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**Introduction**

1. Our Guinean authorities highly value the continued engagement with the Fund. The policy discussions with Staff during the 2021 Article IV consultation rightly focused on the country's macroeconomic and development challenges, which have been exacerbated by the Covid-19 pandemic. The authorities broadly share the thrust of the staff reports as a fair account of the main issues discussed, the immediate priorities, and policies for the medium-term.

2. The Covid-19 pandemic took a heavy toll on the Guinean economy. The non-mining sector was severely impacted by the lockdowns and containments measures taken at the onset of the pandemic and which continue to weigh on the socio-economic activity of the country. However, building on their previous experience in managing the 2014-2016 Ebola crisis, the authorities swiftly adopted the National Emergency Preparedness and Response Plan in response to the shock. Accommodative fiscal and monetary policies were implemented alongside financial sector and exchange rate measures to address the economic fallout from the pandemic. At this juncture, the authorities' priorities include rolling out an effective vaccination program and targeting support measures toward the most affected. As the crisis recedes, they will strive to implement macroeconomic policies and structural reforms to support the recovery and spur economic diversification.

**Recent Economic Developments and Outlook**

3. Despite the pandemic, growth in 2020 was robust thanks to buoyant bauxite production and artisanal gold activity. Real GDP growth is estimated at 7.1 percent in 2020 with the mining sector expanding by 34.6 percent, and the hard-hit non-mining sector growing only by 1.3 percent. Fiscal discipline adopted during the last ECF was maintained in 2020 as the deficit stood at 2.9 percent of GDP enough to accommodate the response to the crisis. End-of-period y-o-y inflation rose to two digits due to higher food prices and freight costs related to the pandemic-caused disruptions and the accommodative fiscal and monetary policies. The current account deficit widened to 13.7 percent of GDP in 2020 as the spike in service imports more than offset high exports supported by favorable world commodity prices. The deficit was mainly financed by FDI with stronger investment in the mining sector.

4. Looking ahead, growth is expected to reach 5.2 percent in 2021 and hover above 5 percent over the medium-term, benefitting from a sustained dynamism in the mining sector and a gradual recovery of the non-mining economy. The Guinean authorities are confident that recent investments in the mining and energy sectors along with other large infrastructure projects

(Annex III), including the *Simandou* iron ore project, will enhance competitiveness and boost private sector activity and hence growth. Nonetheless, the authorities recognize the downside risks to the outlook, stemming notably from the protracted Covid-19 pandemic with various strains of the virus, the second and third waves in West Africa, and potential weakening demand for mining exports. They are committed to stepping up their efforts in addressing the challenges under their control to improve the outlook.

### **Immediate Priorities**

5. The authorities' near-term priorities encompass Covid-19 vaccine acquisition and successful distribution –and addressing a localized Ebola outbreak to a lesser extent–, and properly targeting support to the most vulnerable households and businesses. The ongoing revamping of the social welfare and transfers system by the national agency in charge of social protection programs (*Agence Nationale d'Inclusion Economique et Sociale (ANIES)*), with the assistance of the World Bank and the World Food Program, will help ensure that support is extended to the most vulnerable. Moreover, the authorities are continuing to monitor developments and would introduce additional targeted measures to support businesses if necessary.

6. A more expansionary revised 2021 budget will be adopted in the coming weeks to accommodate the immediate priorities. It will feature a basic fiscal deficit of - 0.1 percent of GDP compared to the previous 0.5 per cent of GDP at the time of the 5<sup>th</sup> and 6<sup>th</sup> reviews last December. The government is committed to seeking grants and concessional resources to finance the 2021 pandemic-related needs.

### **Medium-term Macroeconomic Policies and Structural Reforms**

7. As the pandemic recedes, our authorities will pursue policies to support the recovery. Efforts will focus on preserving fiscal sustainability, safeguarding financial stability, and bolstering structural reforms to advance economic transformation. It is the authorities' intention to continue building on the gains from the 2017-2020 Extended Credit Facility-supported program. In this regard, they will strengthen their actions for higher revenue mobilization, mainly from the mining sector; efficient spending; increased investment in infrastructure and human capital including social protection. They will also initiate far-reaching reforms to enhance the business climate and promote diversification for long-term sustained and inclusive growth.

#### ***Fiscal Policy***

8. Fiscal policy will be geared towards significantly increasing domestic revenue while targeting spending on growth-enhancing investments. On the revenue side, the government has signed performance contracts with managers of the fiscal administration, with the view to significantly raising revenue by 2023. To this end, key fiscal administration measures include: (i) digitalization of tax management, (ii) synchronization of tax and customs databases, (iii) the operationalization of the organizational structure at the tax authority –*Direction Nationale des*

*Impôts (DNI)* and; (iv) adoption of the updated Tax Code –*Code Général des Impôts (CGI)*. The authorities also plan to conduct, with the support of the African Development Bank (AfDB), thorough tax audits of the mining, telecom, and banking sectors to address deficiencies and secure and bolster tax revenue.

9. Regarding the mobilization of mining revenue, the authorities are aware of and concerned about the growing gap between the increasing mining output and revenue collected from this sector. They highly welcome the in-depth analysis provided by Staff in the Selected Issues Paper on Mobilizing Mining Revenue in Guinea and due consideration will be given to the recommendations. In the meantime, the authorities would like to stress that the Mining Code should be applied as it is, and they will ensure that transfer pricing fully reflects competitive prices. They are also working with the IMF and other Technical Assistance (TA) partners to build capacity on these issues. In the same vein, a forthcoming study on artisanal gold producers and intermediaries will improve the understanding of the sector, including the *pros* and *cons* of the reintroduction of a tax on artisanal gold.

10. The bulk of spending in the coming years will target scaling up investment in both health and education, and social protection. Investment in infrastructure will also be pursued as the authorities make effort to improve Public Investment Management (PIM). They agree that the Covid-19 crisis should serve as an opportunity to strengthen social safety nets and make inroads towards achieving the Sustainable Development Goals (SDGs). While the finalization and adoption of the PIM Manual would help improve public investment and boost productivity, Public Financial Management (PFM) will be enhanced with the reinforcement of the expenditure chain and cash management through the future expanded Treasury Single Account (TSA).

11. Ongoing reforms in the energy sector will contribute to spending restraint. The authorities are determined to move forward the 2020-2025 multi-year tariff reform, to reduce untargeted electricity subsidies once conditions allow. They will also implement the automatic petroleum price adjustment mechanism in due time while putting in place, measures to protect the most vulnerable segments of the population.

### ***Debt Sustainability***

12. Preserving debt sustainability is a key priority in the authorities' ambitious public investment and development agenda. They are committed to preserving the country's status of moderate risk of debt distress as assessed by the DSA. To this end, the authorities reiterate their commitment to a prudent borrowing strategy and will reinforce their debt management capacity alongside efforts in PIM, to ensure medium-term debt sustainability. However, these efforts will have to be carried out in the context of the need to mobilize adequate resources to endow the country with the needed infrastructures to ensure the diversification of the economy.

### ***Monetary and Exchange Rate Policies***

13. The Central Bank –*Banque Centrale de la République de Guinée (BCRG)*– has recently decided to continue with a slightly accommodative monetary policy to support the recovery. The authorities will further improve the monetary policy framework and they are committed to limiting monetary financing of the budget, to reduce inflation. In this regard, they have taken measures since end-2020 to reduce central bank advances and will continue to do so. Going forward, the authorities will further strengthen the monetary policy transmission, including through an active liquidity management, to ensure transition to an interest rate-based targeting framework. As well, the high unremunerated reserve requirement will be addressed to increase commercial banks’ ability to lend and to promote financial intermediation.

14. Our authorities are confident that the recent operationalization of the Monetary Policy Committee and the use of monetary regulation instruments such as the *Titres de Régulation Monétaire (TRMs)* will enhance the monetary policy framework and help achieve the policy targets. As regards the external position, the authorities will continue their actions to boost international reserves. Likewise, they expect that efforts to reduce inflation will improve the real exchange rate and thus competitiveness of the non-mining economy.

### ***Financial Sector Stability***

15. The BCRG is closely monitoring the effects of the pandemic on the banking sector and stands ready to withdraw the Covid-19 support measures as the pandemic recedes. The authorities are contemplating restoring some prudential requirements, which together with banks’ own actions on NPLs and moratoria, will enhance financial stability.

16. Several important steps have also been taken to strengthen banking supervision following the 2019 Financial Sector Stability Review. Progress has been made in enhancing risk-based supervision and improving financial intermediation and inclusion with notably the operationalization of the framework for a risk-based supervision of banks in 2019. The same holds with the launch in May 2021 of the National Strategy for Financial Inclusion (NSFI) with the support of the World Bank. The authorities are convinced that the NSFI will contribute to improving access to finance for SMEs, youth, and women including through the development of mobile money services. With the support of IMF TA, a new AML/CFT law was promulgated in April 2021. The authorities will push ahead, based on this law, with the needed enhancements including implementing related regulations and ensuring greater operational independence of the financial intelligence unit.

### ***Structural Reforms for Economic Diversification***

17. Our authorities appreciate the in-depth analysis and concur with staff on policies needed to leverage the booming mining sector to promote economic diversification. The upcoming second national development plan –*Plan National de Développement Economique et Social (PNDS II)*– will be geared towards further diversifying economic activities away from the

mining sector, increasing digitalization and efficiency gains for a private-sector led growth, and promoting good governance.

18. The diversification strategy will include two important pillars: creating and leveraging synergies between the mining sector and the rest of the economy and moving up the value chain in sectors such as agriculture to promote agribusiness. Alumina production on a large scale is also being explored by mining companies as a way to exploit the value chain.

19. The authorities are cognizant that creating of an enabling environment for the development of the private sector is paramount in the economic transformation agenda. They have made progress in that regard thus far, including the operationalization of the commercial court, the improved public-private dialogue, and a fast-track process to register businesses. Ongoing efforts include the inception of a credit bureau and a digital portal for foreign trade. The authorities will push ahead with the needed reforms to improve the health and education systems, and address bottlenecks in the areas of land registration, transport, and electricity infrastructures.

20. Important steps are also underway to enhance governance and combat corruption, such as measures to increase transparency and more digitalized procedures. Gains in accountability have benefitted Covid-19 related spending; the authorities have been compliant with the Rapid Credit Facility (RCF) governance safeguards for proper transparency and accountability. The authorities will further strengthen the anti-corruption framework, notably by swiftly adopting and implementing the national strategy and the asset declaration regime.

### ***Social Outcomes and Poverty Reduction***

21. Beyond their actions to address the social impact of the pandemic, our authorities are committed to improving social outcomes and reducing poverty on a sustainable basis. The recent overhaul of social welfare and transfers system has helped improve data collection on the most vulnerable segments of the population for a better targeting of government operations. This will be helpful in the implementation of poverty reduction programs set forth under the new national development plan. The authorities are confident that their overall effort, including in the education and health sectors and steps to foster inclusive growth, will contribute to improve social outcomes and poverty reduction in the coming years.

### **Conclusion**

22. The Guinean authorities have made significant inroads in enhancing macroeconomic stability and advancing structural reforms in the context of the previous ECF-supported program. As they continue to work tirelessly to exit the Covid-19 and Ebola crises, they strive to safeguard macroeconomic stability while supporting the nascent recovery. Beyond the crisis and associated policy responses, they are stepping up efforts to diversify the economy for a strong and inclusive private sector led growth, capable of improving social outcomes and reducing poverty. Our authorities count on the continued assistance from the Fund in advancing their development agenda.