INTERNATIONAL MONETARY FUND

IMF Country Report No. 21/146

GUINEA

July 2021

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

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

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

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

- **Selected Issues**

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR21/202

IMF Executive Board Concludes the 2021 Article IV Consultation with Guinea

FOR IMMEDIATE RELEASE

Washington, DC – On June 21, 2021, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Guinea.

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

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

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

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Executive Board Assessment[2]

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

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

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

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

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

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

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

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

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

[1] In percent of the broad money stock at the beginning of the period.

[2] In months of following years' imports, excluding artisanal gold related imports. Previous staff reports have reported a coverage ratio using imports net of capital goods.

INTERNATIONAL MONETARY FUND

GUINEA

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

June 3, 2021

KEY ISSUES

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

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

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

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

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

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

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

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CONTEXT

1. Notwithstanding large swings in commodity prices, periods of civil unrest and the COVID-19 pandemic, macroeconomic stability in Guinea was maintained over the last decade. Guinea successfully completed its first ECF-supported program in 2016, and its second one in December 2020. Performance under the 2017-2020 ECF arrangement was broadly satisfactory (Annex I). The authorities also implemented the key policy recommendations from the 2016 Article IV consultation (Annex II). Nonetheless, Guinea remains fragile, with weak social indicators and institutional capacity, and nearly 45 percent of the population live below the poverty line.

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

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

RECENT DEVELOPMENTS

4. Guinea's growth reached 7.1 percent in 2020, driven by a booming mining sector. Bauxite production increased significantly, reflecting previous investments in the sector and continued strong demand from China. Domestic artisanal gold production increased by an estimated 120 percent, with gold prices reaching record levels.[2] Nonetheless, the COVID-19 shock weighed heavily on the non-mining economy, which accounts for over ¾ of GDP and employs the vast majority of the population, and only grew by 1.3 percent (about one fourth of the 2019 growth rate).

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

[1] See Annex I, Guinea's COVID-19 Response Plan, Staff Report for the 5th and 6th Review.

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

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

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

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

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

[3] "Etude d'impact de la COVID-19 sur l'économie guinéenne", Ministère de l'Economie et des Finances, 2020.

[4] "Enquête Rapide sur les Effets de la COVID-19, République de Guinée," UNICEF, 2020.

[5] Guinea Poverty Assessment, World Bank 2021.

[6] See footnote 2.

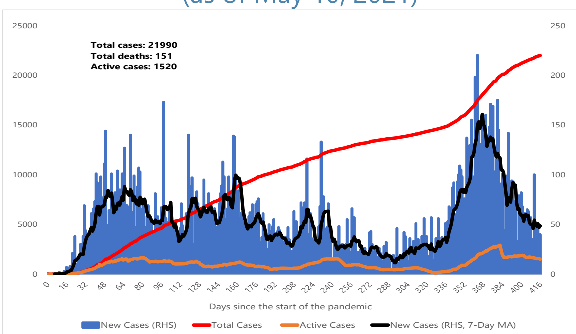
[7] This was a consequence of delays meeting the conditions for effectiveness for the World Bank's Social Cash transfers program, which have now been met.

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

Figure 1. Guinea: COVID-19 in Guinea

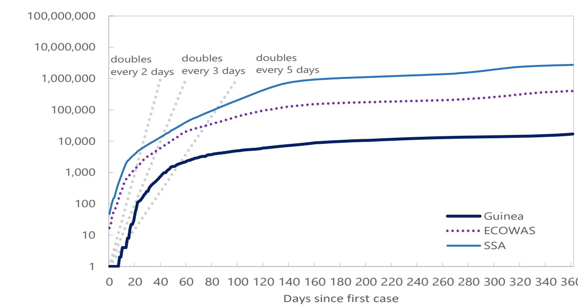
Evolution of COVID-19 Cases

(as of May 10, 2021)



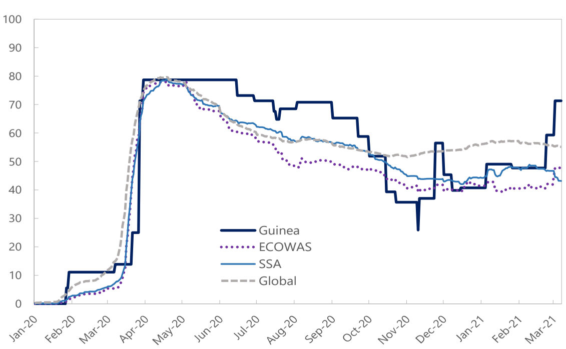
COVID-19 in Guinea and SSA

(Cumulative, log scale)



Oxford government Policy Response Index

(Index, 100 = most stringent policies)



COVID-19 Response Plan Implementation

(billions GNF)

	Initial Estimated Cost	end-2020 Execution	Execution rate
I. Health	1,267	1,361	107
o/w tax measures	225	200	89
II. Social Inclusion	888	383	43
III. Private Sector	305	458	150
o/w tax measures	128	229	179
Total	**2,460**	**2,203**	**90**

Sources: Guinean authorities; IMF staff estimates. Johns Hopkins CSSE; University of Oxford COVID-19 Government Response Tracker.

[8] This excludes the Souapiti loan disbursement; see also footnote 3 of Tables 3a and 3b.

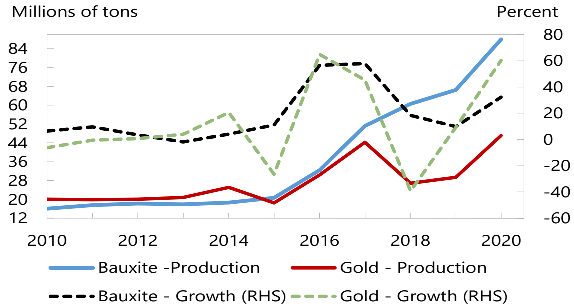
[9] The IMF also provided two disbursements under the ECF-supported program worth 0.3 percent of GDP, used to support the balance of payments position. On CCRT and DSSI, see table 3 in Debt Sustainability Analysis.

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

Figure 2. Guinea: Real and Monetary Sector

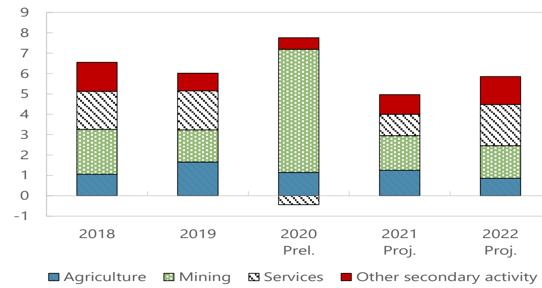
GDP growth was stronger than anticipated in 2020, as a result of booming mining sector growth…

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



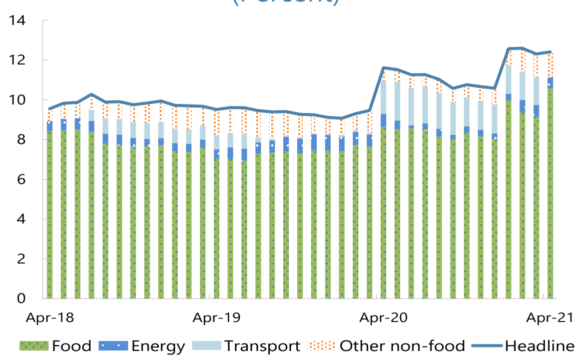
…although services and other non-mining secondary sector activities were heavily impacted by COVID-19.

Mining and Non-Mining Activity
(Growth rates)



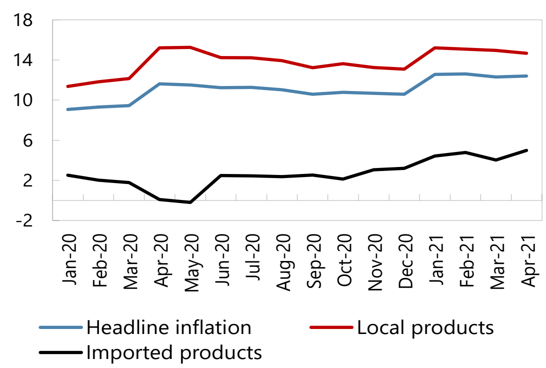
Headline inflation has risen driven mainly by increases in transport and food prices and an accommodative monetary policy stance

Contributions to Inflation
(Percent)



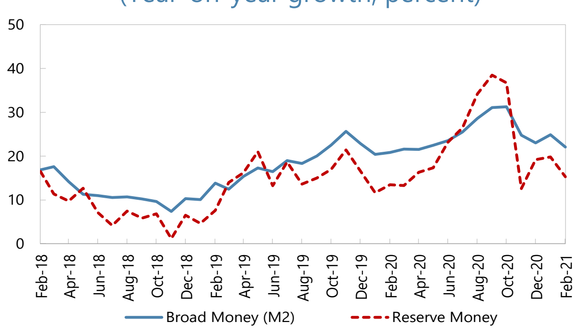
…impacting fundamentally local products' inflation.

Inflation
(Percent, Year-on-year)



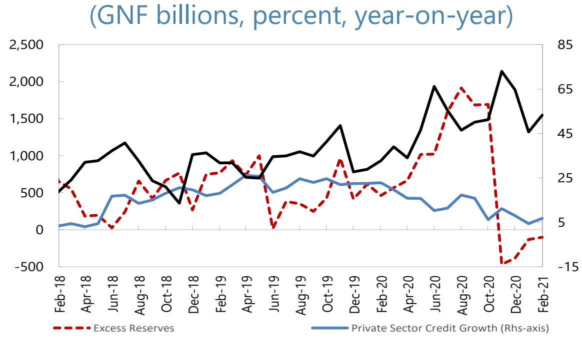
The acceleration in reserve money was contained as the BCRG issued sterilization bills and the government began repaying its advances.

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



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

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

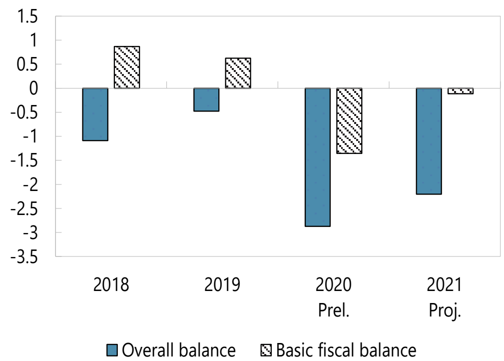


Sources: Guinean authorities; and IMF staff estimates.

Figure 3. Guinea: Fiscal and Debt Indicators

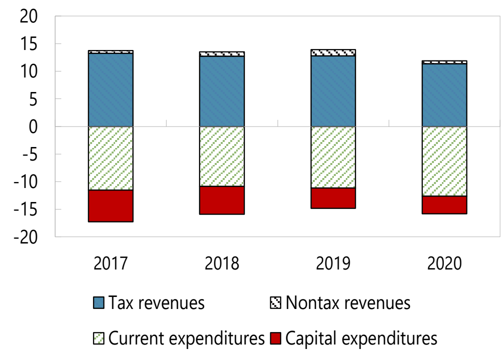
While the fiscal balances deteriorated in 2020 reflecting the impact of the COVID-19 response, an improvement is expected in 2021.

Overall and Fiscal Balances
(Percent of GDP)



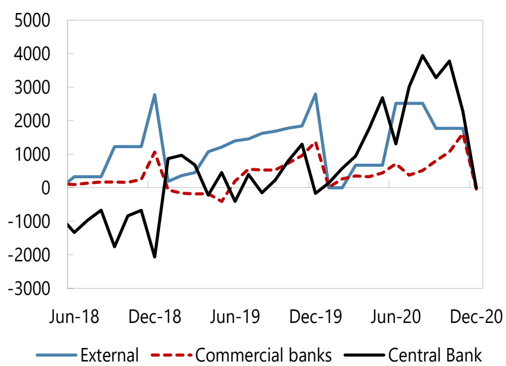
After steady revenues and declining expenditures for three years, the 2020 pandemic caused a drop in revenues and an uptick in spending.

Revenue and Expenditures
(Percent of GDP)



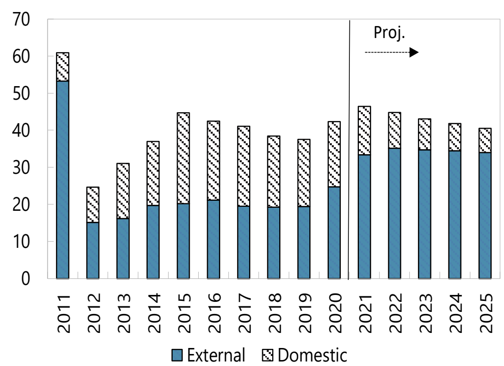
Government borrowing increased to finance the COVID-19 response.

Net Government Borrowing (Excl. Recapitalization)
(GNF Billions)



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

Public and Publicly Guaranteed Debt
(Percent of GDP)



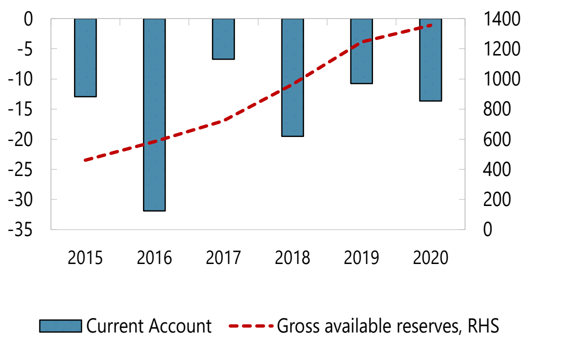
Sources: Guinean authorities; and IMF staff estimates.

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

Figure 4. Guinea: External Sector Indicators

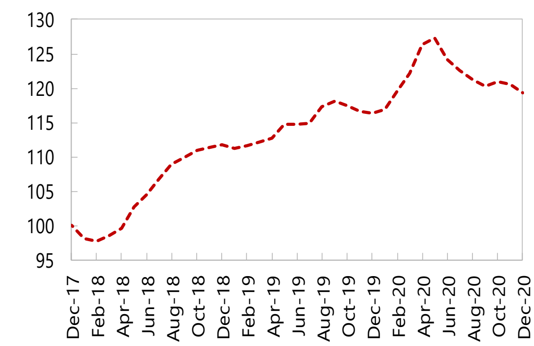
The current account deficit has remained large in 2020, but strong financing has allowed for steady reserve accumulation.

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



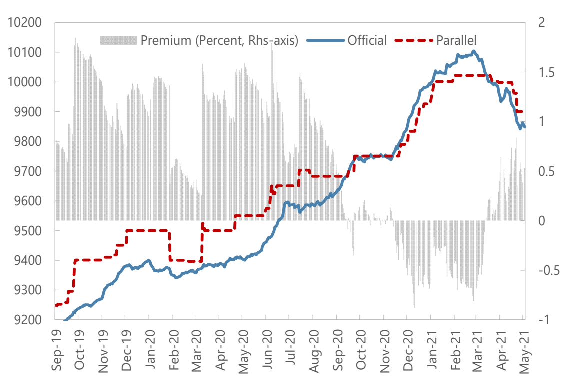
The real effective exchange rate's appreciation trend has slowed.

Real Effective Exchange Rate
(Index, 2017 = 100)



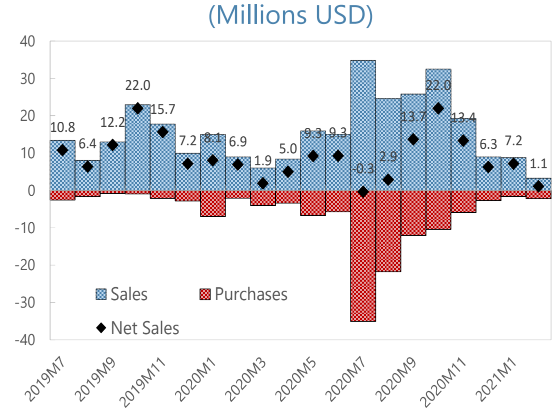
The GNF has fluctuated more widely against the USD since the implementation of the rules-based FX intervention policy in November 2020…

Nominal Exchange Rate
(GNF/USD; percent)



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

BCRG Activity on the Foreign Exchange Market[1]
(Millions USD)



Sources: Guinean authorities; and IMF staff estimates.
[1] Aggregated to monthly frequency.

OUTLOOK AND RISKS

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

Figure 5. Guinea: COVID-19 Impact on Household and Business Incomes

Source : "Etude d'impact de la COVID-19 sur l'économie guinéenne," Ministres de l'Economie et des Finances, 2020, and Guinea Poverty Assessment, World Bank 2021.

11. Risks remain tilted to the downside (Annex IV). The most immediate risk remains an intensification of the COVID-19 pandemic. Commodity price shocks remain a significant vulnerability, given the rising concentration of growth in the mining sector. The materialization of a combination of these shocks could detract over 4 points from GDP growth (Annex V). Other external risks include reduced availability of donor financing and increased geopolitical tensions. Guinea is also increasingly vulnerable to climate change. On the upside, mining production could continue to increase faster than expected, and artisanal gold production remain elevated. Faster implementation of planned investment, particularly the Simandou project, would also provide a significant boost to growth.

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

Text Table 1. Guinea: Selected Economic Indicators, 2018-26

(Percent of GDP, unless otherwise indicated)

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

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

POLICY DISCUSSIONS

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

A. Fiscal Policy

Responding to the Pandemic

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

- *Guinea is rolling out vaccination with a target of covering 20 percent of the population and has procured vaccines through the COVAX initiative and other suppliers*. The plan is to expand coverage in subsequent years. The Ebola outbreak also necessitated support to vaccinate affected areas and implement containment measures. Costs of the vaccination against COVID-19 and Ebola and of other Ebola containment measures could add about 0.6 percent of GDP to expenditures. (Text Table 2). Stronger government coordination between the health and the economic teams —including better sharing of data—is critical to enhance the planning and budgeting process for vaccination activities.

- *Guinea is also working on scaling up its* COVID-*19 response cash transfers program, expected to cover 120,000 households*. In addition, ANIES—the government agency that implements social protection programs—is collaborating with fintech companies to extend digital cash transfers to 20,000 households and procuring food for the WFP to distribute to 15,120 households.

- *The* COVID-*19 response plan measures to support the private sector ended in 2020.*[11] As a result, businesses who benefited from postponements in their utility bill payments were asked to repay them as a lumpsum, plus the current ones. Staff recommended preparing a gradual repayment plan. Furthermore, staff recommended that the SME loan Guarantee Fund—an important measure in the authorities' 2020 COVID-19 response plan—be operationalized as soon as possible. Work is still ongoing to finalize its statutes, select its Director General and obtain a license from the BCRG, with World Bank support. Additional targeted support measures should be considered if the pandemic is more protracted than expected.

14. The basic balance in 2021 is expected to deteriorate by about ½ percent compared to previous projections to reflect vaccination and support costs, to -0.1 percent of GDP. The tax-to-GDP ratio from the non-mining sector is expected to be slightly lower than projected, reflecting the sector's more gradual-than-expected recovery. However, compared to 2020, the projected basic balance and the overall balance (-2.3 percent of GDP) represent a consolidation worth 1.2 and 0.7 percent of GDP, respectively, the latter driven in part by an expected increase in grants. The

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

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

Sources: Guinean authorities; IMF staff estimates.

[11] Except for financial sector measures.

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

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

Authorities' Views

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

Enhancing Revenue Mobilization

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

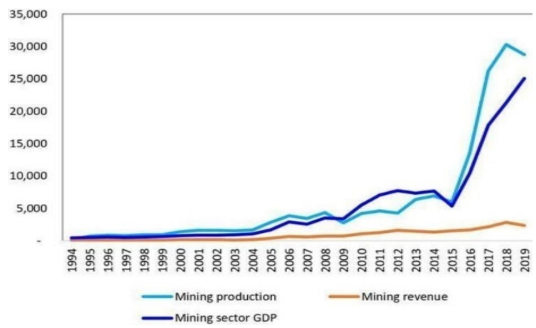
18. Some recent revenue mobilization measures are welcome and should be complemented by mining sector revenue reform. The recent implementation of the new DNI structure—with its headquarters organized along functional lines—is a positive step and needs to be followed with additional efforts to ensure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

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

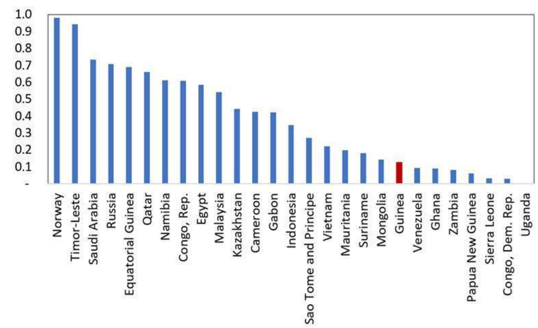
[13] The measure is not expected to apply to a significant amount of companies, and it would exclude mining companies, as their exemptions are endorsed by the National Assembly.

Figure 6. Guinea: Mining and Tax Potential in Guinea

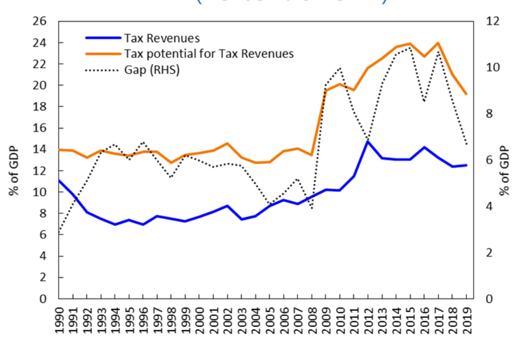
Mining Revenue and Production
(Billion GNF)



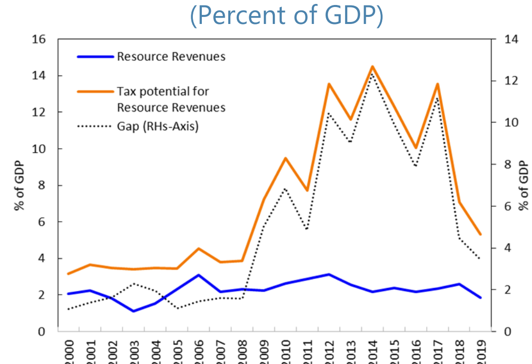
Natural Resource Revenue as a Share of Total Natural Resource Rents, Latest Date Available



Tax Potential – Overall Tax Revenues
(Percent of GDP)



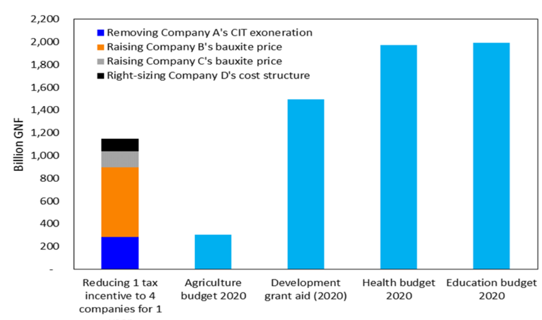
Tax Potential – Resource Revenues
(Percent of GDP)



Sources: Guinean authorities; and IMF staff estimates.

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

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



Sources: Guinean authorities; and IMF staff estimates

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

Authorities' Views

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

Energy Sector Issues

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

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

Strengthening Social Protection

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

Investing in Human Capital and Improving its Efficiency

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

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

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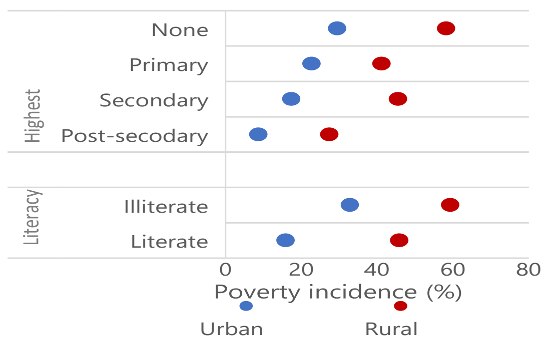
[14] World Development Indicators, 2020.

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

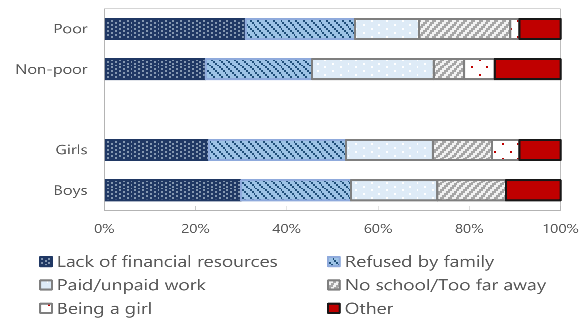
Figure 8. Guinea: Human Capital and Social Economic Indicators

Poverty Incidence by Educational Attainment and Literacy of Household Head



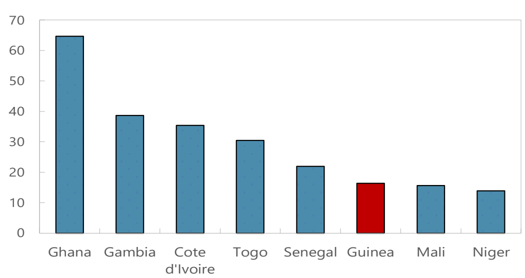
Reasons for Having Never Attended a Formal School

(Percent Share of Population)



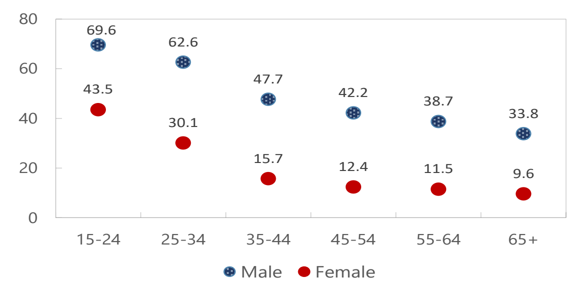
Adult Completion of at Least Primary Education

(Population 25+ years, percent of total)



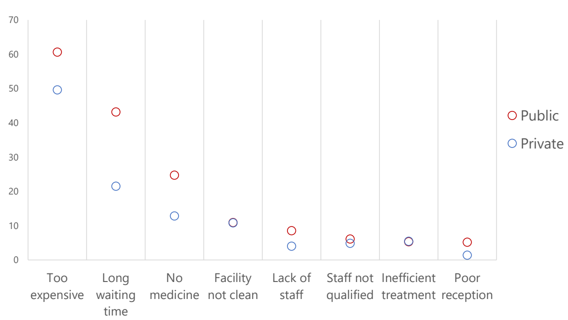
Literacy rates by gender and age group

(Percent)

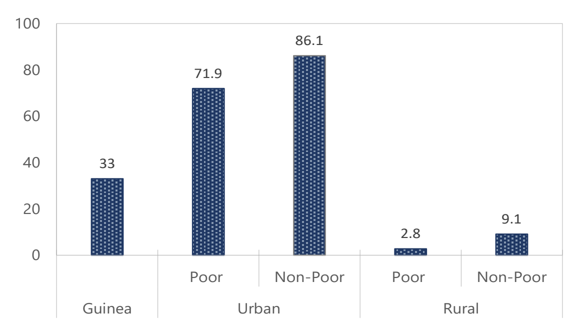


Problems Reported at Public and Private Health Facilities

(% Share of Population who visited health facilities)



Access to Electricity by Welfare Status



Source: World Bank 2021 Guinea Poverty Assessment.

Figure 9. Guinea: Government Social Expenditure

Sources: Guinean authorities; and IMF staff estimates.

Improving PIM and PFM

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

28. Work needs to continue to further strengthen PFM. The authorities are implementing their PFM strategy and action plan (PREFIP) 2019-2022. Progress was made by introducing a Treasury Single Account (TSA), and its coverage—currently at 60 percent of autonomous public entities—needs to be expanded. Progress is needed on improving data sharing and reconciliation between the Treasury, the Budget, the Debt departments and the BCRG—as illustrated by some difficulties with the timely reconciliation of the 2020 budget execution—and so is strengthening cash management—preventing and dealing with arrears—and budget preparation and execution. Forthcoming IMF TA in these areas will be critical to strengthen transparency and reporting timeliness.

The Medium-Term and Debt Sustainability

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

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

Authorities' Views

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

[16] See Debt Sustainability Analysis.

B. Monetary, External Sector and Exchange Rate Policy

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

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

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

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

[17] https://www.bcrg-guinee.org/reunion-ordinaire-du-comite-de-politique-monetaire-de-la-bcrg-du-31-mars-2021/

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

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

[20] The 2018 recapitalization was carried through the issuance of non-marketable government securities. Accrued interests are covered with new securities issuances.

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

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

Authorities' Views

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

C. Financial Sector

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

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

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

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

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

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

D. Diversification and Creating a Stable, Transparent Business Environment

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

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

[22] The mining sector accounts for just 6 percent of total employment.

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

Strengthening the Business Climate

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

Strengthening Governance

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

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

[23] https://mef.gov.gn/

[24] As defined under Guinea's AML/CFT law.

Authorities' Views

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

E. Other Issues

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

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

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

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

STAFF APPRAISAL

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

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

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

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

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

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

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

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

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

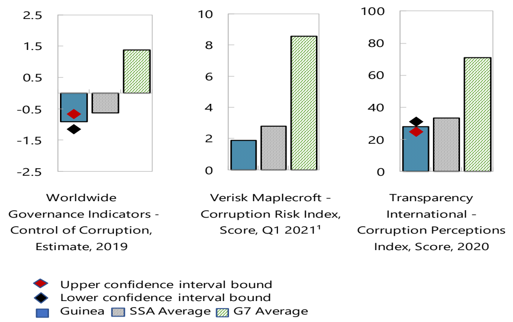
59. Improving the business climate, strengthening the financial sector, and stepping up governance are essential requirements for sustainable, inclusive, private-sector-led growth. The strengthening of the anti-corruption framework and the operationalization of the asset declaration regime are key priorities.

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

Figure 10. Guinea: Key Constraints to Growth and Development

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

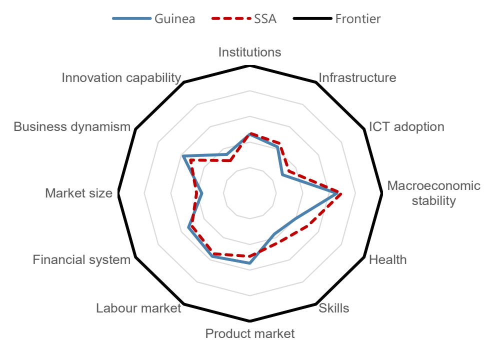
Worldwide Governance Indicators, 2019



[1] Confidence intervals are not available for the Verisk Maplecroft's Corruption Risk Index.

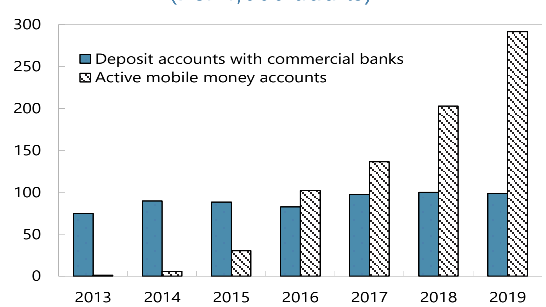
With a score of 46 out of 100 on the GCI, more needs to be done to improve competitiveness

Global Competitiveness Index, 2019



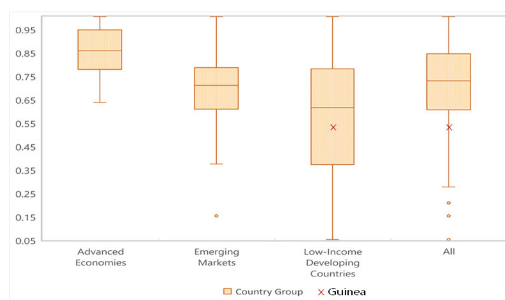
Access to finance remains low, though mobile money access is expanding rapidly.

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



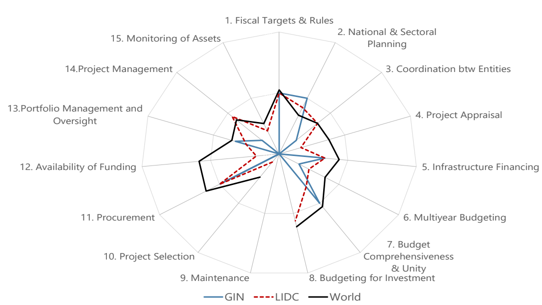
The effectiveness of PIM lags peers…

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



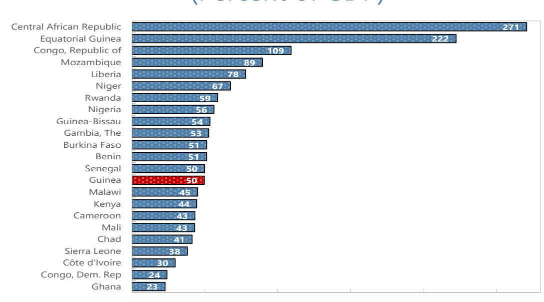
in most areas…

PIM Effectiveness



…while the public capital stock remains low.

Public Capital Stock, 2019
(Percent of GDP)



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

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

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

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

[1] In percent of the broad money stock at the beginning of the period.

[2] In months of following years' imports, excluding artisanal gold related imports. Previous staff reports have reported a coverage ratio using imports net of capital goods.

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

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

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

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

[2] In months of following years' imports, excluding artisanal gold related imports. Previous staff reports have reported a coverage ratio using imports net of capital goods.

Table 3a. Guinea: Fiscal Operations of the Central Government, 2019-26[1]

(Billions of Guinean Francs, unless otherwise indicated)

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

Sources: Guinean authorities; Fund staff estimates and projections.

[1] Based on GFSM 1986 due to data availability limitations.

[2] Total revenue excluding grants minus expenditures excluding interest on external debt and foreign-financed capital expenditures.

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

[4] In accordance with standard practice, RCF projected disbursements, reported at the time of the RCF staff report as anticipated financing, have been reclassed as external financing in the ECF and current projections.

Table 3b. Guinea: Fiscal Operations of the Central Government,[1] 2018–26

(Percent of GDP, unless otherwise indicated)

	2018	2019	2020		2021		2022	2023	2024	2025	2026
	Act.	Act.	5th & 6th Review	Prel.	5th & 6th Review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	**14.9**	**14.4**	**14.7**	**12.8**	**14.4**	**15.0**	**14.8**	**15.3**	**15.7**	**15.8**	**15.7**
Revenue	13.5	13.9	12.7	11.8	13.4	13.3	14.2	14.8	15.3	15.4	15.7
Tax revenue	12.7	12.8	12.0	11.3	12.6	12.4	13.2	13.9	14.2	14.2	14.6
Mining sector	2.7	1.9	1.5	1.6	1.6	1.7	1.9	2.0	2.1	2.1	2.2
Non-mining sector	10.1	10.9	10.5	9.7	11.0	10.7	11.3	11.9	12.1	12.1	12.4
Direct taxes	2.2	2.1	2.2	2.0	2.4	2.3	2.4	2.4	2.4	2.4	2.4
Indirect taxes	7.9	8.8	8.4	7.7	8.6	8.4	8.9	9.5	9.7	9.7	10.0
Taxes on goods and services	5.5	6.1	6.2	5.6	6.2	6.0	6.3	6.5	6.6	6.6	6.7
Taxes on international trade	2.4	2.7	2.2	2.1	2.4	2.4	2.6	3.0	3.1	3.1	3.2
Non-tax revenue	0.8	1.2	0.7	0.5	0.7	0.8	0.9	0.8	1.0	1.0	1.1
Souapiti revenues [3]	...	...	...	...	...	0.1	0.1	0.1	0.1	0.1	0.1
Grants	1.4	0.5	2.1	1.0	1.0	1.7	0.5	0.5	0.4	0.4	0.0
Project grants	1.0	0.3	0.8	0.4	0.5	0.8	0.5	0.5	0.4	0.4	0.0
Budget support	0.4	0.2	1.2	0.7	0.5	0.8	0.0	0.0	0.0	0.0	0.0
Other earmarked grants	0.0	...	...	...	...	...	...	...	...	...	...
Expenditures and net lending	**16.0**	**14.9**	**18.3**	**15.7**	**16.8**	**17.2**	**17.6**	**18.1**	**18.5**	**18.7**	**18.6**
Current expenditures	10.8	11.1	13.5	12.4	11.4	11.9	11.4	11.5	11.5	11.6	11.5
Primary current expenditures	10.0	10.7	12.6	11.8	10.4	10.9	10.4	10.4	10.4	10.5	10.4
Wages and salaries	3.9	3.6	3.8	4.2	3.6	3.8	3.6	3.6	3.6	3.6	3.7
Goods and services	3.2	3.4	3.5	3.4	3.2	3.4	3.4	3.4	3.4	3.4	3.4
Subsides and transfers	2.9	3.7	5.3	4.1	3.6	3.7	3.4	3.4	3.4	3.5	3.4
EDG	0.8	1.7	2.3	2.0	1.4	1.4	1.2	1.1	0.9	0.8	0.7
Subsidies	...	1.7	2.0	1.7	1.4	1.4	1.2	1.1	0.9	0.8	0.7
Gurantee Fund	...	0.1	0.3	0.3	...	...	...	...	...	...	...
other subsidies and transfers	2.1	1.9	3.0	2.2	2.2	2.3	2.2	2.3	2.4	2.6	2.6
Interest on debt	0.8	0.5	0.9	0.7	0.9	0.9	1.0	1.1	1.1	1.1	1.1
Domestic debt	0.5	0.3	0.7	0.5	0.7	0.7	0.7	0.7	0.7	0.7	0.7
External debt	0.3	0.1	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3
Souapiti debt [3]	...	...	...	...	...	0.1	0.1	0.1	0.1	0.1	0.1
Capital expenditure	5.1	3.7	4.7	3.2	5.3	5.2	6.1	6.6	7.0	7.0	7.0
Domestically financed	2.0	2.2	1.6	0.8	1.6	1.6	2.4	2.7	3.4	3.6	4.0
Investment (central budget exec.)	2.0	2.2	1.6	0.8	1.6	1.6	2.4	2.7	3.4	3.6	4.0
Local Development Fund	...	0.3	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Capital transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Externally financed	3.1	1.4	3.1	2.4	3.7	3.6	3.7	3.9	3.6	3.4	3.0
Net lending	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Basic fiscal balance[2]	**0.9**	**0.6**	**-2.3**	**-1.4**	**0.5**	**-0.1**	**0.6**	**0.8**	**0.6**	**0.4**	**0.5**
Overall balance											
Excluding grants	-2.5	-1.0	-5.6	-3.9	-3.4	-3.9	-3.4	-3.3	-3.2	-3.3	-2.8
Including grants	**-1.1**	**-0.5**	**-3.6**	**-2.9**	**-2.4**	**-2.2**	**-2.9**	**-2.8**	**-2.8**	**-2.9**	**-2.8**
Float	0.6	0.5	0.0	-0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing	**0.4**	**0.6**	**3.3**	**2.9**	**2.4**	**2.2**	**2.9**	**2.8**	**2.8**	**2.9**	**2.8**
Domestic financing	**-1.6**	**-1.1**	**-0.1**	**-3.7**	**-0.3**	**-2.8**	**-1.7**	**-0.3**	**-0.2**	**-0.2**	**-0.1**
Bank financing	-0.9	1.0	0.8	3.0	0.7	-0.1	0.5	0.2	0.0	-0.1	-0.0
Net position at central bank	-1.9	-0.1	0.3	1.2	-0.2	-0.9	-0.5	-0.1	-0.1	-0.1	-0.0
Commercial banks	1.0	1.1	0.5	1.8	0.9	0.8	1.0	0.3	0.1	0.0	0.0
Nonbank financing	-0.9	-0.9	-0.8	-1.3	-1.0	-0.9	-0.6	-0.5	-0.2	-0.1	-0.1
Privatization revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Borrowing/Amortization of domestic debt (net)	-0.9	-0.9	-0.8	-0.9	-1.0	-0.9	-0.6	-0.5	-0.2	-0.1	-0.1
Other/exceptional revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayment of other non-bank borrowing	...	...	0.0	-0.4	0.0	...	...	...	...	...	...
Change in arrears	0.2	-1.2	-0.1	-1.7	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Souapiti: Decumulation of Domestic Assets [3]	...	...	...	...	...	0.0	0.0	0.0	0.0	0.0	0.0
Souapiti: SPV on-lending [3]	...	...	...	-3.7	...	-1.8	-1.7	0.0	0.0	0.0	0.0
External financing (net)	**2.0**	**1.7**	**3.4**	**6.6**	**2.7**	**5.0**	**4.6**	**3.1**	**3.0**	**3.1**	**2.9**
Drawings	2.6	2.3	3.0	2.3	3.4	3.7	3.7	3.9	3.8	3.6	3.6
Project [3]	2.1	1.1	2.3	2.0	3.2	3.3	3.2	3.4	3.1	3.0	3.0
Program	0.5	1.1	0.7	0.3	0.2	0.3	0.5	0.6	0.7	0.6	0.6
Amortization due	-0.6	-0.5	-0.5	-0.5	-0.8	-0.8	-0.7	-0.7	-0.7	-0.6	-0.7
Souapiti Amortization [3]	...	...	...	...	...	0.0	0.0	0.0	0.0	0.0	0.0
Souapiti Disbursements [3]	...	...	...	3.7	...	1.8	1.7	0.0	0.0	0.0	0.0
Debt relief	0.0	0.0	0.0	0.0	0.0	0.3	-0.1	-0.2	-0.1	0.0	0.0
Change in cap. arrears (- = reduction)	0.0	-0.0	0.0	-0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in int. arrears (- = reduction)	-0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non Paris Clus bilateral rescheduling	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HIPC-related financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RCF Disbursement [4]	0.0	0.0	1.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	
Financing gap	**0.0**	**-0.0**	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Anticipated financing	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Covid and Ebola spending	...	...	1.8	1.5	...	0.3	...	...	...	...	...
Primary fiscal balance	-0.3	-0.0	-2.7	-2.2	-1.5	-1.3	-1.8	-1.7	-1.7	-1.8	-1.7
Nominal GDP (GNF billion)	106,845	124,109	146,582	147,188	167,155	172,280	200,493	229,543	261,007	296,229	336,195

Sources: Guinean authorities; Fund staff estimates and projections.

[1] Based on GFSM 1986 due to data availability limitations.

[2] Total revenue excluding grants minus expenditures excluding interest on external debt and foreign-financed capital expenditures.

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

[4] In accordance with standard practice, RCF projected disbursements, reported at the time of the RCF staff report as anticipated financing, have been reclassed as external financing in the ECF and current projections.

Table 4. Guinea: Money Accounts, 2018–26[1]

(Billions of Guinean Francs, unless otherwise indicated)

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

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

[1] End of period.

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

(End of period, except otherwise indicated)

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

Source: Guinean authorities.

Annex I. Guinea's Experience Under the 2017-2020 ECF-Supported Program[1]

A. Introduction – Guinea's and the IMF Engagement

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

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

B. 2017-2020 ECF-Supported Program Overview

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

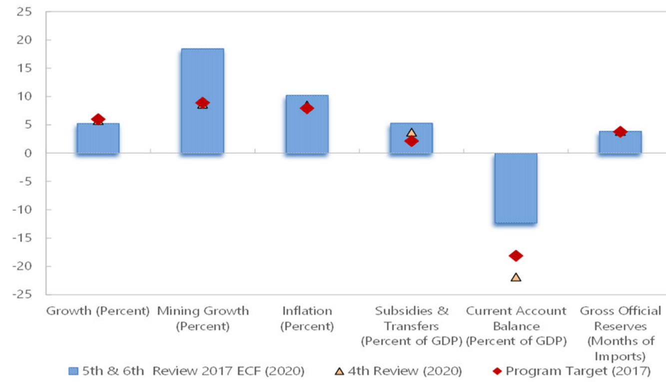
4. The socio-political environment was complex during the ECF arrangement period. Episodes of social unrest, widespread protests and strikes took place in 2018, the last months of 2019, and early 2020. Local elections were held in February 2018; legislative elections and a contested referendum took place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

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

[1] Prepared by Salifou Issoufou and Clara Mira.

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

Figure 1. Guinea: Program Achievements, ECF-supported Program, 2017–20



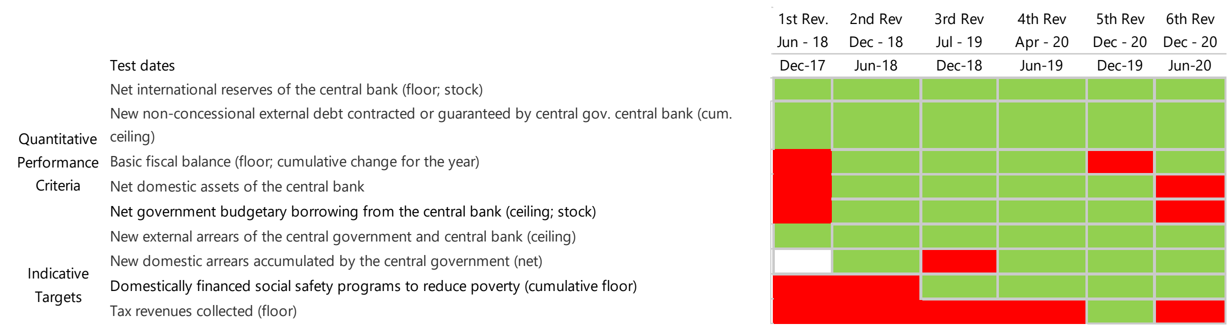
Sources: Guinean authorities; and IMF staff estimates.

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

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

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

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



C. Projections vs Outturns During the Program

- **Growth**. Buoyant mining activity in 2016-18 and 2020 supported higher-than-projected growth. In 2019, mining activity was however disrupted by severe weather conditions in the third quarter. Despite the impact of the pandemic on the non-mining sector, 2020 growth also surprised on the upside on the back of booming mining production.

- **Inflation**. CPI was generally higher than projected throuought the ECF arrangement period, and aggravated by pandemic-related containment measures.

- **Tax revenue**. Increasing the tax-to-GDP ratio was not achieved and thus there was systematic underachievement in the tax revenue IT. Reasons for this include: the impact of social tensions on economic activity; the ad-hoc downward adjustments to the TSPP to keep retail prices constant in the face of rising international oil prices in 2017; and generally, delays and only partial implementation of the agreed tax revenue mobilization measures, including for electronic tax controls and collection.

- **Capital expenditure**. The infrastructure investment program was ambitious but both domestically and externally financed capital expenditure was under-executed. The main reasons behind this under-execution include low implementation capacity, reflecting delays in areas of procurement, contract management, compensation. The program and TA focused on building capacity in PIM and strengthening capacity and controls.

- **Safety nets spending**: The government met the targets in the second part of the program, after falling short in the first and second review. A prototype of a registry of vulnerable population was established, with the support of the World Bank.

- **Current spending**. With the notable exception of 2020 due to the COVID-19 crisis, current expenditures were generally below projections. Although electricity subsidies and transfers were at times higher than projected, other elements were contained and compensated for such increases.

- **Basic balance**. In the context of the first review, the fiscal balance was significantly worse than programmed. However, since then, program objectives were met, with the basic fiscal balance improving, even if the outturns for 2019 were slightly worse than expected at the time of the first review. Since capital expenditures were significantly lower-than-programmed, and current expenditure slightly lower than projections, this generally compensated for revenue shortfalls. The exception is the 2020 COVID-related large basic fiscal deficit.

- **Debt.** The NCB ceiling was respected, and Guinea remained at moderate risk of debt distress. Judgement had to be invoked since the second review to override an automatic high risk of debt distress due to a brief and marginal breach for the PV of total public debt to GDP ratio over 2019–20, reflecting the one-off impact of the recapitalization of the central bank.

- **Central bank financing.** Guinea relied more on borrowing from the central bank than planned in 2017 (given the fiscal slippages experienced at the time of the first review) and in 2020 (as a result of some front-loading of COVID-related spending and delays in external support)

D. Structural Performance

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

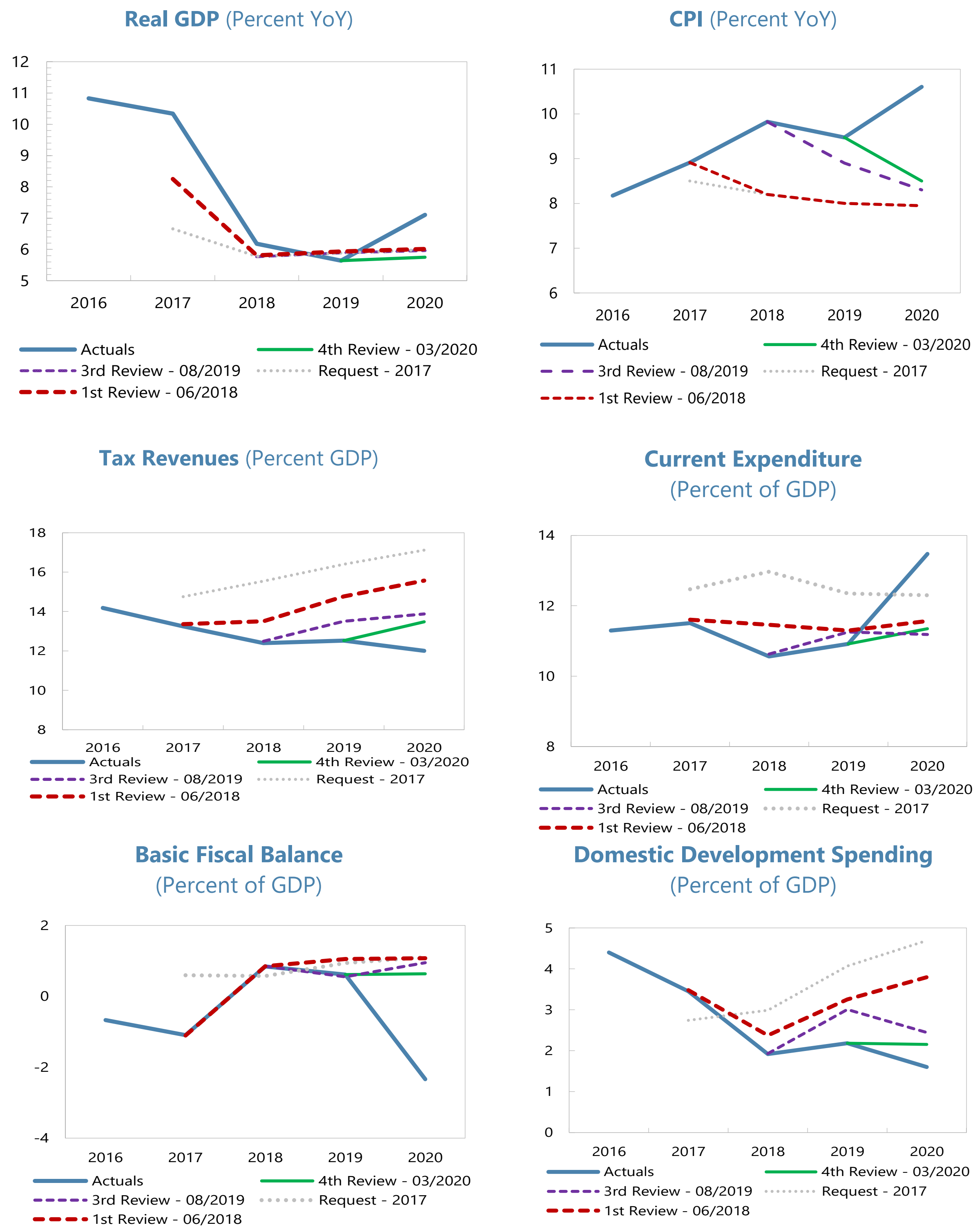
- Reinstating the automatic adjustment mechanism for petroleum product prices, in line with movements in international market prices and the exchange rate, to mitigate the impact of higher international oil prices on tax revenues. The IMF provided TA in this area.

- Finalizing the decrees establishing a regulatory framework and clarifying responsibilities of each major public sector actor along the different phases of public investments management to regulate the mechanisms, mandates, procedures, and standards of public investment management.

- Adopting a manual for the preparation, appraisal, and selection of investment projects, requiring major public investment projects to be accompanied by feasibility studies that follow rigorous processes.

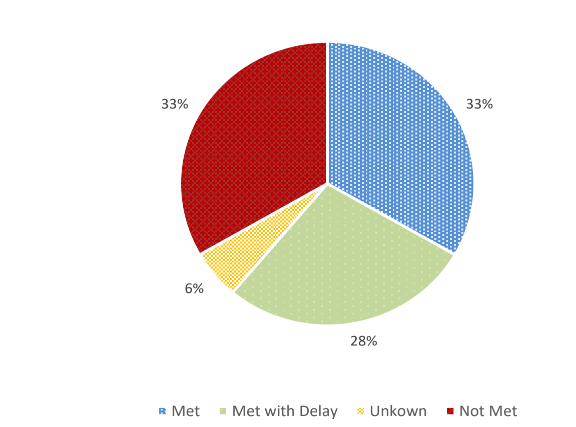
However, progress has been made in the above areas after the 2017-20 ECF arrangement. For instance, the PIM Manual, prepared with IMF TA support, is being finalized and is expected to be adopted by the Council of Ministers. The authorities have also prepared a guide for project maturation. However, and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

Figure 3. Guinea: Real Sector Program Indicators



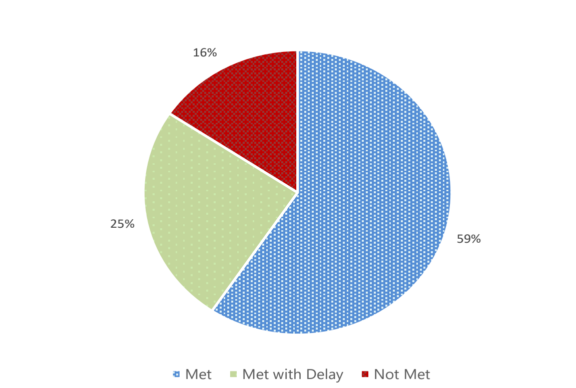
Sources: Guinean authorities; and IMF staff estimates.

Figure 4. Guinea: ECF-supported program, 2012–16, Structural Benchmarks



Sources: Guinean authorities; and IMF staff Estimates

Figure 5. Guinea: ECF-supported program, 2017–20, Structural Benchmarks



Sources: Guinean authorities; and IMF staff Estimates

Conclusions and Key Takeaways

10. Guinea's performance under the ECF-supported program was generally satisfactory. Guinea met most performance criteria under the program and the program itself was instrumental in supporting Guinea's growth and development. Some takeaways include:

- Social unrest, political turbulence, and institutional weaknesses affected program performance and limited the success of the Fund's engagement.

- Generally, the period was marked by positive growth surprises on the mining front, which were unfortunately not matched by improvements in tax collections; despite an expected doubling in the mining output growth, mining tax revenue only inched up by 0.1 ppt of GDP compared to pre-crisis projections, as many new companies benefit from exonerations and exemptions. The recent revenue mobilization measures are welcome and should be complemented by mining sector revenue reform.

- Revenue underperformance was at times a consequence of the decision to subsidize fuel prices, and as such, the establishment of an automatic fuel price mechanism will be essential to preserve and stabilize revenues.

- Inflation was generally higher than projected thorough the ECF arrangement period, even though deviations were not major. Therefore, the continuation of ongoing work to modernize the monetary policy framework and its consistent implementation would be critical to help anchor inflation expectations and reduce inflation.

- The Fund program and its debt limits policy was not a hindrance to infrastructure spending; in fact, there was more expenditure planned than executed. Improving PIM and enhancing implementation capacity remains essential.

Going Forward, Some Lessons Include:

- **Program targets should be ambitious but realistic, and flexibility to adjust macroeconomic policies and targets to shocks is warranted.** Program performance highlights the need to consider capacity constraints and weak institutional frameworks. Adjustors should be set considering risks to external and domestic shocks. The pandemic demonstrated the Fund's capacity to respond to humanitarian imperatives by adjusting program targets and providing additional resources. Donors support further ensured that the program remained on-track, though some delays complicated policy management.

- **Structural reforms should consider capacity constraints and fragility, while strong reform ownership is key.** Over the 2017-2020 ECF arrangement, a few structural reforms were not implemented due to capacity constraints and lack of political will. Accordingly, the number of structural benchmarks in any new program should focus on key program priorities, complemented by additional TA when needed. Furthermore, strong ownership will help advance the structural reform agenda.

- **Addressing the non-mining sector bottlenecks would be critical.** Diversifying the sources of growth away from a narrow set of commodities will help reduce Guinea's vulnerability to exogenous shocks and will be critical in developing a more sustainable and inclusive medium-term growth which can create jobs and reduce poverty.

Authorities' Views

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

Annex II. Status of the Article IV 2016 Main Recommendations

1. Fiscal policy. The authorities delivered on staff recommendation of a fiscal adjustment in 2016 to strengthen fiscal buffers. Except for 2017 and the 2020 COVID-related fiscal relaxation, the basic fiscal balance was kept at an average -0.7 percent of GDP and achieved a surplus in 2018 and 2019. The recommended improvement in revenue performance of 1 percentage point of GDP over the medium term has not materialized; the tax/GDP ratio declined during the period 2018-2020. The authorities are working to step up their tax mobilization plan, where full enforcement of the Mining Code should be a key priority. On the expenditure side, a reform to gradually eliminate electricity subsidies was started in 2019 with World Bank support, though it was interrupted during the pandemic, and subsidies remain large. The authorities followed staff's recommendation to limit recourse to non-concessional finance. The TSA is now operational, though it is still not comprehensive enough. The adoption of the manual for the preparation, appraisal and selection of investment projects continues to encounter delays.

2. Monetary policy. Progress on the implementation of monetary policy reserve money targeting framework has been uneven; despite the introduction of a liquidity forecasting framework and related instruments, the BCRG has not systematically implemented active liquidity management, as stated in the 2019 FSSR. Average inflation has remained at around 9½ percent, well above the Article IV ambition to reduce it to 5 percent. International reserves have increased and reached nearly 2½ months of imports at end-2020, and are expected to reach the 3-4 range recommended in the 2016 Article IV in 2025. The authorities have successfully launched a rules-based FX intervention strategy and the parallel premium has been significantly reduced. While the amended Central Bank law was passed in June 2017, recommendations to strengthen central bank independence and limit monetary financing have not been consistently enforced.

3. Financial sector. Progress to enhance risk-based supervision and improve financial intermediation and inclusion has been satisfactory. The framework for a risk-based supervision of banks was operationalized in October 2019. The National Strategy for Financial Inclusion and a credit information system were recently launched.

4. Structural reforms and business environment. A new public procurement code entered into force in September 2020. The authorities have also made notable progress in strengthening the business environment with the introduction of the online tax declaration and payment system, in addition to a digital platform for business licensing.

5. Governance. A new anti-corruption law was adopted in 2017, the decree on the asset declaration regime was enacted in 2020, and the asset declaration form was adopted shortly thereafter. A draft AML/CFT law was adopted by the Council of Ministers in November 2020. However, greater efforts should be made to strengthen governance and increase transparency, including in the mining sector.

Annex III. Major Infrastructure Projects in Guinea

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

- *Hydroelectric dams* on the Konkouré river were completed at Kaleta (2015) and Souapiti (2020). The latter project's cost is estimated at US $1.4 billion—majority-owned by the Government of Guinea through their share in an SPV—and was financed with a $1.2 billion loan from the Export-Import Bank of China. Souapiti began producing electricity in September 2020.

- *A network of transmission lines* has linked these dams with consumers in Conakry and is being expanded to carry energy to the interior and onward to neighboring countries. By 2025, new lines are expected to carry energy north towards Guinea-Bissau and Sénégal (OMVG; $187m co-financed by WB-EIB-IsDB), towards the east to Kankan (Linsan-Fomi project; $170m financed by the EIB), and traverse eastern Guinea between the borders of Liberia and Mali (Guinée-Mali project; $210m co-financed by WB-EIB-IsDB).

- *Road projects* are in construction to rehabilitate the national highway (Route Nationale 1; $329m) and the urban road network of Greater Conakry (Voiries urbaines; $186m), financed by ICBC.[1] A major road linking Kissidougou and Condebadou will facilitate commerce and connectivity in the remote Guinea Highlands region ($241m co-financed by the Kuwait Fund, Islamic Development Bank and Arab Bank for Economic Development in Africa).

- *Public health infrastructure* includes construction of hospitals at Kankan and N'Zérékoré with financing from Export-Import Bank of India ($55.5m). The latter is the epicenter of the recent Ebola outbreak. A project to improve the drinking water infrastructure in Greater Conakry ($170m financed by Export-Import Bank of India) was signed in 2019.

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

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

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

Annex IV. Risk Assessment Matrix[1]

Risks	Likelihood	Expected Impact if Realized	Policy Response
Conjunctural shocks and scenarios			
Unexpected shifts in the COVID-19 pandemic.			
• **Asynchronous progress.** Limited access to, and longer-than-expected deployment of, vaccines in some countries—combined with dwindling policy space—prompt a reassessment of their growth prospects.	Medium	**Medium** A slower deployment of the vaccine would prolong the pandemic and delay the non-mining recovery	
• **Prolonged pandemic.** The disease proves harder to eradicate (e.g., due to new virus strains, short effectiveness of vaccines, or widespread unwillingness to take them), requiring costly containment efforts and prompting persistent behavioral changes rendering many activities unviable.	Medium	**High** A second wave of the pandemic could lead to stricter containment measures	Create fiscal space for scaling-up health spending and targeted mitigation measures. Protect the most vulnerable through targeted measures.
• **Faster containment.** Pandemic is contained faster than expected due to the rapid production and distribution of vaccines, boosting confidence and economic activity.	Medium	**Medium** The non-mining economy would bounce back faster than expected.	

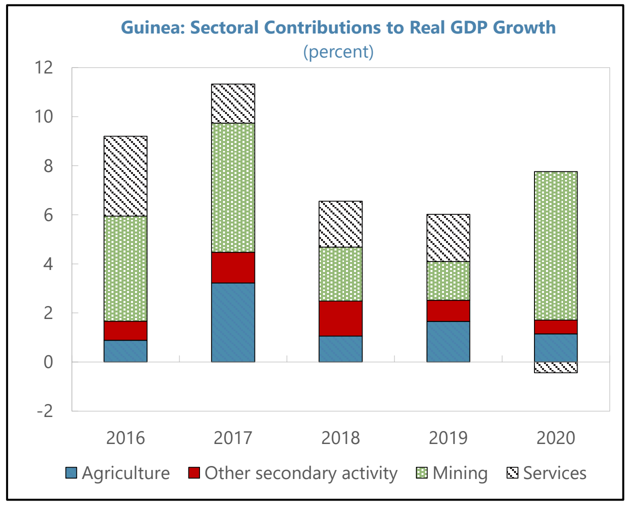
[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent,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

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

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

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

Annex V. Diversification and Medium-Term Growth Prospects[1]



1. Growth in Guinea is becoming increasingly concentrated in the mining sector. With almost one third of the world's bauxite reserves, of which a very small amount has been exploited, large reserves of gold, and the world's largest unexploited iron ore deposits, the sector has been growing rapidly since 2016, and the potential remains enormous. FDI in the mining sector has been a key driving force for the economy, and it is expected to accelerate. While there is some potential to move up the value chain—from bauxite to alumina and steel production—the sector currently accounts for less than 6 percent of total employment[2] and contributes less than ¼ of total GDP, with benefits going to a relatively small share of the country. Therefore, energizing the non-mining sector will be critical in developing a more sustainable and inclusive medium-term growth model, which can create jobs and reduce poverty. Furthermore, diversifying the sources of growth away from a narrow set of commodities will also reduce Guinea's vulnerability to exogenous shocks and increasing competition from other market players (e.g. Australia, Indonesia).

2. The IMF's recently developed COVID-19 extension of the DIGNAR model (Melina, Yang and Zanna, 2014, 2016)[3] demonstrates some of the risks associated with the current growth model, as well as the benefits that could be accrued from pursuing a more diversified growth model. The dynamic general equilibrium model incorporates the following features: financially constrained households; three sectors of production (bauxite, nontraded goods, and non-bauxite traded goods); and a government with access to various fiscal instruments and debt. After calibrating the model to align projections with the baseline scenario, staff constructed a downside and an upside scenario.

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

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[1] This annex was prepared by Zamid Aligishiev (RES), Alexander Massara (AFR) and Giovanni Melina (RES).

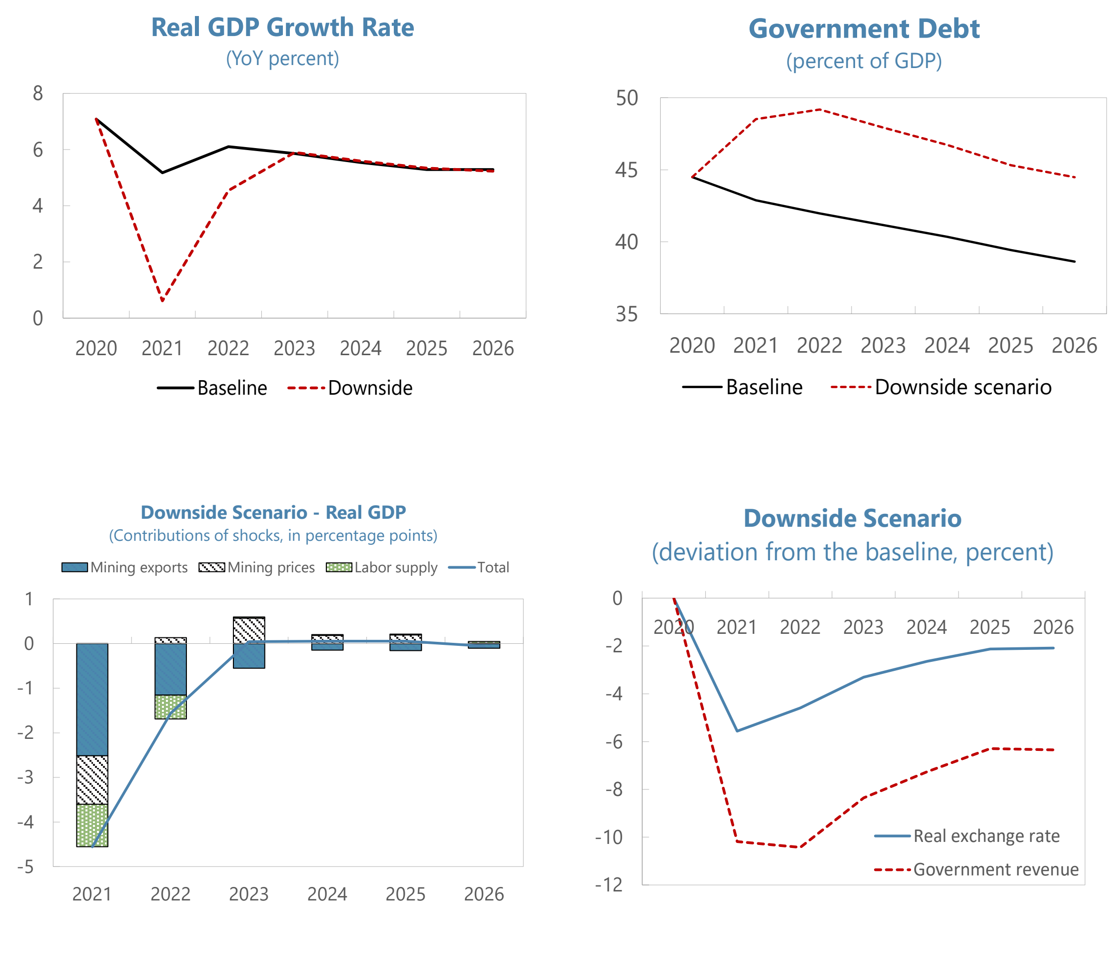
[2] "Creating Markets in Guinea; Generating diversified growth in a resource-rich environment", IFC 2020.

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

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

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

Figure 1: Guinea: Downside Scenario



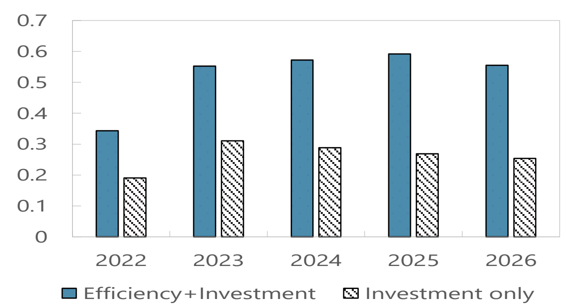
Source: IMF staff estimates.

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

5. To enable such diversification, Guinea needs to increase returns on non-mining private investment, which would then underpin a reorientation of the current growth model. Achieving higher returns could be met through a number of channels:

- Improving public investment efficiency to increase absorption capacity and accelerate the implementation of critical infrastructure projects. The recent completion of the public investment manual represents a big step in better project appraisal, implementation, and sequencing. Implementation of the manual would be a critical next step and would provide higher returns than simply increasing investment spending (text figure). Once in place, the authorities could leverage the efficiency gains to speed up planned infrastructure investment, particularly in the road and port networks, as well as in the electricity and energy sectors.[5]

Text Figure 1: Guinea: Growth Impact of Enhancing Efficiency
(Relative to baseline)



Source: IMF Staff estimates.

- Strengthening the business climate in conjunction with improvements to governance. Recent progress in expanding the credit information system and the installation of the commercial court have been well-received by the private sector. Implementing the land registry and the foreign trade portal, along with other digitalization reforms, would further strengthen the business environment. On governance, implementing the AML/CFT regime and initiating the asset declaration regime, among others, would improve transparency and accountability of government and create a more stable, business-friendly environment. Coupled with more efficient and higher public investment spending, these reforms would increase returns for private non-mining investment.[6]

- In addition, efforts to develop human capital, for example through reducing the cost of primary and secondary education, would stimulate labor productivity.

- Increasing domestic revenue mobilization. Using a conservative portion of additional revenue from the tax potential analysis, staff incorporated revenue increases reaching 3.5 percent of GDP over the medium term relative to the baseline scenario, starting in 2022. The increase is used to support the acceleration of public investment, along with an increase of social safety nets, which ramp up to 0.5 percent of GDP above the baseline by 2025. The

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

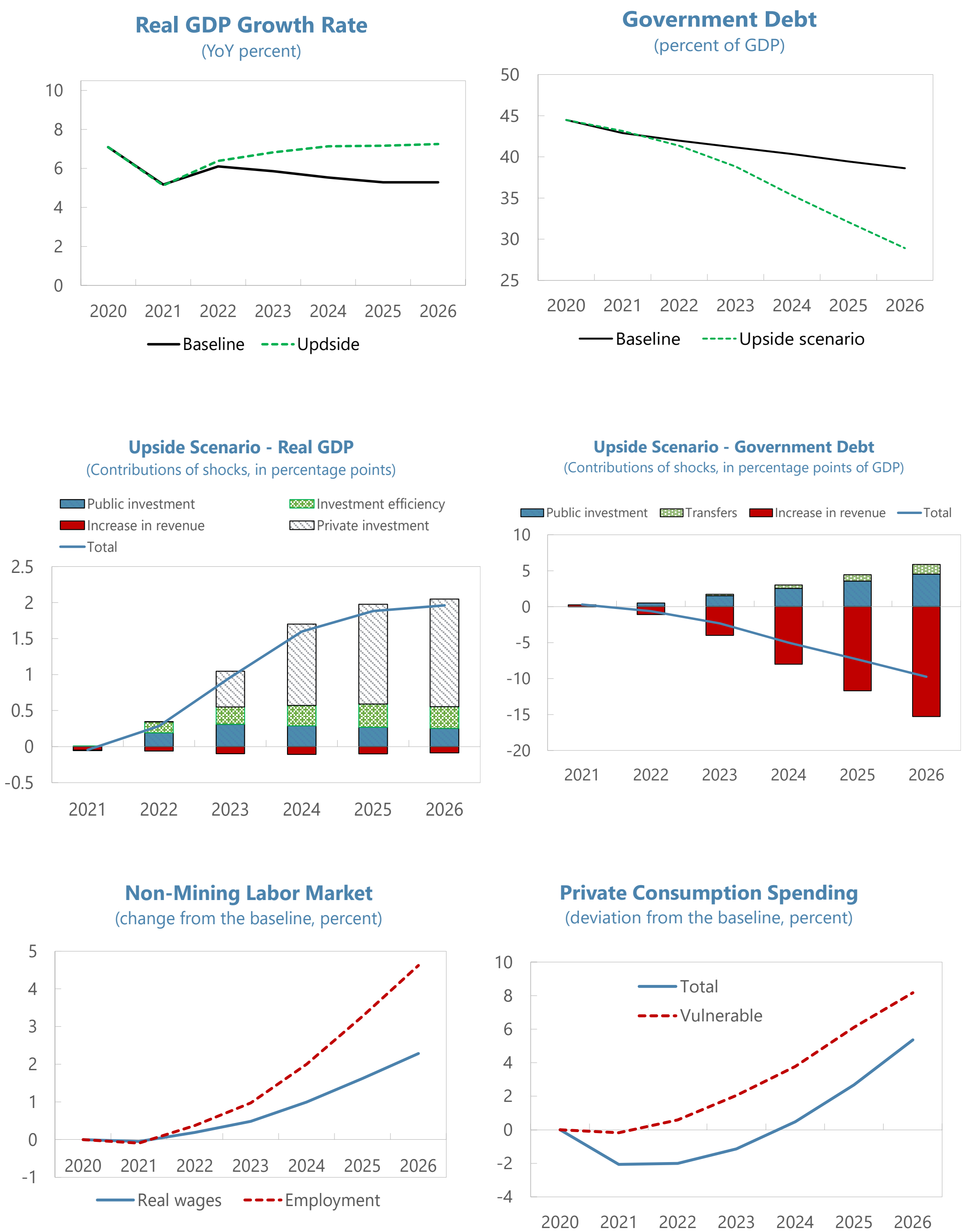
[6] The model incorporates a 1.7 percent increase in private investment over the medium term, bringing investment levels closer to those in the early 2010s.

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

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

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

Figure 2: Guinea: Upside Scenario

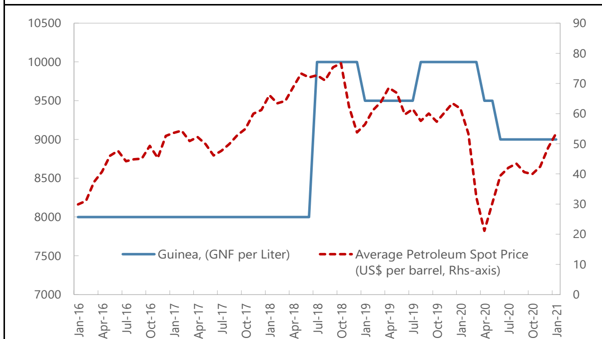


Source: IMF staff estimates.

Annex VI. Petroleum Products and Automatic Pricing Mechanism[1]

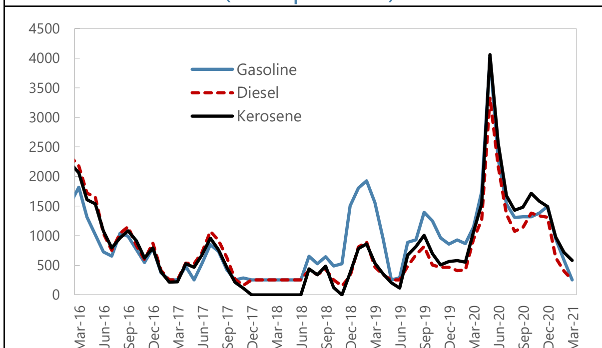
1. **Guinea's current fuel price adjustment mechanism is largely on an ad-hoc basis**. Every month, a formula is revised, that adds three components to import parity prices: taxes, provisions, and distribution margins. According to the rule approved by a Ministerial Decree in 2014, official/consumer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

Figure 1. Guinea: Evolution of Petroleum Products Prices 2016-21[1]



Sources: World Economic Outlook; and IMF Staff estimates.
[1]The Average petroleum Spot price is an average of prices of UK Brent, Dubai Fateh, and West Texas Intermediate crude oil.

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



Sources: World Economic Outlook; and IMF Staff estimates.

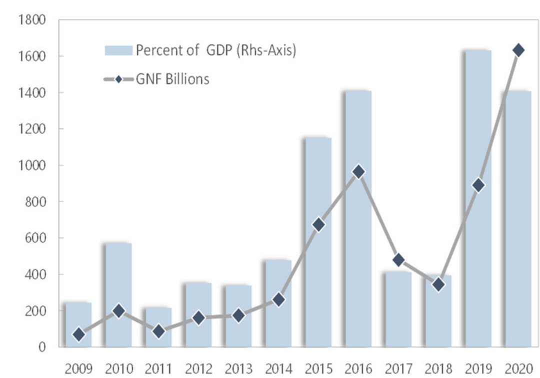
2. **Prices have remained unchanged for long periods of time (Figure 1).** The authorities decided to shield consumers from fluctuating prices by choosing to bear the volatility on government revenue, adjusting the special tax on petroleum products (TSPP) to close the gap between the official and the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

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

[1] Prepared by Ornella Kaze (AFR).

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

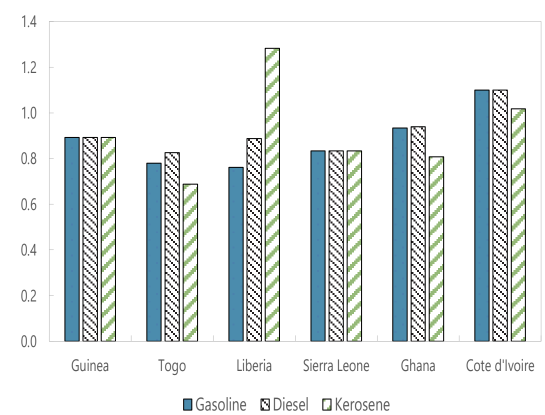
Figure 3. Guinea : TSPP Revenues, 2009-20



Sources: Country authorities; Global Petrol Prices and IMF staff estimates

Figure 4. Guinea: Petroleum Products Prices

(as of March 1, 2021; USD/Liter)



Sources: Country authorities; Global Petrol Prices and IMF staff estimates

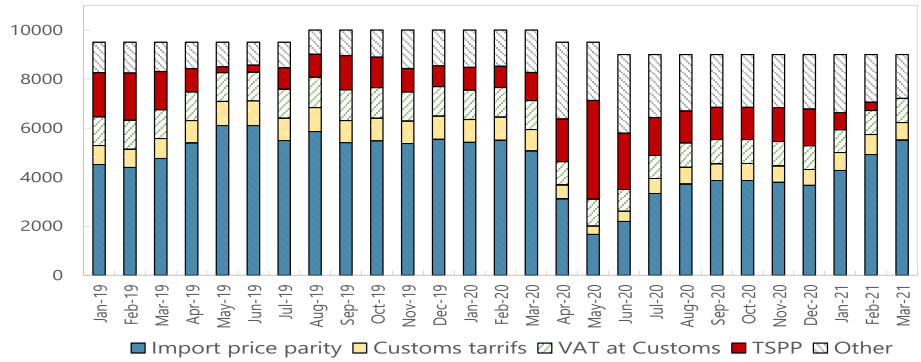
5. IMF Staff has strongly supported the implementation of the automatic price adjustment mechanism with smoothing. During the course of the 2017 ECF-supported program, Guinea received IMF TA on designing an automatic petroleum price adjustment mechanism specific to countries in a fragile social context.[3]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

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

[3] The findings and recommendations of the TA were presented to the authorities in the form of a TA report in April 2020.

Figure 5. Guinea: Gasoline Price Structure, 2019-21

(GNF/Liter)



Sources: Guinean authorities; and IMF staff estimates.

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

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

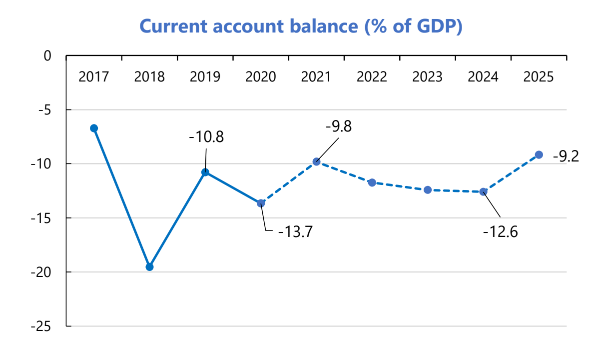
Annex VII. External Sector Assessment

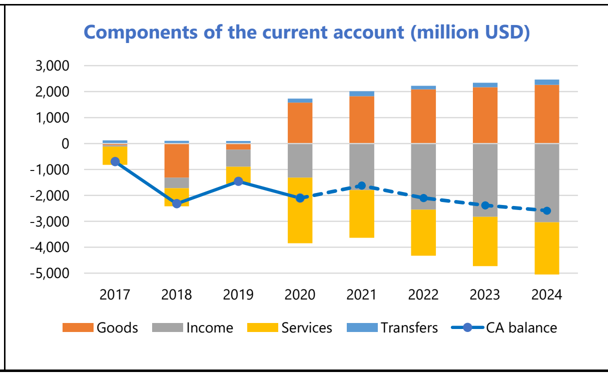
Overall Assessment: *The external position of Guinea during 2020 was weaker than the level implied by fundamentals and desirable policies. This compares to an assessment of "substantially weaker" at the time of the last ESA (December 2018), indicating some progress in reducing imbalances during the ECF-supported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

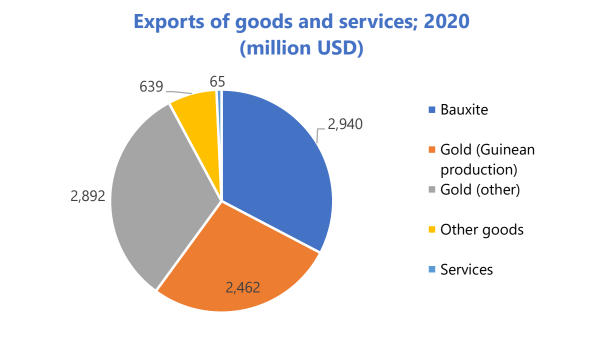
Potential Policy Responses: *External imbalances will persist through 2024 due to high imports associated with FDI-financed mining projects. Over the longer term, they are expected to be reduced by a combination of (i) a gradual consolidation of the fiscal balance, (ii) active implementation of a monetary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

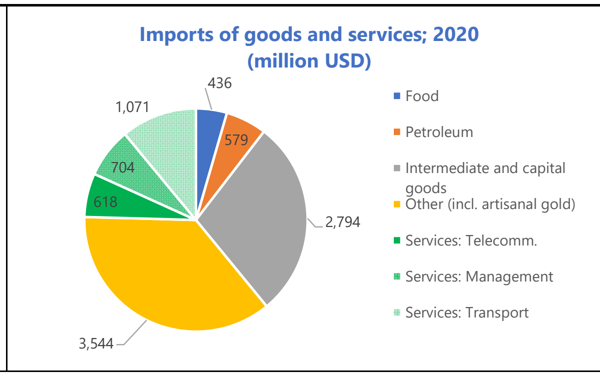
Current Account

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









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

Table 1. Guinea: Model Estimates for 2020

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

(in percent of GDP, unless otherwise indicated)

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

1/ Cyclically adjusted, including multilateral consistency adjustments.

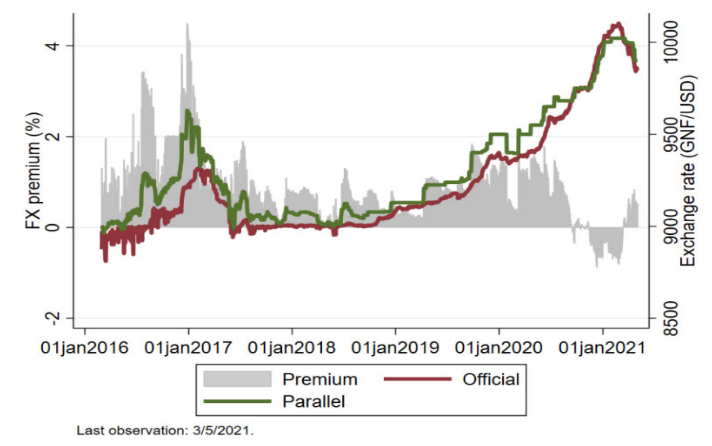
Real Exchange Rate

Background. The real effective exchange rate continued a longstanding appreciation trend in 2020, rising 5.9 percent yoy, and 24 percent with respect to its level in 2017 (the subject of the last External Sector Assessment). There is some early evidence that this trend was arrested in the second half of 2020, with the monthly series peaking in May and falling gradually as the BCRG allowed for greater exchange rate flexibility, and resulting in a near elimination of the parallel market premium. However, a recent spike in inflation in the first months of 2021 has led to further real appreciation. This underscores the need for monetary policy to moderate the sizable inflation differential with respect to Guinea's trading partners over the medium term.

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

Guinea: Exchange Rate Developments

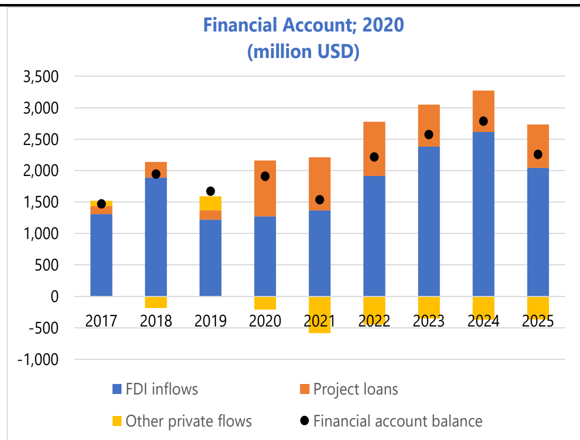
A. Nominal exchange rate (GNF/USD) and parallel market premium

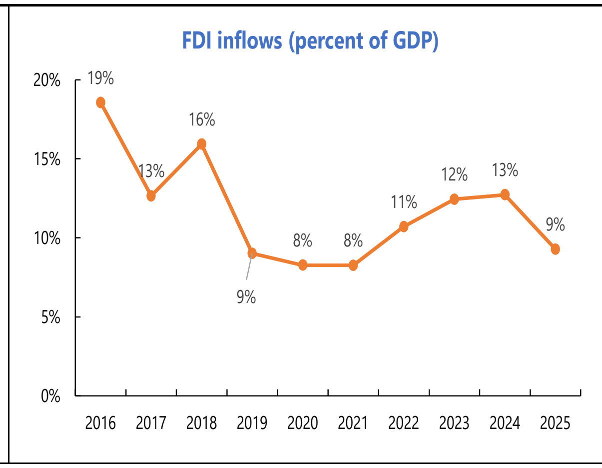


B. REER index (2010=100)

Capital and Financial Accounts: Flows and Policy Measures

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

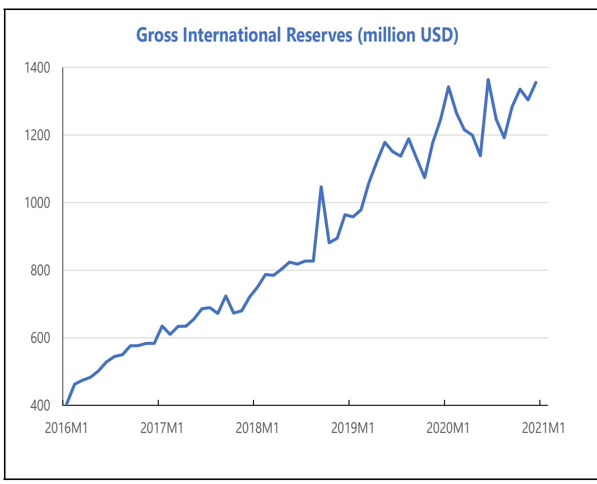


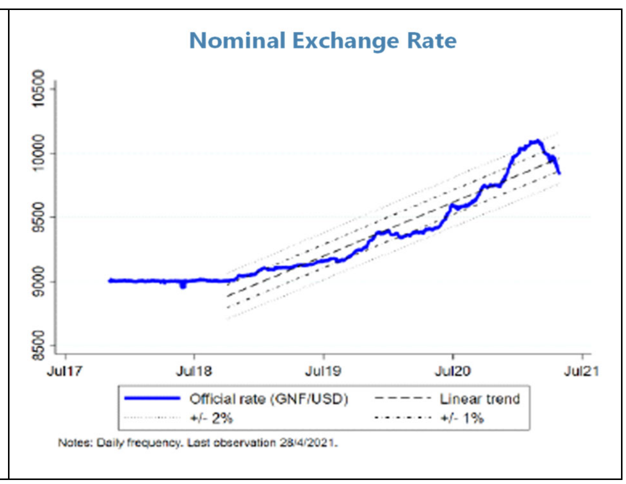


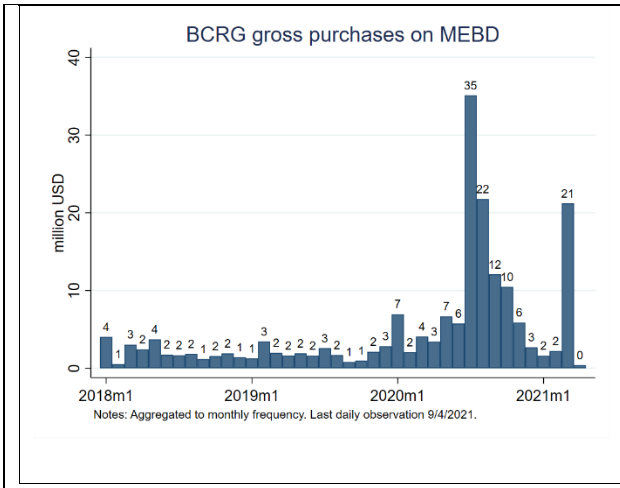
Assessment. Inflows into Guinea have taken the form of relatively stable FDI and project loans with long maturities of up to 25 years. As such, capital flows pose limited roll-over and liquidity risks.

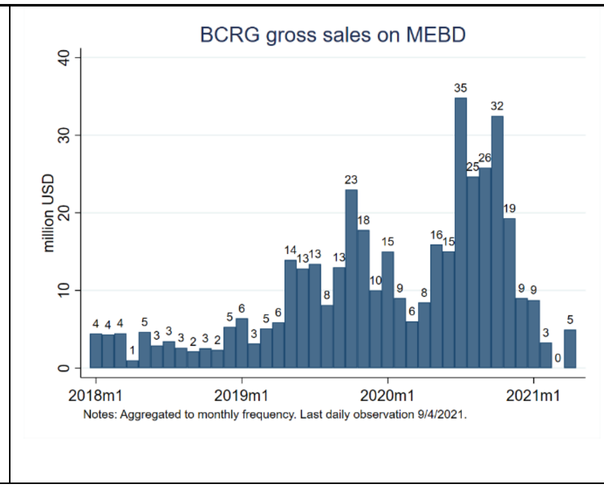
FX Intervention and Reserves Level

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

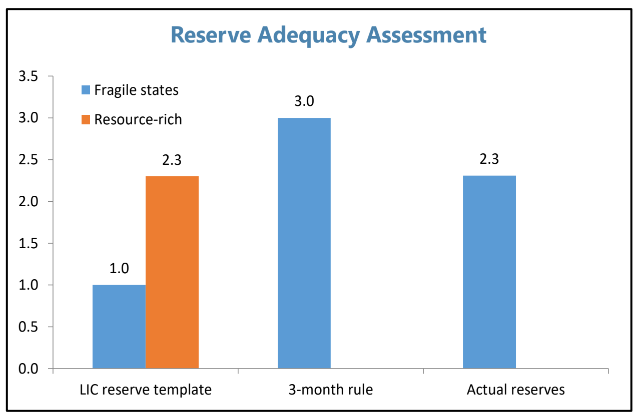








Assessment. Staff consider Guinea's level of international reserves to be adequate for precautionary purposes. Guinea's stock of gross international reserves at end-2020 corresponds to 2.3 months of current imports, when we net out imports of smuggled artisanal gold that are destined for exporting (below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



1/ For a more detailed discussion of the policy, see IMF Country Report No. 20/316, Annex IV.
2/ A large share of Guinea's imports correspond to capital goods needed to undertake FDI-financed projects in the mining sector, which do not pose as clear a risk to the balance of payments that would require a response from the central bank. For this reason, previous staff reports have focused on the reserve coverage ratio excluding imports of capital goods. Doing so would yield a coverage ratio of 3.0 months of current imports at end-2020.
3/ Per the 2016 "Guidance Note on the Assessment of Reserve Adequacy and Related Considerations", a country is deemed resource-rich if it depends on natural resources for at least 20 percent of exports. As shown above, mining made up 93 percent of Guinea's total exports in 2020.

Annex VIII. Status of the 2019 FSSR Recommendations

Recommendation*	Timeline*	Priority	Status
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	Con	High	In progress. To date, BCRG assesses its relationship with its main correspondent bank to be stable.
2. Reconcile data discrepancies, increase data coverage and ensure data quality	ST	High	In progress. BCRG has reviewed and extended the coverage of its FSIs, with the support of IMF TA. Revised FSIs have been published in April.
3. Create and operationalize a financial stability surveillance unit (FSSU), which should play a key role in addressing recommendation 2	ST	High	In progress. The financial stability function has been assigned to the Directorate of Statistics and Balance of Payments.
4. a) Clarify BCRG's macroprudential mandate in the BCRG Statute b) Establish an institutional framework for macroprudential policy	MT	Medium	In progress. These are considered in the draft revised BCRG law.
Systemic liquidity assessment			
5. Implement the past recommendations on liquidity management	ST	High	In progress. BCRG established a liquidity committee and a team to forecast autonomous liquidity factors in August 2018. The instruction on required reserves has been signed.

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

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

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

Annex IX. Digitalization in Guinea: The Financial Sector and Business Environment[1]

Overview

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

- A study has shown that a 1 percentage point increase in internet use leads to a 0.37 increase in real per capita income growth and that connected firms have 2.6 times more sales and employ eight times as many workers.[2]

- A World Bank study showed that the number of newly registered firms increased by 56 percent after the introduction of online registration systems.[3] The same study indicated that private companies in Africa using the internet have on average 3.7 times higher labor productivity than nonusers and 35 percent higher total factor productivity.

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

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

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

[1] Prepared by Nelnan Fidèle Koumtingue and Alex Massara (AFR).

[2] IMF Regional Economic Outlook: Sub-Saharan Africa, Chapter 3, April 2020.

[3] Digital Dividends, World Bank 2016.

[4] World Bank, World Development Indicators; Nigeria Digital Economy Diagnostic Report. World Bank, 2019.

[5] Digital Dividends, World Bank 2016.

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

Digital Financial Services

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

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

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

Other Sectors

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

[6] Digital Dividends, World Bank 2016.

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

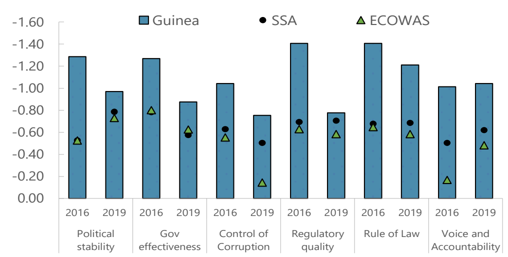
[8] Under the West Africa Monetary Zone Developmental program, countries are required to develop a robust payment and settlement system to enhance the deepening of the regional financial system. The initiative is financed by the African Development Bank

Annex X. Governance Issues[1]

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

Figure 1. Guinea: Worldwide Governance Indicators
(2013 vs 2019)

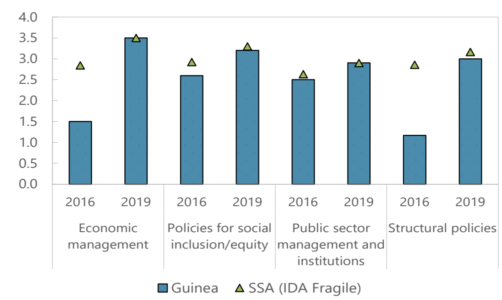
Although Guinea lags behind the SSA average, most governance indicators have improved since 2013



Note: Estimate gives the country's score on the aggregate indicator, in units of a standard normal distribution, i.e. ranging from approximately -2.5 to 2.5.

Figure 2. Guinea: Country Policy Institutional Assessment
(Scale 1=low to 6= high)

Progress on CPIA's public sector management and institutions cluster remains weak



A. The Anti-Corruption Framework

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

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

[1] Prepared by Nelnan Fidèle Koumtingué (AFR), Arz Murr (LEG) and Chady El Khoury (LEG).

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

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

B. The Asset Declaration Regime

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

C. Fiscal Governance

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

[2] In line with the recommendations of the 2017 UNCAC first review report.

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

Annex XI. Capacity Building

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

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

1. Guinea is a pilot country under the IMF Capacity Building Framework for fragile countries and intense user of Fund technical assistance (TA). During January 2018 – December 2020, Guinea received 76 missions (39 from AFRITAC West and 37 missions from HQ, including two resident long-term experts (LTX)). The intensity of TA reflects the need to strengthen economic institutions and help the country exit out of fragility.

2. IMF TA was well-aligned with the program objectives. IMF technical assistance during the 2017-2020 ECF arrangement was targeted to support the authorities towards achieving program objectives and strengthened institutional capacity. IMF TA focused in the following areas: tax policy and administration, public expenditures and investment management, treasury single account and cash management, government finance statistics, national accounts, the monetary policy framework, reserves accumulation strategy, debt management, external sector and monetary statistics, banking supervision, the anti-corruption framework and the AML/CFT regime. The capacity building program was delivered through TA missions from headquarters and AFRITAC West, resident long-term experts at the Ministry of Economy and Finance and the Ministry of Budget, a regional advisor for fragile countries, training workshops, and participation in ICD training courses.

3. Notwithstanding the fragile context and the COVID-19 pandemic, the authorities made significant progress in advancing in the implementation of TA recommendations to achieve the goals of the CD program. Following the recommendations of the PEFA, PIMA, and DemPA exercises - conducted in mid-2018, with strong authorities' support and cooperation – a public financial management strategy and corresponding action plan for the reform of public finances (PREFIP) 2019-2022, was adopted by the Guinean government in December 2018.[1] Following multiple failed attempts between 2013 and 2018, the Treasury Single Account was operationalized in 2019 and expanded in 2020 with help from IMF TA. IMF TA recommendations towards strengthening the monetary policy framework and supporting the accumulation of foreign exchange were implemented by the Central Bank. Furthermore, the implementation of the

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

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

B. Main TA Priorities in the Period Ahead

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

Guinea: Technical Assistance, CY2020

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

Annex XII. Modernizing the Monetary Policy Framework in Guinea[1]

1. While inflation over the past decade has been lower and less volatile than in the past, it remains stubbornly high. Guinea's median inflation of 9.8 percent over 2010-20 was the 15th highest out of the 194 countries included in the *World Economic Outlook* database. Reducing inflation to more moderate levels remains a pressing medium-term challenge for the BCRG. In the context of the COVID-19 pandemic, headline inflation rose by about 3 percentage points to 12.6 percent in February 2021—its highest level since 2013.

2. The BCRG's primary mandate is to ensure price stability. Without undermining price stability, the central bank is also tasked with the secondary objective of "*supporting the general economic policies of the Government with a view to ensuring sound and sustainable economic growth*".[2] A monetary policy committee (MPC) was established in July 2020 and is responsible for the formulation of monetary policy and the calibration of policy instruments. It is composed of the BCRG Governor, two Deputy Governors, an advisor to the Minister of Economy and Finance, the head of the National Statistical Office and two independent consultants with expertise in economic management. The MPC is expected to meet at least four times a year and held its first meeting in March 2021.

3. The BCRG has interpreted its price stability objective as maintaining the inflation rate below 10 percent. Medium-term objectives are aligned with the West African Monetary Zone's convergence criteria. Over the longer term, the BCRG aims to bring inflation down to 5 percent.

4. Under successive ECF-supported programs, the BCRG pursued its price stability objective through reserve money targeting. The program included quantitative performance criteria for net domestic assets and net foreign assets, defining a path for base money that was viewed as consistent with the BCRG's inflation objective. The program also included a ceiling on net government borrowing from the central bank to prevent fiscal dominance. Program adjusters assumed partial sterilization in response to shocks from foreign budget support financing. Policy instruments were used to achieve the reserve money target by neutralizing the autonomous factors that drive liquidity conditions. Operationally, the liquidity committee examines the liquidity situation on a weekly basis and determines the amount to be absorbed or injected to achieve the target.

5. Both the CPI and reserve money have grown faster than projected at the time of the ECF-supported program request in December 2017. While the BCRG's performance in meeting the 2017-20 ECF program's monetary targets was satisfactory, two waivers of non-observance were granted over the course of the program against the target for the BCRG's net domestic assets.[3] By

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

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

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

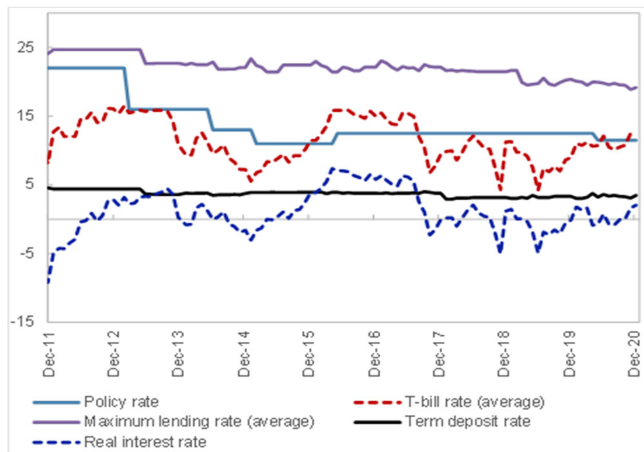
(continued)

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

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

Figure 1. Guinea: Evolution of Interest Rates

(Percent)



Source: Staff calculations based on data from BCRG.
Note: Real interest rate calculated as the nominal yield on Treasury bills adjusted for past inflation.

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

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

[4] Failure to comply with the requirement is penalized at a rate of 24.5 percent interest.

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

Box 1. Reforms to Strengthen the Monetary Policy Framework

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

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

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

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

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

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

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

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

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

- *In the short run*, the reserve money targeting framework could be strengthened by (i) increasing the frequency of MPC meetings from four to at least six per year; (ii) ensuring that BCRG staff update their models and projections prior to each MPC meeting; (iii) setting an operational target for reserve money growth in each MPC meeting; (iv) clearly communicating the monetary policy decision in terms of the reserve money target and avoiding references to the policy rate ; (v) providing a clear rationale for the policy decision in terms of the BCRG's analysis of past and future inflation; and (vi) increasing the frequency of operations to weekly.

- *Over the medium term*, the BCRG could transition to a framework whose operational target is the interest rate rather than monetary aggregates. Decision-making could involve an interest rate reaction function that would consider the BCRG's forecast for inflation and the global interest rate. Communications would be focused on explaining the decision about the setting of the policy interest rate. Operations could involve weekly auctions of sterilization bills, offered at a fixed rate equal to the monetary policy rate, and with full allotment. They could be supported by reducing the unremunerated reserve requirement from 16 to 10 percent (aligned with international practice). By reducing the effective tax on financial intermediation, this would also help strengthen transmission of the policy rate to deposit and lending rates offered by commercial banks.

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

[7] Carrière-Swallow and Koumtingué (2021), forthcoming.

INTERNATIONAL MONETARY FUND

GUINEA

June 3, 2021

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

African Department
(In Consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND

(As of April 30, 2021)

Membership Status: Joined: September 28, 1963 Article VIII

General Resources Account:	**SDR Million**	**%Quota**
Quota	214.20	100.00
Fund holdings of currency	187.35	87.47
Reserve Tranche Position	26.85	12.54

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	102.47	100.00
Holdings	59.55	58.11

Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
RCF Loans	123.17	57.50
ECF Arrangements	220.01	102.71

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Dec 11, 2017	Dec 10, 2020	120.49	120.49
ECF	Feb 24, 2012	Nov 07, 2016	173.66	173.66
ECF[1]	Dec 21, 2007	Dec 20, 2010	69.62	24.48

Outright Loans:

Type	Date of Commitment	Date Drawn	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
RCF	Jun 19, 2020	Jun 23, 2020	107.10	107.10
RCF	Sep 26, 2014	Oct 02, 2014	26.78	26.78

Projected Payments to Fund[2]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2021	2022	2023	2024	2025
Principal	1.84	38.25	34.35	37.56	38.06

[1] Formerly PRGF.

[2] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Charges/Interest	0.02	0.02	0.02	0.02	0.02
Total	1.85	38.27	34.37	37.58	38.08

Implementation of HIPC Initiative:

	Enhanced Framework
I. Commitment of HIPC assistance	
Decision point date	Dec 2000
Assistance committed	
by all creditors (US$ Million)[3]	639.00
Of which: IMF assistance (US$ million)	36.01
(SDR equivalent in millions)	27.80
Completion point date	Sep 2012
II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	27.80
Interim assistance	11.30
Completion point balance	16.49
Additional disbursement of interest income[4]	7.45
Total disbursements	35.25

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

Implementation of Catastrophe Containment and Relief (CCR):

Date of Catastrophe	Board Decision Date	Amount Committed (SDR million)	Amount Disbursed (SDR million)
N/A	Mar 18, 2015	21.42	21.42
N/A	Apr 13, 2020	16.37	16.37
N/A	Oct 02, 2020	16.37	16.37
N/A	Apr 01, 2021	18.21	18.21

As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR) Trust.

Decision point: Point at which the IMF and the World Bank determine whether a country qualifies for assistance under the HIPC Initiative and decide on the amount of assistance to be committed.

Interim assistance: Amount disbursed to a country during the period between decision and completion points, up to 20 percent annually and 60 percent in total of the assistance committed at the decision point (or 25 percent and 75 percent, respectively, in exceptional circumstances).

[3] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

[4] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

Completion point: Point at which a country receives the remaining balance of its assistance committed at the decision point, together with an additional disbursement of interest income as defined in footnote 2 above. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

Safeguards Assessment

An update of the 2018 safeguards assessment was completed in April 2021. The assessment found that the BCRG had taken some steps to strengthen its safeguards framework, but that weaknesses remained. Main areas for improvement included Board oversight, monetary financing, timeliness of financial statements, management of dormant accounts, and compliance with the investment policy. The BCRG has started implementing recommendations from this assessment by blocking all accounts considered dormant and establishing an ad hoc committee to review their closure, and initiating the preparation of the IFRS financial statements for 2020. The BCRG needs to maintain this momentum to move ahead with the remaining recommendations, notably improving Audit Committee oversight and strengthening the internal audit, reserves management, and currency functions.

Exchange Rate Arrangement

Guinea's *de jure* exchange rate arrangement is managed floating, and its *de facto* exchange rate arrangement is classified as a crawl-like arrangement. The foreign exchange system gives rise to an MCP because the reference rate can potentially deviate by more than 2% from the commercial banks' purchase and sales rates on a given day. The BCRG intervenes twice a week through a multi-price foreign exchange auction market with active commercial banks. The BCRG regularly publishes information regarding foreign exchange market interventions.

Article IV Consultation

The last Article IV consultation was concluded by the Executive Board on July 22, 2016.

Technical Assistance

See Staff Report, Annex XI.

Mission Chief and Resident Representative

Ms. Clara Mira has been the IMF's Mission Chief since August 2020. Mr. Salifou Issoufou has been the IMF's Resident Representative since June 2019.

STATISTICAL ISSUES

(As of May 21, 2021)

I. Assessment of Data Adequacy for Surveillance
General: Data provision is broadly adequate for surveillance with some key data shortcomings in national accounts and fiscal statistics.
National Accounts: Real sector statistics are incomplete and published with insufficient timeliness to fully support economic policymaking. Statistics on economic activities are published less frequently and less regularly; the monthly and quarterly bulletins of the Guinean economy include limited available macroeconomic variables. Monthly surveys of mining, industrial and agricultural production are produced with some delays. With technical assistance from AFRITAC West, the National Institute of Statistics plans to implement the 2008 SNA with 2018 as new benchmark year. However, more work is needed to reconcile artisanal gold production with gold export statistics. Employment and population statistics are published on an annual frequency. The 2018-19 National Household Living Standards Survey was recently concluded.
Price Statistics: The monthly consumer price index (CPI), which only covers Conakry, is published in a timely manner with 2002 as the weight reference period. Work on updating CPI weights is ongoing, with assistance from AFRISTAT.
Government Finance Statistics: The Ministry of Economy and Finance compiles comprehensive monthly budgetary central government data on a cash basis for revenue, and on commitment and cash basis for expenditure based on a national presentation not comparable to international standards. A recent Government Finance Statistics (GFS) technical assistance (TA) mission (February 2021) provided support in compiling the TOFE of the budgetary central government, reviewing and refining GFSM 2014 consistent series, and improving the compilation processes to use going forward based on the template developed with IMF technical assistance in 2020. The current compilation methodology of the government operations tables (TOFE) needs to be modernized, which is currently reconciled with budgetary execution and financing data. The production of the TOFE based on GFSM 2014 will require the use of the data outside the general accounting system, as it lacks comprehensiveness and timeliness. Data on extra-budgetary units, local government and central government investments in public and private corporations is available but will need to be assessed from a GFS perspective.
Monetary and Financial Statistics: Monetary data are compiled and shared with the African Department on a monthly basis. Monetary data used to assess the 2017-2020 ECF-supported program performance are certified by an independent external auditor on a regular basis. In November-December 2020, STA provided TA to the BCRG to finalize the reporting of monetary data using the recommended standardized report forms (SRFs). Subsequently, the SRFs were compiled and will be disseminated in IMF's, International Financial Statistics publication (May 2021). The BCRG reports data and indicators of the Financial Access Survey (FAS), including the two indicators adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).
Financial Sector Surveillance: Financial Soundness Indicators (FSI) are consolidated on a quarterly basis by the BCRG and are reported to the Fund. They are published on the IMF's FSI website. The reported FSIs comprise all the core FSIs, 8 encouraged FSIs for deposit takers and 2 encouraged FSI for real estate market. In November-December 2020, STA provided TA to the BCRG to review the compilation of FSIs. In April 2021 new datasets were disseminated with some revisions in the capital adequacy and profitability ratios.
External Sector Statistics: The Central Bank compiles annual Balance of Payments statistics in line with the sixth edition of the *Balance of Payments Manual (BPM6)*. Although the quality of external sector statistics (ESS) has improved consistently, the central bank still lacks information from some important data sources to compile the ESS. A balance of payments survey has been implemented with a response rate of over 75 percent. The Central Bank is encouraged to improve the quality of BOP statistics, particularly on imports, the financial account, and the artisanal gold sector. A March 15–26, 2021 TA mission assisted in addressing the consistency of imports of

goods data provided to the IMF's African Department with the data published by the authorities, as well as the recent increase in gold exports. It also assessed the incorporation of direct investment data in the BOP and the sources of these data, in connection with the complex transactions involved in the construction of the Souapiti hydroelectric plant by a Chinese company. Customs data on exports of gold are reliable, although the origin of the gold exported should be ascertained. Further, the INS should launch a survey of artisanal gold to better evaluate the volume of the domestic production. Gold operators should also provide information on the use of the proceeds of gold exports. The chronology and details of all transactions, and positions deriving from the implementation of the loan agreement for the construction of the Souapiti dam must be made available to the BOP/IIP compilers by the Ministry of Economy and Finance.	
II. Data Standards and Quality	
Guinea participates in the enhanced General Data Dissemination System (e-GDDS) and its National Summary Data Page regularly disseminates data to the public since November 2019.	No data ROSC is available.

Table of Common Indicators Required for Surveillance
(As of May 21, 2021)

	Date of Latest Information	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication [6]
Exchange Rates	05/20/2021	05/21/2021	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	04/30/2021	05/05/20121	M	M	M
Reserve/Base money	04/30/2021	05/05/2021	M	M	M
Broad Money	04/30/2021	05/05/2021	M	M	M
Central Bank Balance Sheet	04/30/2021	05/05/2021	M	M	M
Consolidated Balance Sheet of the Banking System	04/30/2021	05/05/2021	M	M	M
Interest Rates[2]	03/31/2021	04/13/2021	M	M	M
Consumer Price Index	04/30/2021	05/20/2021	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] - General Government[4]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3] - Central Government	02/28/2021	05/01/2021	M	M	M
Stocks of Central Government and Central Government - Guaranteed Debt[5]	12/31/2020	04/20/2021	A	A	A
External Current Account Balance	12/31/2020	04/20/2021	Q	Q	A
Exports and Imports of Goods and Services	12/31/2020	04/20/2021	Q	Q	A
GDP/GNP	12/31/2019	04/20/2021	A	A	A
Gross External Debt	12/31/2020	04/20/2021	A	A	A
International Investment Position	12/31/2019	8/13/2020	A	A	A

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, and domestic bank and non-bank financing.
[4] The general government consists of the central government (budgetary and extra-budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Not Available (NA).

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

World Bank:

https://www.worldbank.org/en/country/guinea

African Development Bank

https://www.afdb.org/en/countries/west-africa/guinea

INTERNATIONAL MONETARY FUND

GUINEA

June 3, 2021

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

Approved by
Catherine Pattillo (IMF), Abebe Adugna, and Marcello Estevão (IDA)

Prepared by the International Monetary Fund and the International Development Association.

Guinea: Joint Bank-Fund Debt Sustainability Analysis[1]	
Risk of external debt distress	*Moderate*
Overall risk of debt distress	*Moderate*
Granularity in the risk rating	*Limited space to absorb shocks*
Application of judgment	No

Guinea remains at moderate risk of external debt distress, with limited space to absorb shocks*. All external debt burden indicators under the baseline scenario lie below their thresholds. Stress tests suggest that debt vulnerabilities will increase if adverse shocks materialize. Under the most extreme stress tests—which involve a negative shock to exports—all solvency and liquidity indicators breach their thresholds for prolonged periods. While public debt rose sharply to 43 percent of GDP at end-2020—reflecting additional borrowing to meet urgent balance of payments and fiscal needs due to the COVID-19 pandemic—the overall risk of public debt distress is also assessed to be moderate. These risk ratings are unchanged with respect to the December 2020 Debt Sustainability Analysis. A prudent external borrowing strategy aimed at maximizing the concessionality of new debt, strengthening debt management and enhancing public investment management remain key to preserve medium-term debt sustainability.*

[1] The Debt Sustainability Analysis (DSA) was prepared with the World Bank and in collaboration with the Guinean authorities. This DSA has been prepared following the revised Debt Sustainability Framework (DSF) for LICs and Guidance Note (2017) in effect as of July 1, 2018. Guinea's debt carrying capacity is classified as weak based on the Composite Indicator (CI) under the revised LIC DSF. Thresholds for debt burden indicators are also those established in the revised 2017 DSF.

COVERAGE OF PUBLIC DEBT

1. **The definition of public debt used in this DSA covers central government debt, central government-guaranteed debt, and central bank debt contracted on behalf of the government (Table 1)**. Audited and validated arrears to suppliers over the period 1982–2013, as well as domestic arrears accumulated and decumulated since then have been included in the baseline, and it is estimated that the domestic arrears stock was reduced to zero at end-2020. Other elements of public sector debt, such as non-guaranteed debt of state-owned enterprises and social security funds, are not included due to data constraints.[2] A contingent liability stress test is performed to enhance the robustness of the DSA, whose details are outlined below. Staff continues to work with the authorities to broaden the coverage of public debt and improve capacity to address debt data weaknesses. The definition of public and publicly guaranteed debt (PPG) used in the DSA includes the loan for the Souapiti hydropower project (US$1.2 billion, about 10 percent of 2018 GDP) signed on September 4, 2018.[3] Per the terms of the loan agreement, the government is the debtor and assumed to be responsible for servicing the loan in the DSA.[4]

Table 1. Coverage of Public Sector Debt and Design of the Contingent Liability Stress Test

Subsectors of the public sector	Check box
Central government	X
State and local government	
Other elements in the general government	
o/w: Social security fund	
o/w: Extra budgetary funds (EBFs)	
Guarantees (to other entities in the public and private sector, including to SOEs)	X
Central bank (borrowed on behalf of the government)	X
Non-guaranteed SOE debt	

1	The country's coverage of public debt	The central government, central bank, government-guaranteed debt	
		Default	Used for the analysis
2	Other elements of the general government not captured in 1.	0 percent of GDP	0
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	2
4	PPP	35 percent of PPP stock	1.33
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5
	Total (2+3+4+5) (in percent of GDP)		8.3

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

[2] Local governments in Guinea are thought to have limited debt exposure and the stock of non-guaranteed SOE debt is also likely to be small. The World Bank's Sustainable Development Finance Policy supports the Guinea government's effort to strengthen the governance and oversight of SOEs, including through the auditing of SOEs' financial statements and reporting of debt.

[3] The grant element of the Souapiti loan is estimated to be 29 percent.

[4] The construction of the Souapiti dam loan is not included in the public investment of the central government as it will be carried out by a Special Purpose Vehicle (SPV) that is not considered as part of the central government, being jointly owned by the Guinean government (51 percent) and China International Water & Electricity Corporation (49 percent). The government however contracts the loan and on-lends the financing to the SPV, who will manage and operate the hydropower project on a commercial basis. The government is assumed to service the loan with an income stream from the SPV.

RECENT DEBT DEVELOPMENTS

2. The stock of Guinea's overall public debt rose sharply in 2020, reflecting the frontloading of the first disbursement of the project loan for the Souapiti hydropower project, as well as financing for the government's response to the COVID-19 pandemic. Total public debt rose to US$6.4 billion (43.4 percent of GDP) at end-2020, up from US$5.0 billion (38.0 percent of GDP) at end-2019.[5] External public debt increased to US$3.8 billion (25.8 percent of GDP) at end-2020 from US$2.6 billion (19.9 percent of GDP) at end-2019. Domestic debt also rose sharply to US$2.6 billion (17.6 percent of GDP) at end-2020, from $2.4 billion at end-2019, with strong net issuance of Treasury market instruments and short-term central bank financing. The stock of domestic debt reported in this DSA is significantly higher than what is reported by the authorities in the Quarterly Public Debt Bulletin, which uses a narrower definition of public debt that excludes: (i) unaudited domestic arrears; (ii) obligations of the Treasury to the BCRG associated with the 2017 recapitalization; and (iii) outstanding short-term advances owed to the BCRG.

UNDERLYING MACROECONOMIC ASSUMPTIONS

3. Key assumptions are consistent with the macroeconomic framework outlined in the Staff Report for the 2021 Article IV Consultation:

- **Real GDP growth** is estimated at 7.1 percent in 2020, 5.2 percent in 2021. This projection reflects the impact of the COVID-19 pandemic on the non-mining domestic economy—expected to recover at a rate of 4.5 percent in 2021 after a sharp slowdown to 1.3 percent growth in 2020—and the buoyancy of external demand for bauxite and gold, with a booming mining sector that is expected to grow at 7.7 percent in 2021. Growth is expected to moderate to remain strong in the medium term, supported by the mining sector and strong FDI inflows and construction work from mining companies, converging to its long-run rate of 5 percent only in 2028. Risks to the outlook are tilted to the downside, stemming from socio-political tensions, delays in reform implementation and the potential deterioration of the sanitary situation depending on the evolution of the pandemic and the Ebola outbreak. Commodity price shocks remain a significant vulnerability, given the rising concentration of growth in the mining sector, as well as lower foreign direct investment in the mining sector, which would reduce the rate of medium-term growth. Upside risks include mining production capacity coming on stream faster than currently expected, a

[5] The definition of PPG external debt excludes French claims under C2D debt-for-development swaps, which were cancelled in the context of the HIPC debt relief. The C2D mechanism implies a payment of the debt service to the creditor from Guinea, which is later returned to the government in the form of grants to finance development projects. The payments with respect to C2D are included in debt service of the fiscal baseline (See Country Report No.15/39 for a detailed discussion). External debt is considered on a currency basis. Information on non-residents' holding of local currency debt is not available, which could give rise to an underestimation of external debt on a residency basis.

higher-than-expected artisanal gold production, and faster-than-expected FDI investments to build a railway and a port to export iron ore from the Simandou deposit.

- **Inflation** rose to 10.6 percent (y-o-y) in 2020, affected by transport and food prices that reflect COVID-related disruptions as well as expansionary fiscal and monetary policies to respond to the pandemic. These factors will continue to drive inflation higher to an average of 11.6 percent in 2021, before gradually moderating to below 10 percent in 2022.

Table 2. Guinea: Structure of Public and Publicly Guaranteed Debt

(End-of-period; USD millions, unless otherwise indicated)

	2016	2017	2018	2019	2020	Percent of Total	Percent of GDP
Total PPG Debt	**3,481**	**4,260**	**4,542**	**5,019**	**6,394**	**100.0**	**43.4**
Domestic Debt	**1,660**	**2,245**	**2,263**	**2,397**	**2,593**	**40.6**	**17.6**
Treasury bills (<12 months)	288	341	470	517	726	11.4	4.9
Treasury instruments (1-3 years)	40	76	46	160	209	3.3	1.4
Securitized debt to suppliers	137	81	160	194	256	4.0	1.7
BCRG (short-term advances)	47	141	-8	137	316	4.9	2.1
BCRG (long-term obligations)	832	1,176	1,162	1,122	1,028	16.1	7.0
Misc. (VAT credits; domestic arrears)	316	431	432	267	58	0.9	0.4
External Debt	**1,822**	**2,015**	**2,279**	**2,622**	**3,800**	**59.4**	**25.8**
Multilateral creditors	779	869	1,116	1,337	1,737	27.2	11.8
IMF	241	277	322	338	520	8.1	3.5
World Bank	220	240	341	467	575	9.0	3.9
African Dev. Bank Group	99	122	136	173	208	3.3	1.4
Islamic Dev. Bank	106	113	184	195	217	3.4	1.5
European Union	0	0	20	38	73	1.1	0.5
Other Multilateral creditors	113	117	113	125	143	2.2	1.0
Official Bilateral Creditors	984	1,083	1,102	1,181	1,800	28.2	12.2
Paris Club (excl. C2D)	28	31	29	33	41	0.6	0.3
Non-Paris Club	957	1,053	1,073	1,147	1,759	27.5	11.9
Angola	145	141	127	117	113	1.8	0.8
China	525	600	630	650	1,277	20.0	8.7
of which: Loan for Souapiti dam	0	0	0	0	575	9.0	3.9
Kuwait	73	83	77	78	75	1.2	0.5
Libya	42	42	42	42	52	0.8	0.4
Saudi Arabia	75	90	101	106	104	1.6	0.7
Others	96	96	96	154	139	2.2	0.9
Commercial Creditors	**59**	**62**	**61**	**104**	**262**	**4.1**	**1.8**
ICBC	0	0	0	44	202	3.2	1.4
Memo items							
C2D balance [1/]	112	104	76	47	51	0.8	0.3
External Arrears	147	150	149	149	164	2.6	1.1
GNF per USD: Official (EOP)	9,225	9,006	9,085	9,401	9,990		

Sources: Guinean authorities and IMF staff calculations.

[1/] C2D refers to Debt Reduction-Development Contract, and is excluded from the stock of PPG debt.

Notes: External arrears at end-2020 predate the 2012 HIPC completion point and are due to non-Paris Club official bilateral creditors (US$102 million) and commercial creditors (US$62 million). These arrears continue to be deemed away under the IMF Policy on Arrears as the underlying Paris Club agreement is adequately representative and the authorities are making best efforts to resolve the arrears. Regarding the external arrears owed by Guinea to private creditors, the authorities continue to make good faith efforts to reach a collaborative agreement. The IMF last concluded a financing assurances review on December 9, 2020, jointly with the Fifth and Sixth Reviews under the ECF arrangement.

- **Fiscal balance**. At 2.9 percent of GDP, the 2020 overall fiscal deficit reflects the implementation of the COVID-19 Response Plan and expenditure suppression to accommodate a large arrears repayment. The implementation cost of the COVID-19 response was about 1.5 percent of GDP. The authorities canceled planned-but-unexecuted expenditures at the end of 2020 to the tune of 2.6 percent of GDP (mostly from subsidies and capital expenditure). This provided space for a large arrears repayment worth 1.7 percent of GDP in 2020, which was unexpected and contributed to support the private sector in the COVID-19 context. The primary deficit is expected to average 1.8 percent of GDP over 2022–25, reflecting the authorities' commitment to scale-up public investment at a more moderate pace than had been planned before the pandemic. To preserve debt sustainability, pre-pandemic plans for externally-financed projects in 2021-23 have been scaled back. Continued revenue mobilization efforts being undertaken with supporting TA is expected to gradually increase tax revenue by 2.9 percent of GDP over 2021–30. In particular, reforms are expected to reinvigorate tax policy and tax administration, intensifying ongoing work on (i) digitalizing tax management, (ii) matching of tax and customs databases, (iii) fully operationalizing the new organizational structure of the DNI, and (iv) adopting the revised General Tax Code in line with IMF TA. Grants rose to 1.0 percent of GDP in 2020 in the context of the pandemic and are expected to rise in 2021 to 1.5 percent of GDP. The DSA only includes grants that have been confirmed by multilateral development banks, and it is therefore more conservative than past DSAs. This includes an average of 0.5 percent of GDP in grants over 2022–25 and zero afterwards, with the difference assumed to be provided in the form of concessional loans and some reductions in expenditure.
- **The current account** deficit (including transfers) contracted to a deficit of 13.7 percent of GDP in 2020 and is expected to fall to 9.3 percent of GDP in 2021, continuing to be financed by strong FDI and project loan inflows. Although exports boomed in 2020 on soaring Chinese demand for bauxite and favorable world commodity prices, imports of capital goods for mining and public infrastructure projects remain strong, driven by investment projects in the mining sector. Furthermore, digitalization and shipping disruptions led to a spike in service imports, some of which is expected to persist. Strong mining investment is expected to widen the current account deficit to an average of 12.3 percent of GDP over 2022-24, before its gradual narrowing over the longer term.
- **External financing mix and terms**. The authorities plan to continue mobilizing external financing to scale-up public investments in infrastructure to support economic diversification and broad-based growth. New external borrowing is expected to remain strong in the near term at 5.4 percent of GDP in 2021–22—reflecting the expected scale up of infrastructure spending and the disbursement of the Souapiti loan—before moderating to an average of 3.7 percent of GDP over 2023–26. As domestic financing is expected to take on a greater role, external borrowing is assumed to moderate gradually in the long run, averaging about 2.6 percent of GDP per year over 2031–41. The average grant element of new borrowing is expected to be about 35.6 percent in 2021, weighed down by the disbursement of large non-concessional project loans, before gradually increasing to about

41 percent in 2024. Over the long term, the DSA assumes a gradual increase in the relative use of non-concessional financing, with the average grant element gradually decreasing to 33 percent by 2041.

- *Non-concessional borrowing*. The pick-up in debt accumulation in 2020-22 reflects non-concessional borrowing to finance the construction of the Souapiti hydropower project, signed in September 2018 and expected to be disbursed over 2020–22.[6] In addition, the DSA incorporates non-concessional borrowing to finance priority infrastructure projects over 2019–23. Major project loans from ICBC are financing the rehabilitation of the RN1 national road (US$389m) and the Conakry urban road network (US$220m).[7] Additional non-concessional borrowing of about US$251 million is assumed to be disbursed during 2023–26 to finance infrastructure projects.

- *Concessional borrowing*. The World Bank disbursed US$164.0 million in 2020 in the form of concessional financing, including budget support (loans and grants) and project financing (loans and grants). Concessional project loans from all partners—largely to finance infrastructure and agriculture development—are assumed to total US$3.0 billion over 2021–26, while concessional budget support loans are expected to total US$658 million over the same period.

- *Pandemic-related support*. Guinea succeeded in mobilizing external funds to support the pandemic response plan in 2020. Program loans in support of the COVID-19 response plan reached 1.3 percent of GDP in 2020, including resources from the World Bank (US $51.2m), the African Development Bank (US $13.2m), and the IMF through the RCF (US $147.5m). The last disbursement under the IMF's ECF-supported program took place in December, providing US $49.5m in balance of payments support that boosted the BCRG's reserve position.

- *Pandemic-related debt service relief*. The authorities have received significant debt service relief provided by the IMF under the Catastrophe Containment and Relief Trust (CCRT) and the Debt Service Suspension Initiative (DSSI), supported by the G20 and the Paris Club (Table 3). Guinea has received SDR 50.9m in CCRT grants to cover debt service obligations to the Fund over the period of April 14, 2020 to October 15, 2021. Furthermore, this DSA assumes that Guinea will continue to receive grants covering its debt service payments to the IMF falling due between the period of October 16, 2021 and April 13, 2022 (SDR 18.2 million), which remains subject to the

[6] The loan for the Souapiti hydropower project's first tranche of US$575 million was disbursed at the end of 2020. The remaining disbursements are expected to include US$300 million in 2021 and US$300 million in 2022.

[7] For these loans, US$194 million had been disbursed by end-2020, with the remaining amount expected to be evenly spread over 2021-23.

availability of CCRT resources. The authorities have committed to adhere to requirements for participation in the DSSI. Table 3 shows that US $36.4 million in debt service payments falling due in 2020 have been rescheduled to 2022-24 under the DSSI, and that its extension will cover a further US$52.1 million falling due in 2021, to be rescheduled to 2023-25. More than half of these amounts corresponds to the rescheduling of C2D loans, which are not included in the DSA. In conjunction with the DSSI, in February 2021 China announced the cancellation of a bilateral loan for 150m RMB (US$23m).

Table 3. Guinea: Debt Service Suspension Initiative & CCRT Relief

(USD millions)

Creditor	2020 Debt Service Originally Due	2020 Rescheduled DSSI	2020 CCRT relief	2020 Remaining	2021 Debt Service Originally Due	2021 Rescheduled DSSI	2021 CCRT relief	2021 Remaining
AFD/Banque de France (C2D) 1/	24.4	23.8	…	0.5	23.5	23.5	…	0.0
Angola	11.3	5.7	…	5.6	11.0	11.0	…	0.0
China (incl. Eximbank China) 2/	16.8	3.9	…	12.9	33.1	8.3	…	24.8
Kuwait Fund for Arab Economic Dev.	1.9	0.0	…	1.8	3.8	3.8	…	0.0
IMF	59.6	…	45.6	14.0	29.0	…	29.0	0.0
Saudi Development Fund	4.1	2.9	…	1.2	5.6	5.6	…	0.0
Other creditors	44.0	0.0	…	44.0	72.0	0.0	…	72.0
Total	161.9	36.4	45.6	79.9	177.8	52.1	29.0	96.7

Note: DSSI covers debt service payments to participating bilateral creditors falling due between May 1st 2020 and December 31st 2021.
1/ C2D claims are excluded from PPG debt. Upon request, creditor agreed to reschedule payments falling due in April 2020.
2/ Includes loans serviced by entities outside central government. In conjunction with the DSSI, in February 2021 China announced the cancellation of a bilateral loan for 150m RMB (US$23m).

Source: Guinean authorities and IMF staff calculations.
Note: DSSI covers debt service payments to participating bilateral creditors falling due between May 1 2020 and December 31 2021.
1/ C2D claims are excluded from PPG debt in DSA. Upon request, creditor agreed to reschedule payments due in April 2020.
2/ Includes loans serviced by entities outside central government.

Table 4. Guinea: LIC DSA Macroeconomic Assumptions

(Percent of GDP, unless otherwise indicated)

	Previous DSA				Current DSA				Difference (Current - Previous)			
	2021	2022	2026	2031	2021	2022	2026	2031	2021	2022	2026	2031
Nominal GDP (USD billion)	16.3	17.4	22.7	31.9	16.7	18.0	23.7	33.5	0.4	0.6	1.0	1.6
Real GDP (percentage change)	5.5	5.2	5.0	5.0	5.2	6.1	5.3	5.0	-0.4	0.9	0.3	0.0
Fiscal Accounts												
Revenues	13.4	14.2	15.1	15.9	13.2	14.1	15.6	15.7	-0.2	-0.1	0.5	-0.2
Grants	0.9	0.9	0.8	0.8	1.5	0.5	0.0	0.0	0.6	-0.3	-0.8	-0.8
Public Sector Expenditure	16.8	17.3	18.4	19.1	17.1	17.6	18.5	18.0	0.3	0.2	0.1	-1.2
of which: Capital expenditure and net lending	5.4	6.1	6.5	6.3	5.3	6.2	7.0	5.6	-0.1	0.2	0.5	-0.7
Primary Fiscal Balance	-1.5	-1.3	-1.4	-1.4	-1.3	-1.9	-1.8	-1.3	0.1	-0.6	-0.4	0.1
New external borrowing	7.0	5.2	2.9	2.7	5.5	5.4	3.6	2.9	-1.5	0.2	0.7	0.2
Grant elements of new external borrowing	33.5	35.7	42.5	40.6	35.6	35.1	36.6	36.6	2.0	-0.6	-5.9	-4.0
Balance of Payments												
Exports of goods and services	31.9	31.9	33.9	34.5	54.1	45.2	44.0	44.0	22.2	13.3	10.1	9.5
Imports of goods and services	39.8	38.4	34.9	32.7	53.4	42.6	39.6	38.5	13.5	4.3	4.7	5.8
Current account (including transfers)	-14.3	-12.1	-5.5	-4.7	-9.3	-11.6	-8.2	-7.7	5.0	0.4	-2.7	-3.0
Foreign direct investment	7.3	8.1	7.6	7.6	8.2	10.6	8.1	7.5	0.9	2.6	0.5	-0.1

Source: Guinean authorities, IMF and World Bank staff estimates.

- **Domestic borrowing**. In 2020, net issuance of domestic debt to commercial banks reached 2 percent of GDP, with a mix of short-term Treasury bills (effective interest rate of 9.7 percent) and 3-year debenture loans (12 percent interest rate). The government repaid 1.7 percent of GDP in domestic arrears, and this is estimated to have brought the outstanding stock to zero at end-2020. The outstanding stock of short-term advances from the central bank increased to 2.1 percent of GDP in 2020 from 1.0 percent of GDP in 2019. This increase is expected to be gradually repaid over 2021-22. Amortization of securitized debt to domestic suppliers will average 0.5 percent of GDP over 2021–22. Net issuance of domestic debt to commercial banks is expected to remain high at 1.7 percent in 2021—in part to finance the repayment of central bank advances—and then to fluctuate around 1 percent of GDP between 2022-28, before beginning a gradual rise in the longer term with the deepening of the domestic financial system.

4. **Realism tools largely suggest that staff forecasts are realistic**. Growth of 7.1 percent made Guinea one of the world's fastest-growing economies in 2020. The growth projection of 5.2 percent in 2021 is consistent with the recovery of global growth described in the April 2021 World Economic Outlook, and reflects the performance of the mining sector, which has benefitted from strong demand for bauxite from China and to booming artisanal gold production. The execution of public investment plans was curtailed by the pandemic in 2020, and externally financed projects are expected to rise strongly in 2021 and 2022, while remaining on a path that is below pre-pandemic projections. While the scaling-up of public investment is expected to support growth, the framework conservatively assumes the investment-growth nexus is relatively weak. This is based on the weak historical growth outturns in Guinea, which has suffered from adverse conditions including the Ebola crisis, commodity price shocks and earlier periods of social unrest. While a large residual has been the largest contributor to unexpected debt accumulation for the past five years, the overall forecast error for PPG debt to GDP is smaller than the LIC sample median (Figure 4). Going forward, primary fiscal deficits are expected to be the main contributor to debt accumulation, with the envisaged post-pandemic fiscal adjustment of 0.7 percent of GDP over 2020-23 being feasible for Guinea, corresponding to slightly above the median for Fund-supported fiscal adjustments in LICs since 1990 (Figure 5, top panel).

COUNTRY CLASSIFICATION

5. **The Composite Indicator for Guinea is 2.44 based on the October 2020 WEO vintage and the 2019 update for the CPIA index, which classifies Guinea at weak debt-carrying capacity (Table 5)**. This classification has not changed with respect to the December 2020 DSA. Two tailored stress tests are triggered to account for Guinea's specific economic features. A contingent liabilities stress test captures a combined shock from SOEs' external debt default, PPPs' distress and/or cancellations, and financial market vulnerabilities, all of which amount to 8.3 percent of GDP (Table 1).[8] A commodity prices stress test is also applied since mining exports constitute

[8] The contingent liability stress test has two components: (i) a minimum starting value of 5 percent of GDP representing the average cost to the government of a financial crisis in a LIC since 1980; and (ii) a tailored value, reflecting additional potential shocks from SOE's debt and PPP that are not included in the definition of public debt. A tailored PPP shock is used, and the size of the PPP shock is estimated to be 3.8 percent of GDP based on the 2018 PIMA report, larger than the default value of 1.37 percent from the World Banks' PPP database. Overall, a contingent liability shock of 8.3 percent of GDP should adequately capture risks arising from debt not covered under the baseline.

more than 80 percent of total exports for Guinea. Furthermore, two fully customized scenarios—a weak policy scenario, and higher non-concessional borrowing—have also been performed to assess Guinea's country-specific risks and capacity to absorb shocks.

Table 5. Guinea: Calculation of CI index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.174	1.22	50%
Real growth rate (in percent)	2.719	6.214	0.17	7%
Import coverage of reserves (in percent)	4.052	20.053	0.81	33%
Import coverage of reserves^2 (in percent)	-3.990	4.021	-0.16	-7%
Remittances (in percent)	2.022	0.244	0.00	0%
World economic growth (in percent)	13.520	2.928	0.40	16%
CI Score			2.44	100%
CI rating			Weak	

MODEL SIGNALS AND RISK RATING

A. External Debt

6. **Guinea stands at moderate risk of external debt distress, with limited space to absorb shocks** (Table 6, Table 7, Figure 1, and Figure 6). Under the baseline scenario, all external debt ratios remain below their thresholds. While the indicators of external debt in the moderate risk tool do not breach their respective thresholds, Guinea is nonetheless assessed to have limited space to absorb shocks because total public debt is assessed to be very close to the high-risk zone. Medium-term external debt dynamics are broadly unchanged from the December 2020 DSA. The PV of external debt-to-GDP is expected to peak at 23.1 percent of GDP in 2027, above the peak of 21.8 reached in the December 2020 DSA, and then to decline. Liquidity ratios are expected to remain well below thresholds (in line with the December 2020 DSA).

7. **Under the most extreme stress test—which includes a negative shock to exports—all indicators of external debt breach their thresholds over the full forecast horizon (Figure 1).**[9] In the lower exports scenario, all four indicators reach levels that are more than double their respective thresholds. Tests based on historical growth and export averages reflect exceptionally adverse economic conditions for Guinea, including the Ebola crisis and commodity price shocks during 2014–15 and earlier periods of civil unrest. Under the historical scenario the debt service to exports

[9] The most extreme stress test is an export shock that sets export growth to its historical average minus one standard deviation in the second and third years of the projection period for the PV of debt-exports and debt service-to-exports. For the PV of debt-to-GDP and debt service-to-revenue, the most extreme shocks are a combination of all shocks and a non-debt creating flow shock, respectively.

and the present value of debt-to-exports remain within their thresholds, while the present value of debt-to-GDP and debt-service-to-revenue ratios breach their threshold.

8. **Indicators do not breach their thresholds under customized stress tests.** Under two country-specific scenarios—(i) a weak policy implementation scenario; and (ii) higher non-concessional loans—all indicators remain within their thresholds (Figure 3).[10]

B. Overall Risk of Public Debt Distress

9. **Guinea's overall risk of debt distress is assessed to be moderate**. As in the December 2020 DSA update, under the baseline scenario, the PV of total public debt-to-GDP breaches the benchmark in 2021 (Table 7 and Figure 2). Since the breach has been brought forward by the frontloading of the Souapiti loan disbursement in December 2020, it is now limited to a single projection year. The PV of total public debt-to-GDP ratio peaked in 2020 at 36.8 percent of GDP (vis-à-vis the benchmark of 35 percent of GDP), and is expected to fall to 35.5 percent of GDP in 2021 and below the benchmark to 34.3 percent of GDP in 2022. The peak reflects additional borrowing in 2020 to meet urgent balance of payments and fiscal needs due to the COVID-19 pandemic, and the one-off impact of the recapitalization of the central bank in 2018, a key reform to enhance central bank independence.[11] The breach has been discounted from the analysis because it lasts a single projection year. Staff judgment has not been applied in determining the risk rating.

10. **There is limited space for additional borrowing above what is already included in the baseline scenario, particularly in the near term.** While the indicators of external debt in the moderate risk tool do not breach their respective thresholds, Guinea is nonetheless assessed to have limited space to absorb shocks because total public debt is assessed to be very close to the high-risk zone. The most extreme shock scenario—featuring a negative shock to exports—causes very large upward deviations of all three indicators of total public debt, with the PV of the total debt-to-GDP ratio reaching 66 percent in 2023 before falling gradually. Risks to the dynamics of total public debt include a more protracted global pandemic, delays in repaying domestic arrears or debt owed to the BCRG, higher-than-anticipated government domestic and external borrowing, and new audits that confirm a higher stock of domestic arrears.[12]

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[10] The weak policy scenario assumes real GDP growth is 1 percentage point below the baseline over 2021–40, reflecting slower reform implementation, and the fiscal balance is 0.5 percent of GDP looser than the baseline in 2021–23, reflecting slower revenue collection. The higher non-concessional loans scenario assumes an additional non-concessional borrowing of US$350 million, to be disbursed during 2021–23, on top of the non-concessional loan envelope included in the baseline.

[11] In Table 7, the large residuals for 2020, 2021 and 2022 partly reflect that the loan for the Souapiti dam is not included in the primary balance.

[12] An audit of domestic arrears covering the period of 2014-18 is being planned, with an auditing firm having been selected but work remaining on hold due to the pandemic.

AUTHORITIES' VIEWS

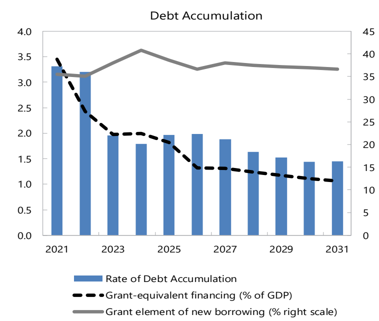
11. The authorities broadly agreed with the conclusions of the DSA. They underscored their commitment to maintaining a sustainable level of debt that does not exceed a moderate risk of debt distress. They also concurred with the importance of maximizing concessional borrowing where possible but noted that financing under these terms is not available in the scale needed to finance their large infrastructure needs. The authorities are committed to continuing to strengthen debt management and enhance their public investment management.

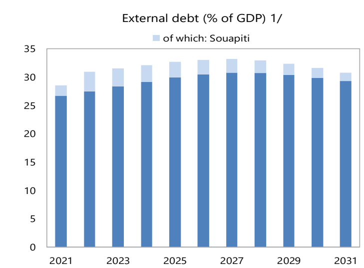
Table 6. Guinea: External Debt Sustainability Framework, Baseline Scenario, 2018–41

(Percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
External debt (nominal) 1/	19.4	19.9	25.8	28.6	30.9	31.6	32.1	32.7	33.0	30.8	16.9	23.0	31.8
of which: public and publicly guaranteed (PPG)	19.4	19.9	25.8	28.6	30.9	31.6	32.1	32.7	33.0	30.8	16.9	23.0	31.8
Change in external debt	0.0	0.5	6.0	2.7	2.3	0.7	0.6	0.6	0.3	-0.8	-1.2		
Identified net debt-creating flows	1.3	-0.4	3.2	-0.1	-0.6	-1.6	-1.5	-1.3	-1.5	-1.3	-1.7	6.2	-1.1
Non-interest current account deficit	19.5	10.8	13.7	8.5	11.3	12.1	12.4	9.0	7.8	7.8	7.5	15.8	9.1
Deficit in balance of goods and services	17.0	6.6	6.1	-0.7	-2.5	-2.0	-1.7	-3.0	-4.5	-5.5	-7.3	13.6	-3.6
Exports	34.4	30.6	58.5	54.1	45.2	44.4	44.5	44.0	44.0	44.0	44.0		
Imports	51.4	37.2	64.6	53.4	42.6	42.4	42.8	41.0	39.6	38.5	36.6		
Net current transfers (negative = inflow)	-0.7	-0.5	-0.8	-1.1	-0.4	-0.4	-0.4	-0.4	-0.4	-0.3	-0.2	-2.0	-0.4
of which: official	-0.2	0.0	-0.5	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other current account flows (negative = net inflow)	3.1	4.7	8.4	10.4	14.2	14.5	14.5	12.5	12.6	13.7	15.0	4.3	13.2
Net FDI (negative = inflow)	-15.9	-9.0	-8.3	-8.2	-10.6	-12.4	-12.7	-9.2	-8.1	-7.5	-7.5	-8.4	-9.0
Endogenous debt dynamics 2/	-2.2	-2.2	-2.3	-0.5	-1.3	-1.2	-1.2	-1.1	-1.2	-1.6	-1.7		
Contribution from nominal interest rate	0.3	0.1	0.2	0.8	0.4	0.5	0.5	0.5	0.4	-0.1	-0.9		
Contribution from real GDP growth	-1.1	-1.0	-1.2	-1.2	-1.6	-1.7	-1.6	-1.6	-1.6	-1.5	-0.8		
Contribution from price and exchange rate changes	-1.4	-1.4	-1.2	...	...	...	...	...	...	...	...		
Residual 3/	-1.3	0.9	2.8	2.9	3.0	2.2	2.1	1.9	1.9	0.4	0.5	-8.5	1.6
of which: exceptional financing	0.0	0.0	-0.3	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	18.4	20.1	21.5	22.0	22.2	22.5	22.9	22.6	18.6		
PV of PPG external debt-to-exports ratio	...	...	31.5	37.1	47.7	49.6	49.8	51.2	51.9	51.3	42.3		
PPG debt service-to-exports ratio	1.8	1.5	1.2	2.0	2.8	3.3	3.3	3.3	3.4	3.5	3.7		
PPG debt service-to-revenue ratio	4.7	3.2	6.0	8.3	8.9	9.9	9.6	9.4	9.5	9.9	10.0		
Gross external financing need (Billion of U.S. dollars)	0.5	0.3	0.9	0.2	0.3	0.2	0.2	0.3	0.3	0.6	1.1		
Key macroeconomic assumptions													
Real GDP growth (in percent)	6.4	5.6	7.1	5.2	6.1	5.9	5.5	5.3	5.3	5.0	5.0	6.3	5.3
GDP deflator in US dollar terms (change in percent)	8.0	7.9	6.3	2.9	1.9	0.9	1.6	1.8	1.9	2.0	2.0	2.5	1.9
Effective interest rate (percent) 4/	1.8	0.9	0.9	3.2	1.4	1.6	1.6	1.5	1.2	-0.4	-5.1	1.1	1.1
Growth of exports of G&S (US dollar terms, in percent)	-1.0	1.2	117.8	0.2	-9.7	4.9	7.5	6.0	7.3	7.1	7.1	24.2	4.7
Growth of imports of G&S (US dollar terms, in percent)	24.6	-17.5	97.7	-10.6	-13.6	6.1	8.3	2.7	3.5	6.5	6.6	25.1	2.7
Grant element of new public sector borrowing (in percent)	...	...	...	35.6	35.1	38.0	40.8	38.6	36.6	36.6	33.3	...	37.3
Government revenues (excluding grants, in percent of GDP)	13.5	13.9	11.8	13.2	14.1	14.7	15.2	15.3	15.6	15.7	16.0	13.7	15.1
Aid flows (in Billion of US dollars) 5/	0.1	0.0	0.2	0.7	0.6	0.7	0.8	0.8	0.7	0.8	1.2		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	3.5	2.4	2.0	2.0	1.8	1.3	1.1	0.8	...	1.7
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	49.5	41.1	44.6	47.0	44.9	36.6	36.6	33.3	...	40.9
Nominal GDP (Billion of US dollars)	12	14	15	17	18	19	21	22	24	34	67		
Nominal dollar GDP growth	14.8	14.0	13.9	8.3	8.1	6.8	7.2	7.2	7.3	7.1	7.1	8.9	7.3
Memorandum items:													
PV of external debt 7/	...	...	18.4	20.1	21.5	22.0	22.2	22.5	22.9	22.6	18.6		
In percent of exports	...	...	31.5	37.1	47.7	49.6	49.8	51.2	51.9	51.3	42.3		
Total external debt service-to-exports ratio	1.8	1.5	1.2	2.0	2.8	3.3	3.3	3.3	3.4	3.5	3.7		
PV of PPG external debt (in Billion of US dollars)			2.8	3.3	3.9	4.2	4.6	5.0	5.4	7.6	12.4		
(PVt-PVt-1)/GDPt-1 (in percent)				3.3	3.2	2.0	1.8	2.0	2.0	1.4	1.0		
Non-interest current account deficit that stabilizes debt ratio	19.4	10.4	7.7	5.8	8.9	11.4	11.8	8.5	7.5	8.6	8.7		

Definition of external/domestic debt	Currency-based
Is there a material difference between the two criteria?	No





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

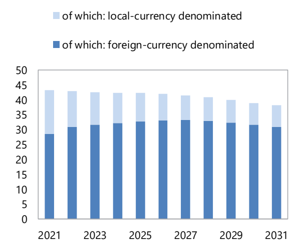
Table 7. Guinea: Public Sector Debt Sustainability Framework, Baseline Scenario, 2018–41

(Percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
Public sector debt 1/	38.6	38.0	43.4	43.3	42.9	42.5	42.3	42.3	41.9	38.1	23.7	40.2	41.3
of which: external debt	19.4	19.9	25.8	28.6	30.9	31.6	32.1	32.7	33.0	30.8	16.9	23.0	31.8
	19.2	18.2	17.6	14.7	12.0	10.9	10.1	9.6	8.9	7.3	6.8		
Change in public sector debt	-2.3	-0.6	5.4	-0.2	-0.4	-0.4	-0.2	0.0	-0.3	-0.8	-2.6		
Identified debt-creating flows	-3.7	-4.3	-2.3	-2.1	-1.0	-0.5	-0.2	-0.1	-0.2	-0.8	-1.3	-4.5	-0.7
Primary deficit	0.3	0.0	2.2	1.3	1.9	1.9	1.8	1.9	1.8	1.3	0.6	1.5	1.6
Revenue and grants	14.7	14.2	12.8	14.7	14.7	15.2	15.6	15.7	15.6	15.7	16.0	15.1	15.4
of which: grants	1.2	0.3	1.1	1.5	0.5	0.5	0.4	0.4	0.0	0.0	0.0		
Primary (noninterest) expenditure	15.0	14.2	15.0	16.1	16.6	17.0	17.4	17.6	17.5	17.0	16.6	16.6	17.1
Automatic debt dynamics	-4.0	-4.3	-4.2	-3.3	-2.8	-2.3	-2.1	-2.0	-2.1	-2.1	-1.9		
Contribution from interest rate/growth differential	-3.4	-3.6	-3.7	-2.8	-3.0	-2.3	-2.1	-2.0	-2.1	-2.1	-1.9		
of which: contribution from average real interest rate	-0.9	-1.5	-1.2	-0.6	-0.5	0.0	0.1	0.1	0.0	-0.3	-0.6		
of which: contribution from real GDP growth	-2.4	-2.1	-2.5	-2.1	-2.5	-2.4	-2.2	-2.1	-2.1	-1.8	-1.3		
Contribution from real exchange rate depreciation	-0.6	-0.8	-0.5	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	-0.3	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	-2.8	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	-0.3	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	1.5	3.7	7.7	1.4	0.8	0.1	0.1	0.1	-0.1	0.0	-1.3	1.9	0.1
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	36.8	35.5	34.3	33.6	33.0	32.7	32.4	30.5	25.9		
PV of public debt-to-revenue and grants ratio	...	...	286.9	240.9	233.9	221.4	211.1	208.4	207.1	194.5	161.5		
Debt service-to-revenue and grants ratio 3/	5.8	9.6	25.0	28.5	29.0	30.8	30.7	30.5	31.2	32.4	45.2		
Gross financing need 4/	0.3	0.9	5.4	5.3	6.0	6.5	6.6	6.6	6.6	6.2	7.9		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	6.4	5.6	7.1	5.2	6.1	5.9	5.5	5.3	5.3	5.0	5.0	6.3	5.3
Average nominal interest rate on external debt (in percent)	1.8	0.9	0.9	3.3	1.4	1.6	1.6	1.6	1.2	-0.4	-5.3	1.1	1.1
Average real interest rate on domestic debt (in percent)	-4.0	-7.3	-6.5	-6.1	-2.5	0.8	2.0	2.5	3.0	6.2	7.7	-2.1	2.2
Real exchange rate depreciation (in percent, + indicates depreciation)	-3.5	-4.2	-2.9	...	...	...	...	...	...	...	...	-0.2	...
Inflation rate (GDP deflator, in percent)	7.1	9.9	10.7	11.3	9.7	8.2	7.7	7.8	7.8	7.8	7.8	7.4	8.3
Growth of real primary spending (deflated by GDP deflator, in percent)	-2.6	0.3	13.2	12.5	9.7	8.5	8.0	6.3	4.6	4.8	4.8	5.1	6.6
Primary deficit that stabilizes the debt-to-GDP ratio 5/	2.5	0.6	-3.2	1.5	2.3	2.3	2.0	1.9	2.2	2.2	3.2	0.0	2.1
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**No**

Public sector debt 1/



Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, central bank, government-guaranteed debt. Definition of external debt is Currency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

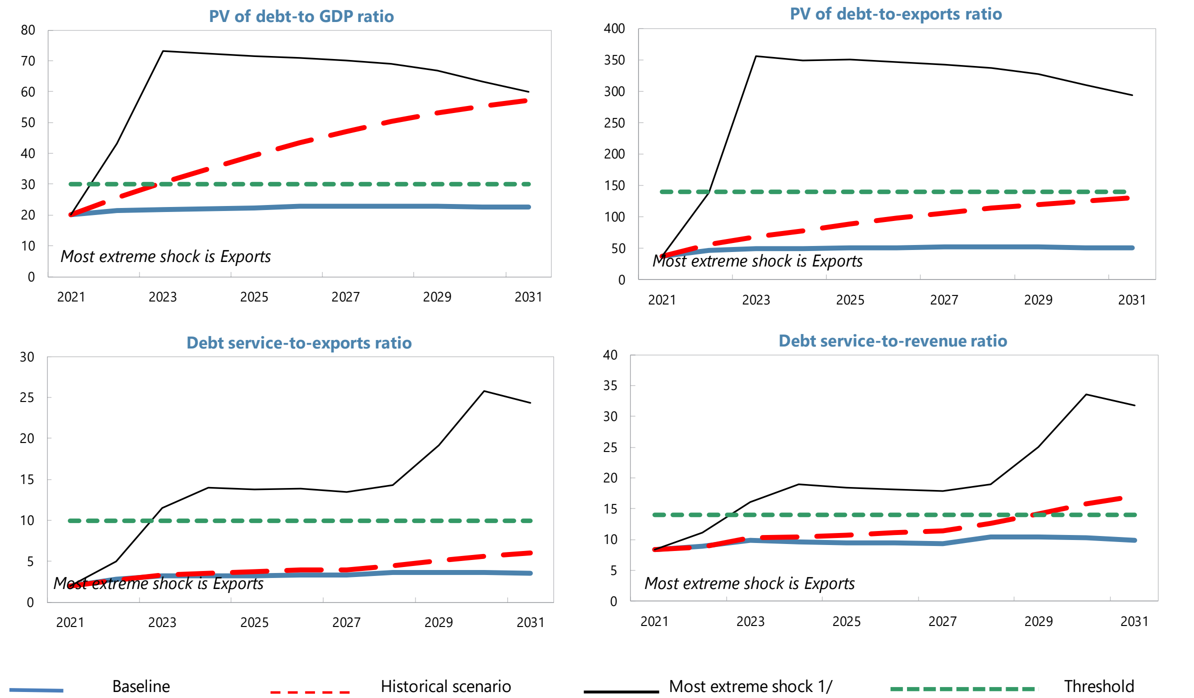
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Figure 1. Guinea: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2021–31



Customization of Default Settings		
	Size	Interactions
Tailored Tests		
Combined CLs	No	
Natural Disasters	n.a.	n.a.
Commodity Prices [2/]	No	No
Market Financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions for Stress Tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.4%	1.4%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	23	23
Avg. grace period	6	6

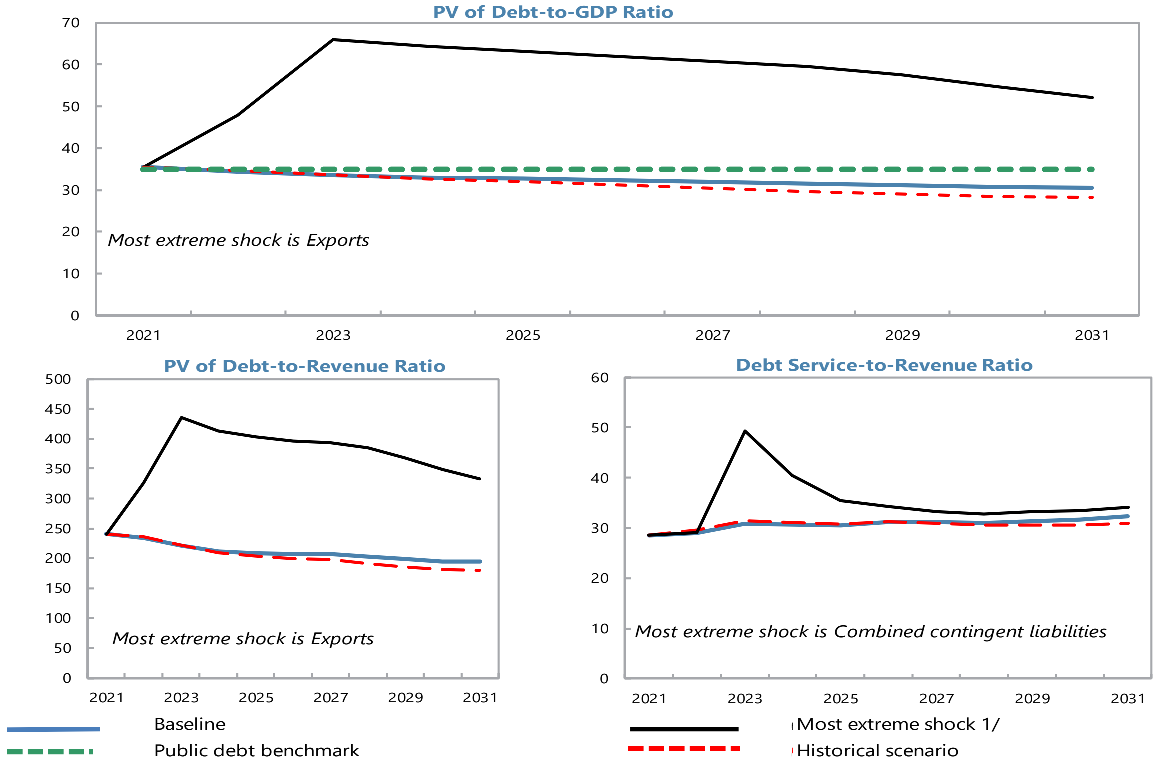
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Guinea: Indicators of Public Debt Under Alternative Scenarios, 2021–31



Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	59%	59%
Domestic medium and long-term	7%	7%
Domestic short-term	34%	34%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.4%	1.4%
Avg. maturity (incl. grace period)	23	23
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	2.3%	2.3%
Avg. maturity (incl. grace period)	2	2
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	0%	0.0%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Guinea: Indicators of Public and Publicly Guaranteed External Debt Under Country Specific Alternative Scenarios, 2021–31[1/]

Sources: Country authorities; and staff estimates and projections.

1/ The weak policy scenario assumes real GDP growth is 1 percentage point below the baseline over 2021-40, reflecting slower reform implementation, and the fiscal balance is 0.5 percent of GDP looser in 2021-23, reflecting slower revenue collection. The higher non-concessional loans scenario assumes an additional non-concessional borrowing of US$350 million to be disbursed during 2021-23, on top of the non-concessional loan envelope included in the baseline.

Table 8. Guinea: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2021–31 (Percent)

	Projections 1/										
	2021	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**
PV of debt-to GDP ratio											
Baseline	20	22	22	22	23	23	23	23	23	23	23
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 2/	20	26	**31**	**35**	**39**	**44**	**47**	**50**	**53**	**55**	**57**
A2. Weak Policy	20	22	23	24	24	25	25	25	25	25	25
A3. Higher non-concessional borrowing	20	22	23	24	24	24	24	24	24	23	23
B. Bound Tests											
B1. Real GDP growth	20	22	24	24	24	25	25	25	25	25	24
B2. Primary balance	20	22	24	24	25	25	26	26	25	25	25
B3. Exports	20	**43**	**73**	**72**	**72**	**71**	**70**	**69**	**67**	**63**	**60**
B4. Other flows 3/	20	28	**36**	**36**	**36**	**36**	**36**	**35**	**35**	**33**	**32**
B5. Depreciation	20	27	27	27	28	28	28	28	28	28	28
B6. Combination of B1-B5	20	**38**	**45**	**45**	**45**	**45**	**44**	**44**	**43**	**41**	**39**
C. Tailored Tests											
C1. Combined contingent liabilities	20	25	26	27	27	28	28	28	28	27	27
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	20	25	29	29	30	**30**	**31**	**31**	**30**	30	29
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	37	48	50	50	51	52	52	52	52	52	51
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 2/	37	57	69	79	89	99	107	114	121	126	130
A2. Weak Policy	37	49	52	53	55	56	57	57	57	57	57
A3. Higher non-concessional borrowing	37	49	52	53	54	55	55	55	54	53	53
B. Bound Tests											
B1. Real GDP growth	37	48	50	50	51	52	52	52	52	52	51
B2. Primary balance	37	49	54	55	57	57	58	58	58	57	57
B3. Exports	37	139	**356**	**351**	**351**	**348**	**343**	**338**	**328**	**310**	**294**
B4. Other flows 3/	37	62	82	81	82	82	81	81	79	76	73
B5. Depreciation	37	48	48	49	50	51	51	51	51	51	50
B6. Combination of B1-B5	37	93	86	135	137	136	135	134	130	125	120
C. Tailored Tests											
C1. Combined contingent liabilities	37	55	59	60	62	63	63	63	63	62	62
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	37	61	71	70	71	71	71	71	70	69	68
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**
Debt service-to-exports ratio											
Baseline	2	3	3	3	3	3	3	4	4	4	4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 2/	2	3	3	4	4	4	4	4	5	6	6
A2. Weak Policy	2	3	3	3	3	4	4	4	4	4	4
A3. Higher non-concessional borrowing	2	3	3	3	3	3	3	4	4	4	4
B. Bound Tests											
B1. Real GDP growth	2	3	3	3	3	3	3	4	4	4	4
B2. Primary balance	2	3	3	3	3	3	3	4	4	4	4
B3. Exports	2	5	**12**	**14**	**14**	**14**	**13**	**14**	**19**	**26**	**24**
B4. Other flows 3/	2	3	4	4	4	4	4	4	5	6	6
B5. Depreciation	2	3	3	3	3	3	3	4	4	4	3
B6. Combination of B1-B5	2	4	6	6	6	6	6	7	9	10	9
C. Tailored Tests											
C1. Combined contingent liabilities	2	3	3	3	3	4	3	4	4	4	4
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	2	3	4	4	4	4	4	4	5	5	5
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	8	9	10	10	9	9	9	10	10	10	10
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 2/	8	9	10	10	11	11	11	13	**14**	**16**	**17**
A2. Weak Policy	8	11	12	10	10	10	10	11	11	12	11
A3. Higher non-concessional borrowing	8	9	10	10	10	10	10	11	11	11	11
B. Bound Tests	8	11	12	10	10	10	10	11	11	12	11
B1. Real GDP growth	8	9	11	10	10	10	10	11	11	11	11
B2. Primary balance	8	9	10	10	10	10	10	11	11	11	11
B3. Exports	8	11	**16**	**19**	**18**	**18**	**18**	**19**	**25**	**34**	**32**
B4. Other flows 3/	8	9	11	12	11	11	11	12	**14**	**17**	**16**
B5. Depreciation	8	11	12	12	12	12	12	13	13	13	12
B6. Combination of B1-B5	8	10	14	14	14	13	13	**14**	**19**	**21**	**20**
C. Tailored Tests											
C1. Combined contingent liabilities	8	9	10	10	10	10	10	11	11	11	10
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	8	10	12	12	12	11	11	12	13	14	13
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	14	14	14	14	14	14	14	14	14	14	14

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

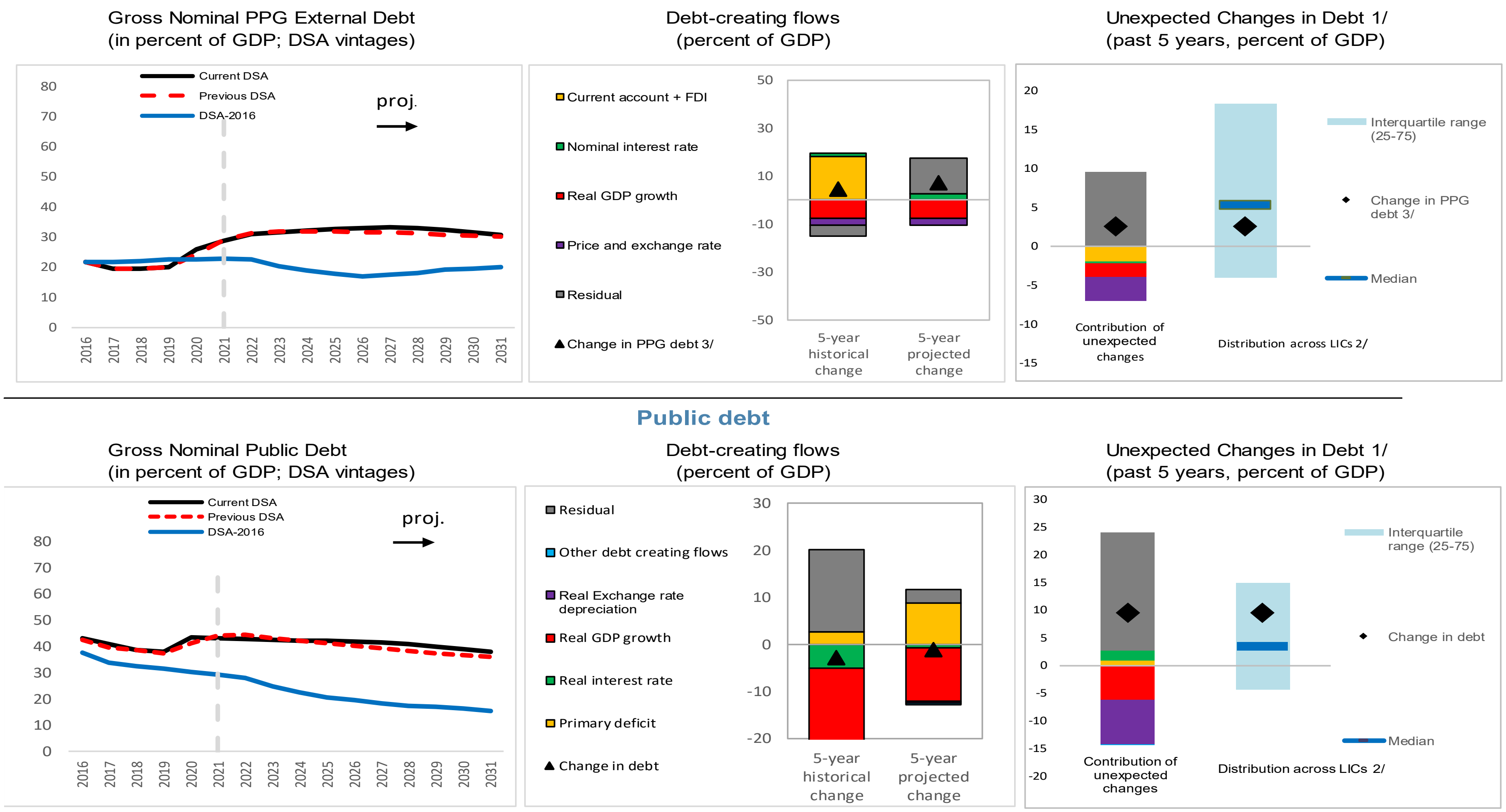
3/ Includes official and private transfers and FDI.

Table 9. Guinea: Sensitivity Analysis for Key Indicators of Public Debt, 2021–31
(Percent)

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
PV of Debt-to-GDP Ratio											
Baseline	**35**	34	34	33	33	32	32	32	31	31	30
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 2/	**35**	35	34	33	32	31	30	30	29	28	28
B. Bound Tests											
B1. Real GDP growth	**35**	**36**	**37**	**38**	**38**	**38**	**39**	**39**	**39**	**39**	**40**
B2. Primary balance	**35**	**36**	**37**	**36**	**35**	35	34	34	33	33	32
B3. Exports	**35**	**48**	**66**	**64**	**63**	**62**	**61**	**60**	**58**	**55**	**52**
B4. Other flows 3/	**35**	**41**	**48**	**47**	**47**	**46**	**45**	**44**	**43**	**42**	**40**
B5. Depreciation	**35**	**37**	34	33	32	30	29	28	27	26	25
B6. Combination of B1-B5	**35**	34	34	32	32	31	31	30	30	29	29
C. Tailored Tests											
C1. Combined contingent liabilities	**35**	**41**	**39**	**38**	**38**	**37**	**36**	**36**	**35**	35	34
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**35**	**37**	**38**	**40**	**42**	**43**	**43**	**43**	**43**	**43**	**43**
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
PV of Debt-to-Revenue Ratio											
Baseline	241	234	221	211	208	207	207	204	198	195	194
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 2/	241	236	222	209	204	199	197	191	185	181	180
B. Bound Tests											
B1. Real GDP growth	241	245	247	240	242	246	251	250	249	249	252
B2. Primary balance	241	245	241	228	224	222	222	217	212	208	207
B3. Exports	241	326	435	412	403	397	394	385	368	348	333
B4. Other flows 3/	241	281	318	303	297	293	292	286	275	264	257
B5. Depreciation	241	250	228	211	202	194	189	179	170	163	158
B6. Combination of B1-B5	241	235	224	205	202	201	200	196	192	187	186
C. Tailored Tests											
C1. Combined contingent liabilities	241	278	258	244	239	237	237	232	225	221	220
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	241	284	284	290	290	289	288	278	274	274	276
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	29	29	31	31	31	31	31	31	31	32	32
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 2/	29	30	31	31	31	31	31	31	31	31	31
B. Bound Tests											
B1. Real GDP growth	29	30	35	36	37	39	39	39	40	41	43
B2. Primary balance	29	29	36	38	34	33	33	32	33	34	35
B3. Exports	29	29	33	35	34	35	35	34	39	46	46
B4. Other flows 3/	29	29	32	33	32	33	33	33	35	38	38
B5. Depreciation	29	28	31	30	30	31	31	31	31	32	32
B6. Combination of B1-B5	29	28	30	30	30	31	31	31	32	32	33
C. Tailored Tests											
C1. Combined contingent liabilities	29	29	49	41	35	34	33	33	33	34	34
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	29	34	36	37	43	46	45	43	42	43	44
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the benchmark.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.

Figure 4. Guinea: Drivers of Debt Dynamics—Baseline Scenario External Debt



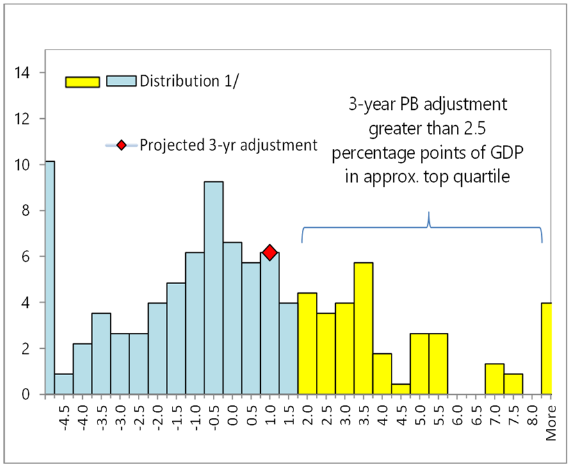
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

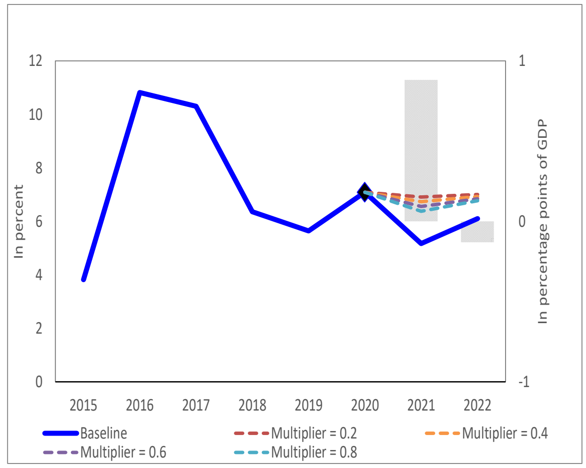
Figure 5. Guinea: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



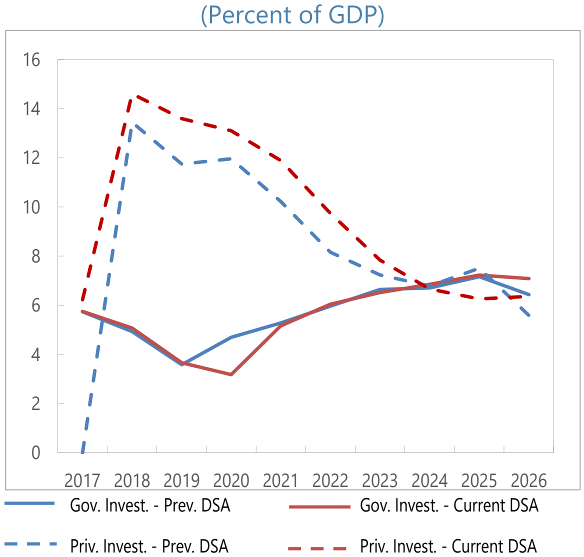
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(Percent of GDP)



Contribution to Real GDP growth
(Percent, 5-year average)

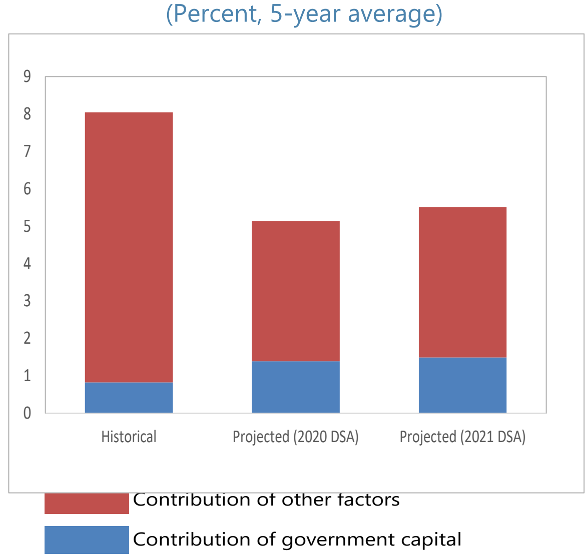
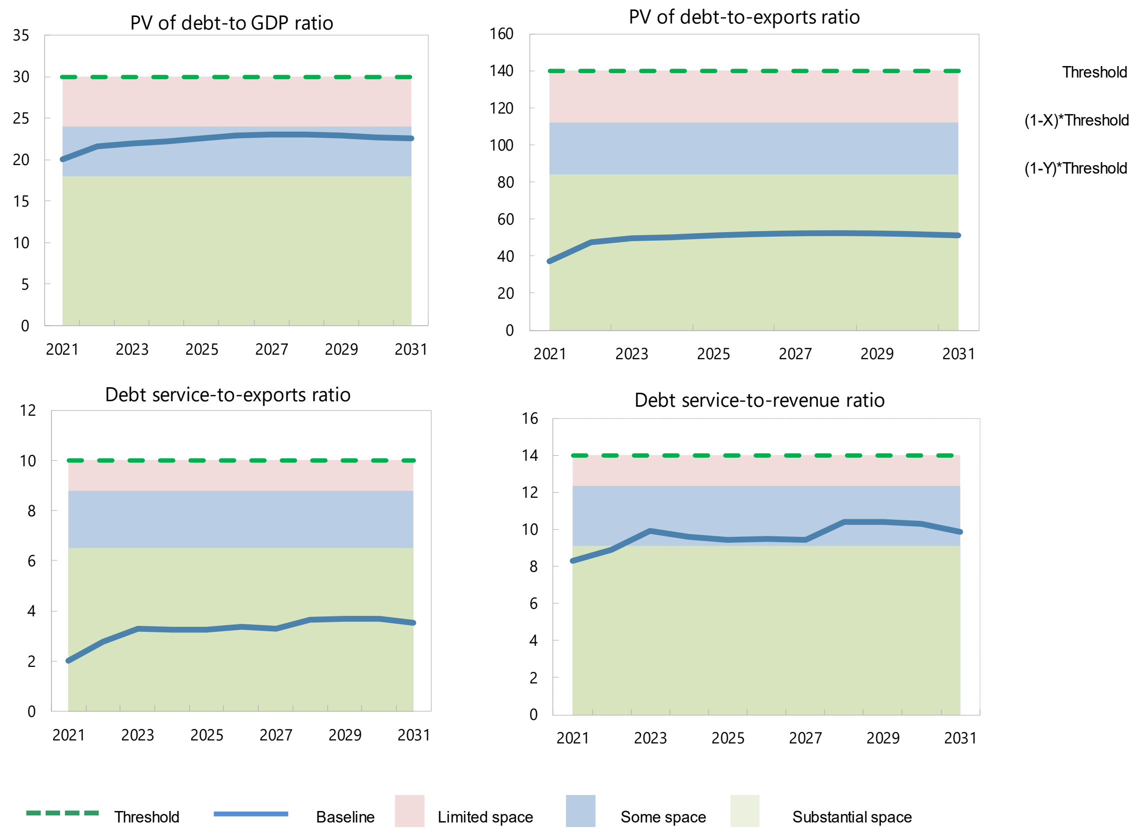


Figure 6. Guinea: Qualification of the Moderate Category, 2021–31[1]



Sources: Country authorities; and staff estimates and projections.

1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

**Statement by Mr. Aivo Andrianarivelo, Executive Director for Guinea,
Mr. Facinet Sylla, Alternate Executive Director, and Mrs. Esso Boukpessi,
Advisor to the Executive Director**

June 21, 2021

Introduction

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

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

Recent Economic Developments and Outlook

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

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

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

Immediate Priorities

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

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

Medium-term Macroeconomic Policies and Structural Reforms

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

Fiscal Policy

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

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

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

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

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

Debt Sustainability

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

Monetary and Exchange Rate Policies

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

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

Financial Sector Stability

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

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

Structural Reforms for Economic Diversification

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

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

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

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

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

Social Outcomes and Poverty Reduction

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

Conclusion

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