

## CONTEXT

### 1. **Notwithstanding large swings in commodity prices, periods of civil unrest and the COVID-19 pandemic, macroeconomic stability in Guinea was maintained over the last decade.**

Guinea successfully completed its first ECF-supported program in 2016, and its second one in December 2020. Performance under the 2017-2020 ECF arrangement was broadly satisfactory (Annex I). The authorities also implemented the key policy recommendations from the 2016 Article IV consultation (Annex II). Nonetheless, Guinea remains fragile, with weak social indicators and institutional capacity, and nearly 45 percent of the population live below the poverty line.

**2. The COVID-19 pandemic is Guinea's second major health shock in recent years, after the Ebola crisis in 2014-15.** The authorities' COVID-19 response plan helped reduce the number of cases by the end of 2020.<sup>1</sup> However, Guinea experienced a second wave of COVID-19 infections towards the end of the first quarter of 2021 (Figure 1). This trend has recently improved, partly thanks to the reinstatement of some health directives and restrictions on gatherings. Furthermore, a new Ebola outbreak was announced in mid-February 2021, though it was localized and remains under control. Vaccination campaigns have started for both COVID-19 and Ebola.

**3. Following a tumultuous 2020, the political and social situation has stabilized.** President Condé won a third term in October 2020, and vowed to govern differently, with priorities including the fight against corruption, support for the most vulnerable, diversification, domestic resource mobilization and job creation. However, social discontent among the opposition remains high.

## RECENT DEVELOPMENTS

### 4. **Guinea's growth reached 7.1 percent in 2020, driven by a booming mining sector.**

Bauxite production increased significantly, reflecting previous investments in the sector and continued strong demand from China. Domestic artisanal gold production increased by an estimated 120 percent, with gold prices reaching record levels.<sup>2</sup> Nonetheless, the COVID-19 shock weighed heavily on the non-mining economy, which accounts for over  $\frac{3}{4}$  of GDP and employs the vast majority of the population, and only grew by 1.3 percent (about one fourth of the 2019 growth rate).

**5. The COVID-19 shock triggered a spike in inflation, with prices rising by more than 10 percent.** Headline inflation reached 10.6 percent at end-2020 (average, y-o-y), and 12.4 in April (y-o-y), driven by increasing food prices (16 percent y-o-y in April 2021) and freight costs (transport prices had increased by more than 25 percent y-o-y in April 2020) associated with COVID-related

<sup>1</sup> See Annex I, Guinea's COVID-19 Response Plan, [Staff Report for the 5<sup>th</sup> and 6<sup>th</sup> Review](#).

<sup>2</sup> The authorities reported a five-fold spike in artisanal gold exports in 2020. A portion of the increase was attributed to border closures forcing domestic producers to channel more production through the formal sector. Another portion was attributed to the increased smuggling into Guinea from artisanal gold produced in neighboring countries, as Guinea was one of the few countries in the region to continue travel to the UAE, the main destination for gold exports. The authorities are aware of the need to collect better data on the artisanal sector.

supply disruptions—including the closure of land borders and mobility restrictions (Figure 2). Higher inflation also reflects the loosening of fiscal and monetary policies to respond to the pandemic. Indeed, base money grew by 19.2 percent y-o-y—higher than the 11 percent average for the last three pre-pandemic years—on account of a large increase in net credit to government. Base money growth peaked at 38.5 percent y-o-y in September, but moderated at end-2020, as the government rightly started repaying central bank advances and the BCRG engaged in sterilization operations. The gross stock of outstanding advances however remains high, at 1.8 percent of GDP (of which 1.2 percent were accumulated in 2020).

**6. The crisis deteriorated already weak social indicators.** Studies conducted after the onset of the COVID-19 crisis indicate that the crisis could reverse gains in poverty reduction achieved in recent years, with a significant impact on household and business income, particularly on the informal sector, arising both from income losses and the impact of inflation (Figure 5).<sup>3</sup> As the crisis hit vulnerable households harder, more than a third of the survey respondents reported experiencing hunger, and nearly 20 percent indicated difficulty in accessing health care.<sup>4</sup> Female-headed households stopped working at higher rates due to work closures and illness during COVID-19. All in all, poverty has likely increased by 4 percentage points as a result of COVID-19.<sup>5</sup> However, more than half of the respondents did receive government assistance during the pandemic, as a result of the swiftly-implemented response plan.

**7. The current account deficit increased to 13.7 percent of GDP in 2020.** Exports boomed on soaring bauxite and artisanal gold production, supported by favorable world commodity prices.<sup>6</sup> Digitalization—including the launch of a 4G wireless network—and shipping disruptions—with freight costs rising sharply to 10 percent on account of soaring shipping container rates—led to a spike in service imports.

**8. At 2.9 percent of GDP, the 2020 fiscal deficit reflects the implementation of the COVID-19 Response Plan and expenditure suppression to accommodate a large arrears repayment.** The plan to mitigate the impact of the pandemic was over-executed for the health and private sector support categories, whereas the social inclusion measures were delayed, and are continuing in 2021.<sup>7</sup> The implementation cost of the COVID-19 response was about 1.5 percent of GDP. Revenues performed worse than projected at the time of the last ECF-supported program review (by 0.9 percent of GDP)—as the pandemic hit the non-mining sector more strongly than anticipated—while grants were 1 percent of GDP lower as a result of delays in disbursements. The authorities canceled planned-but-unexecuted expenditures at the end of the year by about 2½ percent of GDP (mostly from subsidies and capital expenditure), while wages were 0.4 percent

<sup>3</sup> “Etude d’impact de la COVID-19 sur l’économie guinéenne”, Ministère de l’Economie et des Finances, 2020.

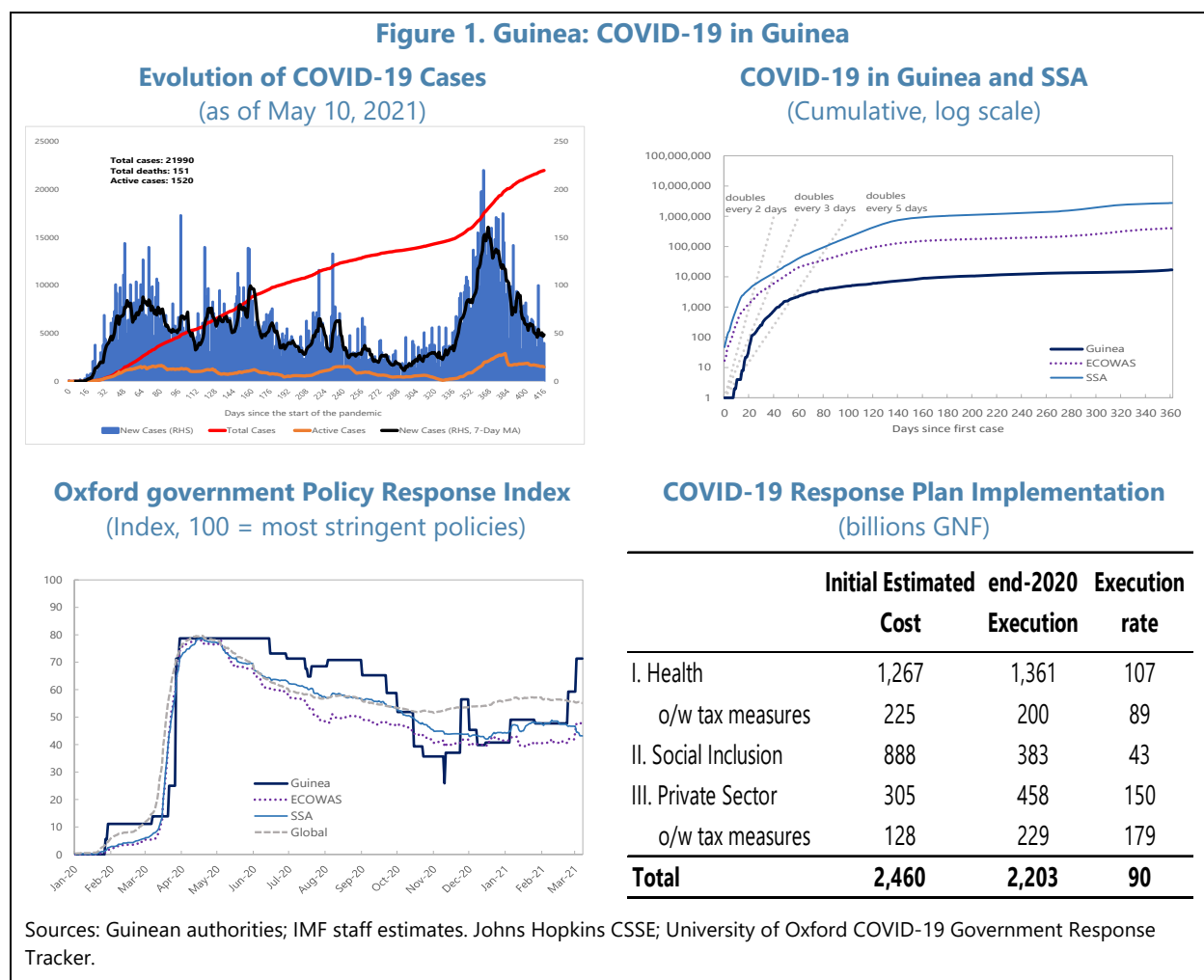
<sup>4</sup> “Enquête Rapide sur les Effets de la COVID-19, République de Guinée,” UNICEF, 2020.

<sup>5</sup> Guinea Poverty Assessment, World Bank 2021.

<sup>6</sup> See footnote 2.

<sup>7</sup> This was a consequence of delays meeting the conditions for effectiveness for the World Bank’s Social Cash transfers program, which have now been met.

higher than projected. As a result, the overall fiscal deficit was 0.7 percent of GDP lower than expected, and the basic deficit 1 percent of GDP lower than projected. The authorities mobilized about 2.9 percent of GDP in external financing<sup>8</sup>—including 1 percent from the IMF's RCF—and benefited from DSSI and CCRT grants<sup>9</sup>. This provided space for a large arrears repayment (1.7 percent of GDP), which was unexpected and contributed to support the private sector in the COVID-19 context. Net borrowing from the central bank increased by 0.9 percent of GDP, to a great extent to pre-finance the COVID-19 response while donor support was mobilized—besides the delays in grants, budget support loans were 0.4 percent of GDP lower than projected.<sup>10</sup>



<sup>8</sup> This excludes the Souapiti loan disbursement; see also footnote 3 of Tables 3a and 3b.

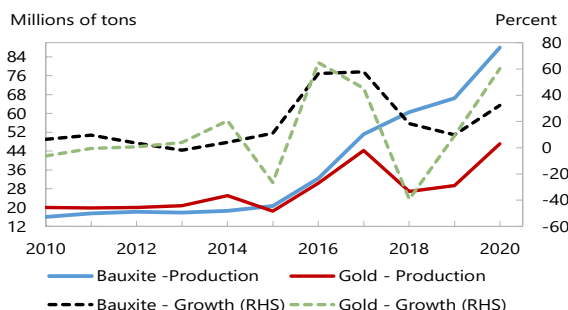
<sup>9</sup> The IMF also provided two disbursements under the ECF-supported program worth 0.3 percent of GDP, used to support the balance of payments position. On CCRT and DSSI, see table 3 in Debt Sustainability Analysis.

<sup>10</sup> The World Bank's Regional Energy DPO was delayed to 2021, and so was the Social Cash transfers' grant. Furthermore, two expected loans from AfDB and the Islamic Development Bank did not come through.

**Figure 2. Guinea: Real and Monetary Sector**

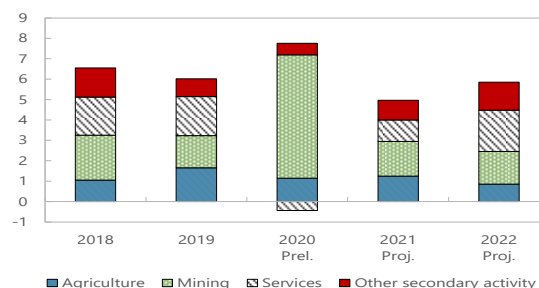
GDP growth was stronger than anticipated in 2020, as a result of booming mining sector growth...

### Mining Growth and Production (Millions of tons; percent change)



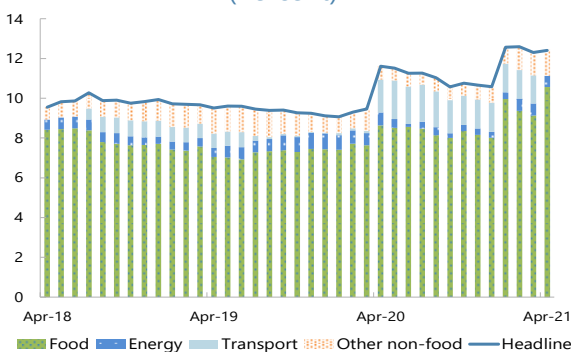
...although services and other non-mining secondary sector activities were heavily impacted by COVID-19.

### Mining and Non-Mining Activity (Growth rates)



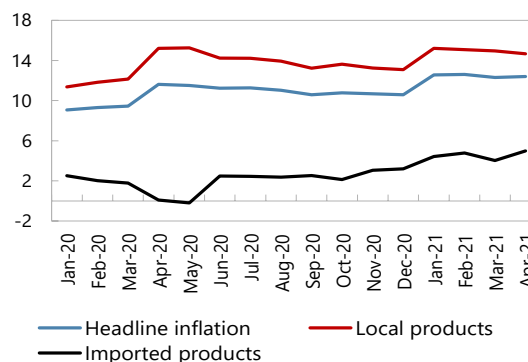
Headline inflation has risen driven mainly by increases in transport and food prices and an accommodative monetary policy stance

### Contributions to Inflation (Percent)



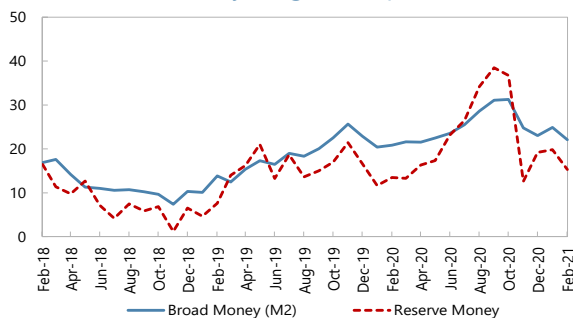
...impacting fundamentally local products' inflation.

### Inflation (Percent, Year-on-year)



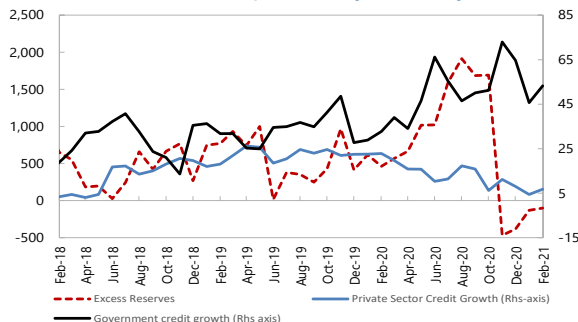
The acceleration in reserve money was contained as the BCRG issued sterilization bills and the government began repaying its advances.

### Broad Money and Reserve Money (Year-on-year growth, percent)



Heavy government borrowing drained the excess liquidity and crowded out private sector credit.

### Excess Reserves and Credit Growth (GNF billions, percent, year-on-year)



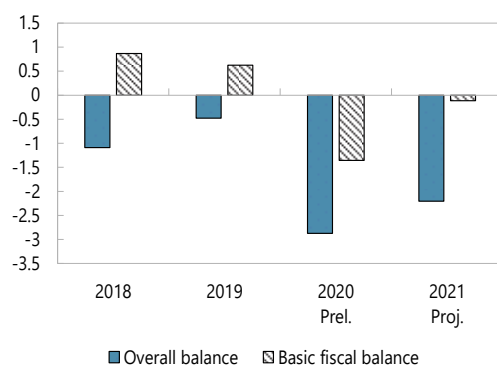
Sources: Guinean authorities; and IMF staff estimates.

**Figure 3. Guinea: Fiscal and Debt Indicators**

While the fiscal balances deteriorated in 2020 reflecting the impact of the COVID-19 response, an improvement is expected in 2021.

**Overall and Fiscal Balances**

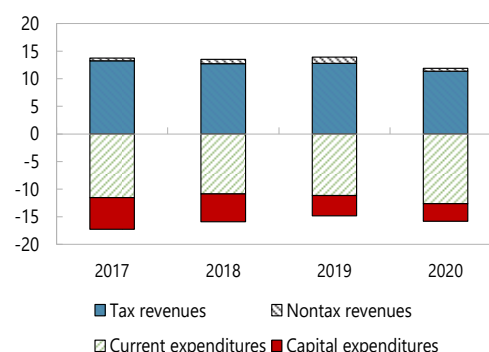
(Percent of GDP)



After steady revenues and declining expenditures for three years, the 2020 pandemic caused a drop in revenues and an uptick in spending.

**Revenue and Expenditures**

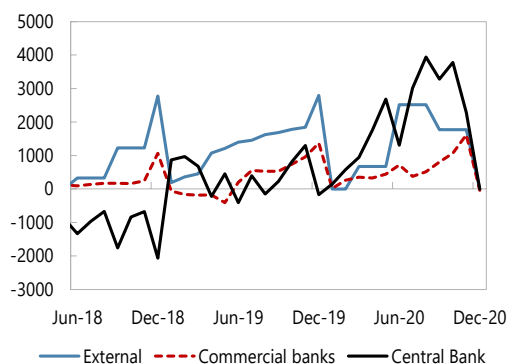
(Percent of GDP)



Government borrowing increased to finance the COVID-19 response.

**Net Government Borrowing (Excl. Recapitalization)**

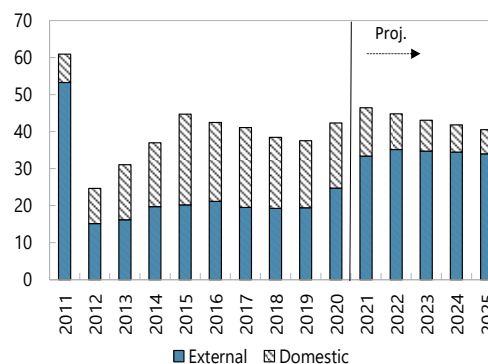
(GNF Billions)



The debt/GDP ratio has increased as the authorities implemented an ambitious public investment agenda and responded to the COVID-19 pandemic but is expected to decline steadily after 2021.

**Public and Publicly Guaranteed Debt**

(Percent of GDP)



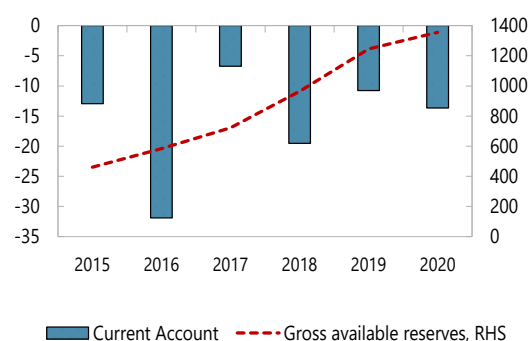
Sources: Guinean authorities; and IMF staff estimates.

**9. The accommodative monetary policy and prudential regulatory measures sustained the supply of credit to the economy.** Credit growth increased by 25 percent (y-o-y) at end-2020, though private sector credit growth was only 8 percent, reflecting crowding-out by government borrowing. Banks remain profitable and the return on equity continued its positive trend (Table 5). Nonetheless, the suspension of the NPL loan classification may mask the deterioration of bank portfolios due to the crisis. All banks were compliant with the share minimum capital adequacy requirement. Two small banks did not respect the net equity capital requirement. Since then, one of the banks has raised its capital and the other bank is under transfer of ownership.

**Figure 4. Guinea: External Sector Indicators**

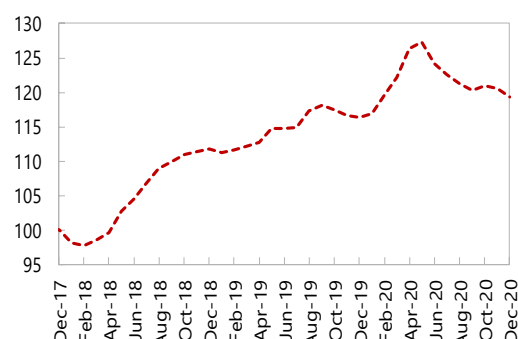
*The current account deficit has remained large in 2020, but strong financing has allowed for steady reserve accumulation.*

**Current Account and Reserves**  
(Percent of GDP; millions USD)



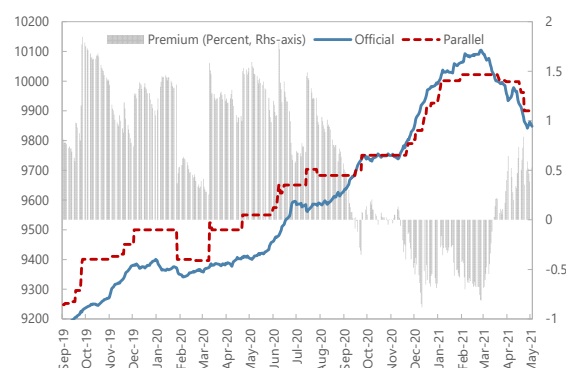
*The real effective exchange rate's appreciation trend has slowed.*

**Real Effective Exchange Rate**  
(Index, 2017 = 100)



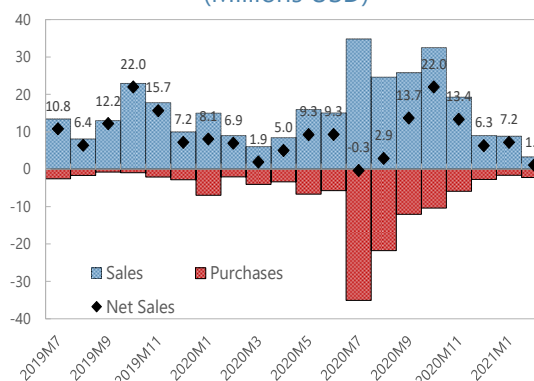
*The GNF has fluctuated more widely against the USD since the implementation of the rules-based FX intervention policy in November 2020...*

**Nominal Exchange Rate**  
(GNF/USD; percent)



*...and the BCRG's gross sales on the FX market have moderated.*

**BCRG Activity on the Foreign Exchange Market<sup>1</sup>**  
(Millions USD)



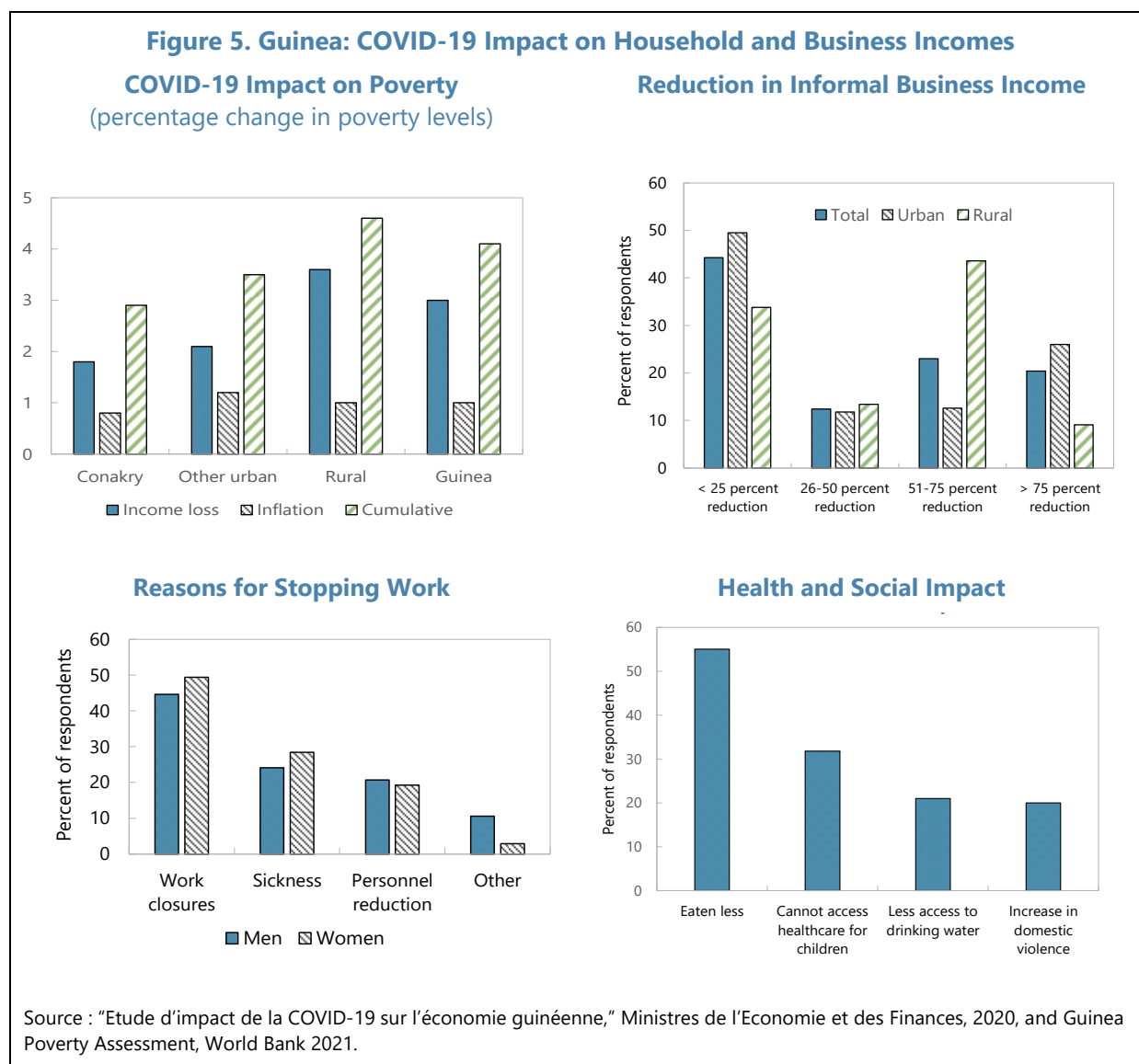
Sources: Guinean authorities; and IMF staff estimates.

<sup>1</sup> Aggregated to monthly frequency.

## OUTLOOK AND RISKS

**10. Growth is projected to remain robust in 2021, at 5.2 percent, as the mining sector continues to expand.** Several new bauxite mines are expected to come online, and the first quarter of 2021 recorded higher-than-usual artisanal gold exports. Growth in the non-mining sector is expected to recover gradually, reaching pre-pandemic levels only in 2022. Over the medium term, growth is projected to remain above 5 percent, as new mining investments materialize, in particular the Simandou iron ore project (Annex III). Inflation is expected to remain above the BCRG's single digit target throughout 2021, as supply disruptions and accommodative policies continue, returning

to single digits thereafter, as these factors unwind. The current account deficit is expected to shrink in 2021, but will remain elevated in the medium-term, financed by strong FDI.



**11. Risks remain tilted to the downside (Annex IV).** The most immediate risk remains an intensification of the COVID-19 pandemic. Commodity price shocks remain a significant vulnerability, given the rising concentration of growth in the mining sector. The materialization of a combination of these shocks could detract over 4 points from GDP growth (Annex V). 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 production could continue to increase faster than expected, and artisanal gold production remain elevated. Faster implementation of planned investment, particularly the Simandou project, would also provide a significant boost to growth.

**12. The authorities broadly concur with staff's outlook and risks.** They noted the subdued outlook for the non-mining sector this year, the increasing need to rein in inflation, and the importance of taking steps to mitigate a new COVID-19 wave. The authorities also agreed with the need to spur greater levels of diversification. They also emphasized the importance of the mining sector as a key source of growth, income, and public revenues.

**Text Table 1. Guinea: Selected Economic Indicators, 2018-26**  
(Percent of GDP, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	2024	2025	2026
		Est.				Projection			
						(Annual percentage changes)			
<b>Output and Inflation</b>									
Real GDP growth	6.4	5.6	7.1	5.2	6.1	5.9	5.5	5.3	5.3
Mining	14.0	9.4	34.6	7.7	7.1	6.3	6.3	6.2	6.3
Non-mining	4.9	4.9	1.3	4.5	5.8	5.7	5.3	5.0	5.0
Inflation (average)	9.8	9.5	10.6	11.6	9.9	8.0	7.8	7.8	7.8
						(Percent of GDP)			
<b>Central government finances</b>									
Overall balance, incl. grants	-1.1	-0.5	-2.9	-2.2	-2.9	-2.8	-2.8	-2.9	-2.8
Primary fiscal balance	-0.3	0.0	-2.2	-1.3	-1.8	-1.7	-1.7	-1.8	-1.7
<b>External sector</b>									
Current account balance (including official transfers)	-19.5	-10.8	-13.7	-9.3	-11.6	-12.5	-12.8	-9.5	-8.2
Current account balance (excluding official transfers)	-20.0	-11.0	-14.3	-10.0	-11.6	-12.5	-12.8	-9.5	-8.2
Overall balance	1.6	1.9	-0.9	0.6	1.1	1.4	1.3	1.4	1.4
Gross public debt	38.6	38.0	43.4	43.3	42.9	42.5	42.3	42.3	41.9

Sources: Guinean authorities; and Fund staff estimates and projections.

## POLICY DISCUSSIONS

Staff recommended policies to deal with the pandemic while supporting the recovery and minimizing scarring in the short run, followed by policies to foster diversification and inclusive and sustainable medium-term growth, including (i) scaling up public investment, (ii) addressing poor human capital, (iii) strengthening governance and (iv) improving the business climate and the financial sector. Creating fiscal space—through domestic resource mobilization, especially in the mining sector, and greater efficiency in spending—will contribute to providing the means for these investments, and together with continued mobilization of grants and concessional financing, preserve debt sustainability. Monetary policy should focus on single digit inflation and exchange rate flexibility to build reserves and mitigate the impact of shocks.

### A. Fiscal Policy

#### *Responding to the Pandemic*

**13. The key priority in 2021 remains to contain the pandemic by implementing the COVID-19 vaccine plan, while supporting the most vulnerable and the private sector to minimize scarring:**



- *Guinea is rolling out vaccination with a target of covering 20 percent of the population and has procured vaccines through the COVAX initiative and other suppliers.* The plan is to expand coverage in subsequent years. The Ebola outbreak also necessitated support to vaccinate affected areas and implement containment measures. Costs of the vaccination against COVID-19 and Ebola and of other Ebola containment measures could add about 0.6 percent of GDP to expenditures. (Text Table 2). Stronger government coordination between the health and the economic teams—including better sharing of data—is critical to enhance the planning and budgeting process for vaccination activities.
- *Guinea is also working on scaling up its COVID-19 response cash transfers program, expected to cover 120,000 households.* In addition, ANIES—the government agency that implements social protection programs—is collaborating with fintech companies to extend digital cash transfers to 20,000 households and procuring food for the WFP to distribute to 15,120 households.
- *The COVID-19 response plan measures to support the private sector ended in 2020.<sup>11</sup>* As a result, businesses who benefited from postponements in their utility bill payments were asked to repay them as a lumpsum, plus the current ones. Staff recommended preparing a gradual repayment plan. Furthermore, staff recommended that the SME loan Guarantee Fund—an important measure in the authorities' 2020 COVID-19 response plan—be operationalized as soon as possible. Work is still ongoing to finalize its statutes, select its Director General and obtain a license from the BCRG, with World Bank support. Additional targeted support measures should be considered if the pandemic is more protracted than expected.

**14. The basic balance in 2021 is expected to deteriorate by about ½ percent compared to previous projections to reflect vaccination and support costs, to -0.1 percent of GDP.**

The tax-to-GDP ratio from the non-mining sector is expected to be slightly lower than projected, reflecting the sector's more gradual-than-expected recovery. However, compared to 2020, the projected basic balance and the overall balance (-2.3 percent of GDP) represent a consolidation worth 1.2 and 0.7 percent of GDP, respectively, the latter driven in part by an expected increase in grants. The

**Text Table 2. Guinea: Health and Other Covid-19 Expenditures**  
(Percent of GDP)

	USD million	% of GDP
<b>Covid vaccination</b>	<b>79.5</b>	<b>0.48</b>
<i>Preparatory phase</i>	2.7	0.02
<i>Logistics</i>	24.9	0.15
<i>Operational costs</i>	52.0	0.31
<b>Covid cash transfers</b>	<b>22.2</b>	<b>0.13</b>
<b>Support to private sector</b>	<b>9.7</b>	<b>0.06</b>
<b>Ebola response</b>	<b>28.4</b>	<b>0.17</b>
<b>Total</b>	<b>139.8</b>	<b>0.85</b>

Sources: Guinean authorities; IMF staff estimates.

<sup>11</sup> Except for financial sector measures.

authorities are preparing a supplementary budget to reflect the needs and developments identified above.

**15. Higher-than-expected grants, debt service relief, and concessional borrowing will contribute to financing the revised 2021 financing needs, and to partially repay the outstanding advances to BCRG.** Staff recommended mobilizing grants and concessional financing to respond to the pandemic-related needs. If external support is not forthcoming, staff recommended rationalizing non-priority expenditure.<sup>12</sup> Furthermore, staff recommended that the Treasury repay about 60 percent of outstanding advances accumulated in 2020 (0.7 percent of GDP) to support the central bank in achieving its price stability objective in the context of high inflation and strengthen its independence.

### **Authorities' Views**

**16. The authorities acknowledged the need to speed up vaccination and continue supporting vulnerable households.** They are monitoring closely the evolution of the infections before deciding whether new private sector support measures are warranted. The authorities considered that the repayment of advances could be less ambitious in a pandemic year.

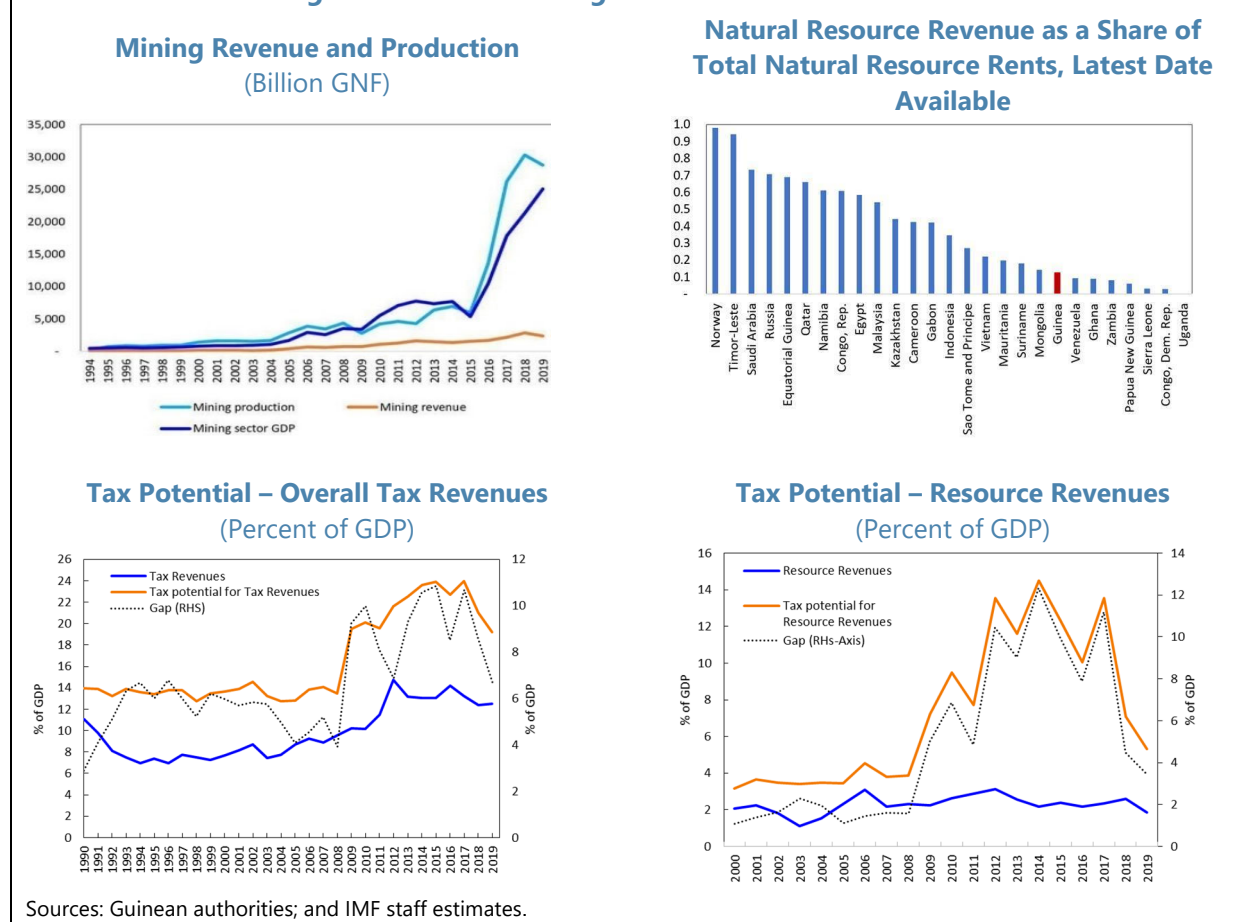
### **Enhancing Revenue Mobilization**

**17. Guinea's tax potential is estimated at an average of around 18 percent of GDP in 2000-2019, with a large gap at 7.3 percent of GDP** (Figure 6; Selected Issues Paper). It is therefore critical to reinvigorate the tax policy and tax administration reform measures, intensifying ongoing work on (i) digitalizing tax management, (ii) matching of tax and customs databases, (iii) fully operationalizing the new organizational structure of the Direction Nationale des Impôts (DNI), and (iv) adopting the revised General Tax Code in line with IMF TA.

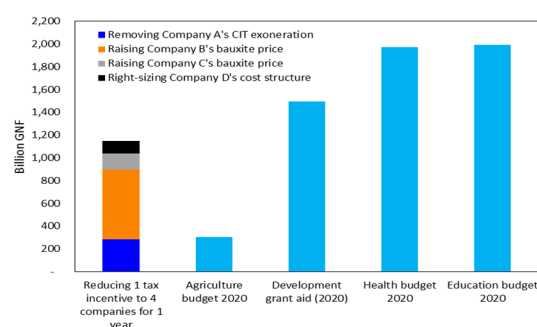
**18. Some recent revenue mobilization measures are welcome and should be complemented by mining sector revenue reform.** The recent implementation of the new DNI structure—with its headquarters organized along functional lines—is a positive step and needs to be followed with additional efforts to ensure its full operationalization and effectiveness. Furthermore, the authorities are working on eliminating tax exemptions that have not been approved by the National Assembly.<sup>13</sup> These reforms need to continue and be complemented with reforms in the mining sector; although some delays in generating taxes are not unusual in capital-intensive industries, Guinea's divergence between production and revenue has been significantly above peers (Figure 6; SIP).

<sup>12</sup> A prospective SDR allocation for Guinea, if and when it will be approved by the IMF's membership, could also contribute to addressing these financing needs.

<sup>13</sup> The measure is not expected to apply to a significant amount of companies, and it would exclude mining companies, as their exemptions are endorsed by the National Assembly.

**Figure 6. Guinea: Mining and Tax Potential in Guinea**

**19. The potential revenue gains from a hypothetical, very modest reduction in tax holidays for a few mining producers amounts to over half the total health budget.** Simulations show that the additional potential revenue gains from carrying out even modest reforms in this area—(i) removal of one mining producer’s corporate tax exemptions for one year, (ii) increasing bauxite prices of two companies over a year to the average level, as a first approximation of a move toward arms-length transfer pricing, and (iii) reducing unit costs of one company in line with a more standard treatment of interest deductibility—could be large: at 0.8 percent of GDP, this represents nearly 4 times the country’s agriculture budget, and more than half the health or education budgets (Figure 7; SIP).

**Figure 7. Guinea: Potential Revenue Gains from Selected Reforms**  
(Billion GNF)

Sources: Guinean authorities; and IMF staff estimates

**20. The application of the Mining Code and the reduction of profit shifting would be critical to enhance mining sector revenue.** New contracts should be governed by the Mining Code, and tax exemptions and exonerations remain limited to those provided under the Code. To ensure that transfer pricing fully reflects competitive prices, Guinea should consider the establishment of a mechanism to regulate bauxite transfer prices as soon as possible. The authorities are working with the IMF and other TA providers in this area. In the meantime, Guinea could strengthen audits for companies selling bauxite at low prices without justification. Finally, Guinea should consider reinstituting a small tax on artisanal gold. Staff recommended undertaking a survey of artisanal gold producers and intermediaries to strengthen the understanding of the sector and be able to better weigh the pros and cons of the reintroduction of the tax.

### **Authorities' Views**

**21. The authorities agree with the need to strengthen revenue mobilization.** Their aim is to double domestic revenues by 2023, and performance contracts to this effect have been signed. The authorities will conduct tax audits of the mining, telecom, and banking sectors, with the support of the African Development Bank (AfDB). The authorities agree that the Mining Code should be respected and are building capacity on transfer pricing issues. Some Ministers however believe that providing a more attractive fiscal environment than the one reflected in the Mining Code is still necessary to attract investment and maximize production, given Guinea's perceived disadvantage compared to key competitors in bauxite in terms of infrastructure availability and proximity to the key export destination. The authorities agreed to conduct a study on artisanal gold and explained that the abolition of the artisanal gold tax in 2017 had been useful, leading to some formalization of the sector, and providing a useful reserve inflow.

### **Energy Sector Issues**

**22. The multi-year electricity sector reform—to gradually bring tariffs to cost-recovery levels—should resume following the abatement of the pandemic's effects.** Progress on eliminating regressive and inefficient electricity subsidies was halted in 2020 due to COVID-19. The authorities are working on the continuation of the process, with World Bank support, though timing is still unclear. Staff recommended that the reform moves ahead as soon as it is feasible given the ongoing impact of the pandemic. The process should be accompanied by an increase in social protection and an adequate communications campaign.

**23. Furthermore, fuel prices have also been subsidized in recent months.** Guinea reduced fuel prices in June 2020 to reflect the sharp decline of international oil prices. The subsequent rapid recovery in global oil prices, compounded by an appreciation of the US dollar, was not accompanied by an increase in domestic fuel prices, as the authorities decided to temporarily shield consumers, leading to the introduction of a subsidy since March. The authorities plan to increase prices to eliminate the subsidy soon. In the medium term, the implementation of an automatic fuel price adjustment mechanism would have a smoothing effect on retail fuel prices and enhance revenue predictability (Annex VI).

### ***Strengthening Social Protection***

**24. The recent increase in social protection spending should not be just a temporary, crisis-related measure.** Permanently strengthening social protection would build resilience and contribute to reducing poverty. Furthermore, social safety nets can provide positive incentives—for children to attend school by providing school meals, for example—and as a result strengthen human capital and increase productivity, while stimulating local economies. ANIES is building capacity and working in close collaboration with the World Bank. Such cooperation will be fundamental to continue upgrading operational, technical, and institutional capacity to scale-up social protection. Staff recommended that the savings from energy reform be used to strengthen social protection.

### ***Investing in Human Capital and Improving its Efficiency***

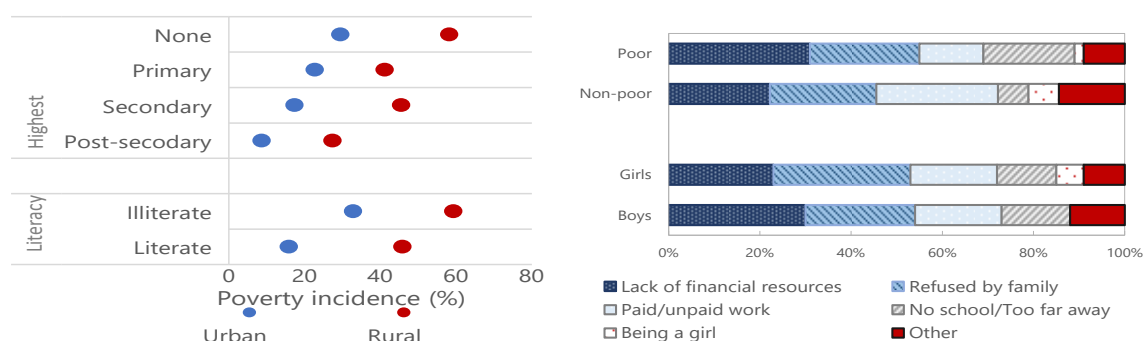
**25. Investing in human capital to address the significant needs would contribute to more inclusive, sustainable growth (Figure 8).** Guinea ranks 159 out of 173 countries in terms of life expectancy (60.7 years). It has one of the lowest adult literacy rates in the world, with a large gender gap. Furthermore, just 16 percent of adults have completed a secondary education and roughly half of rural children age 6–14 are reportedly employed.<sup>14</sup> Lack of financial means prevents children from attending school. Access to health services remains a challenge. Weak health and educational outcomes hinder sustained poverty reduction and show that Guinea’s labor force lacks skills to meet the technical competencies required by the private sector. Furthermore, the impact of the pandemic is likely to derail advances made in education and health.

**26. Higher and more efficient spending is required to provide equitable, high-quality education and health services, particularly at the primary level and in rural areas.** Total education expenditure (about 3 percent of GDP) falls below peer countries (Figure 9). Spending is further weakened because of inefficiencies and poor targeting in program design and execution in both health and education. Furthermore, Guinea currently channels significant resources toward the tertiary education level, benefiting richer households.<sup>15</sup> Therefore, the authorities should boost and reorient education spending to the primary, secondary, and vocational subsectors. Such a shift would require additional expenditure to expand classroom access, match curricula with labor market needs, and introduce targeted support to lower costs for poor and rural households.

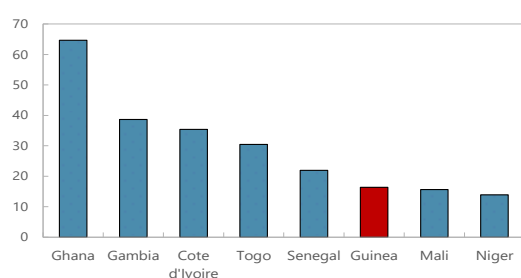
<sup>14</sup> World Development Indicators, 2020.

<sup>15</sup> Roughly 1/3 of the education budget is spent on tertiary education, which serves just 8 percent of the total student body in Guinea (World Bank, Republic of Guinea Public Expenditure Review Volume I: Education, 2015).

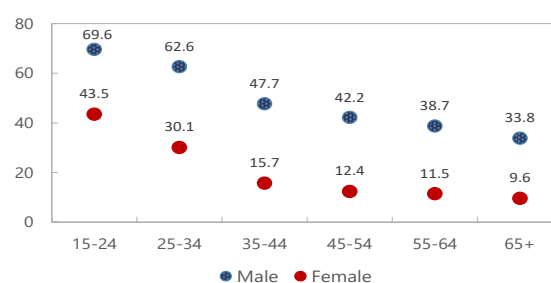
**Figure 8. Guinea: Human Capital and Social Economic Indicators**  
**Poverty Incidence by Educational Attainment and Literacy of Household Head**  
**Reasons for Having Never Attended a Formal School**  
 (Percent Share of Population)



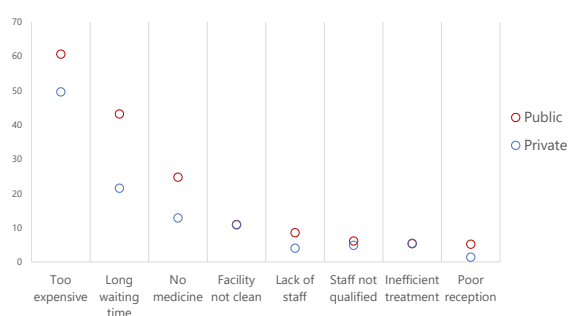
**Adult Completion of at Least Primary Education**  
 (Population 25+ years, percent of total)



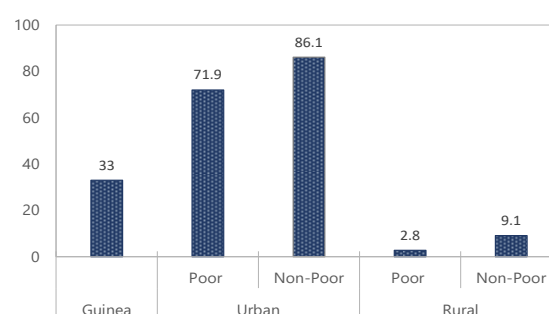
**Literacy rates by gender and age group**  
 (Percent)



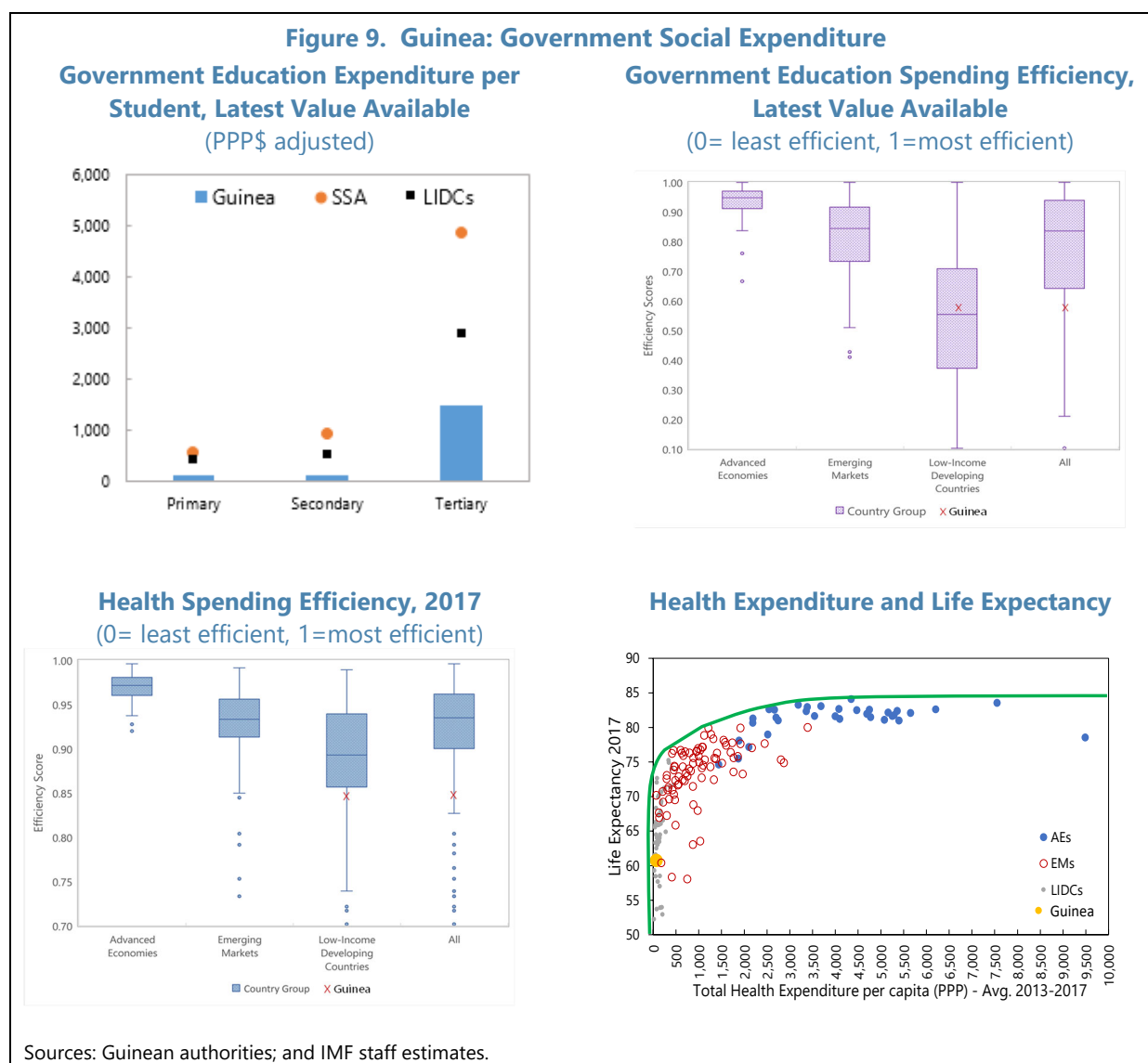
**Problems Reported at Public and Private Health Facilities**  
 (% Share of Population who visited health facilities)



**Access to Electricity by Welfare Status**



Source: World Bank 2021 Guinea Poverty Assessment.



### Improving PIM and PFM

**27. Public investment management (PIM) and public financial management (PFM) have improved in recent years, though critical shortcomings remain.** Guinea lags other LIDCs in the effectiveness of PIM (Figure 10). Furthermore, budget execution on infrastructure was systematically under-executed during the ECF-supported program (Annex I). Staff encouraged the authorities to finalize the PIM Manual, which was prepared with IMF TA support and has been in preparation since 2018, and promptly adopt it, and recommends as a complementary step that a decree be adopted clarifying the roles and responsibilities of all actors in the three phases (planning, allocation, and execution) of PIM.

**28. Work needs to continue to further strengthen PFM.** The authorities are implementing their PFM strategy and action plan (PREFIP) 2019-2022. Progress was made by introducing a Treasury Single Account (TSA), and its coverage—currently at 60 percent of autonomous public

entities—needs to be expanded. Progress is needed on improving data sharing and reconciliation between the Treasury, the Budget, the Debt departments and the BCRG—as illustrated by some difficulties with the timely reconciliation of the 2020 budget execution—and so is strengthening cash management—preventing and dealing with arrears—and budget preparation and execution. Forthcoming IMF TA in these areas will be critical to strengthen transparency and reporting timeliness.

### ***The Medium-Term and Debt Sustainability***

**29. The infrastructure investment scale-up will continue in the medium-term, financed to a great extent by improved domestic revenue mobilization.** The primary and overall deficit are projected to improve by 0.1 percent of GDP from 2022 to 2026. Revenues provide additional resources (growing by 1.5 percent of GDP from 2022 to 2026) that support expenditure expansion by 0.9 percent of GDP, most of which is public investment, which benefits from planned improvements in PIM. The projected deterioration of grants by 0.5 percent of GDP is an outgrowth of the more conservative assumption that includes in the medium-term only grants that are already firmly committed.

**30. Fiscal policy must be calibrated to preserve debt sustainability, supported by a prudent borrowing strategy.** Public debt rose sharply to 43.4 percent of GDP in 2020 reflecting additional borrowing to meet urgent fiscal needs related to the pandemic, and the first disbursement for the Souapiti hydropower project, which was received at the end of the year. However, a stronger fiscal balance, strong growth, and increased reliance on concessional financing are expected to set public debt on a firmly declining path starting in 2021, with Guinea remaining at moderate risk of overall and external debt distress<sup>16</sup>. Staff encouraged the authorities to continue improving debt management practices through regular issuance of Treasury instruments in the domestic market. It also emphasized the need to maintain a realistic envelope for externally-financed public investment projects that will maintain a moderate risk of debt distress. Such envelope remains ambitious, but it is more moderate than what was envisaged before the pandemic. With assistance from the World Bank, work is ongoing to broaden the perimeter of public debt reporting to include state-owned enterprises.

### **Authorities' Views**

**31. The authorities agree with the need to strengthen social protection, enhance investment in human capital and continue strengthening PIM and PFM.** They are also committed to pursuing the reforms to eliminate subsidies. On the DSA, they expressed their commitment to preserving a moderate risk of debt distress, while underscoring the need to finance substantial public investment to meet Guinea's development needs. They expressed a somewhat more benign view of risks associated with loans for large infrastructure projects, since these are to be serviced by SPVs using operational revenues.

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<sup>16</sup> See Debt Sustainability Analysis.



## B. Monetary, External Sector and Exchange Rate Policy

**32. The repayment of the advances should help reduce the monetary base and thus alleviate inflationary pressures.** Staff welcomes the corrective measures taken at end-2020 to reduce advances, that together with the sterilization issuances contributed to reducing base money growth by about half. Staff recommends the continuation of the repayment process with at least 0.7 percent of GDP in 2021 (¶15). Bringing the stock of advances to zero over the medium term will also increase the financial autonomy of the central bank. Staff welcomes the Monetary Policy Committee's (MPC) March 2021 decision to maintain its modestly accommodative policy stance to support the economic recovery,<sup>17</sup> and discussed ways to strengthen the monetary policy framework to ensure that inflation returns to the BCRG's single-digit target (Annex XII).

**33. Strengthening monetary policy transmission will pave the way for the migration towards an interest rate-based targeting framework.** The recent operationalization of the MPC complements the reforms to strengthen the framework. Although all the elements of the framework are in place, there is a need for active liquidity management—despite BCRG concerns about the cost of monetary policy and its impact on their balance sheet. As a result, monetary conditions are oftentimes determined by the Treasury's financing needs, which are not systematically sterilized and therefore influence the monetary base. In addition, the high unremunerated reserve requirement (16 percent) overly restricts commercial banks' ability to lend and acts as a tax on financial intermediation.<sup>18</sup>

**34. Active liquidity management will improve the effectiveness of monetary policy.** Staff recommended more frequent recourse to open market operations allocated at fixed rate (the policy rate) and full allotment, coupled with a reduction of the reserve requirement ratio to internationally comparable levels, to reduce the cost of financial intermediation and free up resources.<sup>19</sup> Staff also recommended ensuring that interest payments from the 2018 recapitalization contribute to strengthening the central bank's capital position, to alleviate concerns about the costs of the monetary policy operations.<sup>20</sup> Staff also advised the Treasury to avoid seeking advances from BCRG to finance the budget, and abide by the relevant legal provisions to repay new advances within 92 days and remunerate outstanding advances.

**35. The real exchange rate continued to appreciate in 2021 despite the BCRG's more flexible exchange rate policy.** Since November 2020, the BCRG has consistently implemented a rules-based FX intervention policy, with the auctions conditioned on the volatility of the market

<sup>17</sup> <https://www.bcr-guinee.org/reunion-ordinaire-du-comite-de-politique-monetaire-de-la-bcr-g-du-31-mars-2021/>

<sup>18</sup> Banks tend to increase their intermediation margin between lending and deposit rates to maintain stable profit margins. As at end-2020, the spread between banks average deposit and lending rate was close to 16 percent.

<sup>19</sup> Guinea's reserve requirement is high; a 2010 IMF survey found that reserve requirements were below 16 percent for 82 percent of low-income countries, and below 5 percent for 40 percent of SSA countries (IMF Working Paper 11/36).

<sup>20</sup> The 2018 recapitalization was carried through the issuance of non-marketable government securities. Accrued interests are covered with new securities issuances.

exchange rate. This policy has increased the transparency and coherence of the BCRG's foreign exchange operations and has been well received by commercial banks. The premium offered by the parallel exchange rate market—which approached 2 percent in 2019–2020—has been significantly reduced. Notwithstanding this increased flexibility, high inflation has led to continued real appreciation of the Guinean franc.

**36. The external position at end-2020 was weaker than the level implied by fundamentals and desirable policies.** The BCRG has consistently accumulated reserves over the course of the recent ECF arrangement, reaching US \$1,355m at end-2020. This level corresponds to 2.2 months of prospective imports,<sup>21</sup> and according to the model, is assessed to be broadly adequate for precautionary purposes (Annex VII). However, Guinea's dependence on commodity exports—which make up over 90 percent of total exports—leaves the country vulnerable to global price shocks, and therefore staff recommends pursuing a gradual accumulation of reserves to reach at least 3 months of reserve coverage. Therefore, reserves are expected to continue rising at a moderate pace—with strong exports compensated by high imports and income outflows—reaching 3.0 months of prospective imports in 2026. To reduce the current account deficit, inflation must be reduced over the medium term to support the gradual realignment of the real exchange rate and improve the competitiveness of the non-mining sector.

### Authorities' Views

**37. The authorities broadly agree with staff's recommendations.** They consider that the current inflation spike is fundamentally an imported inflation phenomenon. They agree with most suggestions to strengthen the monetary policy framework. The authorities also broadly agreed with the staff's assessment of the external position and expressed satisfaction with the implementation of the rule-based FX intervention policy.

## C. Financial Sector

**38. Progress in implementing the 2019 Financial Sector Stability Review recommendations is slow (Annex VIII).** Moving ahead with FSSR recommendations—in particular those regarding financial safety nets and contingency planning—will help to strengthen the financial sector stability framework while supporting the unwinding of COVID-19 measures. Staff encourages the authorities to avail themselves of FSSR follow-up TA in these areas. Staff also advised that the extraordinary support measures be removed as the pandemic subsides, restoring the prudential framework by requiring banks to reclassify NPLs and to provision so as to fully reflect true asset quality. In the meantime, the BCRG should intensify its supervisory monitoring and take appropriate action if required, and encourage banks to conduct viability assessments to screen unviable and insolvent debtors and take prompt recovery action. Phasing-in arrangements can be considered to avoid a sudden and abrupt increase in NPLs and provisioning. Increasing the resources assigned to banking

<sup>21</sup> The denominator excludes imports of artisanal gold from neighboring countries that are destined for export. In previous engagements, staff reports have cited the reserve coverage ratio netting out imports of capital goods.

supervision is critical. Staff continues to advise the BCRG to divest its stake in the development bank in order to limit its financial and reputational risks.

**39. Staff looks forward to the adoption of the 2020-23 National Strategy for Financial Inclusion (NSFI) with the support of the World Bank and the ongoing work to strengthen consumer protection.** The NSFI considers the development of mobile money services, and it is expected to improve access to finance for SMEs, the youth, and women.

**40. The recent promulgation of the AML/CFT law represents a positive step forward.** Next steps include swiftly developing implementing regulations, strengthening the operational independence of the financial intelligence unit, and prioritizing measures to identify and deter corruption. The authorities should complete an AML/CFT strategy to strengthen national cooperation and the risk-sensitive allocation of resources. Staff will continue to support the authorities in their transition to a risk-based approach to AML/CFT supervision under the purview of BCRG.

**41. The authorities broadly agree with staff's views.** They believe some prudential measures could be reestablished—including the liquidity coverage ratio and the net open position in foreign exchange. They noted that banks are extending moratoria on loan payments on a case-by-case basis and some banks have resumed provisioning NPLs. Work to develop the AML/CFT regulations is under preparation and will count on IMF support.

## **D. Diversification and Creating a Stable, Transparent Business Environment**

**42. Guinea should leverage the current mining boom and build on the country's richness in natural endowments—including agriculture and hydropower—to diversify its economy (Annex V).** Recent gains in the mining sector have underpinned strong overall growth, and the mining sector is expected to remain the driving force of the economy. Nonetheless, concentration in the sector increases vulnerability to exogenous shocks, and the sector is capital intense, thus not generating much employment.<sup>22</sup> Leveraging linkages between mining and the rest of the economy and developing agri-business would contribute to a more diversified, inclusive growth model. Mining companies are also exploring moving up the value chain through alumina production, which is already underway on a small scale.

**43. To promote greater diversification, policies should focus on increasing returns to private non-mining investment.** Besides the need to enhance public investment in both infrastructure and human capital, the establishment of a transparent, stable, and conducive business environment, with affordable access to finance, remains a key priority to attract private investment. Some targeted government interventions could also help; for example measures to strengthen access to high-yielding agricultural inputs, better integrating agricultural value chains—which could benefit from mining infrastructure—and enhancing agricultural extension and advisory services

<sup>22</sup> The mining sector accounts for just 6 percent of total employment.

could bolster the contribution of the sector—central given that it employs more than half of the population. Research conducted using the DIGNAR-19 model illustrates the potential benefits from reorienting growth towards a more labor-intensive, diversified model (Annex V).

### ***Strengthening the Business Climate***

**44. Guinea has made progress in improving the business climate.** The commercial court has been operationalized, the public-private dialogue strengthened, and a one-stop shop for business registration has been established. The authorities are establishing a digital portal for foreign trade and have made progress in migrating the credit information system into a credit bureau. Furthermore, the Guinean authorities have made digitalization a strategic priority to support private sector growth (Annex IX). However, more work is needed to operationalize the one-stop-shop for land registration, currently a key constraint to doing business. In addition, continuing to invest in critical infrastructure, such as electricity and transport networks, would help address bottlenecks and support private sector development.

### ***Strengthening Governance***

**45. The authorities have been broadly implementing their RCF governance commitments.** COVID-related public procurement contracts have been published in full.<sup>23</sup> The authorities also published information on the legal ownership of awarded entities. Monthly COVID-19 spending reports are published online. Work on the ex-post audit of COVID-19 procurement is underway, and the authorities plan to accelerate the process to meet the end-June deadline. Staff encouraged the authorities to consider requiring, through procurement regulation, the collection and publication of beneficial ownership information of awarded companies and expanding the above-mentioned transparency measures beyond COVID-related spending. Furthermore, staff recommend that the authorities require legal entities that were awarded procurement contracts to disclose information on their beneficial ownership<sup>24</sup>, and to publish it in a regular and searchable manner.

**46. Guinea made good progress in upgrading its anti-corruption legal and institutional framework, though its overall effectiveness requires significant strengthening** (Annex X). Furthermore, Guinea should operationalize its asset declaration framework as soon as possible. The framework that had been established under the ECF-supported program was recently repealed and replaced with a broadly similar regime, but this process delayed the regime's implementation. Corruption risks would also be lessened by reforms to limit discretion in mining contracts (§19), digitalize tax administration to reduce face-to-face contacts (§17), strengthen PIM and PFM (§27-28), enhance AML/CFT supervision (§40), and digitalize and simplify regulatory procedures (§44).

<sup>23</sup> <https://mef.gov.gn/>

<sup>24</sup> As defined under Guinea's AML/CFT law.

## Authorities' Views

**47. The authorities explained they are in the process of preparing their second 5-year national development plan (PNDES II) which will prioritize diversification, digitalization, and good governance.** Since its preparation was impacted by the COVID-19 pandemic, the authorities prepared a National Strategy for the Fight against COVID-19 (SNLC) 2020-2022.<sup>25</sup> In addition, they emphasized the importance of the mining sector as a catalyst for growth in other sectors, which benefit from local content sourcing and mining infrastructure. The authorities highlighted planned investment in the mining sector to produce higher value-added products. The authorities also believe in the key role for the agricultural sector, and the need to diversify exports away from mining.

## E. Other Issues

**48. Data provision is broadly adequate for surveillance, but gaps exist.** The authorities continue to improve statistics, with support from the IMF. Staff welcomes the recent completion of the 2018-19 National Household Living Standards Survey and urges the authorities to improve the recording of government finance statistics. National accounts are being rebased to use 2018 as a base year.

**49. As a pilot country under the IMF Capacity Building Framework for fragile countries, Guinea is an intense user of Fund technical assistance.** IMF TA during the 2017-2020 ECF arrangement was targeted to support the authorities towards achieving program objectives and strengthening institutional capacity (Annex XI).

**50. The authorities have started implementing recommendations from the 2021 safeguards assessment.** The main areas for improvement noted in the assessment include the need to respect the limits in the law on monetary financing, timeliness of IFRS financial statements, and management of dormant accounts. The increase in monetary financing breached statutory limits and as noted in paragraph 32, the government has committed to issue securities with proceeds to be used to bring outstanding amounts back in compliance. The BCRG has blocked all accounts considered dormant and is establishing an ad hoc review committee with a view to closing them. IFRS financial statements for 2020 are being prepared. Staff encourages the BCRG to move ahead with the remaining recommendations, notably strengthening reserves management, Audit Committee oversight, the internal audit function, and advancing the review of its currency operations by a peer institution.

<sup>25</sup> <http://www.mplan.gov.gn/wp-content/uploads/2021/04/Strategie-Nationale-de-Lutte-contre-la-Covid-SNLC-version-de%CC%81finitive.pdf>

## STAFF APPRAISAL

**51. Guinea's growth remains resilient on the back of a booming mining sector, but continued support to the non-mining sector and vaccine rollout will be critical.** Given the protracted effects of the pandemic and the delays in the implementation of some response measures, it is important to maintain support to vulnerable households and targeted support to the private sector. Furthermore, the widespread rollout of vaccines is a key priority. Staff recommended to mobilize grants and concessional borrowing to the greatest possible extent to finance these needs. Given the recent spike in inflation, repayment of outstanding central bank advances should continue.

**52. Further modernizing the monetary policy framework will contribute to price stability and external rebalancing.** More active liquidity management and clearer communication of monetary targets will lay the ground for reducing inflation while sustaining the provision of private sector credit. The external position of Guinea during 2020 was weaker than the level implied by fundamentals and desirable policies. Reducing inflation and the continued implementation of the rules-based foreign exchange intervention policy will contribute to correcting the real overvaluation and facilitate structural transformation and diversification.

**53. Transforming abundant mining wealth into revenue to respond to the many development needs remains Guinea's most pressing challenge.** The authorities' ambitious approach to strengthening domestic revenue mobilization is welcome. Addressing transfer mispricing as soon as possible, fully applying the Mining Code to new contracts, keeping tax exemptions and exonerations to a minimum, and a prompt adoption of the General Tax Code—along the lines discussed during IMF TA—are essential to ensure that Guinea gets its fair share of its natural resource wealth. The authorities' decision to conduct an audit of mining companies is welcome—though it should not lead to a delay to act. The current crisis environment—together with booming mining production—could provide a favorable environment to improve policies in this area, fully respecting all agreed commitments.

**54. Social safety nets need to be strengthened—not just as a crisis response measure, but as a permanent feature.** Devoting more resources to this area, in part through savings arising from the electricity sector reform, will enhance resilience, reduce poverty, and improve living standards and productivity, laying the ground for more inclusive growth. Down the road, an automatic fuel price mechanism should be introduced.

**55. Investing in human capital is a key development priority.** Both higher and more efficient health and education investments are needed to improve productivity, growth prospects and living standards. Tilting investment towards primary and secondary education and vocational training is essential.

**56. Progress to strengthen PFM needs to continue.** Extending the scope of the TSA and improving budget planning, execution and reporting through better coordination between the

Budget, the Treasury, the Debt departments and the central bank are essential to ensure accurate, transparent and timely reporting.

**57. The authorities should continue to be mindful of absorption capacity and debt sustainability considerations when implementing their investment plans.** Staff encourages the authorities to promptly finalize and adopt the PIM Manual, complemented by a decree that specifies the key roles and responsibilities of all actors along the three phases of PIM. The authorities are also encouraged to maintain their current prudent external borrowing policies, maximizing the recourse to concessional financing, to ensure debt remains at moderate risk of distress.

**58. Guinea's key development challenge is to leverage the growth of the booming mining sector and diversify its economy.** There is potential to leverage linkages between mining and the rest of the economy. The mining sector can also move up in the value chain, towards refining of alumina. Furthermore, with support to agriculture, agri-business has the potential to become a key engine for sustainable growth.

**59. Improving the business climate, strengthening the financial sector, and stepping up governance are essential requirements for sustainable, inclusive, private-sector-led growth.** The strengthening of the anti-corruption framework and the operationalization of the asset declaration regime are key priorities.

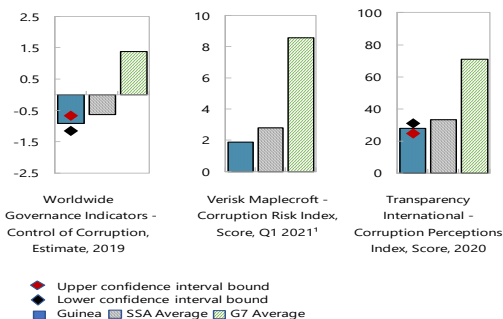
**60. Staff recommends that the next Article IV consultation with Guinea be held on the standard 12-month cycle.**

## Figure 10. Guinea: Key Constraints to Growth and Development

Governance indicators remain weak and corruption indicators are below the SSA average.

With a score of 46 out of 100 on the GCI, more needs to be done to improve competitiveness

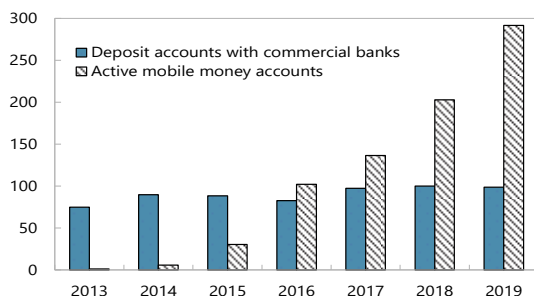
### Worldwide Governance Indicators, 2019



<sup>1</sup> Confidence intervals are not available for the Verisk Maplecroft's Corruption Risk Index.

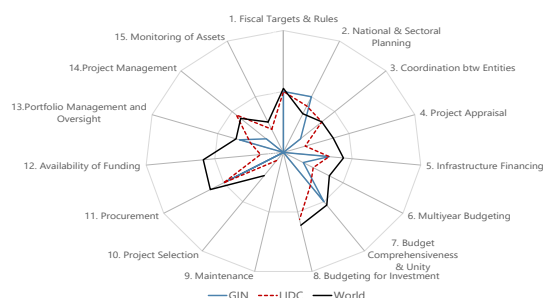
Access to finance remains low, though mobile money access is expanding rapidly.

### Deposit and Mobile Money Accounts (Per 1,000 adults)

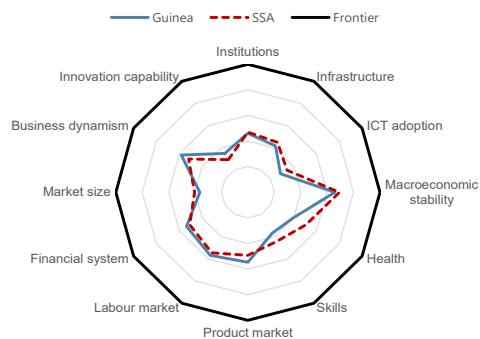


in most areas...

### PIM Effectiveness

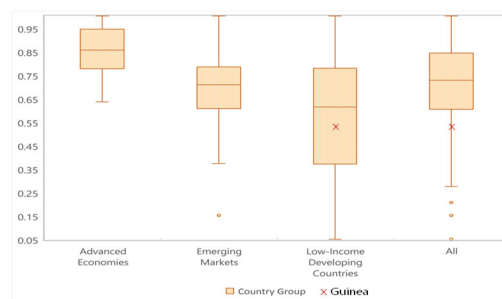


### Global Competitiveness Index, 2019



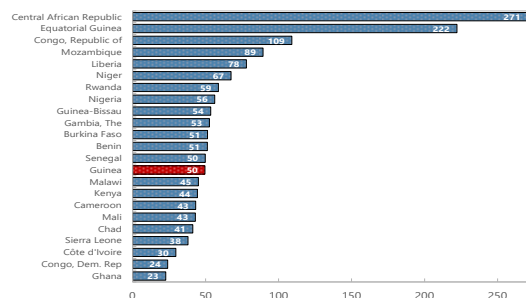
The effectiveness of PIM lags peers...

### Infrastructure Efficiency, 2000-19 Average (0= least efficient, 1=most efficient)



...while the public capital stock remains low.

### Public Capital Stock, 2019 (Percent of GDP)



Sources: World Development Indicators; World Governance Indicators; PIMA, and IMF Staff estimates.



Table 1. Guinea: Key Economic and Financial Indicators, 2018–26

	2018	2019	2020		2021		2022	2023	2024	2025	2026
	Act.	Act.	5th & 6th Review	Prel.	5th & 6th Review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Annual percentage change, unless otherwise indicated											
National accounts and prices											
GDP at constant prices	6.4	5.6	5.2	7.1	5.5	5.2	6.1	5.9	5.5	5.3	5.3
Mining	14.0	9.4	18.4	34.6	7.6	7.7	7.1	6.3	6.3	6.2	6.3
Non-mining	4.9	4.9	2.4	1.3	5.0	4.5	5.8	5.7	5.3	5.0	5.0
GDP deflator	7.1	9.9	9.9	10.7	8.0	11.3	9.7	8.2	7.7	7.8	7.8
GDP at market prices	13.9	16.2	15.7	18.6	14.0	17.0	16.4	14.5	13.7	13.5	13.5
Consumer prices (average)											
Average	9.8	9.5	10.2	10.6	8.0	11.6	9.9	8.0	7.8	7.8	7.8
End of period	9.9	9.1	9.6	10.6	8.0	11.3	9.9	8.0	7.8	7.8	7.8
External sector											
Exports, f.o.b. (US\$ terms)	-2.3	-0.8	22.1	126.4	5.9	0.6	-9.8	4.9	7.6	6.1	7.3
Imports, f.o.b. (US\$ terms)	28.0	-21.1	9.7	76.0	8.1	-4.7	-16.4	6.1	8.8	2.3	3.2
Average effective exchange rate (depreciation -)											
Nominal index	0.2	2.4	...	-2.4	...	...	...	...	...	...	...
Real index	7.2	9.3	...	5.9	...	...	...	...	...	...	...
Money and credit											
Net foreign assets <sup>1</sup>	7.4	10.5	-2.2	8.6	2.4	7.9	10.8	8.9	8.6	9.4	8.5
Net domestic assets <sup>1</sup>	2.9	12.4	15.8	15.3	12.6	5.1	7.0	5.6	4.9	5.7	4.7
Net claims on government <sup>1</sup>	11.5	4.0	9.5	18.3	8.0	0.6	3.2	1.6	0.8	0.3	0.5
Net claims on government <sup>1</sup> , excl. recapitalization	-3.9	4.0	8.5	17.4	7.1	-1.1	2.4	0.8	0.1	-0.4	-0.1
Credit to non-government sector <sup>1</sup>	7.2	8.9	6.6	3.2	5.5	4.5	4.7	5.0	4.8	6.2	4.9
Reserve money	6.5	16.6	9.6	19.2	10.3	12.2	13.4	13.4	12.2	12.4	12.8
Broad money (M2)	10.3	22.9	13.6	23.0	15.0	13.7	17.8	14.5	13.6	15.1	13.1
Percent of GDP, unless otherwise indicated											
Central government finances											
Total revenue and grants	14.9	14.4	14.7	12.8	14.4	14.9	14.7	15.2	15.6	15.7	15.6
Revenue	13.5	13.9	12.7	11.8	13.4	13.2	14.1	14.7	15.2	15.3	15.6
<i>Of which: Non-mining revenue</i>	10.8	12.0	11.2	10.2	11.8	11.5	12.2	12.7	13.1	13.2	13.4
Grants	1.4	0.5	2.1	1.0	1.0	1.7	0.5	0.5	0.4	0.4	0.0
Total expenditure and net lending	16.0	14.9	18.3	15.7	16.8	17.1	17.6	18.0	18.4	18.6	18.5
Current expenditure	10.8	11.1	13.5	12.4	11.4	11.8	11.3	11.3	11.3	11.5	11.4
<i>Of which: Interest payments</i>	0.8	0.5	0.9	0.7	0.9	0.9	0.9	1.0	1.0	1.0	1.0
Capital expenditure and net lending	5.1	3.7	4.7	3.2	5.3	5.2	6.1	6.6	7.0	7.0	7.0
Overall budget balance											
Including grants	-1.1	-0.5	-3.6	-2.9	-2.4	-2.2	-2.9	-2.8	-2.8	-2.9	-2.8
Excluding grants	-2.5	-1.0	-5.6	-3.9	-3.4	-3.9	-3.4	-3.3	-3.2	-3.3	-2.8
Basic fiscal balance	0.9	0.6	-2.3	-1.4	0.5	-0.1	0.6	0.8	0.6	0.4	0.5
Current account balance											
Including official transfers	-19.5	-10.8	-12.3	-13.7	-14.2	-9.3	-11.6	-12.5	-12.8	-9.5	-8.2
Excluding official transfers	-20.0	-11.0	-13.6	-14.3	-14.7	-10.0	-11.6	-12.5	-12.8	-9.5	-8.2
Overall balance of payments	1.6	1.9	-1.8	-0.9	0.4	0.6	1.1	1.4	1.3	1.4	1.4
Memorandum items:											
Exports, goods and services (US\$ millions)	4,082.1	4,130.8	4,897.9	8,996.0	5,183.9	9,012.6	8,134.6	8,534.9	9,178.3	9,733.5	10,439.8
Imports, goods and services (US\$ millions)	6,096.4	5,026.9	6,022.6	9,938.4	6,481.4	8,888.8	7,679.6	8,146.6	8,821.3	9,062.0	9,381.4
Overall balance of payments (US\$ millions)	194.4	257.8	-265.8	-131.0	64.2	100.7	204.8	264.4	273.2	311.5	333.4
Net foreign assets of the central bank (US\$ millions)	565.6	843.3	789.2	948.5	865.3	1,273.9	1,645.1	2,055.5	2,514.3	3,093.0	3,704.4
Gross available reserves (months of imports) <sup>2</sup>	2.3	2.1	3.8	2.2	4.1	2.4	2.5	2.5	2.7	2.9	3.0
External public debt, incl. IMF (percent of GDP)	19.4	19.9	23.8	25.8	28.4	28.6	30.9	31.6	32.1	32.7	33.0
Total public debt, incl. IMF (percent of GDP)	38.6	38.0	40.4	43.4	43.2	43.3	42.9	42.5	42.3	42.3	41.9
Nominal GDP (GNF billions)	106,845	124,109	146,582	147,188	167,155	172,280	200,493	229,543	261,007	296,229	336,195

Sources: Guinean authorities; and Fund staff estimates and projections.

<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.

**Table 2. Guinea: Balance of Payments, 2018–26**  
(Millions of U.S. Dollars, unless otherwise indicated)

	2018	2019	2020		2021		2022	2023	2024	2025	2026
	Act.	Act.	ECF 5th/6th	Prel.	ECF 5th/6th	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Exports, f.o.b.	3,978	3,945	4,817	8,931	5,099	8,987	8,109	8,508	9,151	9,706	10,411
Mining products	3,135	3,519	4,383	8,385	4,449	8,364	7,400	7,714	8,265	8,756	9,392
Other	843	427	435	546	651	623	708	794	886	950	1,019
Imports, f.o.b.	-5,295	-4,177	-5,086	-7,352	-5,499	-7,010	-5,862	-6,221	-6,768	-6,921	-7,143
Food products	-449	-390	-428	-436	-580	-469	-506	-540	-577	-618	-661
Other consumption goods	-440	-509	-612	-652	-712	-902	-972	-1,037	-1,109	-1,187	-1,270
Petroleum products	-669	-743	-543	-579	-796	-898	-894	-907	-938	-979	-1,029
Intermediate and capital goods	-3,737	-2,535	-3,503	-2,794	-3,411	-3,292	-3,491	-3,737	-4,143	-4,138	-4,183
Services trade balance	-697	-665	-856	-2,521	-898	-1,853	-1,792	-1,899	-2,026	-2,113	-2,210
Services exports	104	185	81	65	85	26	26	27	27	28	29
Services imports	-801	-850	-936	-2,586	-982	-1,879	-1,818	-1,926	-2,053	-2,141	-2,239
Income balance	-408	-660	-989	-1,316	-1,110	-1,860	-2,619	-2,876	-3,086	-2,860	-3,081
<i>Of which: Interest on public debt</i>	-36	-20	-30	-23	-35	-30	-43	-49	-57	-62	-66
Transfers	106	98	247	157	91	193	70	83	85	87	89
Net private transfers	56	75	60	54	10	65	70	83	85	87	89
Official transfers	50	24	187	104	81	128	0	0	0	0	0
Current account											
Including official transfers	-2,316	-1,458	-1,867	-2,102	-2,316	-1,543	-2,095	-2,405	-2,644	-2,101	-1,934
Excluding official transfers	-2,366	-1,482	-2,054	-2,205	-2,398	-1,671	-2,095	-2,405	-2,644	-2,101	-1,934
Capital account	126	41	148	57	109	137	91	91	91	91	0
Public transfers	118	41	124	57	84	137	91	91	91	91	0
Financial account	1,944	1,675	1,453	1,913	2,272	1,507	2,208	2,579	2,826	2,321	2,267
Public (medium and long-term)	241	235	669	849	1,010	781	838	627	646	678	690
Project-related loans	250	153	643	888	1,093	858	882	652	647	669	712
Program financing	59	152	105	41	40	51	82	107	137	138	142
Public (short-term)	0	0	0	0	0	0	0	0	0	0	0
Amortization due	-67	-70	-79	-81	-123	-128	-126	-133	-138	-129	-164
Direct and other MLT private investment (net)	1,889	1,218	1,614	938	1,191	642	1,356	1,948	2,174	1,572	1,411
<i>of which: FDI inflows</i>	1,889	1,218	1,522	1,522	1,767	1,767	2,316	2,483	2,764	2,044	1,917
Private short-term	-186	222	-830	127	71	84	14	4	6	71	166
Errors and omissions	440	0	0	0	0	0	0	0	0	0	0
Overall balance	194	258	-266	-131	64	101	205	264	273	312	333
Financing	-194	-258	208	131	-112	-101	-205	-264	-273	-312	-333
Use of Fund resources (net)	49	24	182	160	-49	-29	-56	-50	-55	-56	-75
Disbursements	49	24	221	219	0	0	0	0	0	0	0
Change in gross official reserves (- = increase)	-243	-281	27	-110	-63	-153	-161	-185	-188	-238	-258
Debt relief /1	0	0	0	82	0	81	12	-30	-30	-17	0
Change in arrears (- = reduction)	0	-1	0	-1	0	0	0	0	0	0	0
Financing gap	0	0	-57	0	-48	0	0	0	0	0	0
Residual financing gap	0	0	0	0	0	0	0	0	0	0	0
<i>Memorandum items:</i>											
Current account balance (percent of GDP)											
Including official transfers	-19.5	-10.8	-12.3	-13.7	-14.2	-9.3	-11.6	-12.5	-12.8	-9.5	-8.2
Excluding official transfers	-20.0	-11.0	-13.6	-14.3	-14.7	-10.0	-11.6	-12.5	-12.8	-9.5	-8.2
Overall balance (percent of GDP)	1.6	1.9	-1.8	-0.9	0.4	0.6	1.1	1.4	1.3	1.4	1.4
Exports-GDP ratio (percent)	34.4	30.6	32.3	58.5	31.9	54.1	45.2	44.4	44.5	44.0	44.0
Imports-GDP ratio (percent)	-51.4	-37.2	-39.8	-64.6	-39.8	-53.4	-42.6	-42.4	-42.8	-41.0	-39.6
FDI-GDP ratio (percent)	15.9	9.0	10.0	9.9	10.9	10.6	12.9	12.9	13.4	9.2	8.1
Gross available reserves (US\$ millions)	964	1,245	1,245	1,355	1,307	1,508	1,669	1,853	2,042	2,280	2,538
Gross available reserves (months of imports) /2	2.3	2.1	2.3	2.2	2.4	2.4	2.5	2.5	2.7	2.9	3.0
Nominal GDP (US\$ millions)	11,857	13,514	15,151	15,388	16,270	16,659	18,008	19,233	20,619	22,106	23,713
National currency per US dollar (avg.)	9,011	9,184	9,675	9,565	...	...	...	...	...	...	...

Sources: Guinean authorities; and IMF staff estimates and projections.

<sup>1</sup> The grant for debt service relief falling due between April 14, 2021 to April 13, 2022, is subject to the availability of resources under the CCRT.

<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.

**Table 3a. Guinea: Fiscal Operations of the Central Government, 2019-26<sup>1</sup>**  
(Billions of Guinean Francs, unless otherwise indicated)

	2018	2019	2020		2021		2022	2023	2024	2025	2026
	Act.	Act.	5th & 6th Review	Prel.	5th & 6th Review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
<b>Total revenue and grants</b>	<b>15,965</b>	<b>17,902</b>	<b>21,588</b>	<b>18,860</b>	<b>24,033</b>	<b>25,774</b>	<b>29,639</b>	<b>35,077</b>	<b>41,048</b>	<b>46,825</b>	<b>52,925</b>
Revenue	14,423	17,305	18,576	17,321	22,335	22,874	28,538	33,989	39,895	45,604	52,925
Tax revenue	13,609	15,868	17,599	16,587	21,091	21,401	26,564	31,835	37,028	42,185	48,972
Mining sector	2,836	2,373	2,149	2,294	2,689	2,999	3,839	4,483	5,352	6,196	7,383
Local Development Fund	...	356	283	283	352	352	576	672	803	929	1,107
Non-mining sector	10,773	13,495	15,450	14,293	18,403	18,403	22,725	27,352	31,676	35,990	41,589
Direct taxes	2,346	2,563	3,155	2,936	3,954	3,954	4,831	5,531	6,289	7,138	8,101
Indirect taxes	8,428	10,932	12,294	11,357	14,449	14,449	17,894	21,821	25,387	28,852	33,488
Taxes on goods and services	5,861	7,583	9,113	8,237	10,359	10,359	12,658	14,927	17,312	19,688	22,568
Taxes on international trade	2,566	3,349	3,182	3,121	4,090	4,090	5,236	6,894	8,074	9,164	10,920
Non-tax revenue	814	1,437	977	733	1,243	1,353	1,779	1,874	2,569	3,104	3,620
Souapiti revenues <sup>3</sup>	...	...	...	...	...	119	195	281	298	315	333
Grants	1,542	597	3,012	1,539	1,698	2,901	1,101	1,087	1,153	1,221	0
Project grants	1,061	377	1,204	547	864	1,417	1,014	1,087	1,153	1,221	0
Budget support	449	216	1,808	992	834	1,323	0	0	0	0	0
Other earmarked grants	32	...	...	...	...	...	...	...	...	...	...
<b>Expenditures and net lending</b>	<b>17,132</b>	<b>18,498</b>	<b>26,829</b>	<b>23,086</b>	<b>28,005</b>	<b>29,576</b>	<b>35,386</b>	<b>41,573</b>	<b>48,329</b>	<b>55,358</b>	<b>62,423</b>
Current expenditures	11,589	13,830	19,748	18,309	18,987	20,429	22,881	26,292	29,920	34,255	38,727
Primary current expenditures	10,710	13,253	18,470	17,295	17,452	18,824	20,798	23,812	27,075	31,030	35,100
Wages and salaries	4,122	4,430	5,599	6,162	6,080	6,589	7,284	8,340	9,483	10,762	12,336
Goods and services	3,445	4,253	5,135	5,037	5,357	5,891	6,722	7,696	8,750	9,931	11,384
Subsidies and transfers	3,142	4,570	7,736	6,097	6,014	6,344	6,792	7,776	8,842	10,337	11,379
EDG	905	2,157	3,308	2,921	2,390	2,390	2,414	2,438	2,462	2,487	2,512
Subsidies	...	2,057	2,921	2,534	2,390	2,390	2,414	2,438	2,462	2,487	2,512
Guarantee Fund	...	100	387	387	...	...	...	...	...	...	...
Other subsidies and transfers	2,237	2,413	4,429	3,176	3,624	3,954	4,378	5,338	6,380	7,850	8,867
Interest on debt	879	577	1,278	1,014	1,535	1,605	2,083	2,481	3,225	3,628	3,628
Domestic debt	557	391	985	788	1,168	1,168	1,403	1,607	1,827	2,074	2,353
External debt	322	186	293	226	366	317	485	593	720	836	941
Souapiti debt <sup>3</sup>	...	...	...	...	...	119	195	281	298	315	333
Capital expenditure	5,417	4,545	6,880	4,703	8,835	8,963	12,302	15,060	18,170	20,846	23,418
Domestically financed	2,105	2,766	2,350	1,159	2,664	2,774	4,809	6,189	8,833	10,664	13,330
Investment (central budget exec.)	2,105	2,766	2,314	1,159	2,664	2,774	4,809	6,189	8,833	10,664	13,330
Local Development Fund	...	356	283	283	352	352	576	672	803	929	1,107
Capital transfers	0	0	36	0	0	0	0	0	0	0	0
Externally financed	3,312	1,779	4,530	3,544	6,171	6,189	7,493	8,871	9,337	10,181	10,089
Net lending	127	117	202	74	184	184	203	221	238	257	277
<b>Basic fiscal balance<sup>2</sup></b>	<b>924</b>	<b>772</b>	<b>-3,431</b>	<b>-1,995</b>	<b>867</b>	<b>-195</b>	<b>1,130</b>	<b>1,881</b>	<b>1,623</b>	<b>1,264</b>	<b>1,532</b>
<b>Overall balance</b>											
Excluding grants	-2,709	-1,193	-8,253	-5,765	-5,671	-6,702	-6,848	-7,583	-8,434	-9,754	-9,498
<b>Including grants</b>	<b>-1,167</b>	<b>-596</b>	<b>-5,242</b>	<b>-4,226</b>	<b>-3,973</b>	<b>-3,802</b>	<b>-5,747</b>	<b>-6,496</b>	<b>-7,281</b>	<b>-8,533</b>	<b>-9,498</b>
Float	695	585	0	-36	0	0	0	0	0	0	0
<b>Financing</b>	<b>472</b>	<b>777</b>	<b>4,858</b>	<b>4,262</b>	<b>3,973</b>	<b>3,802</b>	<b>5,747</b>	<b>6,496</b>	<b>7,281</b>	<b>8,533</b>	<b>9,498</b>
<b>Domestic financing</b>	<b>-1,700</b>	<b>-1,372</b>	<b>-153</b>	<b>-5,517</b>	<b>-486</b>	<b>-4,816</b>	<b>-3,453</b>	<b>-634</b>	<b>-520</b>	<b>-551</b>	<b>-282</b>
Bank financing	-999	1,206	1,219	4,422	1,216	-113	1,004	414	75	-238	-98
Net position at central bank	-2,063	-167	460	1,790	-287	-1,530	-906	-287	-287	-287	-159
Commercial banks	1,064	1,373	759	2,632	1,503	1,417	1,910	701	363	49	60
Nonbank financing	-945	-1,129	-1,241	-1,933	-1,598	-1,598	-1,115	-1,048	-595	-313	-184
Privatization revenue	0	0	0	0	0	0	0	0	0	0	0
Borrowing/Amortization of domestic debt (net)	-985	-1,175	-1,241	-1,387	-1,598	-1,598	-1,115	-1,048	-595	-313	-184
Other/exceptional revenue	40	46	0	0	0	0	0	0	0	0	0
Repayment of other non-bank borrowing	...	...	...	-546	...	...	...	...	...	...	...
Change in arrears	244	-1,448	-132	-2,505	-103	0	0	0	0	0	0
Souapiti: Decumulation of Domestic Assets <sup>3</sup>	...	...	...	...	...	0	0	0	0	0	0
Souapiti: SPV on-lending <sup>3</sup>	...	...	...	-5,501	...	-3,104	-3,342	0	0	0	0
<b>External financing (net)</b>	<b>2,172</b>	<b>2,148</b>	<b>5,011</b>	<b>9,779</b>	<b>4,458</b>	<b>8,617</b>	<b>9,200</b>	<b>7,130</b>	<b>7,801</b>	<b>9,084</b>	<b>9,780</b>
Drawings	2,781	2,799	4,336	3,387	5,718	6,295	7,396	9,064	9,917	10,812	12,103
Project <sup>3</sup>	2,250	1,402	3,325	2,997	5,307	5,765	6,479	7,783	8,184	8,961	10,089
Program	530	1,397	1,011	390	411	530	917	1,281	1,733	1,852	2,014
Amortization due	-605	-644	-766	-771	-1,260	-1,321	-1,403	-1,582	-1,743	-1,729	-2,323
Souapiti Amortization <sup>3</sup>	...	...	...	...	...	0	0	0	0	0	0
Souapiti Disbursements <sup>3</sup>	...	...	...	5,501	...	3,104	3,342	0	0	0	0
Debt relief	0	0	0	0	0	539	-135	-352	-374	0	0
Change in cap. arrears (= reduction)	0	-7	0	-7	0	0	0	0	0	0	0
Change in int. arrears (= reduction)	-4	0	0	0	0	0	0	0	0	0	0
Non Paris Club bilateral rescheduling	0	0	0	228	0	0	0	0	0	0	0
HIPC-related financing	0	0	0	0	0	0	0	0	0	0	0
RCF Disbursement <sup>4</sup>	0	0	1,441	1,441	0	0	0	0	0	0	0
<b>Financing gap</b>	<b>0</b>	<b>0</b>	<b>384</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Anticipated financing	0	0	383	0	0	0	0	0	0	0	0
<b>Memorandum items:</b>											
Covid and Ebola spending	...	...	2,622	2,203	...	572	...	...	...	...	...
Primary fiscal balance	-288	-19	-3,963	-3,213	-2,438	-2,197	-3,664	-4,015	-4,436	-5,308	-5,870
Nominal GDP (GNF billion)	106,845	124,109	146,582	147,188	167,155	172,280	200,493	229,543	261,007	296,229	336,195

Sources: Guinean authorities; Fund staff estimates and projections.

<sup>1</sup> Based on GFSM 1996 due to data availability limitations.

<sup>2</sup> Total revenue excluding grants minus expenditures excluding interest on external debt and foreign-financed capital expenditures.

<sup>3</sup> Following the 5th and 6th ECF Review, staff revised the treatment of the Souapiti loan, which was previously classified as a transaction between the Souapiti SPV and a non-resident, thus not entering the fiscal accounts. The loan agreement is now considered to be between a non-resident (China Exim Bank) and the central government of Guinea, who then on-lent the funds to the Souapiti SPV.

<sup>4</sup> In accordance with standard practice, RCF projected disbursements, reported at the time of the RCF staff report as anticipated financing, have been reclassified as external financing in the ECF and current projections.

**Table 3b. Guinea: Fiscal Operations of the Central Government,<sup>1</sup> 2018–26**  
(Percent of GDP, unless otherwise indicated)

	2018	2019	2020		2021	2022	2023	2024	2025	2026
	Act.	Act.	5th & 6th Review	Prel.	5th & 6th Review	Proj.	Proj.	Proj.	Proj.	Proj.
<b>Total revenue and grants</b>	<b>14.9</b>	<b>14.4</b>	<b>14.7</b>	<b>12.8</b>	<b>14.4</b>	<b>15.0</b>	<b>14.8</b>	<b>15.3</b>	<b>15.7</b>	<b>15.7</b>
Revenue	13.5	13.9	12.7	11.8	13.4	13.3	14.2	14.8	15.3	15.4
Tax revenue	12.7	12.8	12.0	11.3	12.6	12.4	13.2	13.9	14.2	14.6
Mining sector	2.7	1.9	1.5	1.6	1.6	1.7	1.9	2.0	2.1	2.2
Non-mining sector	10.1	10.9	10.5	9.7	11.0	10.7	11.3	11.9	12.1	12.4
Direct taxes	2.2	2.1	2.2	2.0	2.4	2.3	2.4	2.4	2.4	2.4
Indirect taxes	7.9	8.8	8.4	7.7	8.6	8.4	8.9	9.5	9.7	10.0
Taxes on goods and services	5.5	6.1	6.2	5.6	6.2	6.0	6.3	6.5	6.6	6.7
Taxes on international trade	2.4	2.7	2.2	2.1	2.4	2.4	2.6	3.0	3.1	3.2
Non-tax revenue	0.8	1.2	0.7	0.5	0.7	0.8	0.9	0.8	1.0	1.1
Souapiti revenues <sup>3</sup>	...	...	...	...	...	0.1	0.1	0.1	0.1	0.1
Grants	1.4	0.5	2.1	1.0	1.0	1.7	0.5	0.5	0.4	0.4
Project grants	1.0	0.3	0.8	0.4	0.5	0.8	0.5	0.5	0.4	0.4
Budget support	0.4	0.2	1.2	0.7	0.5	0.8	0.0	0.0	0.0	0.0
Other earmarked grants	0.0	...	...	...	...	...	...	...	...	...
<b>Expenditures and net lending</b>	<b>16.0</b>	<b>14.9</b>	<b>18.3</b>	<b>15.7</b>	<b>16.8</b>	<b>17.2</b>	<b>17.6</b>	<b>18.1</b>	<b>18.5</b>	<b>18.7</b>
Current expenditures	10.8	11.1	13.5	12.4	11.4	11.9	11.4	11.5	11.5	11.5
Primary current expenditures	10.0	10.7	12.6	11.8	10.4	10.9	10.4	10.4	10.4	10.5
Wages and salaries	3.9	3.6	3.8	4.2	3.6	3.8	3.6	3.6	3.6	3.7
Goods and services	3.2	3.4	3.5	3.4	3.2	3.4	3.4	3.4	3.4	3.4
Subsidies and transfers	2.9	3.7	5.3	4.1	3.6	3.7	3.4	3.4	3.4	3.5
EDG	0.8	1.7	2.3	2.0	1.4	1.4	1.2	1.1	0.9	0.8
Subsidies	...	1.7	2.0	1.7	1.4	1.4	1.2	1.1	0.9	0.8
Guarantee Fund	...	0.1	0.3	0.3	...	...	...	...	...	...
other subsidies and transfers	2.1	1.9	3.0	2.2	2.2	2.3	2.2	2.3	2.4	2.6
Interest on debt	0.8	0.5	0.9	0.7	0.9	0.9	1.0	1.1	1.1	1.1
Domestic debt	0.5	0.3	0.7	0.5	0.7	0.7	0.7	0.7	0.7	0.7
External debt	0.3	0.1	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3
Souapiti debt <sup>3</sup>	...	...	...	...	...	0.1	0.1	0.1	0.1	0.1
Capital expenditure	5.1	3.7	4.7	3.2	5.3	5.2	6.1	6.6	7.0	7.0
Domestically financed	2.0	2.2	1.6	0.8	1.6	1.6	2.4	2.7	3.4	3.6
Investment (central budget exec.)	2.0	2.2	1.6	0.8	1.6	1.6	2.4	2.7	3.4	3.6
Local Development Fund	...	0.3	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3
Capital transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Externally financed	3.1	1.4	3.1	2.4	3.7	3.6	3.7	3.9	3.6	3.4
Net lending	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
<b>Basic fiscal balance<sup>2</sup></b>	<b>0.9</b>	<b>0.6</b>	<b>-2.3</b>	<b>-1.4</b>	<b>0.5</b>	<b>-0.1</b>	<b>0.6</b>	<b>0.8</b>	<b>0.6</b>	<b>0.4</b>
<b>Overall balance</b>										
Excluding grants	-2.5	-1.0	-5.6	-3.9	-3.4	-3.9	-3.4	-3.3	-3.2	-3.3
<b>Including grants</b>	<b>-1.1</b>	<b>-0.5</b>	<b>-3.6</b>	<b>-2.9</b>	<b>-2.4</b>	<b>-2.2</b>	<b>-2.9</b>	<b>-2.8</b>	<b>-2.9</b>	<b>-2.8</b>
Float	0.6	0.5	0.0	-0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Financing</b>	<b>0.4</b>	<b>0.6</b>	<b>3.3</b>	<b>2.9</b>	<b>2.4</b>	<b>2.2</b>	<b>2.9</b>	<b>2.8</b>	<b>2.8</b>	<b>2.9</b>
<b>Domestic financing</b>	<b>-1.6</b>	<b>-1.1</b>	<b>-0.1</b>	<b>-3.7</b>	<b>-0.3</b>	<b>-2.8</b>	<b>-1.7</b>	<b>-0.3</b>	<b>-0.2</b>	<b>-0.1</b>
Bank financing	-0.9	1.0	0.8	3.0	0.7	-0.1	0.5	0.2	0.0	-0.1
Net position at central bank	-1.9	-0.1	0.3	1.2	-0.2	-0.9	-0.5	-0.1	-0.1	-0.1
Commercial banks	1.0	1.1	0.5	1.8	0.9	0.8	1.0	0.3	0.1	0.0
Nonbank financing	-0.9	-0.9	-0.8	-1.3	-1.0	-0.9	-0.6	-0.5	-0.2	-0.1
Privatization revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Borrowing/Amortization of domestic debt (net)	-0.9	-0.9	-0.8	-0.9	-1.0	-0.9	-0.6	-0.5	-0.2	-0.1
Other/exceptional revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayment of other non-bank borrowing	...	...	0.0	-0.4	0.0	...	...	...	...	...
Change in arrears	0.2	-1.2	-0.1	-1.7	-0.1	0.0	0.0	0.0	0.0	0.0
Souapiti: Decumulation of Domestic Assets <sup>3</sup>	...	...	...	...	...	0.0	0.0	0.0	0.0	0.0
Souapiti: SPV on-lending <sup>3</sup>	...	...	...	-3.7	...	-1.8	-1.7	0.0	0.0	0.0
<b>External financing (net)</b>	<b>2.0</b>	<b>1.7</b>	<b>3.4</b>	<b>6.6</b>	<b>2.7</b>	<b>5.0</b>	<b>4.6</b>	<b>3.1</b>	<b>3.0</b>	<b>3.1</b>
Drawings	2.6	2.3	3.0	2.3	3.4	3.7	3.7	3.9	3.8	3.6
Project <sup>3</sup>	2.1	1.1	2.3	2.0	3.2	3.3	3.2	3.4	3.1	3.0
Program	0.5	1.1	0.7	0.3	0.2	0.3	0.5	0.6	0.7	0.6
Amortization due	-0.6	-0.5	-0.5	-0.5	-0.8	-0.8	-0.7	-0.7	-0.7	-0.7
Souapiti Amortization <sup>3</sup>	...	...	...	...	...	0.0	0.0	0.0	0.0	0.0
Souapiti Disbursements <sup>3</sup>	...	...	...	3.7	...	1.8	1.7	0.0	0.0	0.0
Debt relief	0.0	0.0	0.0	0.0	0.0	0.3	-0.1	-0.2	-0.1	0.0
Change in cap. arrears (- = reduction)	0.0	-0.0	0.0	-0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in int. arrears (- = reduction)	-0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non Paris Club bilateral rescheduling	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
HIPC-related financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RCF Disbursement <sup>4</sup>	0.0	0.0	1.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Financing gap</b>	<b>0.0</b>	<b>-0.0</b>	<b>0.3</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Anticipated financing	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Memorandum items:</b>										
Covid and Ebola spending	...	...	1.8	1.5	...	0.3	...	...	...	...
Primary fiscal balance	-0.3	-0.0	-2.7	-2.2	-1.5	-1.3	-1.8	-1.7	-1.7	-1.7
Nominal GDP (GNF billion)	106,845	124,109	146,582	147,188	167,155	172,280	200,493	229,543	261,007	296,229

Sources: Guinean authorities; Fund staff estimates and projections.

<sup>1</sup> Based on GFSM 1986 due to data availability limitations.

<sup>2</sup> Total revenue excluding grants minus expenditures excluding interest on external debt and foreign-financed capital expenditures.

<sup>3</sup> Following the 5th and 6th ECF Review, staff revised the treatment of the Souapiti loan, which was previously classified as a transaction between the Souapiti SPV and a non-resident, thus not entering the fiscal accounts. The loan agreement is now considered to be between a non-resident (China Exim Bank) and the central government of Guinea, who then on-lent the funds to the Souapiti SPV.

<sup>4</sup> In accordance with standard practice, RCF projected disbursements, reported at the time of the RCF staff report as anticipated financing, have been reclassified as external financing in the ECF and current projections.

**Table 4. Guinea: Money Accounts, 2018–26<sup>1</sup>**  
(Billions of Guinean Francs, unless otherwise indicated)

	2018	2019	2020		2021		2022	2023	2024	2025	2026
	Act.	Act.	5th & 6th Review	Prel.	5th & 6th Review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
<b>Monetary Survey</b>											
<b>Net foreign assets</b>	6,964	9,563	9,132	12,182	9,964	15,130	19,743	24,182	29,133	35,274	41,680
<b>Net domestic assets</b>	17,783	20,853	25,439	25,513	29,788	27,408	30,381	33,203	36,029	39,720	43,271
Claims on central government	13,630	14,613	17,732	20,179	20,498	20,388	21,740	22,530	23,011	23,211	23,586
Claims on private sector	9,836	12,044	14,070	13,009	15,974	14,710	16,729	19,237	21,988	26,016	29,665
Other items, net (assets +)	-5,686	-5,804	-6,363	-7,675	-6,685	-7,690	-8,088	-8,564	-8,969	-9,507	-9,980
<b>Broad money (M2)</b>	24,747	30,416	34,571	37,420	39,752	42,538	50,123	57,386	65,163	74,995	84,951
Currency	7,245	8,817	8,505	11,542	9,134	12,331	14,530	16,635	18,889	21,739	24,625
Deposits	17,503	21,599	26,066	25,879	30,618	30,207	35,594	40,751	46,274	53,255	60,326
<b>Central Bank</b>											
<b>Net foreign assets</b>	5,139	7,780	7,281	8,750	7,983	11,752	15,177	18,962	23,195	28,534	34,174
<b>Net domestic assets</b>	6,700	6,025	7,868	7,705	8,720	6,705	5,751	4,769	3,434	1,399	-410
Claims on central government (net)	9,394	9,203	11,562	11,268	12,826	10,061	9,502	9,591	9,709	9,861	10,175
Of which: to the Treasury (PNT1)	9,518	9,520	10,216	11,467	9,928	9,938	9,031	8,744	8,457	8,171	8,012
Of which: Advances	-73	1,284	...	3,160	...	...	...	...	...	...	...
Claims on private sector	130	89	130	92	40	40	42	47	49	51	51
Liabilities to deposit money banks (-)	0	0	0	-275	0	0	0	-600	-1,650	-3,300	-4,950
Other items, net (assets +)	-2,823	-3,267	-3,824	-3,381	-4,146	-3,396	-3,794	-4,269	-4,675	-5,213	-5,686
<b>Reserve money</b>	11,839	13,805	15,149	16,455	16,703	18,457	20,928	23,731	26,629	29,933	33,764
Currency outside banks	7,245	8,817	8,505	11,542	9,134	12,331	14,530	16,635	18,889	21,739	24,625
Bank reserves	4,156	4,654	6,283	4,594	7,204	5,804	6,073	6,768	7,407	7,842	8,787
Deposits	3,304	3,874	5,533	3,830	6,554	5,154	5,558	6,281	6,943	7,432	8,377
<b>Deposit Money Banks</b>											
<b>Net foreign assets</b>	1,825	1,783	1,852	3,432	1,981	3,378	4,566	5,220	5,939	6,740	7,507
<b>Domestic credit</b>	13,947	17,365	20,110	21,828	23,607	24,998	28,924	32,129	35,240	39,316	43,025
Credit to the government (net)	4,236	5,411	6,170	8,911	7,672	10,327	12,237	12,939	13,302	13,351	13,411
Claims on the private sector	9,706	11,955	13,940	12,917	15,934	14,670	16,687	19,190	21,939	25,965	29,614
<b>Liabilities to the private sector (deposits)</b>	17,065	21,265	25,705	25,560	30,253	29,885	35,268	40,422	45,942	52,904	59,974
(Annual percentage change, unless otherwise indicated)											
<i>Memorandum items:</i>											
Net foreign assets	31.5	37.3	-6.8	27.4	9.1	24.2	30.5	22.5	20.5	21.1	18.2
Net domestic assets	3.8	17.3	23.3	22.3	17.1	7.4	10.8	9.3	8.5	10.2	8.9
Domestic credit	21.8	13.6	18.2	24.5	14.7	5.8	9.6	8.6	7.7	9.4	8.2
Net claims on government	23.3	7.2	19.4	38.1	15.6	1.0	6.6	3.6	2.1	0.9	1.6
Credit to the private sector	19.7	22.4	16.7	8.0	13.5	13.1	13.7	15.0	14.3	18.3	14.0
Broad money (M2)	10.3	22.9	13.6	23.0	15.0	13.7	17.8	14.5	13.6	15.1	13.1
Reserve money	6.5	16.6	9.6	19.2	10.3	12.2	13.4	13.4	12.2	12.4	12.8
Money multiplier (M2/reserve money)	2.1	2.2	2.3	2.3	2.4	2.3	2.4	2.4	2.4	2.5	2.5
Velocity (GDP/average M2)	4.5	4.5	4.2	4.3	4.2	4.3	4.3	4.3	4.3	4.2	4.2
Consumer prices (end of period)	9.9	9.1	9.6	10.6	8.0	11.3	9.9	8.0	7.8	7.8	7.8

Sources: Guinean authorities; and IMF staff estimates and projections.

<sup>1</sup> End of period.

**Table 5. Guinea: Financial Soundness Indicators, 2016–20**

(End of period, except otherwise indicated)

	2016	2017	2018	2019	2020Q1	2020Q2	2020Q3	2020Q4
Regulatory Capital to Risk-Weighted Assets	17.89	16.8	15.2	15.4	15.1	15.4	15.0	14.0
Regulatory Tier 1 Capital to Risk-Weighted Assets	18.00	17.4	15.1	15.1	14.9	15.2	14.8	13.8
Non-performing Loans Net of Provisions to Capital	14.66	11.3	25.2	17.2	13.5	13.9	14.6	14.8
Non-performing Loans to Total Gross Loans	9.44	10.7	11.6	9.9	10.0	10.4	9.1	9.4
Return on Assets	2.15	2.0	3.0	3.3	3.8	3.9	4.1	3.8
Return on Equity	18.81	16.7	22.7	27.6	32.1	33.3	35.2	32.1
Interest Margin to Gross Income	38.93	41.8	38.6	41.9	39.2	36.8	33.2	35.4
Non-interest Expenses to Gross Income	79.22	78.1	70.1	62.7	67.4	68.1	70.5	68.7
Liquid Assets to Total Assets (Liquid Asset Ratio)	28.89	26.8	26.2	23.2	25.2	23.9	27.2	21.8
Liquid Assets to Short Term Liabilities	45.80	43.1	43.5	37.7	42.0	38.8	44.5	36.1
Net Open Position in Foreign Exchange to Capital	25.11	79.2	108.0	138.5	154.7	143.6	112.1	86.8

Source: Guinean authorities.

## Annex I. Guinea's Experience Under the 2017-2020 ECF-Supported Program<sup>1</sup>

### A. Introduction – Guinea's and the IMF Engagement

**1. Guinea was in a program with the Fund since shortly after the first democratic elections took place in 2010.** Starting with a one-year Staff-Monitored Program in 2011, the country transitioned to an ECF arrangement in February 2012, which was extended until November 2016. In December 2017, a new ECF-supported agreement was approved. Furthermore, in 2014 and 2020 the IMF provided emergency assistance under the Rapid Credit Facility and debt relief to free up resources.

**2. Despite a complex socio-political environment, the two health emergencies and periods of unrest, macroeconomic stability was maintained.** The reform process to exit fragility and towards a more diversified, inclusive and resilient economy is ongoing and work needs to be stepped up, particularly in the areas PFM and PIM, mobilizing additional domestic revenue, including from the mining sector, and enhancing governance and the business environment. The two ECF-supported programs have built on the authorities' National Development Plans and complemented by TA.

### B. 2017-2020 ECF-Supported Program Overview

**3. The latest three-year ECF arrangement was approved by the IMF's Executive Board in December 2017.** With an amount equivalent to SDR 120.488 million (about US\$170 million, or 56.25 percent of Guinea's quota), the ECF arrangement aimed at (i) strengthening the resilience of the economy, (ii) scaling-up public investments in infrastructure to foster high and more broad-based growth while preserving medium-term debt sustainability, (iii) strengthening social safety nets to reduce poverty and foster inclusion, and (iv) promoting the development of the private sector.

**4. The socio-political environment was complex during the ECF arrangement period.** Episodes of social unrest, widespread protests and strikes took place in 2018, the last months of 2019, and early 2020. Local elections were held in February 2018; legislative elections and a contested referendum took place in early 2020, allowing President Conde to stand for a third mandate, followed by Presidential elections in October 2020. The electoral cycle influenced public expenditures and, to a lesser extent, revenue mobilization efforts (Figure 1, 2).

**5. Progress was achieved on the macroeconomic front, despite the periods of unrest and instability and the COVID-19 pandemic.** Over the course of the three-year program, real GDP growth averaged 5 percent, with mining growth consistently surprising on the upside;

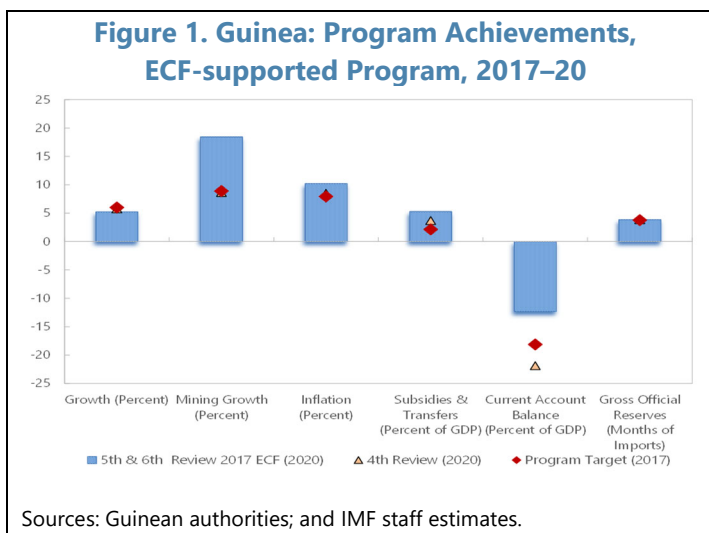
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<sup>1</sup> Prepared by Salifou Issoufou and Clara Mira.

inflation remained below 10 percent, though it was higher than projected; the current account was less negative than anticipated; and the stock of foreign exchange reserves doubled.

**6. Following an uneven start, program performance was generally satisfactory.**

In the first review, performance was mixed; fiscal slippages at the end of 2017 resulted in the non-observance of three performance criteria and two Indicative Targets. Such slippages were mostly the result of (i) revenue shortfalls, including from mining and from a downward adjustment of the tax on petroleum products (TSPP) to keep retail prices constant in the face of rising international oil prices; and (ii) higher-than-projected domestically-financed capital expenditures and election-related spending. Corrective actions were implemented, with a package of adjustment measures of 2.8 percent of GDP agreed in the first review.



**7. Performance under the program improved starting from the second review.** As fiscal policy was reoriented, all performance criteria (PCs) were met in the second, third and fourth ECF-supported program reviews, with a minor miss in the basic balance in the fifth review. Nonetheless, the fourth review had to be delayed to ensure the authorities came up with corrective measures following some slippages during September–November 2019. Indeed program performance deteriorated at end-September 2019 as lower-than-programmed tax revenues weighed on fiscal performance and financing needs, on account of lower mining tax and non-mining direct taxes, affected by social tensions, a shock to mining production, and only partial implementation of tax revenue mobilization measures. The authorities borrowed from the central bank between September and November, though they made a net repayment at end-2019. Two PCs were missed in the 6<sup>th</sup> review in 2020 as the authorities resorted to central bank financing to promptly respond to the health crisis ahead of expected COVID-related external disbursements.

**8. Performance on the indicative targets front was mixed;** the floor on domestically financed social safety programs to reduce poverty was missed in two reviews, and the tax revenue IT was missed consistently in every review but one.



**Figure 2. Guinea: Performance Criteria, ECF-supported Program, 2017–20**

		1st Rev.	2nd Rev.	3rd Rev.	4th Rev.	5th Rev.	6th Rev.
		Jun - 18	Dec - 18	Jul - 19	Apr - 20	Dec - 20	Dec - 20
		Dec-17	Jun-18	Dec-18	Jun-19	Dec-19	Jun-20
Quantitative Performance Criteria	Test dates						
	Net international reserves of the central bank (floor; stock)						
	New non-concessional external debt contracted or guaranteed by central gov. central bank (cum. ceiling)						
	Basic fiscal balance (floor; cumulative change for the year)						
	Net domestic assets of the central bank						
	Net government budgetary borrowing from the central bank (ceiling; stock)						
	New external arrears of the central government and central bank (ceiling)						
	New domestic arrears accumulated by the central government (net)						
	Domestically financed social safety programs to reduce poverty (cumulative floor)						
	Tax revenues collected (floor)						

### C. Projections vs Outturns During the Program

- Growth.** Buoyant mining activity in 2016-18 and 2020 supported higher-than-projected growth. In 2019, mining activity was however disrupted by severe weather conditions in the third quarter. Despite the impact of the pandemic on the non-mining sector, 2020 growth also surprised on the upside on the back of booming mining production.
- Inflation.** CPI was generally higher than projected throughout the ECF arrangement period, and aggravated by pandemic-related containment measures.
- Tax revenue.** Increasing the tax-to-GDP ratio was not achieved and thus there was systematic underachievement in the tax revenue IT. Reasons for this include: the impact of social tensions on economic activity; the ad-hoc downward adjustments to the TSPP to keep retail prices constant in the face of rising international oil prices in 2017; and generally, delays and only partial implementation of the agreed tax revenue mobilization measures, including for electronic tax controls and collection.
- Capital expenditure.** The infrastructure investment program was ambitious but both domestically and externally financed capital expenditure was under-executed. The main reasons behind this under-execution include low implementation capacity, reflecting delays in areas of procurement, contract management, compensation. The program and TA focused on building capacity in PIM and strengthening capacity and controls.
- Safety nets spending:** The government met the targets in the second part of the program, after falling short in the first and second review. A prototype of a registry of vulnerable population was established, with the support of the World Bank.
- Current spending.** With the notable exception of 2020 due to the COVID-19 crisis, current expenditures were generally below projections. Although electricity subsidies and transfers were at times higher than projected, other elements were contained and compensated for such increases.
- Basic balance.** In the context of the first review, the fiscal balance was significantly worse than programmed. However, since then, program objectives were met, with the basic fiscal

balance improving, even if the outturns for 2019 were slightly worse than expected at the time of the first review. Since capital expenditures were significantly lower-than-programmed, and current expenditure slightly lower than projections, this generally compensated for revenue shortfalls. The exception is the 2020 COVID-related large basic fiscal deficit.

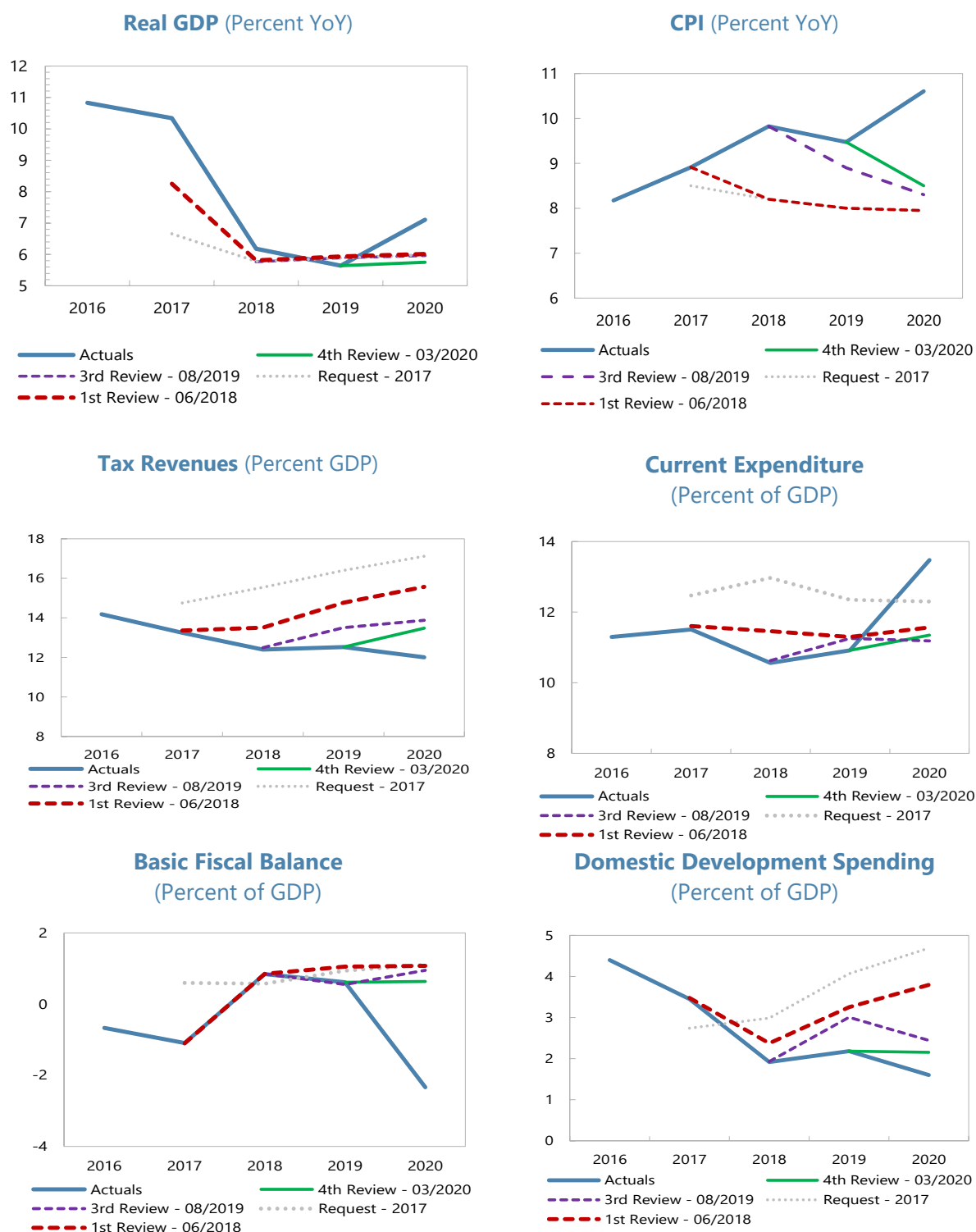
- **Debt.** The NCB ceiling was respected, and Guinea remained at moderate risk of debt distress. Judgement had to be invoked since the second review to override an automatic high risk of debt distress due to a brief and marginal breach for the PV of total public debt to GDP ratio over 2019–20, reflecting the one-off impact of the recapitalization of the central bank.
- **Central bank financing.** Guinea relied more on borrowing from the central bank than planned in 2017 (given the fiscal slippages experienced at the time of the first review) and in 2020 (as a result of some front-loading of COVID-related spending and delays in external support)

## D. Structural Performance

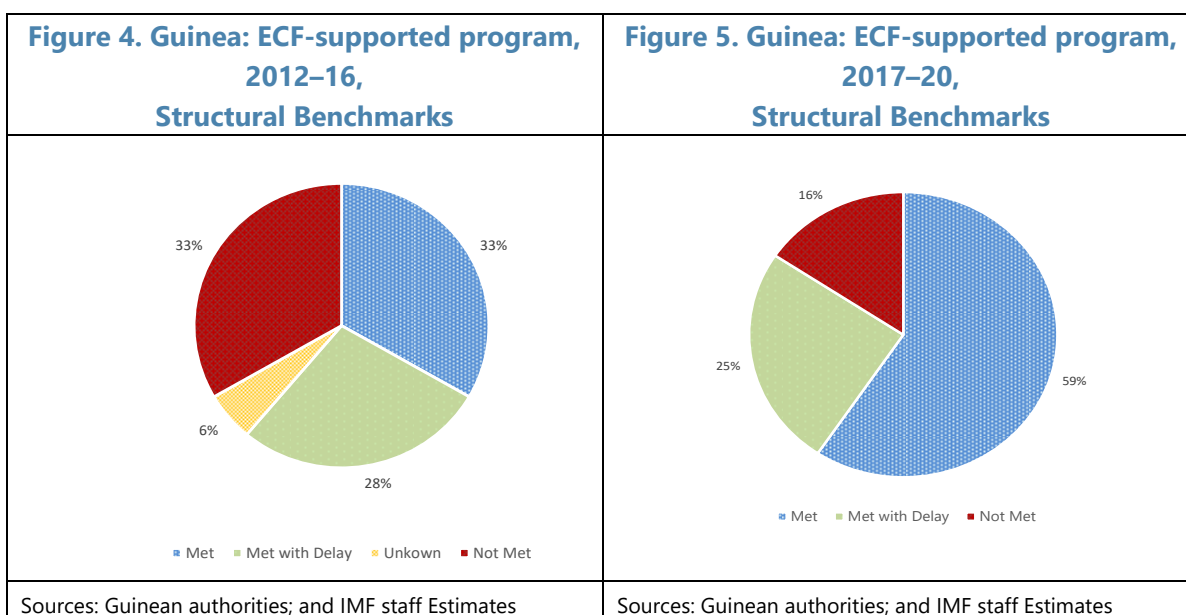
**9. While some key reforms failed to materialize, the overall implementation of structural reforms was strong (Figures 4 and 5, Panel Tables 1 and 2).** Under the program, public financial management was improved, an electricity tariff reform strategy was adopted, a rules-based FX intervention policy was implemented, and governance was improved with the adoption of the new asset declaration regime. However, some measures were not enacted. The key reasons behind these failures include political instability, the COVID-19 pandemic, capacity constraints, and difficulties in securing TA. The critical reforms that were not implemented include:

- Reinstating the automatic adjustment mechanism for petroleum product prices, in line with movements in international market prices and the exchange rate, to mitigate the impact of higher international oil prices on tax revenues. The IMF provided TA in this area.
- Finalizing the decrees establishing a regulatory framework and clarifying responsibilities of each major public sector actor along the different phases of public investments management to regulate the mechanisms, mandates, procedures, and standards of public investment management.
- Adopting a manual for the preparation, appraisal, and selection of investment projects, requiring major public investment projects to be accompanied by feasibility studies that follow rigorous processes.

However, progress has been made in the above areas after the 2017–20 ECF arrangement. For instance, the PIM Manual, prepared with IMF TA support, is being finalized and is expected to be adopted by the Council of Ministers. The authorities have also prepared a guide for project maturation. However, and as a key complementary step, a decree clarifying the roles and responsibilities of all actors in the three phases of public investment management should be adopted.

**Figure 3. Guinea: Real Sector Program Indicators**

Sources: Guinean authorities; and IMF staff estimates.



## Conclusions and Key Takeaways

### 10. Guinea's performance under the ECF-supported program was generally satisfactory.

Guinea met most performance criteria under the program and the program itself was instrumental in supporting Guinea's growth and development. Some takeaways include:

- Social unrest, political turbulence, and institutional weaknesses affected program performance and limited the success of the Fund's engagement.
- Generally, the period was marked by positive growth surprises on the mining front, which were unfortunately not matched by improvements in tax collections; despite an expected doubling in the mining output growth, mining tax revenue only inched up by 0.1 ppt of GDP compared to pre-crisis projections, as many new companies benefit from exonerations and exemptions. The recent revenue mobilization measures are welcome and should be complemented by mining sector revenue reform.
- Revenue underperformance was at times a consequence of the decision to subsidize fuel prices, and as such, the establishment of an automatic fuel price mechanism will be essential to preserve and stabilize revenues.
- Inflation was generally higher than projected thorough the ECF arrangement period, even though deviations were not major. Therefore, the continuation of ongoing work to modernize the monetary policy framework and its consistent implementation would be critical to help anchor inflation expectations and reduce inflation.
- The Fund program and its debt limits policy was not a hindrance to infrastructure spending; in fact, there was more expenditure planned than executed. Improving PIM and enhancing implementation capacity remains essential.

### Going Forward, Some Lessons Include:

- **Program targets should be ambitious but realistic, and flexibility to adjust macroeconomic policies and targets to shocks is warranted.** Program performance highlights the need to consider capacity constraints and weak institutional frameworks. Adjustors should be set considering risks to external and domestic shocks. The pandemic demonstrated the Fund's capacity to respond to humanitarian imperatives by adjusting program targets and providing additional resources. Donors support further ensured that the program remained on-track, though some delays complicated policy management.
- **Structural reforms should consider capacity constraints and fragility, while strong reform ownership is key.** Over the 2017-2020 ECF arrangement, a few structural reforms were not implemented due to capacity constraints and lack of political will. Accordingly, the number of structural benchmarks in any new program should focus on key program priorities, complemented by additional TA when needed. Furthermore, strong ownership will help advance the structural reform agenda.
- **Addressing the non-mining sector bottlenecks would be critical.** Diversifying the sources of growth away from a narrow set of commodities will help reduce Guinea's vulnerability to exogenous shocks and will be critical in developing a more sustainable and inclusive medium-term growth which can create jobs and reduce poverty.

### Authorities' Views

**11. The authorities broadly agreed with the assessment, noting how the ECF arrangement supported macroeconomic stability.** They acknowledged reform challenges but are committed to continuing with the needed reforms.

## Annex II. Status of the Article IV 2016 Main Recommendations

1. **Fiscal policy.** The authorities delivered on staff recommendation of a fiscal adjustment in 2016 to strengthen fiscal buffers. Except for 2017 and the 2020 COVID-related fiscal relaxation, the basic fiscal balance was kept at an average -0.7 percent of GDP and achieved a surplus in 2018 and 2019. The recommended improvement in revenue performance of 1 percentage point of GDP over the medium term has not materialized; the tax/GDP ratio declined during the period 2018-2020. The authorities are working to step up their tax mobilization plan, where full enforcement of the Mining Code should be a key priority. On the expenditure side, a reform to gradually eliminate electricity subsidies was started in 2019 with World Bank support, though it was interrupted during the pandemic, and subsidies remain large. The authorities followed staff's recommendation to limit recourse to non-concessional finance. The TSA is now operational, though it is still not comprehensive enough. The adoption of the manual for the preparation, appraisal and selection of investment projects continues to encounter delays.
2. **Monetary policy.** Progress on the implementation of monetary policy reserve money targeting framework has been uneven; despite the introduction of a liquidity forecasting framework and related instruments, the BCRG has not systematically implemented active liquidity management, as stated in the 2019 FSSR. Average inflation has remained at around 9½ percent, well above the Article IV ambition to reduce it to 5 percent. International reserves have increased and reached nearly 2½ months of imports at end-2020, and are expected to reach the 3-4 range recommended in the 2016 Article IV in 2025. The authorities have successfully launched a rules-based FX intervention strategy and the parallel premium has been significantly reduced. While the amended Central Bank law was passed in June 2017, recommendations to strengthen central bank independence and limit monetary financing have not been consistently enforced.
3. **Financial sector.** Progress to enhance risk-based supervision and improve financial intermediation and inclusion has been satisfactory. The framework for a risk-based supervision of banks was operationalized in October 2019. The National Strategy for Financial Inclusion and a credit information system were recently launched.
4. **Structural reforms and business environment.** A new public procurement code entered into force in September 2020. The authorities have also made notable progress in strengthening the business environment with the introduction of the online tax declaration and payment system, in addition to a digital platform for business licensing.
5. **Governance.** A new anti-corruption law was adopted in 2017, the decree on the asset declaration regime was enacted in 2020, and the asset declaration form was adopted shortly thereafter. A draft AML/CFT law was adopted by the Council of Ministers in November 2020. However, greater efforts should be made to strengthen governance and increase transparency, including in the mining sector.

## Annex III. Major Infrastructure Projects in Guinea

**1. During the past ten years, Guinea has undertaken important infrastructure projects in the energy, transportation, and public health sectors.** The projects have been financed by a mix of concessional and non-concessional resources. The recent ECF-supported program included the execution of several major projects deemed crucial to Guinea's development:

- *Hydroelectric dams* on the Konkouré river were completed at Kaleta (2015) and Souapiti (2020). The latter project's cost is estimated at US \$1.4 billion—majority-owned by the Government of Guinea through their share in an SPV—and was financed with a \$1.2 billion loan from the Export-Import Bank of China. Souapiti began producing electricity in September 2020.
- *A network of transmission lines* has linked these dams with consumers in Conakry and is being expanded to carry energy to the interior and onward to neighboring countries. By 2025, new lines are expected to carry energy north towards Guinea-Bissau and Sénégal (OMVG; \$187m co-financed by WB-EIB-IsDB), towards the east to Kankan (Linsan-Fomi project; \$170m financed by the EIB), and traverse eastern Guinea between the borders of Liberia and Mali (Guinée-Mali project; \$210m co-financed by WB-EIB-IsDB).
- *Road projects* are in construction to rehabilitate the national highway (Route Nationale 1; \$329m) and the urban road network of Greater Conakry (Voiries urbaines; \$186m), financed by ICBC.<sup>1</sup> A major road linking Kissidougou and Condebadou will facilitate commerce and connectivity in the remote Guinea Highlands region (\$241m co-financed by the Kuwait Fund, Islamic Development Bank and Arab Bank for Economic Development in Africa).
- *Public health infrastructure* includes construction of hospitals at Kankan and N'Zérékoré with financing from Export-Import Bank of India (\$55.5m). The latter is the epicenter of the recent Ebola outbreak. A project to improve the drinking water infrastructure in Greater Conakry (\$170m financed by Export-Import Bank of India) was signed in 2019.

**2. Large FDI-financed mining projects are also expected to involve substantial infrastructure components.** Guinea benefits from mining sector contributions to infrastructure. For example, the Guinea Aluminum Corporation project invested roughly \$1.4bn in port facilities and a railway line. In addition, after a decade of delays amid concerns of corruption, the development of the world's largest iron ore mine (Simandou blocks 1 and 2) has recently been tendered to a China-Guinea-Singapore consortium. The project—estimated at over 150 percent of GDP, with expected FDI worth \$15bn over the next 15 years—involves the construction of a railway—running 650km across the country, connecting the mine with a new port near Conakry<sup>2</sup>—and a port.

<sup>1</sup> These loans were financed on non-concessional terms and involved collateralization with unrelated revenue streams. Given their importance in Guinea's development strategy, they were included within the ECF-supported program's US \$650m ceiling on the signature of non-concessional loans.

<sup>2</sup> Given insufficient information, the baseline does not fully include this project; only some FDI and growth related to the construction of a railway and port are included at this stage.

## Annex IV. Risk Assessment Matrix<sup>1</sup>

Risks	Likelihood	Expected Impact if Realized	Policy Response
<b>Conjunctural shocks and scenarios</b>			
<b>Unexpected shifts in the COVID-19 pandemic.</b> <ul style="list-style-type: none"> <li> <b>Asynchronous progress.</b>  Limited access to, and longer-than-expected deployment of, vaccines in some countries—combined with dwindling policy space—prompt a reassessment of their growth prospects. </li> <li> <b>Prolonged pandemic.</b> The disease proves harder to eradicate (e.g., due to new virus strains, short effectiveness of vaccines, or widespread unwillingness to take them), requiring costly containment efforts and prompting persistent behavioral changes rendering many activities unviable. </li> <li> <b>Faster containment.</b>  Pandemic is contained faster than expected due to the rapid production and distribution of vaccines, boosting confidence and economic activity. </li> </ul>	<p><b>Medium</b></p> <p><b>Medium</b></p> <p><b>Medium</b></p>	<p><b>Medium</b> A slower deployment of the vaccine would prolong the pandemic and delay the non-mining recovery</p> <p><b>High</b> A second wave of the pandemic could lead to stricter containment measures</p> <p><b>Medium</b> The non-mining economy would bounce back faster than expected.</p>	<p>Create fiscal space for scaling-up health spending and targeted mitigation measures. Protect the most vulnerable through targeted measures.</p>

<sup>1</sup> The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.



Risks	Likelihood	Expected Impact if Realized	Policy Response
<b>Conjunctural shocks and scenarios</b>			
<b>Sharp rise in global risk premia exposes financial and fiscal vulnerabilities.</b> A reassessment of market fundamentals (e.g., in response to adverse COVID-19 developments) triggers a widespread risk-off event. Risk asset prices fall sharply and volatility spikes, leading to significant losses in major non-bank financial institutions. Higher risk premia generate financing difficulties for leveraged firms (including those operating in unviable activities) and households, and a wave of bankruptcies erode banks' capital buffers. Financing difficulties extend to sovereigns with excessive public debt, leading to cascading debt defaults.	Medium	<b>Medium</b> Demand for mining exports could weaken and mining investments could be delayed.	Allow the exchange rate to depreciate, conditioning the sale of reserves to the conditions that would trigger the rule-based FX intervention policy.
<b>Oversupply and volatility in the oil market.</b> Higher supply (due to, e.g., OPEC+ disagreements) and lower demand (including due to a slower global recovery from COVID-19) lead to renewed weakness in energy prices. Uncertainty about production cuts, prospects for the shale gas industry, and the pace of demand recovery lead to bouts of volatility.	Medium	<b>Medium</b> With unchanged retail prices, lower (higher) oil prices would increase (reduce) tax revenues and improve (worsen) the balance of payments	Implement the automatic price adjustment mechanism for petroleum products to allow pass-through to domestic prices. Build external buffers and allow greater exchange rate flexibility.

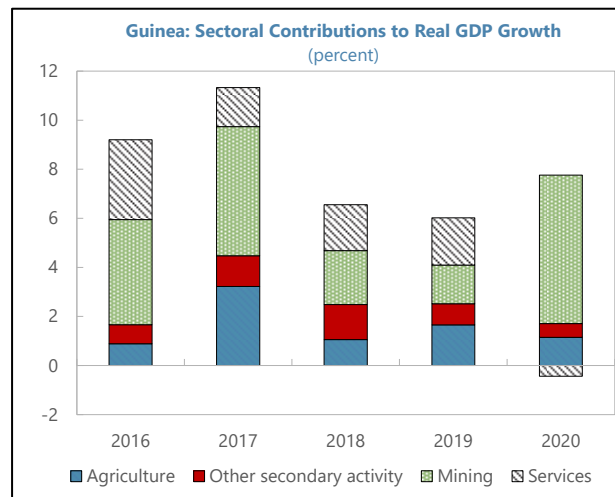
Risks	Likelihood	Expected Impact if Realized	Policy Response
<b>Conjunctural shocks and scenarios</b>			
<b>Intensified geopolitical tensions and security risks.</b> (Geo)political tensions in selected countries/regions (e.g., Middle East) cause economic/political disruption, disorderly migration, higher volatility in commodity prices (if supply is disrupted), and lower confidence.	<b>High</b>	<b>Medium</b> Mining investment projects would likely be postponed, weakening medium-term growth prospects.	Intensify structural reform to remove bottlenecks to growth and support economic diversification. Create fiscal space to scale-up priority spending.
<b>Structural risks</b>			
<b>Higher frequency and severity of natural disasters related to climate change</b> cause severe economic damage to smaller economies susceptible to disruptions and accelerate emigration from these economies (medium probability). A sequence of severe events in large economies reduces global GDP and prompts a recalculation of risk and growth prospects. Disasters hitting key infrastructure or disrupting trade raise commodity price levels and volatility (low probability).	<b>Medium/Low</b>	<b>Medium</b> Rising sea level, extreme precipitation, and drought could affect food production and livelihoods.	Build the country's resilience for adaptation to climate change in the agriculture and rural livelihoods.

Risks	Likelihood	Expected Impact if Realized	Policy Response
<b>Domestic Risks</b>			
<b>An adverse shock to global commodity prices</b> could reduce exports earnings and delay mining projects.	<b>Medium</b>	<b>Medium</b> A decline in global aluminum, gold or iron prices could reduce mining production and exports revenues and delay investments.	Allow the exchange rate to depreciate, conditioning the sale of reserves to the conditions that would trigger the rule-based FX intervention policy. Continue efforts to diversify the economy.
<b>An adverse shift in the Ebola outbreak</b> could trigger renewed lockdown measures, create additional expenditure needs, and potentially social unrest.	<b>Medium</b>	<b>Medium</b> An unsuccessful control of the Ebola outbreak would further disrupt the economic activity and reduce growth and tax revenues	Accelerate the deployment of the vaccine and mobilize external support for its financing. Conduct a communication campaign to the public on the vaccine plan and prevention rules.
<b>Risks of political and social instability.</b> Non-mining recovery could be delayed by social unrest.	<b>Medium</b>	<b>High</b> Investment and growth could be affected; macroeconomic stability could deteriorate.	Focus reforms on areas less sensitive to socio-political environment. Ensure transparency in the deployment of the COVID-19 vaccine plan. Improve inclusiveness of government policies.

## Annex V. Diversification and Medium-Term Growth Prospects<sup>1</sup>

### 1. Growth in Guinea is becoming increasingly concentrated in the mining sector.

With almost one third of the world's bauxite reserves, of which a very small amount has been exploited, large reserves of gold, and the world's largest unexploited iron ore deposits, the sector has been growing rapidly since 2016, and the potential remains enormous. FDI in the mining sector has been a key driving force for the economy, and it is expected to accelerate. While there is some potential to move up the value chain—from bauxite to alumina and steel production—the



sector currently accounts for less than 6 percent of total employment<sup>2</sup> and contributes less than ¼ of total GDP, with benefits going to a relatively small share of the country. Therefore, energizing the non-mining sector will be critical in developing a more sustainable and inclusive medium-term growth model, which can create jobs and reduce poverty. Furthermore, diversifying the sources of growth away from a narrow set of commodities will also reduce Guinea's vulnerability to exogenous shocks and increasing competition from other market players (e.g. Australia, Indonesia).

### 2. The IMF's recently developed COVID-19 extension of the DIGNAR model (Melina, Yang and Zanna, 2014, 2016)<sup>3</sup> demonstrates some of the risks associated with the current growth model, as well as the benefits that could be accrued from pursuing a more diversified growth model.

The dynamic general equilibrium model incorporates the following features: financially constrained households; three sectors of production (bauxite, nontraded goods, and non-bauxite traded goods); and a government with access to various fiscal instruments and debt. After calibrating the model to align projections with the baseline scenario, staff constructed a downside and an upside scenario.

### 3. The downside scenario confirms Guinea's vulnerability to commodity price shocks.

The simulation incorporates the following shocks: (1) a trade shock captured by a fall in bauxite exports; and (2) a commodity price shock implying lower bauxite prices; and (3) a second COVID-19 wave affecting employment.<sup>4</sup> These shocks would take a heavy toll on Guinea's economy. Driven by

<sup>1</sup> This annex was prepared by Zamid Aligishiev (RES), Alexander Massara (AFR) and Giovanni Melina (RES).

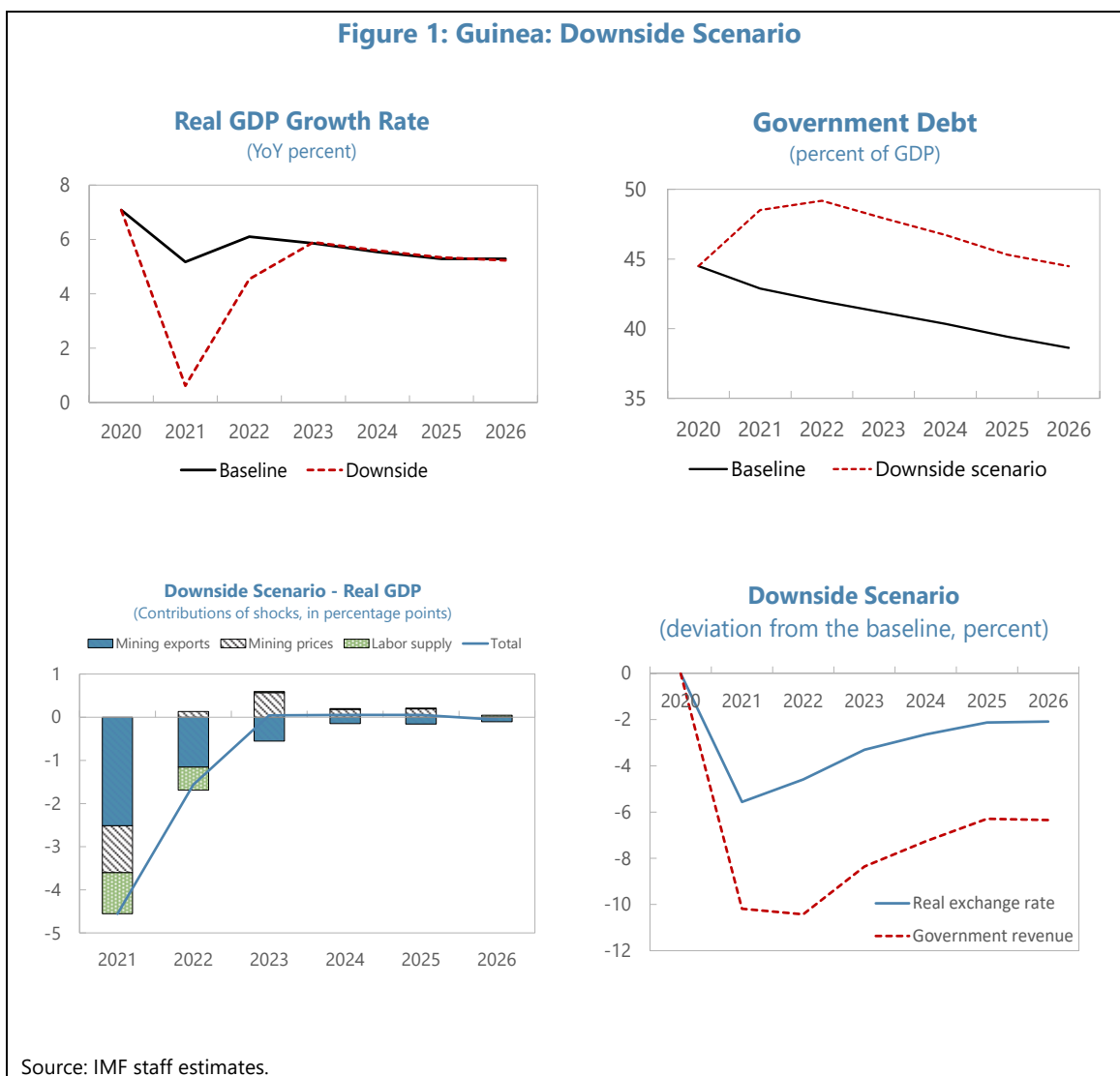
<sup>2</sup> "Creating Markets in Guinea; Generating diversified growth in a resource-rich environment", IFC 2020.

<sup>3</sup> A working paper by Aligishiev and others (2021) will provide technical details and an application of the model to fiscal consolidations.

<sup>4</sup> The downside scenario incorporates a 24 percent decline in mining prices and a 10 percent decline in mining exports in 2021, both relative to the baseline. Both shocks are assumed to fade in the short term, with bauxite prices and exports recovering to baseline levels by 2024. The scenario also includes a 2 percent decline in the labor supply, simulating movement restrictions and increased mortality, with a full recovery by 2023.

subdued employment and lower mining exports, GDP growth would be 4.6 percentage points lower than the baseline in 2021 and 1.6 percentage points lower in 2022. Lower mining prices and exports would increase debt by a) directly reducing government revenues from the natural resource sector; and b) valuation effects of external debt through the real exchange rate depreciation. Absent fiscal consolidation measures, public debt would reach nearly 50 percent of GDP by 2022 and would remain elevated with respect to the baseline throughout the medium term (panel chart).

**Figure 1: Guinea: Downside Scenario**

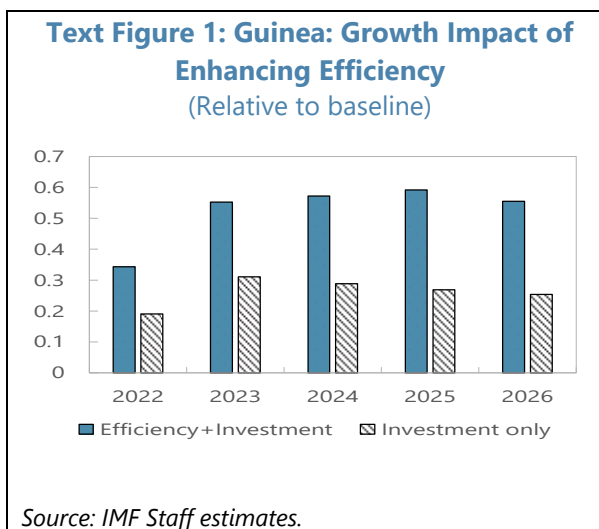


**4. Economic diversification in Guinea could mitigate vulnerabilities while leveraging the current mining boom.** There is potential to create synergies between mining and other potential growth sectors such as agribusiness and hydropower. For example, local suppliers have increasing opportunities through local content sourcing and could benefit from the infrastructure along the mining corridors to reach regional markets.

**5. To enable such diversification, Guinea needs to increase returns on non-mining private investment, which would then underpin a reorientation of the current growth model.**

**Achieving higher returns could be met through a number of channels:**

- Improving public investment efficiency to increase absorption capacity and accelerate the implementation of critical infrastructure projects. The recent completion of the public investment manual represents a big step in better project appraisal, implementation, and sequencing. Implementation of the manual would be a critical next step and would provide higher returns than simply increasing investment spending (text figure). Once in place, the authorities could leverage the efficiency gains to speed up planned infrastructure investment, particularly in the road and port networks, as well as in the electricity and energy sectors.<sup>5</sup>
- Strengthening the business climate in conjunction with improvements to governance. Recent progress in expanding the credit information system and the installation of the commercial court have been well-received by the private sector. Implementing the land registry and the foreign trade portal, along with other digitalization reforms, would further strengthen the business environment. On governance, implementing the AML/CFT regime and initiating the asset declaration regime, among others, would improve transparency and accountability of government and create a more stable, business-friendly environment. Coupled with more efficient and higher public investment spending, these reforms would increase returns for private non-mining investment.<sup>6</sup>
- In addition, efforts to develop human capital, for example through reducing the cost of primary and secondary education, would stimulate labor productivity.
- Increasing domestic revenue mobilization. Using a conservative portion of additional revenue from the tax potential analysis, staff incorporated revenue increases reaching 3.5 percent of GDP over the medium term relative to the baseline scenario, starting in 2022. The increase is used to support the acceleration of public investment, along with an increase of social safety nets, which ramp up to 0.5 percent of GDP above the baseline by 2025. The



<sup>5</sup> To simulate increases in efficiency, staff assumed that Guinea could close half of the gap with the median Sub-Saharan African country by 2024. The upside scenario incorporates a 1 percent of GDP increase in public investment, relative to the baseline, beginning in 2022.

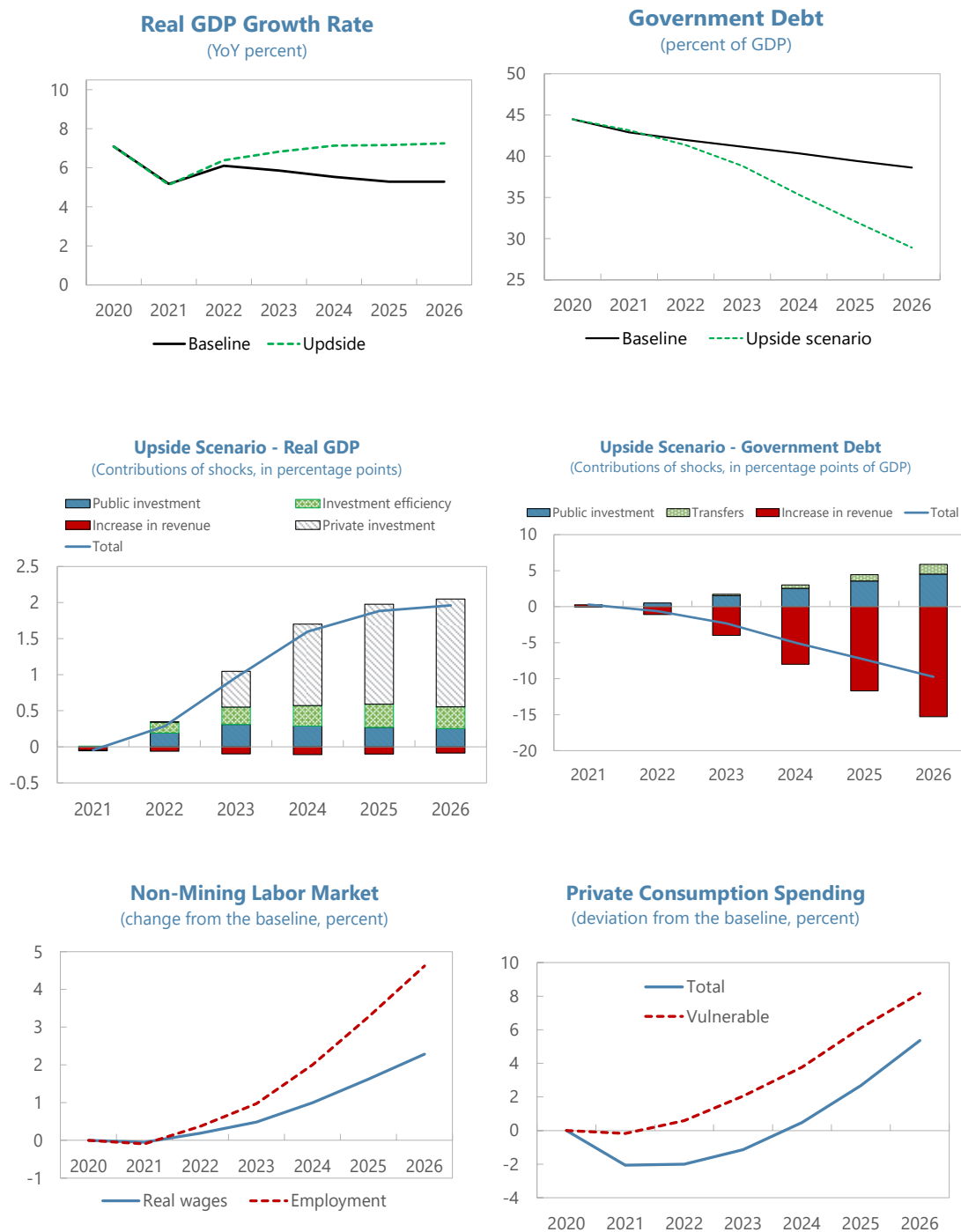
<sup>6</sup> The model incorporates a 1.7 percent increase in private investment over the medium term, bringing investment levels closer to those in the early 2010s.

increase in transfers would further support human capital development and help alleviate poverty.

**6. Using the DIGNAR-19 model, staff generated an upside scenario based on the recommended reforms to boost diversification.** The upside scenario sequences the above reforms starting with the implementation of the public investment manual, combined with improvements in governance and the business climate. In the following year, the increased efficiency allows for greater levels of public investment, which continues over the medium term. At the same time, more revenue is mobilized. The combined effect of these positive shocks would significantly boost growth prospects in Guinea over the medium term. Market reforms combined with higher and more efficient public investment spending would increase non-mining and total growth by 2.6 percentage points by 2026, compared to the baseline. The resulting increase in private and public capital would raise the productivity of labor, fueling employment and raising real wages in the non-mining sector, and ultimately lead to higher levels of private consumption expenditure. The sequential nature of the reforms would also allow an increase in social transfers, further boosting human capital levels and allowing vulnerable households to consume more. Finally, government debt sustainability would benefit from the reform package, and fall below the pre-pandemic level by 2024, facilitated primarily by stronger revenue mobilization, as well as higher growth levels.

**7. The model results reinforce the risks associated with increasing concentration in the mining sector and the benefits that could be accrued from pursuing a more diversified growth model.** While the mining sector provides much-needed growth, high wages, and government revenue, the concentration of the sector leaves the country vulnerable to external shocks, particularly in the context of COVID-19. Mining-led growth also does not provide much in terms of employment. In contrast, undertaking a diversification reform agenda would provide a more stable, inclusive foundation for growth, while contributing more to poverty reduction. Complementing the agenda with greater domestic revenue mobilization would buttress the needed increase in capital and social expenditure, without risking debt sustainability. In this context, staff welcome the fact that the second national development strategy (PNDES II), under preparation, is expected to place greater emphasis on attracting non-mining FDI, diversification, and human capital development.

Figure 2: Guinea: Upside Scenario



Source: IMF staff estimates.



## Annex VI. Petroleum Products and Automatic Pricing Mechanism<sup>1</sup>

### 1. Guinea's current fuel price adjustment mechanism is largely on an ad-hoc basis.

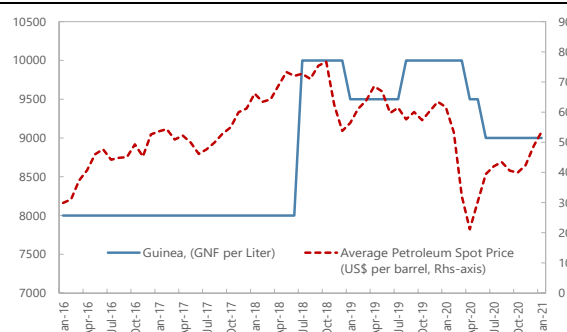
Every month, a formula is revised, that adds three components to import parity prices: taxes, provisions, and distribution margins. According to the rule approved by a Ministerial Decree in 2014, official/consumer prices are adjusted if fuel import prices rise or fall by 5 percent compared to official prices. Such conditions are reviewed monthly by a Joint Committee comprised of various stakeholders including the National Office of Petroleum (ONAP), and subject to the Prime Ministers and President's approval.

**2. Prices have remained unchanged for long periods of time (Figure 1).** The authorities decided to shield consumers from fluctuating prices by choosing to bear the volatility on government revenue, adjusting the special tax on petroleum products (TSPP) to close the gap between the official and the formula prices (Figure 2). At times of rising import prices, maintaining prices at the pump constant also required revising customs duties downwards. Both reductions in TSPP and in custom duties can incite significant revenue losses, and lead to sizeable fuel subsidies.

### 3. In 2018, a sharp official fuel price upwards adjustment was unavoidable,

**resulting in unrest.** The oil import price surge in 2018 led to significant subsidies, with the TSPP level being set at zero, leading to fiscal losses worth 0.6 percent of GDP. Unable to sustain the additional costs of supplying fuel to the economy, Guinea was obliged to increase official prices by 25 percent. This abrupt price change coincided with local elections and heightened political tensions, resulting altogether in a period of social unrest. Guinea has since employed modest changes to end-user petroleum prices through ad-hoc adjustments to petroleum taxes though with a lagged effect.

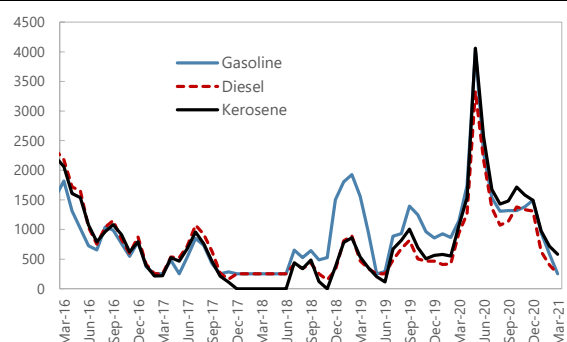
**Figure 1. Guinea: Evolution of Petroleum Products Prices 2016-21<sup>1</sup>**



Sources: World Economic Outlook; and IMF Staff estimates.

<sup>1</sup>The Average petroleum Spot price is an average of prices of UK Brent, Dubai Fateh, and West Texas Intermediate crude oil.

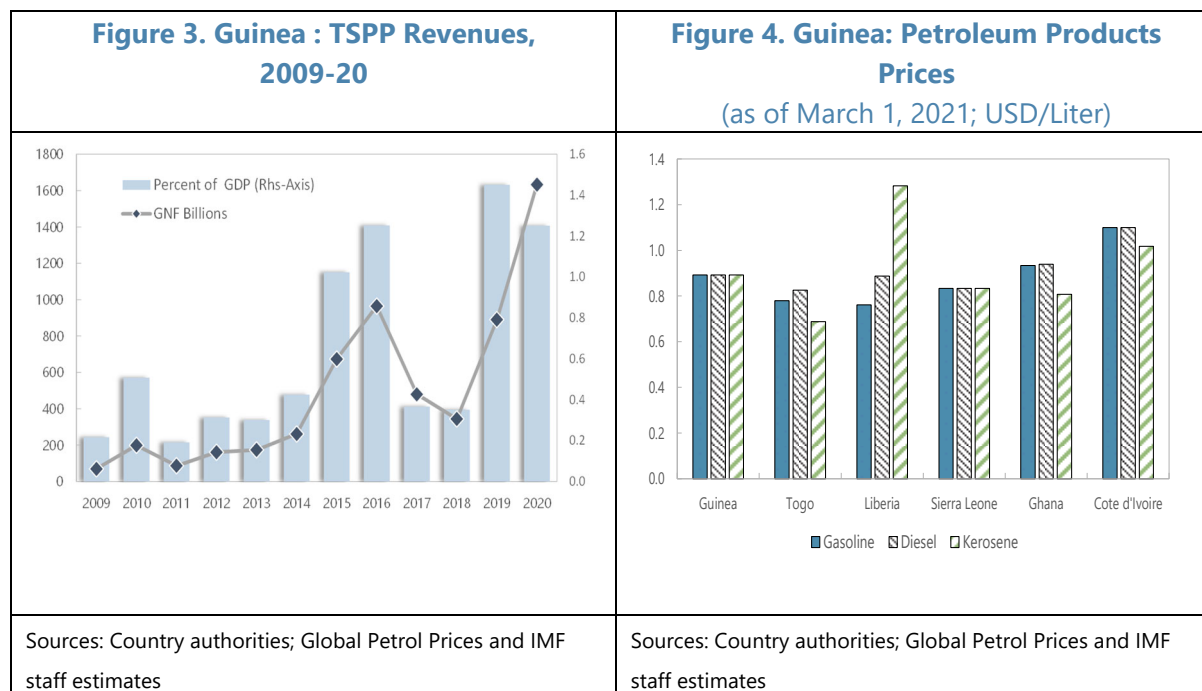
**Figure 2. Guinea: TSPP Monthly Change (GNF per liter)**



Sources: World Economic Outlook; and IMF Staff estimates.

<sup>1</sup> Prepared by Ornella Kaze (AFR).

**4. In 2020, Guinea witnessed its strongest performance in TSPP in over a decade, generating a petroleum revenue windfall.** Following a collapse in international prices during the 2020 global oil shock, retail prices in Guinea were reduced by 5 percent in April 2020 and another 5 percent in June 2020.<sup>2</sup> Despite such reductions, the TSPP recorded a record 1,633 billion GNF in revenues—an 83 percent increase from the previous year and 1.3 in percent of GDP (Figure 3). As of May 2021, retail prices remained at June 2020 levels of 9,000 GNF per liter, despite rapidly recovering international prices and the criteria for triggering a price change having been met as of January 2021. Guinea's retail prices are currently on par with those of its peers (Figure 4).

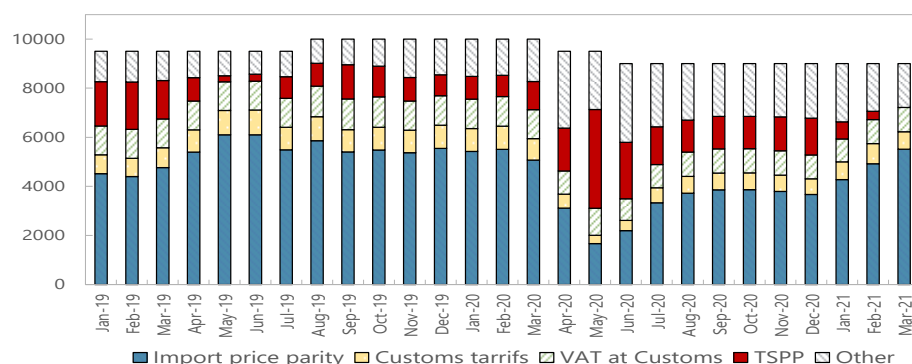


**5. IMF Staff has strongly supported the implementation of the automatic price adjustment mechanism with smoothing.** During the course of the 2017 ECF-supported program, Guinea received IMF TA on designing an automatic petroleum price adjustment mechanism specific to countries in a fragile social context.<sup>3</sup> Indeed, an automatic adjustment mechanism would have several advantages, including enhancing transparency and predictability and enhancing revenue mobilization efforts, while making expenditure more efficient (as fuel subsidies are highly regressive, with final consumption concentrated at high-income households).

<sup>2</sup> The retail price of fuel, gasoil and kerosene was decreased from 10,000 to 9,500 Guinean francs per liter in April 2020. The price was lowered to 9000 Guinean Francs per liter in June 2020.

<sup>3</sup> The findings and recommendations of the TA were presented to the authorities in the form of a TA report in April 2020.

**Figure 5. Guinea: Gasoline Price Structure, 2019-21**  
(GNF/Liter)



Sources: Guinean authorities; and IMF staff estimates.

**6. Implementing the automatic petroleum pricing mechanism in Guinea will require an effective communication campaign, and comprehensive and sustainable mitigating measures to protect the most vulnerable.** In addition to streamlining of the current price scheme, Guinea's petroleum pricing TA highly recommends the implementation of an effective and phased communication campaign as a tool for normalizing retail price changes among consumers. Furthermore, Staff recommends orienting efficiency gains of the automatic adjustment mechanism towards income supporting measures, such as cash transfer programs to mitigate the impact of fuel price fluctuations on the most vulnerable households.

**7. The Guinean authorities have committed to adopting the automatic price adjustment mechanism for petroleum products.** The original planned timeline was by June 2020, as discussed during the 4th ECF-supported program review. However, this action was delayed as Guinea's immediate focus turned towards mitigating the effects of the COVID-19 pandemic. Once the pandemic begins to abate, the Guinean authorities will need to make progress towards establishing an automatic price adjustment mechanism by first informing the public of the reforms through a clear and transparent communication campaign while ensuring measures to protect the most vulnerable from the price increases remain in place.

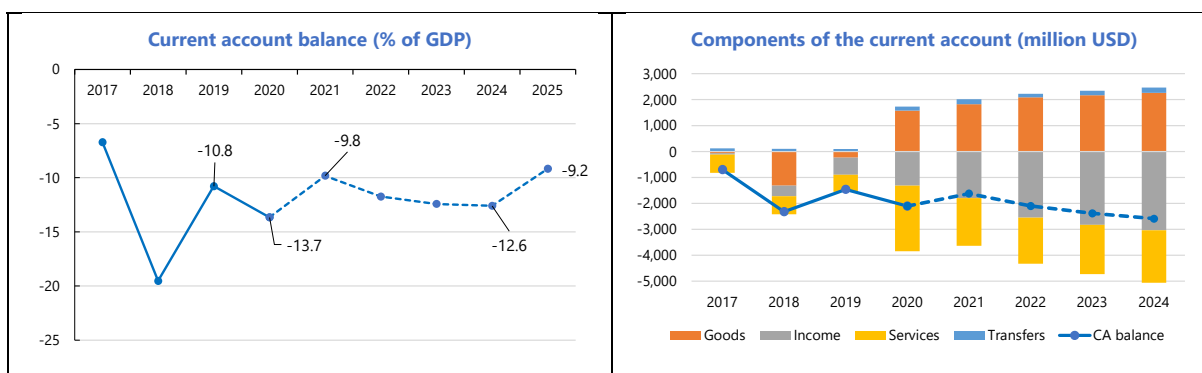
## Annex VII. External Sector Assessment

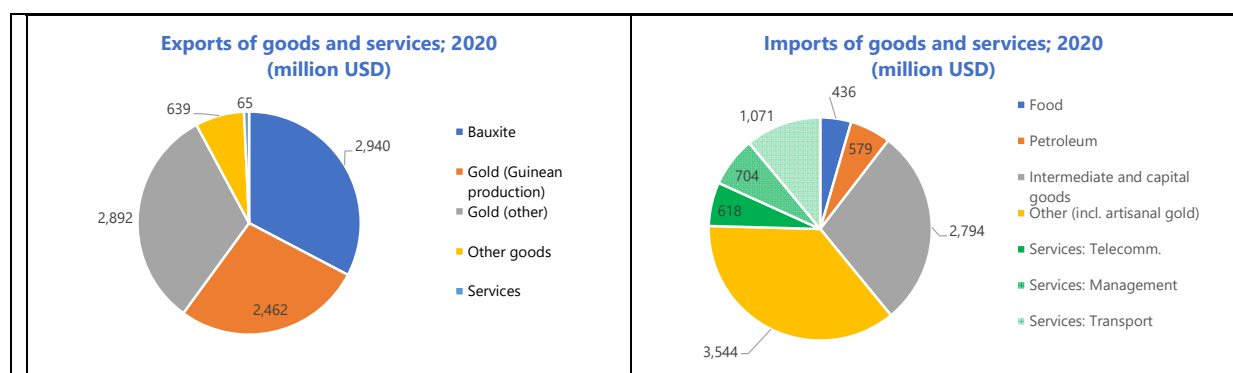
**Overall Assessment:** The external position of Guinea during 2020 was weaker than the level implied by fundamentals and desirable policies. This compares to an assessment of “substantially weaker” at the time of the last ESA (December 2018), indicating some progress in reducing imbalances during the ECF-supported program. The assessment reflects analysis of the current account, REER, financial flows, and reserve adequacy. Data gaps do not allow for a comprehensive analysis of the external balance sheet, though the DSA provides a discussion of risks posed by rising external debt, and years of strong FDI reflect significant foreign ownership in the mining sector.

**Potential Policy Responses:** External imbalances will persist through 2024 due to high imports associated with FDI-financed mining projects. Over the longer term, they are expected to be reduced by a combination of (i) a gradual consolidation of the fiscal balance, (ii) active implementation of a monetary policy calibrated to reduce the inflation differential with respect to trading partners, and (iii) continued adherence to the BCRG’s rule-based FX intervention policy to allow for greater exchange rate flexibility and preserve reserve buffers. To facilitate this policy mix, the Treasury should discontinue its reliance on central bank financing and continue to develop the domestic market for its securities through regular issuance.

### Current Account

**Background.** Guinea’s current account deficit rose to 13.7 percent of GDP in 2020, up from 10.8 percent of GDP in 2019. Staff expect the current account deficit to moderate to 9.3 percent of GDP in 2021, but to remain above 10 percent of GDP through 2024, reflecting strong imports of capital goods for investments in the mining sector. Exports of goods and services have increased from an average of 24 percent of GDP over 2010-15 to 58 percent of GDP in 2020 and are expected to average 46 percent of GDP over 2021-25. The mining sector accounts for nearly all export growth in recent years and represented 93 percent of total exports of goods and services (TEGS) in 2020. The two main exported minerals in 2020 were bauxite (33% of TEGS) and gold (60% of TEGS). Artisanal gold exports spiked in 2020, but more than half (US \$2.9b) are assumed to have been smuggled from neighboring countries before being exported. Strong foreign participation in mining production results in the repatriation of 40% of net export revenues through dividends in the income account—expected to rise to 50% in 2021 as new foreign-owned mines begin operations.





**Assessment.** Staff estimate a current account norm of -4.7 percent of GDP against a cyclically adjusted current account of -8.3 percent of GDP, resulting in a gap of -3.6 percent of GDP. To arrive at this assessment, staff have employed the EBA-Lite current account model, whose output is summarized in Text Table 1. Staff have adjusted the current account balance for 5.4 percent of GDP in temporary factors, both elements of which are due to the pandemic: (i) 4.3 percent of GDP in transitory service imports that reflect very high freight costs on goods imports incurred during the pandemic, and (ii) 1.1 percent of GDP for the import of pandemic-related goods (PPE, health supplies, etc.). The relative policy gap of 4.4 percent of GDP captures mostly the contribution of a cyclically adjusted fiscal primary balance. While the balance of -2.6% of GDP in 2020 was somewhat looser than its desirable level of -2.3% of GDP in the medium-term, the multilateral consistency built into the EBA-Lite model emphasizes that the stance was much tighter than the large fiscal expansions provided by advanced economies.

**Table 1. Guinea: Model Estimates for 2020**

**Text table. Guinea: Results from EBA-lite models, 2020**

(in percent of GDP, unless otherwise indicated)

	CA model	REER model
<b>CA-Actual</b>	<b>-13.7</b>	
Cyclical contributions (from model)	0.2	
Additional temporary/statistical factors	-5.4	
Natural disasters and conflicts	-0.1	
<b>Adjusted CA</b>	<b>-8.3</b>	
<b>CA Norm</b> (from model) 1/	<b>-4.7</b>	
<b>CA Gap</b>	<b>-3.6</b>	<b>-10.4</b>
o/w Policy gap	4.4	
Elasticity	-0.31	
<b>REER Gap (in percent)</b>	<b>11.8</b>	<b>33.6</b>

1/ Cyclically adjusted, including multilateral consistency adjustments.

**Real Exchange Rate**

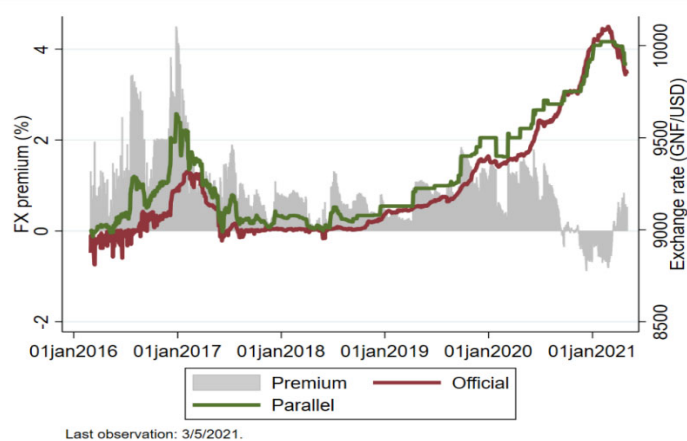
**Background.** The real effective exchange rate continued a longstanding appreciation trend in 2020, rising 5.9 percent yoy, and 24 percent with respect to its level in 2017 (the subject of the last External Sector Assessment). There is some early evidence that this trend was arrested in the second half of 2020, with the monthly series peaking in May and falling gradually as the BCRG allowed for greater exchange rate flexibility, and resulting in a near elimination of the parallel market premium. However, a recent spike in

inflation in the first months of 2021 has led to further real appreciation. This underscores the need for monetary policy to moderate the sizable inflation differential with respect to Guinea's trading partners over the medium term.

**Assessment.** Staff estimate that the REER gap is 12 to 34 percent. Based on the EBA-Lite REER model, staff estimate that the REER overvaluation in 2020 was approximately 34 percent above its model-implied norm. Using the gap from the CA model as a reference and applying a staff-estimated semi-elasticity of -0.31 yields an overvaluation of 11.8 percent. The divergence between the REER and CA gap model estimates are thought to reflect Guinea's reliance on commodity exports, which display a very low REER elasticity. The REER gap may be reflected in low growth of non-mining exports, pointing to a broader loss of external competitiveness outside the mining sector that may be undermining efforts to diversify the economy.

### Guinea: Exchange Rate Developments

#### A. Nominal exchange rate (GNF/USD) and parallel market premium

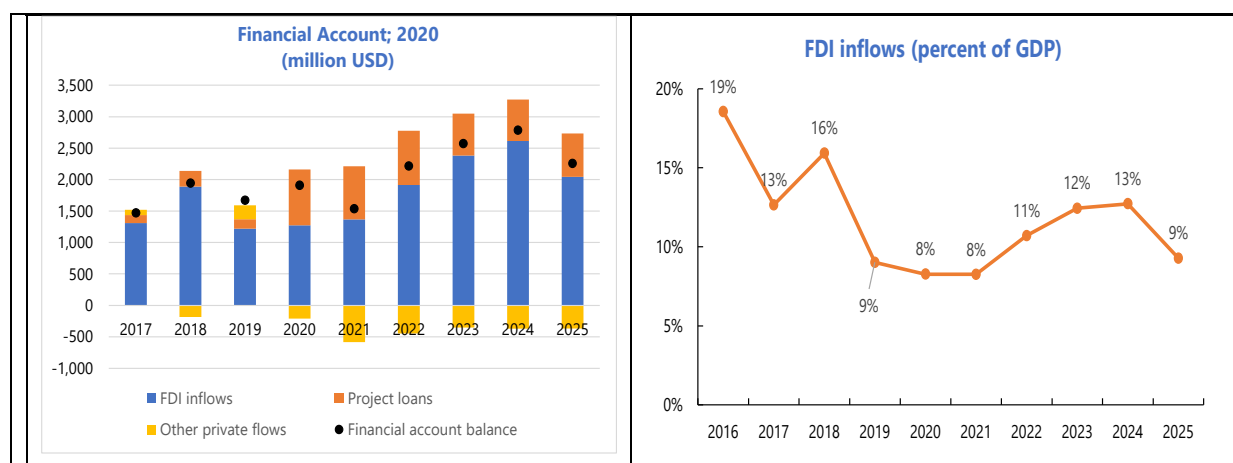


#### B. REER index (2010=100)



### Capital and Financial Accounts: Flows and Policy Measures

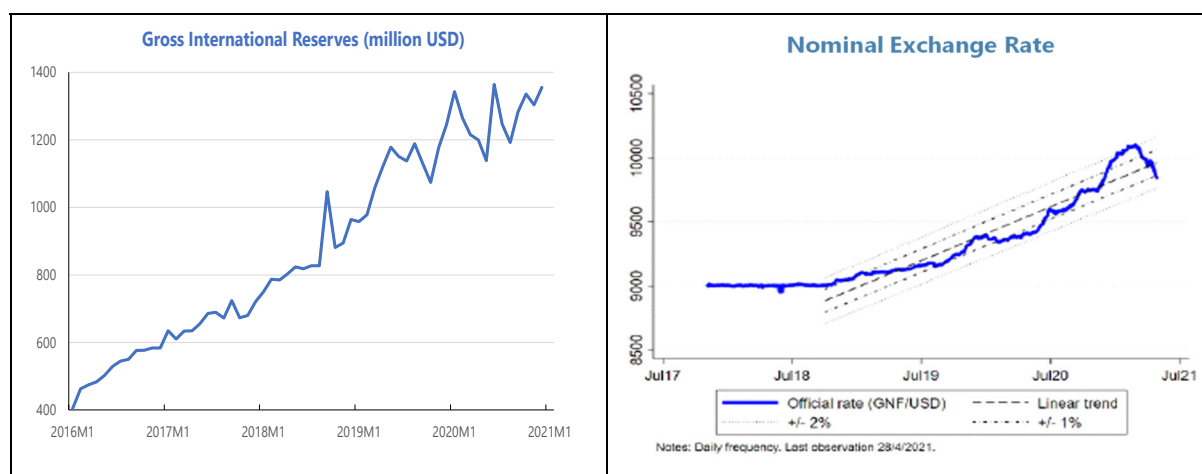
**Background.** Guinea has experienced several years of strong FDI inflows—including for the construction of the Souapiti hydroelectric dam over 2017-20—which reached 16 percent GDP in 2018 and have remained near 10 percent of GDP in 2019-20. FDI and project loans are expected to remain strong in coming years, as large investments proceed in the mining, electricity, and transportation sectors. The baseline includes the FDI-financed construction of Simandou Phase I in 2022-24, including a deep-water port and a transnational railway. Strong outflows are however expected to moderate the strength of the financial account in 2021-22, as proceeds from the boom in artisanal gold mining are used to purchase medium- and long-term foreign assets.

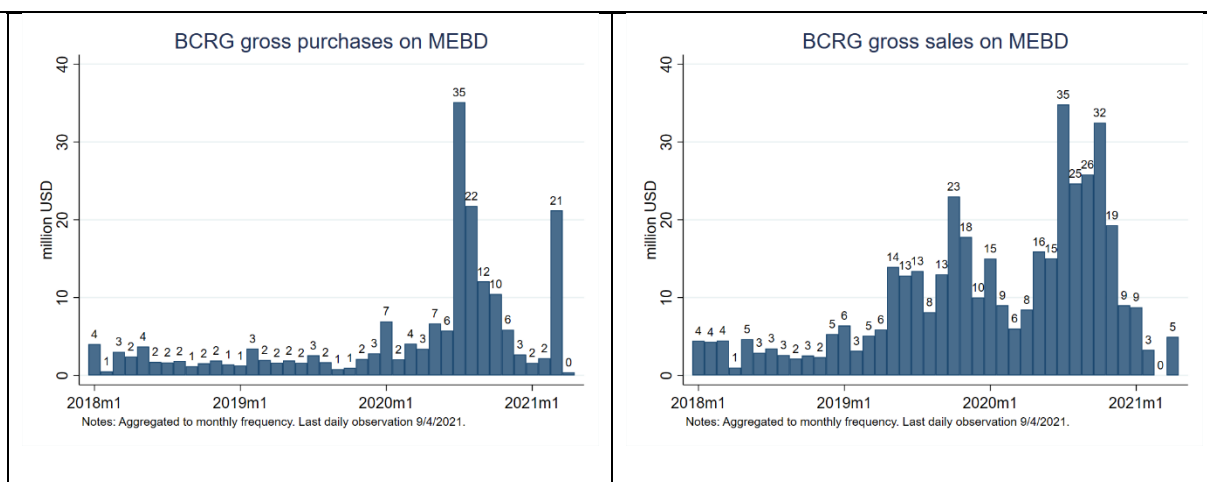


**Assessment.** Inflows into Guinea have taken the form of relatively stable FDI and project loans with long maturities of up to 25 years. As such, capital flows pose limited roll-over and liquidity risks.

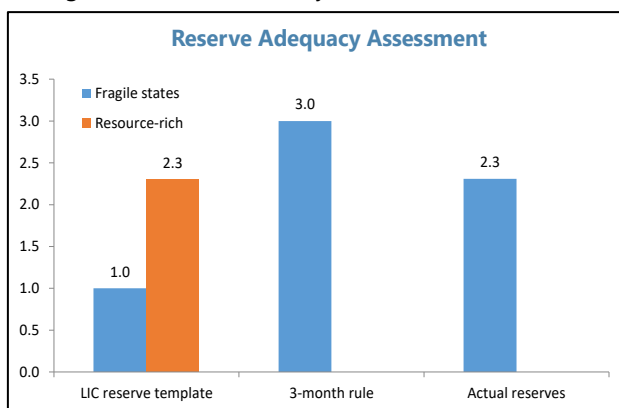
### FX Intervention and Reserves Level

**Background.** The stock of gross international reserves has grown consistently over the past 10 years, reaching US \$1.36 billion at end-2020, up US \$110 million from a year earlier and corresponding to 2.3 months of current imports (net of smuggled artisanal gold destined for exports). The BCRG had operated a crawl-like exchange rate regime since October 2018. In November 2020, a new rule-based FX intervention policy was implemented. Under the new policy, the BCRG conditions the organization of an FX auction on price developments in the interbank market, committing not to intervene when the market rate is within 0.25 percent of its 5-day moving average.<sup>1</sup> Since adopting the policy, the exchange rate temporarily exited its narrow band of  $\pm 1$  percent with respect to a linear trend (Panel B). The BCRG's gross sales in the MEBD FX market totaled US\$215 million in 2020 (2 percent of GDP), up from US\$133 million in 2019. The BCRG intervened heavily at the onset of the COVID-19 pandemic when the BOP came under strain from heightened fiscal needs but has largely curtailed its operations in the market since adopting the rule-based policy.





**Assessment.** Staff consider Guinea's level of international reserves to be adequate for precautionary purposes. Guinea's stock of gross international reserves at end-2020 corresponds to 2.3 months of current imports, when we net out imports of smuggled artisanal gold that are destined for exporting (below the 3 months rule of thumb) and corresponds to 36 percent of broad money (M2; above the 20 percent rule of thumb).<sup>2</sup> Guinea is a credit-constrained economy that is highly resource-rich, suggesting the benefits to holding reserves as a precautionary buffer to smooth external shocks may be higher than for others.<sup>3</sup> On the other hand, the country's transition to an increasingly flexible exchange rate regime reduces the need for holding reserves, and its fragility raises the opportunity cost of holding reserves, with an estimated marginal productivity of capital of 6.9%. A cost-benefit analysis approach considering these factors using the IMF's reserve adequacy assessment framework for credit constrained LICs (ARA-CC) estimates that the adequate level of reserves for Guinea is between 1.0 and 2.3 months of imports, with the lower end calibrated to fragile states and the upper end calibrated to resource-rich economies. Current reserves thus correspond to 100 percent of the upper end of the ARA-CC metric range. Given the extremely concentrated resource-intensity of Guinean exports, as well as the country's short track-record of exchange rate flexibility, staff recommend that the BCRG continue to gradually accumulate reserves until reaching 3.0 months of import coverage, while maintaining their adherence to the rule-based policy for their interventions on the MEBD foreign exchange market. The BCRG's FX interventions involved net sales of US\$100 million during 2020 but have grown more symmetric since the adoption of the rule-based intervention policy in November 2020. The very small FX premium, combined with very limited official FX sales in the past six months, signal that the foreign exchange market is relatively balanced, supporting staff's assessment that external imbalances are on the lower end of the range estimated by the EBA-light models.



1/ For a more detailed discussion of the policy, see IMF Country Report No. 20/316, Annex IV.

2/ A large share of Guinea's imports correspond to capital goods needed to undertake FDI-financed projects in the mining sector, which do not pose as clear a risk to the balance of payments that would require a response from the central bank. For this reason, previous staff reports have focused on the reserve coverage ratio excluding imports of capital goods. Doing so would yield a coverage ratio of 3.0 months of current imports at end-2020.

3/ Per the 2016 "Guidance Note on the Assessment of Reserve Adequacy and Related Considerations", a country is deemed resource-rich if it depends on natural resources for at least 20 percent of exports. As shown above, mining made up 93 percent of Guinea's total exports in 2020.



## Annex VIII. Status of the 2019 FSSR Recommendations

Recommendation*	Timeline*	Priority	Status
<b><i>Financial stability oversight</i></b>			
1. Periodically evaluate to what extent the advantages of providing services not directly related to BCRG's core mandate outweigh the risk of potential resulting pressures from correspondent banks	Con	High	In progress. To date, BCRG assesses its relationship with its main correspondent bank to be stable.
2. Reconcile data discrepancies, increase data coverage and ensure data quality	ST	High	In progress. BCRG has reviewed and extended the coverage of its FSIs, with the support of IMF TA. Revised FSIs have been published in April.
3. Create and operationalize a financial stability surveillance unit (FSSU), which should play a key role in addressing recommendation 2	ST	High	In progress. The financial stability function has been assigned to the Directorate of Statistics and Balance of Payments.
4. a) Clarify BCRG's macroprudential mandate in the BCRG Statute  b) Establish an institutional framework for macroprudential policy	MT	Medium	In progress. These are considered in the draft revised BCRG law.
<b><i>Systemic liquidity assessment</i></b>			
5. Implement the past recommendations on liquidity management	ST	High	In progress. BCRG established a liquidity committee and a team to forecast autonomous liquidity factors in August 2018. The instruction on required reserves has been signed.

<b>Recommendation*</b>	<b>Timeline*</b>	<b>Priority</b>	<b>Status</b>
6. Establish a structured and ranked collateral framework	MT	High	Not started. The TA has been delayed due to COVID-19.
7. Establish an operational framework for the ELA	MT	High	In progress. The instruction on emergency liquidity assistance has been signed in 2019. The operational framework has not yet been put in place.
<b><i>Financial market infrastructures</i></b>			
8.a) Adopt a payments law guaranteeing: (i) the legal validity of clearing; (ii) payment finality; and (iii) the protection of holders of collateral  b) Adopt a regulation guaranteeing the end-of-day settlement operations of the clearing system	ST	High	Not started.
9.a) Support the introduction of a "switch"  b) Establish a national payments committee	MT	High	Not started.
10. Establish an organizational structure for payment systems oversight	MT	Medium	Not started.
11.a) Discourage the use of high-value checks  b) Enhance the check clearing mechanism	MT	Medium	Not started.
<b><i>Banking regulation and supervision</i></b>			
12. a) Increase the resources assigned to banking supervision	ST/MT	High	Not started.

Recommendation*	Timeline*	Priority	Status
b) Enhance risk-based supervision (RBS) and the reporting system			
<p>13. a) Enhance BCRG's banking supervision mandate in the Banking Law</p> <p>b) Include in the Law specific provisions for development banks</p> <p>c) Divest BCRG's stake in the development bank</p> <p>d) Optional: include provisions to allow for Islamic banking</p>	MT	High	<p>In progress. The revision of the banking law has been delayed due to COVID-19.</p> <p>In progress. A comparative study on the banking law of the WAMZ is underway.</p> <p>Not started. BCRG plans to divest its 30 percent stake as soon as it finds a credible investor.</p> <p>In progress. The revision of the banking law has been delayed due to COVID-19.</p>
<p>14. a) Implement the relevant parts of the Basel II/III capital framework</p> <p>b) Revise the regulations on large exposures and related parties</p>	MT	Medium	<p>In progress. An instruction on capital requirements was prepared with the support of AFW.</p> <p>Not started.</p>
c) Complete the cross-border cooperation agreements for all banks			In progress. BCRG has initiated cooperation agreements with the central bank of Mauritania and the Central Bank of Central African States (BEAC).
15. a) Implement the relevant parts of the Basel II/III liquidity framework			Not started.

Recommendation*	Timeline*	Priority	Status
b) Enhance the regulations on governance and risk management			Not started.
c) Introduce requirements for Interest Rate Risk in the Banking Book (IRRBB) and country and transfer risks			Not started.
<b><i>Crisis management, bank resolution, and the financial safety net</i></b>			
16. Enhance the legal and regulatory framework for deposit insurance	ST	High	In progress. The TA from the US Treasury has been postponed due to COVID-19.
17. Strengthen in the law BCRG's early intervention powers and tools, including requirements for and capacity to review recovery plans	MT	High	In progress. The revision of the banking law has been halted due to COVID-19.
18. Enhance the resolution related provisions in the Banking Law	MT	High	In progress. The revision of the banking law has been halted due to COVID-19.
19. Increase capacity on resolution and deposit insurance	MT	High	Not started.
20. Establish a body for the coordination of crisis measures	MT	High	Not started.
(*) Con, continuously; ST, short-term, less than six months; MT, medium-term, with results around 18 months; LT, long-term, with results around 30 months			

## Annex IX. Digitalization in Guinea: The Financial Sector and Business Environment<sup>1</sup>

### Overview

**1. The digital economy represents a key opportunity for private sector growth and diversification in Guinea.** Digitalization can boost growth and productivity, reduce start-up and transaction costs, and enhance market access:

- A study has shown that a 1 percentage point increase in internet use leads to a 0.37 increase in real per capita income growth and that connected firms have 2.6 times more sales and employ eight times as many workers.<sup>2</sup>
- A World Bank study showed that the number of newly registered firms increased by 56 percent after the introduction of online registration systems.<sup>3</sup> The same study indicated that private companies in Africa using the internet have on average 3.7 times higher labor productivity than nonusers and 35 percent higher total factor productivity.

**2. While digitalization presents new growth opportunities, Guinea must do more to invest in digital infrastructure and skills.** Despite the rapid expansion of mobile access, fixed broadband penetration in Guinea is very low, with a household penetration rate of 0.01 percent at the end of 2018, below the African regional average (0.6 percent), and the world average (13.6 percent).<sup>4</sup> A World Bank study ranked Guinea 177 out of 180 countries in terms of overall adoption of digitalization, and last in the world regarding business digitalization.<sup>5</sup> The combination of low levels of access and lack of skills represent a key hurdle in reaping the full benefits of digitalization.

**3. The Guinean authorities have made digitalization a strategic priority to support private sector growth.** The post- COVID recovery plan (SNLC) highlights ongoing efforts to increase connectivity and reduce costs. Guinea has been integrated with the *Africa Connects Europe* underwater fiber-optic cable since 2014. The deployment of more than 4,000km of fiber optic cable was completed in September 2020 and is expected to bring high-speed connectivity to the rest of the country and create opportunities in a range of digital services. However, low levels of human capital create a digital literacy gap, preventing full capitalization of the new infrastructure.

**4. Ongoing initiatives to digitalize public services and access to finance include the introduction of online business and land-registration tools, as well as a credit information system and a web-based foreign trade portal.** Together, these efforts should help reduce start-up

<sup>1</sup> Prepared by Nelnan Fidèle Koumtingue and Alex Massara (AFR).

<sup>2</sup> IMF Regional Economic Outlook: Sub-Saharan Africa, Chapter 3, April 2020.

<sup>3</sup> Digital Dividends, World Bank 2016.

<sup>4</sup> World Bank, World Development Indicators; Nigeria Digital Economy Diagnostic Report. World Bank, 2019.

<sup>5</sup> Digital Dividends, World Bank 2016.

and transaction costs, while encouraging greater competition and innovation, and higher levels of financial access. Finally, by reducing barriers to entry and increasing flexibility, higher levels of digitalization can boost female labor participation. Studies from the World Bank have shown that women account for just 25 percent of the global non-agricultural work force. However, the share grows to over 40 percent when looking at “online” work.<sup>6</sup>

## Digital Financial Services

**5. Access to digital financial services is expanding rapidly in Guinea.** The number of adults holding a mobile money account increased from 1.5 percent in 2014 to 13.8 percent in 2017 (World Bank, 2018). The pace of adoption further accelerated recently with the central bank encouraging financial institutions to facilitate the use of digital payments as part of measures to curb the spread of COVID-19.<sup>7</sup>

**6. Guinea has implemented some reforms that support the development of digital financial services.** A new law on digital transactions was enacted in 2016 but is yet to be implemented. The central bank has developed an automatic reporting system tailored to electronic money institutions. The modernization of the national payment system infrastructure is underway with the launch of a real-time gross settlement system in 2016 and the installation of a digital trading platform in 2020.<sup>8</sup> The national strategy for financial inclusion is being revised to incorporate digital financial services.

**7. Despite these advances, some challenges remain including the lack of interoperability between banks and mobile money operators.** The operationalization of the electronic payment is expected to be completed in 2021.

## Other Sectors

**8. The Guinean authorities are also firmly embracing digitalization in tax administration and social protection.** They have made progress in the use of digital technologies to enhance revenue collection (introducing the e-tax system, which lowers the cost of collection and reduces opportunities to solicit or give bribes) and to strengthen social safety nets (establishing a system to enable digital payments of cash transfers). Finally, digitalization is expected to improve public financial management by ensuring transparency and accountability, enhancing traceability, and ultimately reducing opportunities for rent seeking and corruption. The digitalization and e-filing of the asset declarations of senior public officials would facilitate the filing of declarations and the analysis of data.

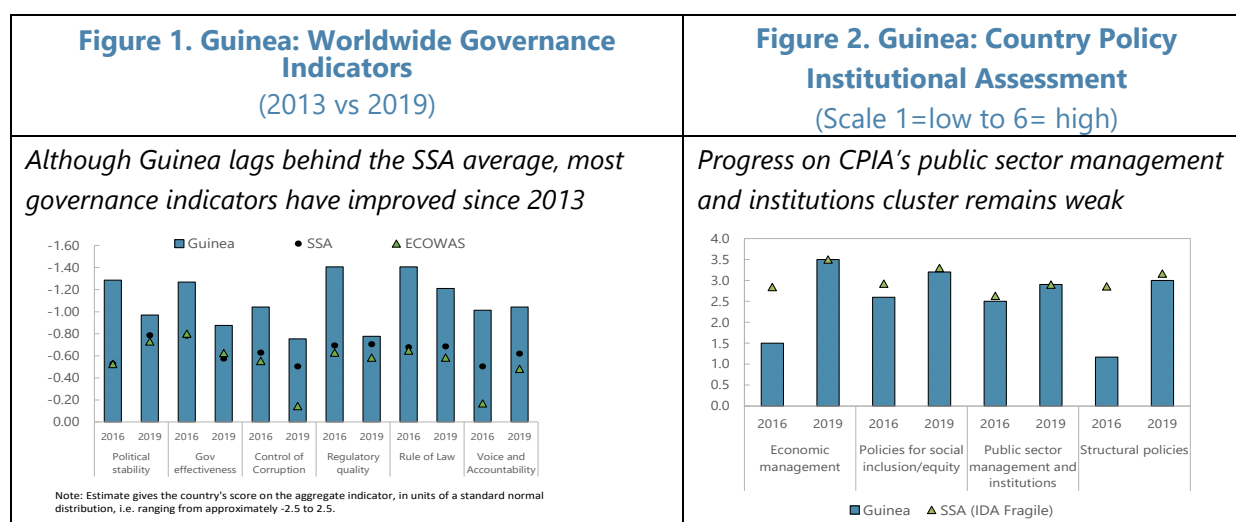
<sup>6</sup> Digital Dividends, World Bank 2016.

<sup>7</sup> The number of subscribers increased by 50 percent over the first nine months of 2020 to 6 at end-September 2020 (Source: BCRG (2020), *Discours du Gouverneur à l'Assemblée Nationale*, 16 Decembre 2020. <https://www.bcr-guinee.org/le-gouverneur-de-la-banque-centrale-de-la-republique-de-guinee/> ).

<sup>8</sup> Under the West Africa Monetary Zone Developmental program, countries are required to develop a robust payment and settlement system to enhance the deepening of the regional financial system. The initiative is financed by the African Development Bank

## Annex X. Governance Issues<sup>1</sup>

**1. Systemic corruption and governance weaknesses weigh on Guinea's efforts to support higher and more inclusive growth.** Guinea's score on the World Bank's Country Policy and Institutional Assessment (CPIA) remains unchanged since 2016 at 3.2—barely above the 3.1 IDA average for Sub-Saharan Africa—with the worst performing cluster being the Public Sector Management and Institutions, reflecting the country's weak institutional capacity (Figure AIX.2). The country's fragile context has been exacerbated over recent years by recurrent episodes of unrest, with lack of jobs and public services and controversial elections fueling frequent protests.



### A. The Anti-Corruption Framework

**2. Guinea made good progress in upgrading its anti-corruption legal and institutional framework.** The national strategy clearly assesses the risk of corruption as significant in key sectors of the economy such as fiscal and procurement and identifies concrete actions to continue strengthening the anti-corruption legal and institutional framework. The authorities have also resumed the second review cycle of the United Nations Convention against Corruption (UNCAC) with the organization of the self-assessment workshop in March 2021.

**3. However, the overall effectiveness of the anti-corruption framework requires significant strengthening.** This is a necessary step to ensure accountability in the public sector and reduce the risk of corruption. In order to step-up the efforts in detecting corruption, the authorities should adopt appropriate legal frameworks in line with international best practices to i) effectively define and develop a system to detect conflict of interests; ii) protect whistle-blowers, witnesses, experts, victims and their relatives; and iii) allow easy access to government information (e.g., budget, contracts, central bank information). Furthermore, they should bolster the independence, capacity, and financial autonomy of the National Anti-Corruption Agency (ANLC). To enhance enforcement against corruption, the authorities should—as a matter of priority—criminalize all

<sup>1</sup> Prepared by Nelnan Fidèle Koumtingué (AFR), Arz Murr (LEG) and Chady El Khoury (LEG).

corruption offenses, enhance direct cooperation among national authorities in charge of detecting and combating corruption, and operationalize the agency responsible for the management and recovery of seized and confiscated assets.<sup>2</sup>

**4. As an EITI compliant country, Guinea regularly discloses the government's revenues from natural resources.** In February 2019, the EITI Board determined that Guinea has made meaningful progress in the overall implementation of the EITI Standard, notably in the comprehensiveness and quality of EITI reporting.<sup>3</sup>

## B. The Asset Declaration Regime

**5. The authorities should also ensure that the asset declaration framework is in line with international best practices and fully operational.** With support from Fund CD, Guinea published two decrees establishing a framework for asset declaration in March 2020. With support from the World Bank, the authorities published in November 2020 the asset declaration forms that filers need to fill. However, the Constitutional Court repealed the two decrees a month later and replaced them with a broadly similar regime, but the process delayed the implementation of the asset declaration regime. The authorities should accelerate the operationalization of the asset declaration regime, in line with their commitment to counter corruption.

## C. Fiscal Governance

**6. Reforms in public financial and investment management have taken place to strengthen governance and reduce vulnerabilities to corruption.** The consolidation of the Treasury Single Account is advancing but is yet to include regional and local administrations accounts. The public investment management framework was strengthened through the introduction of an integrated project management platform and the adoption of a manual for the preparation, appraisal and selection of investment projects, prepared with IMF TA. The digitalization in government activities has contributed to improving the performance of the customs and the tax administrations. A new public procurement code entered into force in September 2020.

<sup>2</sup> In line with the recommendations of the [2017 UNCAC first review report](#).

<sup>3</sup> EITI, 2019. Board decision on the validation of Guinea. Decision reference: 2019-17/BM-42, 27 February 2019.



## Annex XI. Capacity Building

*This annex summarizes capacity development (CD) achievements under the 2017-2020 ECF arrangement and highlights priorities identified by the CD delivery departments and AFRITAC West, reflecting discussions with corresponding government agencies. Significant progress has been made in the implementation of technical assistance (TA) recommendations despite Guinea's fragile context. While the ongoing COVID-19 pandemic has resulted in delays in the implementation of some TA and training in the short-term, CD delivery adapted swiftly through the provision of virtual TA.*

### A. Assessment of the Capacity Building During the 2017–20 ECF-Supported Program

- 1. Guinea is a pilot country under the IMF Capacity Building Framework for fragile countries and intense user of Fund technical assistance (TA).** During January 2018 – December 2020, Guinea received 76 missions (39 from AFRITAC West and 37 missions from HQ, including two resident long-term experts (LTX)). The intensity of TA reflects the need to strengthen economic institutions and help the country exit out of fragility.
- 2. IMF TA was well-aligned with the program objectives.** IMF technical assistance during the 2017-2020 ECF arrangement was targeted to support the authorities towards achieving program objectives and strengthened institutional capacity. IMF TA focused in the following areas: tax policy and administration, public expenditures and investment management, treasury single account and cash management, government finance statistics, national accounts, the monetary policy framework, reserves accumulation strategy, debt management, external sector and monetary statistics, banking supervision, the anti-corruption framework and the AML/CFT regime. The capacity building program was delivered through TA missions from headquarters and AFRITAC West, resident long-term experts at the Ministry of Economy and Finance and the Ministry of Budget, a regional advisor for fragile countries, training workshops, and participation in ICD training courses.
- 3. Notwithstanding the fragile context and the COVID-19 pandemic, the authorities made significant progress in advancing in the implementation of TA recommendations to achieve the goals of the CD program.** Following the recommendations of the PEFA, PIMA, and DemPA exercises - conducted in mid-2018, with strong authorities' support and cooperation – a public financial management strategy and corresponding action plan for the reform of public finances (PREFIP) 2019-2022, was adopted by the Guinean government in December 2018.<sup>1</sup> Following multiple failed attempts between 2013 and 2018, the Treasury Single Account was operationalized in 2019 and expanded in 2020 with help from IMF TA. IMF TA recommendations towards strengthening the monetary policy framework and supporting the accumulation of foreign exchange were implemented by the Central Bank. Furthermore, the implementation of the

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<sup>1</sup> PREFIP (or “Plan de réformes pour la gestion des finances publiques”) is a monitoring process and includes the production of annual reports on reform implementation of public finances, including a dedicated section on the implementation of TA recommendations. The reform monitoring committees provide an interface for TA missions and support TA absorption.

recommendations on tax administration led to the adoption of a new organizational structure of the National Tax Directorate and its operationalization in 2021. Moreover, E-tax has been rolled out and is expected to be fully functional by end-June 2021. In the area of governance, the anti-corruption framework has been strengthened but the implementation of the asset declaration regime was delayed (Annex X). The authorities are working on strengthening the units tasked with monitoring the implementation of structural reforms, including IMF TA-supported reforms.

## B. Main TA Priorities in the Period Ahead

### 4. IMF TA will continue to support the authorities' macroeconomic management

**objectives.** These include: (i) preserving macroeconomic stability; (ii) scaling-up public investments in infrastructure to put the economy on a higher growth path and support economic diversification while preserving macroeconomic stability and debt sustainability; (iii) strengthening social safety net programs; and (iv) advancing key structural reforms to foster high and more inclusive growth. Over the next 3 years, and in line with the authorities CD priorities, TA is expected to focus on: (i) domestic revenue mobilization, with a focus on mining revenue; (ii) public financial and public investment management; (iii) strengthening debt management; (iv) improving central bank's monetary and foreign exchange operations; (v) strengthening governance, and (vi) strengthening macroeconomic statistics, including national accounts and balance of payments.

Guinea: Technical Assistance, CY2020		
Provider	Main Topic	Date
<b>Fiscal Affairs</b>		
FAD	LTX (Ministry of Budget)	
FAD	LTX (Ministry of Finance)	
FAD	PFM STX Visit	Feb 5-10, 2020
AFW/FAD	Tax Administration	June 15-26, 2020
FAD	PFM: Budget execution and controls, cash management and govt. accounting	June 22 - July 3, 2020
FAD	Tax Policy: Finalization of the Tax Code	June 22 - July 12, 2020
AFW	Customs Administration	Aug. 17-28, 2020
<b>Monetary and Capital Markets</b>		
AFW	Banking Supervision	June 8-19, 2020
MCM	FSSR	Jun 11-24, 2019
AFW	Debt Management: Implementation of the Treasury bond issuance procedures	Aug 3-11, 2020
<b>Statistics</b>		
AFW	GFSM 2014	Jan 21-31, 2020
AFW	GFSM 2014	June 15-26, 2020
AFW	Macro Forecasts	June 22-July 10, 2020
AFW	National Accounts	Sept. 9-20, 2020
STA	Monetary and Financial Statistics and FSIs	Nov 23 - Dec 13, 2020

## Annex XII. Modernizing the Monetary Policy Framework in Guinea<sup>1</sup>

1. **While inflation over the past decade has been lower and less volatile than in the past, it remains stubbornly high.** Guinea's median inflation of 9.8 percent over 2010-20 was the 15th highest out of the 194 countries included in the *World Economic Outlook* database. Reducing inflation to more moderate levels remains a pressing medium-term challenge for the BCRG. In the context of the COVID-19 pandemic, headline inflation rose by about 3 percentage points to 12.6 percent in February 2021—its highest level since 2013.
2. **The BCRG's primary mandate is to ensure price stability.** Without undermining price stability, the central bank is also tasked with the secondary objective of "*supporting the general economic policies of the Government with a view to ensuring sound and sustainable economic growth*".<sup>2</sup> A monetary policy committee (MPC) was established in July 2020 and is responsible for the formulation of monetary policy and the calibration of policy instruments. It is composed of the BCRG Governor, two Deputy Governors, an advisor to the Minister of Economy and Finance, the head of the National Statistical Office and two independent consultants with expertise in economic management. The MPC is expected to meet at least four times a year and held its first meeting in March 2021.
3. **The BCRG has interpreted its price stability objective as maintaining the inflation rate below 10 percent.** Medium-term objectives are aligned with the West African Monetary Zone's convergence criteria. Over the longer term, the BCRG aims to bring inflation down to 5 percent.
4. **Under successive ECF-supported programs, the BCRG pursued its price stability objective through reserve money targeting.** The program included quantitative performance criteria for net domestic assets and net foreign assets, defining a path for base money that was viewed as consistent with the BCRG's inflation objective. The program also included a ceiling on net government borrowing from the central bank to prevent fiscal dominance. Program adjusters assumed partial sterilization in response to shocks from foreign budget support financing. Policy instruments were used to achieve the reserve money target by neutralizing the autonomous factors that drive liquidity conditions. Operationally, the liquidity committee examines the liquidity situation on a weekly basis and determines the amount to be absorbed or injected to achieve the target.
5. **Both the CPI and reserve money have grown faster than projected at the time of the ECF-supported program request in December 2017.** While the BCRG's performance in meeting the 2017-20 ECF program's monetary targets was satisfactory, two waivers of non-observance were granted over the course of the program against the target for the BCRG's net domestic assets.<sup>3</sup> By

<sup>1</sup> Prepared by Yan Carrière-Swallow (SPR), Nelnan Fidèle Koumtingué (AFR) and Romain Veyrune (MCM). It benefited from comments from Shelton Nicholls (MCM).

<sup>2</sup> Guinea's Central Bank law : Loi L/2017/017/AN du 8 Juin 2017 abrogeant la loi L/2016/064/An du 9 Novembre 2016 elle-même modifiant la loi L/2014/016/AN du 2 Juillet 2014 portant Statut de la Banque Centrale de la République de Guinée (BCRG).

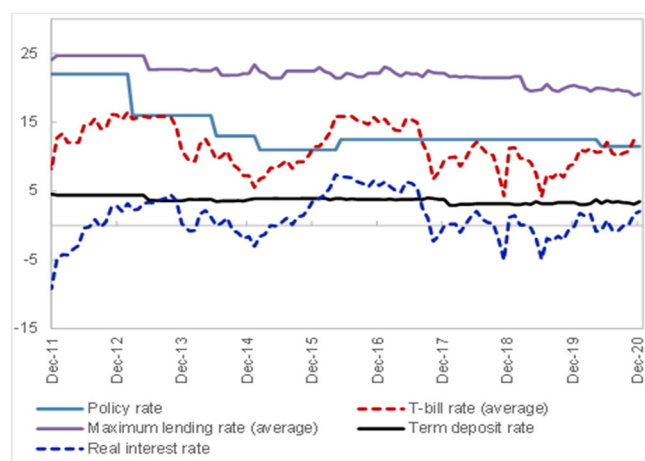
<sup>3</sup> These involved the fiscal slippages in 2017 and at the time of the 5th/6th ECF-supported program reviews in December 2020. Following the missed end-2017 program performance criteria, the authorities took corrective

(continued)

2020, the consumer price index was 6 percent higher than projected at the time of the program request, while reserve money was 13 percent higher than projected. By 2021, these gaps are expected to reach 10 percent for both the consumer price index and reserve money—that is, there will have been a 1:1 relationship between the average forecast error for these variables. The ECF-supported program's targets were calibrated such that base money would grow somewhat slower than projected nominal GDP, and somewhat faster than projected inflation. These relationships between reserve money and inflation (the money multiplier) and between reserve money and nominal GDP (real money balances) evolved remarkably aligned with their projected paths over the program period.

**6. The BCRG has a number of tools at its disposal to manage liquidity (Box 1).** Liquidity management tools include repurchase agreements (repos) for liquidity injections, and sterilization bills (Titres de Régulation Monétaire) for liquidity absorption (Figure XII.1). Repo operations are carried out at variable-rate with the Monetary Policy Rate (MPR), currently at 11.5 percent as the floor. A collateralized intraday refinancing facility is also available at a rate of 16.5 percent. An unremunerated reserve requirement acts as a tool to calibrate the transmission of monetary policy to credit conditions, currently at 16 percent, which is high by international standards. This significant cost is passed on by banks to their customers in the form of a very high spread between lending and deposit rates, which oscillates between 15 and 20 percent.<sup>4</sup>

**Figure 1. Guinea: Evolution of Interest Rates**  
(Percent)



Source: Staff calculations based on data from BCRG.

Note: Real interest rate calculated as the nominal yield on Treasury bills adjusted for past inflation.

**7. The monetary policy rate (MPR) is used by the BCRG to signal its policy stance, though its transmission to market rates appears weak.** It is meant to anchor inflation expectations by serving as a basis for other interest rates. However, changes to the policy rate have not been closely correlated with the rate on short-term Treasury bills or with commercial banks' lending and deposit rates. This reflects the fact that the policy rate is not associated with any operations that could offer traction on market rates. Announcements about the policy interest rate may create ambiguity since the central bank appears to be operating an interest-rate based operational framework, while the effective operational target—the one the BCRG actually tries to achieve—is a target for the quantity of reserve money.

actions to keep the program on track. These include the signing of memorandums of understanding limiting the central bank's lending to the government to the statutory limits and indicating the modalities and timeline for the recapitalization of the central bank.

<sup>4</sup> Failure to comply with the requirement is penalized at a rate of 24.5 percent interest.

**8. The central bank does not seem to be actively managing liquidity.** Sterilization bills were issued only twice over the last three years despite persistent excess liquidity.<sup>5</sup> As a result, liquidity conditions are largely determined by autonomous factors such as Treasury financing needs and external financing disbursements (BCRG, 2020). Adjustments to the monetary policy rate are infrequent, taking place only in exceptional circumstances. The rate has only been adjusted five times in the past ten years, and twice in the past five years. Unchanged since 2016, the MPR was reduced by 100 basis points in April 2020 as part of policy measures to support the economy throughout the COVID-19 pandemic.

#### **Box 1. Reforms to Strengthen the Monetary Policy Framework**

The authorities have taken several steps in recent years to strengthen the monetary policy framework, with support from IMF technical assistance. In addition to re-introducing liquidity management tools in 2015, the central bank stopped granting waivers to banks for non-observance of reserve requirements. The BCRG law was amended in 2017 to strengthen the autonomy of the central bank. The revised law prohibits the issuance of guarantees by the BCRG to the private sector.

A new liquidity forecasting framework was established in 2018 to support monetary policy decisions. The framework includes a team in charge of forecasting liquidity factors and informing the decision of the liquidity committee. The committee is expected to meet regularly to calibrate liquidity operations that are consistent with the monetary policy's operational target for base money growth.

Central bank financing of the deficit was also made subject to stricter safeguards. A Memorandum of Understanding between the BCRG and the Ministry of Economy and Finance was signed in May 2018, limiting the advances to the government to the statutory limits indicated in the Central Bank Law: no more than 5 percent of the average fiscal revenues of the last three years, which must be repaid within 92 days.

**9. Monetary financing of the fiscal deficit has had a recurring incidence on monetary developments.** The repeated use of central bank advances—which has often exceeded the statutory limit defined in the BCRG law—has had a strong incidence on the evolution of the monetary base.<sup>6</sup> In 2020, the outstanding stock of advances reached a peak of GNF 5,306 billion (3.6 percent of GDP) at end-August 2020 before declining to GNF 3,180 billion at the end of the year.

**10. Changes to liquidity induced by autonomous factors are not regularly sterilized.** The BCRG refrains from active liquidity management due partly to concerns about bearing the cost of monetary policy. The 2017 recapitalization of the BCRG was meant to strengthen the central bank's operational and financial autonomy. However, the US\$300 million operation involved the issuance of non-marketable Treasury securities, which cannot be used by the central bank to conduct open market operations. Further, the payment of interest on the recapitalization bonds has been made through the issuance of additional non-marketable instruments.

<sup>5</sup> In November 2020, the central bank issued the equivalent of GNF 995 billion in sterilization bills to contain the monetary base which was expanding at 40 percent y-o-y (IMF, 2020).

<sup>6</sup> Under the BCRG law (article 36), the BCRG's financing of the government must not exceed 5 percent of the three previous years' fiscal revenues, must be repaid within 92 days, and must be remunerated at a market interest rate. The 2020 statutory limit was about GNF 743.9 billion (0.5 percent of GDP).

**11. Inflation in Guinea is highly persistent, and its long-term developments are associated with the growth of monetary aggregates and exchange rate movements.** Furthermore, in the short run we estimate a coefficient of exchange rate pass-through to headline inflation of about 0.4 after two years. This is aligned with the share of imported goods in the CPI basket, consistent with complete pass-through of exchange rate movements to the domestic prices of imported goods.<sup>7</sup>

**12. Despite significant steps to modernize the monetary policy framework, further steps will be required to meet the BCRG's price stability objective.** Despite broadly good performance in meeting ECF-supported program targets, the BCRG has struggled in meeting its inflation objective over the past five years. Strengthening the monetary policy framework and consistently implementing it would help anchor inflation expectations and reduce the inertia that has kept inflation high.

- *In the short run*, the reserve money targeting framework could be strengthened by (i) increasing the frequency of MPC meetings from four to at least six per year; (ii) ensuring that BCRG staff update their models and projections prior to each MPC meeting; (iii) setting an operational target for reserve money growth in each MPC meeting; (iv) clearly communicating the monetary policy decision in terms of the reserve money target and avoiding references to the policy rate; (v) providing a clear rationale for the policy decision in terms of the BCRG's analysis of past and future inflation; and (vi) increasing the frequency of operations to weekly.
- *Over the medium term*, the BCRG could transition to a framework whose operational target is the interest rate rather than monetary aggregates. Decision-making could involve an interest rate reaction function that would consider the BCRG's forecast for inflation and the global interest rate. Communications would be focused on explaining the decision about the setting of the policy interest rate. Operations could involve weekly auctions of sterilization bills, offered at a fixed rate equal to the monetary policy rate, and with full allotment. They could be supported by reducing the unremunerated reserve requirement from 16 to 10 percent (aligned with international practice). By reducing the effective tax on financial intermediation, this would also help strengthen transmission of the policy rate to deposit and lending rates offered by commercial banks.

**13. Strengthening the operational and financial autonomy of the central bank should remain a permanent priority and will support the effectiveness of monetary policy.** Monetary financing of the budget has at times exerted an important influence on monetary developments, hindering the central bank's ability to fulfill its mandate. Historical instances of large monetary financing in Guinea were associated with episodes of high inflation and macroeconomic volatility. Fostering fiscal discipline while limiting monetary financing will support the BCRG's efforts to achieve price stability. Financial autonomy can be supported by (i) ensuring that the Treasury service the interest payments from the 2018 recapitalization of the BCRG, rather than issuing new non-marketable securities, and (ii) paying the market interest rate on all outstanding advances extended to the Treasury.

<sup>7</sup> Carrière-Swallow and Koumtingué (2021), forthcoming.