



# GUINEA

July 2021

## 2021 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GUINEA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2021 Article IV consultation with Guinea, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its June 21, 2021 consideration of the staff report that concluded the Article IV consultation with Guinea.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 21, 2021, following discussions that ended on April 28, 2021, with the officials of Guinea on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 3, 2021.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for Guinea.

The documents listed below have been or will be separately released.

- **Selected Issues**

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## IMF Executive Board Concludes the 2021 Article IV Consultation with Guinea

FOR IMMEDIATE RELEASE

**Washington, DC** – On June 21, 2021, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation<sup>1</sup> with Guinea.

Although overall growth was strong, at 7.1 percent of GDP in 2020, buttressed by a buoyant mining sector, the non-mining economy—which employs the vast majority of the population—was significantly affected by the Covid-19 pandemic. Inflation surpassed 10 percent at end-2020 and has since accelerated to above 12 percent, as a result of rising food prices and freight rates associated with COVID-19-related supply disruptions, as well as the impact of the policies to respond to the pandemic. The current account deficit increased to 13.7 percent of GDP as imports of management, freight, and telecommunications services spiked, offsetting strong export growth from the mineral sector. Reserves continued to rise, partly a result of donor support during the pandemic, reaching USD 1.3 bn at end-2020. The fiscal deficit reached close to 3 percent of GDP, reflecting the implementation of the authorities' crisis response plan to expand health spending and support vulnerable households and the private sector and that the improved mining production did not translate into higher fiscal revenue. As a result, public debt increased to 43.4 percent, also reflecting the first disbursement of the large loan for the Souapiti dam project. Monetary policy was accommodative, which, together with accommodative regulatory measures, helped sustain the supply of credit to the economy. The crisis deteriorated already weak social indicators. In addition to a spike in COVID-19 cases in April 2021, Guinea also faced an additional health challenge due to a new Ebola outbreak in February 2021—fortunately localized. The Guinean authorities and the WHO declared the end of the Ebola outbreak on June 19. The authorities started vaccinating the population against COVID-19 and Ebola in March 2021.

Real growth is projected to remain strong in 2021, at 5.2 percent, supported by continued robust growth in the mining sector, and compounded by a gradual recovery of the non-mining sector. Inflation is likely to remain above the BCRG's single digit target throughout the year. Risks are tilted to the downside, mostly reflecting the potential for an intensification of the COVID-19 pandemic. Commodity price shocks are another significant source of vulnerability. Other external risks include reduced availability of donor financing and increased geopolitical tensions. Guinea is also increasingly vulnerable to climate change. On the upside, mining activity could increase faster than expected. Accelerated implementation of investment activities, particularly the Simandou iron ore project, would also provide a significant boost to growth.

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<sup>1</sup> Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

## Executive Board Assessment<sup>2</sup>

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for their prompt response to the COVID-19 pandemic, which took a significant toll on the non-mining economy and social outcomes. Directors welcomed Guinea's resilient growth in 2020 and noted the favorable near-term outlook, subject to downside risks. They emphasized that implementing the vaccination plan and maintaining targeted support for vulnerable households and businesses remain key priorities. Directors stressed the need to diversify the economy and secure more inclusive, balanced, and sustainable growth over time.

Directors encouraged continued efforts to create fiscal space for investment in infrastructure, human capital, and social protection. They highlighted the urgency of domestic revenue mobilization, particularly from the mining sector. Specifically, they recommended addressing profit shifting risks from transfer mispricing, fully applying the Mining Code to new contracts, minimizing tax exemptions, and adopting the General Tax Code. Directors called on the authorities to enhance spending efficiency and eliminate energy subsidies. They also encouraged the authorities to continue strengthening public financial management and maintaining prudent external borrowing policies, maximizing recourse to concessional financing and grants to safeguard debt sustainability.

Directors emphasized the need to address rising inflation, including by accelerating the repayment of central bank advances. They encouraged the authorities to limit monetary financing of the budget and continue modernizing the monetary policy framework, with a focus on more active liquidity management and clearer communication of monetary targets. Directors also underscored that exchange rate flexibility would help build reserves and absorb the impact of shocks. They welcomed the transparent rules-based foreign exchange intervention policy and its contribution to external rebalancing.

Directors encouraged further diversification efforts, prioritizing measures to strengthen the business climate and the financial sector, promote digitalization, and boost human capital development. They welcomed recent improvements in governance and encouraged the authorities to continue strengthening the anti-corruption framework, including by swiftly adopting and implementing the national strategy and the asset declaration regime.

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

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<sup>2</sup> At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

**Figure 1. Guinea: Selected Economic and Financial Indicators, 2019-22**

	2019	2020	2021	2022
	Act.	Prel.	Proj.	Proj.
Annual percentage change, unless otherwise indicated				
<b>National accounts and prices</b>				
GDP at constant prices	5.6	7.1	5.2	6.1
Mining	9.4	34.6	7.7	7.1
Non-mining	4.9	1.3	4.5	5.8
GDP deflator	9.9	10.7	11.3	9.7
GDP at market prices	16.2	18.6	17.0	16.4
Consumer prices (average)				
Average	9.5	10.6	11.6	9.9
End of period	9.1	10.6	11.3	9.9
<b>External sector</b>				
Exports, f.o.b. (US\$ terms)	-0.8	126.4	0.6	-9.8
Imports, f.o.b. (US\$ terms)	-21.1	76.0	-4.7	-16.4
Average effective exchange rate (depreciation -)				
Nominal index	2.4	-2.4	...	...
Real index	9.3	5.9	...	...
<b>Money and credit</b>				
Net foreign assets <sup>1</sup>	10.5	8.6	7.9	10.8
Net domestic assets <sup>1</sup>	12.4	15.3	5.1	7.0
Net claims on government <sup>1</sup>	4.0	18.3	0.6	3.2
Net claims on government <sup>1</sup> , excl. recapitalization	4.0	17.4	-1.1	2.4
Credit to non-government sector <sup>1</sup>	8.9	3.2	4.5	4.7
Reserve money	16.6	19.2	12.2	13.4
Broad money (M2)	22.9	23.0	13.7	17.8
Percent of GDP, unless otherwise indicated				
<b>Central government finances</b>				
Total revenue and grants	14.4	12.8	14.9	14.7
Revenue	13.9	11.8	13.2	14.1
<i>Of which: Non-mining revenue</i>	12.0	10.2	11.5	12.2
Grants	0.5	1.0	1.7	0.5
Total expenditure and net lending	14.9	15.7	17.1	17.6
Current expenditure	11.1	12.4	11.8	11.3
<i>Of which: Interest payments</i>	0.5	0.7	0.9	0.9
Capital expenditure and net lending	3.7	3.2	5.2	6.1
Overall budget balance				
Including grants	-0.5	-2.9	-2.2	-2.9
Excluding grants	-1.0	-3.9	-3.9	-3.4
Basic fiscal balance	0.6	-1.4	-0.1	0.6
<b>Current account balance</b>				
Including official transfers	-10.8	-13.7	-9.3	-11.6
Excluding official transfers	-11.0	-14.3	-10.0	-11.6
Overall balance of payments	1.9	-0.9	0.6	1.1
<i>Memorandum items:</i>				
Exports, goods and services (US\$ millions)	4,130.8	8,996.0	9,012.6	8,134.6
Imports, goods and services (US\$ millions)	5,026.9	9,938.4	8,888.8	7,679.6
Overall balance of payments (US\$ millions)	257.8	-131.0	100.7	204.8
Net foreign assets of the central bank (US\$ millions)	843.3	948.5	1,273.9	1,645.1
Gross available reserves (months of imports) <sup>2</sup>	2.1	2.2	2.4	2.5
External public debt, incl. IMF (percent of GDP)	19.9	25.8	28.6	30.9
Total public debt, incl. IMF (percent of GDP)	38.0	43.4	43.3	42.9
Nominal GDP (GNF billions)	124,109	147,188	172,280	200,493
<i>Sources: Guinean authorities; and Fund staff estimates and projections.</i>				
<sup>1</sup> In percent of the broad money stock at the beginning of the period.				
<sup>2</sup> In months of following years' imports, excluding artisanal gold related imports. Previous staff reports have reported a coverage ratio using imports net of capital goods.				



# GUINEA

## STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

June 3, 2021

### KEY ISSUES

**Context.** While the non-mining sector was severely impacted by the COVID-19 crisis, overall growth in Guinea remains strong, reaching 7 percent in 2020, driven by booming mining production. Inflation exceeded 12 percent as a result of COVID-related supply disruptions and the ongoing monetary and fiscal response. The already weak social indicators have deteriorated further.

**Policy recommendations.** Vaccine rollout and supporting vulnerable households are key near-term priorities. Enhancing revenue mobilization, improving expenditure efficiency, and strengthening monetary policy will be critical to support the post-COVID recovery, complemented by measures to improve governance and the business climate and help encourage greater diversification, essential to deliver inclusive growth.

**Fiscal policy.** The fiscal stance was appropriately relaxed in response to the crisis. The 2021 budget is expected to be revised to reflect the updated needs, including vaccines, support for vulnerable populations, and targeted private sector support. As the crisis subsides, greater efforts will be needed to mobilize additional revenue, particularly from the mining sector; enhance spending efficiency; and invest in infrastructure and human capital—including social protection.

**Monetary and financial sector policy.** Base money increased significantly in 2020, providing ample liquidity to the markets, while the BCRG appropriately reduced its policy rate in 2020, and kept it unchanged in March 2021. The repayment of central bank advances needs to continue to alleviate inflationary pressures. Active liquidity management is needed to improve the effectiveness of monetary policy. Continuing the implementation of the rules-based FX intervention policy will support exchange rate realignment efforts. Banking supervision and monitoring need to be intensified.

**Structural reforms.** Leveraging the ongoing boom in the mining sector, the authorities are encouraged to boost human capital development, enhance governance, and continue efforts to strengthen the business climate to attract non-mining FDI. These reforms would stimulate growth in high-potential sectors such as agribusiness. Greater diversification would provide a more sustainable, inclusive foundation for medium-term growth.

Approved By  
**Catherine Pattillo**  
**(AFR) and Chad**  
**Steinberg (SPR)**

An IMF team consisting of Ms. Mira (head), Mr. Koumtingué, Mr. Massara, Ms. Kaze (all AFR), Mr. Carrière-Swallow (SPR), Ms. Mogues (FAD), Mr. Issoufou (Resident Representative) and Mr. Diallo (local economist) held virtual discussions with the authorities during April 14-28, 2021. Mr. Sylla (Alternate ED) and Ms. Boukpassi (ED's office) joined the mission discussions. The Guinea team also wishes to acknowledge and thank Arz Murr and Chady El Khoury (all LEG) for assistance with governance issues; Romain Veyrune and Shelton Nicholls (MCM) for contributions to the monetary policy and inflation analysis; Gregory Legoff (STA) and Fahd N'Diaye (AFW) for assistance on national accounts data and reconciliation; Patrick Petit, Pierre Kerjean, Yves de Santis, and Jan Loeprick (all FAD) for their inputs on mining revenue analysis; Nicolas Kacou (AFW) for assistance on government finance statistics; and Zamid Aligishiev and Giovanni Melina (all RES) for contributions to the analysis on diversification. The team met with Prime Minister Ibrahima Kassory Fofana, Minister of Economy and Finance Mamadi Camara, Central Bank Governor Lounceny Nabé, Minister of Budget Ismaël Dioubaté, Minister of Plan and Economic Development Kanny Diallo, Minister of Mining Adboulaye Magassouba, Minister of Public Works Kadiatou Emelie Diaby, Minister in charge of Investments and Public-Private Partnership Gabriel Curtis, Minister of Hydrocarbons Diakaria Koulibaly, and other senior officials, and representatives from the private sector, civil society and the development partner community. Ms. Delcambre provided assistance in the preparation of this report.

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