014.

**With regard to the monetary area**, all program targets were met except the end-September indicative target on the central bank's net domestic assets. Net international reserves exceeded the program objectives. This performance resulted from a gradual relaxation of monetary policy with the reduction of policy rate to 13 percent and the decline to 20 percent of reserves requirement ratio. This improvement led the credit to private sector to increase by 30 percent in 2014. The health of the financial system has improved since 2013 with the decline of the nonperforming loans and the rise of the bank solvency ratio. The authorities are also in discussions with stakeholders on new regulations for banking-insurance and microfinance.

The Guinean authorities have pursued their **structural reforms** to further improve the business environment. They adopted in July 2014 the justice reform plan designed, among others, to protect land tenure and the enforcement of commercial contracts. In October, they established the Presidential Council on Investment and Public-Private partnership to reduce delays for investors, simplify administrative procedures and institute norms consistent with international standards. With the technical assistance from development partners and IMF,

progress was made in the mining sector reforms. The role of *Société guinéenne de participation minière* (Soguiipami) and its relations with the public administration have been redefined. The National Assembly adopted the new petroleum code in December 2014.

### **PRSP Progress Report**

The authorities published, in December 2014, the first annual progress report (APR) for 2013 on the implementation of the Poverty Reduction Strategy Paper (2013-15). The report underscored that shocks experienced in 2013-14 have hindered the authorities' efforts to reduce poverty. However, it also underlined that reforms in public financial management have led to improvements in the delivery of public services. The APR for 2014 will be completed by mid-2015 and will help in the preparation of a successor PRSP which will draw on the two APRs and take into account the implications of the Ebola epidemic on social sectors.

### **III. MACROECONOMIC OUTLOOK AND POLICY REFORMS FOR 2015**

Our Guinean authorities are fully committed to continue their close relationship with the Fund and implement sound macroeconomic policies and structural reforms to foster a sustained growth and enhance fiscal and external sustainability. Given the heavy impact of the health disaster on the country, they are also mindful that the Ebola crisis will adversely impact the macroeconomic outlook in the near term. In this regard, they are determined, with the support of their development partners, to further intensify the fight against Ebola to eradicate its effects, improve their policies and increase their institutional and human capacities. In particular, fiscal policy will be cautious and seek to absorb the Ebola's effects and support growth in line with available financing. Monetary policy will be supportive of private sector growth and the exchange rate policy will continue to focus on the stability of the Guinean Franc, while maintaining the central bank's international reserves at an adequate level. The structural reforms aimed at improving the business and investment environment will be further strengthened.

#### **Fiscal Policy**

The National Assembly adopted on December 18, 2014, the 2015 Budget which takes into account the increase in expenditure due to the Ebola epidemic and aims at maintaining adequate investment efforts to sustain growth. The expected basic balance deficit is 6.6 percent of GDP compared to an estimated 5.7 percent of GDP in 2014. The revenues under the 2015 budget will stand at 20.7 percent of GDP or an increase of 2 percentage points of GDP relative to 2014 owing notably to a significant augmentation of indirect taxes, an improvement of the revenue collecting agencies and the introduction of the new tax on telecommunications. Expenditures in 2015 are projected to increase significantly due to expenses associated with the Ebola epidemic and the implementation in three steps of the agreement signed in early January 2015 with unions to augment the basic salary by 40 percent. To finance this increase, the authorities will cancel recruitments in 2015 for non priority sectors, implement the conclusions of the biometric census, and revise the financial impact of application of specific statutes.

Taking in to account the decrease in global oil prices, the authorities have, at end of January, adjusted downward the fuel price at the pump by 10 percent. This move will help strengthen the credibility of the price adjusting mechanism put in place early 2014. To finance the 2015 budget, the authorities expect external financing mainly in terms of grants and concessional loans and they intend also to issue bills and bonds on the local market for a maximum projected equivalent to 2 percent of GDP. To ensure the sound management of this issuance and medium-term sustainability, the authorities have requested technical assistance from the Fund and the World Bank to prepare a medium-term strategy. With regard to the BAS, the special earmark budget established for the fight against Ebola, the authorities have benefited from Fund's assistance to develop a governance structure to ensure transparency in the use of donors' support through the production of regular implementation reports and periodic audits by an internationally recognized firm.

In their efforts to enhance the country's debt sustainability, our authorities are committed to give priority to concessional loans and grants in mobilizing external financing. However, they are mindful that in a context of limited availability of concessional resources, the financing of large infrastructure projects could be difficult and will require increased efforts in identifying new ways to mobilize needed resources. Staff will be consulted on any decision made by the authorities.

### **Monetary and Financial Policies**

The Guinean authorities will continue gradually and cautiously the relaxation of the monetary policy while taking into account inflationary developments. They intend to mobilize domestic financing to mitigate the Ebola effects through the sale of securities to the public. The interbank market in Guinean francs will be encouraged with the implementation of an open market window by end-March 2015. Moreover, the policy rate and the reserves requirements will also be reduced to ensure sufficient liquidity in the banking system to foster the banks' lending to the private sector. In addition, the currency sales in the interbank foreign exchange will be increased to contain the adverse effects of bank financing on inflation while achieving the international reserves objective.

In order to further strengthen the banking and financial sector, bold measures will be implemented in 2015. Besides the strengthening of the banking supervision, these measures include the adoption of the National Inclusive Finance Strategy, the strengthening of microfinance institutions, and the establishment of a credit information repository. The authorities plan also to finalize the revision of the insurance code and issue directives encouraging the development of mobile financial services.

### **Structural Reforms**

The authorities will pursue their efforts to improve the business environment with a view to further promote the private sector development and harness the country's natural resources. The key structural measures are intended to strengthen the public financial management, reform the civil service, improve the investment environment, pursue the mining sector