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GUINEA

January 2023

2022 ARTICLE IV CONSULTATION AND REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—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 2022 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 December 22, 2022 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 December 22, 2022 following discussions that ended on November 4, 2022 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 December 8, 2022.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF and the International Development Association
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Guinea.

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.

IMF Executive Board Approves US$71 Million in Emergency Financing Support and Concludes 2022 Article IV Consultation with Guinea

FOR IMMEDIATE RELEASE

- Growth is expected to reach 4.7 percent in 2022 and 5.6 percent in 2023, driven by continued strength in the mining sector, though the non-mining sector is grappling with the impact of international price shocks.
- The Executive Board also approved a disbursement of SDR 53.55 million (about US$71 million) to Guinea under the new Food Shock Window of the Rapid Credit Facility.
- Guinea is facing a challenging economic and food insecurity situation. Containing the effects of the price shocks and cushioning its impact on food security remain the key short-term policy priorities.

Washington, DC – **December 22, 2022:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Guinea. Growth is expected to reach 4.7 percent in 2022 and 5.6 percent in 2023, driven by continued strength in the mining sector, though the non-mining sector is grappling with the impact of international price shocks.

The Executive Board also approved today a disbursement of SDR 53.55 million (US$71 million) under the Food Shock Window of the Rapid Credit Facility to help Guinea address urgent balance of payment needs related to the global food crisis. Food insecurity in Guinea has increased significantly owing to the international food and fertilizer prices shock. The UN 2022 Global Report on Food Crises considers Guinea to have a major food crisis, with a large share of the population affected by acute food insecurity and worsening malnutrition. The population is also affected by a precarious post-pandemic recovery of the non-mining sector.

Following the Executive Board’s discussion, Ms. Gita Gopinath, First Deputy Managing Director and acting Chair, issued the following statement:

“Guinea’s chronic food insecurity was significantly exacerbated in 2022 as a result of the international food and fertilizer price shock, threatening the fragile post-pandemic recovery of the non-mining sector. Together with the increase in fuel prices, external performance in 2022 is expected to have deteriorated, resulting in weaker-than-desirable foreign reserve coverage. Inflation remains high, partly driven by food prices. Emergency financial assistance under the RCF’s new Food Shock Window would help address urgent balance-of-payments needs and mitigate the impact of the food shock. The authorities’ plan to use the resources to support the most vulnerable, in coordination with the World Food Program, and to provide fertilizers to

[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.

improve the next harvest, is welcome. Ensuring the transparent and effective use of the resources will be essential."

"Mobilizing domestic revenue, including from the mining sector, and improving the quality of expenditure, via a reduction in regressive subsidies and better public investment management, will help create additional space to invest in infrastructure, education, and social protection, enhancing Guinea's growth potential while preserving debt sustainability."

"Guinea remains at moderate risk of debt distress, with some space to absorb shocks but limited space for new borrowing. Maximizing the concessionality of new debt, tapping domestic financing sources, strengthening debt management capacity, and enhancing public investment management will be crucial in preserving medium-term debt sustainability. "

"Maintaining a tight monetary policy and ensuring that central bank lending to the government remains within the statutory limit are critical to contain inflation. The development of a new consumer price index covering the entire country is welcome; it will be important for the central bank to introduce it gradually, according to best practice."

"Economic diversification will be essential to sustain growth over time and make it more resilient and inclusive. A sound implementation of the Simandou iron ore project should be a key priority, while addressing weaknesses in governance will also be important. In this regard, moving ahead in the implementation of the 2021 safeguards assessment recommendations and improving governance and the anti-corruption system as well as the AML/CFT regime are welcome steps."

Guinea: Selected Economic Indicators, 2020-23

(Percent of GDP, unless otherwise indicated)

	2020	2021	2022	2023
	Est.		Projection	
Output and Inflation				
Real GDP Growth (annual percentage change)	4.9	4.3	4.7	5.6
Mining (annual percentage change)	28.3	6.6	11.8	11.1
Industrial mining (annual percentage change)	1.6	-0.6	10.9	11.9
Non-mining (annual percentage change)	0.3	3.7	2.9	4.1
Inflation Average (annual percentage change)	10.6	12.6	12.2	11.4
Central Government Finances				
Total revenue and grants	13.9	13.6	13.1	13.0
Expenditures and net lending	17.0	15.3	14.4	15.3
Current Expenditures	13.5	13.0	10.6	10.7
Capital Expenditures	3.5	2.3	3.7	4.5
Overall balance including grants	-3.1	-1.7	-1.3	-2.3
Basic fiscal balance	-1.5	-0.7	0.1	-0.1
External Sector				
Current account balance (including official transfers)	-16.1	-2.1	-7.4	-6.8
Current account balance (excluding official transfers)	-16.9	-2.1	-7.4	-6.8
Overall balance of payments	-0.9	2.4	-0.3	0.4
Gross available reserves (months of imports)	2.5	2.7	2.5	2.4
Gross public debt	47.1	40.4	34.9	35.3
Nominal GDP (GNF billions)	135,612	157,725	185,329	215,692

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

INTERNATIONAL MONETARY FUND

GUINEA

December 8, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION AND REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY

EXECUTIVE SUMMARY

Context. Following a coup d'état in September 2021 and a year of socio-political tension, the situation has stabilized after the authorities agreed with ECOWAS on a revised, shorter (24-month) transition calendar. While the non-mining sector remains weakened by the subsequent shocks—the pandemic, political uncertainty, the global food and fuel price shock and ensuing food insecurity—overall growth remains buoyant, driven by strong mining production. Inflation hovered around 12 percent for most of 2021 and 2022, despite significant international prices pressures. Food insecurity became increasingly acute during 2022 stemming from the price shock and could be exacerbated next year.

Fund financial support. The authorities have requested a disbursement of 25 percent of quota (SDR 53.55 million) under the Rapid Credit Facility-Food Shock Window (FSW) to address urgent balance-of-payments needs and mitigate the food shock, including through a program of in-kind food distribution (together with the World Food Program), purchase of fertilizer, and strengthening of cash transfer programs to vulnerable households.

Policy recommendations. Supporting vulnerable households in response to the price shock via targeted measures and strengthening social protection are the key near-term priorities. Fiscal and monetary policy must also support efforts to rein in inflation. Efforts to mobilize additional revenue should continue, particularly from the mining sector; in addition to enhancing spending efficiency; investing in infrastructure and human capital; and strengthening the monetary policy framework. Over the medium-term, policies should provide the foundation for more diversified and resilient economic growth and poverty reduction.

Fiscal policy. Despite significant foregone revenues from fuel price support measures, the fiscal stance is projected to be tighter in 2022 relative to 2021, due to restraint in recurrent expenditures and under-execution of the capital budget. The authorities are making important strides in mobilizing revenue, notably through efforts to address profit shifting in the mining sector. Improving the quality of expenditure, via a reduction

in regressive subsidies, and a boost to public investment management will help create additional space to invest in infrastructure, education, and social protection, enhancing Guinea's growth potential while maintaining debt sustainability.

Monetary policy. The tighter stance prevented additional monetary financing that, together with the appreciation of the exchange rate, contributed to containing inflation, which nonetheless remains high. The authorities must maintain a tight monetary stance, including through actively managing liquidity and ensuring that any lending to government stays under the statutory limit. While the development of a new consumer price index will help to better measure and understand inflation dynamics, the central bank should react to the new index gradually.

Structural reforms. Diversification, reforms to enhance governance and resilience, and improvements to the business climate will be critical to ensure inclusive, more resilient growth and improved social indicators.

Approved By
Montfort Mlachila (AFR) and Eugenio Cerutti (SPR)

An IMF team consisting of Ms. Mira (head), Ms. Lyngaas, Mr. Massara, Mr. Otero Nule, and Mr. Medenou (all AFR), Ms. Zuniga (SPR), Mr. Bidawi (FAD), Mr. Weber (MCM), Mr. Issoufou (Resident Representative), Ms. Diallo and Mr. Diallo (local economists) held virtual and in person discussions with the authorities during October 4-November 4, 2022. Mr. Sylla (ED) and Ms. Bah (ED's office) joined some of the meetings. The Guinea team also wishes to acknowledge: Gregory Legoff (STA) and Fahd N'Diaye (AFW) for assistance on national accounts data and reconciliation; Brian Graf (STA) for assistance on price statistics; Patrick Petit and Pierre Kerjean (all FAD) for their inputs on mining revenue analysis; Jean Pierre Nguenang, David Kamano and Aristide Karangwa (all FAD) for assistance with PFM-related issues; Celine Thevenot (FAD) for contributions on expenditure rationalization; Nicolas Kacou (AFW) for assistance on government finance statistics; Nicolas Hiol and Rene Ossa (all FAD) on revenue administration reforms; David Amaglobeli, Emine Hanedar and Samir Jahan (all FAD) on fuel subsidy reforms; Dan Devlin (FAD) on gold tax policy; and Alejandro Badel (SPR) on inequality.
The team met with Minister of Economy and Finance Moussa Cissé, Minister of Budget Lanciné Condé, Central Bank Governor Karamo Kaba, other senior officials, and representatives from the private sector, civil society, and the development partner community. Ms. Manning assisted in the preparation of this report and Ms. Ly (local office assistant) helped organize virtual meetings.

CONTENTS

CONTEXT 6

RECENT ECONOMIC DEVELOPMENTS 8

OUTLOOK AND RISKS 16

POLICY DISCUSSIONS 17

A. Fiscal Policy 17
B. Monetary and Financial Sector Policies 25
C. Diversification, Resilience and Governance 27

IMF ASSISTANCE MODALITIES 30

OTHER ISSUES 31

STAFF APPRAISAL 31

BOXES

1. The Interim Reference Program and the Economic Recovery Plan 8
2. Bauxite Transfer Pricing Reform in Guinea 21
3. Simandou Iron Ore Development 29

FIGURES

1. Population in Acute Food Insecurity 6
2. Fertilizer Prices and Uses 6
3. Petroleum Product Prices and Subsidies 7
4. Real Sector Developments 9
5. Gender Indicators 10
6. Inflation and Monetary Developments 11
7. Financial Sector Developments 12
8. Fiscal and Debt Indicators 14
9. External Sector Indicators 15
10. Social Safety Net Indicators 20
11a. Tax Revenues to GDP Ratio, 2015-2021 21
11b. Mining Sector Real and Fiscal Indicators, 1995-2021 21
12a. Long-Run Impact of Reforms on GDP Growth 23
12b. Long-Run Impact on Poverty and Inequality 23
13. Historical Decomposition of Inflation 25

TABLES

1. Key Economic and Financial Indicators, 2019–27 34
2. Balance of Payments, 2019–27 35
3a. Fiscal Operations of the Central Government, 2019–27 (Billions of Guinean Francs) 36
3b. Fiscal Operations of the Central Government, 2019–27 (Percent of GDP) 37
4. Money Accounts, 2019–27 38
5. Financial Soundness Indicators, 2019–22 39
6. Indicators of Capacity to Repay the IMF, 2021–32 40

ANNEXES

I. Implementation of 2021 Article IV Recommendations 41
II. External Sector Assessment 42
III. Risk Assessment Matrix for Guinea 48

IV. Artisanal Gold Mining and Regional Trends 50
V. Electricity Sector in Guinea: Context and Reform Options 54
VI. Investing Mining Revenues to Strengthen Guinea's Development 57
VII. Inflation and Monetary Policy—Recent Trends and Prospects 61
VIII. Supporting Export Diversification with an Eye on Complexity 66
IX. The Role of Agriculture and Climate Change in Food Security 71
X. Capacity Building 75

APPENDIX

I. Letter of Intent 77

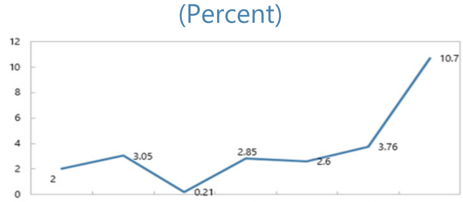
CONTEXT

1. **A coup d'état in September 2021 led to a period of socio-political uncertainty, which has stabilized recently.** Guinea's army toppled President Condé, who had secured a controversial third term in the October 2020 election. Subsequently, the military junta approved a transition charter, appointed a civilian transitional government and a legislative body, and announced a 36-month transition timeline to elections. The timeline was viewed as too long and rejected by ECOWAS and domestic opposition. Following the imposition of targeted sanctions by ECOWAS in September 2022, a provisional agreement was reached in October for a shortened, 24-month timeline that ECOWAS Heads of State endorsed on December 4, 2022. Heads of State called for the transition timetable to go into effect immediately; urged the Guinean authorities to move forward with an inclusive dialogue, and called on international partners to support the transition process.[1] Political tensions have since calmed, but the launch of the inclusive dialogue process is proving challenging.

2. **The Russian invasion of Ukraine and subsequent shock to global food, fuel, and fertilizer prices slowed Guinea's recovery from the Covid-19 pandemic and are severely undermining food security.** Covid-19 impacted the non-mining sector more significantly and persistently than envisaged at the time of the 2021 Article IV consultation. Consumer price changes, driven largely by high food and transport costs associated with Covid supply disruptions, have remained in double digits since end-2020. Although the global price shock also resulted in higher mineral prices—including gold and bauxite, Guinea's key exports—the effect from the higher food, fuel, and fertilizer prices offset such gains. Covid-19 vaccination rates remain low, and so do the number of reported cases.

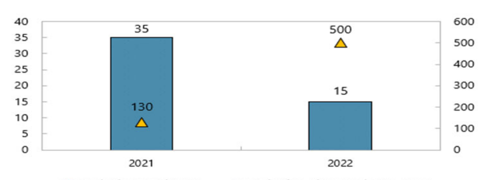
3. **Although Guinea's food insecurity is chronic, the global price shock exacerbated difficulties.** The proportion of the acutely food-insecure population is estimated at about 11 percent (1.2 million people) by the World Food Program (WFP) and is likely to be revised upwards. Malnutrition has also increased and other social indicators, already weak, have deteriorated further. Furthermore, the increase in local fertilizer prices—by 300 percent from 2021—and their scarcity point to a potentially below-average harvest, which may result in even lower food availability next year (Figures 1 and 2).

Figure 1. Guinea: Population in Acute Food Insecurity
(Percent)



Source: World Food Program

Figure 2. Guinea: Fertilizer Prices and Uses



Source: Guinean Authorities; and WFP

1 https://ecowas.int/final-communique-sixty-second-ordinary-session-of-the-authority-of-heads-of-state-and-government/

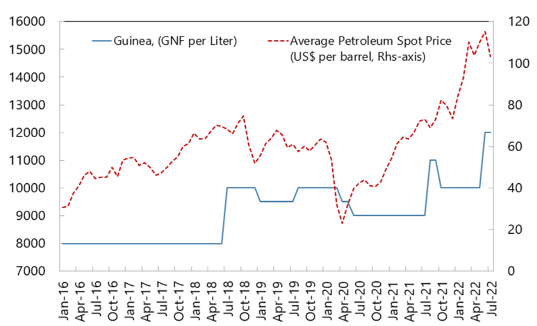
4. Considering the worsening food security situation, the authorities requested emergency financing under the IMF's Food Shock Window. They plan to use the resources as budget support to mitigate the impact of the shock on the most vulnerable by providing in-kind food distribution (implemented by the WFP), scaling up cash transfers, and financing interventions that improve the supply of fertilizers and support farmers.

5. The authorities are implementing policies to mitigate the impact of the shocks. As fuel prices started increasing, they waived customs duties and reduced the VAT on fuel imports to shield consumers from the rise. At end-June 2022, fuel prices were increased by 20 percent to mitigate the impact on the budget, but they have been kept unchanged afterwards (Figure 3). Customs on key food products (including rice, vegetable oil, sugar, wheat flour) were also waived. Efforts are ongoing to scale-up private sector participation in agricultural production, as estimated cultivable land is significantly revised upward. The government also sought external financing to secure agricultural inputs and seeds with the Arab Bank for Economic Development in Africa (BADEA) and the African Development Bank (AfDB).

Figure 3. Guinea: Petroleum Product Prices and Subsidies

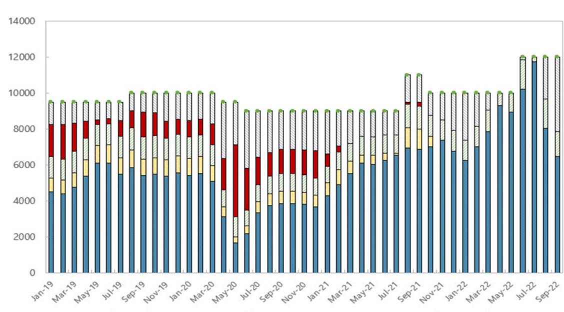
Increases in international fuel prices were not passed through…

Evolution of Petroleum Products' Prices
(Per liter, 2016-22)



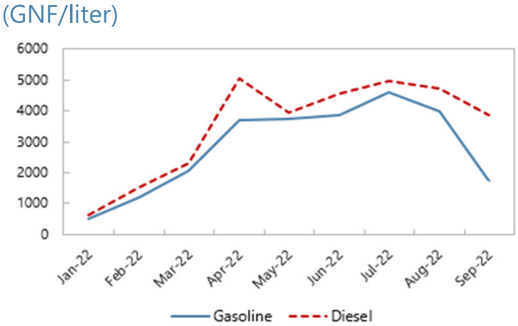
except for an increase in June 2022 to prices at the pump.

Gasoline Price Structure, 2019-22
(GNF per liter)



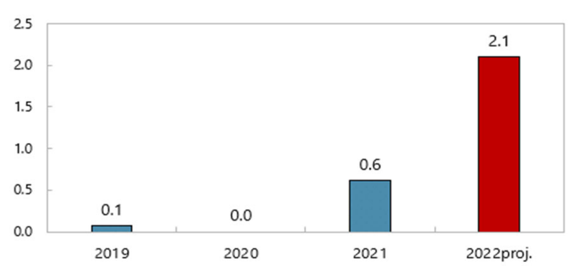
Waiving more taxes significantly increased subsidies …

2022 Fuel Subsidy Per Liter
(GNF/liter)



generating substantial forgone revenues to the budget.

Total Fuel Subsidies, 2019-22
(Percent of GDP)



Sources: Guinean Authorities, Global Petroleum Prices, EIA and IMF staff estimations.

6. The new authorities are finalizing a development plan for the economy. The transition government's Interim Reference Program (PRI) identifies the country's key challenges and measures to respond to them. In addition, an Economic Recovery Plan (PRE) will further serve as the implementation framework for the challenges (Box 1).

Box 1. The Interim Reference Program and the Economic Recovery Plan

To support Guinea's transition back to democratic elections, in June 2022 the transitional authorities drafted a national development program (*Programme de Référence Intérimaire de la Transition*, PRI) for the 2022-2025 period. The PRI adopts five pillars to respond to identified challenges, including putting in place 1) the institutions needed to return to constitutional order; 2) the macroeconomic and financial framework; 3) the legal and governance framework; 4) social action for employment; and 5) infrastructure and sanitation.

In October 2022, the transitional authorities drafted an Economic Recovery Plan (*Plan de Relance Économique,* or PRE) to serve as the execution framework for the PRI. The PRE is a high-level programmatic document whose principal objectives include: 1) improving productivity, 2) diversifying exports, and 3) improving living standards. Its primary interventions include improving the productivity of primary sector activities through infrastructure investments that better link rural and urban areas; improvements in agricultural, livestock, fishing, and forestry practices; establishing special economic zones; and promoting agribusiness as well as SME development. While the overarching objectives of the PRE go in the right direction, the plan could benefit from additional details, particularly by including concrete strategies to improve living standards by improving Guinea's weak social safety net.

The PRI and PRE maintain Guinea's commitment to its 2040 Vision, the Sustainable Development Goals, ECOWAS' Vision 2050, and the African Union's Agenda 2063.

7. Despite the changing political environment, the authorities have made progress in implementing key recommendations from the 2021 Article IV consultation, but challenges remain (Annex I). The authorities have shown restraint in resorting to central bank advances. In line with their revenue mobilization objective, they have addressed transfer pricing issues for bauxite prices. Fiscal policy has been prudent, and work is ongoing to continue strengthening PFM procedures.

RECENT ECONOMIC DEVELOPMENTS

8. The food and fuel price shocks and political uncertainty slowed the fragile post-pandemic recovery in the non-mining sector, but mining growth remained resilient. Growth in 2021 is expected to have reached 4.3 percent, reflecting resilient mining performance—particularly in formal and artisanal gold production.[2] However, the non-mining sector was affected by

[2] Artisanal gold exports reached 83 tons in 2021, more than 10 times their average exports during the decade prior to the pandemic. Staff's underlying framework reflects understanding that about 40 percent of the artisanal gold

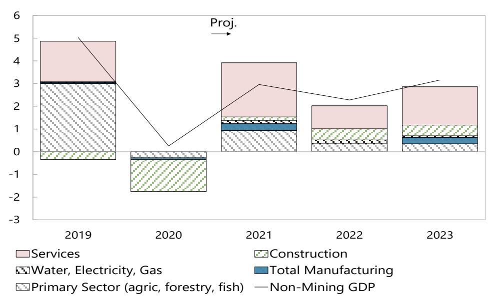
(continued)

uncertainty, a sharp increase in domestic arrears, and reduced external support in the aftermath of the coup (Figure 4). Overall growth is expected to reach 4.7 percent in 2022, supported by an increase in bauxite and gold production, though the fragile non-mining sector and weak social indicators were buffeted by continued high inflation, food insecurity, and socio-political uncertainty.[3] The pandemic, price shock due to the war in Ukraine, and food insecurity have likely impacted women in Guinea especially severely, risking a worsening of gender inequality – which is already high compared to regional peers (Figure 5).

Figure 4. Guinea: Real Sector Developments

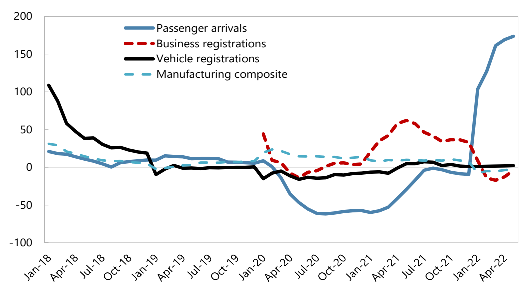
The non-mining economy was severely impacted by the pandemic in 2020 and the food and fuel price shock in 2022, but is projected to gradually recover.

Sect. Contributions to Non-Mining Real GDP Growth
(Percent)



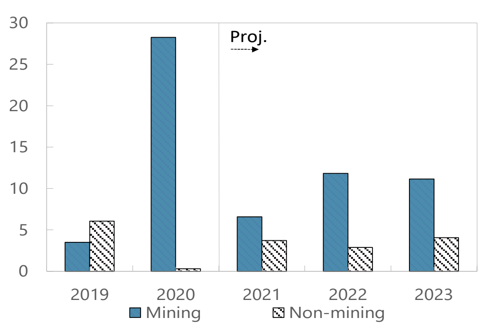
The decline in passenger arrivals in 2020-21 has recovered to surpass its pre-pandemic level – likely due to pent-up demand; the decline in other indicators in early 2022 highlights the fragility of the recovery.

Selected Non-Mining Indicators
(Cumulative percent change, year-on-year)



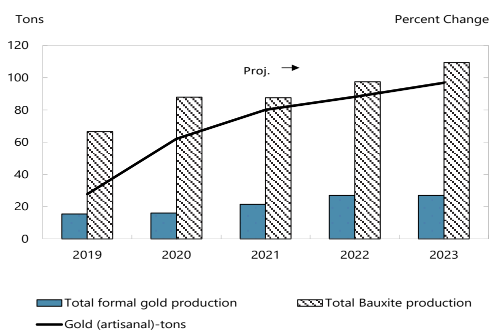
The mining sector is projected to continue to drive overall growth...

Mining and Non-Mining Activity
(Growth rates)



...boosted by strong bauxite and gold production.

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



Sources: Guinean authorities; and IMF staff calculations.

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exports was reportedly smuggled for reexport from neighboring countries. The National Statistics Office is conducting a study of the sector, with the potential for an upside revision.

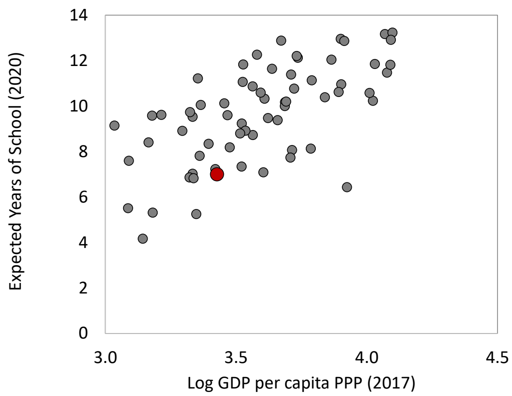
[3] The war in Ukraine has not had a material impact on Guinea's mining production and exports. Although the bauxite exports of one company were temporarily impacted by the closure of a refinery in Ukraine in March 2022, these exports were subsequently rerouted to an alternative refinery.

Figure 5. Guinea: Gender Indicators

On average, Guinean children are expected to attend 6.99 years of school…

Expected Years of School (2020)

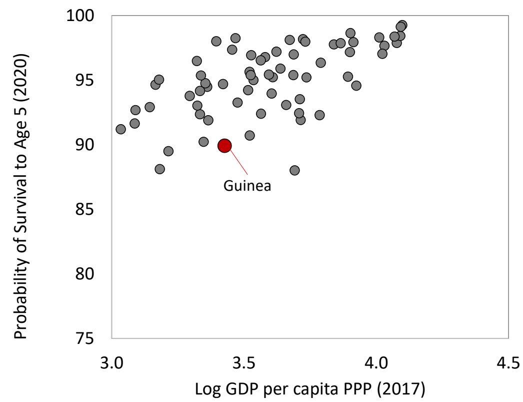
(Years)



…and there is only an 89.9 percent that they survive to age 5, which is among the lowest rates for low and lower-middle income countries.

Probability of Survival to Age 5 (2020)

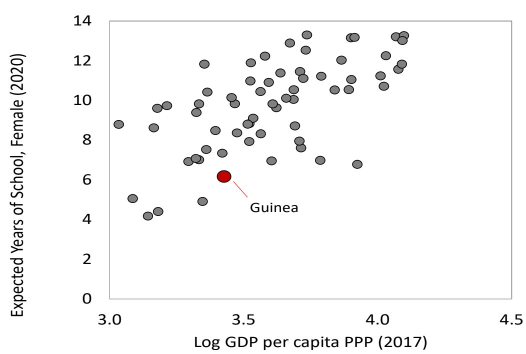
(Percent)



These outcomes differ across gender dimensions. On average, a girl is expected to receive only about 6 years of school in Guinea…

Expected Years of School, Female (2020)

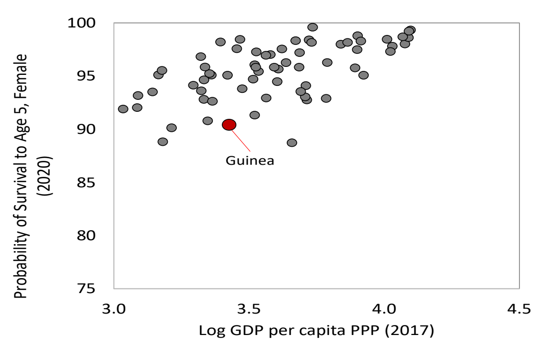
(Years)



…and there is a 90.4 percent chance that she survives to age 5.

Probability of Survival to Age 5, Female (2020)

(Percent)



Source: World Bank Human Capital Index, World Development Indicators, and IMF staff calculations.

Note: Charts compare Guinea to low and lower-middle income countries.

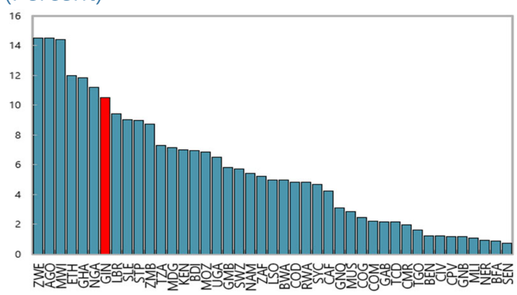
9. **Inflation remains persistently high, though it declined slightly by July 2022, amidst reduced central bank financing of the government and exchange rate appreciation.** Average inflation peaked at 12.6 in 2021, reflecting rising food prices and international freight rates associated with Covid supply chain disruptions (Figure 6). Inflation declined slightly to 12.3 percent by July 2022, despite the significant pressures associated with the war in Ukraine, supported by rising export prices and low base money growth from reduced central bank financing of the

budget, the appreciation of the Guinean Franc (GNF) against the US dollar by 15 percent between February 2021 and August 2022, and the fixed domestic fuel price in the first half of 2022.

Figure 6. Guinea: Inflation and Monetary Developments

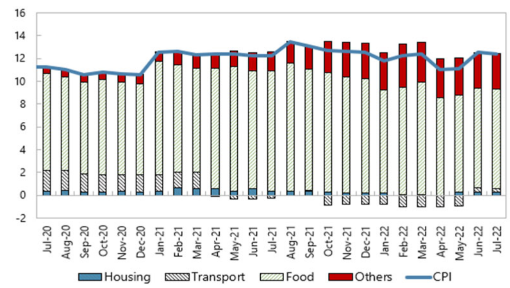
Inflation in Guinea averaged among the highest in Sub-Saharan Africa in the last decade…

CPI Inflation, 2010-19
(Percent)



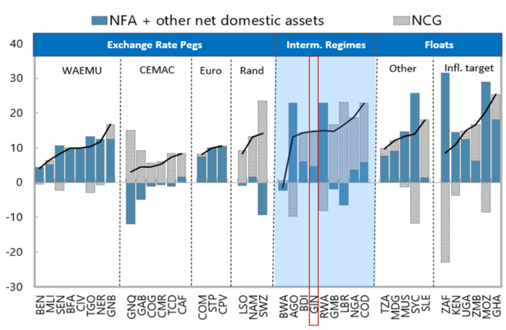
….but has not increased further in 2022, despite significant international prices pressures.

Inflation Contributions
(Percent, year-on-year)



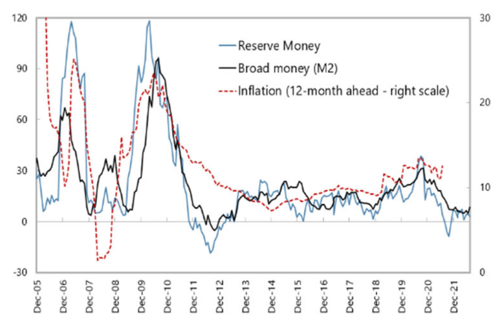
Base money growth has traditionally been high driven by monetary financing…

Decomposition: Base Money Growth
(Percent Contribution, 2010-19)



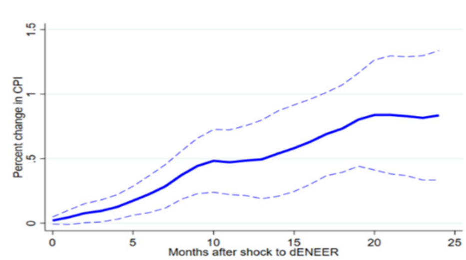
….but recently reserve money was contained as the government relied less on central bank advances.

Money Aggregates and Inflation
(Percent, year-on-year)



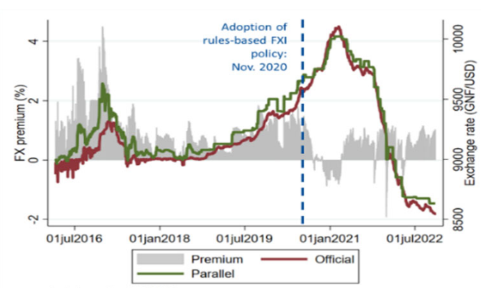
With a high pass-through from exchange rate changes to inflation, and tight monetary policy affecting the exchange rate….

Exchange Rate Pass-through to Inflation
(Change in CPI following 1 percent change in NEER)



….the recent appreciation of the exchange rate following the introduction of the new FX rule, has helped contain inflation.

Official and Parallel Exchange Rate
(LHS = Percent, RHS = GNF per US dollar)

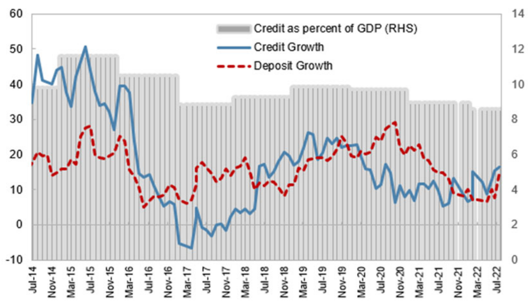


Sources: Guinean authorities; and IMF staff estimates.

Figure 7. Guinea: Financial Sector Developments

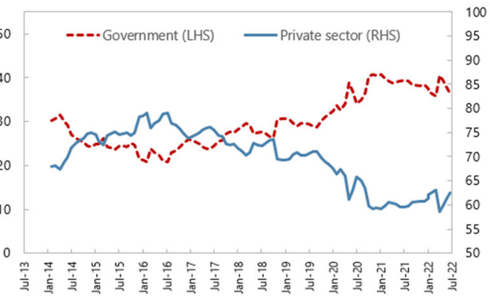
Credit to the private sector has been growing more slowly than nominal output in 2020-22…

Private Sector Credit and Deposit Growth
(Percent, year-on-year)



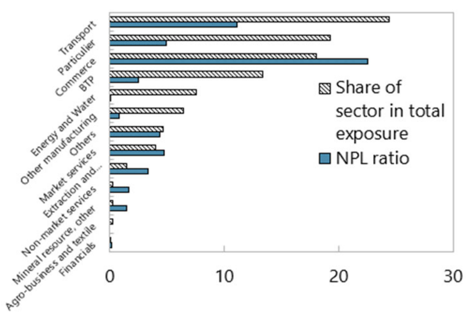
….while banks expanded exposures to the government, increasing the sovereign-bank nexus.

Commercial Bank Lending Shares
(Percent of total)



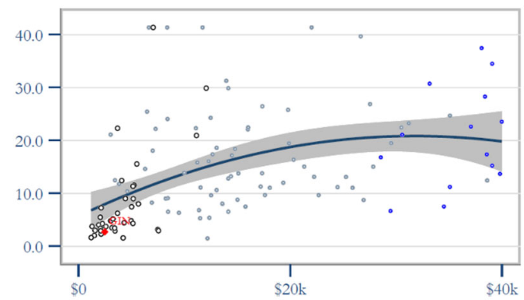
Asset quality has started to deteriorate with non-performing loans, driven mainly by two sectors.

Non-performing Loans Ratio by Sector
(Percent)



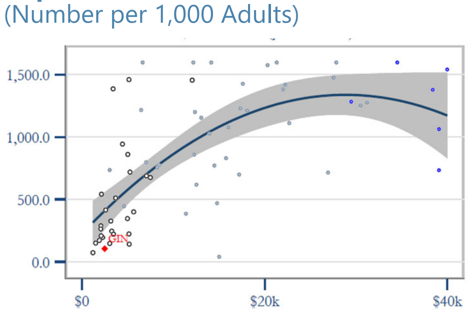
Financial depth of the formal banking sector is low compared to peers when measured by bank branch penetration…

Commercial Bank Branches
(Number per 100,000 Adults)



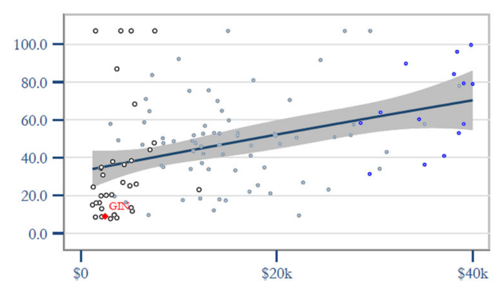
possibly contributing to a low number of individuals with bank deposit accounts.

Depositors with Commercial Banks
(Number per 1,000 Adults)



Loans to the economy are also low compared to peers, reflecting several bottlenecks and risks.

Outstanding Loans from Commercial Banks
(Percent of GDP)



Sources: Guinean authorities; World Development Indicators (WB), Financial Access Survey (IMF); and IMF staff calculations.

Notes: For the last three panels: (1) Variable in X axis: GDP per capita, PPP (constant 2017 international $)-Average 2016-2020. (2) Low Income Countries=Circles Colored in Black; Emerging Market and Developing Economies=Circles Colored in Grey; Advanced Economies=Circles Colored in Dark Blue.

10. The shallow commercial banking sector is adapting to pandemic and political uncertainties, but fragilities remain. The non-performing loan (NPL) ratio for the system increased by 1 percentage point from 2019, reaching 11 percent in the second quarter of 2022, reflecting the Covid shock and the stricter application of problem loan classification once the Covid-related temporary relaxation of prudential measures was normalized. Lending is concentrated in selected sectors, and transport and commerce contribute most to the high NPL ratios (Figure 7). Some banks have difficulties meeting liquidity requirements, mostly reflecting operational constraints.[4] Due to the higher NPLs, profitability in the first half of 2022 was down by about ¼ compared to pre-crisis values. However, bank-wide equity buffers remain robust, thanks to the phasing in of regulatory capital increases in 2022, which, with a couple of exceptions, are completed. Private sector credit, at 8.8 percent of GDP in December 2021, remained low compared to peers—affected by the difficult economic environment and crowding out by public sector financing needs following the Covid shock. It has nonetheless started to recover, with an average growth of 13.6 percent in January-August 2022. Mobile money services have doubled since 2018, with almost 3.2 million active accounts in 2020.

11. The 2021 budget was impacted by the freezing of development partner support and a doubling of subsidies for the electricity sector. Donor grants were a third lower than projected at the time of the 2021 Article IV consultation, as budget support was limited following the coup. Revenue underperformed slightly, as the authorities decided to reduce fuel prices in October 2021. The under-execution of externally financed capital expenditure (of over 2 percent of GDP) more than compensated for the overruns in subsidies to the electricity sector; the start of operations of the new Souapiti dam resulted in the need to purchase the agreed output, even if the full amount of electricity was not produced (given the "take or pay" clause in the contract). Furthermore, the authorities temporarily froze public accounts immediately after the coup. As a result, the deficit is projected to have reached 1.7 percent of GDP, about ½ percentage points lower than projected in the last Article IV consultation (Figure 8).

12. External performance in 2021 was better than expected, but dynamics worsened significantly in 2022. Export growth was strong in 2021, driven primarily by gold production and a spike in non-traditional exports (Figure 9). A positive overall balance took international reserves to 2.7 months of prospective imports coverage, and, together with tighter monetary policy, led to the appreciation of the real effective exchange rate (REER) by close to 3 percent on average. Nonetheless, the surge in international commodity prices had a net negative impact on Guinea in 2022 (Text Table 1) and tighter global financial conditions impacted financial flows. While Guinea has been remarkably resilient to this shock—mainly thanks to ongoing strong mining production growth—it resulted in a projected reduction in the reserve coverage in 2022 and 2023, reaching 2.3 months of imports and triggering the need for balance of payments' support. While the GNF continued to appreciate into 2022, it appears to have stabilized in nominal terms in recent months.

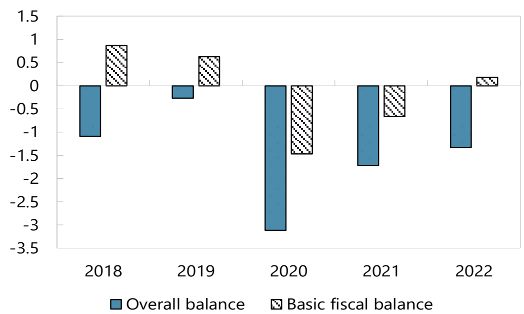
[4] Banks must pay fines on negative excess reserves, which exceed the cost of recourse to the liquidity window of the BCRG.

Figure 8. Guinea: Fiscal and Debt Indicators

The overall and basic balances improved in 2022…

Overall and Fiscal Balances

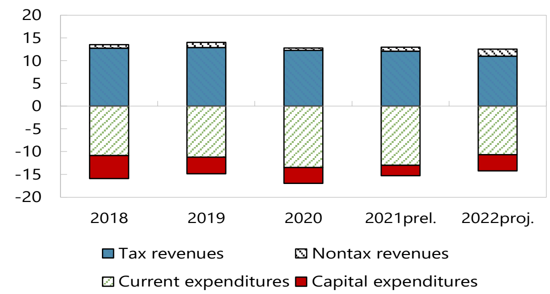
(Percent of GDP)



… driven by better-than-expected revenues, a containment of current expenditures and under-execution of capital expenditure

Revenue and Expenditures

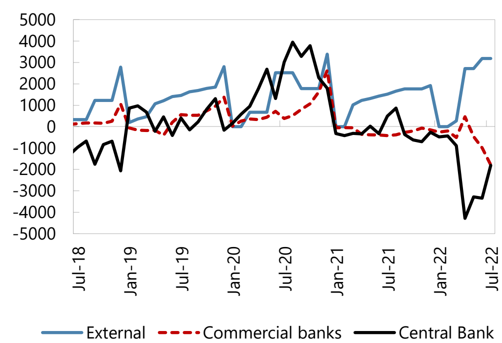
(Percent of GDP)



This reduced borrowing needs and allowed the government to repay central bank advances…

Net Government Borrowing (Excl. Recapitalization)

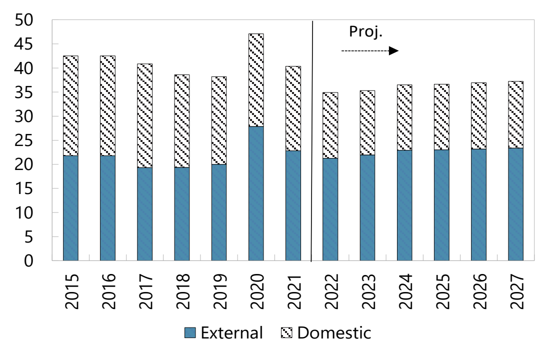
(GNF Billions)



…and, together with high nominal growth, contributed to lower debt ratios.

Public and Publicly Guaranteed Debt

(Percent of GDP)



Sources: Guinean authorities; and IMF staff calculations.

Text Table 1. Channels and Impact of the War in Ukraine on the Balance of Payments*

Positive impacts		Negative impacts	
Projected increase in 2022 aluminum prices	10.9%	Projected increase in average food prices	14.2%
Projected increase per transfer prices	2.2%	Projected increase in average petroleum prices	41.4%
Projected increase in 2022 gold prices	1.1%	Resulting food imports increase ($ million)	63.0
Resulting increase in bauxite exports ($ million)	71.5	Resulting petroleum imports increase ($ million)	500.9
Resulting increase in net gold exports ($ million)	41.2	Higher fertilizer import bill	31.9
Of which industrial	15.2	Total import bill increase	595.8
Of which artisanal	26.0	Higher profit repatriation from mining exports	37.6
		Higher private outflows from artisanal miners	13.0
Total BOP positive impacts ($ Million)	**112.7**	**Total BOP negative impacts ($ Million)**	**646.4**
		Total net impact	***533.7***

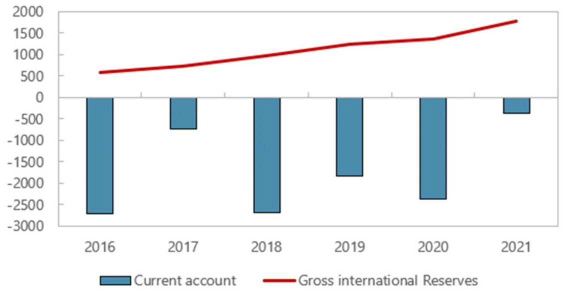
*Based on the projected evolution of international prices in 2022

Source: IMF staff calculations.

Figure 9. Guinea: External Sector Indicators

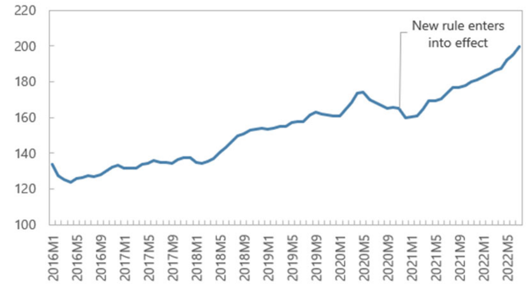
The current account deficit narrowed in 2021 and reserve accumulation continued.

Current Account and Reserves
($US, Mill.)



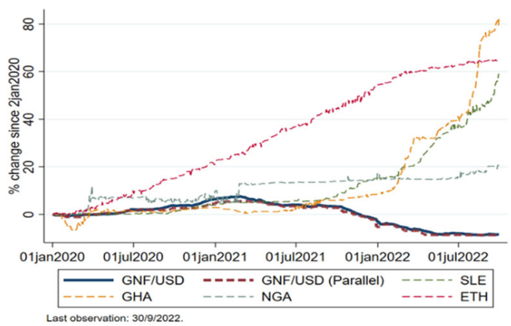
The real effective exchange rate appreciation trend resumed strongly in 2021.

REER Index
(2010=100)



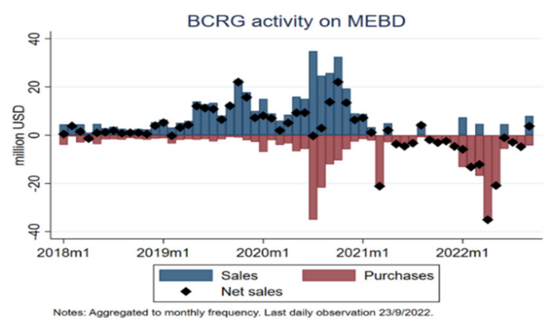
The GNF appreciation stands out among other African currencies, with signs of stabilization more recently.

Nominal Exchange Rates
(Percent)



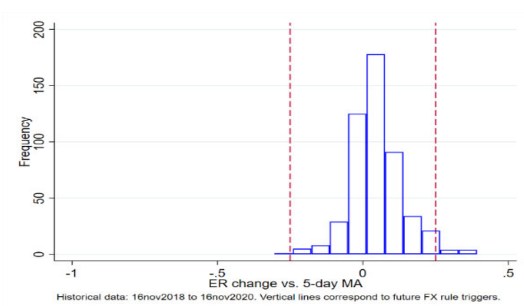
The BCRG was a net buyer of foreign exchange in the auction market in 2021, but sold reserves more recently.

BCRG FX Purchases and Sales in Auction Market
($US, Mill.)



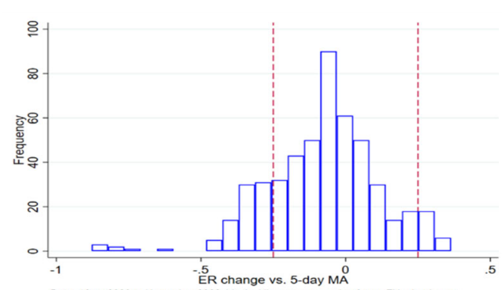
Before the introduction of the FX intervention rule, exchange rate variability was very limited.

Histogram: Daily FX rate changes (2018-20)
(x-axis: Percent change, y-axis: frequency



It increased significantly as of end-2021, in line with the rules' parametrization.

Histogram: Daily FX rate changes (2021-22)
(x-axis: Percent change, y-axis: frequency)



Sources: Guinean authorities; and IMF staff estimates.

13. Guinea's external position during 2021 was weaker than the level implied by fundamentals and desirable policies (Annex II). This assessment is in line with the conclusions at the time of the last External Sector Assessment. Reserve levels increased in 2021 to reach 2.7 months of prospective imports, which is considered broadly adequate for precautionary purposes. However, this ratio would decline to 2.3 in 2023 absent IMF support. Given Guinea's dependence on commodity exports—which make up over 90 percent of total exports—staff recommends pursuing a gradual accumulation of reserves to reach reserve coverage of at least 3 months of prospective imports. Reserves are expected to rise at a moderate pace—with strong exports compensated by high imports and income outflows—approaching 3 months of prospective imports by 2028.

OUTLOOK AND RISKS

14. Despite the slow recovery in the non-mining sector, mining growth is projected to support overall growth in 2023, while high inflation is expected to persist. Mining growth is expected to remain strong, supported by increased production capacity and ongoing investment in new mines, in addition to high demand for bauxite from China. The non-mining sector is projected to continue its gradual recovery as the food and fuel price shock subsides and the political situation normalizes. Amidst some second-round effects, inflation is expected to gradually decline to single digits by 2024 from above 12 percent in 2022, as the international price shock unwinds, conditional on a continued prudent monetary stance.[5] However, food price inflation is expected to remain above 12 percent in 2023.

15. Over the medium-term, staff expect growth to continue being supported by the mining sector, especially bauxite production (Text Table 2). The surge in artisanal gold production seen between 2020 and 2022 is expected to gradually stabilize. The non-mining sector is expected to fully recover by 2024, in line with enhanced socio-political stability and a more benign international environment.

Text Table 2. Guinea: Selected Economic Indicators, 2021-27

(Percent of GDP, unless otherwise indicated)

	2021	2022	2023	2024	2025	2026	2027
	Est.			Projection			
Output and Inflation							
Real GDP Growth	4.3	4.7	5.6	5.8	5.6	5.5	5.4
Mining	6.6	11.8	11.1	9.3	6.3	5.1	6.3
Non-mining	3.7	2.9	4.1	4.8	5.4	5.6	5.1
Inflation Average	12.6	12.2	11.4	9.5	8.9	8.3	7.8
Central government finances							
Total revenue and grants	13.6	13.1	13.0	13.9	14.7	15.0	15.3
Expenditures and net lending	15.3	14.4	15.3	16.5	17.2	17.6	18.1
Overall balance including grants	-1.7	-1.3	-2.3	-2.6	-2.5	-2.6	-2.7
Basic fiscal balance	-0.7	0.1	-0.1	-0.2	0.3	0.4	0.3
External sector							
Current account balance (including official transfers)	-2.1	-7.4	-6.8	-4.5	-3.0	-2.6	-1.9
Overall balance of payments	2.4	-0.3	0.4	0.9	0.9	1.2	1.0
Gross available reserves (months of imports)[2]	2.7	2.5	2.4	2.4	2.6	2.7	2.8
Gross public debt	40.4	34.9	35.3	36.5	36.6	36.9	37.3

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

[5] A new price index covering the entire territory is under preparation.

16. Downside risks remain elevated amid heightened uncertainty, particularly on the external front (Annex III). Price and supply disruptions related to the Russian invasion of Ukraine and possible further Covid-related global supply chain shocks threaten a more prolonged inflationary period, higher fiscal and balance-of-payments' financing needs, and more severe food insecurity in 2023. Higher financing needs could also induce a return to monetary financing, which would undermine price and exchange rate stability. The price shock and global financial tightening could weaken demand for bauxite, reducing exports and revenues. On the upside, progress in developing the Simandou iron ore project could accelerate, resulting in faster growth, higher exports, and more revenues. Upside risks could also materialize should the authorities' revenue reforms deliver faster than anticipated.

Authorities' Views

17. The authorities are more sanguine on the outlook. National accounts for 2020 are expected to be finalized at end-2022. While staff have incorporated a preliminary downward revision from the authorities that suggests the non-mining sector was severely impacted by the pandemic, they indicated that these figures may be too pessimistic. Similarly, the authorities project a more rapid recovery in the non-mining sector from the pandemic and Ukraine shock over 2021-23. With respect to inflation, the authorities believe it will trend downwards to 10 percent in 2023 and single digits thereafter thanks to an expected continued GNF appreciation, lower demand amidst fiscal restraint, and a decline in global inflation.

POLICY DISCUSSIONS

The key discussions revolved around the fiscal and monetary policy mix for the short-term that would contain inflation and allow the authorities to protect the most vulnerable while carrying out their ambitious investment agenda. On the medium-term challenges, discussions centered around the need to diversify the economy to make growth more inclusive, enhance resilience, and improve the business environment.

A. Fiscal Policy

18. The 2022 overall deficit is expected to be substantially lower than projected in the 2021 Article IV consultation and in the authorities' budget. The expected 1.3 percent of GDP deficit reflects good non-fuel revenue performance, a containment of recurrent expenditure, and under-execution of the domestic capital expenditure program:

- Although non-mining revenue has been underperforming compared to projections—reflecting the impact of the over 2 percent of GDP in foregone revenues from fuel and food subsidies—better compliance and digitalization efforts, together with large one-off royalty payments in the mining and telecom sectors, are expected to partially compensate the shortfall.

- The authorities reduced the size of the public service by consolidating ministries and agencies from 53 to 38 and cleaned up the payroll, reducing the projected ratio of 2022 recurrent expenditure to its lowest level in more than a decade relative to GDP.

- The under-execution of capital expenditure reflected both coup-related external financing disruptions and implementation capacity difficulties. Domestic capital spending is expected to reach only 60 percent of the amount envisaged at the time of the 2022 initial budget law.

- Lower financing needs, combined with the SDR allocation, helped avoid a recurrence of monetary financing—which contributed to keeping inflation under control—and created space to repay a portion of the domestic arrears accumulated in 2021.[6]

19. The plan for the 2023 budget focuses on mobilizing domestic revenues and addressing development needs, particularly infrastructure. According to the Prime Minister's budget framework letter, the 2023 budget that is under preparation will devote about ¼ of the spending to infrastructure investment, continue focusing on mobilizing domestic revenue, and prioritize agriculture, rural development, health, and education. It will also accommodate transition-related expenditure related to election preparations. The letter suggests that the deficit could be 4.5 percent, but after discussions, staff understands that it would be closer to 3½ percent.

20. The authorities' plan to ramp-up capital expenditure by raising domestic revenues moves in the right direction but should be anchored on available financing. Preliminary discussions on the 2023 budget indicate that the authorities' plans would result in a positive fiscal impulse, which staff believes is necessary to support the recovery in the non-mining sector. Nonetheless, given implementation capacity constraints and projected availability of financing, staff thinks the acceleration in infrastructure investments is likely to be more gradual, resulting in an overall deficit closer to 2.3 percent of GDP. Since the increase in expenditure would be devoted to infrastructure investments—with a high import content—its potential inflationary impact is not expected to be significant. In this context, staff emphasized the importance of ensuring the availability of appropriate financing, including by avoiding central bank financing given elevated inflation, and ensuring that recourse to commercial bank financing—already high by historical levels—does not crowd-out the private sector. Maximizing the use of concessional financing would be essential.

Containing the Food and Fuel Price Shock to Protect the Most Vulnerable

21. The authorities' Food Shock Window (FSW) request will provide financing to cushion the price shock. This assistance would contribute to financing the authorities' response to food insecurity and help contain domestic price pressures without compromising the availability of domestic financing. About 30 percent of the resources will be used for direct in-kind food

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[6] The BCRG converted Guinea's SDR allocation into USD ($284.5 million) in January 2022 and sold both the asset and liability to government. In addition to repaying advances, the authorities are using the resources for capital projects and to repay domestic arrears accumulated during 2021, in line with staff's recommendations.

distribution, managed by the WFP. About 40 percent would be used for cash transfers, and the rest would help import fertilizers. Staff advised the authorities to ensure transparency and effective coordination between the various entities involved in the response to the shock. Furthermore, the FSW resources should also contribute to the efforts to strengthen the broader social protection system.

22. Fuel price subsidies have cushioned the impact of the shock but imposed a significant, non-targeted drain on resources. The foregone revenue is estimated at about 2 percent of GDP. Thus besides being costly, fuel subsidies are also regressive; less than 2 percent of this subsidy will directly benefit the poorest 20 percent of the population, according to staff calculations based on Guinea's 2018/2019 household survey. Staff therefore recommended preparing a plan to gradually remove fuel subsidies and transition to an automatic fuel pricing mechanism with smoothing, as recommended by IMF technical assistance (TA), including by using a good communication campaign while building a more resilient social protection system.

23. Targeted safety net programs would be a more efficient way to protect the vulnerable, but the social protection system needs strengthening. Guinea lags its peers in social protection spending (Figure 10). Furthermore, this low social protection spending has been historically inefficient, with negligible impacts on reducing poverty and inequality. The government agency in charge of social protection, the National Agency for Economic and Social Inclusion (ANIES), is working on scaling up interventions and building capacity with a Covid-related cash transfer program supported by the World Bank. Such efforts should continue to build a sustainable framework for adaptative social protection by integrating it into the medium-term budget framework—as cash transfers are currently entirely donor-financed–and increasing coordination between responsible ministries and agencies. Efforts to continue to develop a comprehensive social registry are also critical to target transfers to vulnerable populations in both urban and rural areas.

Authorities' Views

24. The authorities concurred with the urgent need to address the impact of the food and fuel price shocks. They acknowledged the high cost of the fuel subsidies but reiterated that fully removing them immediately would generate second-round effects that would be detrimental to short-run growth and inflation, negatively impacting the entire population. They expressed interest in working with the Fund in this area. They further called for support from the international community to deal with the impact of the food price shock.

Mobilizing Revenue

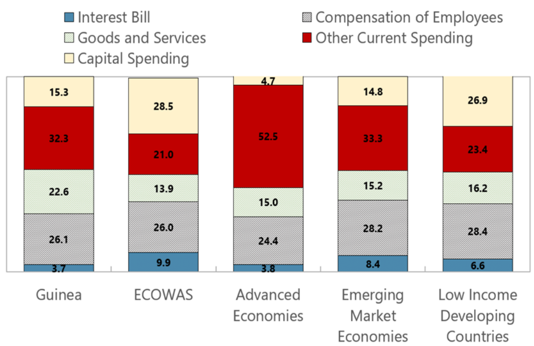
25. Mobilizing revenue remains a key priority for Guinea. Despite the significant spike in bauxite volumes produced since 2015, mining revenues did not increase, and have instead shown a decline relative to production and to value-added in the sector, leading to an overall decline in tax revenue-to-GDP (Figures 11a and 11b). Mining contracts often undermined Guinea's excellent Mining Code by providing more generous tax privileges. Addressing these issues, and in particular the problem of transfer pricing in bauxite contracts, could provide substantial resources; as shown in the 2021 Article IV report, a modest reform could mobilize nearly 4 times the size of the agriculture budget of the country.[7]

Figure 10. Guinea: Social Safety Net Indicators

Guinea's public spending is more concentrated in goods and services than other LICs, and nearly a third is dominated by other current spending, which includes subsidies.

Composition of Public Spending, 2021

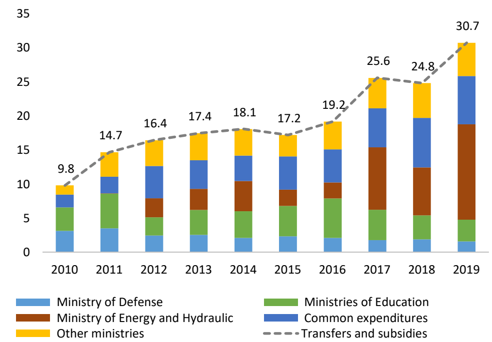
(Percent)



Expenditure on energy subsidies, which are highly regressive, has increasingly dominated expenditure on other transfers and subsidies…

Transfers and Subsidies by Ministry as Percent of Total Expenditure, 2010-19

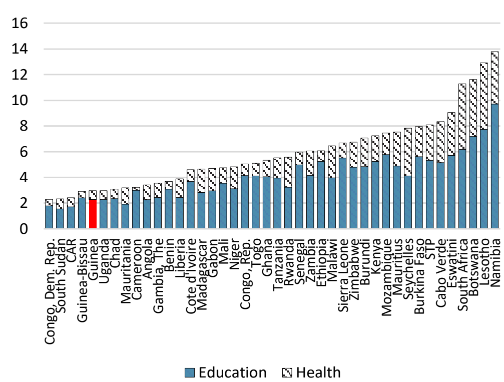
(Percent)



…while Guinea's health and education expenditure remains below that of its peers.

Average Public Spending on Education and Health, 2016-2019

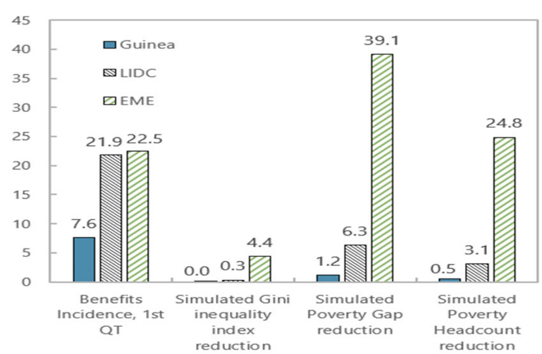
(Percent of GDP)



In a simulated analysis, the percentage of benefits from social protection going to the poorest comprised only 7.6 percent of total spending in 2012, far below average benefits incidence for LIDCs and EMDEs.

Simulated Impact of Social Protection Spending, Most Recent Year Available (2012)[1]

(Percent)



Source: Guinean authorities' 2018/2019 Household Survey, IMF FAD Expenditure Assessment Tool (EAT), IMF-WEO, World Bank's Guinea Public Expenditure Review, 2022, and IMF staff calculations.

[1]The impact indicators labeled "Simulated" mean a specific indicator is measured assuming the absence of the social protection and labor market programs (pre-transfer welfare distribution). The change is the percentage change, not percentage point change.

[7] Selected Issues Paper "Mobilizing Mining Revenue in Guinea", IMF Country Report No. 21/147.

Figure 11a. Guinea: Tax Revenues to GDP Ratio, 2015-21

(Percent of GDP)

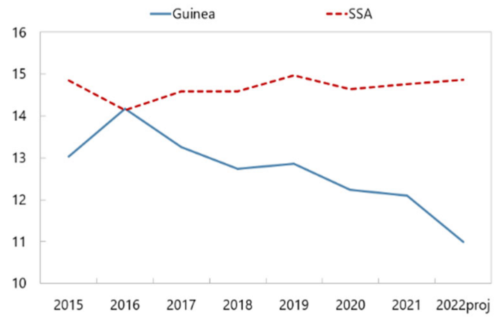
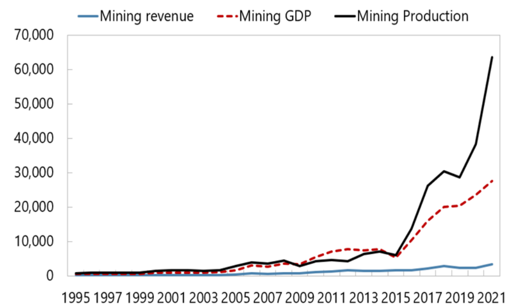


Figure 11b. Guinea: Mining Sector Real and Fiscal Indicators, 1995-2021

(GNF Billions)



Sources: Authorities data; WEO-IMF; and IMF staff calculations.

26. The authorities took a major step to address transfer pricing issues in the mining sector, though additional work is essential to ensure its effective implementation. In July 2022, the authorities signed a decree to limit profit shifting arising from transfer mispricing in the bauxite industry. The reform is a welcome step that follows IMF TA (Box 2). It now needs to be carefully implemented, including through consultations and a participatory process. Another important step includes the ongoing audits of major mining companies, which should be pursued and enforced in line with the well-crafted 2013 Mining Code. New mining contracts should adhere to the Mining Code provisions, with tax exemptions and exonerations limited to those provided under the Code. The artisanal gold sector – which surged in 2021 and 2022 (Annex IV) – could also provide an additional source of revenue. The authorities' June 2022 agreement with the Gold Miners' Union – which includes an export tax of $200 per kilogram of raw gold – is a modest first step in the right direction.

Box 2. Bauxite Transfer Pricing Reform in Guinea

Addressing transfer mispricing in the bauxite sector is a key priority to ensure Guinea gets its fair share of its natural resource wealth. Despite generating 90 percent of Guinea's exports and 21 percent of its GDP, the mining sector generated barely 2 percent of GDP in revenues in 2021, primarily due to profit shifting from bauxite mispricing.

In July 2022, the authorities adopted a decree to set a reference price formula for domestic bauxite, in line with IMF and other development partners' advice. The reference price would determine the minimum price at which Guinea' bauxite should be sold, to be used for fiscal reporting purposes. It would apply to companies that sell bauxite to their affiliates and to companies with customers in low-tax jurisdictions. The price index would consider physical characteristics and quality, market circumstances, and other transaction costs (such as shipping costs). The administrative price would act as a safe harbor, and thus would not be compulsory. Companies wishing to sell at a lower price would need to justify the decision by presenting an economic and legal case to the tax authority and go through regular audits.

This simplified solution is fully in line with the existing Mining Code and current contracts. This revenue administration reform simplifies the implementation of the provision in the Code requiring bauxite firms operating in Guinea to sell their products at competitive prices, and it is expected to allow for the mobilization of a share of resources—potentially close to 1 percent of GDP.

27. Efforts to mobilize non-mining revenues should also continue, building on recent progress and the results of the recently concluded TADAT. The new Tax Code, prepared with IMF TA, came into force in January 2022, and it is expected to support the revenue mobilization effort starting next fiscal year. Despite some resistance to its implementation, the new Code improves progressivity (by adding a new 20 percent tax bracket, the previous highest being 15 percent) and closes loopholes. The September 2022 TADAT mission noted improvements in revenue administration, such as the establishment of a unique taxpayer identifier and digitalized tax declaration and payment. It also underscored the need to continue to modernize the revenue administration following a strategic multi-year plan. Beyond gradually implementing an automatic fuel pricing adjustment mechanism, key priorities to enhance revenue mobilization include: (i) expanding digital tax management to all taxpayers, (ii) matching tax and customs databases, and (iii) applying a risk-based approach to detecting non-compliance. A medium-term strategy to prioritize revenue administrative reforms is currently envisaged, with technical support from the IMF.

Improving the Quality of Expenditure

Energy Issues

28. Longstanding regressive electricity sector subsidies are absorbing an increasingly large share of the budget and should be reined in (Figure 10 and Annex V). The completion of the Souapiti hydropower dam in 2020 significantly boosted Guinea's generation capacity. However, the transmission infrastructure has yet to be completed, forcing the authorities to continue importing expensive fuel products, and to pay for the total agreed output of the dam. Tariffs, which are the lowest in the region,[8] cover only half the cost of supply and distribution, while collection rates hover around 60 percent. Aligning tariffs to costs is the most pressing reform area.[9] The authorities should also complete the transmission infrastructure needed to fully utilize Souapiti as soon as possible. Finally, the electricity state-owned company, *Electricité de Guinée* (EDG), must improve its collection capacity, which could be partly achieved through greater use of pre-paid metering. Such reforms would provide much-needed fiscal space to expand and strengthen the grid, which currently provides access to less than half of the population.

Increasing Human Capital Expenditure

29. The best use of the fiscal space created by higher revenue mobilization and expenditure efficiency is to boost human capital and infrastructure investment. Persistently high poverty can be partly explained by the cycle of low human capital, which engenders poverty that in turn hinders faster human capital accumulation. The authorities should therefore prioritize infrastructure investments, particularly in rural areas, along with increased education expenditure

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[8]Household tariffs were between 1-3 USc/kWh in 2020, compared to an estimated average cost of supply of 19 USc/kWh.

[9]Guinea Country Private Sector Diagnostic, IFC 2020. To prevent any potential negative impact on the poorest households, the subsidized rate (social tariff) could remain in place for low-usage customers.

and social protection interventions; IMF staff research shows that this combination of investments would have the highest impact on growth, poverty, and equity (Figure 12 and Annex VI).

Figure 12a. Guinea: Long-Run Impact of Reforms on GDP Growth
(Percentage points)

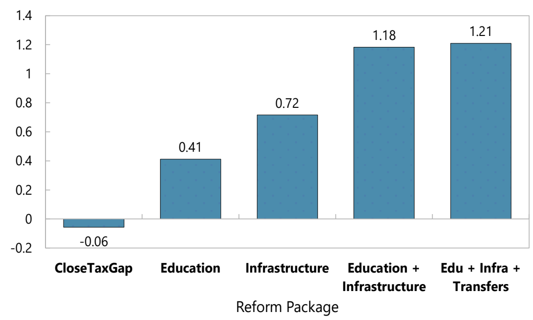
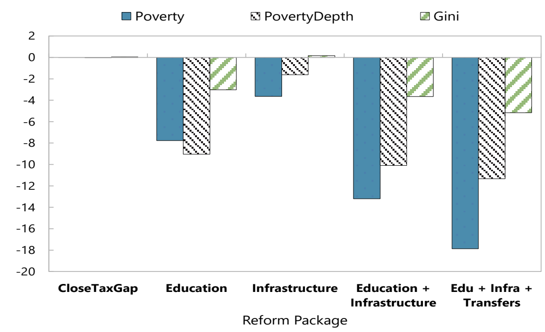


Figure 12b. Guinea: Long-Run Impact on Poverty and Inequality
(Percentage points)



Sources: Guinean authorities, IMF staff estimations.

30. Boosting human capital will require investments that address key gender disparities. Guinea's low human capital is exacerbated by disparities in access to services by gender, resulting in persistent gaps, particularly in education and health outcomes. Lingering impacts of the pandemic are also expected to affect women disproportionately. Finally, female-headed households tend to be more affected by food insecurity. The authorities should therefore prioritize human capital expenditure that effectively targets women to close gender disparities, which are a drag on the country's growth potential.

PFM

31. Progress continues in the public financial management (PFM) front, though additional efforts are needed:

- Increasing investment efficiency should be the key priority to better address the country's significant infrastructure needs and persistent under-execution. Although a positive step was reached with IMF TA in the preparation of the PIM Manual, its finalization was delayed for several years and now calls for a thorough review of the institutional structure part and responsibilities. The multi-year budgeting and commitment of investment projects also needs to be effective. A forthcoming Public Investment Management Assessment (PIMA) and Climate-PIMA mission is expected to support this work.

- Identifying and clearing the stock of domestic arrears, while preventing new accumulation, is another critical reform area. An audit of expenditure arrears from 2014-20 is ongoing with AFD support; completing these audits and adopting a clearance plan are important first steps toward reducing the stock. Improvements in recording of expenditure arrears, cash management, and expenditure controls are essential to prevent new arrears.

- The authorities' 2023-25 medium-term fiscal framework followed a thorough and transparent participatory process and was discussed by the transitional parliament.

- The authorities made progress in upgrading financial reporting and implementing the Treasury Single Account, expanding its coverage to 80 percent of autonomous public entities in Conakry.

32. Work is ongoing to improve debt management, following Guinea's first long-term auctions of 5- and 3-year bonds in April and August 2022, respectively. Although broadly successful, the experience showed the importance of preparing a clear issuance calendar and communicating the government's intentions well. The absence of such calendar might have limited commercial banks' participation in the auctions amidst uncertainty about future investment options. The authorities are working with IMF TA to prepare an action plan to strengthen these areas, including improving coordination between the key stakeholders, which is essential to ensure proper financing of the budget. Additional efforts to develop a secondary market would also be useful over the medium-term.

33. Strengthening PFM and developing debt management capacity can support efforts to design and implement a fiscal anchor tailored to Guinea's specific medium-term development strategy. The authorities are currently using the overall deficit rule based on the West African Monetary Zone convergence criteria for near-term budgeting purposes (i.e., a deficit including grants not exceeding 3 percent of GDP). Remaining at moderate risk of debt distress is also a key guiding principle. Enhancing fiscal reporting, along with reforms to increase investment efficiency and debt management, would facilitate the potential adoption of a more customized fiscal anchor down the road, which could be prepared with IMF TA support.

The Medium-Term and Debt Sustainability

34. Increases in revenue mobilization are expected to contribute to finance the planned scaling up in infrastructure investment over the medium-term. Revenue mobilization efforts are expected to increase tax revenue by about 2.8 percent of GDP over 2022–27. Grants are expected to decline due to the shift toward long-term loans in Guinea's IDA-20 allocation. Infrastructure spending would increase, but more moderately than what was planned before the pandemic, resulting in an overall balance that is expected to average 2.4 percent of GDP over 2023–27, with basic fiscal surpluses averaging 0.2 percent of GDP.

35. Guinea remains at moderate risk of debt distress, with some space to absorb shocks but limited space for new borrowing. Public and external debt ratios declined in 2021, reaching 40.4 percent of GDP, and 22.8 percent, respectively, after their 2020 Covid-related surge. This decline reflected a temporary pause in key financing partner support in the immediate aftermath of the coup, amid exchange rate appreciation. Disbursements in 2022 have also been subdued. There has been a shift toward external loans with less concessional conditions and debt remains sensitive to significant risks. Therefore, maintaining a realistic envelope for externally financed investment projects remains critical to maintain the moderate risk of debt distress rating. Maximizing recourse to concessional borrowing will be essential in this context.

Authorities' Views

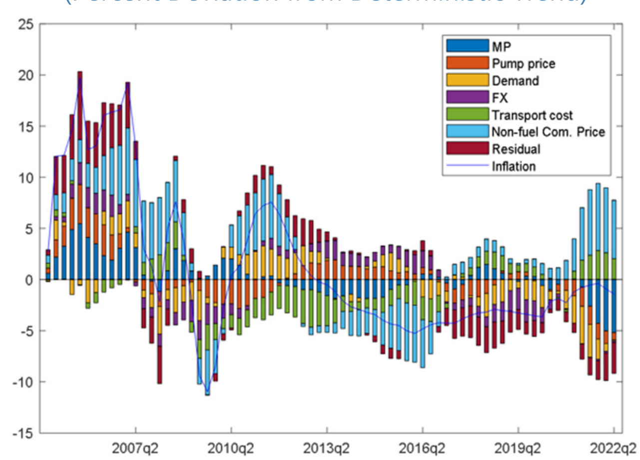
36. The authorities generally agreed with the main fiscal policy advice. On revenues, they highlighted the importance of the new transfer pricing decree and the expansion of digital tax collection. They are undertaking a survey of the artisanal gold sector. They also underscored efforts to streamline recurrent expenditure and to maintain PFM reform momentum. On gender, they emphasized sound gender policies and laws that have nonetheless not been fully implemented, paired by a strong interest in making progress in this area and highlighting insufficient resources as a key constraint. Finally, the authorities agreed with the importance of seeking concessional financing to remain at moderate risk of debt distress. Nonetheless, they noted that financing under these terms is not available at the scale needed to finance their large infrastructure needs.

B. Monetary and Financial Sector Policies

37. Monetary policy in 2022 is weathering well in a challenging environment. Although structurally high, inflation remained contained at around 12 percent in 2022—similar to levels in 2021. The key factors behind this positive performance include: (i) an appropriately tight monetary stance, supported by the decline in central bank net credit to the government, which kept the monetary base below historical averages (Figure 13); (ii) the application of the recently-adopted FX intervention rule, which helped improve monetary policy transmission by increasing exchange rate flexibility;[10] (iii) the introduction of price controls to respond to the fuel and food price shock; and (iv) the SDR allocation—which released financing pressures from the authorities. However, the central bank lowered the reserve requirements from 16 to 15 percent in March 2022. Commercial banks used the liquidity to provide additional funding to the government. Staff welcomes the Monetary Policy Committee's decision in September 2022 to keep the reserve requirement and main reference rates unchanged, at 15 and 11.5 percent, respectively, amidst only gradually declining inflation and risks to the outlook.

Figure 13. Guinea: Historical Decomposition of Inflation

(Percent Deviation from Deterministic Trend)



Source: IMF staff calculations.

Note: Based on VARX and sign restrictions (see Annex)

38. Monetary policy should remain tight to withstand the impact of delayed pass through and second round price pressures. The impact of the 20 percent increase in fuel prices in June 2022 has still not dissipated and there are

[10] The FX intervention rule was adopted at end-2020, and broadly adhered to since. According to the publicly known rule, the BCRG may choose to organize an FX auction at the close of the session if the spot exchange rate deviates by more than 0.25 percent with respect to its 5-day moving average. Otherwise, it does not. The maximum amount of FX bought or sold at the auction is capped at US $8 million per day.

risks from second-round effects due to global supply shocks. Furthermore, a potential reversal in the GNF's appreciating trend would fuel inflation. In this context, it would be important to: (i) ensure that there is no lending to the government beyond the statutory limit, outstanding advances are remunerated, and repaid in time; (ii) actively manage liquidity to maintain a broadly contractionary monetary stance, especially when the fiscal stance becomes more expansionary; (iii) delay further reductions in the commercial banks' reserve requirement until risks from international price pressures subside; and (iv) stick to the rule-based foreign intervention policy, which has improved the transparency and coherence of interventions. Fuel subsidy reform down the road should be well timed to avoid exacerbating inflation.

39. **The ongoing work to rebase and expand the coverage of the CPI is welcome, and its introduction should follow best practice.** The national statistical office (INS) has been working to expand the CPI beyond Conakry and update its weights from 2002 to 2019, using the harmonized CPI methodologies defined by WAEMU and AFRISTAT. Staff advised the authorities to transition to the new index gradually, starting first with the new headline Conakry index and its main sub-components, and then transitioning to the national index once there is enough data to calculate annual variations. It is also important to ensure the compilation methods and the underlying data are robust. The IMF stands ready to continue to support this process, including by providing TA.

40. **Ongoing efforts to limit monetary financing of the deficit and strengthening monetary policy transmission will pave the way for a transition to inflation targeting in the medium-term.** Even prior to the war in Ukraine, inflation in Guinea was high and amongst the most persistent in sub-Saharan Africa (Annex VII). The authorities are interested in transitioning from the current reserve money targeting to a framework whose operational instrument is the interest rate. Staff advised preparing a detailed road map to guide this process. Important steps would include: (i) a sustained reduction in monetary financing of the fiscal deficit; (ii) transparent monetary decision-making to guide expectations; (iii) increased scope and availability of data to the public (e.g., infra-annual activity measures and interest rate information); (iv) increased flexibility of the exchange rate (possibly through increasing the threshold for triggering possible FX interventions); and (iv) a gradual reduction in reserve requirements to reduce intermediation costs and facilitate financial deepening.

41. **Implementation of the recommendations from the 2019 FSSR has started to accelerate**. Monetary operations are being strengthened through the elaboration of an emergency liquidity assistance framework. The revision of the banking law is targeted for the near-term and work has re-commenced on amending the central bank statute.[11] TA is also ongoing on transitioning to IFRS and Basel II/III, complemented by supervisory stress testing TA, which will help the BCRG identify risks to the banking sector.

[11] The FSSR recommendations included: changes to the banking law and amendments to the Central Bank Statute to sharpen the BCRG's banking supervision and macro-prudential supervision mandate; the inclusion of specific provisions to address concerns about development banks (including divesting the BCRG's stake in the development bank); and bolstering the legal basis and tools available to the BCRG for the bank crisis resolution regime.

42. The authorities should adopt a risk-based, sequential approach to the financial sector reform agenda. Priority should be given to finalizing the banking law, enhancing supervisory capacity, and incentivizing banks to better manage liquidity. Focus should be placed on establishing a legal and operational framework for dealing with weak banks (e.g., those with elevated NPLs). Measures to support prompt recovery from unviable and insolvent debtors, via expedited court actions, are critical. Next, work should continue to put in place a financial safety net and contingency plans. To safeguard central bank independence and effectiveness, outstanding weaknesses identified in the 2021 safeguards assessment should be promptly addressed. Solving the ongoing legal dispute over proceeds from three tons of the central banks' gold with Affinor, a Belgian gold refiner, also remains critical. Over the medium-term, progress is needed to enhance financial inclusion, develop debt markets and secondary markets, and address obstacles to increase private sector borrowing (e.g., making progress on collateral and credit registries).

43. Ongoing steps to deepen private sector credit and improve the business environment are welcome. The partial repayment of government arrears in 2022 made room for banks to provide new credit. The new commercial court and SME loan guarantee fund should help create more legal certainty for more widespread and longer-term credit intermediation. Bank lending should become less risky and consequently cheaper through planned risk analysis tools and a credit registry. However, until these initiatives became fully operational, the absence of secondary debt markets, legal uncertainties, and the lack of appropriate collateral hinder expansion of credit, especially to less banked sectors—such as agriculture—which could be vital for diversification. Moreover, more work is needed to make the credit information system fully operational, which will help enable the implementation of the Credit Information Bureau and better manage credit risk. While banks' capital ratios remain broadly robust, the recent increase in NPLs (especially net of provisioning) also calls for heightened attention of the supervisor to closely monitor asset quality.

Authorities' Views

44. The authorities broadly concur with the advice on monetary policy and financial sector reform. They agreed that the monetary policy stance should remain prudent until inflation declines to single digits, when rates could be adjusted to support the expansion of commercial bank credit. They consider that digitalization, investment in payment systems, and the interoperability of banks will continue to help financial deepening. They view TA as critical to building resilience and enhancing monetary policy effectiveness. Finally, they consider developing the domestic debt market as a key priority. The authorities would like to transition to the new CPI index as soon as possible, as it generally shows lower inflation rates.

C. Diversification, Resilience and Governance

45. Pursuing economic diversification while addressing the risk from concentration must remain key priorities. Guinea's reliance on mining exports represents a risk to external stability as well as to long-term growth prospects and inclusiveness. Pursuing diversification therefore remains critical for the country's growth agenda. Staff analysis shows that Guinea should explore potential for diversification in agriculture, services, and in activities with not only forward but also more complex backward linkages to the competitive mining sector (Annex VIII). Guinea should also manage risks to external sustainability from price or production swings in its highly concentrated exports by building sufficient reserve buffers.

46. The Ukraine crisis underscored the need to build resilience to external shocks, which climate change could exacerbate (Annex IX). To better mitigate spillovers, the authorities should prioritize investments in climate adaptation that utilize the country's rich natural endowments. Fast-tracking the Souapiti hydropower dam's full connection to the grid would be necessary to reap the benefits of its production. On the food front, Guinea has abundant capacity to expand agricultural production, which would lower its reliance on imports while providing a much-needed boost to rural incomes. Modernizing land use planning and monitoring, in addition to linking farmers to banking and insurance services, would stimulate greater investments in agriculture. Finally, the authorities should ensure that emissions from the mining sector are gradually reduced, in line with Guinea's 2021 Nationally Determined Contribution as part of its commitment to the Paris Agreement.[12]

47. Sound implementation of the Simandou project should be a key priority. Progress on the Simandou iron ore project accelerated in 2022, as the two key competitors were brought together by the authorities to codevelop the mines (Box 3). Ensuring a good fiscal regime in the legal contracts under negotiation—by ensuring that the government extracts its fair share of revenues, while adhering to environment, social, and governance (ESG) best practices—can be a real gamechanger for Guinea.

48. Although reforms on the governance front are ongoing, more work is needed to enhance the anti-corruption system. The authorities created a court, the *Cour de Répression des Infractions Économiques et Financières* (CRIEF), to prosecute embezzlement, corruption, and other financial crimes. The CRIEF is prosecuting the former Prime Minister over allegedly embezzling more than US$40 million of the pandemic response financing, and other former high-ranking officials. To make further progress on governance, the authorities should provide a firmer legal basis for the establishment of the National Anti-Corruption Agency. It would also be important to increase the number of specialized judges in the Commercial Court since there are only four for the entire country, resulting in some cases being delayed. In general, it would be important to strengthen the judicial system, including by training judges and building judicial infrastructure. The coup slowed down IMF-supported reform efforts on the asset declaration regime, which currently stands at a legal impasse.

49. Additional work is also needed on strengthening AML/CFT regime. The authorities have been preparing an updated compendium of AML/CFT regulations and a procedures manual for use by oversight bodies. To improve the legal framework, the authorities are encouraged to continue harmonizing laws and regulations in accordance with the AML/CFT national plan, and to issue

[12] Guinea committed to net zero emissions from the mining sector by 2040.

implementing decrees for the 2021 AML/CFT law. Moreover, it would also be important to boost resources and capacity for BCRG and the Financial Investigation Unit (CENTIF) to enable it to effectively carry out its mandate. Guinea has already addressed significant weaknesses in the AML/CFT framework, with IMF support, notably at the technical compliance level. However, further improvements are required, particularly at the level of effectiveness of implementation. The authorities should thus make a concerted effort to strengthen the AML/CFT regime considering the upcoming mutual evaluation process by the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA).

50. Progress in implementing the previous safeguards recommendations has been slow. Key outstanding recommendations include the timeliness of IFRS financial statements, strengthening the independence of the Audit Committee, and completing the capacity building plans for the accounting, risk management, and internal audit departments. Filling current vacancies in these departments and divestment from the National Investment Bank of Guinea are also critical. Staff will continue to engage with the BCRG to accelerate implementation of all the remaining recommendations.

Box 3. Simandou Iron Ore Development

After more than a decade of legal and corruption-related delays, development of the world's largest and highest-quality iron ore deposit is finally progressing.[13] In March 2022, a framework agreement was signed by Rio Tinto, WCS, and the Guinean government to codevelop the Simandou project. The agreement includes developing four mine sites and building a 670-km multi-purpose and multi-user railway, and a new deep-water port, at a reported cost of about $15 billion. The newly created joint venture "Compagnie du TransGuinéen" will be in charge of the co-development of the railway and port. The government will get a free and non-dilutable 15 percent stake in the mines and infrastructure joint venture.

While the authorities are pushing for construction to be finalized in 2024 so production can begin as early as 2025, industry analysts believe this timeline may be too ambitious and 2027 would be more realistic. WCS has nonetheless made progress over 2021-22 in the construction of infrastructure, including progress in constructing buildings, rails, and roads. The company has committed to respect ESG standards. Necessary agreements are still being negotiated, including the shareholding agreement.

The Simandou project is expected to be a game-changer for Guinea. Once operational, Simandou could produce over 100 million tons of iron ore annually, with a value of approximately $10 billion—more than half the country's 2021 GDP—resulting in a doubling of exports.

The project is not currently incorporated into the medium-term outlook. Because of limited details and uncertainty related to ongoing negotiations, Simandou is not incorporated into the baseline macroeconomic projections,[14] but its medium-term upside risk is considerable and increasingly likely to materialize.

[13] The Simandou prospect is divided into four exploration blocks. Blocks 1 and 2 are owned by SMB-Winning Consortium (now called Winning Consortium Simandou, or WCS, 90 percent) and the government of Guinea (10 percent). Blocks 3 and 4 are owned by SIMFER, a joint venture between Rio Tinto (45.05 percent), Chinalco (39.95 percent) and the government of Guinea (15 percent). Each half of the deposit is estimated to contain approximately two billion tons of high-quality iron ore reserves.

[14] IMF staff's baseline macroeconomic projections only includes a portion of FDI and growth related to the construction of a railway and port.

Authorities' Views

51. **The authorities highlighted their ambitious structural reform agenda reflected in their PRI and PRE and pointed to several recent successes**. Most importantly, they underscored their effort to take a strong stance in the Simandou project, and the recently approved local content legislation. On climate, they pointed to the 2021 publication of their Nationally Determined Contribution to plan investments in climate adaptation and mitigation. The authorities are mainly focusing diversification efforts on forward linkages of the mining sector, particularly alumina refining. The authorities also agree that reforms to enhance anti-corruption and rule of law should be a key priority.

IMF ASSISTANCE MODALITIES

52. **The authorities' request for assistance from the Food Shock Window under the RCF has an access of 25 percent of quota (SDR 53.55 million) to address an urgent balance-of-payments need associated with a situation of acute food insecurity stemming from the global food and fuel price shocks**. The UN Global Report on Food Crisis identified Guinea as a country experiencing a food crisis, with over 1.2 million people in acute food insecurity (i.e. in "crisis or worse" situation). The resources provided by the FSW would allow the authorities to deploy a better response to the food shock, while also containing the decline in the import coverage ratio to 2.5 months of imports in 2022 and 2.4 in 2023, compared with a decline to 2.4 in 2022 and 2.3 in 2023 absent IMF support – which would be well below the recommended 3-month coverage ratio. Furthermore, the balance-of-payments need cannot not be addressed with a regular UCT program at this time, given its urgent nature and the longer time that would be required to negotiate such a program with wide buy-in from various stakeholders in the context of a difficult political backdrop. The authorities are working with development partners to mobilize additional financing, including the AfDB and bilateral partners.

53. **The authorities intend to use the FSW as budget support, to respond to needs while avoiding crowding out the private sector or turning to monetary financing**. As such, the financing is expected to contribute to mitigate inflationary pressures and support private sector credit growth. An MoU between the Ministry of Economy and Finance and the central bank has been prepared to establish responsibilities for servicing financial obligations to the IMF and will be signed prior to the on-lending.

54. **Guinea's capacity to repay the Fund is adequate and the risk of debt distress is assessed as moderate.** Total outstanding credit based on existing and prospective drawings to the IMF is projected at about 167 percent of quota by end-2022, equivalent to 5 percent of exports and about 27 percent of gross official reserves (Table 6). Prudent fiscal and monetary policies, along with Guinea's strong track record of meeting its obligations to the Fund, contribute to reducing capacity-to-repay risk. In addition, debt sustainability risks remain moderate, with some space to absorb shocks.

55. The authorities have committed to use the FSW resources transparently and efficiently. To benefit from its knowledge and distribution channels and ensure efficiency and additional transparency, US$20 million will be managed by the WFP and used for food distribution. In addition, the authorities will create a subaccount within the Treasury Single Account for the spending and will enforce the use of proper expenditure procedures and controls, including normal procurement processes, and publish all related contracts. As the funds are spent, the authorities agree to publishing comprehensive monthly, quarterly, and annually execution reports, in addition to carrying out a complete audit on the use of the emergency resources at the end of 2023. The authorities also agreed to implement the recommendations made by the Court of Auditors to promptly address PFM vulnerabilities identified as part of the audit of the Covid-19 response plan and will prepare an action plan by June 30, 2023. Finally, the authorities agreed to update their safeguards assessment after the FSW disbursement.

OTHER ISSUES

56. Data provision is broadly adequate for surveillance, but important gaps exist. The authorities continue to improve statistics, with support from the IMF. Priority areas for improvement include finalizing the transition to GFS 2014, the rebasing of national accounts data, and the strengthening of the debt and external sector data. The authorities are also encouraged to continue building capacity to improve their macroframework, with IMF TA.

57. Guinea continues to be an intense user of IMF capacity development (CD). CD priorities include strengthening domestic revenue mobilization, especially in the mining sector, increasing efficiency in public expenditure, reducing fiscal risks, strengthening the monetary policy framework while improving banking supervision, strengthening debt management, and improving collection and dissemination of macroeconomic and financial statistics (Annex X).

STAFF APPRAISAL

58. The Guinean economy has been affected by several severe shocks in the last two years. Before the country had recovered from the impact of the pandemic, the spike in commodity prices triggered by the war in Ukraine compounded difficulties and exacerbated food insecurity. The socio-political situation also resulted in uncertainty, a wait-and-see attitude in the private sector, and civil unrest. Nonetheless, the mining sector remained resilient.

59. The authorities embarked on several initiatives to improve the management of economic resources. Recurrent expenditure rationalization; fast-tracking efforts on revenue mobilization—including through a bold reform to bauxite transfer pricing; the introduction of a new, rebased CPI; and the launch of the first medium-term domestic debt security issuance are some of these initiatives. Perseverance, transparency, and proper implementation of these reforms—gradually, at times—would be critical to ensure they deliver the expected results.

60. The authorities' efforts to manage the 2022 budget prudently seem to be paying off. Lower financing needs and the shift from central bank advances to commercial bank borrowing contributed to keeping inflation in check. Recent efforts to expand the share and maturity of domestic financing are welcome; nonetheless, efforts to improve cash management need to continue to ensure a smooth financing of the budget, including by improving coordination among the key stakeholders, developing debt markets, and limiting the accumulation of domestic arrears. Furthermore, clearing the stock of audited domestic arrears should be part of a comprehensive debt strategy.

61. Energy subsidies remain a significant, regressive drag on the budget, and need to be addressed. In the absence of strong social safety nets, fuel subsidies are a second-best measure, and staff advised preparing a plan to gradually eliminate them and transition to an automatic pricing mechanism, with smoothing. Electricity subsidy reform, which was partly delayed by the pandemic, should resume. Together with efforts to improve revenue mobilization, a reduction in energy subsidies can provide space for critical investment needs in infrastructure, human capital, and social protection—the most effective and efficient package for sustainable growth, according to staff's research—without jeopardizing debt sustainability.

62. Efforts to ensure inflation remains under control need to continue. Monetary policy interventions have been appropriately tight. The National Statistics Office's work to prepare a rebased, updated CPI beyond the capital is welcome. Staff believes the transition to the new index should be gradual, and that it is essential for monetary policy to react to the new information only gradually, ensuring the tight stance is preserved in the meantime. As energy subsidies are removed, coordination between fiscal and monetary policy will also be important to contain inflation.

63. Ambitions to scale-up infrastructure investment need to be matched with absorption and implementation capacity and debt sustainability considerations. Enhancing PIM remains critical. While the debt sustainability analysis shows some space to absorb shocks, stress tests suggest that debt vulnerabilities will increase if adverse shocks materialize. Therefore, the authorities are encouraged to maximize recourse to concessional financing and continue implementing prudent external borrowing policies, to ensure debt remains at moderate risk of distress.

64. Strengthening social protection remains a key priority. Given Guinea's vulnerability and high poverty level, continuing efforts to enhance the social protection system are steps in the right direction that should continue. The use of the FSW resources should contribute to strengthening the systems and processes in place, as part of a broader and more sustainable social protection strategy.

65. Efforts to diversify the economy to create more resilient, inclusive growth are necessary over the medium-term. To reduce exposures to mining sector shocks and create more sustainable sources of growth, the authorities could consider exploiting Guinea's potential in agriculture, the mining value chain, and services, while building human capital and infrastructure.

66. Against this backdrop, staff support the authorities' request for the FSW, and their plan to use the resources to mitigate the impact of the shock on the most vulnerable. The urgent intervention to distribute food and scale-up cash transfers, while mobilizing fertilizers, would support the most vulnerable at a difficult time and improve the agricultural sector's prospects. Working together with the WFP would facilitate the package's prompt and efficient implementation.

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

Table 1. Guinea: Key Economic and Financial Indicators, 2019–27

	2019	2020	2021	2022	2023	2024	2025	2026	2027
	Act.	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	Annual percentage change								
National accounts and prices									
GDP at constant prices	5.6	4.9	4.3	4.7	5.6	5.8	5.6	5.5	5.4
Mining	3.5	28.3	6.6	11.8	11.1	9.3	6.3	5.1	6.3
Industrial mining	28.2	1.6	-0.6	10.9	11.9	9.5	6.7	5.2	6.6
Non-mining	6.0	0.3	3.7	2.9	4.1	4.8	5.4	5.6	5.1
GDP deflator	9.4	4.7	11.5	12.2	10.2	8.8	8.5	7.6	7.7
GDP at market prices	15.5	9.8	16.3	17.5	16.4	15.1	14.6	13.5	13.5
Consumer prices (average)									
Average	9.5	10.6	12.6	12.2	11.4	9.5	8.9	8.3	7.8
End of period	9.1	10.6	12.5	12.9	10.0	9.0	8.7	7.8	7.8
Money and credit									
Net foreign assets[1]	10.5	8.6	6.5	5.9	3.6	4.6	5.3	7.0	6.5
Net domestic assets[1]	12.4	16.2	0.3	4.4	14.0	12.8	11.7	7.0	9.3
Net claims on government[1]	4.0	19.3	-0.4	0.8	7.1	8.3	6.0	5.0	4.8
Net claims on government[1], excl. recapitalization	4.0	17.4	-1.3	-0.1	6.3	7.6	5.3	4.3	4.2
Credit to non-government sector[1]	8.9	3.2	3.0	4.2	4.1	6.6	7.9	9.2	11.6
Reserve money	16.6	19.2	6.1	3.2	11.7	7.1	19.0	13.6	13.9
Broad money (M2)	22.9	23.0	8.4	10.2	17.6	17.4	17.0	13.3	13.2
	Percent of GDP, unless otherwise indicated								
Central government finances									
Total revenue and grants	14.7	13.9	13.6	13.1	13.0	13.9	14.7	15.0	15.3
Revenue	14.0	12.8	13.0	12.6	12.8	13.7	14.6	14.9	15.3
Of which: Non-mining revenue	12.1	11.1	10.8	10.5	10.5	11.4	12.1	12.3	12.5
Grants	0.7	1.1	0.6	0.5	0.2	0.2	0.1	0.1	0.1
Total expenditure and net lending	15.0	17.0	15.3	14.4	15.3	16.5	17.2	17.6	18.1
Current expenditure	11.2	13.5	13.0	10.6	10.7	11.2	11.0	10.9	10.9
Of which: Interest payments	0.5	0.7	0.6	0.8	0.8	1.0	1.1	1.1	1.1
Capital expenditure and net lending	3.7	3.5	2.3	3.7	4.5	5.2	6.1	6.6	7.1
Overall budget balance									
Including grants	-0.3	-3.1	-1.7	-1.3	-2.3	-2.6	-2.5	-2.6	-2.7
Excluding grants	-1.0	-4.3	-2.3	-1.8	-2.5	-2.7	-2.6	-2.7	-2.8
Basic fiscal balance	0.6	-1.5	-0.7	0.1	-0.1	-0.2	0.3	0.4	0.3
External sector									
Current account balance									
Including official transfers	-15.5	-16.1	-2.1	-7.4	-6.8	-4.5	-3.0	-2.6	-1.9
Excluding official transfers	-15.7	-16.9	-2.1	-7.4	-6.8	-4.5	-3.0	-2.6	-1.9
Overall balance of payments	1.9	-0.9	2.4	-0.3	0.4	0.9	0.9	1.2	1.0
Exports, f.o.b. (annual percentage change, US$ terms)	-0.8	126.4	14.6	-4.6	2.8	4.0	6.0	6.7	7.2
Imports, f.o.b. (annual percentage change, US$ terms)	-7.5	56.9	6.7	8.7	0.9	-1.6	-2.8	5.3	6.3
Average effective exchange rate (depreciation -)									
Nominal index	2.4	-2.3	-6.1	...	...	...	...	...	...
Real index	9.3	5.5	2.8	...	...	...	...	...	...
Memorandum items:									
Exports, goods and services (US$ millions)	4,041	8,996	10,266	9,792	10,069	10,472	11,095	11,840	12,695
Imports, goods and services (US$ millions)	5,649	10,113	8,754	9,574	9,726	9,635	9,444	9,946	10,568
Overall balance of payments (US$ millions)	258	-121	388	-72	97	227	262	347	321
Net foreign assets of the central bank (US$ millions)	828	876	1,042	1,325	1,393	1,591	1,835	2,134	2,412
Gross available reserves (months of imports)[2]	2.1	2.5	2.7	2.5	2.4	2.4	2.6	2.7	2.8
External public debt, incl. IMF (percent of GDP)	20.0	27.9	22.8	21.2	21.9	22.9	23.0	23.2	23.4
Total public debt, incl. IMF (percent of GDP)	38.2	47.1	40.4	34.9	35.3	36.5	36.6	36.9	37.3
Nominal GDP (GNF billions)	123,458	135,612	157,725	185,329	215,692	248,234	284,565	322,860	366,399

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, 2019–27

(Millions of U.S. Dollars, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027
	Act.	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account									
Including official transfers	-2,085	-2,288	-340	-1,570	-1,612	-1,149	-828	-762	-612
Excluding official transfers	-2,109	-2,392	-344	-1,570	-1,612	-1,149	-828	-762	-612
Exports, f.o.b.	3,945	8,931	10,239	9,765	10,042	10,444	11,066	11,811	12,665
Mining products	3,519	8,385	8,572	9,006	9,186	9,488	10,040	10,715	11,490
Other	427	546	1,667	759	856	956	1,026	1,095	1,175
Imports, f.o.b.	-4,799	-7,527	-8,029	-8,727	-8,804	-8,667	-8,425	-8,872	-9,430
Food products	-390	-436	-566	-807	-889	-936	-988	-1,053	-1,124
Other consumption goods	-512	-635	-969	-1,055	-1,120	-1,199	-1,284	-1,371	-1,467
Petroleum products	-743	-579	-1,209	-1,620	-1,441	-1,429	-1,435	-1,455	-1,485
Intermediate and capital goods	-3,154	-2,986	-3,004	-3,474	-4,060	-4,366	-4,718	-4,994	-5,355
Imported goods for reexport /3	0	-2,892	-2,282	-1,770	-1,296	-736	0	0	0
Services trade balance	-755	-2,521	-697	-820	-895	-940	-990	-1,044	-1,108
Services exports	95	65	27	27	27	28	28	29	30
Services imports	-850	-2,586	-724	-847	-922	-968	-1,019	-1,073	-1,138
Income balance	-576	-1,459	-2,273	-2,318	-2,502	-2,544	-3,047	-3,234	-3,326
Of which: Interest on public debt	-20	-23	-41	-61	-82	-107	-130	-144	-160
Transfers	98	288	421	530	547	558	568	578	588
Net private transfers	75	185	417	530	547	558	568	578	588
Official transfers	24	104	4	0	0	0	0	0	0
Capital account	131	63	103	268	50	52	34	34	34
Public transfers	41	57	95	103	40	42	24	23	23
Financial account	2,213	2,104	625	1,231	1,659	1,324	1,056	1,075	898
Public (medium and long-term)	235	849	136	178	641	688	475	585	613
Project-related loans	153	888	133	253	801	868	670	768	819
Program financing	152	41	64	55	0	0	0	37	37
Public (short-term)	0	0	0	0	0	0	0	0	0
Amortization due	-70	-81	-61	-130	-160	-180	-195	-220	-243
Direct and other MLT private investment (net)	1,946	1,025	635	1,041	917	448	696	565	116
of which: FDI inflows	1,946	1,359	1,696	2,222	2,212	2,287	2,670	2,671	2,375
Private short-term	32	230	-439	11	101	188	-115	-74	169
Other (SDR allocation)	0	0	293	0	0	0	0	0	0
Errors and omissions	0	0	0	0	0	0	0	0	0
Overall balance	**258**	**-121**	**388**	**-72**	**97**	**227**	**262**	**347**	**321**
Financing	-258	121	-388	0	-97	-227	-262	-347	-321
Use of Fund resources (net)	24	160	-60	-29	-46	-50	-51	-69	-62
Disbursements	23	219	0	0	0	0	0	0	0
Change in gross official reserves (- = increase)	-281	-120	-410	20	-22	-147	-193	-278	-259
Of which: SDR Allocation			293						
Debt relief /1	0	82	81	10	-30	-30	-17	0	0
Change in arrears (- = reduction)	-1	-1	0	0	0	0	0	0	0
Financing gap	0	0	0	-71	0	0	0	0	0
RCF Food Shock Window	0	0		69	0	0	0	0	0
Residual financing gap	0	0	0	-2	0	0	0	0	0
Memorandum items:									
Current account balance (percent of GDP)									
Including official transfers	-15.5	-16.1	-2.1	-7.4	-6.8	-4.5	-3.0	-2.6	-1.9
Excluding official transfers	-15.7	-16.9	-2.1	-7.4	-6.8	-4.5	-3.0	-2.6	-1.9
Overall balance (percent of GDP)	1.9	-0.9	2.4	-0.3	0.4	0.9	0.9	1.2	1.0
Exports-GDP ratio (percent)	30.1	63.5	63.5	46.0	42.2	40.6	40.1	40.1	40.1
Imports-GDP ratio (percent)	-42.0	-71.3	-54.2	-45.0	-40.8	-37.4	-34.1	-33.7	-33.4
FDI-GDP ratio (percent)	14.5	9.6	10.5	10.4	9.3	8.9	9.6	9.0	7.5
Gross available reserves (US$ millions)	1,245	1,365	1,774	1,755	1,776	1,923	2,116	2,394	2,653
Gross available reserves (months of imports) /2	2.1	2.5	2.7	2.5	2.4	2.4	2.6	2.7	2.8
Nominal GDP (US$ millions)	13,443.1	14,177.8	16,155	…	…	…	…	…	…
National currency per US dollar (avg.)	9,184	9,565	9,763	…	…	…	…	…	…

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

[1] The grant for debt service relief due between April 14, 2020 to April 13, 2022.

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

[3] Assumed artisanal gold imported from neighboring countries.

Table 3a. Guinea: Fiscal Operations of the Central Government,[1] 2019–27

(Billions of Guinean Francs, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027
	Act.	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	**18,166**	**18,860**	**21,457**	**24,229**	**27,963**	**34,508**	**41,723**	**48,378**	**56,158**
Revenue	17,305	17,321	20,486	23,329	27,600	34,103	41,481	48,381	55,888
Tax revenue	15,868	16,587	19,011	20,316	25,124	31,067	37,585	43,454	50,415
Mining sector	2,373	2,294	3,310	3,822	4,848	5,747	6,851	8,084	9,725
Local Development Fund	356	283	352	573	727	862	1,028	1,213	1,459
Non-mining sector	13,495	14,293	15,701	16,495	20,276	25,321	30,734	35,370	40,690
Direct taxes	2,563	2,936	3,051	3,931	4,575	5,266	6,036	6,848	7,772
Indirect taxes	10,932	11,357	12,650	12,564	15,701	20,055	24,698	28,521	32,918
Taxes on goods and services	7,583	8,237	8,784	9,266	11,215	13,652	16,503	19,224	22,367
Taxes on international trade	3,349	3,121	3,866	3,298	4,486	6,403	8,194	9,297	10,551
Non-tax revenue	1,437	733	1,362	2,912	2,372	2,867	3,654	4,413	5,202
Souapiti revenues [3]	…	…	112	100	104	168	242	257	272
Grants	861	1,539	971	901	363	405	243	253	270
Project grants	377	547	930	901	363	405	243	253	270
Budget support	216	992	40	0	0	0	0	0	0
Other earmarked grants	…	…	…	…	…	…	…	…	…
Expenditures and net lending	**18,498**	**23,086**	**24,168**	**26,661**	**32,943**	**40,904**	**48,867**	**56,851**	**66,218**
Current expenditures	13,830	18,309	20,467	19,731	23,066	27,819	31,429	35,330	39,919
Primary current expenditures	13,253	17,295	19,576	18,177	21,335	25,271	28,248	31,818	35,828
Wages and salaries	4,430	6,162	6,315	6,520	7,866	9,629	11,181	12,686	14,396
Goods and services	4,253	5,037	5,460	4,115	4,629	6,200	6,392	7,352	8,444
Subsides and transfers	4,570	6,097	7,801	7,542	8,840	9,441	10,674	11,780	12,987
EDG	2,157	2,921	4,493	3,500	3,400	3,300	3,200	3,200	3,200
Subsidies	2,057	2,534	4,493	3,500	3,400	3,300	3,200	3,200	3,200
Gurantee Fund	100	387							
Other subsidies and transfers	2,413	3,176	3,309	4,042	5,440	6,141	7,474	8,580	9,787
Interest on debt	577	1,014	1,003	1,654	1,835	2,717	3,423	3,769	4,091
Domestic debt	391	788	487	1,004	922	1,450	1,767	1,854	2,156
External debt	186	226	404	550	809	1,098	1,414	1,658	1,935
Souapiti debt [3]	…	…	112	100	104	168	242	257	272
Capital expenditure	4,545	4,703	3,594	6,810	9,745	12,941	17,282	21,351	26,117
Domestically financed	2,766	1,159	1,366	3,707	4,853	7,075	10,145	12,703	16,370
Investment (central budget exec.)	2,766	1,159	1,366	3,707	5,392	7,447	10,145	12,703	16,370
Local Development Fund	356	283	352	573	727	862	1,028	1,213	1,459
Capital transfers	0	0	0	0	0	0	0	0	0
Externally financed	1,779	3,544	2,228	3,104	4,892	5,866	7,136	8,648	9,746
Net lending	117	74	107	119	132	144	157	169	182
Basic fiscal balance[2]	**772**	**-1,995**	**-1,162**	**222**	**-285**	**-378**	**921**	**1,323**	**1,080**
Overall balance									
Excluding grants	-1,193	-5,765	-3,682	-3,332	-5,343	-6,801	-7,387	-8,726	-10,330
Including grants	**-332**	**-4,226**	**-2,711**	**-2,431**	**-4,980**	**-6,396**	**-7,144**	**-8,473**	**-10,060**
Float	585	-36	-190	0	0	0	0	0	0
Financing	**777**	**4,262**	**2,901**	**2,431**	**4,379**	**6,396**	**7,144**	**8,473**	**10,060**
Domestic financing	**-1,372**	**-5,410**	**1,141**	**-1,465**	**-1,084**	**127**	**2,408**	**2,400**	**3,311**
Bank financing	1,206	4,529	-191	1,944	2,817	3,975	3,255	3,118	3,967
Net position at central bank (of which)	-167	1,790	-266	222	367	207	316	-509	-509
Amortization (convention)	-284	-284	0	0	-99	-209	-209	-209	-209
Other	117	2,074	0	222	466	415	525	-300	-300
Commercial banks	1,373	2,739	75	1,722	2,450	3,768	2,939	3,626	4,476
Nonbank financing	-1,129	-1,933	-1,767	-808	-658	-421	-313	-184	-122
Privatization revenue	0	0	0	0	0	0	0	0	0
Borrowing/Amortization of domestic debt (net)	-1,175	-1,387	-1,767	-808	-658	-421	-313	-184	-122
Other/exceptional revenue	46	0	0	0	0	0	0	0	0
Repayment of other non-bank borrowing		-546							0
Change in arrears	-1,448	-2,505	3,099	-2,600	-534	-534	-534	-534	-534
Souapiti: Decumulation of Domestic Assets [3]	…	…	0	0	0	0	0	0	0
Souapiti: SPV on-lending [3]	…	-5,501	0	0	-2,709	-2,893	0	0	0
External financing (net)	**2,148**	**9,672**	**1,760**	**3,896**	**5,462**	**6,269**	**4,736**	**6,073**	**6,749**
Drawings	2,799	3,387	1,925	2,682	4,529	5,461	6,894	8,795	9,901
Project [3]	1,402	2,997	1,298	2,203	4,529	5,461	6,894	8,394	9,476
Program	1,397	390	628	479	0	0	0	401	424
Amortization due	-644	-771	-600	-1,129	-1,444	-1,732	-2,009	-2,406	-2,815
Souapiti Amortization [3]	…	…	0	0	0	0	0	0	0
Souapiti Disbursements [3]	…	5,501	0	0	2,709	2,893	0	0	
Debt relief	0	0	509	-106	-267	-284	0	0	0
SDR allocation				2,479					
Change in cap. arrears (- = reduction)	-7	-7	0	0	0	0	0	0	0
Change in int. arrears (- = reduction)	0	0	0	0	0	0	0	0	0
Non Paris Clus bilateral rescheduling	0	228	0	0	0	0	0	0	0
RCF Disbursement [4]	0	1,441	0	0	0	0	0	0	0
RCF Repayments	0	-107	-74	-31	-64	-69	-148	-317	-337
Financing gap	**0**	**0**	**0**	**0**	**601**	**0**	**0**	**0**	**0**
Anticipated financing	**0**	**0**	**0**	**0**	**601**	**0**	**0**	**0**	**0**
IMF	0	0	0	0	0	0	0	0	0
RCF Food Shock Window	…	…	…	0	601	0	0	0	0
Residual financing gap	0	0	0	0	0	0	0	0	0
Memorandum items:									
Covid and Ebola spending		2,203	572						
Primary fiscal balance	245	-3,213	-1,708	-777	-3,145	-3,679	-3,721	-4,704	-5,969
Nominal GDP (GNF billion)	123,458	135,612	157,725	185,329	215,692	248,234	284,565	322,860	366,399

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] 2019–27

(Percent of GDP, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027
	Act.	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	**14.7**	**13.9**	**13.6**	**13.1**	**13.0**	**13.9**	**14.7**	**15.0**	**15.3**
Revenue	14.0	12.8	13.0	12.6	12.8	13.7	14.6	15.0	15.3
Tax revenue	12.9	12.2	12.1	11.0	11.6	12.5	13.2	13.5	13.8
Mining sector	1.9	1.7	2.1	2.1	2.2	2.3	2.4	2.5	2.7
Non-mining sector	10.9	10.5	10.0	8.9	9.4	10.2	10.8	11.0	11.1
Direct taxes	2.1	2.2	1.9	2.1	2.1	2.1	2.1	2.1	2.1
Indirect taxes	8.9	8.4	8.0	6.8	7.3	8.1	8.7	8.8	9.0
Taxes on goods and services	6.1	6.1	5.6	5.0	5.2	5.5	5.8	6.0	6.1
Taxes on international trade	2.7	2.3	2.5	1.8	2.1	2.6	2.9	2.9	2.9
Non-tax revenue	1.2	0.5	0.9	1.6	1.1	1.2	1.3	1.4	1.4
Souapiti revenues [3]	…	…	0.1	0.1	0.0	0.1	0.1	0.1	0.1
Grants	0.7	1.1	0.6	0.5	0.2	0.2	0.1	0.1	0.1
Project grants	0.3	0.4	0.6	0.5	0.2	0.2	0.1	0.1	0.1
Budget support	0.2	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other earmarked grants	…	…	…	…	…	…	…	…	…
Expenditures and net lending	**15.0**	**17.0**	**15.3**	**14.4**	**15.3**	**16.5**	**17.2**	**17.6**	**18.1**
Current expenditures	11.2	13.5	13.0	10.6	10.7	11.2	11.0	10.9	10.9
Primary current expenditures	10.7	12.8	12.4	9.8	9.9	10.2	9.9	9.9	9.8
Wages and salaries	3.6	4.5	4.0	3.5	3.6	3.9	3.9	3.9	3.9
Goods and services	3.4	3.7	3.5	2.2	2.1	2.5	2.2	2.3	2.3
Subsides and transfers	3.7	4.5	4.9	4.1	4.1	3.8	3.8	3.6	3.5
EDG	1.7	2.2	2.8	1.9	1.6	1.3	1.1	1.0	0.9
Subsidies	1.7	1.9	2.8	1.9	1.6	1.3	1.1	1.0	0.9
Gurantee Fund	0.1	0.3	…	…	…	…	…	…	…
Other subsidies and transfers	2.0	2.3	2.1	2.2	2.5	2.5	2.6	2.7	2.7
Interest on debt	0.5	0.7	0.6	0.9	0.9	1.1	1.2	1.2	1.1
Domestic debt	0.3	0.6	0.3	0.5	0.4	0.6	0.6	0.6	0.6
External debt	0.2	0.2	0.3	0.3	0.4	0.4	0.5	0.5	0.5
Souapiti debt [3]	…	…	0.1	0.1	0.0	0.1	0.1	0.1	0.1
Capital expenditure	3.7	3.5	2.3	3.7	4.5	5.2	6.1	6.6	7.1
Domestically financed	2.2	0.9	0.9	2.0	2.3	2.9	3.6	3.9	4.5
Investment (central budget exec.)	2.2	0.9	0.9	2.0	2.5	3.0	3.6	3.9	4.5
Local Development Fund	0.3	0.2	0.2	0.3	0.3	0.3	0.4	0.4	0.4
Capital transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Externally financed	1.4	2.6	1.4	1.7	2.3	2.4	2.5	2.7	2.7
Net lending	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Basic fiscal balance[2]	**0.6**	**-1.5**	**-0.7**	**0.1**	**-0.1**	**-0.2**	**0.3**	**0.4**	**0.3**
Overall balance									
Excluding grants	-1.0	-4.3	-2.3	-1.8	-2.5	-2.7	-2.6	-2.7	-2.8
Including grants	**-0.3**	**-3.1**	**-1.7**	**-1.3**	**-2.3**	**-2.6**	**-2.5**	**-2.6**	**-2.7**
Float	0.5	-0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Financing	**0.6**	**3.1**	**1.8**	**1.3**	**2.0**	**2.6**	**2.5**	**2.6**	**2.7**
Domestic financing	**-1.1**	**-4.0**	**0.7**	**-0.8**	**-0.5**	**0.1**	**0.8**	**0.7**	**0.9**
Bank financing	1.0	3.3	-0.1	1.0	1.3	1.6	1.1	1.0	1.1
Net position at central bank	-0.1	1.3	-0.2	0.1	0.2	0.1	0.1	-0.2	-0.1
Amortization (convention)	-0.2..	-0.2 .	0.0	0.0	0.0	-0.0	-0.1	-0.1	-0.1
Other	0.1..	1.5 .	0.0	0.1	0.1	0.2	0.1	0.2	-0.1
Commercial banks	1.1	2.0	0.0	0.9	1.1	1.5	1.0	1.1	1.2
Nonbank financing	-0.9	-1.4	-1.1	-0.4	-0.3	-0.2	-0.1	-0.1	-0.0
Privatization revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Borrowing/Amortization of domestic debt (net)	-1.0	-1.0	-1.1	-0.4	-0.3	-0.2	-0.1	-0.1	-0.0
Other/exceptional revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayment of other non-bank borrowing	…	-0.4	…	…	…	…	…	…	
Change in arrears	-1.2	-1.8	2.0	-1.4	-0.2	-0.2	-0.2	-0.2	-0.1
Souapiti: Decumulation of Domestic Assets [3]	…	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Souapiti: SPV on-lending [3]	…	-4.1	0.0	0.0	-1.3	-1.2	0.0	0.0	0.0
External financing (net)	**1.7**	**7.1**	**1.1**	**2.1**	**2.5**	**2.5**	**1.7**	**1.9**	**1.8**
Drawings	2.3	2.5	1.2	1.4	2.1	2.2	2.4	2.7	2.7
Project [3]	1.1	2.2	0.8	1.2	2.1	2.2	2.4	2.6	2.6
Program	1.1	0.3	0.4	0.3	0.0	0.0	0.0	0.1	0.1
Amortization due	-0.5	-0.6	-0.4	-0.6	-0.7	-0.7	-0.7	-0.7	-0.8
Souapiti Amortization [3]	…	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Souapiti Disbursements [3]	…	4.1	0.0	0.0	1.3	1.2	0.0	0.0	…
Debt relief	0.0	0.0	0.3	-0.1	-0.1	-0.1	0.0	0.0	0.0
SDR allocation				1.3					
Change in cap. arrears (- = reduction)	-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
Non Paris Clus bilateral rescheduling	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
RCF Disbursement [4]	0.0	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RCF Repayments	0.0	-0.1	-0.0	-0.0	-0.0	-0.0	-0.1	-0.1	-0.1
Financing gap	**-0.0**	**0.0**	**0.0**	**0.0**	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**
Anticipated financing	**0.0**	**0.0**	**0.0**	**0.0**	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**
IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RCF Food Shock Window	…	…	…	0.0	0.3	0.0	0.0	0.0	0.0
Residual financing gap	-0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Covid and Ebola spending	…	1.6	0.4	…	…	…	…	…	
Primary fiscal balance	0.2	-2.4	-1.1	-0.4	-1.5	-1.5	-1.3	-1.5	-1.6
Nominal GDP (GNF billion)	123,458	135,612	157,725	185,329	215,692	248,234	284,565	322,860	366,399

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, 2019–27[1]

(Billions of Guinean Francs, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027
	Act.	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
					Monetary Survey				
Net foreign assets	9,563	12,179	14,620	17,026	18,615	21,031	24,280	29,336	34,651
Net domestic assets	20,853	25,792	25,912	27,686	33,947	40,696	47,925	52,998	60,693
Claims on central government	14,613	20,478	20,323	20,631	23,824	28,205	31,897	35,488	39,455
Claims on private sector	12,044	13,009	13,887	15,541	17,344	20,753	25,552	32,154	41,639
Other items, net (assets +)	-5,804	-7,695	-8,524	-8,642	-8,618	-10,123	-9,961	-10,434	-10,434
Broad money (M2)	30,416	37,421	40,582	44,711	52,562	61,727	72,205	82,334	95,344
Currency	8,817	11,542	12,072	12,966	14,192	13,580	15,885	16,467	20,976
Deposits	21,599	25,879	28,510	31,745	38,371	48,147	56,320	65,867	74,368
					Central Bank				
Net foreign assets	7,780	8,747	9,493	11,624	12,965	15,819	19,490	23,989	28,689
Net domestic assets	6,025	7,708	7,964	6,383	7,155	5,739	6,157	5,148	4,490
Claims on central government (net)	9,203	11,567	11,623	10,210	10,952	11,564	12,318	12,283	11,774
Of which: to the Treasury (PNT1) .	9,520	11,766	11,896	12,118	12,485	12,691	13,007	12,499	11,990
Of which: Advances .	1,284	3,347	4,148	2,734	3,477	4,089	4,843	4,807	4,299
Claims on private sector	89	92	92	42	47	49	51	51	51
Liabilities to deposit money banks (-) .	0	-275	25	25	25	-500	-1,000	-1,500	-1,650
Other items, net (assets +)	-3,267	-3,676	-3,776	-3,894	-3,869	-5,375	-5,213	-5,686	-5,686
Reserve money	13,805	16,455	17,457	18,007	20,120	21,557	25,647	29,137	33,179
Currency outside banks	8,817	11,542	12,072	12,966	14,192	13,580	15,885	16,467	20,976
Bank reserves	4,654	4,594	4,980	4,632	5,516	7,561	9,320	12,229	11,761
Deposits	3,874	3,830	4,262	4,117	5,029	7,097	8,910	11,819	11,351
					Deposit Money Banks				
Net foreign assets	1,783	3,432	5,127	5,402	5,650	5,213	4,790	5,347	5,961
Domestic credit	17,365	21,828	22,722	26,076	31,566	39,206	45,517	51,098	59,302
Credit to the government (net)	5,411	8,911	8,700	10,421	12,872	16,640	19,579	23,206	27,681
Claims on the private sector .	11,955	12,917	13,795	15,388	18,383	22,208	25,528	27,428	31,094
Liabilities to the private sector (deposits)	21,265	25,560	28,105	31,337	37,958	47,730	55,878	65,425	73,927
					(Annual percentage change, unless otherwise indicated)				
Memorandum items:									
Net foreign assets	37.3	27.4	20.0	16.5	9.3	13.0	15.4	20.8	18.1
Net domestic assets	17.3	23.7	0.5	6.8	22.6	19.9	17.8	10.6	14.5
Domestic credit	13.6	25.6	2.8	5.5	17.2	19.4	13.9	9.6	12.1
Net claims on government	7.2	40.1	-0.8	1.5	15.5	18.4	13.1	11.3	11.2
Credit to the private sector	22.4	8.0	8.5	11.2	19.4	20.7	14.9	7.5	13.3
Broad money (M2)	22.9	23.0	8.4	10.2	17.6	17.4	17.0	13.3	13.2
Reserve money	16.6	19.2	6.1	3.2	11.7	7.1	19.0	13.6	13.9
Money multiplier (M2/reserve money)	2.2	2.3	2.3	2.5	2.6	2.9	2.8	2.8	2.9
Velocity (GDP/average M2)	4.5	4.0	4.0	4.3	4.4	4.3	4.2	4.2	4.1
Consumer prices (end of period)	9.1	10.6	12.5	12.9	10.0	9.0	8.7	7.8	7.8

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

[1] End of period.

Table 5. Guinea: Financial Soundness Indicators, 2019–22

(End of period, except otherwise indicated)

	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022
Regulatory capital to risk-weighted assets	18.27	16.12	14.65	15.41	15.15	15.40	15.04	14.02	16.75	16.60	18.99	18.47	18.43	16.48
Tier 1 capital to risk-weighted assets	17.51	15.90	14.42	15.11	14.95	15.19	14.83	13.82	16.55	16.48	18.87	18.37	18.32	16.38
Nonperforming loans net of provisions to capital	19.03	20.41	21.16	17.16	13.45	13.90	14.58	14.75	15.71	17.14	14.57	12.12	18.61	19.67
Nonperforming loans to total gross loans	11.47	12.10	11.48	9.90	9.96	10.42	9.06	9.38	10.38	10.71	10.21	9.21	11.00	10.89
Return on assets	2.68	3.21	3.48	3.78	3.73	3.90	4.14	4.25	3.60	3.70	2.94	3.99	2.46	3.06
Return on equity	14.03	17.07	18.80	20.54	21.31	22.54	25.02	25.15	22.23	22.46	16.23	24.66	13.53	17.71
Interest margin to gross income	43.79	42.08	42.01	41.76	39.21	36.65	33.07	35.38	36.45	36.01	38.43	36.22	39.94	39.38
Noninterest expenses to gross income	65.86	63.90	63.87	62.53	67.58	67.90	70.28	68.59	72.20	70.43	74.10	68.02	72.49	71.59
Liquid assets to total assets	48.21	49.41	47.16	48.16	50.13	54.03	52.67	54.90	56.58	56.90	55.49	54.98	54.56	55.03
Liquid assets to short-term liabilities	78.06	81.90	78.68	78.17	83.59	87.70	86.03	91.23	91.53	92.32	88.81	88.90	90.75	96.18
Net open position in foreign exchange to capital	79.59	112.68	116.17	138.53	154.73	143.61	112.14	86.80	106.96	120.39	114.91	100.17	99.24	117.41

Source: Guinean authorities.

Table 6. Guinea: Indicators of Capacity to Repay the IMF, 2021–32

(As of November 17, 2022; SDR millions, unless otherwise indicated)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
	Actual	Projections										
Fund obligations based on existing credit/1												
Credit outstanding	324.97	303.09	268.75	231.18	193.13	142.10	96.58	54.51	19.32	0.00	0.00	0.00
Percent of quota	151.71	141.50	125.46	107.93	90.16	66.34	45.09	25.45	9.02	0.00	0.00	0.00
Repayment of principal	36.41	1.84	34.35	37.56	38.06	51.03	45.52	42.08	35.19	19.32	0.00	0.00
Charges and interest	0.27	0.00	7.13	7.14	7.14	7.14	7.14	7.14	7.14	7.14	7.14	7.14
o/w: SDR charges	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Fund obligations from prospective drawings												
Credit outstanding	0.00	53.55	53.55	53.55	53.55	53.55	53.55	42.84	32.13	21.42	10.71	0.00
Percent of quota	0.00	25.00	25.00	25.00	25.00	25.00	25.00	20.00	15.00	10.00	5.00	0.00
Repayment of principal	0.00	0.00	0.00	0.00	0.00	0.00	0.00	10.71	10.71	10.71	10.71	10.71
Charges and interest	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total obligations based on existing and prospective credit												
Credit outstanding	324.97	356.64	322.30	284.73	246.68	195.65	150.13	97.35	51.45	21.42	10.71	0.00
Percent of quota	151.71	166.50	150.46	132.93	115.16	91.34	70.09	45.45	24.02	10.00	5.00	0.00
Percent of gross foreign available reserves	26.09	27.36	24.14	19.82	15.70	11.08	7.72	4.58	2.21	0.84	0.39	0.00
Repayment of principal	36.41	1.84	34.35	37.56	38.06	51.03	45.52	52.79	45.90	30.03	10.71	10.71
Charges and interest	0.27	0.00	7.13	7.14	7.14	7.14	7.14	7.14	7.14	7.14	7.14	7.14
Total payments to the IMF	36.68	22.28	34.89	38.10	38.60	51.57	46.06	42.62	35.73	19.86	0.54	0.54
Percent of exports of goods and services	0.51	0.31	0.46	0.49	0.47	0.59	0.49	0.43	0.33	0.17	0.00	0.00
Percent of external public debt service	26.76	14.02	16.65	15.91	14.74	17.16	14.09	11.76	9.41	5.13	0.12	0.10
Memorandum items:												
Exports of goods and services, US$ millions	10,266	9,792	10,069	10,472	11,095	11,840	12,695	13,581	14,555	15,597	16,699	17,877
Gross available reserves, months of imports	2.8	2.6	2.5	2.5	2.6	2.8	2.9	2.9	3.0	3.1	3.1	3.1

Sources: Guinean authorities; and IMF staff projections.

[1] Existing credit includes ECF arrangement and RCF loan.

Annex I. Implementation of 2021 Article IV Recommendations

1. Fiscal policy. The authorities recently signed a decree establishing a reference price for bauxite, which is expected to help mobilize significant mining revenue. To support vulnerable households, work continues to expand the reach of cash transfers. Non-priority spending is contained, although public investment management remains a challenge, resulting in continued low execution of public investment. Although the authorities remain committed to maintaining the rating of moderate risk of debt distress, a push for a more ambitious public investment plan could present challenges to debt sustainability if new non-concessional loans are contracted.

2. Monetary policy. The authorities continue to implement the rule-based FX intervention policy and have normalized pandemic-related relaxation of prudential measures. The BCRG also avoided further monetary financing in 2022.

3. Financial sector. The 2020-23 National Strategy for Financial Inclusion (NSFI) was adopted in July 2021 with the support of the World Bank. To help strengthen the financial sector stability framework, the authorities recently finalized the Basel framework-compliant new capital adequacy ratio legislations with help from Fund technical assistance. Continued growth in mobile money services have improved access to finance.

4. Structural reforms and business environment. The authorities continue to improve Guinea's business climate through digitalization efforts to support the private sector, along with measures to ease commercial and financial legal issues. A digital portal for foreign trade and a one-stop shop for online business registration are fully operational. In addition, the 2022 General Tax and Tax Procedure Codes represent a significant achievement toward improving the business environment. Created in 2015-16, the operationalization of the one-stop shop for land registration continues to present challenges as the digitalization pre-requisites prove onerous. However, a one-stop shop for building construction permits has been made operational. The reliable supply of electricity remains a challenge, but the authorities continue to make progress by investing in electricity generation and distribution.[1]

5. Governance. Progress has been made on governance, but challenges remain. The authorities fully implemented their 2020 RCF commitments. In addition, the military junta created a court to pursue economic and financial crimes, which may contribute to reducing the perception of impunity. Governance remains fragile, however, and the regime change has hampered reform efforts on asset declaration. A new AML/CFT law was adopted in 2021 but the implementing decrees have not yet been issued.

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[1] A vocational school was recently connected to the electrical grid thanks to the opening of an electricity substation in the city of Boke (a mining hub), allowing the city and its surroundings to have a 24-hour access to the electricity produced by the Kaleta-Souapiti hydroelectric complex. This is part of the authorities' push for higher rate of electrification in Guinea, including plans to electrify many unelectrified vocational schools.

Annex II. External Sector Assessment

Overall Assessment: The external position of Guinea during 2021 was weaker than the level implied by fundamentals and desirable policies. This is in line with the assessment at the time of the last ESA (July 2021). The assessment reflects analysis of the current account, REER, financial flows, and reserve adequacy. In particular, the EBA-lite 3.0 methodology indicates a current account gap of 2.6 percent of GDP and a REER overvaluation of 8-35 percent (based on the current account and REER models, respectively.) Staff considers this assessment broadly valid for 2022 given the comparable projected current account deficit (after temporary factors in 2021 are accounted for) and further REER appreciation. Data gaps do not allow for a comprehensive analysis of the external sector balance sheet, but the DSA provides a discussion of non-negligible risks to external debt sustainability, particularly under stress and historical scenarios. While some FDI overfinancing of the current account points to accumulation of private external assets, these will likely be run down as mining projects advance.

Potential Policy Responses: Over time, external imbalances are expected to be reduced by a combination of: (i) implementation of the new transfer pricing policy, which should boost the value of bauxite exports; (ii) further tapping of natural resources, particularly iron ore, which should further increase mining exports; and (iii) gradual consolidation of the fiscal balance in the long term. Continued adherence to the BCRG's rule-based FX intervention policy, which allows for greater exchange rate flexibility, would help avoid further REER overvaluation and preserve reserve buffers when facing depreciation pressures. The authorities should also consider more ambitious medium-term reserve targets.

A. Current Account

1. **Background.** Guinea's current account deficit shrank to 2.1 percent of GDP in 2021, on the back of strong mining exports and a normalization of the services deficit after its COVID-related surge. Because the 2021 balance was also significantly aided by a one-off surge in non-mining exports (which was unprecedented and appears to have faded in 2022) staff expect the current account deficit to widen in the current and next year, before improving in the outer years, driven by the strong performance of mining exports and solid terms of trade. Exports of goods and services have increased from an average of 24 percent of GDP over 2010-15 to 48 percent of GDP in 2021 and, following the normalization of non-mining exports in 2022, are expected to hover around 40-45 percent of GDP over 2022-26. The mining sector accounted for most export growth in recent years and is projected to continue to do so in 2022. Significant foreign participation in mining production results in the repatriation of over 50 percent of net industrial mining revenues through dividends. Given the high concentration of Guinea's export basket in gold and bauxite, the top downside risks to the current account outlook stem from setbacks in these two commodity prices and/or production.

2. Assessment. In line with the EBA-Lite 3.0 current account model (Table 1), staff estimates a current account norm of -4.3 percent of GDP, against a cyclically adjusted current account of -6.9 percent of GDP, resulting in a gap of -2.9 percent of GDP. Staff has adjusted the current balance by 4.3 percent of GDP to partly account for a one-off increase in the exports of non-mining goods. The current account norm based solely on fundamentals would be -8.7 percent of GDP. This is moderated by a relative policy gap of 4.4 percent of GDP which reflects relatively tight cyclically adjusted fiscal policy, relatively low public spending as a proxy for poor social safety nets and a possibly higher savings rate, and the accumulation of reserves in the context of imperfect capital mobility, all of which should have favored a higher current account balance. Staff considers this assessment broadly valid for 2022, given the comparable projected current account deficit (after temporary factors in 2021 are accounted for).

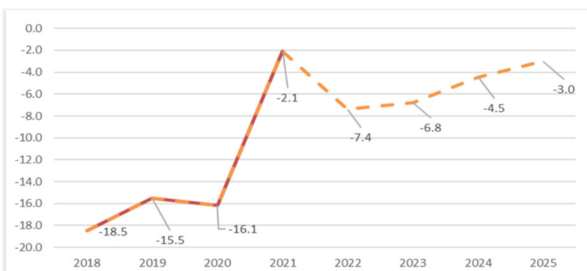
Table 1. Guinea: Model Estimates for 2021

(in percent of GDP unless otherwise indicated)	**CA model** 1/	**REER model** 1/
	(in percent of GDP)	
CA-Actual	**-2.1**	
Cyclical contributions (from model) (-)	0.6	
Additional temporary/statistical factors (-)	4.3	
Natural disasters and conflicts (-)	-0.2	
Adjusted CA	**-6.9**	
CA Norm (from model) 2/	**-4.3**	
Adjusted CA Norm	**-4.3**	
CA Gap	**-2.6**	**-11.3**
o/w Relative policy gap	4.4	
Elasticity	-0.33	
REER Gap (in percent)	**8.0**	**34.8**

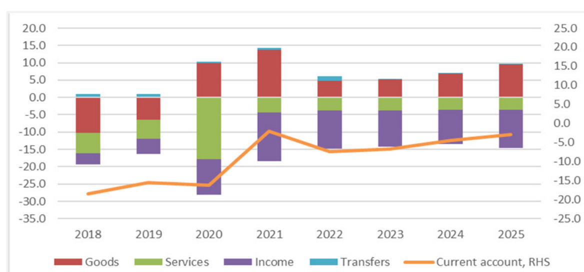
1/ Based on the EBA-lite 3.0 methodology.

2/ Cyclically adjusted, including multilateral consistency adjustments.

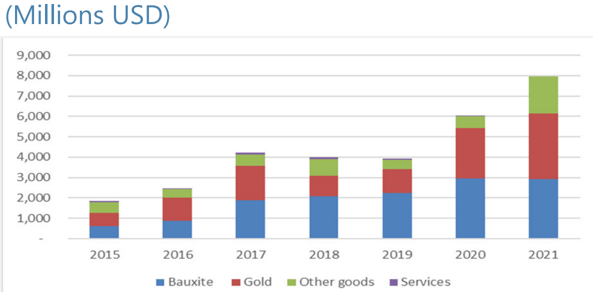
Current Account Balance
(Percent of GDP)



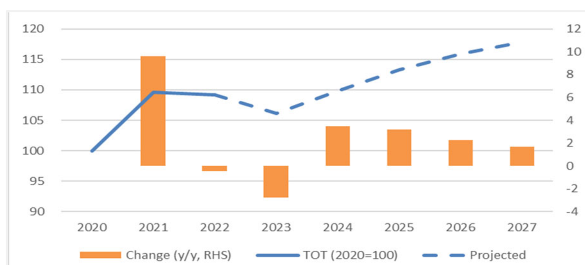
Current Account Components
(Percent of GDP)



Exports of Goods and Services
(Millions USD)



Terms of Trade

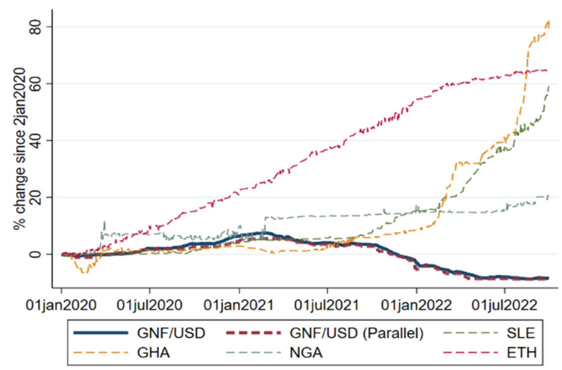


B. Real Exchange Rate

3. Background. Guinea's currency appreciated strongly in 2021, even at odds with the trend in benchmark countries, giving signs of stabilization only in mid-2022 (Panel A). The real effective exchange rate was on average 2.9 percent above that of 2020 and continued to gain further in 2022, resuming a longstanding appreciation trend that was only interrupted for a few months between May and December 2020 (Panel B). Real appreciation reflects strong mining output and supportive terms of trade, and was aided more recently by tight monetary policy conditions. REER strength is consistent with signs of a broader loss of external competitiveness outside the mining sector in Guinea, which poses a challenge for export diversification.

Exchange Rate Developments

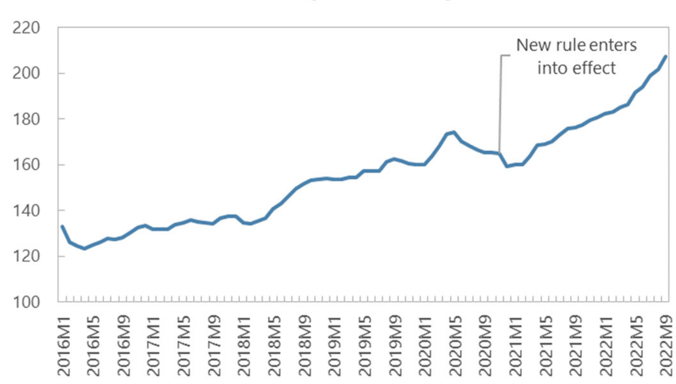
A. Nominal exchange rate change over past few years



Last observation: 30/9/2022.

REER (2010=100)

B. Real exchange rate

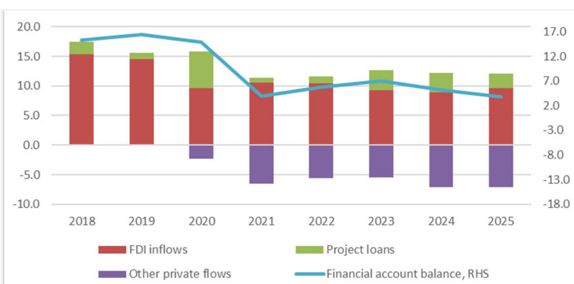


4. Assessment. Based on the EBA-Lite REER model, staff estimate that the REER overvaluation in 2021 was approximately 34.8 percent above its model-implied norm. Using the gap from the CA model as a reference and applying the model's estimated semi-elasticity of 0.33 yields an overvaluation of 8.0 percent. The divergence between the REER and CA gap could reflect Guinea's reliance on commodity exports combined with a low share of consumption goods imports, which point to a likely much lower elasticity of the current account to the REER. Overvaluation likely worsened in 2022 given the ongoing real appreciation. The transition to greater fiscal consolidation in the long term should help moderate this overvaluation as well as narrow the current account deficit. While medium-term real exchange rate appreciation may be warranted on account of strong natural-resource-led growth, the authorities need to carefully assess and manage the short-term (macro) and medium-term (structural) risks from such appreciation, for example by building more buffers if possible, and by adopting policies to favor diversification (see Annex VII).

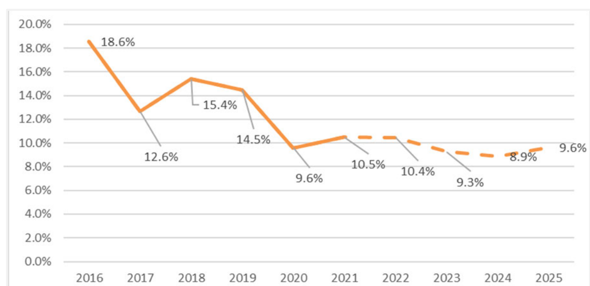
C. Capital and Financial Accounts: Flows and Policy Measures

5. Background. Guinea has experienced several years of strong FDI inflows—including for the construction of the Souapiti hydroelectric dam over 2017-20. FDI and project loans are expected to remain solid in coming years, as large investments proceed in the mining, electricity, and transportation sectors. Risks are tilted to the upside given the possibility that stronger-than-projected FDI inflows related to the exploitation of the Simandou iron ore deposits materialize, which according to the most optimistic industry estimates could total up to US$15 billion over the next two years (close to 100 percent of Guinea's 2021 GDP). Strong outflows are, however, expected to moderate the strength of the financial account, as proceeds from the boom in artisanal gold mining have so far been used to purchase private foreign assets.

Financial Account Components
(Percent of GDP)



FDI Inflows
(Percent of GDP)

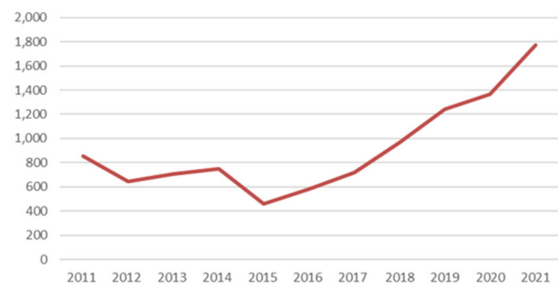


6. Assessment. Inflows into Guinea have taken the form of relatively stable FDI and project loans. As such, capital flows pose relatively limited roll-over and liquidity risks, but a slowdown in external financing and private flows, in the context of tight monetary policy and financial conditions in advance economies, contributed to create a BOP need in 2022. As discussed in the DSA, the authorities should be mindful of increases in the reliance on non-concessional or less concessional debt, which would boost the amortization bill as well as roll-over risks.

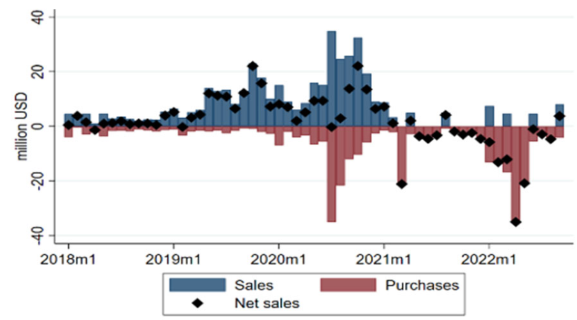
D. FX Intervention and Reserves Level

7. Background. The stock of gross international reserves has grown consistently over the past 10 years. Since November 2020, when a new rule-based FX intervention policy was adopted, the BCRG has moved from a crawl-like exchange rate regime to a de-jure managed float regime, but more information is needed to change its de facto classification. Under the rule, the BCRG organizes an FX auction to buy (sell) FX when the market rate is below (above) 0.25 percent of its 5-day moving average.[1] Since adopting the policy, the exchange rate has not been subjected to the test of strong depreciation pressures. On the contrary, for most of 2021 the BCRG was a net buyer of foreign exchange in the MEBD (Guinea's FX auction market), with incipient signs that this trend moderated in mid-2022, together with the GNF stabilization. Beyond these market operations, the BCRG also accumulates or de-accumulates reserves per other non-market operations, notably its role as financial agent of the Treasury. Following one-offs related to the SDR allocation in 2021 and the sale of mining and telecommunication licenses in early 2022, the net change of reserves over the past few months has been negative. Guinea's stock of gross international reserves at end-2021 corresponds to 2.7 months of prospective imports and corresponds to 40 percent of broad money (M2; above the 20 percent rule of thumb).

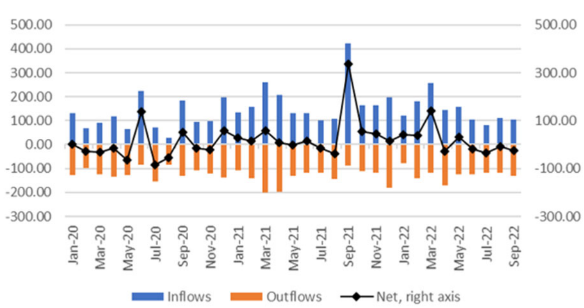
Gross International Reserves
(USD Million)



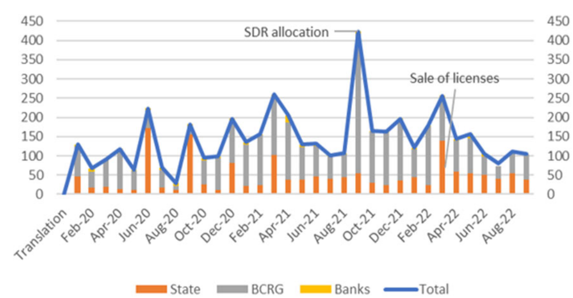
BCRG FX Purchases and Sales in Auction Market (1)



BCRG's Reserve Creating Flows
(USD Million)



Sources of Reserve Accumulation
(USD Million)



Sources: Authorities' data; and IMF staff calculations

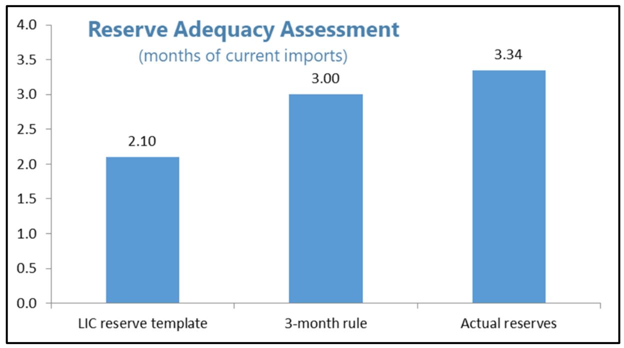
1. Aggregated to monthly frequency. Last daily observation 23/9/2022.

8. Assessment. Based on the IMF's reserve adequacy framework, which recommends an import coverage ratio of 2.1, Guinea's level of international reserves appears adequate for precautionary purposes. Nonetheless, staff has consistently considered that there is merit in a more conservative approach and additional reserve accumulation. Guinea's transition to an increasingly

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

flexible exchange rate regime reduces the need for holding reserves, and its LIC status[2] raises the opportunity cost of holding reserves, with an estimated marginal productivity of capital of 6.9 percent[3]. However, 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.[4]

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 2.1 months of imports. Current reserves thus correspond to 159 percent of the ARA-CC metric. However, the authorities should consider more ambitious targets to minimize multiple risks; in particular, the extremely concentrated resource-intensity of Guinean exports, the large swings in the Balance of Payments from ad hoc factors such as big investment projects, as well as the country's relatively short track-record of allowing exchange rate flexibility, combined with the detrimental effect that depreciation would have on external debt dynamics (see DSA) justify the recommendation for the BCRG to continue to gradually accumulate reserves until at least reaching 3.0 months of prospective import coverage (up from a projected 2.5 ratio in 2022 [5]). Moreover, this assessment is subject to downside risks from the potential reserve loss that could stem from an ongoing legal dispute with the gold refining firm Affinor, for which the BCRG will reportedly provision international reserves.



[2] Guinea is no longer considered a fragile state in this assessment, despite some lingering institutional risks per the 2022 "IMF Strategy for Fragile and Conflict-Affected States (FCS)," which indicates the use of the World Bank's methodology for FCS classification.

[3] Per the 2016 "Guidance Note on the Assessment of Reserve Adequacy and Related Considerations", this is measured by the evolution of the output-to-capital ratio in credit-constrained economies.

[4] 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 close to 90 percent of Guinea's total exports in 2021.

[5] This estimate includes IMF financing for $69 million in 2022, subject to Board approval.

Annex III. Risk Assessment Matrix for Guinea

Risks	Likelihood	Expected Impact if Realized	Policy Response
Conjunctural shocks and scenarios/Global risks			
Intensifying spillovers from Russia's war in Ukraine. Further sanctions resulting from the war and related uncertainties exacerbate trade and financial disruptions and commodity price volatility, with Europe, LICs, and commodity-importing EMs among the worst hit.	High	**Medium** Further sanctions resulting from the war could lead to a disruption of supply chains and maintain high inflation, volatility of export earnings and delay the execution of socio-economic infrastructure projects.	• Implement targeted social measures. • Intensify structural reform to remove bottlenecks to growth and support economic diversification. • Create fiscal space to scale up priority spending.
Commodity price shocks. A combination of continuing supply disruptions (e.g., due to conflicts and export restrictions) and negative demand shocks causes recurrent commodity price volatility and social and economic instability.	High	**High** A recurrent price volatility in global aluminum, gold or iron prices could reduce investment and production in mining sector as well as exports revenues.	• Allow exchange rate to buffer external price shocks. • Conditioning the sale of reserves to the rule-based FX intervention policy.
De-anchoring of inflation expectations and stagflation. Supply shocks to food and energy prices sharply increase headline inflation and pass through to core inflation, de-anchoring inflation expectations and triggering a wage-price spiral in tight labor markets. Central banks tighten monetary policy more than envisaged leading to weaker global demand, currency depreciations in EMDEs, and sovereign defaults. Together, this could lead to the onset of stagflation.	Medium	**Medium** Supply shocks could cause food and non-food inflation to spike. In addition, the lower global demand would put downward pressure on mining prices and reduce mining production, investments and exports revenues. Moreover, a higher cost of capital could delay socio-economic and mining infrastructure projects and lead to slower growth.	• Improve public finance for agriculture to improve productivity (scale up investment in irrigation, producers training, etc.). • Reduce gradually untargeted subsidies to create fiscal space for priority spending.
Local Covid-19 outbreaks in slow-to-vaccinate countries or emergence of more contagious vaccine-resistant variants force new lockdowns or inhibit commerce. This results in extended supply chain disruptions, slower growth, capital outflows, and debt distress in some EMDEs.	High	**Medium** The slow pace of vaccination leaves the economy vulnerable to a new wave of Covid-19 contamination, new restrictive measures could be taken, investment could slow down, and economic recovery could be delayed	• Develop a communication strategy to increase the population's adherence to the vaccination program. • Create fiscal space for scaling-up health spending. • Protect the most vulnerable through targeted measures.

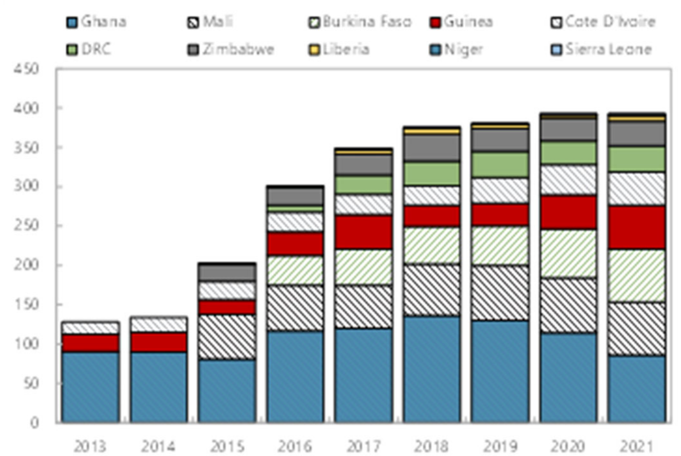
Structural risks			
Higher frequency and severity of natural disasters related to climate change cause severe economic damage to smaller economies susceptible to disruptions and accelerate emigration from these economies (medium probability). A sequence of severe events in large economies reduce global 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.
Domestic risks			
Risks of political and social instability. Non-mining recovery could be delayed by social unrest.	**High**	**High** Investment and growth could be affected. macroeconomic stability could deteriorate.	• Focus reforms on areas less sensitive to socio-political environment. • Improve inclusiveness of government policies.

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.

Annex IV. Artisanal Gold Mining and Regional Trends[1]

1. Artisanal or small-scale mining (ASM) is an increasingly important source of gold for Guinea's mining sector. ASM is subsistence mining, undertaken by individuals or groups not officially employed by a mining company, who exploit minerals using manual and traditional methods and process.[2] ASM tends to be ineffectively monitored and less regulated than industrial mining.[3] At the same time, gold (both ASM and industrial) is one of Guinea's key industries, comprising more than half of its total export revenue (worth more than 25 percent of GDP in 2021) and an increasing share of gold production in the region (Figure 1). The authorities estimated more than 220,000 people worked in the artisanal gold sector in 2017 and 12 percent of the population rely on ASM for income.[4] ASM has also grown in importance in recent years. In line with the double-digit percentage increases in the London Bullion Market Association (LBMA) gold price in both 2019 and 2020, Guinea's artisanal gold exports surged five-fold year-over-year in 2020. In 2021, they remained nearly 4 times their 2013-19 average, driven by an increase in ASM exports. ASM production also comprised nearly 71 percent of total gold production in Guinea in 2021 – the highest among African countries that report ASM production statistics (Figure 2).

Figure 1. Guinea: Total Gold Production
(Tonnes)



Note: Gold production includes both formal and ASM production for countries with data available.

2. Guinea's artisanal gold production and exports are a product of market dynamics during the COVID-19 pandemic, which helped to support households while possibly leading to an increase in smuggling. Artisanal gold production increased markedly with the onset of the

[1] Prepared by Rachel Lyngaas and Alexander Massara (both AFR). Inputs for this annex included an internal survey of AFR country teams on the artisanal gold sector carried out in July 2022. While limited data is available on the sector, country teams reported growth in the sector during the Covid-19 pandemic; issues related to exposure to cyanide and mercury, child labor, and security; and some efforts towards regional policy harmonization by WAEMU countries.

[2] 2013 Mining Code for Guinea.

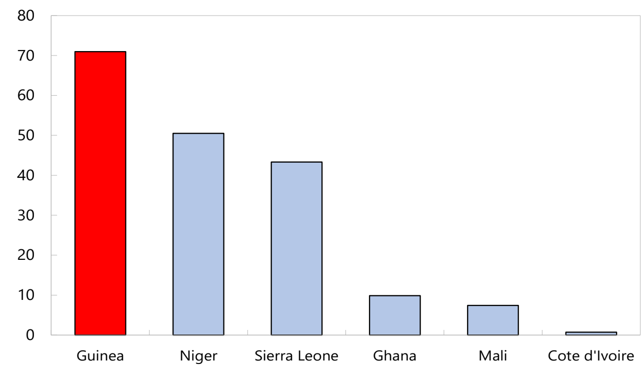
[3] In the Mano River Union, ASM faces issues related to weak governance, including corruption, smuggling, child labor, and environmental degradation. Amidu Kalokoh and Lada V. Kochtcheeva, See: "Governing the artisanal gold mining sector in the Mano River Union: A comparative study of Liberia and Sierra Leone," *J. of Int. Development,* 2022.

[4] Diagnostic de l'exploitation artisanale de l'or en Guinée, September 2017. Projet d'Appui à la Gouvernance dans le Secteur Minier. Les Ministère des Mines et Géologie.

Covid-19 pandemic; as gold prices increased, informal mining helped vulnerable households generate income to weather the challenges of supply-side bottlenecks and lockdowns. Pandemic-related border closures in 2020 may also have contributed to the surge in Guinea's ASM gold exports due to an increase in smuggling of artisanal gold into Guinea from neighboring countries. Guinea was one of the few countries in the region to maintain a direct flight to Dubai, the predominant trading hub for West Africa's gold supply chain.[5] While most countries in the region recorded double-digit declines in their gold exports to the UAE in 2020, Guinea's increased by 132 percent year-over-year (Figure 3). Moreover, UAE's gold imports from Guinea and Niger in 2020 exceeded their total reported gold production (Table 1), which is unlikely without either smuggling or a significant underreporting of production.[6]

Figure 2. Guinea: ASM Gold Production, 2021

(Tonnes)



Sources: Country authorities and IMF staff estimates.

Figure 3. Guinea: Gold Imports from the UAE, 2020

(Tonnes)

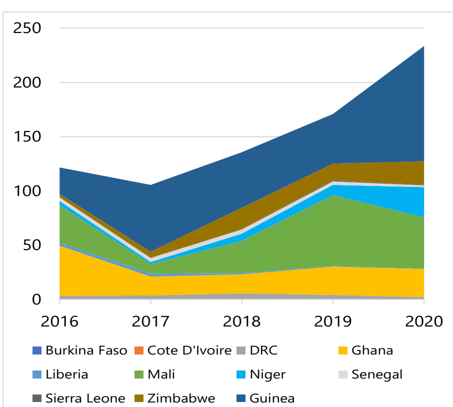


Table 1. Guinea: UAE Gold Imports and Total Reported Production, 2020

(Tonnes)

	UAE Gold Imports	Total Production
Guinea	106.12	100.78
Ghana	25.81	86.18
Mali	47.25	67.34
Burkina Faso	0.12	62.10
Cote D'Ivoire	0.01	38.50
DRC	2.14	29.96
Zimbabwe	21.85	29.20
Liberia	0.22	7.16
Niger	27.93	1.21
Sierra Leone	0.44	0.02

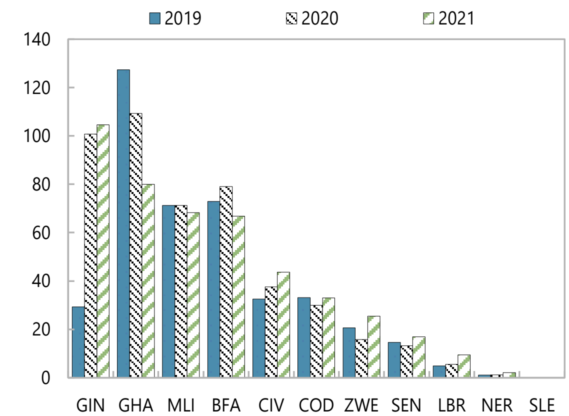
Sources: UN Comtrade, national authorities, and IMF staff calculations.

[5] Yves Bertran Alvarez et al., "Supply chains of artisanal gold in West Africa," Alliance for Responsible Mining, 2016.

[6] UAE import controls also exempt customs declarations on gold brought into the country in carry-on hand luggage, allowing it to be sold to gold buyers in the Dubai souk and bypass due diligence systems created by Dubai's precious minerals regulator. Alan Martin and Hélène Helbig de Balzac, "The West African Eldorado: Mapping the Illicit Trade of Gold in Côte d'Ivoire, Mali, and Burkina Faso," Partnership Africa Canada, 2017.

3. These trends have persisted in 2021, driven in part by the lack of harmonized ASM tax policies in the region. Guinea exported 83 metric tonnes of artisanal gold in 2021, nearly level with its spike the previous year – suggesting that the ASM "gold rush" may endure, despite the relaxation of pandemic-related closures. The increased mechanization of ASM, with more widespread use of metal detectors, may help to explain this persistence.[7] At the same time, Ghana – West Africa's predominant producer of gold over the past decade – saw its gold exports decline by 12 percent in 2020 and an estimated 24 percent in 2021 (Figure 4), with the share of ASM in Ghana's total gold production falling by an estimated 25 percentage points over the same period. Ghana had introduced a 3 percent export tax on small-scale gold producers in 2020, but the authorities replaced it with a 1.5 percent tax on unprocessed gold in 2022 due to concerns about the tax leading to an increase in smuggling.[8] Guinea removed its export tax on artisanal gold in 2016 of 3 percent, in an effort to formalize the sector and mobilize more foreign exchange.[9] The removal of the export tax, however, may have contributed to Guinea becoming a destination for smuggled gold. Although there has been some progress in harmonizing ad valorem royalties on industrial gold across West Africa, the levying of export taxes and taxes applied to small-scale producers vary (Table 2). In the Sahel, the booming ASM gold sector is also attracting the attention of armed groups, providing a new source of funding and potential recruits – underscoring the importance of regional cooperation on ASM gold issues.[10]

Figure 4. Guinea: Gold Exports, 2019-2021
(Tonnes)



Note: Includes ASM and industrial gold.
Sources: Country authorities and IMF staff estimates.

4. The authorities are undertaking a survey of Guinea's ASM gold sector and have taken a modest initial step toward taxing ASM exports. Guinea's National Statistics Office is implementing a survey on the ASM gold sector, which is a critical first step toward better understanding it – including how to increase its formalization and support small-scale miners. In June 2022, the authorities came to an agreement with the Gold Miners' Union to tax artisanal gold exports at a rate of $200 per kilogram of raw gold. This is a modest step in the right direction, but IMF staff assess the revenues generated from this measure – up to about $17 million in 2022 – to be far too low to meaningfully provide support for the services that are increasingly needed for the

[7] Anna Dessertine, "From pickaxes to metal detectors: Gold mining mobility and space in Upper Guinea, Guinea Conakry," *The Extractive Industries and Society*, 2016.

[8] Ekow Dontoh, "Smuggling Prompts Africa's Biggest Gold Producer to Rethink Export Tax," *Bloomberg*, 5 Nov., 2021.

[9] The Guinean authorities consider ASM gold to be important for getting access to dollars via repatriation requirements.

[10] "Getting a Grip on Central Sahel's Gold Rush," *International Crisis Group*, 13 Nov., 2019.

sector. To provide a sense of the scale of the potential revenue that could be generated, IMF staff estimate that a 1 percent increase on the tax rate of artisanal gold could raise as much as $44 million (¼ percent of GDP) in additional revenue in 2022, without accounting for smuggling.

Table 2. Guinea: West Africa Gold Tax Policies

	Burkina Faso (Revised 2003 Mining Code)	**Cote d'Ivoire** (Ord. n. 2014-148 du 26 mars 2014)	**Congo, DR** (Mining Code, as modified 2018)	**Ghana** (2006 mining code)	**Guinea** (2013 Mining Code)	**Liberia** (Revenue Code, amended 2011)	**Mali** (2012 Mining Code)	**Niger** (Mining Code, modified 2006)	**Senegal** (2016 Mining Code)	**Sierra Leone** (Exctractive Industries Revenue Act, 2018)	**Zimbabwe** (Mining Act 1964)
Export taxes	1.75% of LMBA + 0.2% cost of assays	None	2%	3% export tax on small-scale producers introduced May 2020; reduced to 1.5% tax on unprocessed gold in Jan. 2022	1% for industrial gold + $500 payment to BCRG for secure exportation; $200/kg for artisanal gold	2%	None	CFAF 120,000/kg for consignments below 50kg and CFAF 60,000/kg for consignments above 50kg	None	None	None
Ad valorem royalty	3-5%, based on price per oz. of gold	3-6%, based on price per oz. of gold	3.5% for precious metals, + 30-50% profit tax	3-5% for companies with development agreements	5% for industrial or semi-industrial production	3%	3% for the first 50kg of 200kg gold per month; 3% tax on selected products (ISCP)	5.50%	5%	5%	3-5% based on price per oz. of gold
Repatriation Requirement	Proceeds must be repatriated for industrial mines and trading houses	Proceeds from the sale of production must be repatriated	60% of exports proceeds if operator is still servicing its debt contracted as an investment; otherwise 100% of export proceeds	Maximum foreign exchange repatriation allowance of 75%; 25% repatriation requirement.	60% of export proceeds in 45 days	None	80% of export proceeds within one month to BCEAO; mininng clauses allow for exclusions	Proceeds must be repatriated within one month of payment due date; not applied in practice to artisanal exporters	80% of export proceeds within one month to BCEAO; mining clauses allow for exclusions	None	Requirement to surrender 40% of FX earnings to central bank in exchange for local currency at the official rate.
CIT rate	17.50%	25%	35%	35%	30%	30%	25%	45%	30%	30%	15-24%

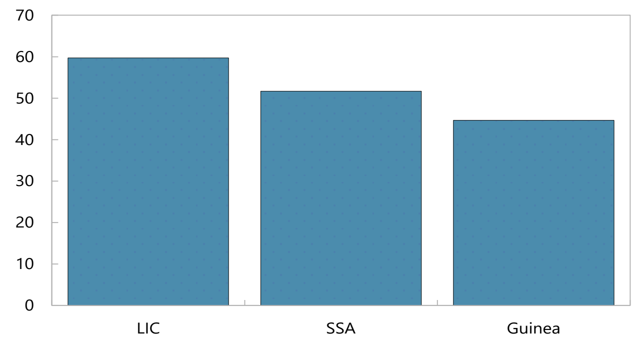
Sources: Country authorities, EITI reports, and IMF staff calculations.

Annex V. Electricity Sector in Guinea: Context and Reform Options[1]

A. Context

1. Guinea has the highest potential for hydropower in West Africa. With a gross theoretical hydropower potential of 26,000 GWh/year, further development of Guinea's hydropower resources could play a major role in meeting electricity demand while reducing its greenhouse gas emissions by increasing the share of renewable energy in its generation mix.[2] Planned projects – including the recently completed 450 MW Souapiti and 240 MW Kaleta hydropower plants on the Konkouré river – could enable Guinea to export surplus power to neighboring countries, if operating at full capacity.

Electricty Access
(Percentage of population, 2020)



Sources: World Bank

2. Despite its vast potential, access to electricity in Guinea stood at only 45 percent at end-2020, below Sub-Saharan Africa and low-income country (LIC) averages.[3] Access to electricity is also highly uneven in Guinea, at only 19 percent in rural areas compared to 88 percent in urban areas.[4]

B. Status of the SOE Electricity Company, Electricité de Guinée (EDG)

3. Electricity subsidies have long been a financial drain on Guinea's public finances. The government established EDG in 2001 as the successor to two previous electricity utilities.[5] It is wholly state-owned and is under the technical supervision by the Ministry of Energy (MoE), and financial supervision by the Ministry of Economy and Finance (MEF). As early as 2004, the World Bank noted that EDG's combined technical and non-technical losses in transmission and distribution were about 60 percent of sent-out generation and that the company achieved collection rates of only 75 percent. A 2005 IMF Staff Monitored Program included two structural benchmarks on improving the financial performance and governance of EDG, and the company has

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[1] Prepared by Alexander Massara, Rachel Lyngaas (both AFR), and Hussein Bidawi (FAD).

[2] International Journal on Hydropower & Dams' World Atlas. As of 2020, annual net generation was roughly 2,500 GWh.

[3] IEA, IRENA, World Bank, WHO, 2022. "Tracking SDG7: The Energy Progress Report 2022."

[4] Ibid.

[5] https://edg.com.gn/historique/

since been a consistent target of reform over the course of several subsequent IMF and World Bank programs.

4. **While the authorities have regularly acknowledged the need for reforms, EDG continues to suffer from poor performance and governance.** In 2019, the authorities reorganized EDG's governance structure, appointed a Board of Directors, and hired a new management team. The authorities increased electricity tariffs in 2018, 2019 and 2021. However, the pandemic took a toll on EDG's financial performance, as the authorities suspended electricity charges for some customers, causing collection rates to dip once again, and delayed additional planned increases in the tariff structure.

5. **As the pandemic unwinds, the principal weakness remains a large divergence between the cost of electricity procurement and its distribution against the tariffs charged to customers.** The World Bank estimates that total tariffs cover only half of EDG's costs. Households, who are the largest overall electricity consumer, have one of the lowest electricity tariffs in West Africa, at 1-3 USc/kWh in 2020, compared to an estimated average variable cost of supply of 19 USc/kWh.[6] The high rate of subsidization mainly benefits wealthier households, who consume more,[7] and leads to a drain on public resources.

6. **The high cost of supply is another source of poor financial performance.** Despite hydropower making up more than two-thirds of installed capacity as of end-2020, the remainder is generated from thermal (petroleum-based) sources that rely on expensive fuel imports. EDG has several power purchase agreements (PPAs) in place with independent power providers (IPPs) that generate electricity using thermal sources. The PPAs—which are expensive relative to renewable sources—are needed to cover growing demand for electricity. Furthermore, the terms of the PPAs are not publicly available and were single-source negotiated deals, hence likely non-competitive and expensive. The 2020 completion of the Souapiti hydropower dam nearly doubled electrical generation capacity, which will reduce the use of fuel-based generation and could lead to export opportunities. However, delays in constructing evacuation lines and the "take-or-pay" clause in the contract obliged EDG to pay for all the agreed electricity output, even though it could not be fully distributed, forcing government to spend 3 percent of GDP in electricity subsidies in 2021, nearly double the budgeted amount. The transmission lines are expected to be completed by 2024.

7. **Finally, non-compliance and lack of monitoring contribute to EDG's financial difficulties.** Collection rates for EDG averaged just 64 percent between 2016-20.[8] Household and government customer collection rates were below 50 percent even prior to the pandemic.[9] Despite

[6] World Bank Energy Sector Policy Note, November 2021.

[7] For example, close to 90 percent of non-poor urban households have access to electricity, compared to 45 percent for the total population (World Bank – Guinea Poverty Assessment, 2021).

[8] World Bank DPO, 2021.

[9] Ibid.

increased efforts to install meters for its customer base, nearly 85 percent of customers pay a flat rate, rather than a rate that reflects actual consumption, and illegal connections are abundant.

C. Potential Reforms

8. The Ministry of Energy prepared a Recovery Plan in 2020, working closely with the World Bank. The Plan's key reforms include:

- **Tariff reform.** The pandemic delayed the scheduled tariff increases, which according to the Plan should be aligned to the costs of supply by 2025-26. The plan recommends higher increases for households than commercial customers; however, levels can be set based on consumption, which will introduce a more progressive pricing system than is currently in place.[10]

- **Reducing technical and non-technical losses and boosting collection rates.** The plan aims at cutting losses from non-compliance in half by 2025. Reforms include installing pre-paid meters for public sector companies—as public entities had accumulated nearly GNF 1 trillion (nearly one percent of GDP) in arrears by the end-2018; expanding the monitoring infrastructure to the private sector and households; and (iii) boosting management and operational capacity at EDG.

- **Greater transparency.** The procurement process should be competitive and transparent to ensure that costs are kept to a minimum. EDG must also produce audited financial statements in line with best practice. Improving financial reporting will help the MoE and EDG set tariff rates and subsidy projections more accurately, which will reduce the need for in-year budget adjustments.

9. Restoring EDG's financial footing will allow the company to focus on its core goal of expanding access to reliable electricity, while freeing-up public resources. Low electrification rates reduce Guinea's growth potential and opportunities for diversification. Poor financial performance has hampered EDG's ability to tackle this pressing problem. At the same time, the current electricity model uses scarce public resources to subsidize private production and to sustain regressive electricity consumption. However, the recent expansion of renewable energy sources presents a major opportunity once the infrastructure is in place. Thus, undertaking a comprehensive reform plan would allow EDG to expand the provision of electricity, including to the mining sector and to neighboring countries, while reducing the burden on the budget.

[10] In 2019, the World Bank conducted a Poverty and Social Impact Analysis of the projected tariff increase and found that it would raise household poverty by 0.1 percent.

Annex VI. Investing Mining Revenues to Strengthen Guinea's Development[1]

1. Poverty in Guinea is widespread and high relative to other Sub-Saharan African (SSA) countries and there is a significant divergence in outcomes between rural and urban areas. Though evidence encouragingly indicates that Guinea has made progress in decreasing poverty between 2014 and 2018 by about 5 percentage points, this progress was likely undone by the COVID-19 pandemic.[2] Similarly, Guinea's Gini index is relatively low for SSA, at 29.6 in 2018, but poverty is widespread, with 43.7 percent of people living in poverty in 2018 – above the regional average for West Africa (Figure 1a).[3] Regional inequality also indicates the concentration of poverty, which is spatial in this case. More than 80 percent of the poor live in rural areas such as Kindia (with a poverty rate of 75.8 percent), Labé and N'Zérékoré, where they are mainly employed in subsistence agriculture and livestock production (Figure 1b). The consumption of the poorest 20 percent of the population only accounts for nine percent of overall consumption, while the richest 20 percent consume 36 percent.[4]

Figure 1a. Guinea: Extreme Poverty Headcount Ratio at $1.90 a Day

(2011 PPP, Percent of population)

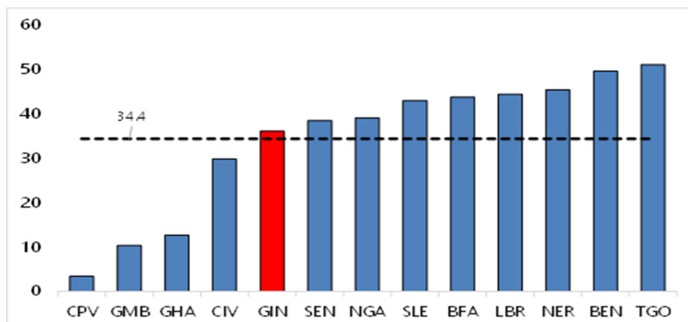
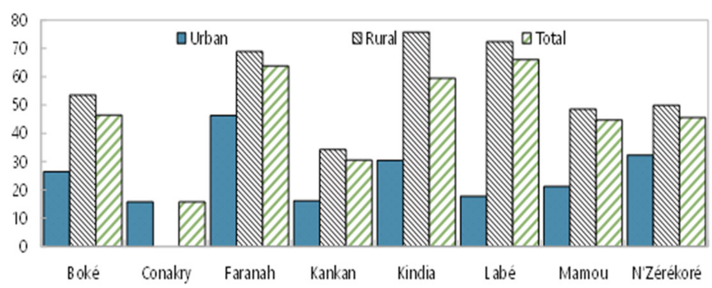


Figure 1b. Guinea: Proportion of the Population Living in Poverty

(Percent)



Sources: World Bank Guinea Poverty Assessment and World Development Indicators.

2. Guinea's persistently high poverty can be partly explained by the cycle of low human capital, with limited fiscal support – which engenders poverty that in turn hinders faster human capital accumulation. According to Guinea's 2018/2019 Household Survey, nearly 60 percent of the households in which the head has no education are poor. In addition, the share of

[1] Prepared by Rachel Lyngaas (AFR) and Alejandro Badel (SPR).

[2] "Guinea Poverty Assessment," World Bank, March 2021.

[3] Ibid.

[4] Ibid.

the poor is substantially lower among household heads with higher levels of education.[5] Guinea's high morbidity rates also impact productivity and incomes. According to the World Bank Human Capital Index, Guinea ranks among the 12 countries with the lowest human capital in the world and ranks seventh lowest when it comes to outcomes for women (Figure 2). In Guinea, one in 10 children will die before age five, reflecting the fifth lowest child survival rate worldwide. Human capital and child survival remain very low in Guinea, even when compared to other countries with similar GDP per capita. Moreover, this extremely low rate of child survival has not shown improvement since 2010. Guinea also lags SSA and LIDCs in education and health expenditure and efficiency outcomes.

Figure 2a. Guinea: Human Capital Index

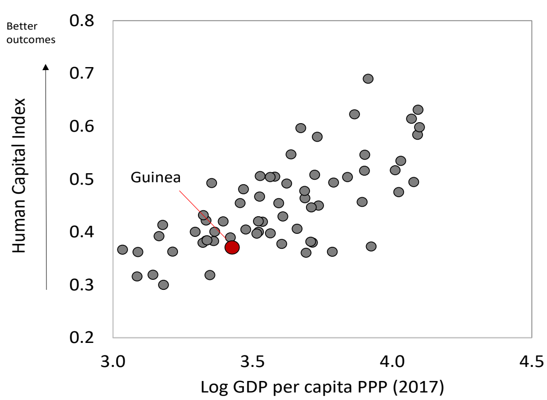
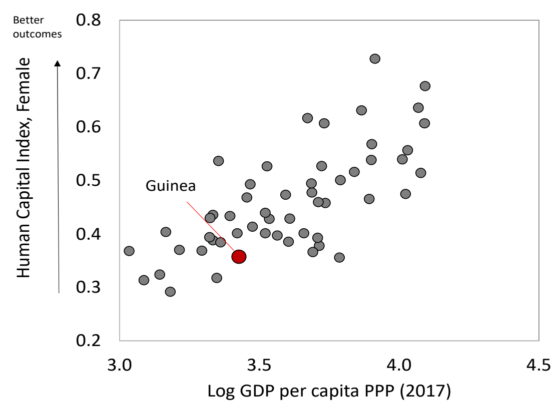


Figure 2b. Guinea: Human Capital Index, Female



Note: Figures compare Guinea to low-income and lower-middle income countries

Sources: World Bank Human Capital Index.

3. Guinea's rural poor also face challenges to increasing their income growth. Low skills and limited road infrastructure impede productivity and market access, constraining rural households' ability to improve and sell their agricultural production. For these reasons, poverty and agriculture are synonymous in Guinea; 93 percent of Guinea's rural poor work in agriculture (crop and livestock production).[6]

4. Guinea's mining sector has significant revenue potential that could be used to alleviate poverty and inequality. Mining constitutes nearly 90 percent of Guinea's total exports and 21 percent of its GDP as of end-2021. With an estimated 7.4 billion tons, Guinea also has the world's largest bauxite reserves, in addition to the unexploited Simandou iron ore mine – the world's largest of its kind. However, mining revenues are significantly below tax potential, with a tax gap of 7.3 percent of GDP estimated over 2000-2019.[7] Enhancing mining sector revenue through

[5] Ibid.

[6] Ibid.

[7] Mogues, Tewodaj, "Mobilizing Mining Revenue in Guinea," IMF Selected Issues Paper, June 2021.

the application of the Mining Code and the reduction of profit shifting of bauxite are critical and would allow mobilizing resources that could be used to support human capital development. The authorities' introduction of a transfer pricing rule that came into effect in September is a positive step, but its effective and transparent implementation remain critical.

5. Investing additional mining revenues in a combined package that includes infrastructure, education, and transfers produces the most beneficial long-term growth, poverty and inequality impacts. This quantification employs a macro model to generate a Laffer curve to estimate the revenue impacts of additional taxation on mining revenues. The model uses an education policy as a stand-in for other fundamental human capital policies, such as those that improve child mortality, nutrition, health and longevity indicators. According to the model, increasing the baseline combined effective tax rate on mining by 20 percentage points can achieve additional revenues equivalent to 2.6 percentage points of GDP. The evaluation then uses a calibrated dynamic general equilibrium model of the Guinean economy to simulate the tradeoffs and synergies of various policy reform scenarios that use these additional mining revenues to boost growth, reduce poverty, and alleviate inequality:[8]

- **Growth Impacts.** Investments in education or infrastructure on their own increase output by the equivalent of 0.41 and 0.71 percent of GDP, respectively, over 30 years (Figure 3a). However, when investments in education and infrastructure are combined, they increase GDP growth by 1.18 percentage points – more than the sum of improvements that can be achieved by each policy separately. This illustrates the complementarity of investments in infrastructure and education. Furthermore, adding cash transfers to households to the education-infrastructure policy can further increase the economic return on education in rural areas, as it increases food demand and formalization, improving productivity of the agricultural sector.

- **Poverty and Inequality Impacts.** The highest reductions in poverty and inequality can also be achieved by policies that combine investments in education and infrastructure with transfers (Figure 3b); the three-way combination policy can reduce the poverty rate by 17.9 percentage points in the long-term. The results also warn policymakers that investments in infrastructure alone may not substantially reduce poverty or inequality.

6. These findings confirm that additional mining revenues, if properly invested, could have transformative impacts in Guinea. Improving Guinea' human capital by investing more resources into education lead to higher GDP growth and reduce poverty and inequality more in the

[8] Badel and Lyngaas (2022), forthcoming. The results come from policy simulations performed in the Guinea Multisector Incomplete Markets Macro Inequality App, developed by SPR, which features a general equilibrium dynamic model with incomplete markets, heterogeneous agents and multiple sectors calibrated to match the most relevant features of Guinea's labor markets, urban rural inequality, household inequality, external sector and the response of extractive industries to changes in marginal revenues. The five policy scenarios are assumed to be carried out for 30 years, consisting of: 1) closing the tax gap on mining by raising its effective rate from 14.4 to 34.4 percent; 2) in addition to policy (1), increase investment in education to 0.5 percent of GDP annually; 3) in addition to policy (1), increase investment in infrastructure by an additional 1 percent of GDP annually compared to the baseline; 4) combine policies (2) and (3); and 5) in addition to policy (4), transfer any additional mining revenues in equal lump sums to all households.

long-run than any other singular policy intervention. Education and infrastructure investments are also complementary in generating additional economic growth, as the positive impact of a combination of these policies is greater than each policy individually. Moreover, investments in infrastructure as a standalone policy do not substantially reduce poverty or inequality, but can be highly effective in doing so when combined with investments in education. Policymakers must therefore consider combining investments in infrastructure with other social infrastructure that builds Guinea's human capital, which could greatly enhance the long-term impact on growth, poverty, and inequality.

Figure 3a. Guinea: Long-Run Impact of Reforms on GDP Growth
(Percentage points)

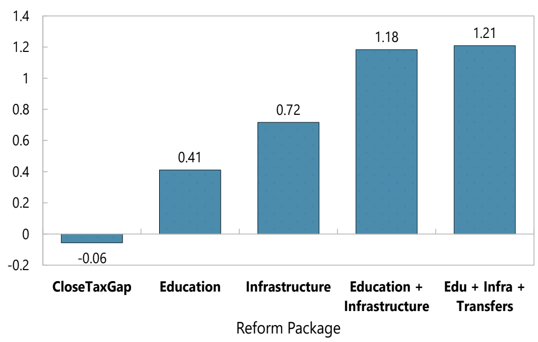
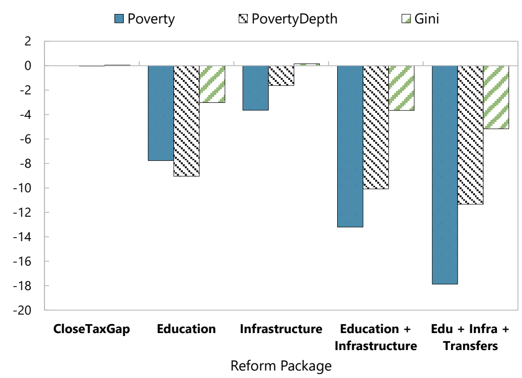


Figure 3b. Guinea: Long-Run Impact on Poverty and Inequality
(Percentage points)



Sources: Guinean authorities, IMF staff estimations.

Annex VII. Inflation and Monetary Policy—Recent Trends and Prospects[1]

High and persistent inflation in Guinea have historically been facilitated by a monetary financing regime with a managed exchange rate. While food inflation accounts for the bulk of inflation, monetary policy—through variations in base money and its indirect effect on the exchange rate—has pushed up prices in the past. The flip side is that—despite the exposure to external price shocks—monetary policy can have an important role to rein in inflation. This has been the case recently when tight monetary policy has contributed to an appreciation of the exchange rate, making the Guinean franc one of the best performing currencies in early 2022. In the short-term, as global price pressures persist, it will be important to continue resisting pressures to finance the budget. Over the medium-term, further reform progress is needed to transition to an inflation targeting regime, which has proven to perform better in terms of inflation performance in SSA countries.

Benchmarking Guinea's Inflation Dynamics

1. **Inflation in Guinea has been amongst the highest in sub-Saharan Africa (SSA).** Inflation in Guinea averaged more than 12 percent in the last two decades. Despite bringing dynamics broadly under control and thus reducing inflation to close to single digits in the years 2012-19, inflation remained amongst the top 10 percentile of Sub-Saharan Africa. To a large extent this is driven by the high food price inflation in Guinea, which dominates overall CPI inflation (although accounting "only" for about 40 percent of the CPI basket, compared to an average of 45-50 percent in countries of similar income).

2. **The slow decline in inflation over the last two decades is also reflected by the very high inflation persistence compared to SSA peers**. Based on a simple regression of monthly inflation on its lagged value, controlling for exchange rate variation, Guinea emerges as the country with the highest inflation persistence in SSA over the period 2005-21; with an AR (1) coefficient estimate of about 0.8, shocks to inflation dissipate very slowly (with a half-life of slightly above 3 months). The estimate is broadly stable across time (based on a 7-year rolling window regressions) and compares to the average across SSA countries of 0.2 which remained unchanged across the same period.

Guinea's Monetary Policy Framework and Role for Inflation

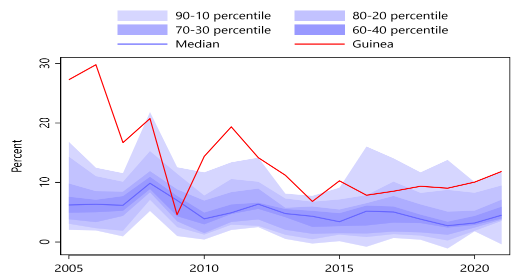
3. **In the last two decades, Guinea operated under a base money targeting regime with a (crawl-like) managed exchange rate and a monetary financing bias.** The central bank funding of the general government—amounting to 40 percent of total credit—is one of the main sources of financing for the economy. The overall credit market is shallow, with a ratio of private sector credit to GDP of below 10 percent. Average broad money and base money growth have been high at 17 and 13 percent, respectively, contributing to the higher inflation in Guinea compared to SSA peers. Central bank net credit to the government (NCG) accounted for about ¾ of base money growth, consistent with a monetary financing regime. Similar contributions can be found in other

[1] Prepared by Sebastian Weber (MCM).

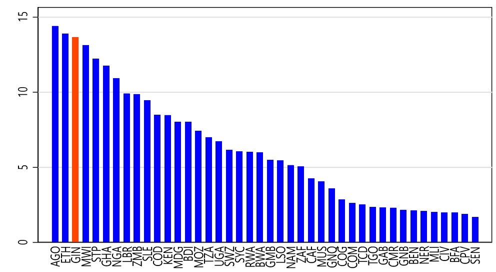
SSA countries with intermediate exchange rate regimes (in contrast to inflation targeting regimes which tend to have much lower contribution from NCG to base money growth).

Figure 1. Guinea: Inflation Dynamics in Guinea

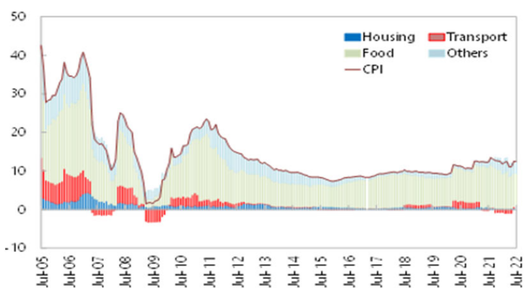
Sub-Saharan Africa (SSA), Inflation
(Percent)



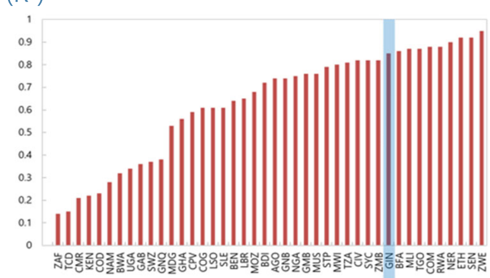
SSA, Average CPI inflation 2005-21
(Percent)



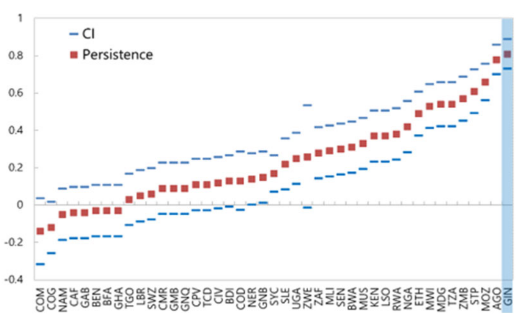
Inflation Contributions
(Percent, yoy)



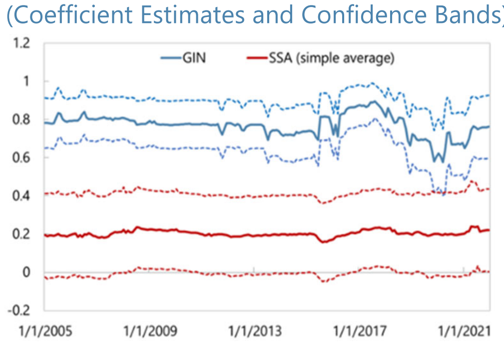
Fraction of CPI Variation Explained by CPI Food Inflation [1]
(R^2)



SSA: Inflation Persistence Estimates [2]
(Coefficient Estimates and Confidence Bands)



Inflation Persistence Over Time [3]
(Coefficient Estimates and Confidence Bands)



Sources: FAO; IMF-IFS; and IMF staff calculations.

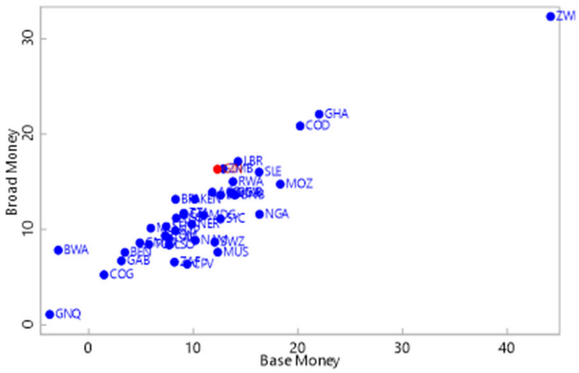
1. Based on individual country regressions of month-to-month change in (log) CPI on (log) CPI Food. For Guinea, the 2007m1-m2 effect of the exchange rate shock is filtered out.

2 Based on month-to-month change (since 2005m1) and individual country AR (1) regression controlling for contemporaneous month-to-month exchange rate.

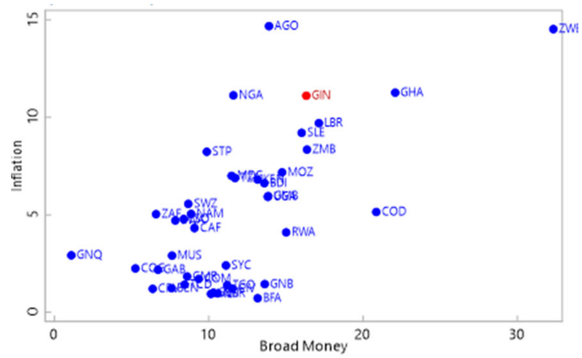
3 Based on 7-year rolling window, individual country regressions of month-to-month change in (log) CPI on its lag controlling for the contemporaneous month-to-month exchange rate.

Figure 2. Guinea: Monetary Policy Framework

Broad Money and Base Money Growth
(2010-2019)

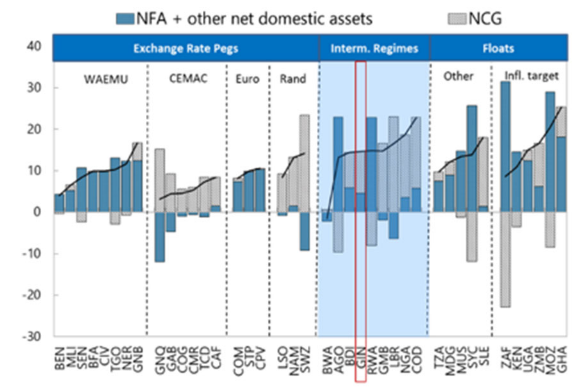


Inflation and Broad Money Growth
(2010-2019)



Reserve Money and Net Credit to Government
(Year-over-year Percentage Change)

Decomposition: Base Money Growth
(Percent Contribution, 2010-2019)



Sources: IMF IFS and IMF staff calculations. Average CPI inflation figure excludes Zimbabwe with a value of about 35 percent.

4. **At the same time, there appears a robust relationship between monetary aggregates, the exchange rate and inflation dynamics, suggesting an important role for monetary policy in steering inflation.** The contribution of various shocks, including monetary policy, to inflation dynamics in Guinea can be analyzed through a VAR described by the equation:[2]

$$A{\cdot}Y(L) = C{\cdot}X(L) + \varepsilon$$

Where the vector of endogenous variables *Y* includes (1) base money *(BM)* as the main monetary policy tool;[3] (2) broad money *(M2)*; (3) the nominal effective exchange rate *(NEER)*; (4) the petrol price at the pump (*P@P*); (5) CPI inflation; and (6) output growth (*Y*); and the exogenous vector *X* contains the extent of Baltic Dry index and the global non-fuel commodity price index.

[2] The model is estimated for quarterly data over the period 2004Q1-21Q4. More details on the approach and additional results on the new FX intervention rule and exchange rate pass-through in Guinea can be found in Carrière-Swallow, Koumtingué, and Weber (forthcoming).

[3] Using NCG instead of base money implies no change.

Sign and zero restrictions are used to identify monetary policy (*MP*), demand, FX, (domestic) petrol price, external (non-fuel) commodity prices, and transport price shocks. An expansionary monetary policy shock is identified by a contemporaneous increase of base money, M2, a depreciation of the NEER and an increase in the domestic inflation (see text table for the set of identifying assumption on the shocks).

5. **Decomposing the overall variance of inflation and the inflation dynamics over time suggests that external factors are the main drivers of inflation but recently MP has helped contain international price pressures**. The VAR and the sign restrictions can be used to decompose the variance of inflation and its evolution over time into the two external and the four endogenous variable shocks. The results suggest that while monetary policy accounts for only 20 percent of the variation in inflation on average, this contribution increases in various moments through history. Adjustments to the petrol price at the pump have a similarly important effect on inflation over time. International commodity price shocks are more dominant for inflation on impact but lose somewhat in importance over the medium-term. Independent FX shocks appear to play a minor role according to this specification. The historical decomposition suggests that since 2019Q4 an increase in global commodity prices and transport costs has put upward pressure on inflation in Guinea (averaging some additional 8 percentage point above normal), while contractionary monetary policy has helped contain this keeping the inflation rate five percent lower compared to a counter-factual in which monetary policy would run its average course.

Identifying Assumption for the VARX

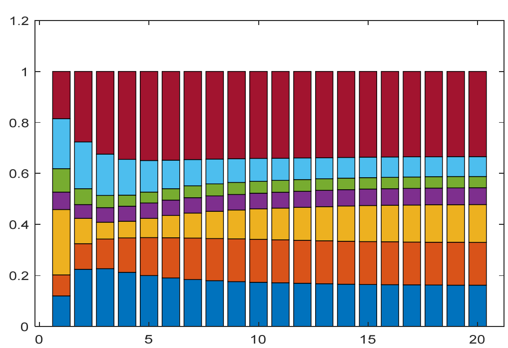
(Row = response, Column = shock)

	MP	*Demand*	*P@P*	*FX shock*
BM	*>0*			
M2	*>0*	*>0*	*<0*	*<0*
NEER	*<0*	*>0*	*> - P@P*	*<0*
P@P			*>0*	*> - NEER*
Y		*>0*		
CPI	*>0*	*>0*	*>0*	*>0*

Note: Signs are defined for shocks consistent with a price increase.

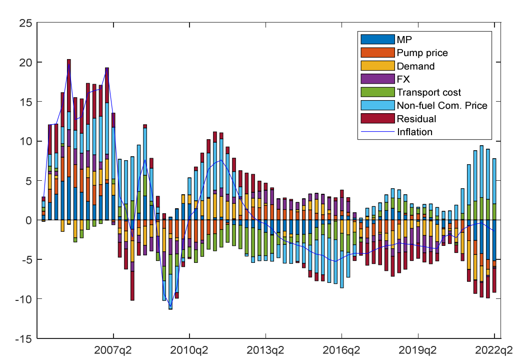
Inflation: Variance Decomposition

(Percent of overall variation)



Inflation: Historical Decomposition

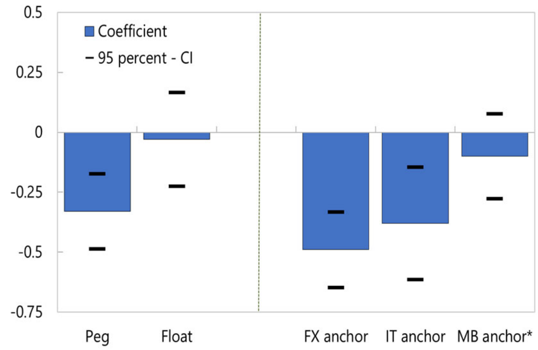
(Percent deviation from deterministic path)



Sources: IMF IFS and IMF staff calculations.

Difference Across MP Regimes in SSA: Inflation Persistence

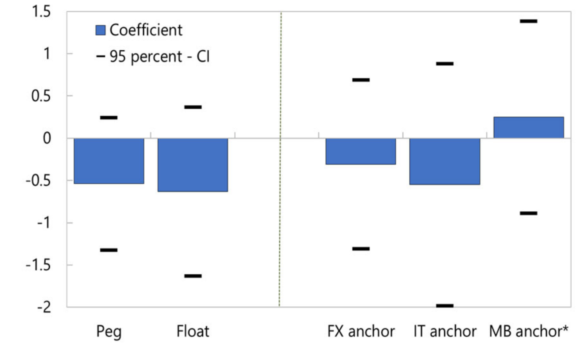
(Mean difference in inflation persistence to base case, 2014m1-2019m12)



Sources: IMF IFS and IMF staff calculations. Base case intermediate exchange rate regime and other monetary target anchor, respectivley. *MB anchor refers intermeidtae exchaneg rate regime with monetary anchor.

Difference Across MP Regimes in SSA: Inflation Volatility

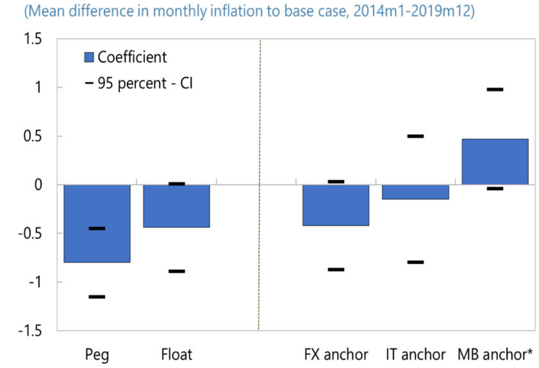
(Mean difference in inflation volatility to base case, 2014m1-2019m12)



Sources: IMF IFS and IMF staff calculations. Base case intermediate exchange rate regime and other monetary target anchor, respectivley. *MB anchor refers intermeidtae exchaneg rate regime with monetary anchor.

Difference Across MP Regimes in SSA: Average Inflation

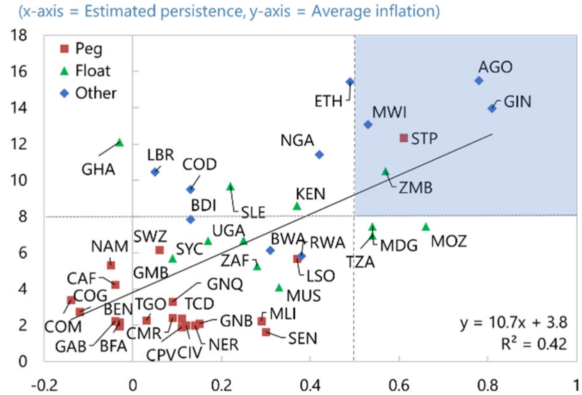
(Mean difference in monthly inflation to base case, 2014m1-2019m12)



Sources: IMF IFS and IMF staff calculations. Base case intermediate exchange rate regime and other monetary target anchor, respectivley. *MB anchor refers intermeidtae exchaneg rate regime with monetary anchor.

Average Inflation and Persistence, 2005m1-2021m12

(x-axis = Estimated persistence, y-axis = Average inflation)



Sources: IMF IFS and IMF staff. Excludes outlier Zimbabwe.

Annex VIII. Supporting Export Diversification with an Eye on Complexity[1]

Guinea's export basket is highly concentrated in gold and bauxite. Diversification efforts would benefit from greater consideration to the contribution to economic complexity that existing and new potential exports could make. This approach suggests greater opportunities in backward linkages of the mining sector than forward linkages.

1. **Guinea has one of the least diversified and least complex export baskets in the world.** With exports highly concentrated in the mining sector—mostly gold and bauxite (Figure 1a) —Guinea ranks low in the IMF diversification index and in the position 131 (out of 133) in the 2020 Economic Complexity Index (ECI) elaborated by Harvard University. The latter is because not only does Guinea export few products, but also because these limited number of products also rank low in terms of complexity[2] (Figure 1b). Export growth over the past years has mostly come from the dominant, non-complex exports (Figure 1c). Exports are also quite concentrated in a few partners (Figure 1d).

Figure 1. Guinea: Exports

Figure 1a. Guinea's Exports

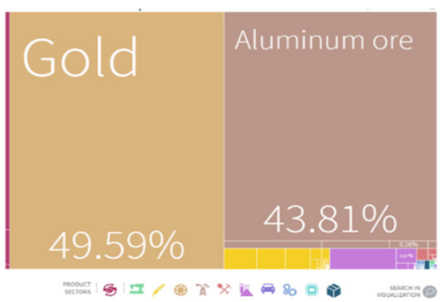


Figure 1b. Exports' Complexity

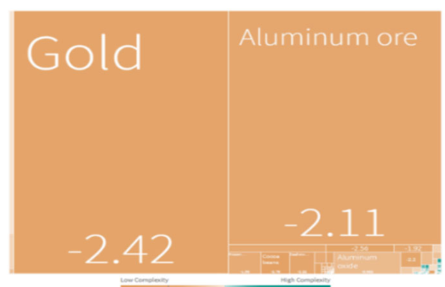


Figure 1c. Exports' Growth

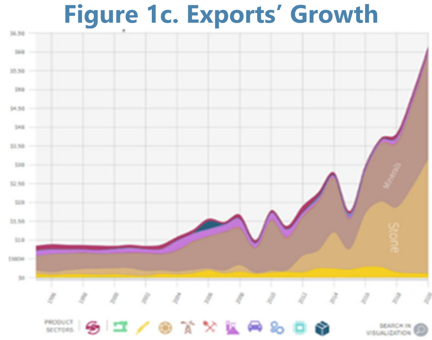
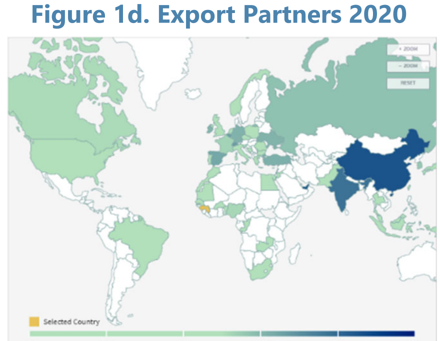


Figure 1d. Export Partners 2020



Source: The Growth Lab at Harvard University. The Atlas of Economic Complexity.

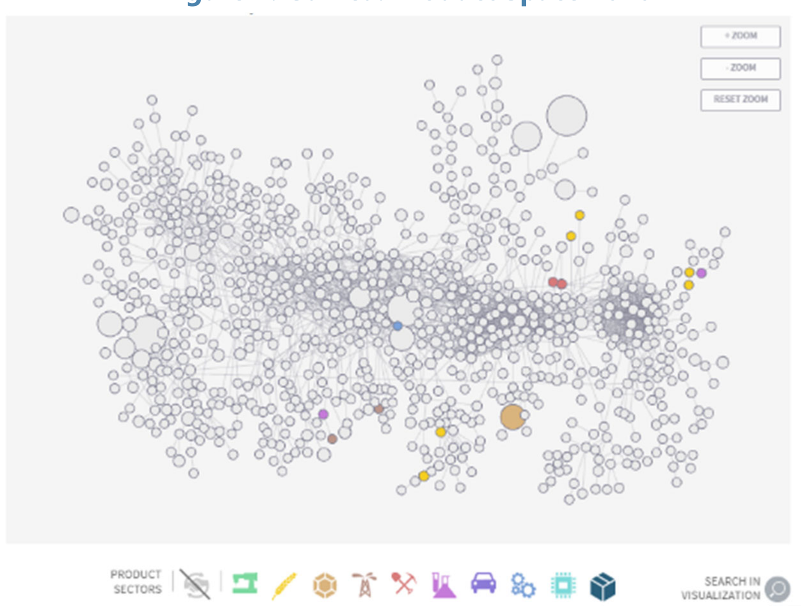
[1] Prepared by Jimena Zuniga (SPR).

[2] An economy is more complex when it exports *more* and *more complex* products. Products are deemed more complex when their production requires a more sophisticated know-how, and few countries produce them.

2. The export concentration and lack of complexity entail high macroeconomic risks, making countries vulnerable to price fluctuations and commodity depletion in the long run (Giri et al, 2019, IMF, 2021). Conversely, diversification and complexity are associated with positive macroeconomic outcomes such as (i) high growth (Hausmann, Hwang, and Rodrick, 2005); (ii) reduced macro instability (Giri et al., 2019 and references therein); and (iii) high income (Hidalgo and Hausmann, 2009). It is thus no surprise that diversification features among the authorities' key policy objectives and has been also highlighted by the IMF as an important issue.

3. The complexity approach could provide some insights to the authorities' diversification strategy.[3] This approach relies on the interconnectedness between the export products, which is represented in the "product space," to identify export products to which a country could diversify, and which would in turn help the country attain higher levels of complexity. Products that are in the denser regions of the product space are highly interconnected and tend to be more complex. By "moving" toward those regions a country can aspire to export ever more, and more complex products. But moving to far-away products would be too difficult (e.g., from mining to optics or medicine); countries tend to diversify by moving to "nearby" products and the product space can help identify them. Guinea's exports, illustrated by the colored dots, unfortunately are in the less dense parts of the product space and have few interconnections (Figure 2).

Figure 2. Guinea: Product Space 2020



Source: The Growth Lab at Harvard University. The Atlas of Economic Complexity.

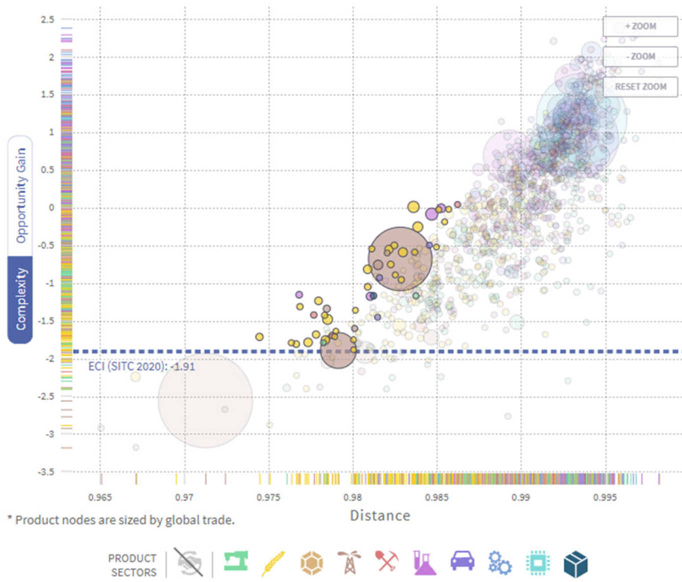
4. Given limited nearby opportunities to diversify, Guinea may need some coordinated long jumps into strategic products with potential. At the same time, Guinea may want to

[3] For more details on this approach see the Atlas of Economic Complexity at atlas.cid.harvard.edu.

balance "distance" of future exports to current ones, the "complexity" of those new exports, and the "opportunity" these new exports would bring (in the sense of bringing Guinea closer to more and more complex products). Such a balanced approach suggests potential opportunities in several agricultural products (Figure 3, yellow dots), and also in the chemical and machinery industries (pink and blue dots). These products are identified as feasible exports for Guinea to diversify into, because several countries successful in exporting the same items Guinea exports, also manage to export these products. Thus, this "proximity" signals that these products require similar capabilities or know-how to those already existing in Guinea to a large extent.

5. **This approach points to potential opportunities in backward linkages of the mining sector down the road, as well as forward linkages.** For example, while the authorities are pursuing a coordinated jump into alumina and aluminum as part of their medium-term development strategy, other products highlighted as potential opportunities for Guinea in Figure 3 and with backward linkages to the mining sector could contribute more to complexity, according to their rank in the Product Complexity Index (PCI) (Figure 4). Some of the products identified as balancing proximity with complexity and opportunity for Guinea could include "other moving, excavating machinery;" "prepared explosives;" and "floating structures," as well as services and logistics.

Figure 3. Guinea: Strategic New Products



Source: The Growth Lab at Harvard University. The Atlas of Economic Complexity.

6. **This also applies to boosting the size of some existing exports, including services.** While at $313 million exports excluding stones and minerals were even below their level in 1995 and accounted for just about 5 percent of total classified exports in 2020, they include some relatively complex products, including in the chemical (e.g., acyclic alcohols, acids) and machinery industries (e.g., machinery for working minerals, self-propelled bulldozers, etc., Figure 5). Guinea's

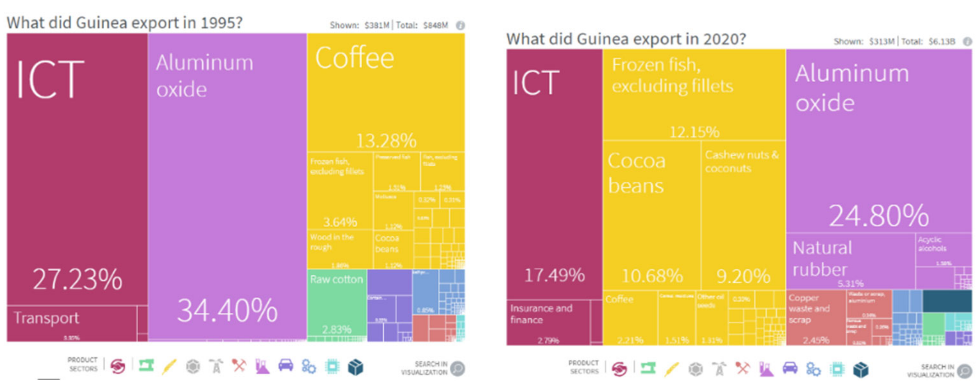
mining infrastructure and geographical position may also position it well as a potential services exporter (e.g., a logistics hub in the subregion).

7. **Public-private dialogue is key to understand opportunities and policy needs.** While this approach highlights valuable input on the contribution that different exports could make to complexity and subsequent diversification opportunities, other considerations beyond the scope of this annex, such as employment creation, energy consumption, potential competitiveness, etc., should also be weighted. The authorities should engage with the private sector to better understand which sectors hold the greatest potential to contribute to Guinea's diversification path as well as any policy needs of these sectors. Such dialogue has afforded good outcomes in some countries, such as for example Peru's "*mesas ejecutivas*" (Ghezzi, 2019).

Figure 4. Guinea: Complexity of Prospective Exports with Mining Linkages

Potential opportunities in Guinea	PCI Rank (1-1046)
Other moving, excavating machinery	792
Other floating structures	845
Prepared explosives	995
Unwrought aluminum	1040

Figure 5. Exports Ex Stone and Minerals 1995 and 2020



Source: The Growth Lab at Harvard University. The Atlas of Economic Complexity

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Annex IX. The Role of Agriculture and Climate Change in Food Security[1]

A. Context

1. Food represents the bulk of the household consumption basket in Guinea. Food products represent about 40 percent of consumer price index basket, and account for about 60 percent of consumption expenditures of households in the four lowest wealth quintiles.[2] Shocks to food availability or prices are thus an important source of vulnerability for Guinea.

2. Although Guinea's food insecurity is chronic, it has been exacerbated by the latest shocks, becoming an increasingly acute concern. On the back of the spike in food import prices and the higher costs of transporting food due to Covid-19 and the war in Ukraine, the proportion of acutely food-insecure population is expected to be above 11 percent (1.2 million people) by the end of 2022, against 3.76 percent in 2021, despite food price measures taken by the authorities. Alarmingly, the number of people who have insufficient food consumption rose to 8.1 million in November, or 65.3 percent of the population (Figure 1).

3. The recent spike in fertilizer prices could jeopardize the current harvest and result in lower food availability in early 2023. While Guinea already ranks toward the bottom globally in terms of fertilizer use (Figure 2), fertilizer prices increased by 300 percent in the 2022 planting campaign, which led to only 14 percent of the need covered. Lower-than-normal fertilizer use points to a potentially below-average harvest and may further undermine food availability in early 2023. Using non-concessional financing, the government imported 50,000 tons of fertilizer, which will only cover a portion of the total need.

B. Agricultural and Climate Challenges

4. Agricultural production remains insufficient to meet demand and food is mostly imported. Despite Guinea's abundant arable land and ongoing improvements in the amount of cultivable land, subsistence agriculture accounts for 90 percent of production and the country still imports twice as much food as it exports.[3] The challenges of boosting domestic production include low levels of irrigation (8 percent or arable land); low uptake of agricultural inputs and equipment; a low level of organization and professionalism among small producers; lack of market access for small producers; poor transport infrastructure and services; and low levels of financial access for farmers.[4,5] According to the World Food Program report done by the World Food Program in

[1] Prepared by Alexander Massara and Aristide Medenou (both AFR).

[2] Enquête harmonisée sur les conditions de vie des ménages, INS, 2018/2019.

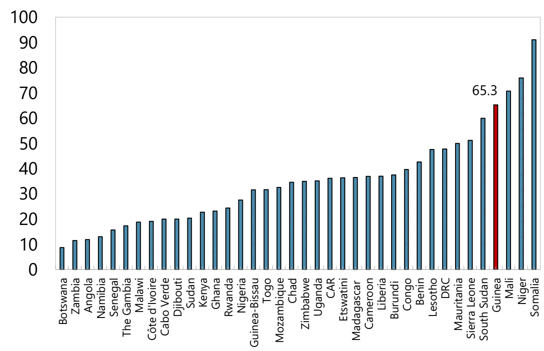
[3] WB Policy Notes to Support the Transition, 2022; staff estimates.

[4] International Fund for Agricultural Development (IFAD), 2020 and World Bank, Creating Markets, 2020.

[5] Only 11.4 percent of bank credit was granted to the agricultural sector over the period 2016-2020.

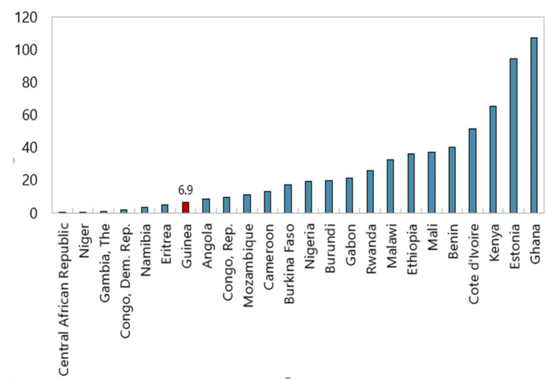
October 2022, Guinea is among the countries with the highest prevalence of insufficient food consumption. It ranks also among the lowest in fertilizer use per arable land in Sub-Saharan Africa according to the World Bank.

Figure 1. Guinea: Insufficient Food Consumption
(Percent of population)



Source: Hunger Map, as of October 31st, 2022.

Figure 2. Guinea: Fertilizer Consumption, 2020
(Kg/Hectare of arable land)



Source: World Bank-WDI.

5. Climate-related disasters disproportionately affect the poor, whose income depends more on agriculture and for whom food represents a larger portion of total consumption. As climate-related disruptions increase, mostly in the form of erratic rainfall and higher temperatures, Guinea will face a larger food import bill and greater food security concerns if measures are not taken. Lower agricultural production could also entail a long-term reduction in human capital development, leading to higher poverty rates, and persistently higher inflation.[6] A low-income country (LIC) such as Guinea will need to spend an estimated 4.5 percent of GDP annually by 2030 to meet their readiness goals.[7]

6. Climate change will exacerbate food vulnerabilities that the war in Ukraine has highlighted. Guinea fares relatively better in terms of climate vulnerability than other LICs in SSA but worse in terms of capacity to cope with disasters (Figure 4). Weak infrastructure and limited institutional capacity significantly reduce Guinea's ability to cope with climate-related disasters. Erratic rains will reduce crop yields and increase uncertainty. Rising average temperatures could also disrupt and reduce production. A climate shock would reduce income for households that are already vulnerable and further increase in food insecurity, and weigh on public finances.

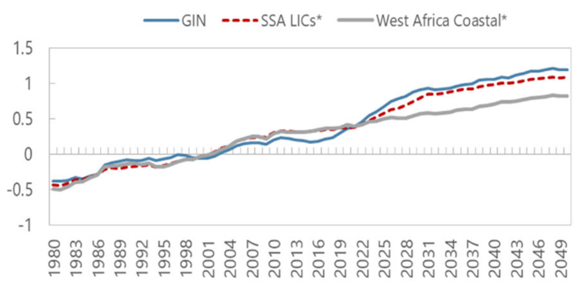
7. The current crisis highlights the need to address food vulnerabilities through climate-adaptation investment. In 2021, the authorities published an updated Nationally Determined

[6] Climate Change and Food Insecurity in Sub-Saharan Africa, IMF 2022.

[7] Strengthening Infrastructure Governance for Climate-Responsive Public Investment, IMF 2021.

Contribution (NDC), in line with its commitment to the Paris Agreement.[8] The plan aims to reduce Guinea's carbon footprint by 10 percent by 2030, and outlines reform and investment priorities for, among others, land use and agricultural activities. Using this as a roadmap, the authorities could better insulate the country, particularly poorer households, from climate change and price volatility.

Figure 3. Guinea: SSA LIC Mean Average Temperatures, 1980-2049

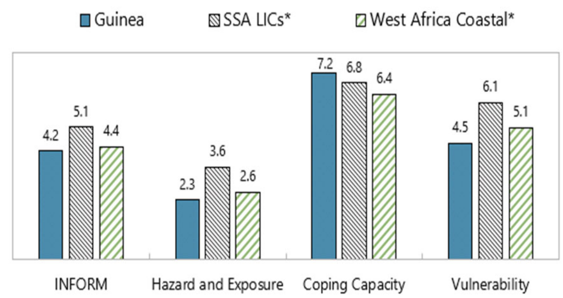


Sources: World Bank-CCPK; and IMF staff calculations.

Notes: (*) =Calculation excludes Guinea. Projections are from the CMIP6 collection, median percentile (50th), in a SSP1-1.9 scenario, using the Multi-Model Ensemble. This scenario is the most optimistic, reflecting Paris-Accord target.

Figure 4. Guinea: Climate Readiness

(Index, 10=highest risk)



Source: IMF Climate Change Dashboard.

Notes: The Climate-driven INFORM Risk is an adaptation of the INFORM Risk Index, adjusted by IMF staff to distil climate-driven risks. Scale from 0-10. The higher the indicator the higher the risk. (*) =Calculations exclude Guinea.

C. Policy Recommendations and Fund Support

8. Increasing food security will require short- and medium-term reforms to boost agricultural productivity and to mitigate the impact of climate change:

- **Expand existing social safety nets would mitigate the impact of the shocks**. In the short-term, temporary relief measures could include cash and in-kind transfers. Over time, broadening and deepening social programs—including through a package that addresses multiple aspects of poverty—would help alleviate poverty and improve food security in a more sustained manner.

- **Prepare and adopt food and nutrition policies.** Food and nutrition policies are essential in Guinea given the level and chronic nature of food insecurity. These policies would be useful to address food insecurity in the short and medium term. The most pressing issue on the regulatory side is a reform of land use policies. Land insecurity, resulting from complex and poorly enforced property rights, stifles investment and productivity in the agricultural sector. A new legal framework should establish clearer property rights, develop an inventory of rural land parcels, including protected forests and mangroves, and monitor land transactions. Doing so

[8] The authorities estimate the plan will cost would cost at least $14 billion (more than 70 percent of 2021 GDP) to implement over the medium-term (https://unfccc.int/sites/default/files/NDC/2022-06/CDN%20GUINEE%202021_REVISION_VF.pdf)

will ensure landowners can reap the benefits of productivity-enhancing investments and protect areas that provide a buffer against climate change.

- **The authorities could consider targeted investments in agricultural technology and food-related infrastructure**: Public spending could be channeled toward: (i) the adoption of new technologies (climate smart, gender sensitive, nutrition) to improve the productivity of the agricultural sector and its resilience to climate change; (ii) the construction of food production and distribution infrastructure (water infrastructure, rural roads, storage capacity, etc.);[9] and (iii) capacity building of producers, focused mainly on small producers. The authorities could also provide extension services to farmers and a platform for dialogue and knowledge sharing between the agricultural and financial sector. The authorities should also continue investing in digitalization, which would help increase access to financial services in rural areas.

- **Government planning and budgeting processes should prioritize support to the most vulnerable and crisis-affected groups**. The support must also be directed to strengthen early warning systems to anticipate shocks and quickly respond to crisis.

9. The IMF is playing a supportive role. The Food Shock Window will provide access to emergency financing to help address acute food insecurity. In addition, the IMF will conduct technical assistance on the new C-PIMA next year, which will use a modified version of the IMF's Public Investment Management Assessment framework to help identify potential improvements in institutions and processes to build low-carbon and climate-resilient infrastructure.[10] Finally, the IMF created a new tool, the Resilience and Sustainability Trust (RST), that provides additional, long-term financing for climate-related reforms provided that an existing IMF-supported program is in place.

[9] Expanding irrigation could also increase availability of water and sanitation services. Currently, less than two-thirds of the population has access to clean water and less than one-third has access to basic sanitation services.

[10] Strengthening Infrastructure Governance for Climate-Responsive Public Investment, IMF 2021.

Annex X. Capacity Building

1. The regime change in Guinea has not significantly impacted capacity development (CD) priorities and implementation. Provision of IMF TA was slightly affected through some mission delays, but overall implementation and priorities have remained broadly unchanged. Despite the fragile context, the implementation of technical assistance (TA) recommendations has been good.

2. IMF TA is aligned with the authorities' objectives. CD priority areas are aligned with the authorities' reform agenda under the transitional government's draft Interim Reference Program (*Program de Reference Intérimaire – PRI*). Policies under the PRI aim to create an environment conducive to a stronger, poverty-reducing and job-creating sustainable economic growth through efficient fiscal policy and appropriate monetary policy while developing the private sector and attracting foreign investment. Therefore, CD activities focus on strengthening domestic revenue mobilization, especially in the mining sector, increasing efficiency in public expenditure, reducing fiscal risks, strengthening debt management, strengthening the monetary policy framework while improving banking supervision, strengthening the governance framework including AML/CFT, and improving collection and dissemination of macroeconomic and financial statistics (table below).

3. The CD strategy aims to ensure adequate integration of CD recommendations with policy advice in the context of surveillance and eventually program design. It also seeks to support effectiveness, and to avoid overlap of CD activities through enhanced coordination with IMF CD departments, AFRITAC West 1, and other CD providers. Key elements that help ensure coordination include: (i) early consultation on CD work plans and delivery constraints; (ii) continued country team review of TA mission briefs, and explicit approval of scope and timing; and (iii) efficient exchange of information between the country team and CD providers on requests and CD issues raised by the authorities during the fiscal year.

Priorities	Objectives
Domestic Revenue Mobilization	• Widening the tax base, by reducing fiscal expenditure and improving the management and governance of the Tax Department; finalizing the digitalization of domestic revenue collection; streamlining of tax exemptions including in the mining sector; provide support related to transfer pricing issues; improve the taxation of the mining sector. Strengthen the core functions of the customs administration. Prepare a medium-term revenue administration plan, following up on the TADAT.
Public Financial Management, including public investment management	• Strengthen PFM and public investment management (PIM) practices including for climate change related aspects. • Enhance the capacity of the Ministry of Finance to plan, implement and sustain PFM reforms; improve the accounting information system (SCIE); improve public investment budgeting by introducing multiyear commitment authorizations for investment expenditures; strengthen budget execution and controls; improve the coverage and quality of fiscal reporting; expand the coverage of the Treasury

Priorities	Objectives
	Single Account; improve the accuracy and timeliness of the central government cash flow forecasts; strengthen capacity to manage fiscal risks arising from public autonomous entities; improve PIM including climate considerations.
Debt Management	• Improving the functioning of the government debt market; strengthen debt management capacity, including by formulating and implementing a sound medium-term debt management strategy; improve the debt management institutional framework. Strengthen understanding of the new IMF/WB debt sustainability framework.
Monetary Policy	• Strengthen the independence of the central bank; improve BCRG's liquidity management and forecasting; support the modernization of the monetary policy framework.
Banking supervision, financial regulation, and financial stability	• Complete the implementation of Basel II and III standards; modernize the Banking Law to incorporate financial safety nets and banking resolution framework in line with the recommendations of the Financial Sector Stability Review; and publish regulatory provisions needed to fully implement the new banking law. • Implement a risk-based supervision (RBS) system and upgrade other supervisory processes, especially regarding macroprudential supervision.
Central Bank Operations	• Establish the ELA framework agreement and operational framework. Recommendations will be made regarding the institutional framework, eligibility criteria, the collateral valuation method, the financing plan, and the financing conditions and deadlines. A possible model for a government guarantee will also be looked at.
Real Sector Statistics	• Strengthen national accounts and price statistics; develop High-Frequency Indicators in the short-term; develop quarterly GDP estimates in the medium-term and quarterly national account estimates in the long-term; improve the consistency between the international investment position (IIP), the CDIS and external debt statistics; improve source data on gold exports through a survey on gold panning in Guinea. • Finalize rebasing; improve mining (artisanal gold) and non-mining sector data collection/dissemination; expand coverage of inflation data beyond Conakry; strengthen external sector statistics including net international investment position; improve source data on gold exports.
Government Finance Statistics	• Finalize migration of budgetary central government statistics to GFSM 2014; gradually extend GFS coverage to general government subsectors (extrabudgetary units, social security, local government); improve the compilation and dissemination of PSDS with comprehensive coverage of debt instruments and enhance the ability of the Ministry of Budget (MB) and Ministry of Economy and Finance (MEF) staff to record expenditure arrears.
Macro-fiscal analysis and forecasting	• Enhance revenue and expenditure forecasting tools; strengthen the interrelations between macroeconomic and fiscal frameworks; introduce fiscal risks analysis.

Appendix I. Letter of Intent

Conakry, Guinea

December 8, 2022

Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C.
U.S.A.

Dear Madame Georgieva:

1. **Like many countries in sub-Saharan Africa, the Republic of Guinea is affected by the war in Ukraine and the Covid-19 pandemic, and food insecurity has worsened**. The Covid-19 pandemic resulted in an inflationary spike, despite the resilience of the Guinean economy thanks to mining exports. The war in Ukraine has greatly aggravated supply chain distortions, increased the prices of imported petroleum products, as well as the costs of agricultural inputs necessary to increase national agricultural production. The Republic of Guinea is a country with nearly 44 percent of its population living below the poverty line and 20 percent of its population exposed to food insecurity, and this situation has been aggravated by the war in Ukraine. The proportion of the population facing acute food insecurity is expected to reach around 11 percent (1.2 million people) by the end of 2022. In addition, the increase in local fertilizer prices - by 300 percent compared to 2021 - and their scarcity, with a 57 percent drop in their use in 2022 compared to 2021, indicate a potentially below-average harvest despite our response efforts to date, which could exacerbate food insecurity in early 2023.

2. **Guinea's balance of payments is expected to be negatively affected by the price shock.** Given higher fertilizer imports this year and lower-than-expected financial inflows due to tighter global financial conditions, we forecast a balance of payments deficit of US$72 million in 2022. Additionally, we project that the price shock will also impact 2023, possibly with higher food import volumes to compensate for lower-than-expected agricultural production. These developments would lead to a decline in our import coverage rate to just 2.3 months of imports, putting us on a divergent path from the desired one, which aims to have at least 3 months of import coverage.

3. **In this context, we request emergency financial support from the IMF under the Food Shock Window (FSW) of the Rapid Credit Facility (RCF) in the amount of SDR 53.55 million (25 percent of our quota or US$69 million) in the form of budget support.** The FSW disbursement will be essential to address our balance-of-payments need and to allow the budget

to respond to food insecurity through the implementation of a response plan. We are also confident that financial assistance from the IMF will be a catalyst for financial and in-kind support from development partners to address the crisis, including the African Development Bank, the World Food Program, and the World Bank. Furthermore, we are actively engaged in seeking additional financing from other donors.

4. We plan to use FSW resources to finance our response to the price shock, which will consist of 1) emergency relief and food distributions, 2) fertilizer purchases, and 3) cash transfers to vulnerable communities.

- **For the emergency assistance, we plan to channel approximately US$20 million in resources to the World Food Program (WFP) to assist us in executing our large-scale program of in-kind food assistance.** It will target a population estimated at 1.2 million, or 11 percent of our most vulnerable citizens in all the prefectures of the country, as well as the 5 communes of Conakry in accordance with the Harmonized Framework 2022 of the WFP. To support ongoing emergency food assistance measures in Guinea, the WFP will work in school feeding, nutrition, resilience, and UN Humanitarian Air Service programs, which aims to ensure that humanitarian and government partners have access to reliable air transport and logistics services during health and food crises, as well as to strengthen the WFP's ability to monitor Guinea's food security in real time. The WFP's operations in Guinea are based on a programmatic approach involving stakeholders for building resilience, productive social safety nets, environmental risk reduction, and shock preparedness programs.

- **We plan to use US$20 million of the resources to purchase and distribute additional fertilizers and agricultural products,** to benefit rural populations and offset declining agricultural production, as identified by the WFP, in collaboration with Guinea's Agricultural Development Fund (FODA).

- **Twenty-five million US dollars will be distributed in the form of cash transfers to vulnerable communities.** This distribution will be ensured by the National Agency for Economic and Financial Inclusion (ANIES), relying on the unified social registry, which is in the process of being expanded by the Social Development and Indulgence Fund (FDSI). Expanding the coverage of our social registry is a critical part of Guinea's social protection, as it will allow us to identify vulnerable households that would benefit from future cash transfer programs and targeted support while leveraging successes of World Bank-funded investments in ANIES' institutional capacity. We will work to ensure appropriate cooperation and coordination between all parties included in the delivery of the response plan.

- **The remaining US$4 million will be allocated to the FDSI for financial coverage and social and health care for indigent people and vulnerable groups.**

5. We are adapting our policies to respond to the price shock caused by the war in Ukraine and to mitigate its impact on the food security situation in Guinea. We removed tariffs on staple foods (including rice, vegetable oil, sugar, and wheat flour) to mitigate the impact of the price shock on vulnerable households. We are also working to increase private sector participation in agricultural production to increase the area of cultivable land. We have also sought financing from other development partners to secure additional fertilizers and agricultural inputs, including securing a US$55 million loan from the Arab Bank for Economic Development in Africa (BADEA) to finance fertilizer imports, which will nevertheless only cover about 37 percent of the estimated consumption of fertilizer needs for 13 million hectares. We are also working to finalize a loan agreement of 17 million SDRs (about US$22 million) with the African Development Bank to finance seeds and phytosanitary products. We seek to maximize the mobilization of concessional financing to meet our needs and we undertake not to introduce new policies or measures that would further aggravate our balance of payments difficulties, in particular by continuing to allow exchange rate flexibility to preserve an adequate level of reserves, respecting our rules-based intervention policy, and keeping central bank financing of the budget within statutory limits to contain inflation.

6. These policies are fully aligned with our Interim Reference Plan (PRI) and our Economic Recovery Plan (PRE). The PRI, which covers the period 2022-2025, will support Guinea's transition to democratic elections by strengthening its institutional capacity to deal with systemic fragility; preserve macroeconomic and financial viability; improve the legal and governance framework; mobilize social action for employment; and improve infrastructure and sanitation. The PRE is the implementation framework for the PRI and aims to strengthen Guinea's resilience to future shocks through export diversification and improved agricultural development.

Public Policy Measures

7. We recently adopted the PRI to respond to the negative effects of the food crisis and implement emergency response measures, among other priorities. Fiscal policy is geared towards strengthening the protection of the most vulnerable populations, while not contributing to intensify inflationary pressures, and supporting the private sector. A reasonable level of the budget deficit could offer fiscal space to finance the measures envisaged as part of the response to the food crisis.

8. The country's recent economic performance is encouraging, despite the absence of a formal economic and financial program with the IMF. Positive results are noted in the mobilization of internal resources, despite the high subsidies for petroleum products, which are estimated at nearly 2 percent of GDP. Public expenditure is carefully controlled, and efforts are noted in the execution of investment expenditure. We have limited our recourse to monetary financing from the Central Bank of the Republic of Guinea (BCRG) thanks to the prudent fiscal policy and a monetary policy adapted to the necessary control of inflation.

9. The Government has taken measures to mitigate shocks. The measures taken to reduce the impact of the shocks of the war in Ukraine resulted in a 2 percent of GDP decline in internal resources that were allocated to subsidize petroleum products, and caused a delay in the application of the electricity tariff reform, which deprived the budget of internal resources to finance fertilizer imports, which have tripled in price on the international market. In addition, maritime freight costs have increased, further worsening inflation.

10. Despite the effect of the mainly exogenous health and food shocks, the economic outlook for the Republic of Guinea in 2023 remains good. Economic growth is expected to stand at 5.2 percent, due to the performance of the mining sector. The external shocks affected progress that was underway in the non-mining sector and threaten to slow the Government's efforts to improve agricultural productivity. This situation indicates that the economic recovery will be gradual.

11. We commit to implement the transparency and good governance measures in the use of the resources allocated under the FSW of the RCF. As such, the Government commits to:

- Implement the recommendations made by the Court of Auditors (CC) to swiftly improve the PFM vulnerabilities identified as part of the audit of the Covid-19 response plan. To this end, we are preparing an action plan by June 30, 2023, with an evaluation at the end of December 2023.
- Sign an agreement with the BCRG for the opening of a "Food Shock Fund" account within the Treasury Single Account. This agreement will define accounting rules and procedures and the implementation of appropriate control and accountability measures.
- Publish monthly, quarterly, and annually comprehensive budget execution reports, no later than 30 days after the end of each month, of the expenditures executed under the "Food Shock Fund," in addition to quarterly and annual reports.
- Carry out a full audit by the CC at the end of fiscal year 2023 and publish the results of the audits. These audit reports will highlight the resources received and their use, using the GFSM 2014 budget nomenclature.
- Deposit the resources in the TSA and disburse all related expenditures from the TSA.
- Adopt the proper budgeting of targeted programs, with specific tagging that makes them visible and transparent.
- Enforce the use of proper expenditure execution procedures and controls, in line with financial regulations (i.e. food distribution should be verified by a committee of civil society organizations and representatives of local communities to certify their distribution to the right beneficiaries).
- Utilize the normal procurement process and publish all related contracts on a monthly basis, including information on the beneficial owners of winning companies

12. We are committed to implementing sound policies that preserve medium-term fiscal and debt sustainability. Fiscal policy is geared towards strengthening protection for the most vulnerable, implementing measures to mitigate the price shock, and supporting the agricultural sector. We also plan to focus on improving infrastructure investment as much as possible. As such, we are committed to maintaining a budget deficit broadly at reasonable levels, while allowing for an appropriate and temporary response to the food insecurity emergency. As the impact of the crisis subsides, we will orient our fiscal policy to preserve debt sustainability and target a sustainable and realistic deficit path – including by drawing up a plan to eliminate costly fuel subsidies while reinforcing social protection. This approach will support preserving a moderate risk of external and public debt distress while meeting our development needs.

13. We are committed to continuing our close engagement with the IMF, with a view towards considering an arrangement in the future. We recognize that putting Guinea on a stable path in its transition back to elections will require structural reforms to address its vulnerabilities to international price shocks. As such, we commit to continue our ongoing discussions with the IMF, including through advice and ongoing TA work and eventually a formal program, with a view towards enabling Guinea to address more long-term, structural challenges.

14. We have drafted a memorandum of understanding (MoU) between the Ministry of Economy and Finance and the central bank (BCRG) to clarify their respective responsibilities with respect to financial obligations related to the disbursement of the FSW of the RCF. The MoU specifies that the FSW disbursement will go to the TSA. Subsequent disbursements will be made to a sub-account within the TSA. Access to IMF resources will be instrumental in supporting Guinea amid the price shock and consequent food insecurity by catalyzing additional donor support. Upon receipt of the funds, we will immediately transfer US$20 million to the WFP to help us rapidly implement the response.

15. We will undertake an updated safeguards assessment before approval of any new IMF disbursement. We are committed to move forward in addressing the remaining recommendations of the 2021 safeguards assessment as soon as possible. In this regard, the BCRG will expedite the implementation of all overdue safeguard recommendations. In particular, we will prioritize the finalization of the 2021 IFRS financial statements, strengthen the independence of the Audit Committee and complete the capacity building plans for the accounting, risk management and internal audit departments, including filling current vacancies in these functions. Divestment from the National Investment Bank of Guinea is also critical. We have authorized IMF staff to hold discussions with the central bank's external auditors and have access to external audit reports.

16. In line with our commitment to transparency and accountability, we authorize the IMF to publish this letter and the staff report for the request for disbursement under the FSW of the RCF.

Please accept, Madame Managing Director, the assurance of our highest consideration.

/s/	/s/
Moussa Cissé	Karamo Kaba
Minister of Economy, Finance, and Planning	Governor of the Central Bank of the Republic of Guinea

GUINEA

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION AND REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

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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	*Some space to absorb shocks*
Application of judgment	*No*

Guinea remains at moderate risk of debt distress, with some space to absorb shocks, the latter, a modest improvement from the last DSA. All public and external debt burden indicators under the baseline scenario lie below their policy-dependent thresholds. External debt ratios lie sufficiently below to warrant some space to absorb shocks. The overall public debt ratio remains close to the threshold throughout the projection horizon, while total debt service-to-revenue ratio stays high, underscoring rollover risks. Stress tests suggest that debt vulnerabilities will increase if adverse shocks materialize. Under the most extreme stress test—which involves a negative shock to exports—all solvency and liquidity indicators breach their thresholds for prolonged periods. Public debt declined to 40.4 percent of GDP at end-2021 and external debt declined to 22.8. Prudent macro, fiscal, and financial policies, including maximizing the concessionality of new debt, tapping domestic financing sources, strengthening debt management capacity, and enhancing public investment management, remain key to preserving medium-term debt sustainability. Key downside risks to this assessment include shocks to Guinea's concentrated mining exports and the recent shift toward more non-concessional borrowing, along with uncertainty around the stock of its unverified domestic arrears and limited debt coverage.

[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. The Composite Indicator (CI) for Guinea is 2.47 based on the October 2022 WEO vintage and the CPIA 2021 index, which classifies Guinea as at weak debt-carrying capacity.

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).[2] While other elements of public sector debt, such as non-guaranteed debt of state-owned enterprises, are not included due to data constraints, they are assessed as not relevant.[3] This is because local governments in Guinea have limited debt exposure and the stock of non-guaranteed SOE debt is also likely to be small. Staff continues to work with the authorities to broaden the coverage of public debt and improve capacity to address debt data weaknesses, including private external debt.[4] 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.[5] Per the terms of the loan agreement, the government is the debtor and assumed to be responsible for servicing the loan in the DSA.[6]

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

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

1	The country's coverage of public debt	The central government plus social security, central bank, government-guaranteed debt		
		Default	Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	2.9 percent of GDP	2.9	
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)		11.2	

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] 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). Information on non-residents' holding of local currency debt is not available but assessed to be small. This could give rise to an underestimation of external debt on a residency basis.

[3] The World Bank's Sustainable Development Finance Policy supports the Guinean government's effort to strengthen the governance and oversight of SOEs, including through the auditing of SOEs' financial statements and reporting of debt.

[4] The World Bank's Sustainable Development Finance Policy supports the Guinean government's effort to operationalize a modern debt data recording, reporting, and monitoring system (DMFAS), and the IMF also supports the authorities with technical assistance in debt management. This will help improve the accuracy and comprehensiveness of the debt data and help strengthen debt management and transparency.

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

[6] The construction of the Souapiti dam is not included in the public investment of the central government as it is being carried out by a Special Purpose Vehicle (SPV) jointly owned by the Guinean government (51 percent) and China International Water & Electricity Corporation (49 percent) that is not considered part of the central government. The government, however, contracts the loan and on-lends the financing to the SPV, which manages and operates the hydropower project on a commercial basis and services the loan on behalf of the government. The government therefore is the debtor and is thus ultimately responsible for reimbursement of the loan. The government is assumed to service the loan with an income stream from the SPV. No additional collateral was pledged for this loan.

2. **The DSA includes a combined contingent liabilities stress test aimed at capturing the public sector exposure to SOEs, PPPs and a financial market shock, as well as arrears.** Given limited data availability and in line with the 2021 DSA, this test was undertaken conservatively with default DSA parameters implying that Guinea's central government would face a shock to its debt ratio of 11.2 percent of GDP stemming from contingent liabilities (related to SOE debt in the amount of 2 percent of GDP), to 35 percent of the PPP stock (1.33 percent of GDP), to financial market shocks in the amount of 5 percent of GDP, and to arrears in 2.9 percent of GDP (Table 1). The PPP stock was calibrated for Guinea based on its 2018 PIMA.

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

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

	2016	2017	2018	2019	2020	2021	Percent of Total	Percent of GDP
Total PPG Debt	**3,481**	**4,260**	**4,542**	**5,019**	**6,396**	**6,987**	**100.0**	**40.4**
Domestic Debt	**1,660**	**2,245**	**2,263**	**2,397**	**2,612**	**3,034**	**43.4**	**17.5**
Treasury bills (<12 months)	288	341	470	517	726	827	11.8	4.8
Treasury instruments (1-3 years)	40	76	46	160	209	126	1.8	0.7
Securitized debt to suppliers	137	81	160	194	256	137	2.0	0.8
BCRG (short-term advances)	47	141	-8	137	335	147	2.1	0.8
BCRG (long-term obligations)	832	1,176	1,162	1,122	1,028	949	13.6	5.5
Misc. (VAT credits; domestic arrears)	316	431	432	267	58	849	12.2	4.9
External Debt	**1,822**	**2,015**	**2,279**	**2,622**	**3,784**	**3,952**	**56.6**	**22.8**
Multilateral creditors	779	869	1,116	1,337	1,737	1,895	27.1	11.0
IMF	241	277	322	338	520	480	6.9	2.8
World Bank	220	240	341	467	575	622	8.9	3.6
African Dev. Bank Group	99	122	136	173	208	202	2.9	1.2
Islamic Dev. Bank	106	113	184	195	217	310	4.4	1.8
European Union	0	0	20	38	73	96	1.4	0.6
Other Multilateral creditors	113	117	113	125	143	185	2.6	1.1
Official Bilateral Creditors	984	1,083	1,102	1,181	1,800	1,766	25.3	10.2
Paris Club (excl. C2D)	28	31	29	33	41	46	0.7	0.3
Non-Paris Club	957	1,053	1,073	1,147	1,759	1,720	24.6	9.9
Angola	145	141	127	117	113	113	1.6	0.7
China	525	600	630	650	1,277	1,245	17.8	7.2
of which: Loan for Souapiti dam	0	0	0	0	575	575	8.2	3.3
Kuwait	73	83	77	78	75	76	1.1	0.4
Libya	42	42	42	42	52	52	0.8	0.3
Saudi Arabia	75	90	101	106	104	103	1.5	0.6
Others	96	96	96	154	139	132	1.9	0.8
Commercial Creditors	59	62	61	104	246	291	4.2	1.7
ICBC	0	0	0	44	202	259	3.7	1.5
Memo items								
External Arrears	147	150	149	149	164	159	2.3	0.9
C2D balance [1/]	112	104	76	47	51	47		
GNF per USD: Official (EOP)	9,225	9,006	9,085	9,401	9,990	9,114		

Sources: Guinean authorities and IMF staff calculations.

[1/] C2D refers to Debt Reduction-Development Contract, and is excluded from the stock of PPG debt. Because C2D is a revenue source, it is included in Guinea's fiscal tables.

RECENT DEBT DEVELOPMENTS

3. **Public and external debt ratios declined in 2021, after their 2020 surge.** Total public debt in 2021 declined as a percentage of GDP to 40.4 percent (from 47.1) and external public debt declined to 22.8 (from 27.9, see Table 2). These trends reflect a temporary pause in key financing partner support in the immediate aftermath of the coup in September 2021, amid GDP growth and exchange rate appreciation. Domestic debt declined to 17.5 percent of GDP at end-2021 from 19.2 at end-2020.

4. **The share of external debt decreased to 56.6 percent of total PPG debt in 2021 (from 59.2 percent at end-2020)**. Multilateral debt remained broadly unchanged from 2020 at about

27 percent of total PPG at end-2021, with lower participation of the IMF and an uptick in the debt owed to the Islamic Development Bank. Official bilateral debt declined to 25.3 percent of total PPG (from 28.1 percent in 2020), mostly due to negative net financing flows in 2021. Commercial debt, mostly owed to the ICBC, inched higher to 4.2 percent of total PPG debt (from 3.8 percent at end-2020). Within domestic debt, there was an over 3-percentage point decline in the share of short-term central bank financing and a 2.5-percentage point drop in the share of long-term obligations, but there was a large accumulation of domestic arrears.

5. Central bank advances declined in 2021, but domestic arrears increased. In 2021, outstanding debt in Treasury bills declined to 5.5 percent of GDP from 6.9 percent in 2020, with 87 percent comprised of short-term instruments. The outstanding stock of short-term advances and long-term obligations to the central bank declined to 0.8 and 5.5 percent of GDP, respectively (from 2.5 and 7.6 percent, respectively, in 2020), but at the expense of a sizable accumulation of domestic arrears. Audited and validated arrears to suppliers over the period 1982–2013 as well as domestic arrears accumulated since then have been included in the baseline, corresponding to a domestic arrears stock of at least 2.9 percent of GDP at end-2021, with the actual stock subject to verification by an ongoing audits for the period 2014-2020, and with some potential to increase the stock of debt in subsequent years (as referenced in the contingent liability test in Paragraph 2). Once the audit is done, the auditor will recommend a repayment strategy to the authorities. Staff view these arrears as reflecting capacity challenges, and more recently account freezes related to the coup, rather than reflecting solvency or liquidity issues.

6. External arrears at end-2021 predate the 2012 HIPC completion point and are due to non-Paris Club official bilateral creditors ($98.6 million) and commercial creditors ($60.5 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 that Guinea owes to private creditors, the authorities continue to make good faith efforts to reach a collaborative agreement.

7. Pandemic-related debt service relief provided by the IMF and Paris Club are included. The authorities received about SDR 69.2 million in debt service relief provided by the IMF under the Catastrophe Containment and Relief Trust (CCRT) to cover debt service obligations to the IMF over the period of April 14, 2020 to April 13, 2022. Of this total amount of grants, the DSA incorporates the $22 million that the authorities received in 2022 to reduce IMF debt service payments. The authorities also benefited from the Debt Service Suspension Initiative (DSSI), supported by the G20 and the Paris Club; US$89 million in debt service payments falling due from 2020-21 have been rescheduled to 2022-25 under the DSSI. More than half of these amounts corresponds to the rescheduling of C2D loans, which are not included in the DSA (Table 2, Footnote 1).

8. The SDR allocation was converted and partially used in 2022. The authorities converted their SDR allocation of US$284.5 million into U.S. dollars in January 2022, with both the asset and the liability sold to the government. As a result, the SDRs are recorded on the balance sheet of the government and fall under the DSA perimeter.[7] External debt to the IMF thus increased by US$284.5 million in 2022 (Table 4), and because Guinea's net SDR position is negative, its net interest obligation is reflected in future interest expenditures and incorporated as part of the present value of debt in the DSA. The authorities are using the SDR allocation for infrastructure spending, repayment of central bank advances and some arrears from the 2021 budget.[8]

UNDERLYING MACROECONOMIC ASSUMPTIONS

9. Key assumptions are consistent with the macroeconomic framework outlined in the Staff Report for the 2022 Article IV Consultation:

- **Real GDP growth** is estimated at 4.3 percent in 2021 and 4.7 percent in 2022 (Table 3). This projection reflects the impact of the war in Ukraine and subsequent price shock that affected Guinea through multiple channels, slowing the already fragile post-COVID-19 recovery of the non-mining sector. Growth is expected to remain strong in the medium-term, supported by increased production capacity and ongoing investment in new mines, in addition to high demand for bauxite from China. Artisanal gold production is expected to remain elevated through 2024 before converging to a long-run rate of around 5 percent, in line with a moderation in world gold prices. The non-mining sector is further expected to recover over 2023-24 as the domestic political situation normalizes and the price shock of the war in Ukraine gradually abates.

- **Risks** to the outlook include a slowdown in global growth that may result in lower demand for bauxite and gold; lingering impacts of the price shock due to the war in Ukraine that dampen the non-mining sector's recovery; and a slower rollout of the authorities' efforts to mitigate food insecurity. In the medium-term, the authorities' efforts to enhance diversification under their Economic Recovery Plan (PRE) could help to mitigate these risks. Upside risks include the finalization of agreements related to the Simandou iron ore development.

- **Inflation.** Inflation is projected to remain above 12 percent in 2022 before decreasing to around 11 and ½ percent in 2023, after which it will gradually decline to the single-digits, as international commodity price repercussions from the war in Ukraine stabilize, and COVID-related supply disruptions dissipate.

- **Fiscal balance**. The overall balance is expected to record a deficit of 1.3 percent of GDP in 2022 before deteriorating further to 2.3 percent in 2023. The primary fiscal deficit is expected to average 1.5 percent of GDP over 2023–27, reflecting more moderate public investment levels than had been planned before the pandemic. Continued revenue mobilization efforts, including transfer pricing reform and modernization of tax administration, are expected to gradually

[7] *Guidance Note for Fund Staff on the Treatment and Use of SDR Allocations*, IMF, August 2021, para. 39.

[8] Out of the stock of domestic arrears of 2.9 percent of GDP at end-2021, the authorities paid 1.2 percent of GDP by partially using the SDR allocation (GNF 297 billion). They are using the rest of the SDR allocation for infrastructure investment projects.

increase tax revenue by about 2.8 percent of GDP over 2022–27.[9] Grants declined to 0.4 percent of GDP in 2021, from 1.2 percent in 2020, due to a pause in development partner support following the coup. They are expected to further decline to 0.2 percent of GDP by 2023, before declining to around 0.1 percent of GDP in the long-term due to the shift toward long-term loans in Guinea's IDA-20 allocation and lack of other identified grants.

- **The non-interest current account deficit** (including transfers) narrowed to close to 2 percent of GDP in 2021 on the back of strong export performance. It is expected to widen to 6.7 percent of GDP on average in 2022-2023, before dropping to 4.1 percent in 2024 and 2.6 percent in 2025. While strong FDI, including for the infrastructure needed to exploit the Simandou iron ore deposits, will contribute greatly to finance the expected deficits, BOP dynamics appear more challenging in the near term.

Table 3. Guinea: LIC DSA Macroeconomic Assumptions

(Percent of GDP, unless otherwise indicated)

	Previous DSA					Current DSA					Difference (Current - Previous)				
	2021	2022	2023	2026	2031	2021	2022	2023	2026	2031	2021	2022	2023	2026	2031
Output and Inflation															
Real GDP Growth	5.2	6.1	5.9	5.3	5.0	4.3	4.7	5.6	5.5	5.0	-0.9	-1.4	-0.2	0.2	0.0
Mining	7.7	7.1	6.3	6.3	5.1	6.6	11.8	11.1	5.1	5.1	-1.2	4.7	4.8	-1.2	0.0
Non-mining	4.5	5.8	5.7	5.0	4.9	3.7	2.9	4.1	5.6	5.0	-0.7	-2.9	-1.6	0.6	0.0
Inflation Average	11.6	9.9	8.0	7.8	7.8	12.6	12.2	11.4	8.3	7.8	1.0	2.3	3.4	0.5	0.0
Central government finances															
Total revenue and grants	14.9	14.7	15.2	15.6	15.7	13.6	13.1	13.0	15.0	15.6	-1.3	-1.6	-2.2	-0.7	-0.1
Expenditures and net lending	17.1	17.6	18.0	18.5	18.0	15.3	14.4	15.3	17.6	18.0	-1.8	-3.2	-2.7	-0.9	0.0
Overall balance including grants	-2.2	-2.9	-2.8	-2.8	-2.3	-1.7	-1.3	-2.3	-2.6	-2.4	0.5	1.6	0.5	0.2	-0.1
External sector															
Gross available reserves (months of imports)[2]	2.4	2.5	2.5	3.0	2.9	2.7	2.5	2.4	2.7	3.0	0.3	0.0	-0.1	-0.3	0.1
Gross public debt	43.3	42.9	42.5	41.9	38.1	40.4	34.9	35.3	36.9	36.9	-2.9	-8.0	-7.1	-5.0	-1.2

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

- **External financing mix and terms**. The authorities plan to continue mobilizing external financing to scale-up public investments. While relying on the authorities' projections for 2022-27, project loan disbursement projections have been adjusted downward for 2022-25 to bring them to levels more compatible with past execution rates (Table 4). Financing terms were also adjusted to reflect information from development partners and generally tighter financial conditions. External borrowing is assumed to increase to an average of 3.4 percent of GDP in 2023-24, including due to two sizable disbursements from Eximbank China as part of the $1.2 billion loan signed in September 2018 for the construction of the Souapiti hydropower project;[10] and to moderate slowly in the long-run, toward 2.4 percent of GDP in 2042. Per the authorities' projected disbursements and information from development partners, the average grant element of new external borrowing is expected to average 33.2 over 2022-27. In line with authorities' medium-term debt management strategy, the DSA assumes a gradual increase in the relative use of non-concessional or less concessional financing (from non-Paris Club official

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[9] The World Bank's Sustainable Development Finance Policy supports the Guinea government's effort to operationalize a digitally interconnected tax system and strengthen the transfer price determination for mining company taxes. IMF TA also supports these efforts. This work would improve efficiency and transparency of tax management, increase revenues, and thereby contribute to fiscal sustainability.

[10] 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 2023 and US$300 million in 2024.

creditors, other multilaterals, and commercial debt), with the average grant element gradually decreasing to 22.1 percent by 2042. External debt service is thus expected to increase modestly in nominal terms in the medium-term (Table 5).

- *Multilateral borrowing*. Multilateral financing is expected to continue to play an important role in the coming years, although declining in the long term, with the baseline assumption including the IDA-20 envelope from the World Bank totaling US$520 million in 2023-25. The authorities have also requested emergency financing worth 25 percent of Guinea's quota (SDR 53.55 million) to respond to the food crisis under the IMF's Food Shock Window (FSW).[11] Subject to IMF Executive Board approval, they plan to use the resources as budget support to assist the most vulnerable through food and cash distribution, and improve the supply of fertilizers and support farmers. In line with the authorities' medium-term debt management strategy, multilaterals excluding the World Bank and IMF are expected to provide an average of 40.2 percent of the external financing mix from 2022-26, with the largest share (20.4 percent) coming from the Islamic Development Bank.

- *Official Bilateral Creditors*. Following a decline in official bilateral loan disbursements following the 2021 coup d'état, they are expected to increase in the coming years to account for 20-50 percent of external financing in 2023-2026. Paris Club creditors are expected to provide about 17 percent of total official bilateral loans, with the other portion coming from non-Paris Club creditors, including Souapiti-related disbursements.

- *Commercial Creditors.* The ICBC provided about 16 percent of external financing in the form of non-concessional project loans in 2021 and is expected to provide about 26 percent of projected disbursements (also project loans) in 2022, with a decline thereafter, per the authorities' projections.

Table 4. Guinea: Projected External Financing
(USD million)

	2022	2023	2024	2025	2026
Multilaterals					
IMF					
SDR sale	284.6	0.0	0.0	0.0	0.0
RCF - Food Shock Window*	69.0	0.0	0.0	0.0	0.0
World Bank					
IDA - regular loans	50.1	80.6	117.7	172.2	225.5
IDA - 50 year loans	0.0	0.0	0.0	0.0	0.0
IDA - SML	0.0	0.0	0.0	0.0	0.0
Other Multilaterals	150	244	285	306	351
Official Bilaterals					
Paris Club	26.7	42.1	56.9	83.5	51.3
Non-Paris Club					
Eximbank China - Other	0.0	34.7	22.6	29.2	0.0
Eximbank China - Souapiti	0.0	299.7	300.6	0.0	0.0
Other	14.2	51.5	65.8	84.9	114.8
Commercial					
ICBC	79.7	63.4	34.5	21.0	30.1

* Subject to Board Approval

- **Domestic borrowing**. In the first part of 2022, the government continued repaying central bank advances and a significant fraction of verified domestic arrears, and worked on increasing the

[11] The FSW would address an urgent balance of payments need associated with a situation of acute food insecurity stemming from the global food and fuel price shocks that has resulted in a decline in reserves over the past few months. The Global Report on Food crisis identified Guinea as a country experiencing a food crisis, with over 1.2 million people in acute food insecurity.

maturity of domestic government debt.[12] Over the medium-term, the government is assumed to gradually continue repaying the outstanding stock of verified arrears in full, and the share of domestic borrowing is projected to be comprised of mostly short-term debt (75 percent T-bills), with the remainder comprised of medium-term bonds.

10. All realism tools suggest that staff forecasts are realistic. First, debt creating flows are projected to contribute in a similar way to the evolution of public and external debt ratios as they have done over the past five years. For external debt (Figure 3, upper panel), while the FDI overfinancing of the current account is projected to contribute more to a decline in debt, this is grounded on the expected sizable increase in FDI flows associated with the project to exploit Simandou iron ore (which also includes a railway and a port), and it is compensated by a large debt-creating residual, which staff interpret to account at least in part for private accumulation of external assets (for which no data is available). For overall public debt (Figure 3, lower panel), staff projections are more conservative than in the past across debt-creating flows.[13] Second, the projected three-year fiscal balance lies well within the more conservative adjustments observed in LICs (Figure 4, top left). Third, while these fiscal assumptions alone do not account for the expected pickup in growth (Figure 4, top right), the latter is supported by strong prospects for mining output and exports rather than fiscal stimulus. Finally, while a scaling-up of public investment is expected to support growth (Figure 4, bottom panel), the framework conservatively assumes the investment-growth nexus is relatively weak, though stronger than historically due to ongoing improvements in public investment management, supported by ongoing IMF-supported technical assistance.[14]

Table 5. Guinea: Decomposition of Public Debt and Debt Service by Creditor, 2021-23[1,2]

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

	Debt Stock (end of period)			Debt Service					
	2021			2021	2022	2023	2021	2022	2023
	(In US$)	*(Percent total debt)*	*(Percent GDP)*	*(In US$)*			*(Percent GDP)*		
Total	6,987	100.00	40.37				-	-	-
External	3,952	56.57	22.84	193.68	212.35	277.86	0.01	0.01	0.02
Multilateral creditors[3]	1,895	27.13	10.95	91.53	83.69	110.73	0.01	0.01	0.01
IMF	480	6.88	2.78						
World Bank	622	8.90	3.59						
AfDB	202	2.89	1.17						
Other Multilaterals	591	8.46	3.42						
o/w: Islamic Development Bank	310	4.44	1.79						
o/w: European Union	96	1.37	0.55						
Bilateral Creditors	1,766	25.27	10.20	83.15	110.18	119.80	0.01	0.01	0.01
Paris Club	46	0.65	0.26	29.43	20.34	20.78	0.00	0.00	0.00
o/w: France *(excl. C2D)*	44	0.63	0.25						
o/w: Italy	2	0.02	0.01						
Non-Paris Club	1,720	24.62	9.94	53.72	89.85	99.03	0.00	0.01	0.01
o/w: China	1,245	17.81	7.19						
o/w: Angola	113	1.61	0.65						
Commercial creditors	291	4.17	1.68	19.00	18.47	31.37	0.00	0.00	0.00
o/w: ICBC	259	3.71	1.50						
Domestic	2,612	37.39	15.09	257.07	259.91	207.99	0.02	0.02	0.01
Held by residents, total	3,034	43.43	17.53						
T-Bills	827	11.84	4.78						
Bonds	126	1.80	0.73						
BCRG (long-term obligations)	949	13.58	5.48						
Memo items:									
Collateralized debt[4]	2,125	30.41	12.28						
o/w: Related	1,510	21.62	8.73						
o/w: Unrelated	708	10.13	4.09						
Nominal GDP	16,155								

1/As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.

2/While other elements of public sector debt, such as non-guaranteed debt of state-owned enterprises, are not included due to data constraints, they are assessed as not relevant.

3/ "Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears)

4/ Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

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[12] In April 2022, the authorities issued the first-ever 5-year domestic bond.

[13] For both external and public debt, projected debt ratios are lower than assumed in Guinea's 2017 DSA, as realized external financing – particularly project loans – were lower than the authorities' initial projections, and this combined with stronger nominal GDP growth and currency appreciation.

[14] A PIMA follow-up and Climate-PIMA joint mission is scheduled for February 2023.

COUNTRY CLASSIFICATION AND STRESS TESTS

11. **The Composite Indicator (CI) for Guinea is 2.47 based on the October 2022 WEO vintage and the the CPIA 2021 index, which leads to Guinea being classified as at weak debt-carrying capacity (Table 6)**. The CI score increased from 2.44 in 2021, mainly due to an increase in the real growth rate coefficient. Guinea's overall CPIA score of 3.3 (scale 1-6) is aided by a relatively high score of 3.5 in the economic management cluster (monetary and exchange rate policy, fiscal policy, and debt policy) but weighed down by a relatively weak score of 3.0 in the cluster corresponding to public sector management and institutions.

Table 6. 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	3.270	1.26	51%
Real growth rate (in percent)	2.719	5.637	0.15	6%
Import coverage of reserves (in percent)	4.052	19.880	0.81	33%
Import coverage of reserves^2 (in percent)	-3.990	3.952	-0.16	-6%
Remittances (in percent)	2.022	1.081	0.02	1%
World economic growth (in percent)	13.520	2.898	0.39	16%
CI Score			2.47	100%
CI rating			Weak	

12. **In addition to standard stress tests involving shocks to GDP, the currency, and financing conditions, two tailored stress tests are triggered**: (i) the contingent liabilities stress test described in paragraph 2 (Table 1), tailored to reflect Guinea's PPP stock per the 2018 PIMA and to include risks related to the potential increase in the stock of arrears once the audit is completed; and (ii) the standard commodity price shock, consisting of a 31 percent drop in the price of metals and a 19 percent drop in the price of minerals, tailored to reflect bauxite and gold are Guinea's top two export products.

MODEL RISK SIGNALS

A. External Debt

13. **Guinea stands at moderate risk of external debt distress, with some space to absorb shocks** (Table 7, Figure 1, and Figure 5). Under the baseline scenario, all external debt ratios remain below their policy dependent thresholds. Guinea is assessed to have some space to absorb shocks. Medium-term external debt dynamics are broadly in line with those of the July 2021 DSA. The PV of external debt-to-GDP is expected to remain mostly within 19-20 percent of GDP throughout the forecast horizon. Liquidity ratios are expected to remain well below policy dependent thresholds, particularly the debt-service-to-exports ratio (in line with the July 2021 DSA).

14. **Under various stress tests, as well as under an alternative scenario based on historical metrics, several indicators of external debt breach their thresholds over the full forecast**

horizon (Table 9, Figure 1). The results highlight that under most of these shocks Guinea could breach external debt thresholds, particularly the debt-to-GDP ratio, with shocks to exports being the most detrimental, followed by a shock to GDP combined with depreciation. Under the most extreme shock, which would involve a shock to exports, the PV of debt-to GDP ratio would exceed 60 percent, while the debt-to-exports ratio would jump to over 300. Liquidity ratios would also increase sharply. Debt ratios also breach thresholds under historical scenarios, except for the debt-service-to-export-ratio.[15]

B. Public Debt

15. Guinea's risk of public debt distress is also assessed to be moderate. Under the baseline scenario, the PV of total public debt-to-GDP remains within the benchmark of 35 percent of GDP (Table 8[16] and Figure 2). The PV of total public debt-to-GDP ratio peaked in 2021 at 37.7 percent of GDP but is projected to fall to 32.1 percent of GDP in 2022. It is expected to increase slightly to 33.8 by 2031 before dropping below 30 percent of GDP in the long-term. Under several of the stress tests discussed above, the PV of overall public debt breaches the 35 percent of GDP threshold, with the most detrimental shock again being that of exports, followed by fiscal slippage and commodity prices (Table 10). Public debt dynamics are generally more favorable under historical scenarios, as baseline projections are more conservative notably as regards the primary balance.

RISK RATING AND VULNERABILTIES

16. Guinea is assessed to be at moderate risk of overall and external debt distress, with some space to absorb shocks. However, both public and external debt breach key thresholds when subjected to stress tests. The greatest risk to the debt outlook, per the model signals, is a shock to exports. A key additional downside risk stems from the recent shift to non-concessional or less concessional external borrowing. New audits that confirm a higher stock of domestic arrears could also worsen the dynamics of total public debt. Staff recommend prudent macro, fiscal, and financial policies, including maximizing the share of concessional borrowing, tapping domestic financing sources, strengthening debt management capacity, and enhancing public investment management.

17. Guinea's capacity to repay the Fund is adequate and supported by its strong track record of meeting its obligations to the Fund. Outstanding obligations to the Fund stand at SDR 357 million (about 1.8 percent of GDP). Staff recommendations of prudent macro, fiscal and financial policies, including maximizing the use of concessional finance, would contribute to reducing capacity-to-repay risk.

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[15] Historical scenarios for external debt reflect sizable historical current account deficits in Guinea of nearly 15 percent of GDP on average in 2012-2022, due to exceptionally adverse conditions including the Ebola crisis, commodity price shocks and civil unrest.

[16] In Table 8, the large residual for 2020 reflects the fact that the loan for the Souapiti dam is not included in the primary balance.

AUTHORITIES' VIEWS

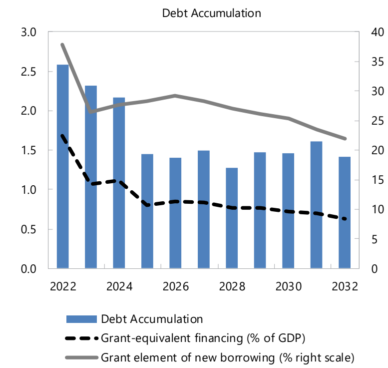
18. **The authorities broadly agreed with the conclusions of the DSA.** They underscored their commitment to maintaining a sustainable level of debt that does not exceed a moderate risk of debt distress. While they concurred with the importance of maximizing concessional financing, they noted that financing under these terms is not available at the scale needed to finance their large infrastructure needs. The authorities are committed to enhancing their public investment management.

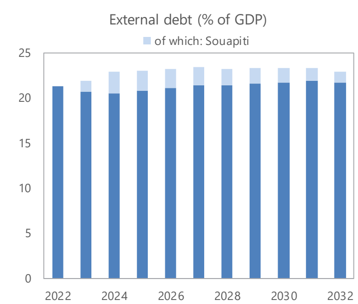
Table 7. Guinea: External Debt Sustainability Framework, Baseline Scenario, 2019–42

(Percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
External debt (nominal) 1/	**20.0**	**27.9**	**22.8**	**21.2**	**21.9**	**22.9**	**23.0**	**23.2**	**23.4**	**22.9**	**15.1**	**20.4**	**22.9**
of which: public and publicly guaranteed (PPG)	**20.0**	**27.9**	**22.8**	**21.2**	**21.9**	**22.9**	**23.0**	**23.2**	**23.4**	**22.9**	**15.1**	**20.4**	**22.9**
Change in external debt	0.6	7.9	-5.0	-1.6	0.7	1.0	0.1	0.1	0.2	-0.4	-1.2		
Identified net debt-creating flows	**-1.3**	**5.5**	**-11.8**	**-3.9**	**-3.6**	**-5.6**	**-7.9**	**-7.6**	**-6.7**	**-7.1**	**-6.5**	**3.5**	**-6.5**
Non-interest current account deficit	**15.4**	**16.0**	**1.9**	**6.9**	**6.4**	**4.1**	**2.6**	**2.1**	**1.5**	**1.3**	**2.4**	**14.7**	**2.7**
Deficit in balance of goods and services	12.0	7.9	-9.3	-1.8	-2.3	-4.2	-7.0	-7.5	-7.8	-7.6	-6.8	**11.0**	**-6.3**
Exports	30.1	63.5	63.5	46.0	42.2	40.6	40.1	40.1	40.1	40.1	40.0		
Imports	42.0	71.3	54.2	44.2	39.9	36.4	33.1	32.5	32.2	32.5	33.2		
Net current transfers (negative = inflow)	-0.7	-2.0	-2.6	-2.5	-2.3	-2.2	-2.1	-2.0	-1.9	-1.5	-0.9	**-1.9**	**-1.9**
of which: official	-0.2	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other current account flows (negative = net inflow)	4.1	10.1	13.8	11.2	11.0	10.5	11.6	11.6	11.2	10.3	10.1	**5.5**	**10.8**
Net FDI (negative = inflow)	**-14.5**	**-9.6**	**-10.5**	**-10.4**	**-9.3**	**-8.9**	**-9.6**	**-9.0**	**-7.5**	**-7.5**	**-7.5**	**-9.5**	**-8.4**
Endogenous debt dynamics 2/	**-2.1**	**-0.9**	**-3.2**	**-0.3**	**-0.7**	**-0.8**	**-0.8**	**-0.7**	**-0.7**	**-0.9**	**-1.4**		
Contribution from nominal interest rate	0.2	0.2	0.2	0.5	0.3	0.4	0.4	0.4	0.4	0.1	-0.6		
Contribution from real GDP growth	-1.0	-0.9	-1.0	-0.8	-1.1	-1.2	-1.2	-1.2	-1.2	-1.1	-0.8		
Contribution from price and exchange rate changes	-1.3	-0.1	-2.4	...	...	...	...	...	...	...	...		
Residual 3/	**1.8**	**2.4**	**6.8**	**2.3**	**4.3**	**6.6**	**8.0**	**7.8**	**6.9**	**6.7**	**5.3**	**-6.2**	**6.5**
of which: exceptional financing	0.0	-0.3	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	**...**	**...**	**21.6**	**18.4**	**18.4**	**19.0**	**19.1**	**19.2**	**19.3**	**19.6**	**19.0**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**34.0**	**39.9**	**43.7**	**46.9**	**47.6**	**47.9**	**48.2**	**49.0**	**47.5**		
PPG debt service-to-exports ratio	**1.5**	**1.2**	**0.6**	**2.3**	**3.0**	**3.2**	**3.3**	**3.5**	**3.5**	**3.8**	**4.5**		
PPG debt service-to-revenue ratio	**3.2**	**6.0**	**3.0**	**8.3**	**9.8**	**9.5**	**9.0**	**9.4**	**9.3**	**9.8**	**11.0**		
Gross external financing need (Billion of U.S. dollars)	0.2	1.0	-1.3	-0.5	-0.4	-0.9	-1.6	-1.6	-1.4	-2.1	-2.9		
Key macroeconomic assumptions													
Real GDP growth (in percent)	5.6	4.9	4.3	4.7	5.6	5.8	5.6	5.5	5.4	5.0	5.0	**6.0**	**5.3**
GDP deflator in US dollar terms (change in percent)	7.3	0.5	9.3	25.7	6.2	2.1	1.6	1.2	1.8	2.0	2.0	**3.2**	**4.4**
Effective interest rate (percent) 4/	0.9	0.9	0.8	2.8	1.7	1.7	2.0	2.0	2.0	0.7	-4.0	**1.1**	**1.7**
Growth of exports of G&S (US dollar terms, in percent)	-1.0	122.6	14.1	-4.6	2.8	4.0	6.0	6.7	7.2	7.1	7.1	**25.9**	**5.2**
Growth of imports of G&S (US dollar terms, in percent)	-5.7	79.0	-13.4	7.3	1.3	-1.5	-2.3	4.9	6.2	7.3	7.5	**17.7**	**4.7**
Grant element of new public sector borrowing (in percent)	...	...	...	37.8	26.4	27.7	28.3	29.2	28.3	22.0	19.7	**...**	**27.4**
Government revenues (excluding grants, in percent of GDP)	14.0	12.8	13.0	12.6	12.8	13.7	14.6	14.9	15.3	15.6	16.1	**13.8**	**14.6**
Aid flows (in Billion of US dollars) 5/	0.1	0.2	0.1	0.4	0.1	0.2	0.2	0.2	0.3	0.2	0.2		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	1.7	1.1	1.1	0.8	0.8	0.8	0.6	0.5	**...**	**0.9**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	46.1	29.8	31.0	30.6	31.3	30.2	24.2	22.1	**...**	**30.3**
Nominal GDP (Billion of US dollars)	13	14	16	21	24	26	28	30	32	45	89		
Nominal dollar GDP growth	13.4	5.5	13.9	31.7	12.2	8.1	7.3	6.7	7.2	7.1	7.1	**9.3**	**9.9**
Memorandum items:													
PV of external debt 7/	...	...	21.6	18.4	18.4	19.0	19.1	19.2	19.3	19.6	19.0		
In percent of exports	...	...	34.0	39.9	43.7	46.9	47.6	47.9	48.2	49.0	47.5		
Total external debt service-to-exports ratio	1.5	1.2	0.6	2.3	3.0	3.2	3.3	3.5	3.5	3.8	4.5		
PV of PPG external debt (in Billion of US dollars)			3.5	3.9	4.4	4.9	5.3	5.7	6.1	8.8	16.8		
(PVt-PVt-1)/GDPt-1 (in percent)				2.6	2.3	2.2	1.5	1.4	1.5	1.4	1.0		
Non-interest current account deficit that stabilizes debt ratio	14.8	8.1	7.0	8.5	5.7	3.1	2.5	2.0	1.3	1.7	3.6		

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. **29.6** **33.2**

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 8. Guinea: Public Sector Debt Sustainability Framework, Baseline Scenario, 2019–42

(Percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2019	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2032**	**2042**	**Historical**	**Projections**
Public sector debt 1/	**38.2**	**47.1**	**40.4**	**34.9**	**35.3**	**36.5**	**36.6**	**36.9**	**37.3**	**36.3**	**23.8**	**38.8**	**36.6**
of which: external debt	**20.0**	**27.9**	**22.8**	**21.2**	**21.9**	**22.9**	**23.0**	**23.2**	**23.4**	**22.9**	**15.1**	**20.4**	**22.9**
Change in public sector debt	-0.4	8.9	-6.7	-5.5	0.4	1.2	0.1	0.3	0.3	-0.6	-1.9		
Identified debt-creating flows	**-4.3**	**0.8**	**-7.1**	**-3.6**	**-0.6**	**0.2**	**0.2**	**0.5**	**0.5**	**-0.6**	**-1.8**	**-7.3**	**-0.3**
Primary deficit	**-0.2**	**2.4**	**1.2**	**0.5**	**1.5**	**1.6**	**1.4**	**1.5**	**1.6**	**0.9**	**0.2**	**-1.0**	**1.3**
Revenue and grants	14.5	13.9	13.4	13.1	13.0	13.9	14.7	15.0	15.3	15.7	16.2	**17.7**	**14.8**
of which: grants	0.5	1.2	0.4	0.5	0.2	0.2	0.1	0.1	0.1	0.1	0.1		
Primary (noninterest) expenditure	14.3	16.3	14.6	13.5	14.5	15.5	16.1	16.5	17.0	16.6	16.4	**16.7**	**16.0**
Automatic debt dynamics	**-4.1**	**-1.5**	**-8.2**	**-4.0**	**-2.1**	**-1.4**	**-1.2**	**-1.1**	**-1.1**	**-1.5**	**-2.0**		
Contribution from interest rate/growth differential	-3.5	-2.0	-4.4	-4.0	-2.1	-1.4	-1.2	-1.1	-1.1	-1.5	-2.0		
of which: contribution from average real interest rate	-1.4	-0.3	-2.5	-2.2	-0.3	0.5	0.8	0.8	0.7	0.2	-0.8		
of which: contribution from real GDP growth	-2.1	-1.8	-1.9	-1.8	-1.9	-1.9	-1.9	-1.9	-1.9	-1.7	-1.2		
Contribution from real exchange rate depreciation	-0.7	0.5	-3.8	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**0.0**	**0.0**	**0.0**	**-0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-2.7**	**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	0.0	-0.1	0.0	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	**3.9**	**8.1**	**0.3**	**-1.8**	**1.0**	**1.1**	**-0.1**	**-0.2**	**-0.1**	**0.0**	**-0.1**	**5.5**	**0.0**
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	**...**	**...**	**37.7**	**32.1**	**32.4**	**33.3**	**33.3**	**33.5**	**33.7**	**33.6**	**28.2**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**280.7**	**245.9**	**249.6**	**239.5**	**227.3**	**223.6**	**220.2**	**213.9**	**173.9**		
Debt service-to-revenue and grants ratio 3/	**74.2**	**81.2**	**79.1**	**80.6**	**67.6**	**74.2**	**75.6**	**77.5**	**78.1**	**70.6**	**45.6**		
Gross financing need 4/	10.6	13.7	11.8	10.9	11.5	13.0	12.5	13.1	13.6	12.0	7.6		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	5.6	4.9	4.3	4.7	5.6	5.8	5.6	5.5	5.4	5.0	5.0	**6.0**	**5.3**
Average nominal interest rate on external debt (in percent)	0.9	0.9	0.8	2.6	1.7	1.8	2.0	2.1	2.0	0.7	-4.1	**1.1**	**1.8**
Average real interest rate on domestic debt (in percent)	-6.9	-1.1	-8.7	-7.6	0.6	4.6	5.7	6.1	5.5	3.9	1.7	**-2.0**	**3.3**
Real exchange rate depreciation (in percent, + indicates depreciation)	-3.7	2.7	-14.8	...	...	...	...	...	...	...	...	**-2.0**	**...**
Inflation rate (GDP deflator, in percent)	9.4	4.7	11.5	12.2	10.2	8.8	8.5	7.6	7.7	7.8	7.8	**7.0**	**8.5**
Growth of real primary spending (deflated by GDP deflator, in percent)	0.8	19.7	-6.7	-2.7	12.8	13.0	9.7	8.5	8.2	3.7	4.0	**7.1**	**6.6**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	0.2	-6.5	7.9	5.9	1.1	0.3	1.3	1.2	1.3	1.5	2.1	**0.5**	**1.6**
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		

Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government plus social security, 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.

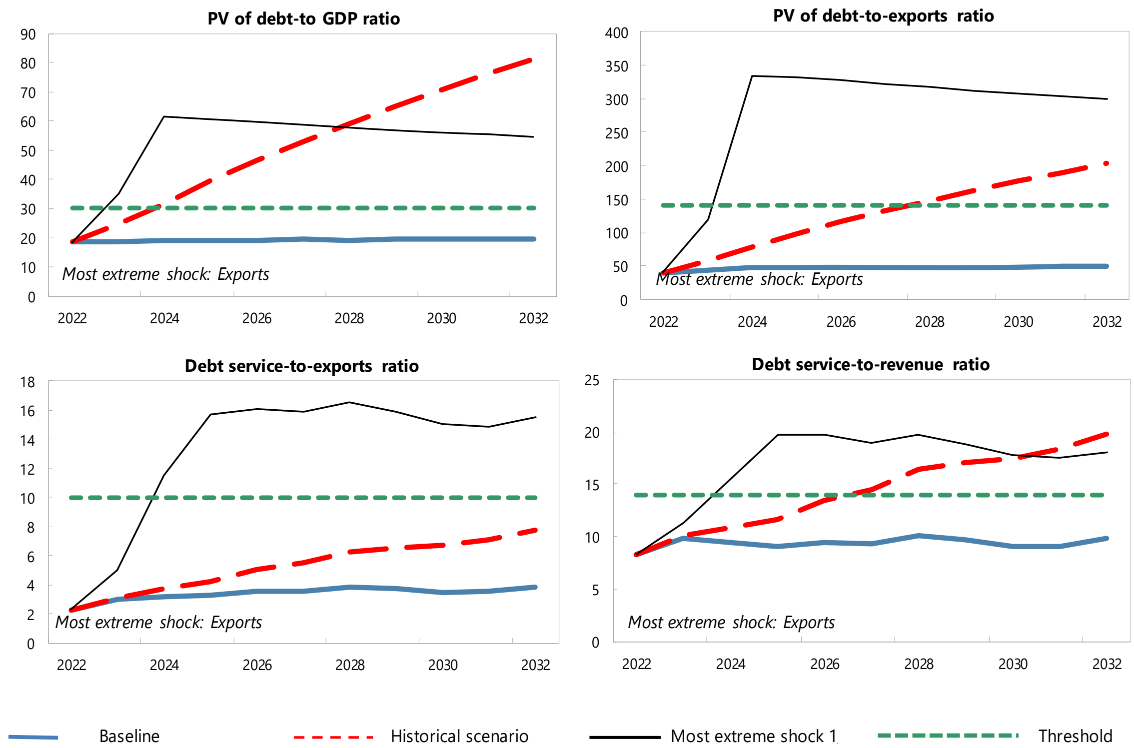
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

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, 2022–32



Customization of Default Settings	Size	Interactions
Tailored Stress		
Combined CL	No	
Natural disaster	n.a.	n.a.
Commodity price	No	No
Market financing	No	No

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.

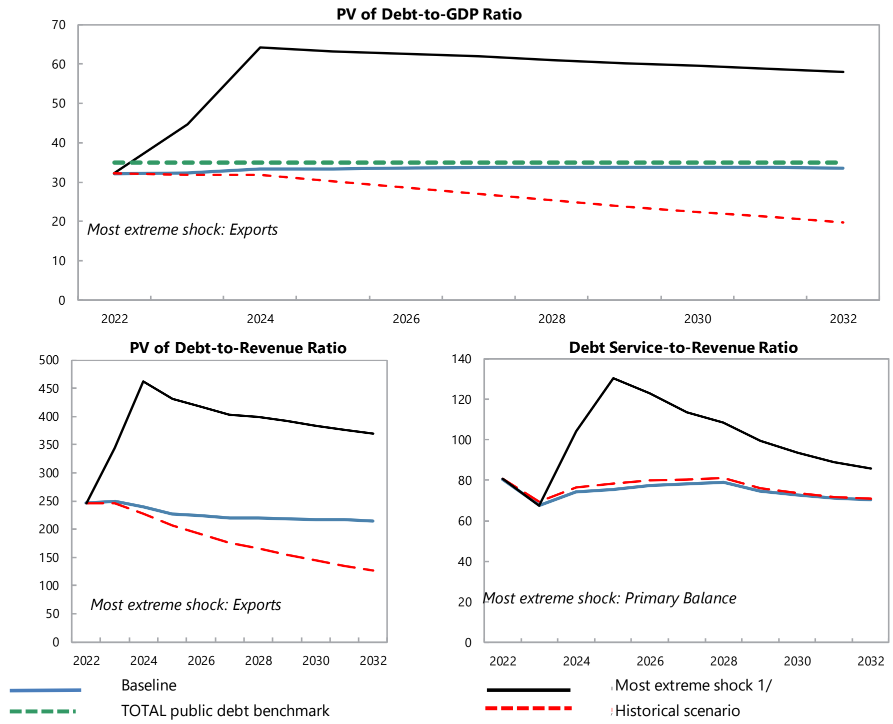
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	2.5%	2.5%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	25	25
Avg. grace period	10	10

* 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 2032. 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 2. Guinea: Indicators of Public Debt Under Alternative Scenarios, 2022–32



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	23%	23%
Domestic medium and long-term	21%	21%
Domestic short-term	56%	56%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.5%	2.5%
Avg. maturity (incl. grace period)	25	25
Avg. grace period	10	10
Domestic MLT debt		
Avg. real interest rate on new borrowing	2.1%	2.1%
Avg. maturity (incl. grace period)	2	2
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	-0.2%	-0.2%

* 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 2032. 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.

Table 9. Guinea: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2022–32

(Percent)

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
PV of debt-to GDP ratio											
Baseline	18	18	19	19	19	19	19	19	19	20	20
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	18	24	**32**	**39**	**47**	**53**	**59**	**65**	**71**	**76**	**81**
B. Bound Tests											
B1. Real GDP growth	18	19	21	21	21	21	21	21	21	21	21
B2. Primary balance	18	20	24	25	26	26	26	27	27	27	27
B3. Exports	18	**35**	**62**	**60**	**60**	**59**	**58**	**57**	**56**	**55**	**55**
B4. Other flows 3/	18	24	30	30	30	29	29	29	29	29	28
B5. Depreciation	18	23	23	23	23	23	23	24	24	24	24
B6. Combination of B1-B5	18	**31**	**35**	**35**	**35**	**34**	**34**	**34**	**33**	**33**	**33**
C. Tailored Tests											
C1. Combined contingent liabilities	18	20	21	22	22	23	23	23	23	23	23
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	18	23	27	28	28	29	29	29	29	30	**30**
C4. Market Financing	18	20	21	21	21	21	21	21	21	22	22
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	40	44	47	48	48	48	48	48	48	49	49
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	40	58	78	98	116	132	**147**	**162**	**176**	**190**	**202**
B. Bound Tests											
B1. Real GDP growth	40	44	47	48	48	48	48	48	48	49	49
B2. Primary balance	40	46	59	62	64	66	66	67	67	68	68
B3. Exports	40	120	**334**	**332**	**328**	**323**	**317**	**312**	**308**	**304**	**300**
B4. Other flows 3/	40	57	74	74	74	73	72	72	71	71	71
B5. Depreciation	40	44	46	46	47	47	47	47	47	48	48
B6. Combination of B1-B5	40	83	77	121	120	119	118	117	116	116	115
C. Tailored Tests											
C1. Combined contingent liabilities	40	47	52	55	56	57	57	57	58	58	58
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	40	60	74	75	75	75	74	74	75	76	76
C4. Market Financing	40	44	47	48	48	48	48	48	48	49	49
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio											
Baseline	2	3	3	3	4	4	4	4	3	4	4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	2	3	4	4	5	6	6	7	7	7	8
B. Bound Tests											
B1. Real GDP growth	2	3	3	3	4	4	4	4	3	4	4
B2. Primary balance	2	3	3	4	4	4	5	4	4	4	5
B3. Exports	2	5	**12**	**16**	**16**	**16**	**17**	**16**	**15**	**15**	**16**
B4. Other flows 3/	2	3	4	4	4	4	5	4	4	4	4
B5. Depreciation	2	3	3	3	3	3	4	4	3	4	4
B6. Combination of B1-B5	2	4	6	7	7	7	7	7	7	7	7
C. Tailored Tests											
C1. Combined contingent liabilities	2	3	3	3	4	4	4	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	5	5	5	5	4	5	5
C4. Market Financing	2	3	3	3	4	4	4	4	4	3	4
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	8	10	9	9	9	9	10	10	9	9	10
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	8	10	11	12	13	**15**	**16**	**17**	**18**	**18**	**20**
B. Bound Tests											
B1. Real GDP growth	8	10	10	10	10	10	11	11	10	10	11
B2. Primary balance	8	10	10	11	11	11	12	12	11	11	12
B3. Exports	8	11	**15**	**20**	**20**	**19**	**20**	**19**	**18**	**17**	**18**
B4. Other flows 3/	8	10	11	11	12	11	12	12	11	11	11
B5. Depreciation	8	12	12	11	12	11	13	12	11	11	12
B6. Combination of B1-B5	8	11	13	13	14	13	**14**	13	13	12	13
C. Tailored Tests											
C1. Combined contingent liabilities	8	10	10	10	10	10	11	10	10	10	11
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	12	12	13	13	12	13	12	11	11	12
C4. Market Financing	8	10	10	9	10	10	11	10	9	9	10
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.

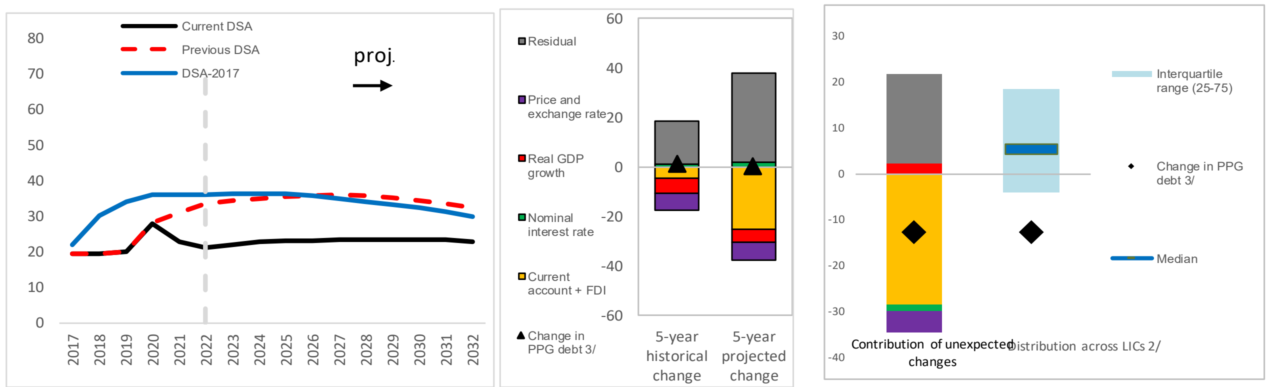
Table 10. Guinea: Sensitivity Analysis for Key Indicators of Public Debt, 2022–32
(Percent)

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
	PV of Debt-to-GDP Ratio										
Baseline	32	32	33	33	34	34	34	34	34	34	34
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	32	32	32	30	29	27	25	24	22	21	20
B. Bound Tests											
B1. Real GDP growth	32	34	**38**	**39**	**40**	**41**	**41**	**42**	**43**	**44**	**44**
B2. Primary balance	32	**40**	**51**	**49**	**48**	**48**	**47**	**46**	**45**	**45**	**44**
B3. Exports	32	**45**	**64**	**63**	**63**	**62**	**61**	**60**	**59**	**59**	**58**
B4. Other flows 3/	32	**38**	**45**	**44**	**44**	**44**	**44**	**43**	**43**	**43**	**42**
B5. Depreciation	32	**35**	35	34	33	32	31	30	29	28	27
B6. Combination of B1-B5	32	35	**40**	**40**	**40**	**40**	**40**	**40**	**40**	**39**	**39**
C. Tailored Tests											
C1. Combined contingent liabilities	32	**43**	**43**	**42**	**42**	**41**	**41**	**40**	**40**	**40**	**39**
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	32	**35**	**39**	**42**	**44**	**46**	**47**	**47**	**48**	**48**	**49**
C4. Market Financing	32	32	33	33	34	34	34	34	34	34	34
TOTAL public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
	PV of Debt-to-Revenue Ratio										
Baseline	246	250	239	227	224	220	220	219	218	217	214
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	246	245	228	206	191	176	166	155	145	135	126
B. Bound Tests											
B1. Real GDP growth	246	265	272	263	264	265	270	273	276	279	280
B2. Primary balance	246	311	364	337	324	311	306	299	294	288	282
B3. Exports	246	345	462	431	417	404	399	391	384	377	369
B4. Other flows 3/	246	294	321	302	294	287	285	282	279	275	271
B5. Depreciation	246	272	249	231	220	209	202	195	188	182	175
B6. Combination of B1-B5	246	269	285	270	265	260	259	257	255	253	249
C. Tailored Tests											
C1. Combined contingent liabilities	246	331	309	287	278	269	266	262	258	254	250
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	246	316	321	325	324	318	315	306	308	309	309
C4. Market Financing	246	250	240	228	224	220	220	219	217	216	214
	Debt Service-to-Revenue Ratio										
Baseline	81	68	74	76	77	78	79	75	73	71	71
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	81	69	77	78	80	81	81	76	74	72	71
B. Bound Tests											
B1. Real GDP growth	81	70	80	82	88	92	96	94	94	94	95
B2. Primary balance	81	68	104	130	123	114	109	99	93	89	86
B3. Exports	81	68	77	82	84	84	84	80	78	76	75
B4. Other flows 3/	81	68	75	78	80	80	81	77	74	73	72
B5. Depreciation	81	64	71	66	72	74	75	71	69	67	67
B6. Combination of B1-B5	81	66	77	80	82	83	84	80	78	76	75
C. Tailored Tests											
C1. Combined contingent liabilities	81	68	114	104	99	95	93	86	82	79	77
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	81	81	88	90	103	109	112	106	104	102	101
C4. Market Financing	81	68	74	76	78	79	80	75	73	71	70

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.

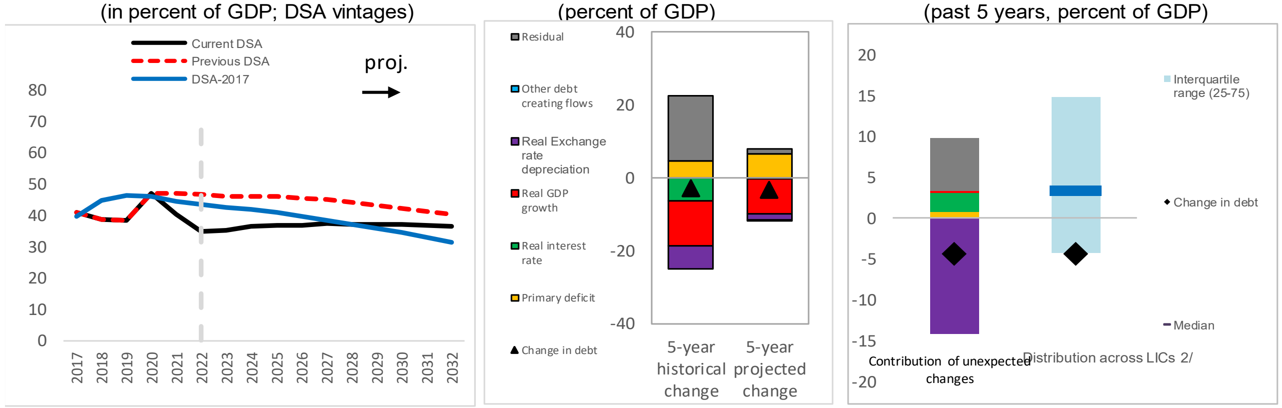
Figure 3. Guinea: Drivers of Debt Dynamics—Baseline Scenario External Debt

Gross Nominal PPG External Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



Public debt

Gross Nominal Public Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



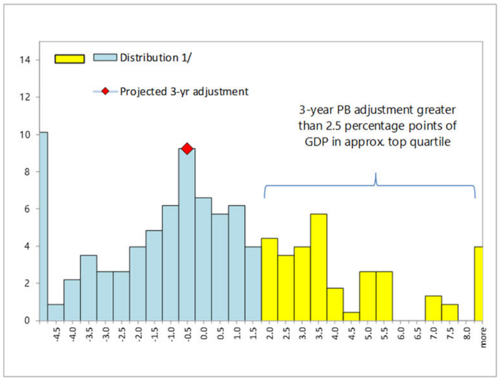
1/ Difference between anticipated and actual contributions on debt ratios.

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.

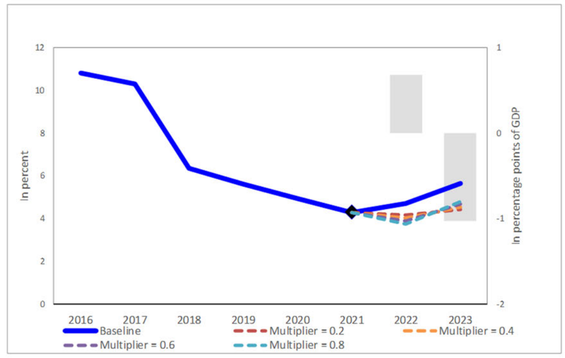
Figure 4. Guinea: Realism Tools

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



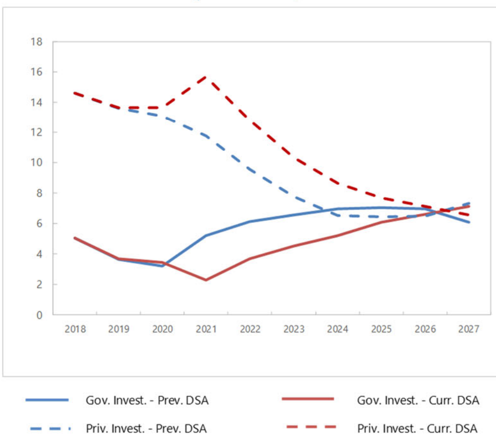
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

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)

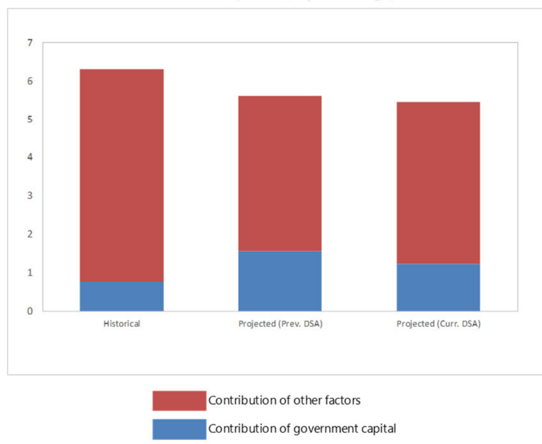
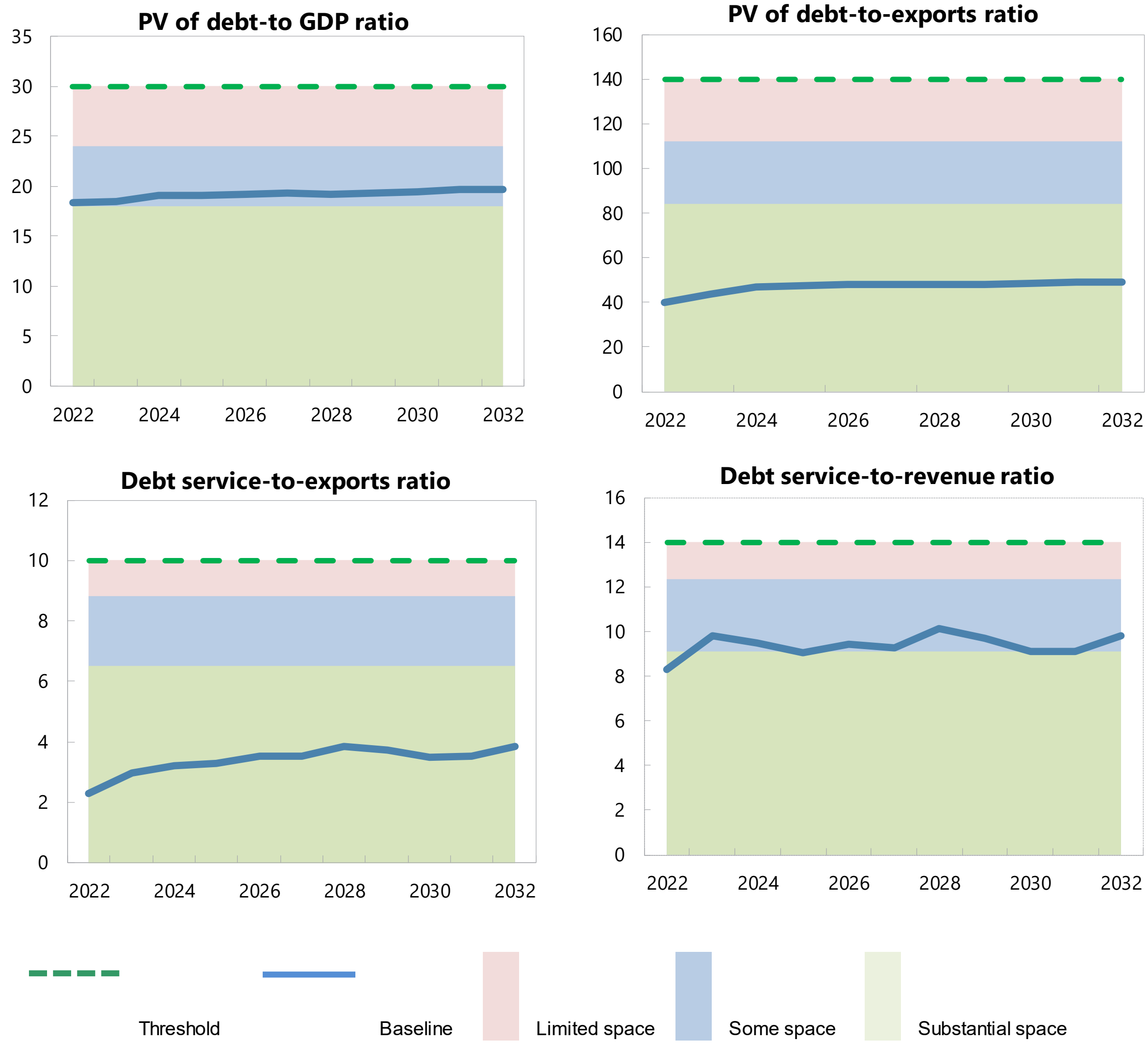


Figure 5. Guinea: Qualification of the Moderate Category, 2022–32[1]



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 30 percent.

INTERNATIONAL MONETARY FUND

GUINEA

December 8, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION AND REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—INFORMATIONAL ANNEX

Prepared By | African Department (In Consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND 2

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS 5

STATISTICAL ISSUES 6

RELATIONS WITH THE FUND

(As of October 31, 2022)

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	307,77	100.00
Holdings	42.98	13.97

Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
RCF Loans	117.81	55.00
ECF Arrangements	188.96	88.21

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

[1] Formerly PRGF

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[1/]

(SDR Million; based on existing use of resources and present holdings of SDRs):

			Forthcoming		
	2022	2023	2024	2025	2026
Principal	3.67	34.35	37.56	38.06	51.03
Charges/Interest	1.21	6.58	6.58	6.58	6.58
Total	4.88	40.93	44.14	44.63	57.6

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

Implementation of HIPC Initiative:

	Enhanced Framework
I. Commitment of HIPC assistance	
Decision point date	Dec 2000
Assistance committed	
by all creditors (US$ Million)[1/]	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[2/]	7.45
Total disbursements	35.25

[1] 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.

[2] 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.

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
N/A	Oct 06, 2021	1.84	1.84
N/A	Dec 15, 2021	16.37	16.37

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).

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

The last safeguards assessment was concluded in April 2021. Progress in implementing the previous safeguards recommendations has been slow, partially due to coup-related disruptions. Only four of 18 recommendations have been implemented to date. Staff will continue to engage with the BCRG to move ahead with the remaining recommendations. A recent bank-wide restructuring exercise should accelerate implementation of the remaining recommendations. Priority should also be given to resolving the dispute with Belgian company Affinor, which refines part of the BCRG international gold reserves.

Exchange Rate Arrangement

Guinea's *de jure* exchange rate arrangement is managed floating, but its *de facto* exchange rate arrangement is classified as a crawl-like arrangement given more information is needed to change this de facto classification. 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 organizes an FX auction to buy (sell) FX when the market rate is below (above) 0.25 percent of its 5-day moving average. 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 June 21, 2021.

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.

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

STATISTICAL ISSUES

(As of November 9, 2022)

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 (TA) 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, including by utilizing the results of the forthcoming survey of the sector. 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 covers only Conakry, was published until July 2022. The National Institute of Statistics has developed a new index with expanded coverage to include the entire country, with TA from AFRISTAT. The new index methodology has been reviewed by the Statistics Department and the Authorities have agreed to implement gradually the recommendations. The new index, starting in August 2022, was disseminated in November 2022.
Government Finance Statistics: The Ministry of Economy and Finance compiles comprehensive monthly budgetary central government data on a cash basis for revenues, and on commitment and cash basis for expenditures based on a national presentation that does not meet international standards. The latest Government Finance Statistics (GFS) TA mission (August 2022) 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 TA in 2020. The methodology for compiling the government operations tables (TOFE) has been modernized, and it is currently being reconciled with budgetary execution and financing data. The production of the TOFE based on GFSM 2014 requires 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 are available but will need to be assessed from a GFS perspective.
Monetary and Financial Statistics: Monetary data are compiled and monthly shared with the African Department. 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 disseminated in IMF's International Financial Statistics publication (May 2021). The BCRG reports data and indicators of the Financial Access Survey (FAS), including mobile and internet banking, mobile money, gender-disaggregated data, and 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 quarterly balance of payments and annual international investment position statistics in line with the sixth edition of the *Balance of Payments and International Investment Position 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. 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 has launched 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 publishes the data on its National Summary Data Page since November 2019.	No data ROSC is available.

Table 1. Guinea: Common Indicators Required for Surveillance
(As of November 22, 2022)

	Date of Latest Information	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication [6]
Exchange Rates	10/31/2022	11/08/2022	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	10/31/2022	11/08/2022	M	M	M
Reserve/Base money	09/30/2022	10/30/2022	M	M	M
Broad Money	09/30/2022	10/30/2022	M	M	M
Central Bank Balance Sheet	09/30/2022	10/30/2022	M	M	M
Consolidated Balance Sheet of the Banking System	09/30/2022	10/30/2022	M	M	M
Interest Rates[2]	09/30/2022	10/30/2022	M	M	M
Consumer Price Index	08/30/2022	10/30/2022	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	08/31/2022	11/01/2022	M	M	M
Stocks of Central Government and Central Government - Guaranteed Debt[5]	12/31/2021	03/01/2022	A	A	A
External Current Account Balance	06/30/2022	08/06/2022	Q	Q	Q
Exports and Imports of Goods and Services	06/30/2022	08/06/2022	Q	Q	Q
GDP/GNP	12/31/2020	06/1/2022	A	A	A
Gross External Debt	12/31/2021	03/01/2022	A	A	A
International Investment Position	12/31/2020	09/30/2022	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).

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

Introduction

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

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

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

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

Recent Developments and Outlook

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

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

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

Fiscal Policy

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

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

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

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

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

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

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

Monetary and financial sector policies

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

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

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

The negative spillovers of the overlapping shocks on food security

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

Policy responses to address rising food insecurity

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

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

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

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

Maintaining the reform momentum

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

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

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

Conclusion

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

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