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FINANCIAL SECTOR STABILITY REVIEW

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GUINEA

FINANCIAL SECTOR STABILITY REVIEW

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October 2019

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GLOSSARY

ACH	Automated Clearing House
AFW	IMF AFRITAC West
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
BCBS	Basel Committee on Banking Supervision
BCP	Basel Core Principles for Effective Banking Supervision (2012)
BCRG	Central Bank of the Republic of Guinea
BSA	Balance Sheet Approach
CBR	Correspondent Banking Relations
CENTIF	National Financial Information Processing Unit
CPMI	Committee on Payments and Market Infrastructures
DGSIF	Directorate General of Supervision of Financial Institutions
DSB	Banking Supervision Department
ECOWAS	Economic Community of West African States
ELA	Emergency Liquidity Assistance
EMI	Electronic Money Institutions
FSB	Financial Stability Board
FSI	Financial Soundness Indicators
FSSR	Financial Sector Stability Review
GNF	Guinean Franc
GFSR	Global Financial Stability Report
HHI	Herfindahl-Hirschman Index
IADI	International Association for Deposit Insurers
IFI	Inclusive Financial Institution
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IRRBB	Interest Rate Risk in the Banking Book
LEG	IMF Legal Department
MCM	IMF Monetary and Capital Markets Department
MEF	Minister of Economy and Finance
MFS	Monetary and Financial Statistics
MFSMCG	Monetary and Financial Statistics Manual and Compilation Guide
NPL	Nonperforming Loan
RBS	Risk-Based Supervision
RTGS	Real Time Gross Settlement
SME	Small-to-Medium Enterprise
SRF	Standardized Report Forms
SSS	Securities Settlement System
STA	IMF Statistics Department
TA	Technical Assistance
WAEMU	West African Economy and Monetary Union
WAMZ	West African Monetary Zone

PREFACE

In response to a request from the Central Bank of the Republic of Guinea (BCRG), a mission from the Monetary and Capital Markets Department (MCM) of the International Monetary Fund (IMF) conducted a Financial Sector Stability Review (FSSR) from June 12–24, 2019. The mission was led by Dirk Jan Grolleman (MCM) and consisted of David Blache (MCM), Amel Ben Rahal, Alain Vandepeute, Jean-Michel Godeffroy, and Ahmad el Radi (external experts).

The mission team presented its main observations and recommendations and the technical assistance (TA) road map at the closing meeting on June 24. The closing meeting was chaired by the Governor, Lounceny Nabé, and attended by the First Deputy Governor, Nianga Komata Goumou; BCRG senior management; MCM Deputy Director, Fabio Natalucci; AFRITAC West Banking Supervision Advisor, Eric Lemarchand; and IMF resident representative, Jose Sulemane.

The mission team would like to extend its thanks to the staff of the BCRG for their hospitality and the logistical support provided to the mission. The mission would like to express its special appreciation to the Director Banking Supervision, Mohamed Lamine Conté, for his dedication and excellent coordination and facilitation of the work of the mission.

EXECUTIVE SUMMARY

In response to a request from the BCRG, the IMF conducted an FSSR mission from June 12–24, 2019. A scoping mission had been undertaken in January 2019, and on the basis of that mission it was agreed with the authorities that the FSSR would cover the following topics: (i) financial stability oversight; (ii) systemic liquidity; (iii) payments systems; (iv) banking supervision; and (v) crisis management, bank resolution, and safety nets.

While the current economic situation is benign, the financial soundness indicators (FSIs) point to increasing vulnerabilities (see Annex I). The economic outlook is currently positive. Moreover, financial inclusion is growing rapidly as mobile money services are quickly adopted. However, the FSIs suggest growing vulnerabilities and possibly some idiosyncratic stress in the banking sector. For example, nonperforming loans (NPLs), large exposures, and the net-open position are on a negative trend. Given data quality and availability issues, it is however difficult to draw firm conclusions. For example, while the net-open position according to the reported FSIs is larger than 100 percent, prudential reporting points to a ratio of on average below 20 percent. This discrepancy needs further analysis and explanation. In addition, the BCRG does not prepare an adequate analysis and explanation of the drivers of the observed trends.

As a result of data quality and availability issues, it is difficult to make a more in-depth assessment of financial stability and potential vulnerabilities. The mission found that (i) data on the financial sector (and also on the real sector) are insufficient; (ii) more data quality assurance is needed on the prudential reporting by banks; (iii) anomalies identified by the mission in the calculation of the FSIs could not be explained by the BCRG and require a more thorough analysis; and (iv) negative trends observed in the FSIs require further analysis to better understand developments and the scope of potential vulnerabilities.

The financial sector structure is, to some extent, a mitigant to the potential financial stability vulnerabilities. All banks are part of foreign financial groups that they can fall back on during periods of stress (to a certain extent at least). Although the data on the insurance and microfinance sectors are limited, these sectors are small and are not yet of systemic importance. The financial market infrastructures are new and although improvements are needed, no immediate financial stability problems are evident. While there is considerable room for improvement in liquidity management, the banking system as a whole is liquid in GNF, and, for the main banks at least, access to liquidity in foreign currency is guaranteed by facilities arranged with their parent companies. In addition, the Guinean banks are largely domestically funded and, in that respect, not dependent on their parents.

While the current economic situation is benign, it is an opportune moment to develop the necessary capacity to handle potential financial stability vulnerabilities. As a first priority, on and offsite supervision and the availability and quality of data on the banking sector, and in a later stage also for the other financial sectors, should be significantly improved, and the regulatory framework for banks should be modernized. This will provide a good basis for developing BCRG's financial stability function and establishing a framework for financial stability surveillance. In parallel to the work on banking regulation and supervision, the BCRG should strengthen its resolution tools, finalize the implementation of the deposit insurance fund, and create an institutional framework for cooperation with the Ministry of Finance on macroprudential policy and crisis management. As a separate stream of work, the legal framework and regulatory framework for financial market infrastructures should be enhanced and an appropriate organizational structure for payments operations and oversight should be set-up. Finally, BCRG's liquidity management and collateral framework should be improved. Implementation of its emergency liquidity assistance (ELA) framework is also necessary.

Noteworthy in the area of financial stability are the development of correspondent banking relations (CBR) and the recent creation of a development bank. Although the CBR of commercial banks were relatively stable over the period 2011–2018, the BCRG was subject to CBR pressures that may have originated in certain of its activities that are not directly related to its core mandate (cash money services for commercial banks, commercial bank activities for current and past politically exposed persons, and gold exports). The BCRG is continuing to introduce compliance frameworks to mitigate the risks of these activities. However, the BCRG should closely monitor the situation and periodically review whether the advantages of the services it provides are still important and still balance out the risk of potential resulting pressures from the correspondent banks.

In accordance with best practices in other countries, the BCRG should limit the activities authorized for the recently created development bank. The development bank was recently licensed as a conventional commercial bank, even though the strategy and business model of this bank are much narrower. The mandate of the development bank is to finance its activities via the government, the commercial banks, international development institutions and any other domestic institutional or professional investor. To avoid any business model drift and in line with best practices in other countries, the BCRG should identify the tools it needs (potentially requiring an amendment of the banking law) or already has (perhaps through the intermediary of the Licensing Committee) to prevent the bank from taking public deposits. Recent Guinean experience with the failure of a domestic (publicly owned) development bank should focus the attention of the supervisory authorities on the need for close supervision of the governance arrangements of the development bank. Moreover, the fact that the BCRG is currently one of the main shareholders of this bank creates a conflict of interest with its role as supervisory authority, which could become even more sensitive if the BCRG would have to contemplate its resolution.

Authorities have been fairly responsive to past TA recommendations, however, BCRG's absorptive capacity has been limited due to resource constraints. To realize the FSSR recommendations, additional resources will be needed to improve bank supervision, setting up a payment systems oversight and a financial stability surveillance unit.

The five areas described briefly in this aide-mémoire are explained in greater detail in five background notes. It is also important to note that the recommendations proposed in this FSSR will supplement and support the implementation of the financial inclusion strategy published by the BCRG (with the help of the World Bank) in November 2018.

Table 1. Guinea: FSSR Recommendations

Recommendation	Timeline*	Priority
Financial stability oversight		
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 (¶21 and Box 1)	Con	High
2. Reconcile data discrepancies, increase data coverage and ensure data quality (¶20)	ST	High
3. Create and operationalize a financial stability surveillance unit (FSSU), which should play a key role in addressing recommendation 2 (¶31 and 32)	ST	High
4. a) Clarify BCRG's macroprudential mandate in the BCRG Statute (¶31.1) b) Establish an institutional framework for macroprudential policy (¶31.1)	MT	Medium
Systemic liquidity assessment		
5. Implement the past recommendations on liquidity management (¶45-46)	ST	High
6. Establish a structured and ranked collateral framework (¶47-48)	MT	High
7. Establish an operational framework for the ELA (¶49)	MT	High
Financial market infrastructures		
8. a) Adopt a payments law guaranteeing: (i) the legal validity of clearing; (ii) payment finality; and (iii) the protection of holders of collateral (¶51) b) Adopt a regulation guaranteeing the end-of-day settlement operations of the clearing system (¶50)	ST	High
9. a) Support the introduction of a "switch" (¶54) b) Establish a national payments committee (¶55)	MT	High
10. Establish an organizational structure for payment systems oversight (¶56)	MT	Medium
11. a) Discourage the use of high-value checks (¶52) b) Enhance the check clearing mechanism (¶52)	MT	Medium
Banking regulation and supervision		
12. a) Increase the resources assigned to banking supervision (¶65) b) Enhance risk-based supervision (RBS) and the reporting system (¶64–65)	ST/MT	High
13. a) Precise BCRG's banking supervision mandate in the Banking Law (¶60) b) Include in the Law specific provisions for development banks (¶60) c) Divest BCRG's stake in the development bank (¶60) d) Optional: include provisions to allow for Islamic banking (¶61)	MT	High
14. a) Implement the relevant parts of the Basel II/III capital framework (¶63) b) Revise the regulations on large exposures and related parties (¶63) c) Complete the cross-border cooperation agreements for all banks (¶69)	MT	Medium
15. a) Implement the relevant parts of the Basel II/III liquidity framework (¶63) b) Enhance the regulations on governance and risk management (¶63) c) Introduce requirements for Interest Rate Risk in the Banking Book (IRRBB) and country and transfer risks (¶63)		
Crisis management, bank resolution, and the financial safety net		
16. Enhance the legal and regulatory framework for deposit insurance (¶76)	ST	High
17. Strengthen in the law BCRG's early intervention powers and tools, including requirements for and capacity to review recovery plans (¶73–74)	MT	High
18. Enhance the resolution related provisions in the Banking Law (¶75)	MT	High
19. Increase capacity on resolution and deposit insurance (¶79)	MT	High
20. Establish a body for the coordination of crisis measures (¶77–78)	MT	High

(*) 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

I. INTRODUCTION

1. **In response to a request from the BCRG, the IMF conducted a FSSR review mission from June 12 to 24, 2019.** Its aim was to provide an assessment that could be used as the basis for the development and implementation of reform programs to strengthen the stability of the financial sector.

2. **A scoping mission was undertaken in January 2019 to define, together with the authorities, the main areas and issues on which the FSSR should focus.** It was agreed with the authorities that the FSSR would cover the following five areas: (i) financial stability oversight; (ii) systemic liquidity; (iii) payments systems; (iv) banking supervision and regulation; and (v) crisis management, bank resolution, and the financial safety net. The current mission prepared a diagnostic review of each of the five selected areas. The diagnostic review was guided by international best practices and principles as developed by the relevant standard setters.[1]

3. **The country surveillance reports and past and current TA projects have contributed significantly to the determination of the scope and the diagnostic assessment as presented in this report.** Between 2017 and 2019, the IMF conducted over 20 TA missions related to the central bank and financial sector in Guinea. Recent IMF TA on issues relating to the financial sector that are of interest to the present IMF program include:

- the introduction of a new chart of account and financial reporting for banks (AFW);
- strengthening of the capital adequacy and liquidity standards applicable to Guinean banks (AFW);
- strengthening of the risk monitoring framework (AFW);
- development of a medium-term debt strategy and development of the securities market (MCM, AFW);
- strengthening of the anti-money laundering/combating the financing of terrorism (AML/CFT) framework and the BCRG internal AML framework (LEG);
- implementation of the monetary policy and liquidity management (MCM);
- implementation of exchange operations and the foreign exchange policy (MCM);

[1] For financial stability oversight, the assessment was guided by the Staff Guidance Note on Macroprudential Policy (IMF, 2014); systemic liquidity, among others, by Chapter 2 of the October 2010 Global Financial Stability Report (IMF. 2010); payment systems by the Principles for Financial Market Infrastructures (CPMI, 2012); banking regulation and supervision by the Basel Core Principles for Effective Banking Supervision (BCBS, 2012); crisis management, bank resolution, and safety nets by the Key Attributes of Effective Resolution Regimes for Financial Institutions (FSB, 2011); and the Core Principles for Effective Deposit Insurance Systems (IADI, 2014).

- strengthening of the BCRG internal audit function (MCM).

The lack of available human resources is a serious obstacle that frequently results in delays in the implementation of the TA recommendations. According to the country desk and TA experts, the authorities are nonetheless committed to implementing the recommendations proposed during TA missions. The mission has monitored the status of previous TA recommendations to the extent that they are relevant to the FSSR, particularly those concerning banking supervision and liquidity management (see Annex II).

4. The World Bank is also an important provider of TA for the financial sector. Recent World Bank TA has focused on the development of a credit registry, as well as a national financial inclusion strategy. This TA led to the development and publication of the financial inclusion assessment and strategy for Guinea by the BCRG in November 2018. The work on the establishment of a credit registry has made less progress, however, and TA is still ongoing in this field.

5. This report contains the main observations and recommendations of the Financial Sector Stability Review (FSSR). Section II provides an overview of the economic and regional developments, the financial system, and the institutional set-up for financial sector oversight. Section III provides for each of the five areas the main observations and recommendations of the FSSR, followed in Section IV with a discussion of the prioritization of the proposed financial sector reforms via targeted TA supported by a high-level TA road map.

II. ECONOMIC, REGIONAL, AND FINANCIAL SYSTEM CONTEXT

A. Economic and Regional Developments

6. The Guinean economy is growing rapidly, led by the development of the mining sector. Real growth reached about 6 percent in 2018 owing to the buoyancy of mining and construction and the solid performance of agriculture. The mining industry grew 7.5 percent in 2018, with higher than anticipated bauxite and diamond production offsetting the sharp decline in the production of artisanal gold.[2] After reaching 9.9 percent at end-2018, headline inflation slowed to 9.7 percent (year-on-year) in March 2019, explained by the decline in food inflation. Core inflation also slowed, declining from 4.5 percent at end-2018 to 4 percent (year-on-year). Gross international reserves increased to 3.3 months of imports at end-2018, supported by significant capital inflows. This upward trend continued in 2019, with reserves reaching 3.6 months of imports at end-March 2019.

7. The economic outlook is positive. Continued strong foreign direct investment in the mining sector will further increase production capacity. Future investments in infrastructure projects will continue to stimulate construction. The improvement in the business climate and

[2] The government has prohibited the use of certain chemical products for environmental reasons, which has disrupted artisanal gold production.

governance and the increase in the supply of electricity to the economy should support the development of the private sector in the medium term. The timing of the FSSR is opportune, as strengthening the financial stability framework will be beneficial for the country should it need to manage potential vulnerabilities in the financial sector under less favorable economic conditions.

8. **The convergence criteria established by the West African Monetary Zone (WAMZ) for the creation of a monetary union are important drivers for the various modernization projects undertaken by the BCRG.** The WAMZ includes Guinea, The Gambia, Ghana, Liberia, Nigeria and Sierra Leone. Guinea is the only Francophone country in the WAMZ, with the other Francophone countries in the region being members of the West African Economic and Monetary Union (WAEMU). It was planned that the WAMZ would merge with the WAEMU in the future to form a single monetary zone in West Africa. However, at the present time the individual members of the WAMZ plan to join the WAEMU directly, without first creating their own monetary union. The member countries of the two regions are already cooperating at the economic level through the Economic Community of West African States (ECOWAS).

B. Overview Financial System

9. **The Guinean financial system is shallow and very informal.** Total financial sector assets represent just 22 percent of GDP and the economy is largely cash based. At end-2017, just 8 percent of the population had access to an account in a bank or nonbank deposit-taking institution (as against 5.5 percent in 2014). The introduction of mobile financial services has been an important factor in financial inclusion in recent years. At end-2017, approximately 13.8 percent of the population had access to a mobile wallet and the associated payment services (as against 1.5 percent in 2014).

10. **The financial sector is dominated by the banks (Table 2).** At end-2018, the financial sector consisted of 16 commercial banks, 21 nonbank deposit institutions and 12 insurance companies. There is no stock market in Guinea. The banks dominate the financial sector, representing 94.6 percent of total financial sector assets, while nonbank deposit-taking and insurance companies represent 2.5 percent and 2.8 percent, respectively.

Table 2. Guinea: Structure of the Financial System, December 2018

Total Assets x GNF 1 million	Total Entities	Total Assets
Reporting entities in the depositor sector	37	23,493,029
Under private control	37	23,493,029
Commercial banks	16	22,894,141
Nonbank deposit-taking institutions	21	598,889
Entities in the other financial corporations sector	106	695,512
Insurance companies	12	681,197
Pension funds	0	0
Other financial intermediaries	4	14,315
Finance companies	3	14,315
Leasing companies	1	0
Financial auxiliaries	90	0
Brokers and agents	46	0
Exchange bureaus	44	0
Total	**143**	**24,188,541**

Source: IMF Financial Soundness Indicators.

11. While the number of insurance companies and non-deposit-taking institutions has increased, with two and three in the two sectors in 2018, their share in the total assets of the financial sector declined in 2018. The share of insurance companies and non-deposit-taking institutions in the total assets of the financial sector in 2018 stood at 0.3 percent and 1.1 percent, respectively. The decline in the share of the insurance sector is explained by its slow growth rate in comparison to the banking sector, while the real amount of total assets of nonbank deposit-taking institutions declined by almost 20 percent owing to serious performance issues in the sector. The long-term trend for these sectors is more difficult to assess as the statistics reported on the financial sectors have not included these two sectors since 2017.

12. All commercial banks are subsidiaries of foreign groups, with the top three banks representing approximately 57.4 percent of the total assets of the banking sector (Table 3). The government holds a minority share in three commercial banks. One domestic commercial bank held by the government and private sector failed in 2011. Two of the 3 largest banks belong to French international groups, 13 banks are part of pan-African or regional groups, and 1 bank belongs to a Malaysian financial group. Foreign ownership underscores the need for cross-border cooperation. Only one bank provides Islamic banking services, while two others have Islamic banking services windows. In the nonbank deposit-taking institutions sector and insurance sector, domestic institutions play a larger role.

Table 3. Guinea: Structure of the Banking Sector, June 2018

	Commercial Banks	Total Assets (%)	Parent Company (Country)	Memorandum of Agreement
1	Ecobank	21.2	ETI Holding (Togo)	Yes
2	Société Générale Guinée (SGBG)	20.3	Société Générale (France)	Yes
3	BICIGUI	15.9	BNP (France)	Yes
4	Orabank	7.6	Oragroup (Togo)	Yes
5	Banque Populaire Maroco-Guinéenne	5.2	Atlantic Business International (ABI Côte d'Ivoire) a subsidiary of Banque Populaire (Morocco)	Yes
6	Vista Bank	5.2	Vista Group (The Gambia)	Yes
7	United Bank for Africa	5.0	UBA (Nigeria)	Yes
8	BSIC Guinee	4.1	BSIC (Libya)	No
9	Banque Islamique de Guinée (BIG)	2.9	Tamweel Africa Holding (Senegal)	Yes
10	FBN Bank Guinée	2.8	First Bank of Nigeria (Nigeria)	Yes
11	Afriland First Bank	2.7	Afriland First Bank (Cameroon)	No (Proposed)
12	NSIA Banque Guinee	2.6	NSIA (Ivory Coast)	Yes
13	Banque pour le Commerce et l'Industrie	2.2	BCI Group (Mauritanie)	No (Proposed)
14	Skye Bank	1.1	Polaris Bank (Nigeria)	Yes
15	Banque Nationale de Guinee	0.7	Groupe AON (Mauritania)	No
16	BDG	0.5	BDG Capital (Malaysia)	No

Source: BCRG

13. The government recently established a development bank, which has just entered into operation. [3] The government holds 65 percent of the shares and has placed 25 percent of the shares with the BCRG, with the remaining 10 percent being held by Afriland First Bank. The authorities aim to place the shares held by the BCRG with private institutional investors. The development bank is to operate as a second-tier development bank (i.e., in cooperation with other financial institutions) and to be financed by the government, commercial banks, international development institutions, and other domestic professional and institutional investors (it does not plan to take public deposits).

14. The use of mobile money (transferred by mobile telephone) has grown rapidly in recent years (Table 4) and promotes financial inclusion. The mission notes that figures presented below deviate somewhat from the figures provided by the BCRG for IMF's Financial Access Survey but show a similar trend.

Table 4. Guinea: Development of Mobile Money

Development of mobile money	2016	2017	2018	05/29/2019
Accounts	1,500,000	2,000,000	3,200,000	4,900,000
Active accounts	500,000	1,100,000	1,545,000	1,850,000
Value of transactions (GNF x 1,000,000)	978	2,000,000	5,400,000	5,600,000
Total e-wallet balances (GNF x 1,000,000)	186,000	300,000	452,000	505,000

Source: BCRG

15. The dollarization of the loan portfolio and banking-sector deposits seems to be stable at about 21 percent and 29 percent, respectively (see Annex I). One characteristic of the Guinean banking sector is that individual customers are authorized to hold accounts and deposits in GNF, USD and euros. The BCRG has imposed a regulatory limit of 20 percent (of regulatory capital) on the net open position of banks.

16. The BCRG has three modern market infrastructures (a Real Time Gross Settlement (RTGS) system, an automated clearinghouse, and a delivery-versus-payment system for securities) purchased on a turnkey basis from one of the main international suppliers of payments systems software. These systems entered into operation between 2014 and 2016.

C. Potential Financial Stability Vulnerabilities

17. While the economic outlook is positive, a review of the available data shows that financial vulnerabilities appear to be growing (see Annex I). As also discussed in paragraph 13, an examination of the FSIs compiled by the BCRG shows that most indicators trended negatively in 2018 as compared to 2017. Capital adequacy, NPLs, provisioning, large exposures, liquidity measures, and the net open currency position are on a negative trend.

[3] Banque Nationale d'Investissement de Guinée (BNIG). The bank is subject to the same regulations and risk management and governance requirements as commercial banks.

18. The capital adequacy ratio of the banking sector declined over the past four years, from 16.8 at end-2015, to 15.2 at end-2018 (Annex I). This decline results from a combination of growth of the loan portfolio and an increase in NPLs. NPLs have increased steadily over the past four years, from 6.1 percent to 12.2 percent, respectively. More particularly, the ratio of NPLs net of specific provisions to capital suggests growing vulnerability as this ratio has increased from 6.7 percent to 37.5 percent. This is, however, an average for the banking sector as a whole, with significant variation between banks. Although the figures point to increasing vulnerabilities, it also should be noted that all banks are part of foreign financial groups that they can fall back on during periods of stress (to a certain extent at least), also taking into account the relatively small size of the Guinean subsidiaries in comparison to the groups to which they belong.

19. While there is considerable room for improvement in liquidity management, the banking system as a whole is liquid in GNF, and—for the main banks at least—access to liquidity in foreign currency is guaranteed by facilities arranged with their parent companies. In addition, the Guinean banks are largely domestically funded and, in that respect, not dependent on their parents. Some banks seem to have, however, liquidity management problems as some mid-sized banks frequently fail to meet their reserve requirements (for more background see Section III.B)

20. Given data quality and availability issues, it is difficult to draw firm conclusions. For example, while the net-open position of the banking systems as included in the FSIs is larger than 100 percent, prudential reporting points to a ratio of on average below 20 percent (more examples of discrepancies between FSIs and prudential information are provided in the financial stability background note). This discrepancy needs to be further analyzed by the BCRG. The increase in large exposures could be due to the banks facilitating the economic growth, resulting in increasing trade finance exposures, while anectodical evidence suggests that the increase in NPLs is mainly due to defaults in the hotel sector. However, the BCRG does not systematically collect the necessary data to prepare an analysis of the drivers of the observed trends. Useable data on the insurance and microfinance sectors is largely lacking.

21. While correspondent banking relations (CBR) of the commercial banks seem to be stable, BCRG has experienced some pressures in its relationships and the scope of services. According to an analysis of correspondent banking data by the Basel Committee on Payments and Market Infrastructures,[4] the banking sector has not seen CBR rates decline over the period 2011–2018. This is quite remarkable as CBR rates have declined in general in Africa according to the same report, by more than 20 percent on average over this period. The relative stability of CBRs can probably be attributed to the foreign ownership of the banking sector. In contrast, the BCRG has suffered CBR pressures, which may be due to certain BCRG activities that are not directly related to its core mandate (cash money services for commercial banks, commercial banking activities for current and previous politically exposed persons, and gold and diamond

[4] https://www.bis.org/cpmi/paysysinfo/corr_bank_data.htm.

exports). The BCRG continues to establish compliance frameworks to mitigate the risks of these activities (see Box 1).

Box 1. Correspondent Banks

The BCRG plays the role of central cashier for the commercial banks for foreign currency cash. It collects U.S. dollar and euro cash from the various commercial banks and handles its transformation into bank money. The BCRG is remunerated at a rate of 0.5 percent for this activity at the time of the transfer of foreign exchange from the accounts of commercial banks at the BCRG to their correspondent accounts.

Since 2013, the BCRG has experienced a number of issues with its correspondent banking relations (CBR), particularly in euros. In 2013, Crédit Suisse closed its accounts with the BCRG, after which the BCRG entered into relations with three other correspondent banks: Standard Chartered in South Africa, Société Générale Paris, and the Bank of France. In all three cases, banking relations excluded taking back cash. The BCRG thus used an intermediary for this transformation. While US dollar cash normally represented 80 percent of total cash holdings, which could be justified by Guinean economic activity, this ratio was reversed in 2017, with euros representing 80 percent of total cash. An investigation found no valid explanation to justify such a change. To avoid international anti-money laundering sanctions, the BCRG began to put in place a compliance framework before accepting cash. This proved to be easy for the USD, but very difficult for the euro. The BCRG thus decided to stop accepting euros.

In light of this experience, the BCRG should reflect on the essential nature of some of its activities, which do not fall directly within its core mandate and which could lead to a break with its international correspondent banks. The three activities that could prove to be of concern are: (i) the provision of banking services to (past and present) politicians; (ii) providing cash correspondent banking services for the commercial banks; and (iii) the involvement in gold and diamond exports (although it has received Kimberley certification). These activities are typically not conducted by central banks (e.g., the first service would typically be provided by commercial banks and the second service normally is organized by the commercial banks themselves).

A break in Guinea's relations with its international correspondent banks would have a disastrous impact on the Guinean economy. It would no longer be possible to clear international checks or make international transfers, which would directly impact reserves management and the BCRG's intervention policy, foreign debt management, and exports and imports. It would also result in capital flight. Given the potential impact, the BCRG should closely monitor its relations with correspondent banks and periodically determine whether the advantages of the services provided are still important and still balance out the risk (probability and impact) of the potential resulting pressures on correspondent banking relations.

D. Institutional Framework

22. **Although the BCRG's main objective is price stability, it is also responsible for supervision of the financial sector.** The BCRG is the integrated supervisory authority, responsible for all financial institutions (banks, nonbank deposit-taking institutions, mobile money operators and insurers). The BCRG's charter also makes the BCRG responsible for oversight of the payments systems and financial stability. There is as yet no institutional framework defining the roles of the MEF and BCRG for macroprudential policy and supervision. There is also no specific authority responsible for consumer protection. Guinea has a financial intelligence unit, the National Financial Information Processing Unit (CENTIF), which is an administrative type unit under the Ministry of Economy and Finance.

23. All essential licensing decisions and approvals taken over the life of a financial institution are made by the BCRG Licensing Committee. The committee decides on such issues as the minimum capital requirements, approval of management, change of ownership, and application for and withdrawal of a license. The Licensing Committee, which is a decision-making body, is chaired by the Governor or by one of the Deputy Governors in the Governor's absence. Its members include the head of the Directorate General of Supervision of Financial Institutions (DGSIF) or his/her representative, a member selected by the Minister of Economy and Finance (MEF), a member selected by the Minister of Justice, and an independent qualified public figure selected by the Governor of the BCRG. Decisions of the Licensing Committee are taken by a majority of votes. In the event of a tie, the chairperson has the deciding vote.

24. In 2018, the Licensing Committee (which has the powers conferred on it by the banking law) launched the creation of a Deposit Insurance Fund. The Fund acts as a pay-box and has its own Board of Directors, chaired by the Governor of the BCRG, and the secretariat being provided by the Banking Supervision Department (DSB). The Board of Directors and the BCRG are in the process of setting up the deposit insurance system and the first contributions will be collected in 2019. An official crisis management framework defining the roles of the MEF and the BCRG has not yet been put in place.

25. Most of the components of the legal framework for the financial sector have been updated recently. The main components of the legal framework for the financial sector are contained in:

- Charter of the BCRG (L/2014/016/AN)
- Banking Law (L/2013/060/CNT)
- Leasing Law (L/2012/005/CNT)
- Insurance Code (L/2016/023/AN)
- Inclusive Financial Institutions Act (L/2017/031/AN)
- Anti-Money Laundering Law (L/2006/010/AN)
- Countering the Financing of Terrorism Law (L/2014/010/AN)

III. Diagnostic Review of Financial Sector Stability

A. Financial Stability Oversight

26. The ultimate objective of developing the financial stability function is the long-term contribution of the financial sector to economic growth. The financial stability function aims to implement an effective macroprudential policy that will:

(a) prevent the emergence of financial imbalances that could have serious repercussions for the real economy;
(b) reduce contagion risks and mitigate the effects of upheavals using crisis management mechanisms; and
(c) increase the capacity of financial institutions or structures to absorb shocks.

27. Under its charter, the BCRG has an explicit mandate in the area of financial stability. However, in the absence of a prudential framework (institutional and operational) allowing it to implement policies with macroprudential intent, this function has not yet been developed within the BCRG. The implementation of these policies, which are based on risk monitoring and surveillance tools, requires the collection of high-quality granular data and the development of adequate information systems.

28. The BCRG has compiled financial soundness indicators (FSIs) since 2014. Currently these indicators cover only banks, as the data on insurance companies and deposit-taking microfinance institutions are not complete or available in a timely fashion. Data reported by banks to the banking supervision department are processed but are not yet available in the databases. A new more complete reporting format will be launched in the near future based on the revised chart of accounts. It should be noted that several BCRG officials have participated in training seminars, which have included some stress testing.

29. To make up for the lack of data on lending, the BCRG launched the establishment of a credit registry in 2017,[5] which should allow for complete automation of data sharing between the banks and the BCRG. The project has encountered a number of difficulties and the credit registry is not yet operational.

30. The BCRG should develop its capacity to implement a macroprudential policy. The availability and quality of relevant data are essential for the implementation of such a policy. Staff with the appropriate profile and information systems that can produce vulnerability indicators and tools are also required.

31. The various phases for implementing a macroprudential surveillance framework that will contribute to financial stability are:

1. Optimization of governance and the institutional framework by more clearly defining the powers of the BCRG in this area and developing a clearer decision-making process in which also the role the Ministry of Finance should be considered (e.g., informal coordination or a more formalized role through the creation of a macroprudential surveillance committee).

2. Establishment of a dedicated structure that will create the operational framework for the macroprudential policy, in five phases:

   i. preparation of indicators, compilation of FSIs, construction of indices, examination of macroeconomic and performance indicator trends in the financial sector, forecasting models, stress testing;

[5] The main objective of the credit registry is to be an important source of information for credit bureaus and credit institutions to assess the quality of borrowers and their total indebtedness. This together with the recent establishment of a commercial court are important preconditions for creating an environment that is supportive of amongst others small-to medium-size (SME) lending.

ii. identification of risks and assessment of vulnerabilities using the above tools, of which the results could be published in a Financial Stability Report, providing BCRG's forward looking views on the risks to financial stability;

iii. selection and calibration of instruments for the prevention and mitigation of shocks and crisis management (introduction of macroprudential ratios, for example, the establishment of ceilings on loan-to-value or loan-to-income ratios). The BCRG already has a number of instruments (e.g., large exposure requirements, open currency position ratio, and liquidity ratio) and plans to introduce other ratios as part of the AFW TA road map for 2021;

iv. implementation of these macroprudential instruments; and

v. evaluation and adjustment of measures.

32. **The BCRG should immediately begin to put in place a project group for the establishment of the financial stability function.** Time will be needed to introduce the necessary legal amendments and establish an institutional framework. A dedicated financial stability unit should be established, work should begin to improve the availability and quality of the data, and the necessary analytical tools should be created.

33. **The three-year TA program proposed should cover all of the areas related to financial stability.** The program should aim to establish a clear macroprudential surveillance framework based on reliable data and the capacity to identify risks and select adequate instruments for preventive, corrective or crisis management actions.

B. Systemic Liquidity

34. **At the aggregate level, banking system liquidity refers to the capacity of banks to finance their reserves at the central bank.** The supply and demand of reserves on the interbank market determines short-term interest rates. Interest rate volatility creates three problems: (i) it imposes a liquidity premium (counterparties will want to build additional reserves to absorb liquidity shocks), which increases the cost of financing for the economy and hampers the development of the market; (ii) it exacerbates the credit cycle owing to abrupt changes in liquidity needs, which are reflected in sharp interest rate fluctuations; and (iii) it has the potential to destabilize other markets for which domestic currency interest rates are important, such as the foreign exchange market or the government securities market. Liquidity management thus aims to stabilize short-term rates.

35. **For the commercial banks, the main cash flow objective is to prudently plan the reserve position.** Bank financing and illiquidity of the interbank or securities market create two problems: (i) it is difficult for the central bank to determine the appropriate distribution of its open market operations if the market does not reallocate surplus counterparty reserves efficiently, leading either to excess reserves or to excessive recourse to central bank refinancing, which depletes the stock of collateral available for monetary policy operations; and (ii) it exposes

banks to refinancing and interest rate risks (they may not be able to meet their reserve requirement at a reasonable cost) and significant losses on the sale of assets that could jeopardize their solvency.

36. **In light of these two approaches, the background note on systemic liquidity examines the weaknesses to prevent liquidity shock in the Guinean banking system and a better formation of interest rates.** A review of the GNF and foreign currency liquidity framework is provided first, after which the three weaknesses observed in Guinea—liquidity management by the BCRG, the collateral framework and the operationalization of the new ELA mechanism—are examined in turn.

Current situation

37. **The banking system is moderately concentrated.** Three banks capture almost 60 percent of total deposits in GNF and foreign currencies. The concentration of these deposits, as measured by the HHI concentration index (Herfindahl-Hirschman Index) is moderate (0.13 at present). The degree of concentration of excess reserves is higher, however.

38. **The low rate of bank penetration in Guinea (8 percent) also leads to a high degree of concentration of bank financing.** Although the development of mobile money has significantly increased the rate of bank penetration, it has not reduced the concentration of deposits in the banking system. The two mobile money operators deposit their cash in the banking system. It should be noted that for the same reason loans are also concentrated.

39. **The banking system usually has a problem of liquidity overhang in GNF**. This is a direct result of the lack of domestic liquidity management by the BCRG. Some banks do, however, seem to have occasional liquidity management problems as some moderately sized banks frequently fail to meet their reserve requirements, despite the sizable penalties involved. Over the past year the same has been true for the required reserves in foreign currencies owing to the refusal of the BCRG to accept euro cash following some problems with the correspondent banks.

40. **The interbank liquidity market in Guinea seems to function but is small owing to the lack of active liquidity management by the BCRG.** The interbank market takes the form of repos, primarily for short maturities (seven days). The introduction of the RTGS and the paperless securities settlement system (SSS) have greatly facilitated these operations. Some banks have already established lines of credit for unsecured loans. The number of interbank operations, while limited, should increase with more active liquidity management by the BCRG.

41. **The primary and secondary markets for government securities are emerging.** These markets are an essential and complementary component of a robust collateral framework and a key factor in banking system liquidity. Negotiable public debt (treasury bills and bonds) constitute a tiny fraction of the total public debt. The secondary market is quite illiquid. AFW and the World Bank are currently providing important TA to the Ministry of Finance in this area.

42. The risk of a generalized GNF liquidity crisis is currently low, however. The required reserves level (16 percent) provides a comfortable liquidity buffer for the BCRG to meet a liquidity crisis. The collateral framework in its current form could, however, be an obstacle to a massive injection of liquidity by the BCRG. Moreover, it is not out of the question that some banks might have individual liquidity problems, and the implementation of the ELA framework is recommended.

43. Guinea is also a relatively dollarized country (29 percent of deposits). Although commercial banks have little exposure to exchange risk owing to the prudential regulations on exchange positions, they could be exposed to liquidity risk in foreign currencies. Difficulties are already arising with the importing of basic commodities (rice, fuel).

44. Several protections exist to counter this foreign exchange liquidity risk. First, all commercial banks in Guinea are subsidiaries of international groups, giving them easier access to international liquidity if it is needed. Second, the BCRG imposes a foreign currency liquidity prudential ratio. Finally, the high level of foreign currency required reserves (which must be fulfilled in foreign currencies) at 16 percent gives the BCRG some flexibility in the event of a generalized foreign currency liquidity crisis. The establishment of a foreign currency ELA could supplement these protections (see below) should an individual bank have foreign currency liquidity problems (see background note).

Assessment of liquidity management by the BCRG

45. Despite numerous IMF TA missions, uneven progress has been made in the implementation of the monetary policy (see Annex II.B). Five TA missions took place between December 2015 and June 2018. Their aim was to improve forecasting and active bank liquidity management in the context of reserve money targeting. Despite the introduction of a promising liquidity forecasting framework and the set of instruments needed for liquidity management, the BCRG still does not systematically implement active liquidity management. The background note identifies the various disadvantages that this entails for inflation targeting and for financial stability.

46. The FSSR recommends that the BCRG implement the previous recommendations, but does not recommend additional TA in this area. Although the mission acknowledges that there are deficiencies in this area, the IMF has already provided a significant amount of TA on liquidity forecasting and management. Therefore, it is up to the BCRG to make the decision to begin implementing its monetary policy more in line with international practices, which should support sustainable economic development in Guinea in the medium term.

Assessment of the collateral framework

47. Looking at the collateral framework, the BCR theoretically accepts a wide range of collateral for its various liquidity injections. The collateral accepted includes private securities, as well government securities. The collateral framework for private securities is very vague and no steps for the mobilization of these securities have been planned. Collateral ranking is also needed, as a uniform discount of 10 percent is applied to all collateral.

48. The FSSR recommends TA for the development of an advanced, structured collateral framework. Such a framework would have several advantages. It would allow the BCRG to inject liquidity in the event of significant liquidity tightening. A sound assessment and ranking of the various risks (market, credit and liquidity) would make it possible to assign the appropriate discounts to the various types of collateral (public and private) thus maintaining the same level of residual risk. The differentiation should also influence the behavior of banks vis-à-vis these assets and improve the neutrality of the guarantee mechanism by thus avoiding preferential treatment for government securities. This would encourage the securitization of private claims and improve market liquidity. Finally, this would make it possible to define residual collateral for the establishment of an ELA mechanism.

Implementation of the ELA framework

49. The legal capacity of the BCRG to provide emergency liquidity assistance was recently established by an instruction,[6] but the operational framework has not yet been put in place. TA would be useful in this regard to prepare an operational framework and a framework agreement that could be quickly introduced in the event of an unanticipated ELA requirement. The aim is to allow the BCRG to provide ELA as efficiently as possible and as safely as possible for the BCRG balance sheet. The background note discusses a number of issues that should be tackled by this TA.

C. Oversight of Financial Market Infrastructures

50. The BCRG has three modern market infrastructures (an RTGS system, an automated clearinghouse, and a delivery-versus-payment system for securities), which were purchased on a turnkey basis. These systems entered into operation between 2014 and 2016. They operate well, but the clearinghouse does not have a mechanism to ensure the completion of end-of-day settlements.

51. In the absence of a specific law on the payments systems, some legal risks persist. Guinea lacks a law specifying in particular: i) the legal validity of clearing operations (impossibility for the bankruptcy judge to reject certain cleared but not yet settled payments); ii) payments finality (impossibility to revoke a payment already settled) and; (iii) the protection of collateral holders (assurance that a collateral holder does not compete with other creditors of the debtor in the event of bankruptcy). The World Bank provided TA on a draft law in 2016, but that draft will need to be revised due to the adoption of several pieces of other legislation (e.g., the law on inclusive financial institutions), which overlap with some of the provisions the draft text developed with the assistance of the World Bank.

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[6] Instruction No. 090/DGCC/DPMC/2019 on the emergency liquidity assistance arrangements for "bank" category credit institutions.

52. Among cashless payment instruments, the check continues to be widely used. The authorities should discourage the use of high-value checks, which are often issued by businesses or government departments. Moreover, checks should be cleared and settled only after validation by the drawee bank, which currently is not the case.

53. Mobile telephone networks have given a significant proportion of the population access to a modern means of payment. However, currently more than 80 percent of transactions consist of cash withdrawals. Payments in the strict sense of the term represent less than 10 percent of the total. The regulatory framework (see Box 2) that governs "mobile payment" operators is based on regional/African practices and seems to be on the stricter side, but does not seem to harm the rapid development of this type of transaction.

54. Guinea suffers from a lack of an electronic payment switch, which would ensure interoperability between all payment service providers, banks and mobile payment operators. Currently the only interbank transactions are those that go through market infrastructures, mainly checks and transfers. For example, withdrawals from ATMs can only be made in the network of the institution issuing the debt card, and these cards can only be used to make purchases if the merchant has a point-of-sale terminal made available by this institution. A project, supported by the World Bank, is being implemented but seems to be hampered by administrative red tape.

55. The modernization of the Guinean payment system would benefit significantly from the establishment of a National Payments Committee, chaired by the Governor of the BCRG. The modernization of the payments ecosystem in Guinea requires a higher degree of interoperability between payment infrastructures and between payment providers. Insufficient coordination so far has also led to the failure of promising initiatives such as the Société Guinéenne de Monétique, have made difficult to reduce the importance of high-value cheques, and may prevent synergies between banks and mobile money operators. The establishment of a National payments Committee would help mitigating recurrent coordination problems in Guinea, as long as the main participants in the payment systems ecosystem are represented (including users: merchants, major billers, and government departments).

Box 2. Legal Basis for Mobile Telephone Payments

In common with many African countries, Guinea has seen the very rapid development of mobile telephone payments. The first "mobile money" system was introduced in 2012 by Orange, followed later by MTM. Since the banking law establishes that the provision of means of payments is a bank prerogative, mobile telephone operators have initially chosen to obtain the backing of a bank. However, in 2015, the BCRG required mobile telephone operators to create a separate subsidiary, now covered by the 2017 law on inclusive financial institutions (IFIs), which governs electronic money institutions (EMI), as well as microcredit institutions and future post office financial services.

The law specifies that EMIs are financial institutions supervised by the central bank. It requires EMIs to hold all amounts entrusted to them by their customers in bank accounts. In practice, the central bank requires them to establish bank deposits in an amount at least equal to the amount of the electronic money issued. This obligation must be complied with at all times and is monitored by the BCRG. Article 73 of the law on IFIs specifies that these funds do not form part of the capital of EMIs and "are protected against any recourse by other creditors of the EMI." Electronic money holders thus do not run a risk against the EMI itself, but against the banks with which the EMI holds deposits in their name. To limit the risks faced by electronic money holders, the BCRG prevents EMIs from depositing more than 25 percent of funds with a single bank.

Some convergence between banks and telephone operators is taking place. The Société Générale de Guinée has expressed its intention of creating an EMI subsidiary to manage a mobile money system. Ecobank has launched a mobile telephone payment program under its banking license. Orange and MTN plan to work in partnership with microcredit institutions to distribute low-value loans ("pico loans") with the telephone operator acting as distributor and valuator (based on the behavior of potential mobile telephone and mobile money customers). In association with other financial institutions, they could also distribute basic insurance contracts (health, life, etc.,) or even simple savings products. Orange plans to create a bank in the WAEMU zone and may subsequently do the same in Guinea. It could then "produce" financial products in its bank and distribute them through its telephone network.

56. The BCRG does not yet have the means to fulfill its legal obligations in oversight of the sound operation of the payments systems. Although Articles 10 and 21 of the Central Bank Statute of 2014 (modified in 2016 and 2017)[7] give extensive oversight powers to BCRG, the latter has not yet created a unit to perform the oversight function. In practice, market infrastructures are still being managed in "project mode" which explains why the Automated Clearing House (ACH) and the RTGS/SSS are managed by two different directorates of the central bank without dedicated staff assigned to payment systems operations and oversight. It is therefore recommended that: (i) a single unit is in charge of the operation of the three market infrastructures, possibly integrated into the "*Direction Générale de l'Exploitation*"; and (ii) a new unit is created to manage the oversight function which could be part of a new directorate in charge of financial stability.

D. Banking Regulation and Supervision

57. The BCRG has undertaken a very ambitious reform to strengthen its regulatory framework. Several projects are under way: specifically, the revision of the August 2013 banking law to align it with the framework defined by the WAMZ member countries and the finalization of a new bank chart of accounts and reporting system. Other projects are also scheduled as part of an ambitious plan for the period through 2020, although its completion is not certain at this point. The current projects of the Banking Supervision Department (DSB) include the automation of bank reporting to the BCRG, the revision of the main prudential regulations, strengthening of RBS, consolidated supervision, the transition to the International Financial Reporting Standards (in particular IFRS 9), the adoption of the Basel II/III standards, and the development of a cybersecurity and crisis resolution framework. These projects are also required steps for the WAMZ member countries. The required enhancements are highly ambitious and will require a multi-year perspective.

[7] Article 10 states that*:* the central bank is entrusted with the following missions: ...to promote the smooth functioning and ensure the supervision and safety of payment systems"; Article 21 adds that: the central bank … takes measures required to ensure the efficiency, the solidity and the safety of interbank net-settlement systems, securities settlement systems and other systems or means of payment …

58. AFW is supporting the reform strategy with a work plan for 2017–2020. Its plan is based on the structure of the monitoring of IMF performance indicators using the results-based management approach and is shown in Annex II.A. The deadlines are regularly updated. Although the BCRG is committed to the implementation of the strategic plan, it is making very slow progress and thus far none of the work program milestones have been entirely met.

59. This report summarizes the review of the BCRG legal, regulatory and supervisory frameworks. It consists of an assessment of the effectiveness of BCRG banking supervision and prudential regulation, based on the 2012 Core Principles for Effective Banking Supervision (BCP) issued by the Basel Committee on Banking Supervision (BCBS), in a context consistent with Guinea's capacities and the structure of its banking system. The assessment takes account of the revision of the August 2013 banking law and the BCRG's existing body of prudential regulations, as well as the review of the existing supervision process implemented by the DSB. The results of the assessment have been shared with AFW and will be included in the work plan

Legal framework

60. Further improvements to the banking law should be planned to bring it into alignment with international best practices. They include detailing BCRG's responsibility (as embedded in the Central Bank Statute) in supervising and regulating banks. In addition, the Banking Law should clearly stipulate the activities and operations that a development bank is allowed to undertake; most importantly, the development bank should not be allowed to attract deposits from the public. While the Licensing Committee might be able to impose temporarily a similar restriction, ideally the Banking Law should provide a clear basis and framework for development banks. Moreover, the BCRG should divest itself of its holdings in the recently established development bank as it creates a conflict of interest with its role as supervisory authority. The BCRG could also include provisions in the Banking Law providing the BCRG the powers to limit transactions with parent companies or the group to which the bank belongs in times of stress. The mission recommends the review of this recommendation in the new draft banking law, which has been prepared based on the framework/example law implemented by the WAMZ member countries.

61. Although Islamic banking activities are not yet widespread in Guinea, the BCRG should nonetheless plan to establish an appropriate legal and regulatory framework. Currently there is only one active Islamic bank, and another bank has opened an Islamic banking window. The legal framework and prudential regulations in effect governing traditional banks will not meet the requirements or cover the activities of Islamic financial institutions, given the specific characteristics and unique nature of Islamic instruments. In this context, to create a favorable environment, the BCRG should plan to develop a specific legal and regulatory framework over the longer term.

Regulatory framework

62. To be able to comply with the regional convergence criteria the prudential regulations will need to be significantly reformed. The regulatory framework consists of a set of instructions issued by the BCRG grouped in a compendium issued for the first time in 2016 and updated in 2017.[8] These regulations are not published and accessible on the BCRG website. The instructions are adapted to the context of the banking system in Guinea and reflect the provisions of the Banking Law but will need significant expansion and amendments to comply with the regional convergence criteria.

63. The BCRG would benefit from TA to improve, update and expand the prudential regulations. The mission has identified some regulations that should be updated or improved in the short term to bring them into better alignment with international standards and best practices in such areas as capital requirements, the leverage ratio, transactions with related parties, and concentration risk. Also, on a medium term, but with a lower priority, the following regulations should be developed or improved: Basel II/III regulations to measure liquidity risk, enhancements to the governance and risk management regulations, (reporting) requirements for interest rate risk in the banking book and country and transfer risk. Others need to be developed in the longer term, such as frameworks for the implementation of Pillars 2 and 3 of Basel II/III, and a framework for prudential stress-testing. These should be supplemented in the long term (but not a priority for the moment) by the preparation of a prudential regulation on Islamic finance in accordance with the standards and requirements of the board of directors of the Islamic Financial Services Board. Given that banks dominate the financial system in Guinea, TA on prudential regulations would be a precondition for operationalizing macroprudential tools.

Reporting and supervision process

64. The DSB has made progress with the implementation of RBS, but majors deficiencies persist. The bank rating system currently used is the preferred assessment instrument, which should make it possible to trigger supervisory actions such as the annual onsite inspection plan, enhanced supervision, or the request for quantitative or qualitative adjustments or corrections. However, this rating system should be improved, particularly the assessment of the qualitative criteria, which requires the collection of additional data on, for example, governance, risk management, internal control, and the anti-money laundering/ combating terrorist financing mechanism (AML/CFT). Another approach is to allow for a provisional assessment to evaluate the soundness of banks in difficult conditions. In this regard, it should be noted that the DSB supervisors do not yet use stress testing as an important tool in RBS, and there are no onsite supervision and inspection procedures manuals to guide them in the implementation of a harmonized and coherent supervision process.

65. The DSB is chronically understaffed and is far from having sufficient resources to provide effective supervision. Currently, banking supervision (including regulation) has a staff of 12, including the director, deputy director and an assistant. The other DSB staff members are distributed among offsite examination (four staff), onsite inspection (two staff), and regulation, review of licensing applications and analysis of bank prudential reports, including the financial

[8] The title of the manual is “Les Textes Légaux et Règlementaires Régissant l’Activité Bancaire et Financière en République de Guinée.”

statements (three staff). The four offsite examination officials are responsible for the supervision of 16 commercial banks and 1 development bank. Moreover, not all information is received from the banks via an automated information system for the secure collection of data. This environment does not facilitate the rapid analysis and detection of risks in an individual bank or in the banking system as a whole. Supervision suffers from this lack of human and organizational resources. For example, over three years (2016–2018), only four comprehensive onsite inspections were carried out, in addition to thematic inspection missions conducted in other banks.

66. Since 2011, the BCRG has worked to improve its supervision reporting framework with AFW's assistance. This has included the development of a new chart of accounts for the banks, model financial statements, and periodic reports for supervisory purposes and national accounts and balance of payments statistics. These reports cover capital adequacy, liquidity, major risks, risk concentration by economic sector, region and currency, asset quality, loan loss provisions, and transactions with related parties. Despite the importance of these reports for the administration and close supervision of banks and the banking system, other prudential reports are still lacking, for example: concentration by depositor (considered in the new reporting framework), interest maturity gap in the banking book, and interest rate risk in the trading book, however, the latter may be less relevant given the state of development of the financial markets and the absence of material trading portfolios.

Consolidated and cross-border supervision

67. The BCRG is essentially a host supervisor. Currently, Guinean banks, including subsidiaries of foreign banks, have no banking subsidiaries abroad. However, certain foreign owned banks or parent companies have participations in as well the Guinean bank subsidiary as in a Guinean microfinance institution under supervision of the BCRG. As all of the banks belong to foreign owners, cross-border cooperation agreements are essential for the BCRG.

68. The Banking Law authorizes the supervisory authority of a foreign bank operating in Guinea to conduct an onsite inspection of that subsidiary. This review may be conducted jointly with the BCRG, but the final report must be transmitted to the BCRG in all cases. The Banking Law also authorizes the sharing of information to facilitate the implementation of consolidated supervision, but this is subject to reciprocity and confidentiality.

69. The BCRG has entered into or is in the process of entering into cooperation agreements with most of the home authorities concerned (see Table 3). The BCRG has signed memoranda of understanding with many supervisors in Africa and with France for cooperation in cross-border supervision and information-sharing.[9] For a few banks, however, these cooperation agreements are not in place yet. These should be concluded with priority. The

[9] The BCRG has signed agreements with: (i) the Bank of France (ACPR); (ii) the Central Bank of the Congo (BCC); (iii) Bank Al Maghrib (Morocco); (iv) the WAMU Banking Commission; (v) the Central African Banking Commission (COBAC); and (vi) the WAMZ.

BCRG participated in three supervisory colleges in 2017 and four colleges in 2018 where information is shared on the risk profiles of banks under joint supervision and the parent bank presents the risks for its banking group. Although the cooperation agreements could be further improved, in particular with regard to cross-border crisis management and resolution (see paragraph 78), the BCRG does have a fairly complete cooperation framework.

70. Although the implementation of consolidated supervision is part of the WAMZ convergence criteria, this should not be a priority for Guinea. At this point in time none of the banks in Guinea have subsidiaries or branches. While this situation may change in the future, the implementation of consolidated supervision is therefore not a priority at this point in time. However, when developing new regulations, the BCRG could consider already clarifying the extent to which these would apply on a consolidated basis in the case a bank sets-up a subsidiary.

E. Crisis Management, Bank Resolution, and the Safety Net

71. The mission reviewed the existing or needed mechanisms for handling distressed banks or bank failures. The review covered the topics of crisis management, bank resolution, and the financial safety net. The topic of the ELA was moved to the report on systemic liquidity.

72. The review and recommendations were adjusted to take account of the fact that Guinean banks are exclusively subsidiaries of foreign groups. The international standards were adapted to the specific characteristics of the Guinean financial system. These adjustments specifically target the recent experience in Guinea with crisis management and bank failure, the very early stage of the construction of the financial safety net, and the fact that the Guinean financial system is essentially a relatively small banking system consisting entirely of subsidiaries under Guinean law of regional or international banking groups. Cross-border issues were looked at in great detail for the various components of the financial stability net: early intervention measures, resolution measures, and crisis management.

73. The legislative framework on early intervention measures by the BCRG, called "enhanced supervision," should be expanded and strengthened, even though the BCRG has successfully implemented such measures on a number of occasions in recent years, including in delicate cross-border situations. The BCRG should base its actions on the advantage of having a very complete network of cooperation agreements covering all subsidiaries in Guinea. Some provisions of the enhanced supervision regime should be moved to the law, particularly to facilitate its application by the BCRG in cross-border situations. In cases such as Guinea, where the banking system is dominated by foreign banking groups, it is important that the triggers for early action measures include indicators on the position of the parent bank.

74. The requirements for banks to draft preventative recovery plans should be added to the existing framework. The lack of preventative recovery plans creates the risk that banks will not be ready to handle shocks. The mission suggests that in the coming two to three years the BCRG impose the requirement for preventative recovery plans on all banks, or at least for the largest banks, operating in Guinea. For subsidiaries of foreign banks in Guinea, the BCRG could rely on the recovery plans that groups are required to prepare and on its very advanced cross-border cooperation. The regulations on recovery plans should require banks to identify the triggers for the implementation of the plans and should require the plans to contain measures specific to the subsidiary in Guinea.

75. An effective bank crisis management framework should be constructed, and the law should assign clearly defined objectives for bank resolution to the BCRG. The law should contain more provisions, objectives and resolution powers so that the bank resolution regime can be considered effective within the meaning of the "Financial Stability Board Key Attributes." The resolution authority identified by the law may be the BCRG, but it is highly recommended to establish a decision-making procedure for bank resolution that is separate from the body responsible for bank supervision. The banking law should be amended to provide the BCRG with broader resolution powers and should better detail the conditions for their implementation in cases when they violate shareholder or creditor rights. The mission recommends that initially only a portion of the bank resolution powers be implemented. Measures to protect shareholders and creditors of banks placed under resolution must be included in the banking law. Only when the banking law has been amended to create the bank resolution regime can the BCRG begin to draft its initial resolution plans, there again based on the work of the home authorities and its cooperation with them.

76. Guinea should continue to work on its deposit insurance regime, but the authorities also need to work further on the preconditions of a deposit insurance system. The adoption of a deposit insurance system in 2018 responded to a recent bank failure and to international commitments related to the WAMZ. The mandate, powers, objectives and essential elements of the deposit insurance system should be specified in legislation in order to meet international standards. The Guinean authorities also need to work further on the preconditions of a deposit insurance system, such as: sound governance of agencies comprising the financial safety net; effective banking regulation and supervision; and well-functioning legal, accounting, and disclosure systems. The authorities must still determine various parameters for the deposit insurance fund to make it fully operational. Given the specific characteristics of the Guinean banking system, the mission recommends a deposit insurance limited to a "paybox plus" function (i.e., it should be possible to use the resources of the deposit insurance fund to financially support bank resolution measures such as the purchase-and-assumption and bridge bank resolution tools). In order to give the deposit insurance greater credibility, emergency financing under the form of a back-up line of credit from the government should be planned for situations in which the fund's resources might be insufficient or depleted.

77. The Ministry of Finance should also prepare for its involvement in potential bank resolutions, including the provision of temporary financial support. System-wide crises may require exceptional measures as a last resort, e.g., guarantees of assets or liabilities or capital injections by the government. Any provision of funding should be subject to strict conditions that minimize the risk of moral hazard, in particular the allocation of losses to equity holders and residual costs to unsecured and uninsured depositors and the industry through ex-post assessments, insurance premiums, or other mechanisms.

78. Crisis management coordination should be improved at the national level. It is proposed that the authorities establish a body responsible for coordinating crisis management activities at the national level, and that the BCRG and MEF prepare a memorandum (confidential) to indicate their respective responsibility in banking crises. The BCRG already has a very complete network of cooperation agreements for cross-border coordination, which cover the coordination of crisis management and would require only adjustments once the statutory resolution regime has been adopted.

79. It is crucial to strengthen the bank crisis management and prevention capacity of the Guinean authorities, in terms of both the staffing level and expertise. The BCRG and the Treasury should recruit and train crisis management, bank resolution, and deposit insurance experts. This is particularly crucial for the BCRG. The legislative measures providing legal protection for the BCRG and its officials should be explicitly expanded to the bank resolution and deposit insurance missions.

IV. TA ROAD MAP

80. A key component of the FSSR is the TA road map agreed with the authorities, linking the baseline assessment in Section III to the key strategic reforms planned. The TA road map emphasizes specific measures that the authorities have agreed to take within a predetermined time frame (three years). The IMF, with the assistance of other TA providers, if possible, will collaborate with the authorities to implement the road map and monitor the progress of the reforms vis-à-vis the expected outcomes. The TA road map should not be considered terms of reference, but rather a set of milestones for the achievement of the targeted strategic objectives. The specific TA timetable will be detailed when the terms of reference are prepared.

81. Based on the findings and recommendations presented in this report, the mission proposes the TA projects indicated below. These TA projects aim to measurably improve the performance of the authorities (outcomes) within the indicated time frames. It will be important to be flexible over time to adapt TA projects to changing conditions in the financial environment in Guinea. The descriptions of the TA projects below are referenced to the corresponding numbers (#) in Annex III.

- **Banking regulation and supervision**[10]

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[10] The total estimated amount of TA for banking supervision, excluding legal advice, is 40 weeks of which about 34 weeks (projects #2 and 3) are to be provided and covered by AFW's existing TA program. Assuming the missions consist of two experts, and assuming a two-week mission every three months (more or less like the current AFW schedule) the delivery of the proposed TA would take approximately three years. However, it should be noted that the experience of conducting TA in Guinea shows that time between the drafting of new regulations and their adoption can be long. Therefore, while drafting of the necessary new regulations might be possible within a three-year horizon (assuming an increase in DSB resources and strong ownership by the BCRG) the possible adoption dates are more difficult to estimate.

(# 1) Amendment of the banking law (strengthening the objectives and BCRG's responsibilities, including a separate charter for development banks, and providing for the necessary legal basis for Islamic banking) could require two weeks of offsite support, two weeks onsite support to follow up on the comments of the stakeholders with the authorities, and one week offsite and one-week onsite support to follow up on the comments of the stakeholders. Organization: six weeks in total.

(#2) The revision of the various components of the capital adequacy standards and the instructions on the classification of assets (performing/nonperforming), risk concentration (large exposures), and transactions with related parties justifies 12 weeks of TA. The revision of the liquidity standards (short- and long-term), the review of the instructions on governance and risk management (including operational risk), and the comparison of the adapted provisions regarding the control of market risks, general bank portfolio interest rate risk, and country and transfer risks justify 10 weeks of TA. Organization: a total of 22 weeks of TA.

(# 3) The enhancement of the bank risk assessment process on the basis of both offsite examinations and onsite inspections requires regular support (particularly in terms of potential staffing increases) during TA missions, which could be estimated at 12 weeks of experts over a period of three to four years. This action will involve developing offsite and onsite RBS manuals. Organization 12 weeks of TA.

(#4) The introduction of an automatic reporting tool will require support for which the terms and conditions of implementation will need to be defined. Organization: ideally this TA is provided by the donor supporting the acquisition of the reporting tool.

- **Crisis management, bank resolution and safety nets**

(#5) TA to: (i) complement the law on the deposit insurance system in order to meet international standards, and (ii) complete the deposit insurance regulations and make them operational. It will be based on recommendations on draft regulations completing the deposit insurance and recommendations on the entry into operation of the system and deposit insurance procedures. To benefit from the initial experience of the July 2019 collection of premiums and to honor international commitments (WAMZ), it is proposed that this work be concluded by March 2020 at the latest. Organization: two two-week onsite mission and four weeks of desk work.

(#6 and #7) TA to complete the early intervention action framework ("enhanced supervision") and prepare a special bank resolution regime (tailored to the banking system in Guinea). Based on international commitments (WAMZ), it is proposed that this work be carried out starting in early 2020 and be concluded by December 2020 at the latest. Organization: two one-week onsite missions and two weeks of desk work.

(#8) TA to implement the special bank resolution regime (analysis of bank resolvability; evaluation of operational improvements; drafting of resolution strategies taking account of groups). This mission cannot take place until the legislative regime has been adopted; it is therefore proposed that it be completed by June 2022. Any delay in the preceding mission or the lack of a dedicated BCRG team (special resolution unit) would result in a delay in this TA. Organization: two one-week onsite missions and two weeks of desk work.

(#9) TA to build the capacity of the BCRG to react to a systemic crisis. It involves preparation of the authorities' response to a systemic banking crisis (liquidity or solvency crisis) and the drafting of crisis scenarios and crisis management plans in liaison with analysis/alerts from the financial stability function. This mission cannot take place until a financial stability function has been established in the BCRG (V. Financial Stability). The lack of a dedicated financial stability team would result in a delay in this TA. Organization: two one-week onsite missions and two weeks of desk work.

- **Financial stability oversight**

(#10**)** The complete three-year TA program proposed will cover all of the financial stability and macroprudential surveillance areas. The program will aim to establish a clear institutional framework for macroprudential surveillance based on reliable data and the capacity to identify risks and select appropriate measures for preventive, corrective or crisis management actions. Organization: two-weeks of desk review and a two-week onsite mission to provide TA on the review and necessary amendments to the Central Bank Statute (review/advice on strengthening BCRG's mandate for macro-prudential supervision) and four two-week missions to operationalize the financial stability unit, of which two mission will be undertaken jointly by MCM and the IMF Statistics Department (in total 12 weeks).

- **Systemic liquidity**

(#11) A TA mission will aim to establish a structured and ranked collateral framework. It will involve establishing a ranking for the various public and private collateral and an appropriate discount by instrument and maturity. A minimum risk should be set for private securities and an operational framework for the mobilization of private paper should be established. A temporary solution must be found pending the establishment of a rating system for private debtors. Organization: one two-week mission and MCM follow-up.

(#12) TA will establish the ELA framework agreement and operational framework. Recommendations will be made regarding the institutional framework, eligibility criteria, the collateral valuation method, the financing plan, and the financing conditions and deadlines. A possible model for a government guarantee will also be looked at. This mission will take place once the framework for collateral eligible for BCRG injection operations has been established. Organization: one two-week mission and MCM follow-up.

(#11 and #12) A follow-up mission covering the two areas would be recommended.

- **Oversight of financial markets infrastructures**

  (#13) A TA mission to amend the most recent version of the law on the payments systems to introduce: (i) the legal validity of clearing; (ii) payment finality; and (iii) the protection of the holders of collateral. This assistance should also establish a mechanism guaranteeing the completion of end-of-day settlement operations. Organization: given their past involvement, this part of the TA Roadmap ideally is covered by the World Bank.

  (#14**)** TA to create the payments systems oversight function. Organization: given their past involvement in the payments area, this part of the TA Roadmap ideally is covered by the World Bank.

82. Realizing the TA Roadmap on banking supervision, crisis management, financial stability and payments oversight will require additional resources. In particular the recommendations regarding banking supervision and crisis management, but also to an important extent those on financial stability, draw on the same pool of staff of the DSB. Realizing the implementation of the recommendations relating to these areas in a three-year timeframe will only be possible if the additional resources will be made available. Also, the setting up of separate payments operations and payments oversight units (although the latter in principle also could be part of a larger financial stability unit) will require to some extent additional resources.

83. Given the limited resources of the BCRG, a clear prioritization of the recommendations, in particular those that draw on the same resources and those that require statutory changes, is key. Clearly, given the importance of the banking sector, which accounts for almost 95 percent of the financial sector, a modernized statutory and regulatory framework and sound banking supervision practices are key. Sound supervisory practices are also a precondition for the establishment of a deposit insurance system, while the prudential statutory and regulatory framework provides the basis for the macroprudential toolbox (e.g., the legal ability and operational capacity to impose additional capital buffers or loan-to-value ratios). While the necessary enhancements can be initiated in parallel (if the necessary resources are available), in terms of prioritization the order would be realizing: (i) the key recommendations on banking regulation and supervision; (ii) strengthening the banking resolution and crisis management frameworks and safety net; (iii) establishing and operationalizing a financial stability surveillance unit; and (iv) developing macroprudential policy and selecting the necessary macroprudential tools. The recommendations on systemic liquidity and financial markets infrastructures are the responsibility of other departments and draw on other resources, therefore these can in terms of absorptive capacity in principle be addressed in parallel to the other recommendations.

84. There are some aspects in the TA Roadmap that should be covered simultaneously or considered in relation to each other. For example, the recommendations regarding banking supervision (#1), deposit insurance (#5), early intervention framework (#6), and the special bank resolution regime (#7) all require changes to the Banking Law. Ideally these recommendations would be addressed simultaneously. In addition, the review of the proposed amendments to the

Banking Law could be combined with the review of the necessary amendments to the Central Bank Statute. Given that the necessary legal changes are a precondition for several other TA activities, this part of the TA Roadmap should be given a high priority. There could also be benefits of considering the institutional frameworks for crisis management and financial stability simultaneously (e.g., one option to be considered would be to make one body responsible for both) as well as the organizational framework for financial stability, payments oversight, and resolutions units.

ANNEX I. STATISTICS

A. Financial Soundness Indicators

The BCRG reports on the 12 financial soundness indicators (FSIs) for deposit takers and the two encouraged financial soundness indicators for the real estate markets, which are reported periodically and quarterly. The BCRG also reports the underlying data (balance sheets, income statements and memorandum items). The FSIs are published on the IMF FSI website (https://www.imf.org/external/np/sta/fsi/eng/fsi.htm).

Core FSIs (percentage)	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**Change 2017/18**
Regulatory capital to risk-weighted assets	15.7	18.3	16.5	17.9	16.8	15.2	↓
Regulatory Tier 1 capital to risk-weighted assets	14.6	18.6	16.9	18.0	17.4	15.6	↓
NPLs net of provisions to capital	8.2	8.0	6.8	14.7	11.3	37.5	↑
NPLs to total gross loans	6.2	6.1	6.1	9.4	10.7	12.2	↑
Return on assets	2.0	1.7	2.2	2.1	2.0	2.0	=
Return on equity	19.2	15.2	20.9	18.8	16.7	19.3	↑
Interest margin to gross income	27.7	22.6	20.1	38.9	41.8	38.6	↓
Noninterest expenses to gross income	84.0	88.2	86.6	79.2	78.1	78.0	=
Liquid assets to total assets	36.3	32.8	25.6	28.9	26.8	26.2	↓
Liquid assets to short-term liabilities	58.4	50.1	42.1	45.8	43.1	42.6	↓
Net open position in foreign exchange to capital	168.0	30.7	-56.3	25.1	79.2	105.7	↑
Sectoral distribution of loans							
Residents	99.6	99.6	99.7	100.0	99.7	99.6	=
Deposit takers	0.0	0.0	0.0	0.0	0.0	0.0	=
Central bank	0.0	0.0	0.1	0.1	0.0	0.1	=
Other financial corporations	0.0	0.0	0.0	0.0	0.0	0.0	=
Government	0.0	0.0	0.0	0.0	0.2	0.1	=
Nonfinancial corporations	65.5	60.0	58.9	53.0	59.9	64.2	↑
Households	34.1	39.5	40.7	46.8	39.6	35.1	↓
Nonresidents	0.4	0.4	0.3	0.0	0.3	0.4	=

Additional FSIs (percentage)	2013	2014	2015	2016	2017	2018	Change 2017/2018
Capital to assets	10.2	11.1	10.6	11.0	11.9	8.9	↓
Large exposures to capital	110.8	90.8	99.1	142.4	162.4	243.7	↑
Gross asset position in financial derivatives to capital	0.0	0.0	0.0	0.0	0.0	0.0	=
Gross liability position in financial derivatives to capital	0.0	0.0	0.0	0.0	0.0	0.0	=
Trading income to total income	0.0	0.0	0.0	0.0	0.0	0.0	=
Personnel expenses to noninterest expenses	13.0	10.3	9.2	16.6	18.6	17.5	↑
Customer deposits to total (non-interbank) loans	214.9	181.4	170.3	175.0	191.0	190.5	=
Foreign-currency-denominated loans to total loans	21.6	26.7	29.2	27.5	20.0	21.5	↑
Foreign-currency-denominated liabilities to total liabilities	29.7	26.0	26.5	29.4	30.2	29.3	↓

Source: IMF Financial Soundness Indicators and staff estimates.

B. Monetary and Financial Statistics

The monetary and financial statistics (MFS) for central bank and other depository corporations based on the Standardized Report Forms (SRFs), was submitted to STA for review. A mission was conducted in January 2019 to finalize the migration of the MFS to the SRFs, conforming with the methodology in the IMF's *Monetary and Financial Statistics Manual and Compilation Guide (MFSMCG)*. The monetary and financial statistics based on the SRFs were submitted and they are under review.

C. Balance Sheet Matrix

The balance sheet matrix (BSA) for Guinea is still work in progress.

D. Planned TA

The IMF Statistics Department has planned one TA mission this fiscal year to support assist in further improvement to the MFS as well as the FSIs. In addition, as part of the TA Roadmap four weeks of onsite support are budgeted (see Section IV TA project #10) to assist in improving the data availability and quality for financial stability surveillance.

ANNEX II. STATUS OF PREVIOUS TA RECOMMENDATIONS

A. Banking Supervision: AFW TA Program

4 - Fully completed
3 - Largely completed
2 - Partially completed
1 - Not completed

Milestones	Deadline	Status	Indicator	Tasks to be Completed	Comments
1. ADOPTION OF THE BASEL II/III STANDARD					
Impact study on new capital definition and minimum capital requirement	June 2020	1	Impact study completed		
Definition of prudential capital	Dec 2020	1	Instruction enacted	Revision of the text on the definition of net capital for the prudential standards	Work begun. The most recent AFW mission reviewed the gaps between the regulations in effect and the Basel III text
Revision of weighted risks for credit risk	Dec 2020	1	Instruction enacted	Revision of the text on capital adequacy, particularly the existing weighting rules based on the Basel I rules.	To be handled on the basis of the Basel II/III requirements (standardized approach)
Introduction of market and operational risk requirements	Dec 2020	1	Instruction enacted	Drafting of texts	To be handled on the basis of the Basel II/III requirements. In principle, only foreign exchange risk should be adopted for market risks.

Milestones	Deadline	Status	Indicator	Tasks to be Completed	Comments
Impact study on new liquidity and funding norms	June 2021	1	Impact study completed		
Revision of the liquidity regulations	Dec 2021	1	Instruction enacted	Revision of the text on liquidity	To be handled on the basis of the Basel II/III requirements
Revision of the regulation on long term funding	Dec 2021	1	Instruction enacted	Review the text on long term funding	To be handled on the basis of the Basel II/III requirements
Introduction of a leverage ratio	June 2021	1	Instruction enacted	Drafting of texts	To be handled on the basis of the Basel II/III requirements
Adoption of the Basel II's Pillars 2 and 3	Dec 20121	1	Instruction enacted	Drafting of texts	To be handled on the basis of the Basel II/III requirements
Training in the Basel II and Basel III standards	December 2020	1	Training completed	Training to be provided	Plan basic training followed by more in-depth training during the implementation of the texts
2. STRENGTHENING OF REGULATION AND SUPERVISION					
Revision of the regulation on risk concentration	June 2021	1	Instruction enacted	Review the text on risk concentration	The concept of single beneficiary should be clarified.
Revision of the regulation on liabilities to related parties	June 2021	1	Instruction enacted	Review the text on related parties, particularly with regard to the Basel Committee principles (Principle 20)	The regulation provides for only a partial deduction of liabilities to related parties. Moreover, the current definition of related party is incomplete and does not cover all of the cases included in

Milestones	Deadline	Status	Indicator	Tasks to be Completed	Comments
					Basel Committee Principle 20
Net stable funding	December 2021	1	Instruction enacted	Review the existing coverage of fixed assets.	Determine whether this standard should be maintained following the introduction of the Basel III transformation standard
Definition of the content of the internal control report	June 2020	1	Circular to banks	Draft the texts	Specify the expected content of banks' internal control reports
3. IMPLEMENTATION OF RBS					
New chart of accounts and revision of the model reporting statements	December 2018	3	Bank chart of accounts and reporting statements prepared	Completion of the project	Instruction adopting the new chart of accounts for credit institutions and the instruction on periodic statements were signed in May 2019
Training in the new chart of accounts and new reporting framework	June 2019	1	Training completed	Training of all staff in the Banks Directorate	To be carried out following the preparation of the periodic statements and accounting instructions
Data collection and processing system automating the examination and use of bank reports	January 2020	2	Process implemented	Adaptation of systems for bank periodic data reporting	Project structure to be put in place within the BCRG under the budget allocation for the upgrading of the BCRG's information system

Milestones	Deadline	Status	Indicator	Tasks to be Completed	Comments
Organization of offsite examination	Dec 2020	1	Reorganization of offsite examination and increase in its staffing	Reorganize the Banking Supervision Department (DSB) following the increase in its staff	Reorganization of the DSB planned following the increase in its staff
Increase in supervisory staff	December 2018	1	Reorganization of offsite examination and its staff	Establish a recruitment process	Decision of Governor's office on staff increases expected (pending since 2016)
Implementation of the bank rating methodology	June 2020	3	Methodology drafted and applied	Introduce more complete tools for the offsite examination work	
Preparation of offsite examination procedures and manuals	December 2020	1	Procedures manuals in place	Introduce more complete tools for the offsite examination work	Procedures manuals to be prepared as international standards and practices are adopted
Review of the structure of the summary bank analysis documents (bank studies)	April 2020	1	Summary documents		To be done following the revision of the bank rating grid (to be completed in June 2019)
Review of the criteria for the preparation of the investigation program	December 2019	2	Revised investigation program	Establish a process for scheduling investigations based on risk	To be taken into account in the context of the revision of the onsite inspection procedures manual

Milestones	Deadline	Status	Indicator	Tasks to be Completed	Comments
Preparation of onsite inspection procedures and manuals	December 2019	3	Revised onsite inspection procedure	Updating of the inspection guide	Draft onsite inspection procedures manual being prepared
Joint review process and report plan	June 2019	2	Preparation and use of a framework report and definition of a joint framework with institutions	Review the content and structure of the investigation reports. Define the rules to be applied on a joint basis.	To be taken into account in the context of the revision of the onsite inspection procedures manual
Training in RBS	June 2020	2	Training provided	Training of all staff in the Banks Directorate	Continue training, particularly for new staff
4. TREATMENT OF CREDIT RISK - NPLs					
Classification of assets and provisioning	December 2018	3	Instruction enacted	Review texts on provisioning rules	Draft available for introduction with the implementing regulations for the new bank chart of accounts
Training on the treatment of credit risk	June 2020	1	Training provided	Training on the treatment of credit risk	

B. Monetary Policy Implementation/Liquidity Management

Calibration of Open Market Operations, June 18–29, 2018

(This summarizes and repeats the recommendations of the 5 previous missions)

No.	Recommendations	Time Frame[1]	Implementation Progress
Calibration of Open Market Operations			
1	The Research and Analysis Directorate and the Statistics and Balance of Payments Directorate should develop forecasts for each component of base money and quantitative estimates of their sensitivity to monetary policy in order to guide BCRG decisions.	Medium term	The Research Department is currently reviewing monetary policy conduct. This will be taken into account during that review.
2	The Research and Analysis Directorate and the Statistics and Balance of Payments Directorate should develop forecasts of the medium-term autonomous factors to assess the change in the structural liquidity position.	Short term	The Research Department is currently reviewing monetary policy conduct. This will be taken into account during that review.
3	Creation of a monetary policy committee to determine the monetary policy direction before the start of each maintenance period, in particular: - the amount of excess liquidity targeted for the maintenance period; - the monetary policy rate; - the required reserve ratio (only in case of a structural change in the liquidity position).	August 2018	Although the monetary policy committee is provided for by law, it has not yet been established as the members have not been appointed.
4	Establishment of an internal liquidity committee that meets weekly on a specific day, without interruption. The committee	Immediate	On August 24, 2018, the BCRG established a liquidity committee and a team to forecast the bank autonomous liquidity factors (Decision No. 086/DGCC/DPMC/2018 on the creation of an internal liquidity committee and Decision No.

No.	Recommendations	Time Frame[1]	Implementation Progress
	will review the liquidity position for the week to come and will decide on the amount to be absorbed or injected by means of monetary policy operations to achieve the excess liquidity target.		087/DGCC/DPMC/2018 on the creation of a team responsible for forecasting the autonomous factors influencing bank liquidity).
5	Establishment of a delegation of authority to be certain that a decision on operations can be taken on time each week.	Immediate	The chair of the liquidity committee may delegate his/her authority to the Director of Monetary Policy and Credit to facilitate decision-making.
6	Weekly participation of a central bank official in the "cash flow committee support unit," with the Treasury Directorate.	Immediate	The participation of a central bank official in this unit will allow the liquidity team to obtain all necessary information in real time on all flows that affect the Treasury balance at the BCRG and will be useful in the adjustment of forecasts of this item. The DPMC is a member of this unit.
7	Continue to reduce errors in one-week liquidity forecasting.	Short term	Forecasting errors are steadily declining.
8	Hiring of two officials assigned to liquidity forecasting and analysis.	Short term	With the return of the DPMC official, who was on training in Dakar, we do not see the need to recruit other officials for this department.
9	Conduct liquidity injection or absorption operations each week on a specific day, with a preannounced amount, based on the decision of the liquidity committee.	August 2018	This recommendation proposes that the BCRG conduct monetary policy operations (MPO) for the absorption or injection of liquidity based on the results of liquidity forecasting for the week. This means that whatever the negative impact on its income statement, the BCRG must issue monetary regulation securities (TRM) to absorb excess liquidity. The BCR issues two types of TRM, i.e., fixed rate TRMs and variable rate TRMs (highly recommended in the report). It is very important to engage in active liquidity management (i.e., on a weekly basis) to neutralize the autonomous factors in order to develop an interest rate formation mechanism. In order to reduce the monetary policy cost, the absorption of excessively high excess reserves can take the form of an adjustment of the reserve ratio.
10	Calibrate monetary policy operations to neutralize the autonomous factors and achieve the excess liquidity target.	August 2018	The calibration of monetary policy operations to neutralize the autonomous factors is a gauge of an optimal monetary policy for the management of excess bank liquidity to influence bank credit trends and consequently inflation. This measure is in line with the BCRG's price stability objectives.
11	Publish the results of monetary policy operations directly after they take place.	August 2018	The publication of the results of monetary policy operations can take the form of emails to all participants as is done for the results of MEBD (exchange market)

No.	Recommendations	Time Frame[1]	Implementation Progress
			operations. This is the case, for example, with the results of Treasury bill (BDT) auctions.
12	By means of a seminar, communicate the BCRG's intention to actively manage liquidity.	August 2018	The organization of an information seminar by the BCRG for the banks to explain the monetary policy orientation is a best practice. The central bank proposes to organize this seminar in 2019.
13	Determine the required reserve base before the beginning of the period	August 2018	An instruction was issued by the BCRG to take account of changes in the required reserve system since 2005, specifically: - the determination of the required reserve base before the beginning of the establishment period; - a four-week establishment period for the required reserves; - penalty rates on the required reserves (TPO +8) and the deadline for the submission of required reserve reports.
14	Align the forecasting period, monetary policy operations, and the reserve maintenance period.	August 2018	Liquidity forecasting is currently based on the required reserve maintenance period. However, monetary policy operations to mop up liquidity are not implemented, explaining the relevance of this recommendation.
15	On the central bank's website, indicate the amount of excess liquidity targeted by the BCRG for the next maintenance period, before the beginning of that period.	August 2018	The BCRG website is being overhauled. Once the website is ready, this information will be indicated.
16	Each day communicate the amount of excess liquidity in the banking system since the beginning of the maintenance period.	August 2018	Recommendations 15 and 16 will provide transparency in liquidity management

[1]Immediate (I) = 0-3 months, Short term (ST) = 3–6 months, Medium term (MT) = 6–18 months, Long term (LT) = 18–24 months.

ANNEX III. FSSR TA ROAD MAP

#	Weakness Identified	Strategic Objective	Outcomes Expected by the Authorities	Timeline	Key TA Outputs	Implementation risk
Banking Regulation and Supervision						
1	Detailing of BCRG's mandate for banking supervision No specific provisions for development banks (Optional) no provisions for Islamic banking	Strengthen the legal framework	• Strengthened and more precise mandate on financial / banking sector supervision • The legal framework sets out specific requirements for development banks. • (Optional) inclusions of provisions for Islamic banking	December 2020 (BCRG)	• Draft amendments to update and revise the banking law	Parliamentary delay in voting on and passing the law
2	Outdated prudential regulations	Develop and strengthen banking regulation and the prudential rules	• The prudential regulations require banks to apply sound policies and processes for identifying, measuring, monitoring and controlling their financial risks on a timely basis and for assessing the adequacy of their capital vis-à-vis their risk profile	December 2020 (BCRG)	• Draft prudential regulations based on the Basel II / III capital adequacy standards, and for transactions with related parties and large exposures	Lack of supervisors to participate in the amendment of the regulations and the development of new regulations
				December 2021 (BCRG)	• Draft prudential regulations based on the Basel II / III liquidity standards • Revised drafts of the regulations on governance and risk management • Draft requirements for IRRBB and country and transfer risks	Lack of TA providers within the required time frames

#	Weakness Identified	Strategic Objective	Outcomes Expected by the Authorities	Timeline	Key TA Outputs	Implementation risk
3	Insufficient risk assessment processes	Introduce a more effective RBS system and upgrade other supervisory processes	• Operational procedures and manuals for the implementation of RBS	June 2020 (BCRG)	• Draft manuals and templates to effectively implement RBS	Delay in the recruitment of additional bank supervisors.
4	Lack of an automated reporting system	Introduce an effective prudential reporting system	• Enhanced quality and timeliness of regulatory data	December 2020 (BCRG)	• Recommendations on the (automated and flexible) analysis of prudential returns	Lack of financial resources or delays in the donor financing for the purchase of the automated system.
Crisis Management, Bank Resolution and Safety Nets						
5	Deposit insurance is not operational or credible	Protection of depositors in the event of a bank liquidation Prevent depositor panic Financing of resolution	• Identify the essential elements of deposit insurance to be specified in law in order to meet international standards. • Propose legal provisions and regulations to complete the deposit insurance framework (e.g., coverage, target) • Establish an emergency line from the government in the event that the deposit insurance fund is insufficient	March 2020 (BCRG, Board of Directors of the Deposit Insurance Fund, MEF)	• Recommendations on elements to specify in legislation to meet international standards • Recommendations on legal provisions and regulations to complete the deposit insurance system • Recommendations on the implementation of the deposit insurance system including on a possible emergency line from the government	Very limited human resources ("key person") Willingness and consensus of the authorities to act (BCRG, MinFin, Justice) Legislative changes depend on the government/legislature Opposition of interest groups (large banks versus small banks)
6	Incomplete the framework of early intervention measures	Earlier intervention in problem banks. Building on financial and operational support from the	• Regulatory (or legislative) reforms to complete the "enhanced supervision" framework	December 2020 (BCRG)	• Recommendations on regulatory/legislative proposals for early intervention and recovery plans	Almost complete lack of human resources Need for training

#	Weakness Identified	Strategic Objective	Outcomes Expected by the Authorities	Timeline	Key TA Outputs	Implementation risk
	("enhanced supervision")	parent companies of the Guinean banks	• Require banks to prepare recovery plans at the group level if the group plan includes the Guinean's subsidiary, or otherwise at the individual level		• Recommendations on the assessment of bank recovery plans by supervisors	Legislative changes depend on the government/legislature Cooperation with home supervisors
7	Very incomplete bank crisis resolution regime, very limited resolution tools, questionable legislative basis, lack of consideration of foreign groups	Adopt a special bank resolution regime (tailored to the Guinean banking system)	• Propose legislative changes for resolution/liquidation tools and a protection mechanism • Establishment of a Resolution College / Financial Stability Board with the mission of applying the special bank resolution regime • Recognition in Guinea of cross-border crisis management and resolution measures	December 2020 (BCRG / Special Resolution Unit)	• Recommendation on resolution tools • Discussion of amendments to the Banking Law and BCRG Statute • Legal and resolution training (IMF ATI and/or Bank of France IBFI)	Almost complete lack of human resources Need for training Legislative changes depend on the government/legislature
8	Limited capacity to implement bank resolution measures	Implementation of the special bank resolution regime	• Analysis of the resolvability of banks • Assessment of operational improvements • Drafting of resolution strategies taking account of groups	June 2022 (BCRG / Special Resolution Unit)	• Working groups on crisis scenarios and resolution measures in response • Identification of operational obstacles	Almost complete lack of human resources Need for training Opposition of interest groups (banks)

#	Weakness Identified	Strategic Objective	Outcomes Expected by the Authorities	Timeline	Key TA Outputs	Implementation risk
9	Limited capacity to react to a systemic crisis	Preparation for a systemic bank crisis (liquidity or solvency crisis)	• Prepare crisis scenarios and crisis management plans • Liaison with financial stability function analyses/alerts	December 2021 (BCRG / MEF)	• Working groups on crisis scenarios and crisis management mechanism • Advice on crisis management plans	Almost complete lack of human resources Need for training Financial stability function to be established
Financial Stability Oversight						
10	Lack of financial stability and macropru surveillance capacity	To have a clear institutional framework for macroprudential surveillance based on reliable data and the capacity to identify risks and select adequate instruments for preventive, corrective or crisis management actions.	• Improve financial stability and be able to identify risks and prevent or mitigate them before they materialize.	June 2022 (BCRG / MEF)	• Recommendations on an institutional framework and mandate for macroprudential surveillance for the BCRG allowing for the collection of data and creation of instruments • Recommendations on an operational framework for data collection, development of the FSIs, identification of risks, selection of relevant instruments, and analytical tools to analyze their potential impact • Recommendations on a communications strategy to ensure the transparency of the analyses	Willingness of the authorities to implement this function within the BCRG. Collection of reliable data. Human resources with the desired profile.

#	Weakness Identified	Strategic Objective	Outcomes Expected by the Authorities	Timeline	Key TA Outputs	Implementation risk
Systemic Liquidity						
11	Establish a structured and ranked collateral framework	Protection of the BCRG balance sheet and neutral monetary policy implementation	• Ranking of the various types of collateral accepted (public and private securities) • Definition of the minimum credit risk accepted • Adoption of differentiated discounts • Mobilization of private securities	June 2020 (BCRG)	• Recommendations on the ranking of the various types of collateral and establishment of appropriate discounts by instrument and maturity • Recommendations on the minimum risk accepted for private securities • Recommendation on a temporary solution pending the rating of private debtors • Recommendations on the mobilization of private securities	Establish a structured and ranked collateral framework
12	Lack of operational framework and framework agreement for emergency liquidity assistance (ELA)	Be prepared when emergency liquidity assistance is necessary	• Establishment of the operational framework for emergency liquidity assistance • Drafting of a framework agreement between the parties for emergency liquidity assistance	June 2021 (BCRG)	• Recommendations on: - institutional framework - eligibility criteria - collateral valuation - government guarantee - financing plan - ELA exit strategy - deadlines - financial conditions	Build the operational framework and framework agreement for emergency liquidity assistance

#	Weakness Identified	Strategic Objective	Outcomes Expected by the Authorities	Timeline	Key TA Outputs	Implementation risk
Financial Market Infrastructure						
13	Lack of a law on the payments systems and lack of an instrument on end-of-day operations	Establish an effective legal and regulatory framework providing an assurance on payment finality	• Reliable payments systems	June 2021 (BCRG)	• Draft national law on the payments systems and instruction on end-of-day payments	Parliamentary delay in the adoption of the law
14	Lack of a payments system oversight function	Ensure the security and efficiency of the payments systems and other market infrastructures to avoid systemic risk	• Reliable and effective payments systems	June 2020 (BCRG)	• Create a separate unit within the BCRG for payment systems oversight	Willingness of the authorities to implement this function within the BCRG. Human resources with the desired profile.