

**Statement by Mr. Sylla, Mr. Matungulu, Mr. Alle, and Mrs. Bah on Guinea  
December 22, 2022**

**Introduction**

1. Our Guinean authorities are thankful to Management and Staff for continued engagement during these difficult times. They highly appreciate the constructive policy discussions during the 2022 Article IV consultation mission and the formalization of Guinea's request for emergency financing under the Food Shock Window (FSW). Underpinned by pertinent staff analyses of critical sectors of the economy, the fruitful policy dialogue is supporting the reform momentum and paving the way towards a much-needed Upper Credit Tranche (UCT) program. In this context, our authorities view the rapid emergency financing under the FSW as essential to the success of their food security agenda. In their assessment, the staff reports provide a fair summary of discussions with staff on Guinea's socio-economic challenges and policies aimed to put the country on a sustainable long-term growth trajectory.

2. Guinea's economy has been resilient in a difficult national and global environment. Key challenges include heightened vulnerabilities to shocks from high food and energy prices and constrained availability of fertilizers. Food security is compromised as a result. Growth is mainly driven by mining, with strong bauxite and gold production and weak activity in the non-mining sector which has been hardly hit by the negative spillovers from the war in Ukraine and the COVID-19 pandemic. The challenging circumstances have triggered a cost-of-living crisis with disastrous consequences on the most vulnerable households.

3. Against a backdrop of narrow fiscal space, emergency financing needs have significantly increased. Our authorities are therefore requesting IMF budget support under the Rapid Credit Facility's FSW in an amount equivalent to 25 percent of quota (SDR 53.55

million). This would help catalyze financial and in-kind assistance from other development partners and strengthen the government's policy response to food insecurity and other socio-economic difficulties facing the country.

### **Recent Developments and Outlook**

4. On December 4, 2022, the Transition authorities, and the Economic Community of West African States (ECOWAS) agreed on a 24-month transitional period leading to presidential elections. Economic growth should reach 4.7 percent in 2022. The main drivers are buoyant activity in mining and a gradual recovery in the non-mining sector, notably helped by the resumption of fish exports to the European Union following the removal of a ban imposed 16 years ago. Average inflation is expected to decline to 12.2 percent in 2022 from 12.6 percent in 2021, amidst contained central bank credit to government and the appreciation of the Guinean franc (GNF) against major currencies.

5. **Looking ahead, the economic outlook for Guinea remains positive, despite the many challenges facing the country.** The authorities expect economic growth to remain strong, reflecting increased production capacity in the mining sector and ongoing investment in new mines, including in the *Simandou* iron ore operations. The non-mining sector is also projected to gradually recover as the international price shocks abate. On inflation, the authorities are more optimistic than Staff and expect a gradual decline to 10.3 percent in 2023, and to single digits thereafter. A position backed by continued GNF appreciation against a backdrop of a prudent fiscal policy stance, declining global inflation, and an easing of international supply chain bottlenecks.

6. Downside risks to the outlook stem notably from an elusive political consensus on the implementation of the transitional political timeline and uncertainties regarding international food and oil price developments.

### **Fiscal Policy**

7. **The fiscal strategy is rightly tailored towards enhancing domestic revenue and rationalizing expenditure, cushioning the negative effects of food and fuel price shocks, while bolstering support for agriculture, rural development, health, and education.**

8. Revenue performance has been broadly satisfactory throughout 2022, owing to strong collection in the mining sector. The authorities are fully committed to reassessing existing mining contracts, rationalizing tax exemptions and ensuring that transfer pricing fairly reflects competitive prices. In this respect, they signed in July 2022, a decree to limit profit shifting arising from transfer mispricing in the bauxite industry. They continue to work with the IMF and other partners to build capacity on these issues and narrow the disproportionate

gap between mining output and revenue collected from that sector. In the non-mining sector, revenue administration and tax compliance improved noticeably with the digitalized tax declaration and the implementation of the single taxpayer identifier. Furthermore, the prices of petroleum products were increased by 20 percent in June 2022 to reflect international oil price developments and prevent excessive subsidy increases.

9. The authorities appropriately contained current expenditure. They significantly reduced the wage bill, thanks to department consolidation, the implementation of retirement measures and the purge of fictitious workers from the civil service registry. Additionally, they repaid an important part of domestic arrears accumulated in 2021. However, given the heavy burden of the rising costs of living on Guinean households, measured subsidies were maintained, notably on electricity, fuel, and staple foods. In this context, progress is being made in reforms to strengthen the oversight of state-owned enterprises, including *Electricité De Guinée* (EDG), with the view to enhancing the control of contingent liabilities and to reducing subsidies.

10. The overall fiscal deficit for 2022 is projected at 1.3 percent of GDP, somewhat lower than in 2021. The authorities are committed to maintaining the budget deficit on a sustainable trajectory, while accommodating emergency relief and development needs.

11. Efforts are also being stepped up with IMF TA assistance to enhance public financial and debt management capacities. Key reform areas include actions to increase investment efficiency and strengthen management of domestic debt issuance and arrears accounting and clearance practices.

12. **Our authorities welcome Staff assessment in the DSA that Guinea has an overall moderate risk of debt distress.** Going forward, they are committed to mainly resort to concessional financing to keep debt on a sustainable path. However, they deplored the scarcity of such financing, while development needs in Guinea remain substantial.

### **Monetary and financial sector policies**

13. **The upward pressures on prices due to international food and oil price hikes were counteracted by the appreciation of the Guinean franc and the appropriately tight monetary policy stance.** Inflation remained relatively subdued at 12.2 percent in 2022. The authorities launched the first medium-term domestic debt security issuance to expand the share and maturity of that category of government borrowing and deepen domestic financial markets. The banking sector continues to be resilient and profitable after the BCRG phased out the Covid-related temporary relaxation of prudential measures. Financial inclusion is also

improving in the country, notably with steady increases in mobile money accounts openings both in rural and urban areas.

14. Surging food and energy bills are straining Guinea's public finances and foreign reserves, causing the balance of payments (BoP) deficit to widen for 2022. Most expectedly, the 2023 BoP will also be affected by the likely augmentation of food imports compensating for poorer harvests, with the reserves' coverage of imports expected to decline to 2.5 months from 2.7 months recorded in 2021. Furthermore, the *Banque Centrale de la République de Guinée* (BCRG) had to intervene to facilitate FX access to the *Société Nationale des Pétroles* (SONAP), sole fuel importer in Guinea, to avoid fuel supply disruptions. To build external buffers, the BCRG took an order in January 2022 requiring exporters to sell a significant part of their foreign-exchange proceeds to local banks.

### **The negative spillovers of the overlapping shocks on food security**

15. **Domestic food production has been significantly constrained by reduced availability and affordability of fertilizers, causing difficulties to maintain agricultural production.** Fertilizer prices rose by 300 percent in 2022 compared to 2021 and resulted in a 57 percent drop in their use. These constraints, coupled with global cereal shortages and higher food prices put a heavy strain on food security in a background of depressing incomes, notably for the most vulnerable households, which were already disproportionately hit by the COVID-19 pandemic. Consequently, around 1.2 million Guineans (11 percent of the population) are currently exposed to acute food insecurity.

### **Policy responses to address rising food insecurity**

16. **Despite the challenging environment, the authorities responded decisively and quickly to the rising food insecurity.** As food inflation accelerated, they took urgent measures to support households' purchasing power, including by removing tariffs on staple foods (rice, vegetable oil, sugar, and wheat flour) and reducing the VAT on fuel imports. Moreover, the authorities provided cash transfers to the most vulnerable households through targeted programs implemented across the country by the *Agence Nationale d'Inclusion Economique et Sociale* (ANIES) with the help of local telephone companies. The government also took additional measures to limit price hikes on some essential goods and services, including urban and interurban transportation.

17. To shield agricultural production, the authorities maintained the subsidies on fertilizers at 50 percent and secured additional financing from the Arab Bank for Economic Development in Africa (BADEA) to step up support to the sector. In the same vein, they are

finalizing a loan agreement with the African Development Bank to purchase additional fertilizers and other inputs.

18. **Our authorities welcome Guinea’s eligibility to the emergency financing under the Food Shock Window, in view of the food insecurity affecting more than 11 percent of the population.** The resources from the FSW will strengthen the government’s response by supporting emergency relief and food distributions in urban and rural areas, in collaboration with the World Food program (WFP). These resources will also help increase purchases of fertilizers and phytosanitary products to distribute to rural populations and compensate declining harvests, with the implication of the *Fonds de Développement Agricole* (FODA). Finally, the FSW resource will facilitate cash transfers to vulnerable households by using the experience accumulated by the ANIES and help implement special social and health care programs for the most indigent households with the *Fonds de Développement Social et d’Indigence* (FDSI).

#### **Maintaining the reform momentum**

19. **Our authorities are pursuing policies to foster economic diversification and advance socioeconomic transformation.** In this respect, they are strengthening measures for higher revenue mobilization from the mining sector, including as regards the *Simandou* iron ore project, and catalyzing synergies between the mining industry and the rest of the economy. They are urging the mining companies to move up the value chain and swiftly act on large scale alumina production.

20. **Cognizant of the importance of quality data availability for sound decision making, the authorities have stepped up resources to support the National Statistical Institute (INS),** which recently finalized a new updated CPI index with a larger and improved coverage. This project was conducted with AFRISTAT’s technical assistance, following best practices and robust compilation methods. The authorities are keen on introducing the updated index as soon as sufficient historical data are accumulated to calculate annual variations. They highly value IMF support for successful implementation.

21. **On governance, significant steps have been taken to combat corruption.** The authorities have created a jurisdiction in charge of economic and financial crimes, the *Cour de Répression des Infractions Économiques et Financières* (CRIEF). The CRIEF is prosecuting several former high-profile officials for corruption and illicit enrichment.

#### **Conclusion**

22. **The Guinean authorities have maintained their reform momentum amidst difficult circumstances.** They have made commendable efforts to mitigate the effects of

rising food and energy prices on the population. Fund emergency assistance through the Food Shock Window would provide additional leverage to address the food insecurity brought about by high food and fertilizer prices. Importantly, ongoing strengthening of the fiscal policy stance would help further macroeconomic stability and provide more impetus in advancing structural reforms. In view of the authorities' large budget needs and strong commitment to macroeconomic stability and structural reforms going forward, we would appreciate Directors' support to their request for support under the Rapid Credit Facility's Food Shock Window.