INTERNATIONAL MONETARY FUND

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2024 ARTICLE IV CONSULTATION AND REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GUINEA

In the context of the Staff Report for the 2024 Article IV Consultation and Request for Disbursement Under the Rapid Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its May 6, 2024 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement]
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 6, 2024, following discussions that ended on February 13, 2024, 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 April 24, 2024.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF and the World Bank.
- A **Statement by the Executive Director** for Guinea.

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

Selected Issues

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

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PRESS RELEASE

PR24/140

IMF Executive Board Approves US$71 Million in Emergency Financing Support and Concludes 2024 Article IV Consultation with Guinea

FOR IMMEDIATE RELEASE

- The Executive Board approved a disbursement of SDR 53.55 million (about US$71 million) to Guinea under the Exogenous Shocks Window of the Rapid Credit Facility to help Guinea address immediate needs associated with the explosion of the main fuel depot in late 2023.
- In part as a result of the explosion, growth is expected to decelerate to 4.1 percent in 2024 and rebound to 5.6 percent in 2025, sustained by a resilient mining sector.
- Key priorities for 2024 aim at addressing urgent financing needs, mainly linked to assistance to affected households, site cleaning, and decontamination and reconstruction, which could threaten growth and economic development if not addressed. In the medium term, mobilizing domestic revenues, modernizing tax administration, improving public finance management and investment efficiency, and increasing spending on education, health, and social protection will help boost productivity and reduce poverty.

Washington, DC – May 6, 2024: The Executive Board of the International Monetary Fund (IMF) approved today a disbursement of SDR 53.55 million (about US$71 million) under the Exogenous Shocks Window of the Rapid Credit Facility to help Guinea address urgent balance-of-payment needs associated with the fuel depot explosion.

The emergency spending, which will be reflected in the revised budget law for 2024, includes transfers to affected households; the decontamination of the explosion site; the construction of housing, school, and health infrastructure; the rehabilitation of damaged public buildings; and the start of construction work on a modern and safe fuel depot.

Guinea's growth is expected to decelerate to 4.1 percent in 2024 amid fuel shortages and rebound to 5.6 percent in 2025, sustained by a resilient mining sector. Policies for 2024 aim at mitigating the impacts of the fuel explosion while minimizing deviations from medium-term growth and economic development objectives. In the medium term, mobilizing domestic revenues, especially from the mining sector, modernizing tax administration, improving public finance management and investment efficiency, as well as increasing spending on education, health, and social protection, while anchoring spending on available resources, will help boost productivity and reduce poverty.

The Executive Board also concluded the 2024 Article IV consultation[1] with Guinea.

[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

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

"Emergency financial assistance under the Rapid Credit Facility will help address urgent balance-of-payments needs associated with the explosion of a major fuel import and storage facility in late 2023. Urgent needs include those related to the decontamination of the site, assistance to affected households, and reconstruction of buildings, infrastructure, and a new fuel depot.

"A temporary relaxation of the fiscal stance is warranted to respond to the explosion. Over the medium term, mobilizing domestic revenue, especially from the mining sector, and improving public finance management would create space for increasing spending on education, health, and social protection, helping to boost productivity, reduce poverty and preserve debt sustainability. Reforming the electricity sector to address shortages remains key.

"Guinea remains at moderate risk of debt distress, with some space to absorb shocks. However, domestic debt vulnerabilities have increased, reflecting government T-bonds issuance to finance high public investment spending. Prudent macroeconomic policies, including maximizing the concessionality of new debt, avoiding the repeated accumulation of domestic arrears, strengthening debt management capacity, and enhancing public investment management, remain key to preserving medium-term debt sustainability.

"The monetary authorities' readiness to tighten monetary policy, if needed, and to ensure that central bank lending to the government remains within the statutory limit will help contain inflationary pressures. The steadfast implementation of the government securities market action plan, designed with Fund assistance, would help create alternative avenues to finance the government and limit the sovereign-bank exposure, which has increased significantly.

"The implementation of structural reforms will help manage Guinea's vulnerability to domestic and external shocks and achieve sustained and inclusive growth. In this context, there is need to ensure that the Simandou iron ore project delivers the expected benefits for the Guinean economy, as well as to adapt to and mitigate climate change, address gender disparities, and to strengthen governance and transparency by fighting corruption and improving the anti-money laundering and counter-terrorism financing regime (AML/CFT). The implementation of the 2023 safeguards assessment recommendations will also be critical."

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They acknowledged that Guinea is facing major challenges as the explosion of a major fuel import and storage facility

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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.

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

in late 2023 led to fuel shortages, inflationary pressures, and urgent financing needs. Directors noted that emergency financial assistance will be critical to address the urgent needs associated with the explosion, mainly linked to assistance to affected households, cleaning and reconstruction. Ensuring that the RCF disbursement is used in a transparent manner remains paramount. Directors looked forward to additional progress toward a UCT-quality program to address Guinea's structural vulnerabilities and help catalyze additional international support. They also looked forward to the transition to civilian rule.

Directors agreed that a temporary relaxation of the fiscal stance is warranted to respond to the explosion. They stressed the need for domestic revenue mobilization to create fiscal space for priority spending while preserving debt sustainability over the medium term. Directors welcomed in this regard the authorities' commitment to address transfer mispricing and reduce tax exemptions in the mining sector. They also highlighted the need to ensure that the Simandou project delivers the expected benefits for the Guinean economy.

Directors encouraged the authorities to improve the quality of public expenditure by strengthening human capital and social spending and public investment management. They stressed the need to reform fuel and electricity subsidies and strengthen the management of SOEs. Directors noted that, while the risk of debt distress remains moderate, vulnerabilities have increased. Against this background, they recommended maximizing the concessionality of new debt, avoiding the repeated accumulation of domestic arrears, and strengthening debt management capacity.

Directors welcomed the authorities' readiness to tighten monetary policy if needed to contain inflationary pressures. They stressed the need to respect the statutory limit on advances to the government, avoiding ad hoc adjustments unless in extraordinary circumstances, and also called for discontinuing the use of Treasury bond holdings as reserve requirements. Directors encouraged the authorities to implement the recommendations of the safeguards assessment and strengthen financial sector regulation and supervision to mitigate risks to financial stability, including from the sovereign-bank nexus.

Directors underscored the importance of structural reforms to foster inclusive growth. They stressed the need to strengthen governance and combat corruption and welcomed in this regard the authorities' commitment to implement transparency and governance measures for the use of resources under the RCF. Additional efforts will also be needed to strengthen the AML/CFT framework and to address climate vulnerabilities and gender gaps.

Guinea: Key Economic and Financial Indicators, 2021–25
(Percent of GDP, unless otherwise indicated)

	2021	2022	2023	2024	2025
	Act.	Prel.	Est.	Projection	
Output and Inflation					
Real GDP Growth (annual percentage change)	5.6	4.0	5.7	4.1	5.6
Mining (annual percentage change)	2.9	6.8	9.4	7.6	10.7
Industrial mining (annual percentage change)	9.2	15.4	18.1	9.8	11.5
Non-mining (annual percentage change)	6.3	3.3	4.8	3.1	4.2
Inflation Average (annual percentage change)	12.6	10.5	7.8	11.0	10.2
Central government finances					
Total revenue and grants	13.5	13.7	13.9	13.4	13.2
Expenditures and net lending	15.2	14.5	15.5	16.4	15.8
Current Expenditures	12.8	11.0	10.9	11.1	10.5
Capital Expenditures	2.3	3.4	4.5	5.2	5.2
Overall balance including grants	-1.7	-0.8	-1.6	-3.0	-2.6
Basic fiscal balance	-0.7	0.5	0.3	-0.7	0.1
External sector					
Current account balance (including official transfers)	-2.5	-8.6	-8.7	-10.6	-10.0
Current account balance (excluding official transfers)	-2.5	-8.6	-8.7	-10.7	-10.0
Overall balance of payments	2.4	2.1	-0.8	-0.6	-0.4
Gross available reserves (months of imports)[1]	2.8	3.4	2.5	2.2	2.2
Gross public debt	42.4	40.1	40.3	39.3	37.9
Nominal GDP (GNF billions)	159,336	170,313	195,789	226,143	262,951

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

[1] Assuming the "residual financing gap" of the BOP is filled. And in months of following years' imports, excluding artisanal gold related imports. Previous staff reports have reported a coverage ratio using imports net of capital goods.

INTERNATIONAL MONETARY FUND

GUINEA

April 24, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION AND REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY

EXECUTIVE SUMMARY

Context. On December 18, 2023, the explosion of a major fuel import and storage facility led to fuel shortages and new urgent financing needs. The blast caused 25 deaths and 457 injured as well as widespread fuel shortages, affecting transportation and economic activity. The relatively strong mining sector is sustaining growth, although growth is expected to decelerate to 4.1 percent in 2024, lower than the 2019-23 average of 5.1 percent. Average inflation is expected to increase to 11 percent in 2024 as fuel shortages pushed up prices. Socio-political tensions persist in the wake of the military coup of September 2021 and the hardship caused by the explosion.

Fund financial support. The authorities have requested a disbursement of 25 percent of quota (SDR 53.55 million) under the Rapid Credit Facility to help address urgent balance-of-payments needs associated with the explosion, including those related to the decontamination of the site, assistance to households affected, and reconstruction of buildings, infrastructure, and a new fuel depot. The absence of prompt financial support from the Fund would result in an immediate and severe economic disruption.

Policy recommendations. Policies should focus on beefing up fiscal space for priority spending and fiscal sustainability. In particular, mobilizing domestic revenues, especially from the mining sector, modernizing tax administration, improving public finance management and investment efficiency, as well as increasing spending on education, health, and social protection, while anchoring spending on available resources will help boost productivity, diversify the economy, and reduce poverty. Critical social expenditures should target the large gender gaps, and the still elevated food insecurity and mitigate its exposure to climate change. Strengthening monetary and financial policies will also help quell inflation pressures while preserving financial stability.

Approved By
Montfort Mlachila (AFR) and Bergljot Barkbu (SPR)

An IMF team consisting of Ms. P. Garcia Martinez (head), Mr. J. Ntamatungiro and Mr. M. Otero Nule (all AFR), Mr. Y. Zhao (SPR), Ms. J. Ren (FAD), Mr. J. Guihy (MCM), Mr. M. Stuermer (RES), Mr. N. Noumon (Resident Representative), and Ms. F. Diallo (local economist) held discussions with Guinea's authorities during January 31-February 13, 2024 in Conakry. Mr. M. Mlachila participated in the last days of the mission. Mr. F. Sylla (ED) and Ms. R. Bah (ED's office) joined some of the meetings. The team met with Prime Minister Bernard Goumou, Minister of Economy and Finance Moussa Cissé, Minister of Budget Lanciné Condé, the Minister of Planning, Rose Pola Pricemou, the Minister of Women's Promotion, Aicha Nanette Conté**,** Central Bank Governor Karamo Kaba, other senior officials, and representatives from the private sector, civil society, and the development partner community. Ms. M. Manning (AFR) assisted in the preparation of this report and Ms. Adjete Teko (local office assistant) helped organize the mission's stay.

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BACKGROUND

1. On December 18, 2023, the explosion of a major fuel import and storage facility in the center of the capital led to fuel shortages and new urgent financing needs.[1] The blast in the business and government center of the capital caused 25 deaths, 457 injuries, destroyed the entire storage of gasoline, and damaged governmental and private buildings. Thanks to the effective response by the government, fuel shortages have by-and-large been contained, but fuel supply remains unstable. The crisis is projected to cause a general increase in prices and negatively affect non-mining economic activity as well as the external position (Annex I).

2. Socio-political tensions persist in the wake of the military coup of September 2021. The transition to civilian rule by January 2025 remains challenging given the limited time left to implement the largely delayed 10 steps of the 24-month *framework* agreed between the military junta and ECOWAS.[2] A transition that fails to be inclusive could cause social unrest and major economic disruptions. ECOWAS' easing of the sanctions imposed on Guinea, at its extraordinary meeting on February 24, 2024, could renew the dialogue on the transition timeline. Widespread electricity outages, cost-of-living difficulties, and the hardship caused by the explosion exacerbated social discontent and led to strikes.[3]

3. Growth was resilient in the past few years, but social indicators did not improve. Growth averaged 5.1 percent during 2019-23 (2.5 percent per capita), despite the COVID-19 pandemic and the socio-political tensions. However, social indicators continue to underperform. Partly because of poor revenue mobilization, social spending remained lower than in peer countries, with Guinea consequently falling behind on education and health outcomes (Figure 2). Together with long-standing and unusually large gender gaps, mainly on education and health, this likely also weighed heavily on economic development and diversification (Annex II).

4. Against this backdrop, the authorities are seeking emergency assistance under the Exogenous Shocks window of the Rapid Credit Facility (RCF). They have requested a disbursement of SDR 53.55 million (25 percent of quota or about US$71.5 million) to address the urgent BOP need following the explosion. The IMF already provided emergency financing under the RCF in June 2020 (50 percent of quota) for the implementation of the authorities' response plan to address the COVID-19 health emergency and mitigate its severe impact. The IMF also provided emergency financing under the Food Shock Window (FSW) in December 2022 (25 percent of quota) to help address urgent financing needs related to the global food crisis. The authorities transferred the FSW funds to the World Food Program (WFP) and other implementing entities only during

[1] The facility covered most of the country's gasoline supplies (the entire gasoline storage was destroyed) and 40 percent of its total petroleum product supplies.

[2] As of mid-March, the completion of the 10 steps of the transition were largely delayed. For example, the general census is now expected for end-2024, while the draft constitution was expected for March-April 2024.

[3] On February 27, Mr. Amadou Bah Oury was sworn in as new Prime Minister of the Transitional Government, succeeding Dr Bernard Goumou. A new government was formed on March 13.

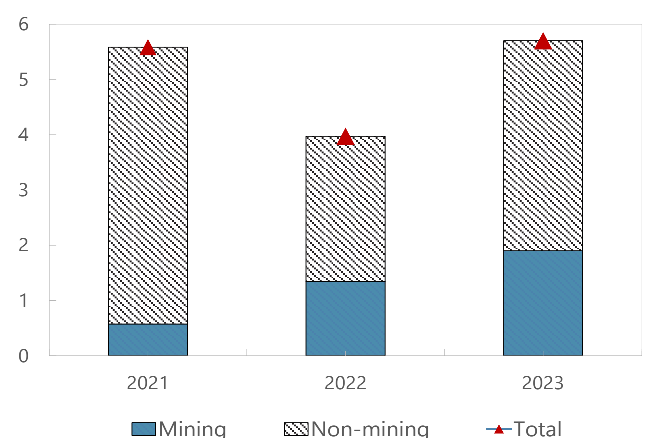
May-June 2023 and the rollout of the programs is ongoing (Annex III). A full impact analysis and audits remain to be completed, but there is significant evidence of improved food security.

5. The authorities have implemented key recommendations from the 2022 Article IV consultation, but gaps remain (**Annex IV)**. They continue to modernize tax administration and have received TA for a Public Investment Management Assessment (PIMA) and Climate PIMA (C-PIMA) to improve public investment efficiency. The MOUs signed with agencies implementing the FSW-financed programs introduced good governance and transparency measures. The Central Bank of the Republic of Guinea (BCRG) kept advances to the government limited and stuck to its rule-based FX intervention policy. The decree setting reference prices for bauxite for tax purposes is being implemented, although it is too early to assess its effectiveness. Progress with addressing the concerns raised in the 2023 safeguards assessment remains disappointingly slow.

RECENT ECONOMIC DEVELOPMENTS

6. Economic growth picked up in 2023, while inflation declined. Real GDP growth reached an estimated 4.0 percent in 2022 despite political uncertainty and high global food and fuel prices. The major driver was output growth in the mining sector at 6.8 percent as an expansion in bauxite mining more than offset a decline in gold mining. The overall mining GDP growth rate was more than double compared to the growth rate in the non-mining sectors (Text Figure 1). Real GDP growth is estimated to have picked up to 5.7 percent of GDP in 2023, as the mining sector accelerated further to 9.4 percent of GDP. The non-mining sector, in particular agriculture, benefited from the FSW support and is expected to expand by 4.8 percent in 2023. Average inflation stood at 7.8 percent in December 2023, compared to 10.2 percent in 2022. The main drivers for this CPI inflation decrease included (i) declining food prices; (ii) strong appreciation of exchange rate; and (iii) price controls of certain foods.

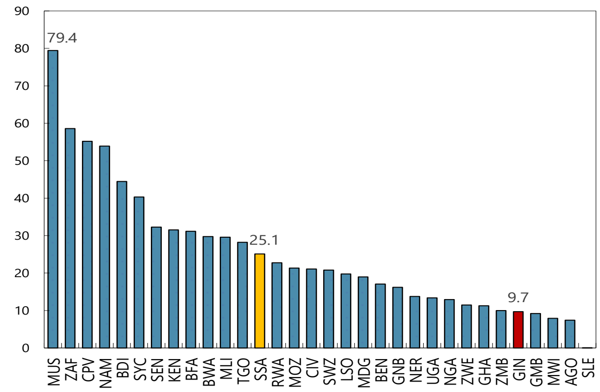
Text Figure 1. Guinea: Real GDP Contributions by Sector, 2021-23
(Percent)



Source: IMF staff calculations.

7. Monetary policy eased in September 2023 to support growth. In view of declining inflation, the BCRG lowered interest rates to 11 percent from 11.5 percent and cut reserve requirements to 13 percent ratio from 15 percent to support economic growth and spur credit. At just 8.9 percent of GDP, private sector credit remains low even by regional standards (Text Figure 2), lower than the last decade (2014-2022) average of 10 percent. Considering the impact of the terminal blast on inflation, the Monetary Policy Committee (MPC) decided, during its last meeting on March 15, 2024, to maintain unchanged both the key rate and the reserve requirement ratio. Furthermore, the BCRG signaled readiness to tighten monetary policy if needed to keep inflation in check.

Text Figure 2. Guinea: Domestic Credit to Private Sector by Banks, 2022
(Percent of GDP)



Sources: Guinean authorities; and World Bank-World Development Indicators; and IMF staff calculations.

8. The banking sector remained sound, but vulnerabilities are rising given banks' exposure to the sovereign and to the oil sector. At end-2023, banks held 15 percent of risk-weighted assets as regulatory capital, well-above the 10 percent regulatory threshold. Non-performing loans slightly increased to 8.9 percent of total loans at end-2023, from 8.8 percent one year earlier, closer to the regulatory limit of 10 percent. The share of liquid assets in total assets slightly decreased to 22.3 percent at end- 2023 from 23.8 percent at end-2022, with few banks having difficulties meeting liquidity requirements in local or foreign currencies. Meanwhile, commercial banks' sovereign exposure has risen substantially, with the share of government securities held by banks rising to 28.6 percent of banks' assets end-2023, from 21.6 percent at end-2022. This partly reflects the government's issuing exceptional bonds equivalent to 2.8 percent of GDP to finance priority infrastructure spending in September-October 2023. [4] In addition, the banking system's exposure to the oil sector requires further monitoring from the BCRG as the stock of Letters of Credit to Import (LCIs)[5] linked to the fuel imports lost in the explosion expire at end-March 2024.

9. The authorities relaxed fiscal policy in 2023 mainly to step up public investment. The fiscal deficit (including grants) in 2023 increased to 1.6 percent of GDP from 0.8 percent in 2022 due, among others to a pause in development partner support following the 2021 military coup. Domestic revenues deteriorated slightly, reflecting lower mining revenue and a decline in non-tax revenue which offset the improvement in non-mining tax revenue. On the spending side, implementation of priority capital projects was ramped-up by 1.1 percentage points to 4.5 percent of GDP. The decline in fuel subsidies reflected the decrease in import fuel prices, while the government has systematically lowered subsidies to the electricity company (*Electricité de Guinée*,

[4] As part of a tripartite agreement between the BCRG, the government and the banking sector, the bond was issued in two tranches: i) GNF 2000 billion, a 4-year bond with a yield of 9 percent; and ii) GNF 3000 billion, a 5-year bond with a yield of 13 percent.

[5] Letters of Credit to Import (LCIs) are letters issued by Guinean banks to other banks (typically in a different country) to serve as guarantees for payments made to oil importers under specified conditions. This stock of LCIs could increase the NPLs of the banking system in Guinea beyond 10 percent (the regulatory limit) if importers of oil default on their payments.

EDG) in the budget by 0.8 percentage points of GDP since 2022.[6] The fiscal deficit was mostly financed by project loans and additional medium-term government securities (T-bonds). The public debt ratio increased slightly to 40.3 percent of GDP in 2023, reflecting a rise in domestic debt.

10. Guinea's *external position* has deteriorated and is assessed as substantially weaker than the level implied by fundamentals and desirable policies (Annex V). The current account deficit widened to 8.7 percent of GDP in 2023 amid declines in both gold and non-mining exports and higher imports of food, fuels, and capital goods. The real effective exchange rate is estimated to have been overvalued by 17.9 percent in 2023, possibly reflecting the financing of the large current account deficits through foreign direct investment (which almost doubled in 2022 and 2023 relative to 2021), as well as the central bank's gold operations. Foreign reserves declined from 3.4 months of (prospective) imports in December 2022 to 2.4 months in January 2024. The latest numbers already include a partial rebound from enforcement of the repatriation requirement of mining revenues and a phase-out of the central bank's guarantees for oil imports.

OUTLOOK AND RISKS

11. The explosion is expected to take a heavy toll on growth, inflation, and fiscal and external sector in 2024. Even if urgent financing is provided to contain the immediate fallout from the explosion, real GDP growth is expected to decelerate from 5.7 percent in 2023 to 4.1 percent in 2024 (1.2 percentage points lower than the pre-explosion projection). The fuel shortages that followed the explosion pushed up prices for transport and food. Average inflation is projected to increase to 11.0 percent in 2024. The overall fiscal deficit (including grants) is projected to widen from 1.6 percent of GDP in 2023 to 3.0 percent in 2024, against 2.4 percent of GDP in the pre-blast scenario, reflecting lower revenue and the explosion-related expenditures. This leads to immediate financing needs estimated at US$164 million. The current account deficit is projected to widen significantly from 8.7 percent of GDP in 2023 to 10.6 percent in 2024, resulting in urgent BOP financing needs. Gross reserves are projected to decline to 2.2 months of imports at the end-2024.[7]

12. The medium-term outlook looks relatively positive if the fallout from the oil supply shock remains contained. Growth is projected to rebound and average around 6.7 percent over 2025-28, reflecting a growing mining sector due to strong investment in capacity, and new bauxite and gold mines. The completion of the Simandou iron ore project is an upside risk to the outlook (Annex XIII). Over the medium-term, inflation is expected to decline progressively to 9.2 by 2027 mainly due to (i) tighter monetary policy over the period, and (iii) stable Guinean franc exchange rate against US dollar, mainly explained by the repatriation measures and the FX market rules. The current account deficit would also narrow to about 8 percent of GDP, as exports recover from the

[6] During 2020-2023, EDG accumulated arrears to three IPPs (US$710 million) and to a diesel supplier (US$20.3 million). These amounts are still to be certified.

[7] Absent from any financing from the IMF and others, staff simulation shows that reserves could fall to about 2.0 months of imports by the end of 2024.

explosion and imports normalize. Accordingly, gross reserves would gradually recover to 3.0 months of imports.

Authorities' Views

13. Authorities emphasized the negative and highly uncertain impact of the fuel deposit explosion on the economy. They presented a baseline and downside scenario. The baseline scenario, which is close to the projection in this report, assumes that fuel shortages can be contained to 15 percent for gasoline and 5.6 percent for all other petroleum goods in 2024. Real GDP growth would slow to 4.2 percent in 2024. In the downside scenario, the authorities assume more severe shortages of gasoline of 25 percent, causing lower real GDP growth of 3.6 percent in 2024. In both scenarios, fiscal revenues and household spending would be lower in line with the impact on real GDP. The current account deficit would widen amid higher import costs of petroleum products and the construction of a new deposit.

Risks

14. The balance of risks is tilted to the downside (Annex VI). On the global front, conflicts could escalate, commodity prices remain volatile, and world economic growth could falter. Guinea would be affected via inflation, mining-sector export earnings and oil imports. On the domestic front, the impact of unstable fuel supplies, a worsening political situation, and social instability could weaken the economy in a more severe way, while greater government resort to bank credit and to central bank monetary financing could cause serious risks to inflation, potentially crowding out private sector credit, fueling poverty and endangering banking sector stability. Efforts to enhance diversification under the authorities' Interim Reference Program (PRI) and Economic Recovery Plan (PRE) and to promote an inclusive political dialogue could help mitigate domestic risks.[8] On the upside, the Simandou project could take off expeditiously, with production starting at the end of 2025 as the authorities and involved companies hope.[9]

POLICY DISCUSSIONS: SUPPORTING GUINEA'S POTENTIAL FOR STRONG AND INCLUSIVE GROWTH

The key discussions revolved around a prudent fiscal and monetary policy mix for the short-term, which would help contain inflation pressures and allow the authorities to protect the most vulnerable while carrying out their ambitious reform agenda. On the medium-term challenges, discussions centered on: (i) the need to ensure that the Simandou project delivers the expected benefits for the Guinean economy; (ii) adaptation to and mitigation of climate change challenges, (iii) addressing

[8] A donor roundtable on the financing of the PRI was held in Dubai on February 15-16, with announced commitments of US$7 billion.

[9] The baseline includes available data on the actual implementation of the investment phase of the Simandou project (FDI and capital goods imports). A preliminary upside scenario assuming the exploitation of Simandou starts in 2025 is presented in Annex VIII.

gender disparities; and (iv) strengthening governance and transparency, fighting corruption, and improving the AML/CFT regime.

A. Cushioning Shocks while Beefing Up Fiscal Space for Priority Spending

15. The authorities' fiscal program for 2024 is dominated by another year of slow revenue growth and high public investment spending. Total revenues are projected to grow by less than production due to lower non-mining growth, foregone revenue on fuel imports, and challenges related to the effective implementation of reforms, such as the reference price decree and the rationalization of tax exemptions. At the same time, domestic capital expenditure is expected to continue increasing due not only to the authorities' policy to improve infrastructure and human capital, but also to the needs resulting from the explosion.

16. The 2024 fiscal position is significantly impacted by the explosion. The fiscal balance is projected to weaken, with overall fiscal deficit widening from 1.6 percent of GDP in 2023 to 3.0 percent of GDP in 2024, against 2.4 percent of GDP in the pre-blast scenario, reflecting lower revenue and the explosion-related expenditures (Text Table 1). The expenditures induced by the consequences of the explosion include (i) social transfers in kind and cash to affected households; (ii) the purchase of goods and services, in particular for the decontamination of the site; (iii) the construction of housing, school and health infrastructure and the rehabilitation of damaged public buildings; (iv) support for households to help them take care of themselves through lines of credit from banks to finance income-generating microprojects; and (v) the start of construction work of a modern fuel depot. The fiscal deficit in 2024 is expected to be financed mainly by external loans and the issuance of Treasury securities. The identified financing will leave a financing gap of US$164 million in 2024, which the authorities expect to cover with the IMF emergency financial support (RCF) in the amount of $71.5 million, and assistance from other development partners, including the WB, the IsDB and the AfDB. The new spending needs and the emergency funding will be included in the revised budget law for 2024 (LFR 2024), currently under preparation.

Text Table 1. Guinea: Estimated Explosion-Related Cost in 2024

	In Billions GNF	In Millions USD	In Percent of GDP
Transfers and subsidies	**482.22**	**54.26**	**0.213**
Fuel supply cost	122.40	13.77	0.054
Monetary transfers to affected households	25.15	2.83	0.011
Temporary shelters	251.15	28.26	0.111
Humanitarian assistance	61.31	6.90	0.027
Repair of electricity plants	0.80	0.09	0.000
Sustainability and social insertion	21.41	2.41	0.009
Goods and services	**6.43**	**0.72**	**0.003**
Pollution cleaning	6.43	0.72	0.003
Investment	**841.75**	**94.72**	**0.372**
New fuel storage capacity	679.07	76.41	0.300
Building houses in safe areas	113.63	12.79	0.050
School, culture and health buildings	9.07	1.02	0.004
Water and sanitation	8.67	0.98	0.004
Port transport and infrastructure	1.29	0.14	0.001
Repair public buildings	30.03	3.38	0.013
Net lending	**127.50**	**14.35**	**0.056**
Bank line of credit to productive activities	127.50	14.35	0.056
Total	**1,457.89**	**164.05**	**0.645**

Sources: Guinean authorities; and IMF staff estimates.

17. The fiscal relaxation in 2024 should be temporary, reflecting the impacts of the explosion. The fiscal deficit in 2024 should be limited to 3 percent of GDP, a level that would remain consistent with the ECOWAS rule and can be financed without crowding out bank credit to the private sector or further increasing banking exposure to the government. Staff views the fiscal stance for 2024 as appropriate with respect to the inflationary and external sector environment,[10] given the country's development needs, the impact of the explosion, and the maintenance of a moderate risk of debt distress but urges vigilance and adoption of a comprehensive fiscal policy reform strategy.

18. To ensure fiscal sustainability, the near-term fiscal policy should focus on mobilizing domestic revenues and anchoring spending on available resources. Mobilizing domestic revenues, especially from the mining sector, should be the fiscal priority. Tax revenues amounted to 11.9 percent of GDP in 2023 and are expected to be lower (11.7 percent) in 2024, compared to an estimated tax potential of 18 percent of GDP.[11] Mining revenue collection continues to be undermined by transfer mispricing and tax exemptions in mining conventions. Minimizing exemptions and ensuring that mining companies abide by the reference price decree and respect commitments under their conventions is essential. In this regard, strengthening tax auditing capacities would lead to greater enforcement. Non-mining revenues are also projected to be lower due to the impact of the explosion on non-mining activities and lower revenues in international trade considering fuel shortages and the fact that the high fuel import cost is not reflected into pump prices. The ongoing revenue mobilization efforts in both mining and non-mining sectors are expected to lead to a gradual increase of government revenue by about 1 percent of GDP only over 2024-27. In this context, staff emphasizes the importance of strengthening cash management to limit spending to available resources and avoiding central bank financing and crowding out bank credit to private sector due to heavy government reliance on commercial bank financing.

Authorities' Views

19. The authorities stressed that addressing the urgent needs from the explosion is key. They emphasized the gravity of the explosion, despite the seeming normalcy resulting from the reduction of fuel shortages. They highlighted the brewing social pressures, as more than 2,000 households were left homeless, with no schools for their children, and with no health services. They reiterated their track record over the recent two years and underlined the determination to bring down the fiscal deficit starting from 2025.

[10] The current account deterioration and exchange rate appreciation were assessed to be driven substantially by the ongoing mining investment boom. Meanwhile, the potential inflationary impact from high capital expenditure is not expected to be significant due to a high import content of infrastructure investments. Therefore, a fiscal policy tightening would not be called for in this context.

[11] This estimate of tax potential is in a 2021 Article IV SIP. FAD plans to conduct a study on the tax potential.

Medium Term

20. Over the medium term, the fiscal position should aim to build resilience. Staff advised the authorities to return to the fiscal deficit to 2.5 percent of GDP throughout 2026-27 considering financing and debt sustainability constraints. Within this envelope, more revenues should be mobilized, and spending reallocated to infrastructure investment, human capital development, and social programs.

- **Boosting mining revenues**. With an estimated annual revenue loss of 2 percent of GDP due to transfer mispricing issues and tax exemptions, the mining sector offers revenue potential (Annex VII). The authorities have started implementing the decree of July 2022 that applies reference prices to determine export values for tax purposes in the bauxite industry, and the obligation to declare sale prices was included in the 2024 budget law. However, the implementation of the 2022 decree has not yet produced the expected results as sales prices declared by mining companies remain below the reference price. The authorities are conducting an evaluation of the implementation of the reference price in 2023 and will enforce the obligation to declare sale prices included in the 2024 budget law. The tax department is also planning to conduct the necessary tax audits to detect under-estimations. The mission encouraged the Tax department to carry out tax audits of mining companies, with external assistance. The mission was encouraged by the decision to apply favorable tax provisions in the revised Simandou convention, adopted during the mission, as a benchmark for all new mining conventions. The proper implementation of all the clauses in the Simandou convention will also be critical. The efforts underway to set up an electronic data base of artisanal gold miners is also an encouraging step towards their formalization and taxation.

- **Strengthening revenue administration to increase non-mining revenues**. Modernization of the tax and customs departments is underway with Fund TA. The new Tax code is being implemented, including a reform of the personal income tax, with generated incomes taxed at source separately. The improvement of VAT performance is expected to be achieved through the following progress: (i) the stratification of taxpayers between the Large Taxpayer Office (LTO) and the Medium Taxpayer Office (MTO) has improved with the new thresholds established in January 2023; (ii) the number of regional tax centers has expanded outside Conakry; (iii) digitalization with the assistance of AFRITAC West for the establishment of the taxpayer identification number (TIN), e-declaration and e-payment; (iv) given the low internet accessibility (around 40 percent), USSD code for tax payment is newly introduced for people to pay certain taxes through telephones.

- **Improving PFM and eliminating government payment arrears**. The independent audit of the 2014-20 arrears by a consultant financed by AFD was completed in 2023, with validated obligations amounting to GNF 2,075 billion (1.1 percent of GDP), to be paid in accordance with a clearance plan adopted in September 2023. To avoid the emergence of new arrears, staff recommended to improve budget execution and cash management by aligning spending plans with available resources, and to effectively limit emergency spending.

- **Removing fuel and electricity subsidies**. The 2024 budget includes a reduction of subsidies to the electricity sector by some 0.6 percent of GDP, though the remaining issues on the transmission infrastructure of the Souapiti hydropower dam, tariffs, and the collection capacity of the EDG could present challenges to fully execute the budget plan and lead to the continued accumulation of arrears. The financial problems of the government owned electricity company (EDG) are a major concern. Guinea's enormous hydropower potential does not materialize into efficient electricity production and distribution, which limits the provision of electricity in Guinea, including to the mining sector, and the export potential to neighboring countries. The authorities remain committed to reducing electricity subsidies under a medium-term reform plan supported by the World Bank (Box 1). Staff encouraged the authorities to strengthen their social protection system, by unifying the social registries maintained by the various social programs (ANIES and PDSI), to allow more targeted interventions to accompany the gradual removal of fuel and electricity subsidies.

- **Increasing social and growth-enhancing expenditures**. Guinea's performance against SDGs, notably in the areas of health, education, electricity, and transport infrastructure, remain subpar. Staff recommended redirecting more resources to strengthen human capital and social protection. Staff stressed that reducing gender disparities could help boost Guinea's growth potential and government revenue, highlighting that policies under the third National Gender Policy (PNG III, 2024-29) could prioritize preventing early school dropouts and empowering women. The progress made under the FSW in upgrading the transfer framework should be consolidated and applied to closing gender disparities and to mitigating the impact of the explosion of the fuel facilities.

- **Enhancing the efficiency of public investment**. Effective prioritization of investment projects and application of good public investment management principles should guide infrastructure investments. The authorities explained that the designation of project coordinators for foreign-financed investments has helped improve the execution rate of the investment budget to 70 percent in 2023. In the Budget Law 2023, the authorities presented an annex on the commitment authorizations/payment appropriations (AE/CP) framework for 8 investment projects. The draft legal framework for the management of investments, prepared with FAD assistance, is expected to be adopted by a decree before the 2024 spring meetings. In particular, the framework provides guidelines to the integration of investment projects in the public investment program and in the annual budget process, the institutional responsibilities for decision-making, and the management of fiscal risks, including for PPPs. Staff encourages the authorities to prioritize investment in infrastructure and human capital by incorporating gender and climate perspectives to maximize the impact on growth and poverty reduction.

21. Guinea remains at moderate risk of debt distress, with some space to absorb shocks but limited space for new borrowing. However, domestic debt vulnerabilities have increased, as the government has issued substantial T-bonds to finance high public investment spending**.** Prudent macroeconomic, fiscal, and financial policies, including increasing domestic revenue mobilization, maximizing the concessionality of new debt, avoiding the repeated accumulation of domestic arrears, strengthening debt management capacity, and enhancing public investment management, remain key to preserving medium-term debt sustainability (see DSA).

22. A comprehensive medium-term fiscal framework would help strengthen PFM, increase transparency, and build fiscal buffers over time. A fiscal deficit of 2.5 percent GDP, consistent with a moderate risk of debt distress in the medium term, remains an appropriate anchor despite recent developments. Staff indicated that the authorities could consider adopting a medium-term fiscal framework (MTFF) for resource-rich countries. Such framework would encompass, among others, improved fiscal projections. The authorities are committed to implementing the program budget by focusing more on public finance management based on development objectives and budgetary allocations. The gender and climate budgeting are also expected to be introduced in the budget process starting from 2025. A fully-fledged framework, supported by appropriate fiscal institutions would help modernize public management and public investment management. Special institutions such as natural resource funds would help stabilize mining revenues, meet development needs, and save for future generations.

Authorities' Views

23. The authorities agreed with staff on the need to raise revenue and to reorient expenditure to infrastructure and human capital. They concurred with staff that the implementation of the 2022 reference price decree had not yet produced the expected results. However, they noted that a meaningful assessment will only be made in the second quarter of 2024, based on 2023 CIT returns. They also emphasized their commitment to minimize tax exemptions, underscoring that the recently adopted Simandou convention will be the minimum standard for future mining conventions. They indicated that public financial management remained a priority, noting the steps taken to improve the management of investment projects, and to introduce gender, climate, and program budgeting. They concurred with the policy recommendations to preserve debt sustainability, but highlighted the scarcity of concessional financing. The authorities indicated that, in view of the prospective resources from the Simandou project, they were considering a stabilization fund, which would shield priority investment from mining price fluctuations. They requested Fund technical assistance (TA), preferably in the form of resident experts. With regard to the elimination of fuel and electricity subsidies, the authorities indicated that the current socio-political environment was not suitable. They noted that they had started strengthening the social registry, including through the setting up in 2023 of the unified social registry (RSU), to better target social interventions.[12] They agreed with the measures to close gender gaps, finding them aligned with government policies.

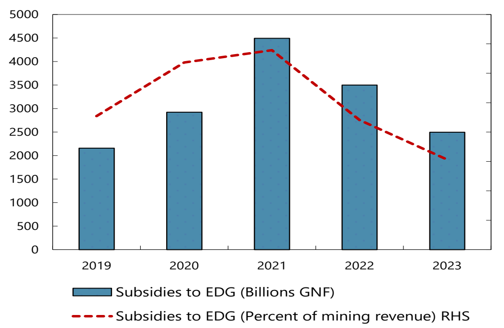
[12] The "*Registre Social Unifié*" (RSU) was created by decree Nº D/2019/271/PRG/SGG of October 1, 2019. But it was set up only in 2023 by the *Fonds de Développement Social et de l'Indigence* (FDSI), with the technical help of the National statistics institute (INS).

Box 1. Key Reforms in the Electricity Sector Under the Medium-Term Plan

Despite having the highest potential for hydropower in West Africa, Guinea's low (46 percent) and uneven (19 percent in rural areas and 88 percent in urban areas) access to electricity is a major constraint for its development. In 2001, the authorities set up the state-owned company, Electricité de Guinée (EDG) under the technical supervision of the Ministry of Energy and the financial supervision of the Ministry of Economy and Finance (MEF). EDG's poor performance and governance have been a consistent target of reform over the course of several subsequent IMF and World Bank programs. The COVID pandemic took a toll on the EDG, and the authorities suspended the planned electricity tariff increases. Public administration has accumulated arrears to EDG (US$163million) on its electricity consumption for the period 2020 to August 31, 2023. The December 2023 explosion has also exacerbated EDG's financial difficulties.

EDG constitutes a drain to the budget, with untargeted electricity subsidies absorbing more than 61 percent of mining-sector revenues in 2023. Reestablishing its financial stability would (i) allow it to exploit Guinea's immense potential for renewable energy to expand the provision of electricity in Guinea, including to the mining sector, and to neighboring countries; (ii) free up resources to priority spending; and (iii) ensure a better targeting of electricity subsidies.

Guinea: Subsidies to Electricity, 2019-23



Source: Guinean authorities; and IMF staff calculations.

The EDG's medium-term recovery plan, prepared in 2020 with the support from the World Bank, remains on hold.[1] The plan comprises measures to strengthen EDG's financial sustainability, based on the following reforms:

- **Tariff reform**. The plan projected tariff increases to align them to the costs of supply by 2025-26, with the following features: (i) higher increases for households than commercial customers; (ii) more progressive pricing system, based on consumption levels. The last tariff increase was in September 2021. The World Bank estimates that total tariffs cover only forty percent half of production costs, with particularly low tariffs for households, and subsidies benefiting wealthier households. About 85 percent of customers pay a flat rate, rather than a rate that reflects actual consumption. The number of EDG clients increased from 398,000 in 2018 to 608,000 in 2022. In addition, the plan takes into account the social impact and consumers' income levels through a social tariff linked to the level consumption until a certain threshold (90 kWh), above which the normal tariff applies.[2]
- **Clearance of arrears.** The government to pay its arrears to EDG, which in turn clears its arrears to suppliers.
- **Reduced technical and non-technical losses**, by cutting losses from non-compliance in half by 2025. The collection rate continues to be low (50 percent for the public sector; 64 percent for the private sector).
- **Improved collection rates**, through the installation of pre-paid and standard meters, and the enhancement of EDG's management and operational capacity. Important delays were recorded with the installation of pre-paid and standard meters. Fraud remains high and illicit power connections are pervasive.
- **Greater transparency**: (i) the procurement process should be transparent and competitive, to minimize costs; and (ii) improved financial reporting, with EDG financial statements produced and audited in line with best practices. EDG has power purchase agreements (PPAs) with one independent power provider (IPP) that generates electricity using thermal sources — costlier than renewable sources—and two hydro IPPs (SOGES and SOGEKA operating the hydro dams of Souapiti and Kaléta). These contracts are not competitive. Moreover, the start of operations of the Souapiti dam resulted in the need to purchase the agreed output, even if the full electricity generated was not distributed (given the "take or pay" clause in the contract).

Achieving EDG's financial sustainability, coupled with sustained investment in power transmission and distribution infrastructure, would enhance considerably the exploitation of Guinea's hydro and solar energy potential, making Guinea a fully green energy country exporting electricity to neighbor countries, and improving energy access in favor of strong economic growth, diversification and sustainable development.

[1] A World Bank mission to finalize the discussion on potential DPO will be visiting Guinee during March 25-29, 2024. The DPO is expected to include EDG's reforms.
[2] The World Bank has separate programs to reinforce social safety nets which are not explicitly linked to the energy sector recommendations.

B. Strengthening Monetary and Financial Sector Policies

24. The BCRG is ready to tighten monetary policy in view of increased inflation pressures. The BCRG has price stability as primary objective and supporting growth as secondary objective. To encourage the financing of priority infrastructure, the BCRG allowed banks to count T-bond holdings issued in September-October 2023 as part of reserve requirements. However, this blunts reserve requirements as a monetary policy tool, further easing the policy stance, which could undermine price stability, while the blanket central bank guarantee on T-bonds could result in potential advances to the government. The explosion pushed up prices for transport and food, reversing the declining inflation path. The increased inflation expectations also reflect the impact of possible oil shortages on the transport and food sectors, as well as wage and salary increase in the public sector. The BCRG has kept monetary policy lose so far to support growth. However, staff recommends to the authorities to closely monitor price developments and be ready to adjust interest rates if the increase in inflation does not recede or second-round effects materialize. They should also reverse the decision on allowing the use of T-bond holdings as reserve requirements, and strictly respect statutory limits on advances to government. In addition, strengthening the BCRG's governance and decision-making structure by finalizing amendments of the BCRG Law would help sustain the credibility of monetary policy.

25. FX management and repatriation requirements for mining export earnings need to align with monetary policy targets and higher reserves.[13] The implementation of a rule-based foreign exchange intervention policy[14] has improved the transparency and coherence of interventions. In addition, as more exporting companies, including gold exporting companies, complied with the 2023 reinforced rules, the impact of repatriation measures has been higher than expected (approximately 42.3 percent of export revenue were repatriated in 2023, representing USD$432.9 million).[15] Strengthening FX management through the adoption of an operational strategy to increase reserves, would help increase monetary policy effectiveness and resilience to external shocks. The BCRG remains involved in buying and transforming artisanal gold into monetary gold, which accounted for 36 percent of gross international reserves at end-December 2023.[16] Staff encouraged the BCRG to abandon this practice as it increases money supply, reduces

[13] Together with food inflation, monetary financing and the exchange rate have been the main drivers of inflation in Guinea.

[14] According to the rule, adopted at end-2020, the BCRG may choose to sell or purchase FX 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 is capped at US $8 million per day.

[15] These measures are strictly enforced after the presidential instruction on December 8, 2022, which entrusts the BCRG to ensure that the repatriation of 50 percent of the country's export products is effective on accounts opened in Guinea. The enforcement of the repatriation requirement could be a capital flow management measure and will be assessed according to the Institutional View on the Liberalization and Management of Capital Flows

[16] BCRG's monetary gold holdings mostly consist of non-LBMA (London Bullion Market Association) certified gold, representing 98 percent of the BCRG's monetary gold at end-2023.

the effectiveness of monetary policy, and increases risks due to uncertainties related to artisanal gold prices, unless it is properly internationally certified as monetary gold.

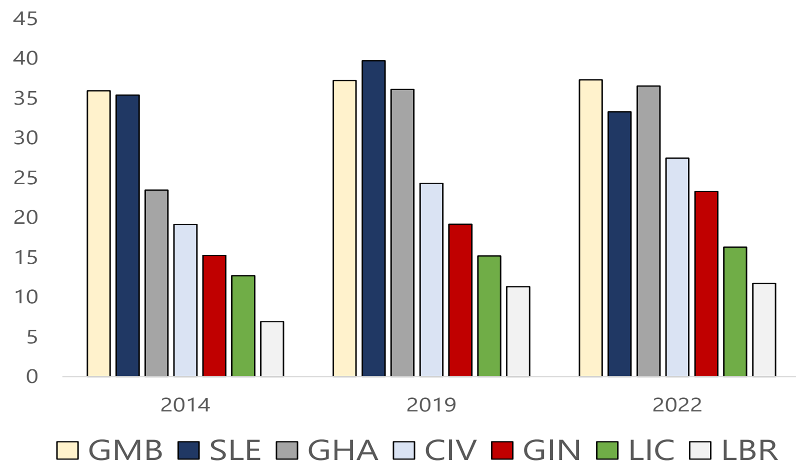
26. Sovereign-bank exposure, which is on an increasing trend since 2014, requires a multi-pronged set of policy reforms to tackle the variety of risks associated with it. Banks' exposure to the public sector (including central government, local governments, SOEs, and the central bank), increased from 15.2 percent in 2014, accounted for 29.6 percent of banks' total assets at end-2023, which remains high compared to Low-Income Countries (LICs) (Text Figure 3). This increase in exposure is mainly explained by (i) *conjunctural* factors—mainly pandemic-related spending, the large bond issuance in September-October 2023 and the required reserve requirements associated with it, and the securitization of government domestic arrears; *(ii) structural* factors—particularly the narrow investor base in the government bond market, limited monetary financing, and appetite of commercial banks for lower-risk assets; and (iii) *regulatory and supervisory* factors—the prudential regulations on large exposures excludes limits on sovereign exposures. Liquidity standards also favor sovereign debt holding.

27. Guinean's banks inherent risks, including concentration, credit, liquidity, and interest rate risks are compounded by risks stemming from increasing the sovereign-bank nexus. Recommended policies to tackle these risks include: (i) introducing a capital surcharge to penalize excessive concentration to the sovereign through an effective implementation of the Pillar 2 requirements of the Basel Framework; (ii) promoting market development; and (iii) developing a strengthened risk-based approach to banking supervision. The implementation of the government securities market action plan designed by AFRITAC West in 2022 would help create alternative avenues to finance the government. The implementation of a methodology to introduce and calibrate a capital surcharge to penalize excessive concentration to the sovereign would help monitoring such risks.

28. The authorities are working together with international partners to strengthen the financial sector. With the support of the AfDB, a stock exchange feasibility study and a revision of the regulatory framework are being finalized. The World Bank Group is involved in several development projects, including National Switch Project (Interoperability of various payment service providers to communicate with one another), PRECOC (Guarantee fund for corporate loans) and the development module of FSAP which started on February 17, 2024. The Fund is providing TA to fully implement the 2019 FSSR's recommendations, which would bolster financial sector stability (Annex IV-Table 2). This comprises (i) adopting the new Banking Law in 2024, which would considerably strengthen financial sector stability as it includes reinforced crisis management, bank resolution, and safety net components, as well as (ii) finalizing the operationalization of the emergency liquidity assistance framework. The Fund is providing TA to align the deposit insurance system with international standards.

Text Figure 3. Guinea: Banks' Exposure to the Public Sector in West Africa and LICs*

(Percent of banks' assets)



Sources: IMF Sovereign-Bank Nexus Tool; and IMF staff calculations.
Notes: (*) Exposure by public entity including loans and debt securities. GMB=Gambia; SLE=Sierra Leone; GHA=Ghana; CIV=Cote D'Ivoire; GIN=Guinea; LIC=Low Income Countries; LBR=Liberia.

29. An updated safeguards assessment of the BCRG was completed in December 2023. Governance practices and autonomy remain a challenge at the BCRG. Key recommendations included: (i) amending the BCRG Law to strengthen the BCRG's governance and oversight, autonomy provisions, and enhance its decision-making structures; (ii) reinforcing controls around monetary financing and management of foreign reserves; (iii) phasing out purchases of unrefined gold; and (iv) addressing delays in the publication of IFRS financial statements. A LEG CD mission is taking place to assist the BCRG in finalizing the drafting of amendments to the BCRG Law. The authorities have included time-bound commitments for implementation of these recommendations in the RCF letter of intent.

Authorities' Views

30. The BCRG is ready to tighten monetary policy as needed. The central bank has paused monetary loosening and is considering a tighter stance going forward. It signaled its readiness to tighten monetary policy to keep inflation in check. The BCRG also indicated that reserve requirements are expected to be gradually reconstituted as bank deposits increase. The BCRG assured staff that it was working on addressing issues raised in the 2023 safeguards assessment. In particular, it confirmed that advances to the government remained within the statutory limits, and that it will phase out buying artisanal gold once the refinery being built starts its activities. It is also in the process of implementing amendments to the BCRG Law in collaboration with the Fund. In the meantime, steps were taken to strengthen BCRG monitoring by its executive board by increasing in its by-laws the number of meetings from 2 to 6 per year. The BCRG is committed to finalize the Banking Law by end of March 2024 and to send it to the legislative body, with enactment expected in 2024.

C. Medium-and Long-Term Macro Critical Opportunities

31. The Simandou mining project could positively impact Guinea's economic trajectory. The project could become the largest iron-ore mining complex in the world, including a new port and a more than 500 km long railroad. An annual production of 120 million mt would make Guinea the fifth largest producer globally. Development is being undertaken by international companies based on private investments totaling about US$20 billion until 2030.[17] The authorities expect mineral production to start at the end of 2025 and exports to ramp up in 2026. This timeline could be delayed due to slow issuance of permits and banks' closing of loans. Depending on how potential tax revenues are spent, Guinea's level of real GDP could be 26 to 55 percent larger by 2030 compared to a baseline scenario without the project (Annex VIII).[18]

32. Spending the additional tax revenues from the project on a mix of education and infrastructure could boost productivity and help to diversify the economy. While assessing the potential tax revenues from the project is difficult at this point, preliminary estimates suggest that tax revenues could roughly average about 3 percent of GDP over the next two decades according to Rio Tinto. Investing these revenues into infrastructure and education could increase labor productivity and, thus, income and long-run GDP across sectors. Among others, the authorities could target measures to promote girls' education. School canteen programs, one of the FSW-funded interventions, could also be broadened and made permanent. To this end, tax exemptions should be limited, and a fair export price applied. The authorities could strengthen the customs authorities' capacity to control mining exports, speed up issuance of permits, and stimulate higher local content to foster the positive economic impacts.

Authorities' Views

33. The authorities expect the Simandou project to substantially increase employment and economic activity. They presume first production by the end of 2025 and exports to start in spring 2026. They recognize that a delay due to missing permits is a possibility. The project could significantly boost the local economy and diversification through the usage of the railroad by other sectors, notably agriculture, as well as provisions for local content. The authorities assess that tax revenues could amount to US$1 billion per year by 2030 but could be affected by international iron ore prices. In their view, the proposed taxation framework sets the standards for other mining projects as it does not include many exemptions. The authorities expect several hundred thousand people to be directly employed by the project. They welcomed the suggestions to use the tax revenues for infrastructure and education.

[17] According to Rio Tinto, total investment for their portion of the project amounted to about US$138 million and US$750 million in 2022 and in 2023, respectively.

[18] Selected Issues Paper on the Potential Impact of the Simandou Iron-Ore Project on the Economy, Poverty, and Inequality in Guinea.

Climate Adaptation and Mitigation

34. Early investment in resilience infrastructure would help adapt to climate change, and sustainable expansion of the renewable energy sector would help mitigate emissions. Climate adaptation and mitigation is macro-critical for Guinea, given the increasing frequency/severity of natural disasters and consequences for agriculture, water availability, and coastal infrastructure (Annex IX). Staff simulations show that ex ante resilience investment (such as roads that can survive severe floods), financed by grants and complemented with public investment efficiency reforms, yields best macroeconomic outcomes after natural disasters.[19] Guinea's National Adaptation Plan would cost at least US$14 billion to implement over the medium term (IMF, 2023). Tapping grants, "windfall revenues" (such as those expected from the Simandou project), and other financing sources at concessional terms for resilience investments are essential. These efforts should be accompanied by reforms to raise public investment efficiency (PIE).[20] Moreover, accelerating the implementations of recent TA recommendations on C-PIMA, such as integrating climate aspects into project planning[21] and strengthening the institutional climate coordination system, would help strengthen the efficiency of investment projects. The authorities should also reduce emissions from the agricultural sector, slow down or reverse deforestation,[22] and continue their ongoing efforts to mitigate emissions, while ensuring the commercial viability of the Souapiti hydropower dam and the sustainable expansion of Guinea's renewable energy sector.

Authorities' Views

35. The authorities agreed with staff's climate change assessments and policy recommendations and stressed their progress on implementing climate policies. They agreed with staff's assessment that climate change is macro-critical for Guinea. They remained committed to achieving net zero emissions from the mining sector by 2040, while highlighting the challenges in adapting to climate change, including those from lack of financing. In this context, they concurred with staff on the need to tap into grants or concessional financing to increase the investment in climate-resilient infrastructures. They also underscored recent progress in implementing various climate policies, such as the adoption of a climate decree in May 2023 (to be signed into an executive decree in June 2024) that requires the assessment of climate impact for projects and outlines other policies. They are also working with the World Bank and other partners to provide related trainings and to actively explore the implementation of carbon pricing (including the set-up of an Emission Trading System).

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[19] Natural disasters (especially floods) have become more frequent and severe in Guinea, and its large mining sector might push up carbon emissions significantly over time.

[20] According to Kararach et al. (2022), Guinea's PIE index is 50 percent, while Africa's average is 61 percent. The increase to 70 percent (as considered in Annex IX) would bring Guinea closer to the level of Mauritius and Morocco.

[21] The authorities adopted a related decree in May 2023, covering climate impact assessment for projects, collection/enhancement of past emission data, and so on (to be signed into an executive decree in June 2024).

[22] Greenhouse gas emissions from the agriculture and land-use, land-use change and forestry (LULUCF) sectors accounted for 73.4 percent of the total in Guinea in 2022 (Annex IX).

D. Governance Reforms

36. The authorities are committed to strengthening governance and combatting corruption, but challenges remain. Additional budgetary allocations in the revised Budget Law will allow the Court of Audit to recruit staff to address personnel shortages. The National anti-corruption agency (ANLC) reported that Guinea improved its score on the 2023 Corruption Perceptions Index (CPI) of Transparency International , through increased sensibilization and thanks to repression, prevention, and detection efforts. Major corruption cases are transferred to the financial and economic criminal court, the "*Cour de Répression des Infractions Économiques et Financières*" (CRIEF), which prosecutes embezzlement, corruption, and other financial crimes. However, to effectively combat corruption, its autonomy and independence need to be strengthened. The Ministry of Justice is setting up a public institution (AGRASC) charged with recovering and managing assets recovered from the misappropriation of public resources.

37. Progress is noted with the Extractive Industries Transparency Initiative (EITI), but constraints remain in the commercial courts and with the asset declaration regime. EITI published its most recent report for Guinea (covering up until 2021) in December 2023. The authorities are implementing recommendations in the report, namely improving financial transparency of SOEs and strengthening the beneficial ownership framework. Guinea's progress will be evaluated in the upcoming validation process starting in April 2024. While the four commercial courts appear to be efficiently delivering judgements to the satisfaction of the business community, although the limited number of specialized judges continues to be a major constraint. The upcoming start of an institution charged with judicial aid to indigent people is expected to deliver a great innovation by international standards. The coup of 2021 suspended the constitution, creating a legal vacuum for the asset declaration regime. The transitional parliament reported to have made progress in drafting a new constitution, which should provide a legal basis for resuming asset declarations by key officials, and the resumption of IMF-supported reform efforts on the asset declaration regime.

38. Efforts are under way to strengthen the AML/CFT regime. The financial intelligence unit (CENTIF) indicated that working conditions had improved following its move to the central bank. Guinea's second mutual evaluation by the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA) was completed in November 2023. Significant weaknesses with the effectiveness of implementation were identified, meaning that the authorities must now step up their actions. Guinea's progresses in the areas where it received the Fund TA, including the development of a risk-based supervisory framework, are noted in the mutual evaluation report. The banking supervision department of BCRG is monitoring AML/CFT measures in banking and insurance institutions, although resource constraints hinder its implementation and development of risk-based supervision. CENTIF is working on a follow-up report on Guinea's technical compliance with the FATF Recommendations which is expected to be submitted to GIABA in November 2024.

Authorities' Views

39. The authorities stressed that improving transparency and governance is a key priority. They indicated that the encouraging results achieved in improving transparency and in reducing misappropriations in the management of public resources reflected the political will and the work in tandem of all institutions charged with fighting corruption and money laundering, as evidenced by a multi-institutional workshop that was taking place during the mission. They emphasized the efforts made to strengthen the monitoring of mining export prices through the 2022 reference price decree, and of export quantities through the publication of a quarterly bulletin on mining production and exports. They however stressed that controlling the quality of mining exports had been hampered by the destruction of the main mining laboratory by the fuel explosion.

E. IMF Assistance Modalities

40. The authorities have requested emergency assistance under the Exogenous Shocks window of the RCF with an access of 25 percent of quota (SDR 53.55 million) to address an urgent balance-of-payments needs associated with the explosion. The current account deficit in 2024 is expected to widen significantly (by 1.7 percent of GDP relative to the pre-explosion case), leading to a financing gap of US$164 million (Text Table 1) to prevent a large decline of the already-low reserve coverage in end-2024 (projected to be 2.2 months of imports if the financing gap is filled) (Table 6). If this urgent need is not addressed promptly, it would result in a severe economic disruption and a further depletion of already-low foreign reserves as fuel shortages could adversely affect non-mining exports, electricity production, and food distribution in 2024 and beyond, and the post-explosion construction would result in a further drain on foreign reserves.

41. Addressing Guinea's structural BOP needs and being prepared to face future shocks will require building more buffers, including via a possible UCT-quality arrangement. The current economic uncertainty linked to the explosion and the political transition make it infeasible to design quantitative targets and negotiate a program with buy-in from various stakeholders in a short period of time. The RCF responds to the current urgent liquidity needs faced by Guinea, but the authorities should consider a UCT-quality program to address longstanding challenges, enhance the credibility of their policy commitment, and allow Fund financing to play a greater catalytic role. The authorities agreed and expressed their interest in an ECF-supported program request. Disbursement under the RCF would be used as budget support. It will be included in the revised 2024 budget law, as part of the government's emergency spending and help catalyze funding from other sources.[23] The BCRG and the Ministry for Finance will establish a framework agreement on their respective responsibilities for servicing financial obligations to the IMF. The resources provided under the RCF would allow the authorities to deploy a better response to the current crises by better

[23] The authorities are working with development partners, including the WB, the IDB and the AfDB, to mobilize additional financing. The WB is preparing a DPO ($100 million) and, based on its needs assessment completed in March 2024, a top-up assistance is possible under an emergency financing under crisis response window. AfDB and IsDB are considering emergency assistance from resources previously allocated to projects. The private sector is also expected to participate in financing the constructing of the new fuel storage facility through a PPP.

affording the increased cost and transportation of fuel imports, assisting impacted households and their relocation to safe areas, repairing damaged public buildings and the reconstruction of a new fuel storage facility that meets high security standards. The authorities are committed to putting in place safeguards measures to ensure accountability and transparency in the use of Fund resources, based on the ones that were developed under the FSW, including the publication of expenditure reports and of procurement contracts, including information on beneficial ownership of companies awarded these contracts, and an audit of the use of resources by the Court of Audit. In this regard, they have implemented three prior actions by publishing reports on the use of the resources allocated under the FSW and all the related procurement contracts, and by sharing with IMF staff the provisional report of the Court of Audit on the implementation of the Court's recommendations on the use of the Covid-19 emergency financing, pending its publication by end-June 2024 (see paragraph 9 of the LOI).

42. Guinea's capacity to repay its obligations to the Fund is adequate. Guinea's debt is assessed to be sustainable and at moderate risk of external and overall debt distress, despite the recent increase in domestic debt vulnerabilities. The Fund's exposure to Guinea would increase to 158 percent of quota or 1.7 percent of GDP (Table 7). Guinea's future debt service to the Fund is expected to reach 0.7 percent of exports and 3.4 percent of gross international reserves in 2028, both of which are lower than the peak level at the time of Guinea's FSW request. However, risks can arise from Guinea's economic and political uncertainties. Nonetheless, risks are expected to be mitigated by the authorities' strong commitment to a close engagement with the Fund, as demonstrated by their constant demand for TA support (Guinea is one of the largest receivers of the Fund's TA), the relatively strong track record in implementing the Fund's past advice, and the commitment to strengthening governance.

F. Data Issues

43. Data provision is broadly adequate for surveillance, although significant gaps subsist.[24] With support from the IMF and other donors, the authorities continue to improve statistics, with priority on improvements include finalizing the transition to GFSM 2014, implementing the national CPI introduced in 2022, finalizing the rebasing of national accounts data and moving to SNA2008, strengthening the debt and external sector data, and building capacity with their macroframework. Guinea's e-GDDS reports are published on a monthly basis, though the dissemination is not in a timely manner. The authorities are working with STA on a roadmap to subscribing to the SDDS, which if implemented could serve as a strong signal of the authorities' commitment to strengthening data transparency.

G. Other Issues

44. 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

[24] These data gaps are due to capacity constraints.

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

45. **The Guinean economy has been hit by a domestic new shock, which has endangered growth and led to new urgent financing needs in a difficult socio-political context.** Despite having been affected by several global shocks, growth averaged 5.1 percent of GDP during 2019-23. However, the explosion of the main fuel import and storage facility led to fuel shortages and new urgent financing needs, mainly linked to assistance to affected households and cleaning and reconstruction needs, which threatened growth and economic development**.** Although fuel shortages have largely been contained, fuel supply remains unstable and supply costs have increased. Growth is expected to be sustained by a resilient mining sector but will decelerate in 2024 by about one percentage point with respect to the pre-explosion forecast. Socio-political tensions persist in the wake of the military coup of September 2021, with uncertainties on the timeline to the transition to civilian rule.

46. **Despite the robust growth recorded over recent years, social indicators have not improved due to limited revenue collection and weak social protection.** Revenue mobilization and social spending remained lower than in peer countries, with Guinea consequently falling behind on education and health outcomes. Large gender gaps also weighed heavily on economic development and diversification. The emergency financing provided by the IMF in 2022 under the Rapid Credit Facility's (RCF) Food Shock Window (FSW) has contributed to alleviating food insecurity. The use of the RCF resources should contribute to strengthening systems and processes in place for social protection.

47. **Fiscal policy for 2024 is expected to be relaxed temporarily due to the explosion, but spending should remain anchored on available resources.** In 2024, the fiscal deficit is expected to widen to 3 percent of GDP, partly reflecting the government response to the explosion. Mobilizing domestic revenues, especially from the mining sector should be the fiscal priority. Strengthening cash management will help limit spending to available resources and avoid central bank financing, banks' exposure to the government, crowding out of bank credit to private sector and the accumulation of payments arrears.

48. **Over the medium term, the fiscal position should aim at preserving debt sustainability.** The fiscal deficit should be brought down in 2025 and go back to the fiscal anchor at 2.5 percent of GDP throughout 2026-27. It will be critical to pursue the modernization of the tax and customs departments, to enforce the reference price decree and to ensure that mining companies respect commitments under their agreements. Implementation of the new decree on the legal framework for investment projects will help increase the efficiency of investments, including those financed under the PPPs. Staff encouraged the authorities to pursue their plan to introduce program budgeting and to explore a framework for managing mining resources, including setting up a

stabilization fund that would shield priority investment from mining price fluctuations. The authorities are also encouraged to pursue prudent external borrowing policies, including maximizing recourse to concessional financing, avoiding the repeated accumulation of domestic arrears, and improving debt management with TA from the Fund, consistent with a moderate risk of debt distress in the medium term.

49. Redirecting more resources to infrastructure, human capital and social protection would lead to stronger growth and poverty reduction. This should help improve Guinea's social indicators and improve total factor productivity for the business environment. Similarly, the third National Gender Policy (PNG III, 2024-29) should prioritize preventing early girl school dropouts and empowering women, which can reduce gender disparities and boost Guinea's growth potential. The continued strengthening of the social protection system, based on the progress made under the FSW in upgrading the transfer framework, will facilitate targeted interventions to mitigating the impact of the explosion of the fuel facilities and accompany the needed removal of untargeted fuel and electricity subsidies.

50. Efforts to maintain inflation under control should continue. The BCRG should remain vigilant in the current context of increased inflation expectations related to the explosion. It is reassuring that the BCRG foresees a gradual reconstitution of reserves requirements, and it has signaled its readiness to adjust the policy interest rate as needed. It is also critical to make progress on addressing issues raised in the 2023 safeguards assessment of the BCRG.

51. The authorities are encouraged to strengthen governance and transparency. In this respect, it will be critical to provide adequate staffing to the Court of Audit in the context of the revised 2024 budget law and to implement EITI recommendations. Regarding the AML/CFT regime, The authorities should improve the effectiveness of their AML/CFT framework in line with the recommendations made in the mutual evaluation report, including by finalizing and effectively implementing the risk-based supervisory framework. The authorities should also continue to address deficiencies in technical compliance and submit the second follow-up report their progress to GIABA as planned, and to finalize the framework for risk-based supervision. The commitment to minimize tax exemptions in future mining conventions, based on the Simandou convention, will help boost investor confidence.

52. Proper management of the Simandou project and efforts to adapt and mitigate climate change would substantially increase Guinea's potential. The Simandou project is expected to increase employment and economic activity, while spending the additional tax revenues from the project on education and infrastructure could boost productivity and help to diversify the economy. Early investment in resilience infrastructures would help adapt to climate change, and sustainable expansion of the renewable energy sector would help mitigate emissions. In this regard, the authorities should ensure the commercial viability of the Souapiti hydropower dam and the sustainable expansion of Guinea's renewable energy.

53. Staff supports the authorities' request for the RCF with access of 25 percent of quota (SDR 53.55 million), and the use of its resources under their emergency spending to mitigate

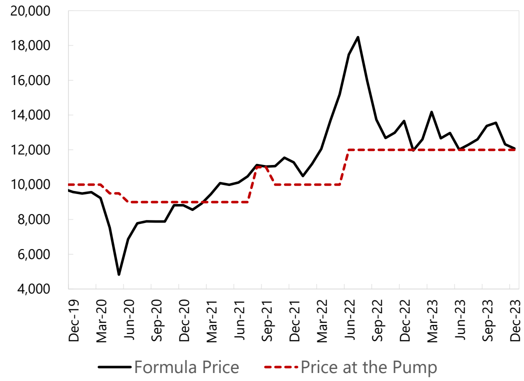
the impacts of the fuel explosion. The urgent needs include the increased cost of fuel imports, the repair of damaged buildings, the assistance to impacted households and their relocation to safe areas, and the reconstruction of a new fuel storage facility that meets high security standards. The authorities are committed to putting in place safeguards measures to ensure accountability and transparency in the use of Fund resources, based on the ones that were developed under the FSW. A medium-term Fund arrangement could help address Guinea's structural challenges and have a stronger catalytic role. Staff welcomes the authorities' intention to request a UCT arrangement in the near term.

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

Figure 1. Guinea: Petroleum Product Prices and Subsidies, 2019-23

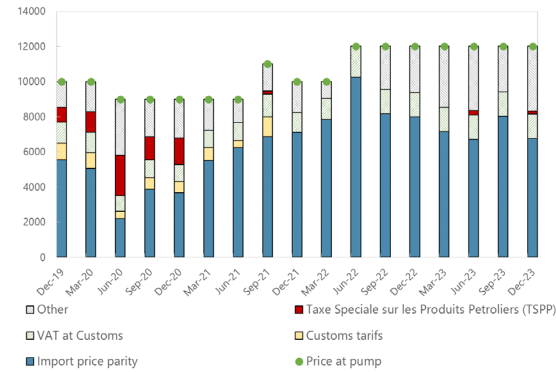
Gasoline prices have converged to the official price of 12,000 GNF/Liter in 2023…

Gasoline Prices
(GNF/Liter)



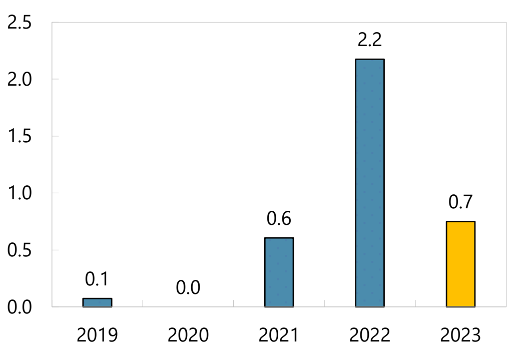
…increasing revenue from different taxes, including the special tax on petroleum products (TSPP)…

Gasoline Price Structure
(GNF/Liter)



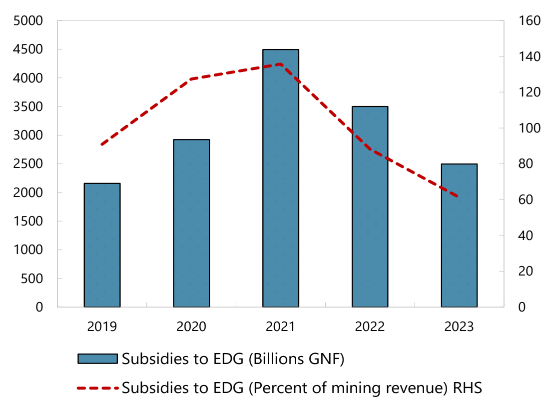
… and reducing fuel subsidies (foregone revenues) from a peak in 2022.

Fuel Subsidies
(Percent of GDP)



But subsidies to the electricity sector will remain a challenge, absorbing around 60 percent of mining revenue in 2023

Subsidies to Electricity

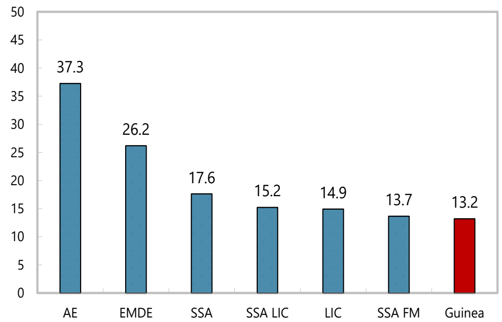


Sources: Guinean authorities; and IMF staff calculations.

Figure 2. Guinea: General Government Revenues and Expenditures

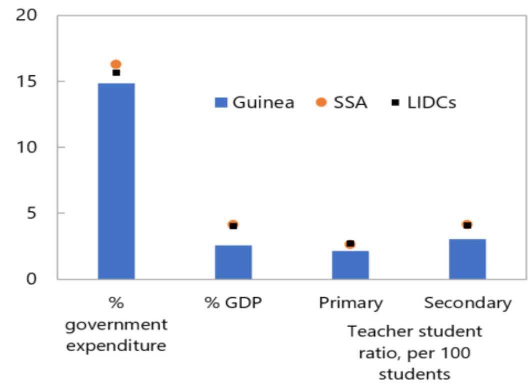
Total government revenues are low compared to regional and global peers…

Total Revenues, 2022
(Percent of GDP)



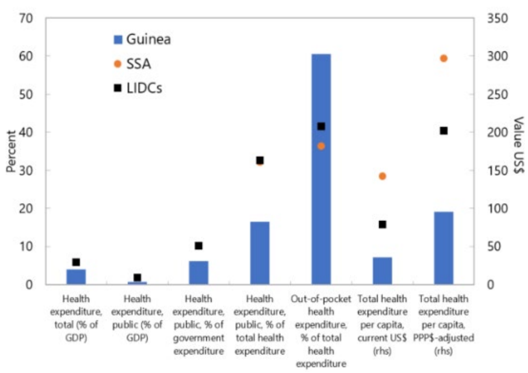
…as well as education expenditures assessed by different metrics….

Education Expenditure, Latest Year Available



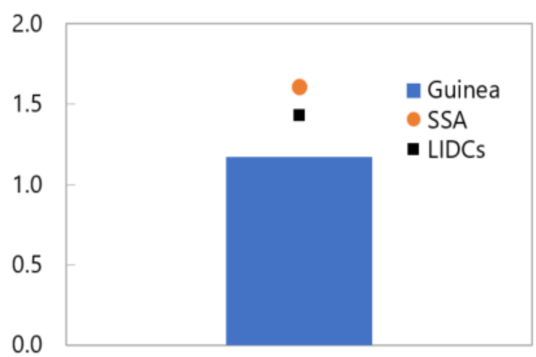
… and health expenditures, which remained low compared to other SSA countries and LIDCS.

Health Expenditure, Latest Year Available



Overall, limited revenue mobilization has constrained overall social assistance spending.

Social Assistance Spending, Latest Year Available
(Percent of GDP)

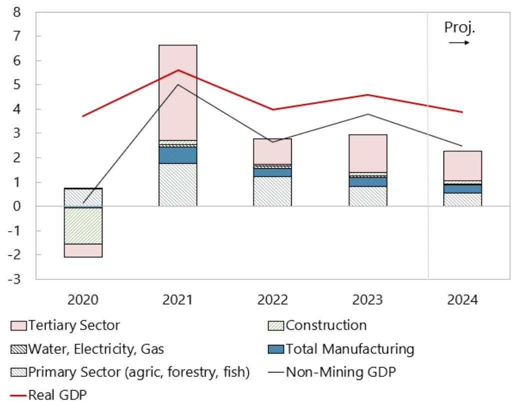


Sources: October 2023 WEO; IMF FAD Expenditure Assessment Tool (EAT); World Bank; and IMF staff calculations
Notes: AE=Advanced Economies; EMDE=Emerging Markets and Developing Economies; SSA= Sub-Saharan Africa; LIC (LIDCs)=Low Income Countries; FM=Frontier Markets.

Figure 3. Guinea: Real Sector Developments

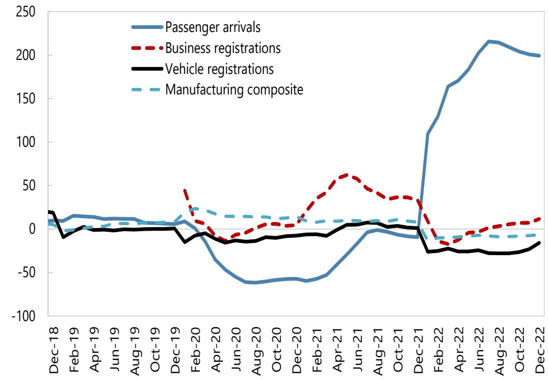
The non-mining economy is projected to recover and contribute an increasing share of GDP growth in 2023, but faces downside risk due to the economic effects of the fuel deposit explosion.

Sect. Contributions to Real GDP Growth
(Percent)



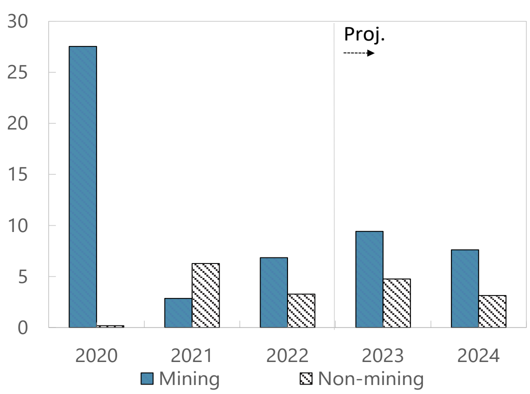
The decline in passenger arrivals in 2020-21 recovered in 2022 to pre-pandemic though the decline in other indicators in early 2022 highlights the fragility of the recovery.

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



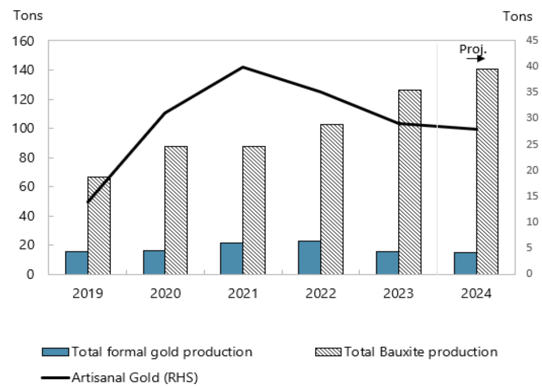
Growth in the mining sector may slow in 2024…

Mining and Non-Mining Activity
(Growth rates)



…as gold output growth weakens amid fuel shortages.

Mining Production
(Millions of tonnes)

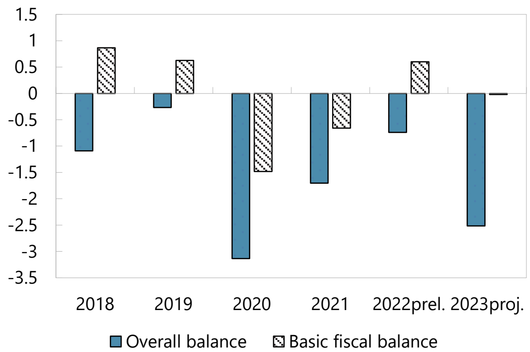


Sources: Guinean authorities; and IMF staff calculations.

Figure 4. Guinea: Fiscal and Debt Indicators

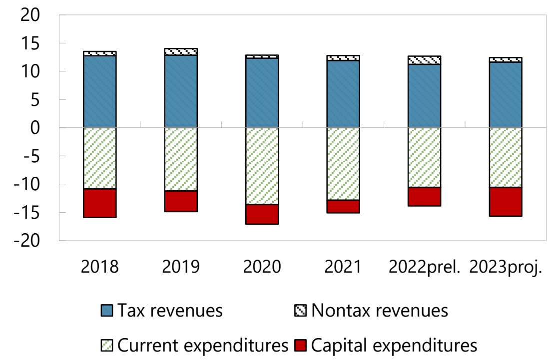
The overall and basic balances are projected to deteriorate in 2023…

Overall and Basic Fiscal Balances*
(Percent of GDP)



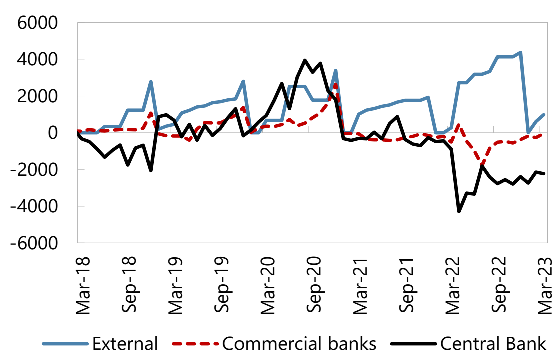
… driven mainly by a greater execution of capital expenditure.

Revenue and Expenditures
(Percent of GDP)



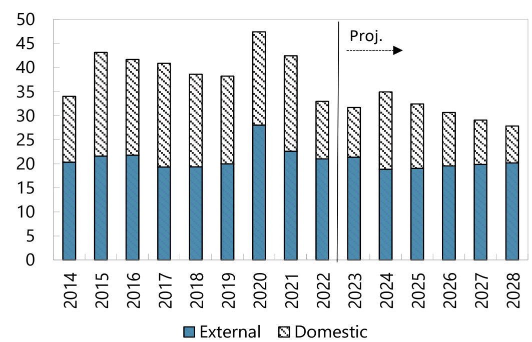
The larger deficit in 2023 has been financed by a greater issuance of T bonds to commercial banks…

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



…but thanks to strong GDP growth, debt ratios are projected to decline.

Public and Publicly Guaranteed Debt
(Percent of GDP)

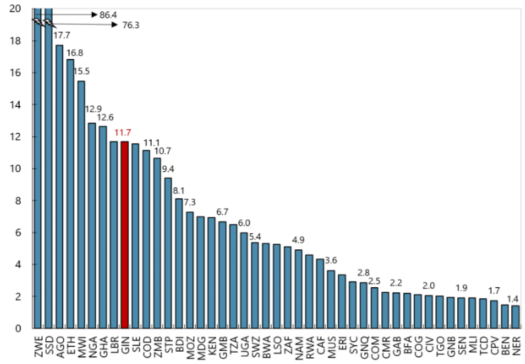


Sources: Guinean authorities; and IMF staff calculations.
Notes: (*) The basic fiscal balance is defined as total revenue excluding grants minus expenditures excluding interest on external debt and foreign-financed capital expenditures.

Figure 5. Guinea: Inflation and Monetary Developments

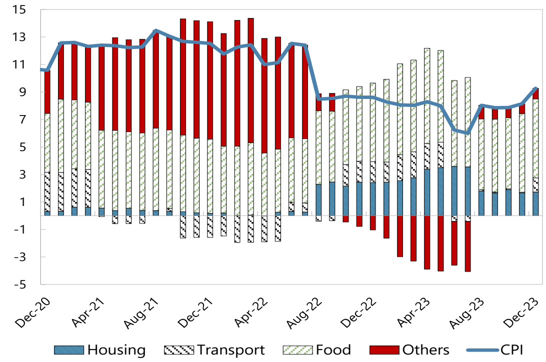
Inflation in Guinea averaged among the highest in Sub-Saharan Africa in the last decade…

Average CPI Inflation, 2010-22
(Percent)



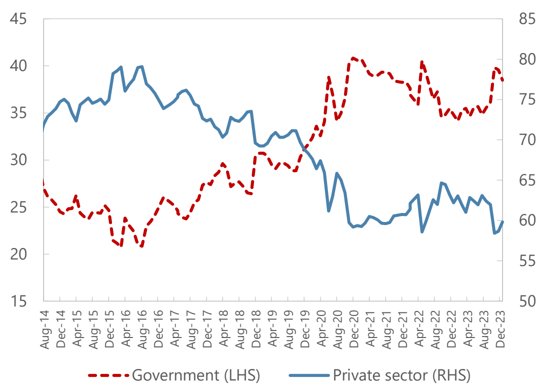
…but has declined significantly in 2023 in part thanks to lower food price pressures.

Inflation Contributions
(Percent, year on year)



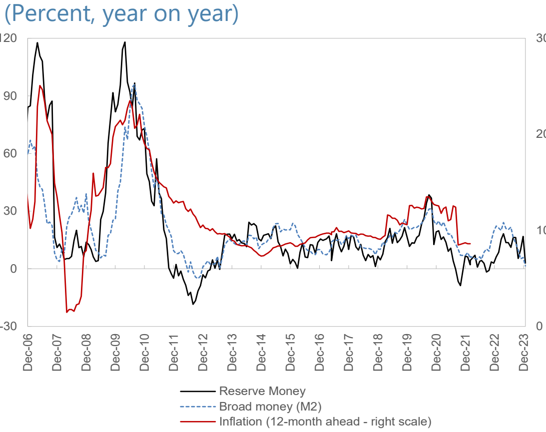
Bank financing to the government has increased significantly, while the growth of bank credit to the private sector has decelerated.

Commercial Bank Lending Shares
(Percent of total)



Reserve and broad money have been contained, as the government relied less on BCRG's advances.

Money Aggregates and Inflation
(Percent, year on year)

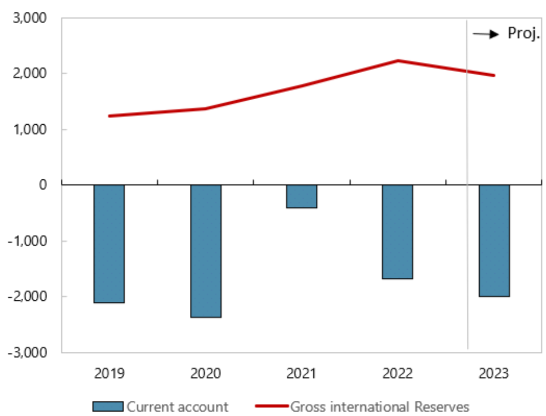


Sources: Guinean authorities; October 2023 WEO; and IMF staff calculations.

Figure 6. Guinea: External Sector Indicators

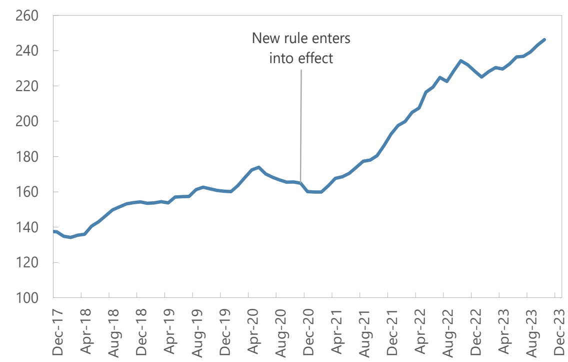
The current account widened significantly in 2022, while reserves rose. Reserves declined in 2023 amid central bank guarantees for oil imports.

Current Account and Reserves
($US, Mill.)



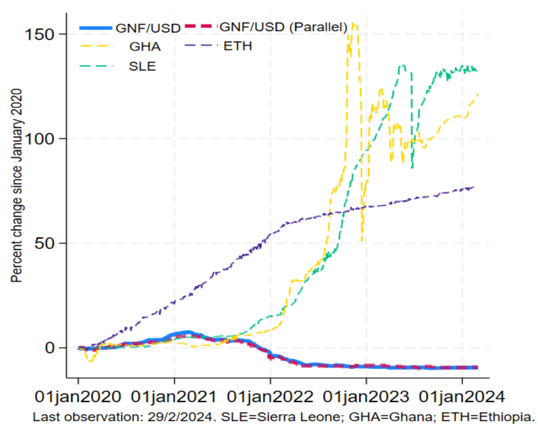
The real effective exchange rate appreciation trend continued in 2023.

REER Index
(2010=100)



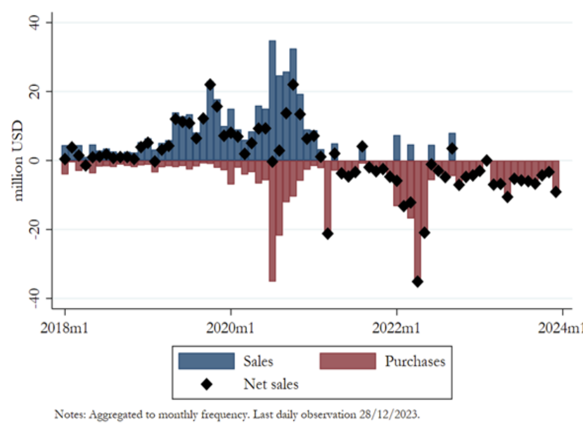
GNF remained appreciated relative to early 2020, while other currencies were under more depreciation pressure.

Nominal Exchange Rates
(Percent)



The BCRG has been a net buyer of foreign exchange in the auction market in 2023.

BCRG Activity on MEBD
($US, Mill.)



Sources: Guinean authorities; Haver Analytics; Bloomberg; and IMF staff calculations.

Table 1. Guinea: Key Economic and Financial Indicators, 2019–28

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	Act.	Act.	Act.	Prel.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
	Annual percentage change									
National accounts and prices										
GDP at constant prices	5.6	4.7	5.6	4.0	5.7	4.1	5.6	5.8	5.6	5.6
Mining	3.5	27.5	2.9	6.8	9.4	7.6	10.7	11.7	10.7	10.6
Industrial mining	29.0	-0.6	9.2	15.4	18.1	9.8	11.5	12.5	11.6	11.3
Non-mining	6.0	0.2	6.3	3.3	4.8	3.1	4.2	4.0	4.0	4.0
GDP deflator	9.4	4.3	12.0	2.8	8.8	11.0	10.1	9.0	8.5	8.0
GDP at market prices	15.5	9.2	18.2	6.9	15.0	15.5	16.3	15.2	14.6	14.1
Consumer prices (average)										
Average	9.5	10.6	12.6	10.5	7.8	11.0	10.2	9.7	9.2	8.7
End of period	9.1	10.6	12.5	8.6	9.3	11.5	10.8	9.7	9.2	8.7
Money and credit										
Net foreign assets[1]	10.5	8.6	6.5	14.1	-9.2	14.9	9.0	10.7	10.4	12.6
Net domestic assets[1]	12.4	16.2	0.3	8.2	10.0	11.9	11.9	14.3	14.1	9.2
Net claims on government[1]	4.0	19.3	-0.4	-2.8	7.4	6.4	6.2	5.0	5.4	5.0
Credit to non-government sector[1]	8.9	3.2	3.0	9.8	2.5	3.5	3.7	4.0	5.8	8.2
Reserve money	16.6	19.2	6.1	6.2	3.0	6.2	13.5	9.8	13.4	20.7
Broad money (M2)	22.9	23.0	8.4	22.2	1.5	18.0	9.1	7.9	6.2	1.4
	Percent of GDP, unless otherwise indicated									
Central government finances										
Total revenue and grants	14.7	14.0	13.5	13.7	13.9	13.4	13.2	13.6	13.8	14.0
Revenue	14.0	12.9	12.9	13.2	13.0	12.9	13.1	13.5	13.7	13.9
Of which: Non-mining revenue	12.1	11.2	10.7	10.8	10.8	10.7	10.8	11.0	11.1	11.1
Grants	0.7	1.1	0.6	0.5	0.9	0.5	0.1	0.1	0.1	0.1
Total expenditure and net lending	15.0	17.1	15.2	14.5	15.5	16.4	15.8	16.2	16.3	16.3
Current expenditure	11.2	13.6	12.8	11.0	10.9	11.1	10.5	10.3	10.2	9.9
Of which: Interest payments	0.5	0.8	0.6	0.9	0.7	1.1	1.2	1.1	1.1	0.9
Capital expenditure and net lending	3.7	3.5	2.3	3.4	4.5	5.2	5.2	5.9	6.1	6.3
Overall budget balance										
Including grants	-0.3	-3.1	-1.7	-0.8	-1.6	-3.0	-2.6	-2.6	-2.5	-2.4
Excluding grants	-1.0	-4.3	-2.3	-1.3	-2.5	-3.5	-2.7	-2.7	-2.6	-2.5
Basic fiscal balance	0.6	-1.5	-0.7	0.5	0.3	-0.7	0.1	0.4	0.2	0.3
External sector										
Current account balance										
Including official transfers	-15.5	-16.2	-2.5	-8.6	-8.7	-10.6	-10.0	-8.7	-7.8	-8.3
Excluding official transfers	-15.7	-16.9	-2.5	-8.6	-8.7	-10.7	-10.0	-8.7	-7.8	-8.3
Overall balance of payments	1.9	-0.9	2.4	2.1	-0.8	-0.6	-0.4	0.8	0.7	0.9
Exports, f.o.b. (annual percentage change, US$ terms)	-0.8	126.4	14.6	-20.1	-1.1	5.8	11.2	8.3	7.2	7.2
Imports, f.o.b. (annual percentage change, US$ terms)	-7.5	56.6	7.7	-7.6	-1.2	15.2	8.7	2.0	5.5	6.8
Average effective exchange rate (depreciation -)										
Nominal index	2.4	-2.3	-5.0	21.8	…	…	…	…	…	…
Real index	9.3	5.5	4.0	25.9	…	…	…	…	…	…
Memorandum items:										
Exports, goods and services (US$ millions)	4,041	8,996	10,266	8,288	8,141	8,616	9,582	10,376	11,117	11,917
Imports, goods and services (US$ millions)	5,648	10,102	8,817	8,317	8,270	9,537	10,357	10,569	11,150	11,910
Overall balance of payments (US$ millions)	258	-121	388	412	-190	-164	-110	227	220	299
Net foreign assets of the central bank (US$ millions)	828	876	1,042	1,426	1,121	1,561	1,665	1,849	2,029	2,291
Gross available reserves (months of imports)[2]	2.1	2.5	2.8	3.4	2.5	2.2	2.2	2.3	2.3	2.3
External public debt, incl. IMF (percent of GDP)	20.0	28.1	22.6	21.4	19.7	21.2	21.1	22.3	24.3	23.9
Total public debt, incl. IMF (percent of GDP)	38.2	47.4	42.4	40.1	40.3	39.3	37.9	37.9	38.3	37.5
Nominal GDP (GNF billions)	123,458	134,760	159,336	170,313	195,789	226,143	262,951	303,031	347,221	396,286

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

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

[2] Assuming the "residual financing gap" of the BOP is filled. And 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, 2019–28

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

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	Act.	Act.	Act.	Prel.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account										
Including official transfers	-2,085	-2,276	-403	-1,687	-1,993	-2,709	-2,722	-2,517	-2,425	-2,757
Excluding official transfers	-2,108	-2,379	-407	-1,687	-2,002	-2,729	-2,722	-2,517	-2,425	-2,757
Exports, f.o.b.	3,945	8,931	10,239	8,178	8,085	8,557	9,519	10,310	11,047	11,844
Mining products	3,519	8,385	8,572	7,457	7,278	7,654	8,554	9,280	9,913	10,596
Other	427	546	1,667	721	807	903	966	1,030	1,134	1,248
Imports, f.o.b.	-4,798	-7,516	-8,093	-7,479	-7,387	-8,507	-9,245	-9,426	-9,943	-10,624
Food products	-390	-436	-566	-716	-866	-971	-983	-1,034	-1,094	-1,157
Other consumption goods	-512	-632	-991	-1,047	-1,222	-1,344	-1,206	-1,523	-1,861	-2,070
Petroleum products	-743	-579	-1,220	-1,595	-1,460	-1,683	-1,714	-1,561	-1,642	-1,710
Intermediate and capital goods	-3,153	-2,977	-3,033	-3,308	-3,422	-4,510	-5,342	-5,308	-5,346	-5,687
Imported goods for reexport /1	0	-2,892	-2,282	-813	-416	0	0	0	0	0
Services trade balance	-755	-2,521	-697	-728	-827	-972	-1,049	-1,077	-1,137	-1,212
Services exports	95	65	27	110	56	59	63	66	70	74
Services imports	-850	-2,586	-724	-838	-883	-1,030	-1,112	-1,144	-1,207	-1,286
Income balance	-576	-1,459	-2,273	-2,258	-2,498	-2,448	-2,602	-2,991	-3,072	-3,458
Of which: Interest on public debt	-20	-23	-41	-48	-69	-68	-93	-105	-133	-166
Transfers	98	289	421	600	634	661	654	667	680	694
Net private transfers	75	185	417	600	625	641	654	667	680	694
Official transfers	24	104	4	0	9	20	0	0	0	0
Capital account	131	63	103	260	209	132	35	35	35	37
Public transfers	41	57	95	96	200	122	25	24	24	26
Financial account	2,212	2,092	688	1,840	1,593	2,413	2,577	2,709	2,610	3,019
Public (medium and long-term)	235	849	136	213	220	386	422	826	779	419
Project-related loans	153	888	133	221	304	560	659	1,054	1,008	752
Program financing /2	152	41	64	55	70	0	0	37	37	37
Public (short-term)	0	0	0	0	0	0	0	0	0	0
Of which: HIPC completion point and MDRI de	0	0	0	0	0	0	0	0	0	0
Amortization due	-70	-81	-61	-63	-155	-174	-238	-265	-266	-370
Direct and other MLT private investment (net)	1,946	1,015	652	1,127	1,303	1,406	1,713	1,613	1,250	1,334
of which: FDI inflows	1,946	1,350	1,714	2,062	2,135	2,258	2,633	2,633	2,326	2,486
Private short-term	31	228	-393	500	71	621	442	270	581	1,266
Other (SDR allocation)	0	0	293	0	0	0	0	0	0	0
Errors and omissions	0	0	0	0	0	0	0	0	0	0
Overall balance	**258**	**-121**	**388**	**412**	**-190**	**-164**	**-110**	**227**	**220**	**299**
Financing gap (- = excess of financing)	**-258**	**121**	**-388**	**-412**	**190**	**164**	**110**	**-227**	**-220**	**-299**
Financing sources (- = financing needs)	-258	121	-388	-412	190	164	110	-227	-220	-299
Use of Fund resources (net)	23	160	-60	42	-46	22	-51	-68	-61	-56
Disbursements	23	219	0	71	0	72	0	0	0	0
Repayments	0	60	60	29	46	50	51	68	61	56
Change in gross official reserves (- = increase)	-281	-120	-410	-464	265	79	-53	-159	-159	-243
Of which: SDR Allocation			293							
Debt relief /3	0	82	81	10	-30	-30	-17	0	0	0
Change in arrears (- = reduction)	-1	-1	0	0	0	0	0	0	0	0
Unidentified sources						93	231			
Residual financing gap	0	0	0	0	0	0	0	0	0	0
Memorandum items:										
Current account balance (percent of GDP)										
Including official transfers	-15.5	-16.2	-2.5	-8.6	-8.7	-10.6	-10.0	-8.7	-7.8	-8.3
Excluding official transfers	-15.7	-16.9	-2.5	-8.6	-8.7	-10.7	-10.0	-8.7	-7.8	-8.3
Overall balance (percent of GDP)	1.9	-0.9	2.4	2.1	-0.8	-0.6	-0.4	0.8	0.7	0.9
Exports-GDP ratio (percent)	30.1	63.9	62.9	42.3	35.4	33.9	35.2	35.7	35.9	36.0
Imports-GDP ratio (percent)	-42.0	-71.7	-54.0	-42.5	-36.0	-37.5	-38.1	-36.4	-36.0	-35.9
FDI-GDP ratio (percent)	14.5	9.6	10.5	10.5	9.3	8.9	9.7	9.1	7.5	7.5
Gross available reserves (US$ millions)	1,245	1,365	1,774	2,238	1,973	1,893	1,946	2,105	2,264	2,507
Gross available reserves (months of imports) /4	2.1	2.5	2.8	3.4	2.5	2.2	2.2	2.3	2.3	2.3
Nominal GDP (US$ millions)	13,443.1	14,088.7	16,320	19,589.5	23,005.1	…	…	…	…	…
National currency per US dollar (avg.)	9,184	9,565	9,763	8,694	8,511	…	…	…	…	…

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

[1] Assumed artisanal gold imported from neighboring countries.

[2] RCF Food Shock Window: Actual disbursements are classified as "program loans" under Public (medium and long-term) loans.

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

[4] Assuming the "residual financing gap" of the BOP is filled. And in months of following years' imports, excluding artisanal gold related imports. Previous staff reports have reported a coverage ratio using imports net of capital goods.

Table 3a. Guinea: Fiscal Operations of the Central Government,[1] 2019–28

(Billions of Guinean Francs, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	Act.	Act.	Act.	Prel.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	**18,166**	**18,860**	**21,457**	**23,308**	**27,177**	**30,314**	**34,713**	**41,195**	**47,966**	**55,314**
Revenue	17,305	17,321	20,486	22,476	25,400	29,226	34,471	41,062	47,696	55,006
Tax revenue	15,868	16,587	19,011	19,857	23,266	26,556	31,013	36,501	42,131	48,144
Mining sector	2,373	2,294	3,310	3,967	4,076	4,890	5,998	7,347	8,878	10,676
Local Development Fund	356	283	352	595	611	461	900	1,102	1,332	1,601
Non-mining sector	13,495	14,293	15,701	15,889	19,190	21,665	25,016	29,154	33,253	37,468
Direct taxes	2,563	2,936	3,051	4,085	3,531	3,874	4,054	4,672	5,354	6,110
Indirect taxes	10,932	11,357	12,650	11,804	15,659	17,791	20,962	24,482	27,899	31,358
Taxes on goods and services	7,583	8,237	8,784	8,508	11,625	13,166	15,332	18,319	21,191	23,701
Taxes on international trade	3,349	3,121	3,866	3,296	4,034	4,625	5,629	6,163	6,709	7,657
Non-tax revenue	1,437	733	1,362	2,519	2,037	2,568	3,346	4,320	5,369	6,581
Grants	861	1,539	971	831	1,777	1,088	243	253	270	308
Project grants	377	547	930	831	1,700	1,088	243	253	270	308
Budget support	216	992	40	0	77	0	0	0	0	0
Expenditures and net lending	**18,498**	**23,086**	**24,168**	**24,755**	**30,291**	**37,175**	**41,595**	**49,029**	**56,656**	**64,724**
Current expenditures	13,830	18,309	20,467	18,803	21,321	25,189	27,741	31,091	35,446	39,394
Primary current expenditures	13,253	17,295	19,576	17,216	19,994	22,741	24,591	27,783	31,600	35,741
Wages and salaries	4,430	6,162	6,315	6,270	6,725	8,807	10,241	11,801	13,522	15,433
Goods and services	4,253	5,037	5,460	3,822	3,966	4,281	3,793	4,078	4,772	5,447
Subsides and transfers	4,570	6,097	7,801	7,124	9,304	9,652	10,557	11,904	13,305	14,861
Subsidies	2,057	2,534	4,493	3,500	2,496	2,000	2,220	2,296	2,296	2,296
Other subsidies and transfers	2,413	3,176	3,309	3,624	6,808	7,652	8,337	9,608	11,009	12,565
Interest on debt	577	1,014	1,003	1,687	1,425	2,551	3,261	3,428	3,846	3,653
Domestic debt	391	788	487	1,147	679	1,782	2,183	2,133	2,281	1,577
External debt	186	226	404	440	648	667	967	1,175	1,565	2,076
Capital expenditure	4,545	4,703	3,594	5,830	8,837	11,858	13,713	17,784	21,043	25,148
Domestically financed	2,766	1,159	1,366	3,079	3,893	5,795	7,100	9,652	12,847	15,851
Investment (central budget exec.)	2,766	1,159	1,366	3,079	3,893	6,134	7,100	9,652	12,847	15,851
Local Development Fund	356	283	352	595	611	461	900	1,102	1,332	1,601
Externally financed	1,779	3,544	2,228	2,751	4,944	6,064	6,614	8,132	8,195	9,297
Net lending	117	74	107	122	133	128	141	154	168	182
Basic fiscal balance[2]	**772**	**-1,995**	**-1,162**	**813**	**603**	**-1,660**	**345**	**1,099**	**604**	**1,374**
Overall balance										
Excluding grants	-1,193	-5,765	-3,682	-2,278	-4,891	-7,949	-7,124	-8,087	-8,960	-9,718
Including grants	**-332**	**-4,226**	**-2,711**	**-1,447**	**-3,115**	**-6,861**	**-6,882**	**-7,834**	**-8,690**	**-9,410**
Financing	**777**	**4,262**	**2,901**	**1,447**	**3,115**	**5,403**	**6,882**	**7,834**	**8,690**	**9,410**
Domestic financing	**-1,372**	**-5,410**	**1,141**	**-2,080**	**895**	**2,298**	**2,943**	**-489**	**284**	**4,218**
Bank financing	983	5,865	-155	-1,147	3,685	3,219	3,706	3,270	3,772	3,740
Net position at central bank (of which)	-191	2,364	56	-2,048	1,328	742	776	-8	43	1,182
Amortization (convention)	-284	-284	0	0	-805	-99	-209	-209	-209	-209
Disbursement MDRI relief IMF	0	0	0	0	427	0	0	0	0	0
Other	93	2,648	56	-2,048	1,706	841	985	201	252	1,391
Commercial banks	1,174	3,500	-211	901	2,357	2,477	2,931	3,278	3,729	2,558
Nonbank financing	-907	-3,268	-1,803	1,666	-1,518	-421	-313	-184	-122	-51
Borrowing/Amortization of domestic debt (net)	-1,175	-1,387	-1,767	-808	-780	-421	-313	-184	-122	-51
Change in arrears	-1,448	-2,505	3,099	-2,600	-1,273	-500	-450	-446	0	0
Souapiti: Decumulation of Domestic Assets [3]	…	…	0	0	0	0	0	0	0	529
Souapiti: SPV on-lending [3]	…	-5,501	0	0	0	0	0	-3,129	-3,366	0
External financing (net)	**2,148**	**9,672**	**1,760**	**3,527**	**2,220**	**3,105**	**3,938**	**8,323**	**8,407**	**5,192**
Drawings	2,799	3,387	1,925	2,398	3,847	4,975	6,371	8,262	8,336	9,427
Project [3]	1,402	2,997	1,298	1,920	2,586	4,975	6,371	7,879	7,926	8,989
Program 4	1,397	390	628	478	600	0	0	383	411	439
Amortization due	-644	-771	-600	-548	-1,315	-1,545	-2,295	-2,769	-2,975	-3,892
Souapiti Amortization [3]	…	…	0	0	0	0	0	0	0	44
Souapiti Disbursements [3]	…	5,501	0	0	0	0	0	3,129	3,366	0
Debt relief	0	0	509	-106	-251	-262	0	0	0	0
SDR allocation				1,814						
Change in cap. arrears (- = reduction)	-7	-7	0	0	0	0	0	0	0	0
Change in int. arrears (- = reduction)	0	0	0	0	0	0	0	0	0	0
Non Paris Clus bilateral rescheduling	0	228	0	0	0	0	0	0	0	0
HIPC-related financing	0	0	0	0	0	0	0	0	0	0
RCF Disbursement 5	0	1,441	0	0	0	0	0	0	0	0
RCF Repayments	0	-107	-74	-31	-61	-63	-138	-299	-321	-343
Financing gap	**0**	**0**	**0**	**0**	**0**	**1,458**	**0**	**0**	**0**	**0**
Anticipated financing	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
IMF	0	0	0	0	0	633	0	0	0	0
RCF Exogenous Shock Window	…	…	…	…	…	633	…	…	…	…
RCF Food Shock Window	…	…	…	0	0	0	0	0	0	0
Residual financing gap	0	0	0	0	0	825	0	0	0	0
Memorandum items:										
Covid and Ebola spending		2,203	572							
Primary fiscal balance	245	-3,213	-1,708	240	-1,690	-4,310	-3,621	-4,406	-4,845	-5,757
Nominal GDP (GNF billion)	123,458	134,760	159,336	170,313	195,789	226,143	262,951	303,031	347,221	396,286

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] RCF Food Shock Window: Actual disbursements are classified as "program loans" under Public (medium and long-term) loans.

[5] 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] 2019–28

(Percent of GDP, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	Act.	Act.	Act.	Prel.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	**14.7**	**14.0**	**13.5**	**13.7**	**13.9**	**13.4**	**13.2**	**13.6**	**13.8**	**14.0**
Revenue	14.0	12.9	12.9	13.2	13.0	12.9	13.1	13.6	13.7	13.9
Tax revenue	12.9	12.3	11.9	11.7	11.9	11.7	11.8	12.0	12.1	12.1
Mining sector	1.9	1.7	2.1	2.3	2.1	2.2	2.3	2.4	2.6	2.7
Non-mining sector	10.9	10.6	9.9	9.3	9.8	9.6	9.5	9.6	9.6	9.5
Direct taxes	2.1	2.2	1.9	2.4	1.8	1.7	1.5	1.5	1.5	1.5
Indirect taxes	8.9	8.4	7.9	6.9	8.0	7.9	8.0	8.1	8.0	7.9
Taxes on goods and services	6.1	6.1	5.5	5.0	5.9	5.8	5.8	6.0	6.1	6.0
Taxes on international trade	2.7	2.3	2.4	1.9	2.1	2.0	2.1	2.0	1.9	1.9
Non-tax revenue	1.2	0.5	0.9	1.5	1.0	1.1	1.3	1.4	1.5	1.7
Grants	0.7	1.1	0.6	0.5	0.9	0.5	0.1	0.1	0.1	0.1
Project grants	0.3	0.4	0.6	0.5	0.9	0.5	0.1	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	0.0
Expenditures and net lending	**15.0**	**17.1**	**15.2**	**14.5**	**15.5**	**16.4**	**15.8**	**16.2**	**16.3**	**16.3**
Current expenditures	11.2	13.6	12.8	11.0	10.9	11.1	10.5	10.3	10.2	9.9
Primary current expenditures	10.7	12.8	12.3	10.1	10.2	10.1	9.4	9.2	9.1	9.0
Wages and salaries	3.6	4.6	4.0	3.7	3.4	3.9	3.9	3.9	3.9	3.9
Goods and services	3.4	3.7	3.4	2.2	2.0	1.9	1.4	1.3	1.4	1.4
Subsides and transfers	3.7	4.5	4.9	4.2	4.8	4.3	4.0	3.9	3.8	3.8
Subsidies	1.7	1.9	2.8	2.1	1.3	0.9	0.8	0.8	0.7	
Other subsidies and transfers	2.0	2.4	2.1	2.1	3.5	3.4	3.2	3.2	3.2	3.2
Interest on debt	0.5	0.8	0.6	1.0	0.7	1.1	1.2	1.1	1.1	0.9
Domestic debt	0.3	0.6	0.3	0.7	0.3	0.8	0.8	0.7	0.7	0.4
External debt	0.2	0.2	0.3	0.3	0.3	0.3	0.4	0.4	0.5	0.5
Capital expenditure	3.7	3.5	2.3	3.4	4.5	5.2	5.2	5.9	6.1	6.3
Domestically financed	2.2	0.9	0.9	1.8	2.0	2.6	2.7	3.2	3.7	4.0
Investment (central budget exec.)	2.2	0.9	0.9	1.8	2.0	2.7	2.7	3.2	3.7	4.0
Local Development Fund	0.3	0.2	0.2	0.3	0.3	0.2	0.3	0.4	0.4	0.4
Externally financed	1.4	2.6	1.4	1.6	2.5	2.7	2.5	2.7	2.4	2.3
Net lending	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0
Basic fiscal balance[2]	**0.6**	**-1.5**	**-0.7**	**0.5**	**0.3**	**-0.7**	**0.1**	**0.4**	**0.2**	**0.3**
Overall balance										
Excluding grants	-1.0	-4.3	-2.3	-1.3	-2.5	-3.5	-2.7	-2.7	-2.6	-2.5
Including grants	**-0.3**	**-3.1**	**-1.7**	**-0.8**	**-1.6**	**-3.0**	**-2.6**	**-2.6**	**-2.5**	**-2.4**
Financing	**0.6**	**3.2**	**1.8**	**0.8**	**1.6**	**2.4**	**2.6**	**2.6**	**2.5**	**2.4**
Domestic financing	**-1.1**	**-4.0**	**0.7**	**-1.2**	**0.5**	**1.0**	**1.1**	**-0.2**	**0.1**	**1.1**
Bank financing	0.8	4.4	-0.1	-0.7	1.9	1.4	1.4	1.1	1.1	0.9
Net position at central bank (of which)	-0.2	1.8	0.0	-1.2	0.7	0.3	0.3	-0.0	0.0	0.3
Amortization (convention)	-0.2	-0.2	0.0	0.0	-0.4	-0.0	-0.1	-0.1	-0.1	-0.1
Disbursement MDRI relief IMF	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Other	0.1	2.0	0.0	-1.2	0.9	0.4	0.4	0.1	0.1	0.4
Commercial banks	1.0	2.6	-0.1	0.5	1.2	1.1	1.1	1.1	1.1	0.6
Nonbank financing	-0.7	-2.4	-1.1	1.0	-0.8	-0.2	-0.1	-0.1	-0.0	-0.0
Borrowing/Amortization of domestic debt (net)	-1.0	-1.0	-1.1	-0.5	-0.4	-0.2	-0.1	-0.1	-0.0	-0.0
Change in arrears	-1.2	-1.9	1.9	-1.5	-0.6	-0.2	-0.2	-0.1	0.0	0.0
Souapiti: Decumulation of Domestic Assets [3]	...	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Souapiti: SPV on-lending [3]	...	-4.1	0.0	0.0	0.0	0.0	0.0	-1.0	-1.0	0.0
External financing (net)	**1.7**	**7.2**	**1.1**	**2.1**	**1.1**	**1.4**	**1.5**	**2.7**	**2.4**	**1.3**
Drawings	2.3	2.5	1.2	1.4	2.0	2.2	2.4	2.7	2.4	2.4
Project [3]	1.1	2.2	0.8	1.1	1.3	2.2	2.4	2.6	2.3	2.3
Program [4]	1.1	0.3	0.4	0.3	0.3	0.0	0.0	0.1	0.1	0.1
Amortization due	-0.5	-0.6	-0.4	-0.3	-0.7	-0.7	-0.9	-0.9	-0.9	-1.0
Souapiti Amortization [3]	...	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Souapiti Disbursements [3]	...	4.1	0.0	0.0	0.0	0.0	0.0	1.0	1.0	0.0
Debt relief	0.0	0.0	0.3	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0
SDR allocation				1.1						
Change in cap. arrears (- = reduction)	-0.0	-0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in int. arrears (- = reduction)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non Paris Clus bilateral rescheduling	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HIPC-related financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RCF Disbursement [5]	0.0	1.1	0.0	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	-0.1
Financing gap	**-0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.6**	**0.0**	**0.0**	**0.0**	**0.0**
Anticipated financing	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
IMF	0.0	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0
RCF Exogenous Shock Window	...	...	...	...	...	0.3	...	...	...	...
RCF Food Shock Window	...	...	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing gap	-0.0	-0.0	-0.0	0.0	-0.0	0.4	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	0.1	-0.9	-1.9	-1.4	-1.5	-1.4	-1.5
Nominal GDP (GNF billion)	123,458	134,760	159,336	170,313	195,789	226,143	262,951	303,031	347,221	396,286

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] RCF Food Shock Window: Actual disbursements are classified as "program loans" under Public (medium and long-term) loans.

[5] 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, 2019–28[1]
(Billions of Guinean Francs, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	Act.	Act.	Act.	Prel.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
					Monetary Survey					
Net foreign assets	9,563	12,179	14,620	20,352	15,811	23,304	28,660	35,566	42,845	52,213
Net domestic assets	20,854	25,792	25,912	29,247	34,229	40,214	47,309	56,558	66,388	73,250
Claims on central government	14,613	20,478	20,323	19,176	22,861	26,080	29,786	33,057	36,828	40,568
Claims on private sector	12,044	13,009	13,887	17,249	18,781	20,479	22,563	25,047	28,986	34,976
Other items, net (assets +)	-5,804	-7,695	-8,524	-8,006	-7,942	-6,956	-5,751	-2,366	-366	-3,366
Broad money (M2)	30,416	37,421	40,582	49,599	50,338	59,419	64,828	69,923	74,233	75,263
Currency	8,817	11,542	12,072	11,307	12,709	13,072	14,262	15,383	16,331	16,558
Deposits	21,599	25,879	28,510	38,292	37,629	46,347	50,566	54,540	57,902	58,705
					Central Bank					
Net foreign assets	7,780	8,747	9,493	12,193	9,545	14,456	16,755	19,999	23,496	28,258
Net domestic assets	6,025	7,708	7,964	6,342	9,549	5,820	6,260	5,280	5,173	6,355
Claims on central government (net)	9,203	11,567	11,623	9,575	10,904	11,646	12,422	12,414	12,457	13,640
Of which: to the Treasury (PNT1)	9,520	11,766	11,896	8,851	122	458	796	316	-152	478
Of which: Advances	1,284	3,347	4,148	3,485	11	753	1,529	1,521	1,564	1,105
Claims on private sector	89	92	92	92	201	49	51	51	51	51
Liabilities to deposit money banks (-)	0	-275	25	0	1,706	-500	-1,000	-1,500	-1,650	-1,650
Other items, net (assets +)	-3,267	-3,676	-3,776	-3,326	-3,262	-5,375	-5,213	-5,686	-5,686	-5,686
Reserve money	13,805	16,455	17,457	18,535	19,094	20,276	23,015	25,278	28,669	34,613
Currency outside banks	8,817	11,542	12,072	11,307	12,709	13,072	14,262	15,383	16,331	16,558
Bank reserves	4,654	4,594	4,980	6,661	5,857	6,670	8,188	9,330	11,772	17,490
Deposits	3,874	3,830	4,262	5,599	4,807	6,206	7,778	8,920	11,362	17,080
					Deposit Money Banks					
Net foreign assets	1,783	3,432	5,127	8,159	6,266	8,848	11,905	15,567	19,349	23,955
Domestic credit	17,365	21,828	22,722	27,585	31,066	35,476	40,588	46,458	54,245	62,925
Credit to the government (net)	5,411	8,911	8,700	9,601	11,957	14,434	17,364	20,642	24,371	26,929
Claims on the private sector	11,955	12,917	13,795	17,157	18,579	20,430	22,512	24,996	28,935	34,925
Liabilities to the private sector (deposits)	21,265	25,560	28,105	37,725	37,101	45,814	50,000	53,975	57,336	58,140
					(Annual percentage change, unless otherwise indicated)					
Memorandum items:										
Net foreign assets	37.3	27.4	20.0	39.2	-22.3	47.4	23.0	24.1	20.5	21.9
Net domestic assets	17.3	23.7	0.5	12.9	17.0	17.5	17.6	19.5	17.4	10.3
Domestic credit	13.6	25.6	2.8	8.2	13.2	11.9	12.5	11.0	13.3	14.8
Net claims on government	7.2	40.1	-0.8	-5.6	19.2	14.1	14.2	11.0	11.4	10.2
Credit to the private sector	23.2	8.1	6.8	24.4	8.3	10.0	10.2	11.0	15.8	20.7
Broad money (M2)	22.9	23.0	8.4	22.2	1.5	18.0	9.1	7.9	6.2	1.4
Reserve money	16.6	19.2	6.1	6.2	3.0	6.2	13.5	9.8	13.4	20.7
Money multiplier (M2/reserve money)	2.2	2.3	2.3	2.7	2.6	2.9	2.8	2.8	2.6	2.2
Velocity (GDP/average M2)	4.5	4.0	4.1	3.8	3.9	4.1	4.2	4.5	4.8	4.8
Consumer prices (end of period)	9.1	10.6	12.5	8.6	9.3	11.5	10.8	9.7	9.2	8.7

Sources: Guinean authorities; and IMF staff estimates and projections.
[1] End of period.

Table 5. Guinea: Financial Soundness Indicators, 2019–23
(End of period, except otherwise indicated)

	2019	2020	2021	2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023
Regulatory capital to risk-weighted assets	15.41	14.02	18.47	14.42	16.98	16.90	16.14	15.31
Tier 1 capital to risk-weighted assets	15.11	13.82	18.37	14.34	16.90	16.82	16.06	15.23
Nonperforming loans net of provisions to capital	17.16	14.75	12.12	17.65	14.48	14.07	15.39	15.49
Nonperforming loans to total gross loans	9.90	9.38	9.21	8.77	8.39	8.58	8.83	8.95
Return on assets	3.34	3.83	3.44	3.18	3.44	3.65	3.84	3.59
Return on equity	27.55	32.13	25.92	29.09	31.75	32.80	33.70	29.00
Interest margin to gross income	41.76	35.38	36.22	39.82	41.63	34.36	35.99	40.01
Noninterest expenses to gross income	62.53	68.59	68.02	67.34	68.40	69.62	67.44	64.84
Liquid assets to total assets	23.24	21.75	22.95	23.82	25.57	22.78	21.39	22.30
Liquid assets to short-term liabilities	37.73	36.15	37.11	41.07	45.61	39.60	37.52	39.25
Net open position in foreign exchange to capital	138.53	86.80	100.17	97.54	44.81	52.38	35.34	41.74

Sources: Guinean authorities and IMF calculations.

Table 6. Guinea: External Financing Requirement and Sources, FY2024-26

(In millions of U.S. dollars, unless otherwise indicated)

	FY2024 Projections	FY2025 Projections	FY2026 Projections	Pre-blast (2024)	Relative to pre-blast
Total requirement: Current account deficit /1	2,709.5	2,722.2	2,517.5	2,331.8	377.6
(In percent of GDP)	10.6	10.0	8.7	8.9	1.7
Goods exports	8,557.2	9,519.4	10,309.5	8,742.7	-185.5
Goods imports	8,507.2	9,244.8	9,425.5	8,165.4	341.9
Total sources	2,545.4	2,612.6	2,744.1	2,721.0	-175.6
(In percent of GDP)	10.0	9.6	9.5	10.4	-0.4
Capital account	132.4	35.3	34.8	56.3	76.0
Official medium- and long-term loans	386.0	421.9	825.9	409.0	-23.0
Project loans	559.8	659.4	1,054.4	575.0	-15.1
Program loans	0.0	0.0	36.7	0.0	0.0
Amortization due (- = repayment)	-173.8	-237.5	-265.2	-165.9	-7.9
Others (including FDI, errors & omissions, etc.)	2,027.0	2,155.4	1,883.5	2,255.6	-228.6
Financing gap (- = excess of financing)	**164.1**	**109.7**	**-226.7**	**-389.1**	**553.2**
Additional financing sources (- = financing needs)	**164.1**	**109.7**	**-226.7**	**-389.1**	**553.2**
Use of IMF credit (net)	21.6	-50.7	-68.1	-49.9	71.5
Disbursement (RCF)	71.5	0.0	0.0	0.0	71.5
Repayment	49.9	50.7	68.1	49.9	0.0
Unidentified sources	92.5	230.8	0.0	0.0	92.5
Change in reserves (- = increase) (relative to 2023)	79.4	-53.1	-158.5	-309.7	389.1
Debt rescheduling, deferral, and cancellation	-29.5	-17.4	0.0	-29.5	0.0
Residual financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:					
Reserves /2	1,893.4	1,946.5	2,105.0	1,962.4	-69.0
Reserves (in months of imports) /2	2.2	2.2	2.3	2.4	-0.2
GDP	25,447.2	27,216.2	29,026.5	26,134.3	-687.1

Sources: IMF staff estimates and projections.

[1] Excl. budget support from Development Partners.

[2] Assuming the unidentified sources of financing are materialized.

Table 7. Guinea: Indicators of Capacity to Repay the IMF, 2022-33

(As of March 14, 2024; SDR millions, unless otherwise indicated)

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Actual		Projections									
Fund obligations based on existing credit /1												
Credit outstanding	303.09	322.30	284.73	246.68	195.65	150.13	97.35	51.45	21.42	10.71	0	0
Percent of quota	141.50	150.46	132.93	115.16	91.34	70.09	45.45	24.02	10.00	5.00	0	0
Repayment of principal	1.84	0.00	37.56	38.06	51.03	45.52	52.79	45.90	30.03	10.71	10.71	0
Charges and interest	0.00	0.00	10.99	11.10	11.11	11.11	11.11	11.10	11.11	11.11	11.11	11.10
o/w: SDR charges	0.00	0.00	10.98	11.10	11.10	11.10	11.11	11.10	11.10	11.10	11.11	11.10
Fund obligations from prospective drawings												
Purchases /2			53.55	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Percent of quota			25.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Credit outstanding	53.55	0.00	53.55	53.55	53.55	53.55	53.55	42.84	32.13	21.42	10.71	0.00
Percent of quota	25.00	0.00	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
Total obligations based on existing and prospective credit												
Credit outstanding	356.64	322.30	338.28	300.23	249.20	203.68	150.90	94.29	53.55	32.13	10.71	0.00
Percent of quota	166.50	150.46	157.93	140.16	116.34	95.09	70.45	44.02	25.00	15.00	5.00	0.00
Percent of GDP	2.07	1.69	1.66	1.38	1.07	0.82	0.57	0.33	0.18	0.10	0.03	0.00
Percent of gross foreign available reserves	21.31	21.79	23.74	20.54	15.81	12.04	8.05	4.58	2.37	1.31	0.41	0.00
Repayment of principal	1.84	0.00	37.56	38.06	51.03	45.52	52.79	56.61	40.74	21.42	21.42	10.71
Charges and interest	0.00	0.00	10.99	11.10	11.11	11.11	11.11	11.10	11.11	11.11	11.11	11.10
Total payments to the IMF	22.28	34.89	48.55	49.16	62.13	56.63	63.90	67.71	51.85	32.53	32.53	21.81
Percent of exports of goods and services	0.36	0.57	0.75	0.68	0.80	0.68	0.72	0.71	0.51	0.30	0.28	0.17
Percent of gross foreign available reserves	1.33	2.36	3.41	3.36	3.94	3.35	3.41	3.29	2.29	1.33	1.24	0.78
Percent of external public debt service	16.10	17.33	22.22	17.58	19.31	17.07	17.63	17.99	13.10	7.47	6.31	3.61
Memorandum items:												
Exports of goods and services, US$ millions	8,288	8,141	8,616	9,582	10,376	11,117	11,917	12,731	13,633	14,594	15,624	16,732
Gross available reserves, months of imports	3.4	2.5	2.2	2.2	2.3	2.3	2.3	2.4	2.4	2.4	2.4	2.4

Sources: Guinean authorities; and IMF staff projections.

[1] Existing credit includes ECF arrangement, the RCF loan approved in June 2020, and the Food Shock Window approved in December 2022.

[2] Proposed RCF; to be approved by the IMF Board.

Annex I. Potential Economic Impact of the Fuel Depot Explosion

The authorities have reacted in an effective way to the explosion at the main fuel importing and storage facility. Staff's projections still assume an average 8.1 percent shortage of oil products in 2024. As a result, real GDP growth is expected to be 1.2 percentage points smaller and the current account deficit widens by 1.7 percentage points in 2024, compared to a baseline without the incident. Authorities should undertake additional actions to prevent shortages, accidents, and health hazards.

1. **On December 18, 2023, Guinea's main fuel terminal was destroyed by an explosion in the middle of its capital Conakry.** The blast has led to destruction in a radius of about a mile in the government and business district. The official death toll reached 25 deaths with 457 injured as of February 12, 2024. The number of affected households is 2,141. Widespread fuel shortages affected transportation and economic activity, mainly during the second half of December 2023 and the beginning of 2024. There continues to be a downside risk to oil supplies. Authorities have reacted in an immediate and effective way to the crisis. The fast building of the temporary unloading terminal and the organization of trucking from Sierra Leone allowed for fast rebound in supplies of gasoline. The partial fixing of the pipeline connecting tankers to a second storage facility for diesel and fuel oil eased shortages of other oil products. These measures, however, come at additional costs due to trucking and the "floating storage".[1] At the same time, fuel supplies are still unstable. If the unloading in the provisory facilities is not managed in an efficient and safe way, there could be new shortages as well as accidents.

2. **Staff's projections assume an average 8.1 percent shortage of oil products in 2024 compared to a baseline demand that grows in line with the economy.** Key assumptions are (Text Table 1):

- Imported quantities of gasoline and their consumption decline on average by 12.2 percent in 2024 compared to a baseline demand growing in line with the economy. Gasoline is hit more strongly because it was mostly gasoline storage facilities that exploded.

- Imported quantities of diesel and other oil products decrease on average by 5.6 percent in 2024.

Text Table1. Guinea: Estimated Fuel Supply Shortages in 2024

Gasoline	
Baseline demand (barrels per day)	11,156
Imports: provisory terminal (b/d)	8,851
Imports: trucks from Sierra Leone (b/d)	939
Shortage (%)	12.2
Other oil products	
Baseline demand (b/d)	18,198
Imports: old terminal (b/d)	17,179
Shortage (%)	5.6
Total oil products	
Baseline demand (b/d)	29,354
Imports (b/d)	26,969
Shortage (%)	8.1

Notes: The numbers do not include the import terminal in Kankan, which is used by the bauxite mining industry. Gasoline: Baseline demand assumes 4.1 percent growth. Imports through the provisory terminal assume 4.5 days per week of unloading, due to the slow unloading of gasoline and the congestion with the unloading of other oil products as only one tanker can land. We assume that 10 percent of gasoline supplies are trucked on average.

[1] Due to the destroyed gasoline storage facilities, gasoline must be unloaded *directly* from the tanker to trucks in the provisory unloading terminal. The tanker must wait until the (slow) unloading is completed, effectively acting as a floating storage facility.

- Most oil supplies in 2024 are shipped to the country by tankers using the temporary terminal and the partially fixed pipeline. In line with the state-owned oil company SONAP, we assume that 10 percent of gasoline supplies need to be trucked from Sierra Leone. The construction of the temporary unloading terminal costs about US$1.2 million. Trucking gasoline from Sierra Leone causes an extra cost of about US$16 per barrel. Renting a tanker as a floating storage is about US$4.5 per barrel on average.

- In 2025, fuel shortages are assumed to be eased, as trucking markets adjust. Oil consumption and oil imports return to a baseline that grows in line with the economy. However, as the temporary terminal only allows for effective gasoline imports of about 9,200 barrels per day by tankers, 22 percent of gasoline imports are trucked in 2025. This share increases in the following years. Diesel and other products are fully shipped by tankers.

- The construction of the new oil storage and import terminal is completed at the end of 2026.

3. The explosion is expected to cause large negative effects on output and external balance.

- Real GDP growth is 1.2 percentage points lower in 2024, compared to a baseline without the incident. Real mining GDP growth slows to 7.6 percent in 2024 amid fuel shortages in the gold mining sector, 2.2 percentage points lower than without the incident. Non-mining GDP growth decelerates to 3.1 percentage in 2024, 0.9 percentage points lower than in the baseline without the incident, mainly driven by a 1.9 percent contraction in the transportation sector in 2024. No indirect and second round effects are modelled so far.

- The current account deficit deteriorates to 10.6 percent of GDP in 2024, 1.7 percentage points higher than without the incident. The higher effective gasoline import costs (due to trucking and the floating storage) more than offset the lower fuel import quantities (due to the damaged port). This leads to 11 percent higher fuel import expenses than without the incident. Imports of intermediate and capital goods (partly due to post-explosion reconstruction) are 3 percent higher. Exports are 2 percent lower than in the pre-explosion baseline framework mainly due to lower gold exports.

- Despite gross international reserves partially rebounding at end-2023 (reflecting the impact of the repatriation requirement on mining companies), they could fall to 2.0 months of imports by end-2024 without financial support by the IMF and others. This would be 0.4 percentage points lower than in a baseline without the incident.

- The fiscal deficit worsens from 2.4 in the pre-blast scenario to 3.0 percent in 2024, due to higher expenditures and lower non-mining revenue.

- Economic effects spill into 2026 because the cost of importing gasoline will remain higher.

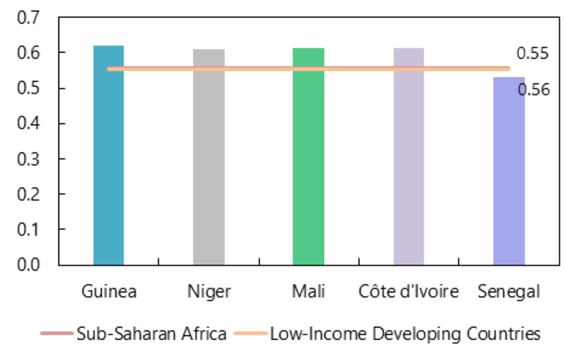
- Average inflation is expected to be 11.0 percent in 2024, 3.1 percentage points higher than in the baseline without the incident.

Annex II. Closing Gender Gaps to Boost Guinea's Growth Potential

Although the 2010 constitution (Art. 8) states that men and women have equal rights, gender gaps persist in Guinea, hindering women's economic empowerment and limiting their contribution to the country's macroeconomic achievements. ***.*** *Reducing these gaps could boost Guinea's annual growth per capita up to 2.3 percent.*

1. **Guinea ranks unfavorably on the Gender Inequality Index (GII) of the United Nations Development Program (UNDP).** The index for Guinea is above the average for Sub-Saharan Africa and Low-Income Developing Countries (Text Figure 1). The index for Guinea is close to the one for Niger, Mali and Cote d'Ivoire. Gender gaps in Guinea reflect mainly the predominance of child marriages, and lower access to health, education, and formal employment.

Text Figure 1. Guinea: Gender Inequality Index (GII)[1]



[1] A composite metric of gender inequality using three dimensions: reproductive health, empowerment and the labour market.
Source: IMF Gender Data HUB

2. **Child marriages limit women's skill development and Guinea's growth potential.** They are associated with early school dropouts and early childbearing. Guinea features among countries with the highest ratio of child marriages, with 22 percent of girls married before the age of 15 and 58 percent of girls married before the age of 18, the minimum legal age of marriage. Only 2 percent of Guinean boys are married before the age of 18. The negative impact of child marriages on per capita growth runs through five main channels: health, education, fertility, labor force participation, and decision-making.[1]

3. **Lower access to education and health increases gender gaps and constrains female productivity.** While Guinea's human capital indicators have improved since 2010, they remain low relative to peer countries, and they are even less favorable for women (Text Table 1). The literacy rate for women (31.3 percent) is much lower than that for men (61.2 percent). Secondary completion rates are also lower (28.5 percent for female against 37.8 percent for male). The maternal mortality rate is among the highest in Sub-Saharan Africa, in part due to pervasive female genital mutilations, which affect 94.5 percent of women aged 15-49 years and 75.6 percent of girls aged 10-14 years.

[1] Mitra et al. (2020).

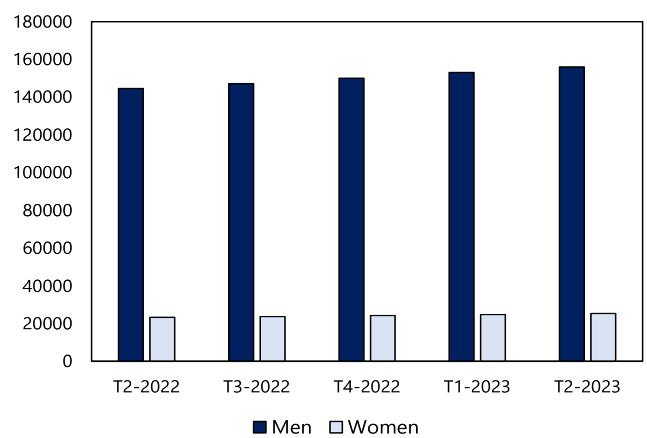
Text Table 1. Guinea: Human Capital Indicators

Indicators	Guinea	Year	Comparators 1/ SSA	LMC	World
Literacy rate (% 15+)		2021			
Female	31.3		60.9	72.9	83.5
Male	61.2		73.8	84.5	90.2
Lower secondary completion rate (% of relevant group)		2020			
Female	28.5		43.0	77.3	78.0
Male	37.8		46.1	74.6	77.0
Maternal mortality ratio (estimate per 100,000 live births)	553	2020	536	255	223
Labor force participation rate (% 15+, ILO estimate)		2022			
Female	41.7		60.9	33.4	47.3
Male	63.7		72.7	73.3	72.5

1/ Guinea belongs to the Sub-Saharan Africa (SSA) region and is a lower middle-income country (LMC)
Source: The World Bank Gender Data Portal

4. **Gender gaps are epitomized by the low access to well-paid formal sector employment** Female employees represent less than 14 percent of employees registered with the National Social Security Fund (CNSS) (Text Figure 2).

Text Figure 2. Guinea: Employees Registered with the National Social Security Fund (CNSS), 2022-23



Source: INS, Demography and Health Survey, 2018.

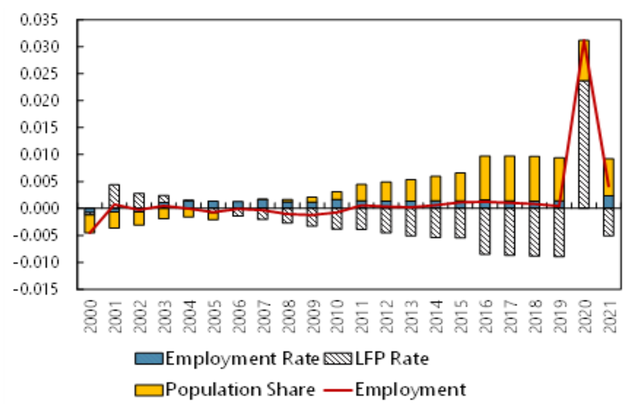
5. **The COVID-19 pandemic temporarily exacerbated employment discrepancies.** The employment gap shot up in 2020 before stabilizing in 2021 (Text Figure 2). The IMF gender labor market tool shows that the surge in 2020 of the employment gaps reflected the significant increase in the gap in the labor participation rate, as women allocated more time to taking care of household members.

6. **Reducing gender gaps could help boost Guinea's growth and government revenue.** An in-house gender tool developed by the IMF suggests that if child marriage (before the age of 18) were eliminated in Guinea, there could be an increase of 2.32 percentage points per year in per

capita growth. The 2019 World Bank Guinea gender report indicates that "advancing gender equality will have positive impacts on economic growth. GDP per capita growth will increase by 0.6 percentage points per year and could increase by 10.2 percent by 2035 relative to the baseline scenario under unchanged policies.

7. Policies to close these gaps under the third National Gender Policy (PNG III, 2024-29) could prioritize actions that prevent early school dropouts and empower women. As Lengthening the stay of girls in school could contribute to delaying marriages and maximizing their potential, the authorities could sustain the financing of school feeding programs and the transfers in kind targeted to parents of schoolgirls implemented by the World Food Program under the Food Shock Window (FSW). Women-empowering policies could aim at facilitating the access of educated women to well-paid formal employment, and at supporting programs that give a second chance to school drop-out or early married girls. In this context, day cares could be established in public institutions, such as universities, and greater funding should be provided to professional training or programs supporting entrepreneurship, such as the recently created fund for assistance to economic activities of women and girls (FAAEFF), which provides financial education and facilitates access to bank credit. The implementation of recommendations of the recent Fund TA on gender budgeting could help provide the needed financing. The authorities should also continue the efforts pursued under PNG II to educate and sensitize community leaders on the harmful impacts of child marriages, in line with their 2021-25 National Strategic Plan to Promote the End of Child Marriage in Guinea.

Text Figure 3. Guinea: Employment Gender Gap Growth Decomposition
(Differences in logarithms)



Source: IMF Gender Analytical Tools.

Annex III. Implementation of the Rapid Credit Facility's Food Shock Window in Guinea

Following the fertilizer and food price shocks in 2022, Guinea received US$71 million (SDR 55,53 million) under the Rapid Credit Facility (RCF)'s Food Shock Window (FSW) in December 2022. Due to administrative procedures and the time needed to sign MOUs, the FSW implementation by the designated specialized agencies started with a delay. Besides agency-specific factors, the explosion of Kaloum's main fuel terminal in December 18th has somewhat temporarily slowed the ongoing implementation. Nevertheless, major FSW-related programs have already been completed, while others are still being implemented. In-kind food distribution, cash transfers, supply of agricultural inputs are expected to have mitigated food insecurity and boosted Guinea's agricultural output. Public implementing agencies (FODA, FDSI, ANIES) have published (on their websites) monthly reports, awarded contracts, and information on the procurement process. Initial implementation reports points to good transparency and reporting practices that the audits for 2023—launched by the court of account—will assess in coming months.

A. Background

1. The war in Ukraine exacerbated long-standing food insecurity in Guinea. The conflict caused international food and fertilizer prices to rise sharply. As a result, 20 percent of Guineans were exposed to food insecurity and 11 percent (or 1.2 million people) faced acute food insecurity in late 2022. According to the 2022 Cadre Harmonisé of the World Food Program (WFP), affected vulnerable populations were located across the country, including in Conakry. More recently food insecurity risks have moderated as international food and fertilizer prices retracted below their end-2021 levels.[1] Accordingly, the WFP's Cadre Harmonisé analysis suggests that Guinea's food and nutritional situation improved during November 2022—October 2023, mainly due to the implementation of reforms initiated by the Government and the mobilization of support from development partners, notably the IMF Rapid Credit Facility through the FSW. However, the explosion of the main terminal in Kaloum has put further pressures on food security due to fuel shortages, high transport costs. The increase in basic staple prices at end-January 2024 has also exacerbated cost-of-living difficulties.

2. The RCF's FSW was approved to address the 2022 food and fertilizer price shock. The US$71 million (0.3 percent of 2023 GDP) RCF's Food Shock Window (FSW) resources were allocated through the 2023 budget to provide critical agricultural inputs and equipment, in-kind and food distribution, and cash transfers. Four entities were selected to implemented various programs in the context of MOUs signed with the Ministry of Economy and Finance: (i) the Agricultural Development Fund (FODA) received US$20 million for the acquisition of agricultural inputs and equipment (such as seeds, fertilizer, tractors) to lower farmers' agricultural costs and boost production; (ii) the World Food Program (WFP) was allocated US$20 million to implement the in-kind and food distribution to

[1] The IMF has assessed food insecurity as a substantial risk and extended the availability of the FSW to 2023.

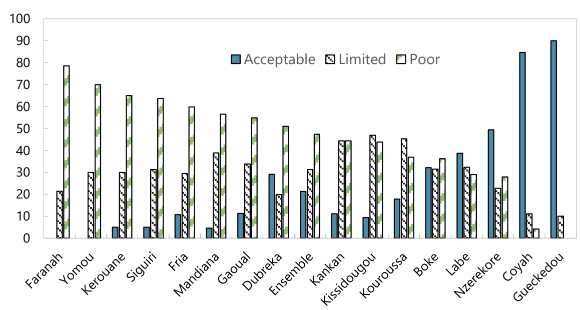
vulnerable populations; (iii) the Indigent Fund (FDSI) received US$6 million for the in-kind distribution of food and healthcare vouchers; and (iv) the National Agency for Economic and Social Inclusion (ANIES) was entrusted with US$25 million to make cash transfers to targeted vulnerable populations.

B. Implementation and Impact of the FSW

3. The 2023 execution rate of the Food Shock Window has reached a high level except for the Inclusion Fund.[2] The FSW resources were only transferred in May-June 2023 to World Food Program (WFP) and other implementing entities (FODA, ANIES, FDSI), due to administrative procedures to ensure a transparent and efficient use of the FSW resources.[3] As of end-2023, the implementation of the agreed activities (in the MOUs) was still ongoing, with the execution rates for the WFP, FODA, and FDSI, at 80 percent, 95 percent, and 81 percent respectively. The WFP's in-kind food distributions were completed in October 2023, while its school feeding programs and resilience strengthening programs are expected to be completed in June 2024 to cover the school year.[4] Due to the further time needed to finalize the enumeration of vulnerable populations, the social inclusion fund was expecting (as of February 2024) to start its 12-month cash transfers programs from March 2023.

4. The WFP impact analysis has revealed the Food Shock Window has helped mitigate food insecurity. The WFP's ongoing school feeding program is expected to provide, hot, nutritious meals to 150,000 schoolchildren in communities affected by high levels of food insecurity.[5] The FSW resources were also used to provide emergency food assistance to about 790,000 vulnerable people in crisis-affected households during the lean season including due to the floodings and food insecurity crises in high-risk areas. The WFP's Post-Distribution Monitoring (PDM) survey to assess the impact of its cash and in-kind transfers program—including using FSW resources—during the lean season, suggests a positive impact on food security. The survey revealed an improvement of the consumption score among the targeted populations, especially the most vulnerable. In particular the PDM survey found that

Consumption Scores by Consumption Class, and by District
(Percent)



Notes: The scores are based on the Post-Distribution Monitoring (PDM) survey that took place for Dec 18, 2023 to January 10th, 2024.
Sources: World Food Program (WFP) 2024.

[2] Delays in transferring the FSW funds to implementing authorities were partly due to administrative procedures, including (i) identifying implementing agencies and preparing and signing the MOUs; (ii) elaborating monitoring and governance frameworks; and (iii) conducting briefing sessions on reporting and audits requirements.

[3] Agricultural development Fund (FODA); National Agency for Economic and social Inclusion and (ANIES); Social Development and Indigent Fund (FDSI).

[4] WFP execution of the FSW activities stood at 59 percent execution rate at end-September 2023.

[5] School feeding programs the program helped promote the schooling of young girls through boost retention rate, academic results as well as physical and mental health.

54 percent of the surveyed vulnerable populations had an acceptable consumption score. Similarly, the WFP's Cadre Harmonisé analysis found that the number of individuals experiencing food stress and those in crisis had decreased by 2.1 percent, and 53.6 percent, respectively.

5. **The implementation of the FSW by public entities has also helped reduce food insecurity across Guinea.** Qualitatively, the implementation of the various FSW-financed programs is likely to have helped mitigate food insecurity. The strong impact of the surge in corn prices on the poultry sector was mitigated by the use of the FSW resources (by the FODA) to finance corn imports (10,000 tonnes), that were then sold at an affordable price to operators in the sector.[6] The Agricultural Fund has also acquired 2,500 tonnes of rice seeds and 1,300 tonnes of corn seeds that were made available to farmers through seed banks in 35 major agricultural centers across Guinea. In-kind distribution of specialized nutritional inputs via health structures (to a total of 60,000 people) is ongoing to ensure the treatment and prevention of moderate to acute malnutrition in children aged 6-59 months.[7]

6. **Anecdotal evidence suggests a positive impact on agricultural output and growth.** The FSW financing has also helped boost productivity in the agricultural sector by keeping low farmers' fertilizer costs down.[8] Furthermore, the purchase of 32 tractors with the FSW resources, led to a 35-percent increase in the fleet tractors available to farmers through agricultural service centers (CPA). The larger fleet of tractors, along with the 30 additional harvesters, should help reduce the post-harvest losses of rice and corn, which are typically substantial. The increased use tractors of harvesters by farmers were also optimized through GPS tracking systems, which ensured real-time monitoring and effective use. The FSW funds were also used to operationalized of the Sinko rice mill with a capacity of 100 tonnes per day to help support processing of local rice.[9] Separately, through its resilience program, the WFP has strengthened the ability of 10,000 people to better face future crises by increasing agricultural productivity, generating income, and improving governance of the agricultural sector.[10]

[6] A significant portion of these funds was allocated in the form of repayable loans (e.g., seeds banks, financing) to promote lasting resilience of populations to price shocks.

[7] The indigent fund has provided about 1,901 healthcare vouchers—to finance the medical and pharmaceutical invoices—in the 8 administrative regions (of which 848 people were fully covered).

[8] The FSW has kept the price of a 50 kg bag at GNF 300,000 compared with 500,000-700,000 in 2022.

[9] This includes the purchase of spare parts and the provision of working capital.

[10] Vulnerable populations were empowered through pilots on the farming of the *Tongil* rice from Korea which can be harvested every 3 months (instead of six months for the local rice), across 109 villages over 300 hectares.

C. Reporting, Governance/Audit, and Lessons Learnt

7. **Reporting commitments were met after a mixed performance.** The WFP has complied with its annual reporting requirements in its 2023 report. After only issuing periodic reports, the FODA's has cached up with its monthly report's requirements published since February 2024 on its website, along with documents related to the procurement process, including the awarded contracts. Similarly, the FDSI and ANIES have published monthly reports and awarded contracts on their website at end-March. As of April 17th, FODA, ANIES, and FDSI finalized the information on beneficial ownership, which were published (along with related procurement process information and all awarded contracts to date) on their respective websites and the Ministry of Budget's website, as committed in the letter of intent (LOI) of the RCF request.[11]

8. **Implementation reports suggest good transparency and reporting practices pending the findings of the audits already launched (Table 1).** The FSW implementation reports—which details the execution and procedures of their FSW activities—have suggested good transparency and reporting practices, and appropriate procurements practices. In line with the MoU requirements, the Court of Account has launched the audit process of the implementation of the FSW by public entities for the budgetary period 2023. The consultations and the initial findings are tentatively planned for March 2023 and May 2024, respectively. Meanwhile the WFP will follow its own internal review and audit processes.

9. **The experience with the RCF highlights potential options to address food insecurity sustainably.** The actual implementation of the FSW programs could have started faster, consistent with the RCF/FSW rational to provide emergency assistance. While the implementation has benefited from the comparative advantage and expertise of WFP and other implementing entities, there has been limited coordination including on the targeting of program beneficiaries. The implementation of the FSW has also showcased key programs that Guinea could adopt as part of its national strategy to address the longstanding food insecurity (e.g., national school feeding programs, revolving funds, and programs to empower local population). Key lessons from Guinea's experience with the FSW include (i) that targeted programs can make a big difference in alleviating food insecurity and should continue to be financed by budgetary resources; and (ii) that Guinea should have structures in place to scale up programs quickly during emergencies.

[11]The FSW webpages for the **FODA, FDSI,** and **ANIES** are posted on the Ministry of Budget's website: https://mbudget.gov.gn/2024/04/guichet-choc-alimentaire-gca-du-fmi/ ; and the annual report of the WFP is posted on: https://www.wfp.org/publications/annual-country-reports-guinea .

Table 1. Guinea: Authorities' Commitments Under Past RCFs (Pandemic and FSW)		
Authorities' Commitments	**Status of Implementation**	**Comments**
RCF Support in the Context of the COVID-19 Shock		
Pandemic RCF's reporting and governance requirements	Implemented	Covid-related contracts, monthly covid spending execution reports, and ex-post audit report of the covid-related expenditure were prepared and published. Prosecutions for mismanagement of the covid Funds are ongoing.
RCF Support in the Context of the Food and Fertilizer Price Shock		
Implement the recommendations made by the Court of Audit (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.	Implemented with the preliminary report of the Court of Account (CC) completed in March 2024 and shared with IMF staff (prior action), and the final CC's report to be published by end-June 2024.	An action plan matrix for implementing the CC's recommendations was prepared and shared with the relevant government entities before end-June 2023. The relevant entities' response to the initial CC's evaluation was sent to the CC before end-Dec 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.	Implemented	Implemented as part of the MoU between the MoF and the BCRG.
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.	Partly implemented so far due to delays in the beginning of the programs and lack of inter-agency coordination.	WFP has respected its (annual) reporting requirements. Public agencies—required to report monthly—have started to provide monthly reports, after only publishing regular but not monthly reports. All budget execution reports were published (prior action) on websites of the Ministry of Budget and that of the implementing entities.
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.	Implemented partly due to delays in transferring funds to implementing entities.	The implementation by all implementing agencies is still ongoing. In March 2024, the CC initiated the audit of the FSW implementation in fiscal year 2023 that ended at end-2023.

Table 1. Guinea: Authorities' Commitments Under Past RCFs (Pandemic and FSW)
(concluded)

Authorities' Commitments	Status of Implementation	Comments
Deposit the resources in the TSA and disburse all related expenditures from the TSA.	Implemented with a delay	Disbursements to implementing entities was delayed also due to the administrative procedures and time needed to prepare MoU, identify programs, and brief implementing entities.
Adopt the proper budgeting of targeted programs, with specific tagging that makes them visible and transparent	Implemented	Specific MOUs targeting specific activities were signed with the public agencies implementing the FSW.
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).	Implemented	The WFP has conducted satisfaction surveys as part of the post-distribution monitoring exercise and has relied on NGO as well as the Government's technical services for the monitoring of the execution of programs. The public agencies have substituted CSOs certification, with TV reporting and news articles in various media outlets.
Utilize the normal procurement process and publish all related contracts on a monthly basis, including information on the beneficial owners of winning companies	Implemented	Normal procurement process was used. All procurement processes and contracts related to FSW expenditures for fiscal year 2023, with the information on beneficial owners of winning companies were published (prior action) on websites of the Ministry of Budget and that of the implementing entities.

Sources: National authorities; IMF 2023 AIV Staff Report; IMF staff assessment.

Annex IV. Implementation of the 2022 Article IV Recommendations and the 2021 FSSR TA Project

Table 1. Guinea: Progress of the Implementation of the 2022 Article IV Recommendations		
Sector	**Main recommendations**	**Actions taken since the 2022 AIV consultations**
Fiscal Policy	Implement the reference price decree for bauxite	After a two-month grace period, the authorities began to apply the new formula for determining the reference price of tax obligations for bauxite-producing and/or exporting companies in September 2022. The evaluation of the implementation at end-2023 is scheduled after April 2024.
	Expand digital tax management to all taxpayers.	Reforms to modernize tax and customs administration are under way, including the digitalization of taxpayer registration, and tax declarations and payments.
	Phase out subsidies to energy sector and fuel while expanding the social safety net.	The authorities have a plan for gradually reducing EDG's subsidies. A gradual tariff increase is considered under the 7-year recovery plan with the WB. No action is taken so far on fuel subsidies. Identification of the poor continues, based on a methodology developed with WB support.
	Increase investment efficiency.	At the request of the authorities, the IMF has provided TA on public investment management, with considering climate. The authorities adopted by decree the framework for the management of investment in April 2024. The tagging of climate and gender related spending has continued, but the actual incorporation in the budget process is envisaged to start only in 2025. The authorities count on the continued IMF assistance with gender and climate budgeting.
Policy	Transition to the new CPI gradually, starting first with the new headline Conakry index and its main sub-components, and then the national index once there is enough data to calculate annual variations.	The authorities have been publishing the new headline inflation for Conakry since August 2022. In August 2023, they transitioned to the national inflation by calculating the first a y-o-y national inflation.
	Ensure that there is no lending to the government beyond the statutory limit.	The CB maintains lending to the government below the average revenues of the three previous years. In July 2023, another securitization agreement consolidated the stock of short-term liabilities (GNF 6,561 billion) into long-term securities, in line with the Central Bank Law
	Ensure a gradual reduction in reserve requirements to reduce intermediation costs and facilitate financial deepening.	In September 2023, the authorities reduced the reserve requirement ratio at 13 percent from 15 per cent due to the negative output gap and the declining path of inflation. More recently, the BCRG has agreed to ease reserve requirements, in return for banks purchasing around $580 million worth of treasury bonds.
	Stick to the rule-based foreign intervention policy, which has improved the transparency and coherence of interventions.	The authorities continue to implement the rule-based FX intervention policy.

Table 1. Guinea: Progress of the Implementation of the 2022 Article IV Recommendations (concluded)		
Sector	**Main recommendations**	**Actions taken since the 2022 AIV consultations**
Financial sector	Finalize the banking law.	A draft law has been prepared by the authorities and is under review
Governance	Ensure transparency and effective coordination between the various entities involved in the use of FSW resources.	The authorities have signed an MoU with each of the agencies involved in implementing FSW-financed expenditure, indicating the governance and transparency actions to which the authorities committed in the LOI. Implementation agencies have communicated to the Budget Director their budget execution reports and have followed the normal procurement process. Budget execution reports and procurement contracts have been published on the website of the Budget Ministry. However, more progress needs to be made in coordinating money transfer activities and support for vulnerable people. In particular, there is need to unify the registries of beneficiaries maintained by these agencies.

Table 2. Guinea: Progress of the Guinea FSSR TA Project Since April 2021

Topic	Main Recommendations	Comments
Banking Law Amendments and Crisis Management, Bank Resolution and Financial Safety Nets	BCRG and Treasury to confirm the mechanism to provide liquidity assistance to a bank in resolution and the acceptable guarantees.	Significant progress on that topic. The November 2023's mission is the last mission on the Banking Law Amendments which will be adopted in 2024. Missions were in collaboration with workstream on banking law amendments (LEG and MCM).
Central Bank Collateral Framework	Improve the legal basis for the ELA (new Article 18 of the BCRG Statute), by mentioning its short maturity, its high interest rate, conditionality, and situations requiring government's guarantee	One more mission related to the implementation of framework is planned in 2024.

Annex V. External Sector Assessment

Overall Assessment*: The external position of Guinea is assessed as substantially weaker than the level implied by fundamentals and desirable policies. It worsened in 2022 and is expected to continue doing so due to the explosion of the fuel import and storage facility. The current account deficit has deteriorated to 8.6 percent in 2022 and is projected to further fall to 10.6 percent in 2024. There may only be an improvement over the medium term. The real effective exchange rate was overvalued 17.9 percent in 2023 based on a quantitative assessment. This is consistent with the observed appreciation of the Guinean franc against major currencies. Reserves have declined from a generally adequate average of 3.3 months of imports in 2022 to 2.4 months of imports by January 2024. They could fall to 2.0 months of imports by the end of 2024 without financial support from the IMF and others.*

Potential Policy Responses*: Narrowing the current account deficit would require: (i) a fast rebuilding of fuel import and storage facilities; (ii) strengthening domestic revenue, especially from the mining sector; (iii) further development of natural resources, particularly iron-ore from the Simandou project, which would raise exports; (iv) diversifying the economy; (v) modernizing the agricultural sector, developing the agri-food processing industry, and increasing the value-added of Guinea's exports; and (vi) allocating more resources to growth enhancing expenditure, namely infrastructure, human capital and social programs. Continued adherence to the BCRG's rules-based FX intervention policy, which allows for greater exchange rate flexibility, should help avoid further REER appreciation. Reserves would need to be carefully monitored and managed.*

A. Current Account

1. Background. The current account deficit has substantially deteriorated. After current account deficits of more than 15 percent in 2019 and 2020, there was a strong improvement of the deficit to 2.1 percent of GDP in 2021. However, the deficit has deteriorated falling to 8.6 percent of GDP in 2022. Declines in gold and non-mining exports were major driving factors. On the imports side, there was a rise in imports of food, petroleum, and capital goods.

2. Staff expects the current account deficit to deteriorate further to 8.7 percent of GDP in 2023. It could widen to around 10.6 percent in 2024 amid higher costs to import fuels and higher exports to rebuild infrastructure. Thereafter, it is projected to gradually improve over the next couple of years if exports of minerals and other products increase with the expansion of several mines. The exports-to-GDP ratio is projected around 35 percent over the medium term. The economy is expected to stay dependent on exports of mining products, which dominates the balance of risks. A key downside risk is a global slowdown, including in China's construction and manufacturing sectors, which could affect bauxite prices. The Simandou iron ore project is an upside risk.

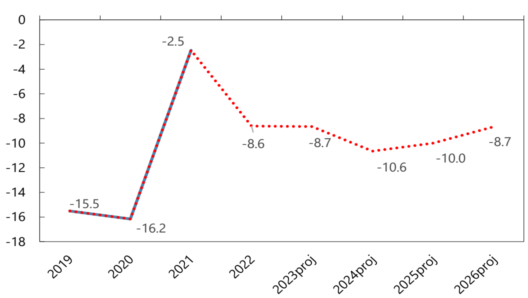
3. Assessment. The external position of Guinea is assessed as substantially weaker than the level implied by fundamentals and desirable policies (Text Table 1). The EBA-lite current account model suggests a current account norm of -3.2 percent of GDP against a cyclically adjusted current account of -8.9 percent of GDP. This implies a current account gap of -5.7 percent of GDP in 2023. The relative policy gap accounts for a large share of the large current account gap. The assessment is qualitatively in line with the assessment at the time of the last ESA (December 2022) when the gap amounted to -2.6 percent GDP for 2021. At the same time, the evaluation has worsened from "weaker" to "substantially weaker", reflecting the widening of the current account deficit since then.

Text Table 1. Guinea: EBA-Lite Model Results, 2023

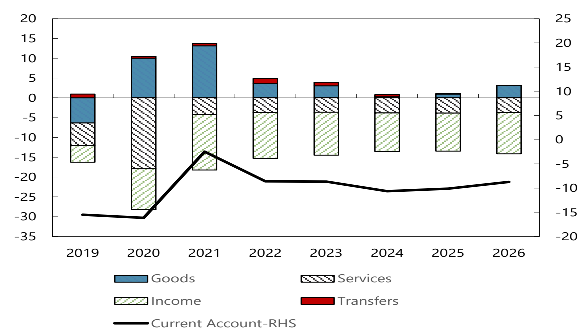
	CA model 1/	**REER model** 1/
	(in percent of GDP)	
CA-Actual	**-8.7**	
Cyclical contributions (from model) (-)	0.2	
Additional temporary/statistical factors (-) 2/		
Natural disasters and conflicts (-)	0.0	
Adjusted CA	**-8.9**	
CA Norm (from model) 3/	**-3.2**	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	**-3.2**	
CA Gap	**-5.7**	**-16.2**
o/w Relative policy gap	4.5	
Elasticity	-0.3	
REER Gap (in percent)	**17.9**	**50.6**

1/ Based on the IMF EBA-lite 3.0 template.
2/ No additional adjustments at this point.
3/ Cyclically adjusted, including multilateral consistency adjustments.

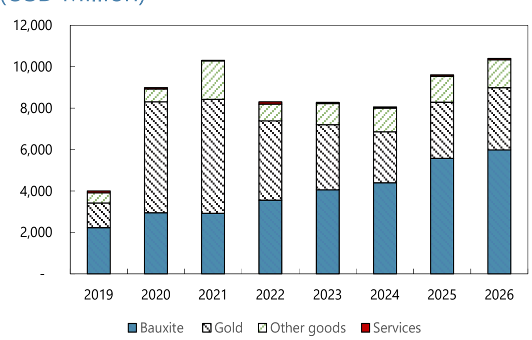
Current Account Balance, 2019-26
(Percent of GDP)



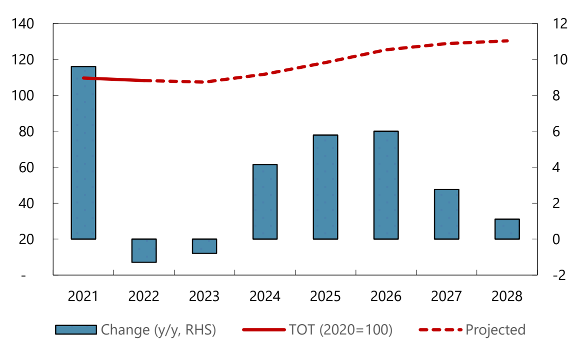
Current Account Components, 2019-26
(Percent of GDP)



Exports of Goods and Services, 2019-26
(USD Million)



Terms of Trade, 2021-28



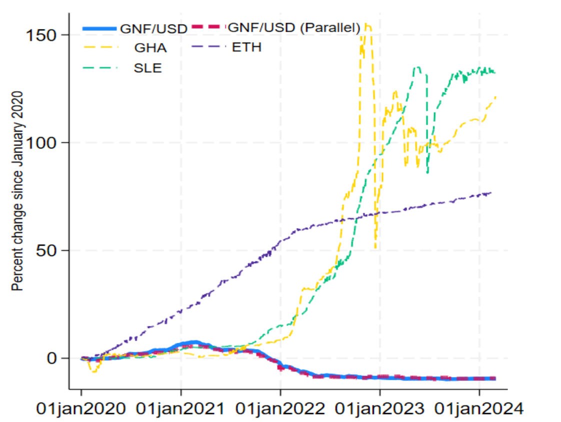
Sources: Guinean authorities; and IMF staff calculations.
Note: Exports of goods and services excludes gold re-exports.

B. Real Exchange Rate

4. Background. Guinea's currency appreciated strongly in 2022. The BCRG's a de-jure exchange rate arrangement is a managed floating regime. Since September 2022 the exchange rate is stabilized within a 2 percent band against the US-Dollar so that the country moved from having a de facto crawl-like to a stabilized arrangement. In 2022, the real effective exchange rate was on average 25.9 percent above 2021 levels. This is a substantial up-tick from the appreciation trend of previous years. The real exchange rate appreciation could reflect several, including the increase in foreign direct investment, the pricing in of further FDI, and the Central Bank of the Republic of Guinea (BCRG)'s gold operations. The country exports artisanal gold that the BCRG re-imports after processing as monetary gold. The real exchange rate strength could lead to a loss of external competitiveness.

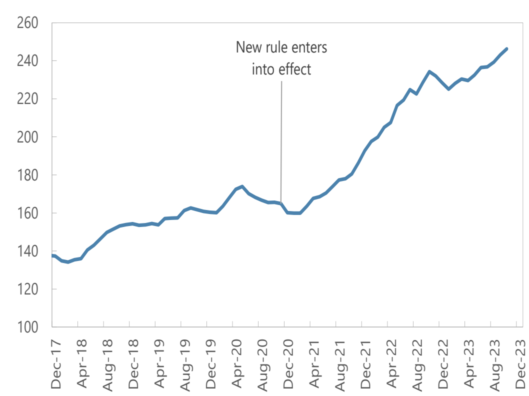
5. Assessment. The real exchange rate is substantially overvalued. Based on the EBA-lite current account model, the overvaluation is 17.9 percent (see Table 1). It amounts to 50.6 percent above its model-implied norm when applying the EBA-lite REER model. The latter model tends to be less accurate than the current account-based model. The divergence between the two models could reflect Guinea's reliance on commodity exports combined with a low share of consumption good imports. This could cause a lower elasticity of the current account to real exchange rate changes.

Nominal Exchange Rates, 2020-24
(Percent)



Last observation: 29/2/2024. SLE=Sierra Leone; GHA=Ghana; ETH=Ethiopia.

REER Index, 2017-23
(2010=100)



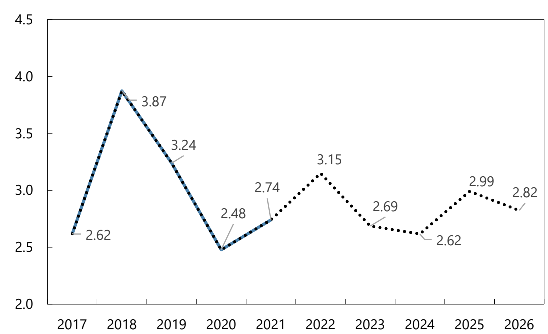
Source: Guinean authorities, Haver Analytics, Bloomberg; and IMF staff calculations.

C. Capital and Financial Accounts: Flows and Policy Measures

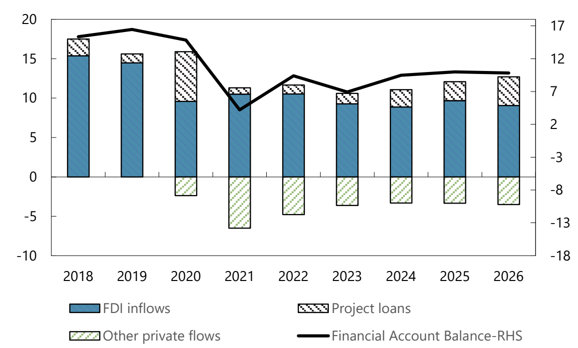
6. Background. FDI and project loans are expected to increase in the coming years due to the rebuilding of the fuel infrastructure. Large investments are proceeding in the mining, electricity, and transportation sectors, notably in bauxite mining. FDI inflows have normalized from peaks in 2017 to 2020 when the Souapiti hydroelectric dam was built. It is expected that strong outflows, probably linked to the mining companies, may continue to moderate the strength of the financial account. An upside risk to FDI is the Simandou iron ore project and its potential economic spillovers.

7. Assessment. Roll-over and liquidity risks seem low. Capital inflows have taken the form of relatively stable FDI and project loans. The overall balance of payments was in surplus in 2022 but moved to a deficit in 2023. As discussed in the DSA, increases in the reliance on non-concessional or less concessional borrowing could lead to higher debt service payments and the emergence of roll-over risks.

Foreign Direct Investment Inflows, 2017-26
(Months of Imports*)



Financial Account Components, 2018-26
(Percent of GDP)



Sources: Guinean authorities; and IMF staff calculations.
Notes: (*) In months of following years' imports, excluding artisanal gold related imports.

D. FX Intervention and Reserves Levels

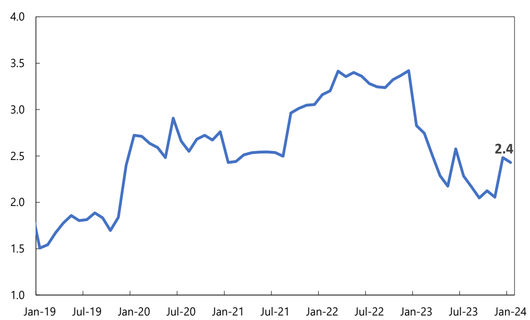
8. Background. The stock of international reserves has continued to grow in 2022 but has deteriorated substantially in 2023. The BCRG was mostly a net buyer since 2021.[1] The government also sold licenses for telecommunication and mining, boosting reserves in the first half of 2022 with reserves peaking at 3.4 months of next year's expected imports in December 2022. However, the country has experienced net outflows since, and reserves have declined and reached a trough of 2.1 months of expected imports as of November 2023. The main reason is that the BCRG guaranteed operations by the national petroleum company *Société Nationale des Pétroles* (SONAP) to import fuels during a period of elevated international oil prices. In December 2023, reserves experienced an uptick. They are at 2.4 months of expected imports as of the end of January 2024. One driver of the improvement is that the BCRG phased out its use of guarantees for oil imports. The effective implementation of the regulation requiring to repatriation of parts of the mining revenues also supported reserve accumulation. In the outlook, reserves are estimated to increase slightly to 2.6 months of expected imports in 2027 amid exports rising slightly faster than imports. However, reserves are subject to downside risks. They could further decline due to the fallout from

[1] Beyond market operations, the BCRG also accumulates reserves per non-market operations as a financial agent of the Treasury. Another channel is the accumulation of gold reserves from Guinea's own domestic production. For a more detailed discussion of the policy see IMF Country Report No. 20/316.

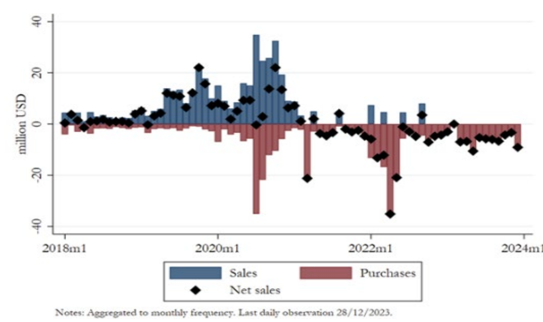
the explosion of the fuel storage and import facility, the inflows from repatriation could prove volatile, and the BCRG guarantee for fuel imports could become necessary again in the case of higher international oil prices. Even assuming financial support from the IMF and others, reserves are projected to decline to 2.2 years of imports at the end of 2024.

9. Assessment. Guinea's reserves have generally been broadly adequate for precautionary purposes but have become a matter of concern recently. Adequate reserves are particularly important for countries that are resource-rich and rely on large investment projects. Staff recommends minimum reserves of 3.3 months of imports for African countries as a benchmark based on several matrixes.[2] The latest available data point suggests 2.4 months of imports in January 2024 with downside risks. Staff recommends rebuilding the reserves in the short run.

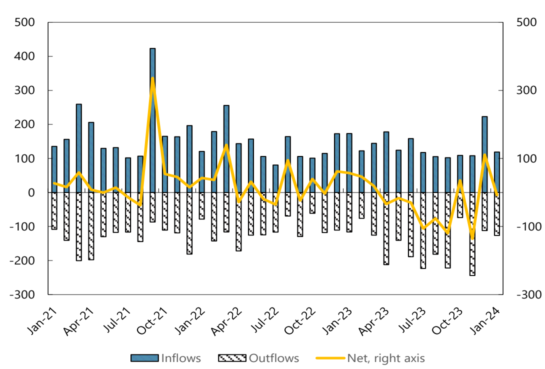
Gross International Reserves, 2019-24
(Months of Imports*)



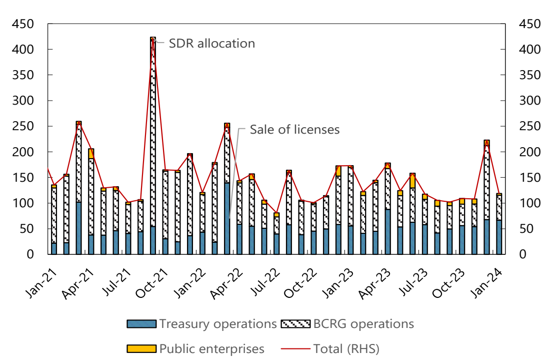
BCRG Activity on its Bilateral FX Market
(USD Million)



BCRG's Reserve Creating Flows, 2021-24
(USD Million)



Reserve Accumulation, 2021-24
(USD Million)



Sources: Guinea authorities; and IMF staff calculations. Note: (*) In months of following years' imports, excluding smuggled artisanal gold imports.

[2] This assumes the availability of Fund support, a fixed exchange rate regime, and a cost of reserves of 6 percent. See Dabal-Norris et al (2011) https://www.imf.org/external/pubs/ft/wp/2011/wp11249.pdf. The Fund's Reserve Adequacy Assessment tool suggests 7.1 months of current imports for resource rich countries with a fixed exchange rate regime.

Annex VI. Risk Assessment Matrix

Risks	Likelihood	Expected Impact if Realized	Policy Response
Conjunctural Shocks and Scenarios/Global Risks			
Intensification of regional conflicts. Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	High	**Medium** Trade disruption (e.g., energy, food, tourism, and/or critical supply chain components) could lead to an increase of inflation, a worsening of food security, a volatility of export earnings. Financial flows disruption could delay the execution of socio-economic infrastructure projects.	Intensify structural reforms to remove bottlenecks to growth and support economic diversification. Create fiscal space to scale up priority spending.
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts, export restrictions, and OPEC+ decisions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, cross-border spillovers, and social and economic instability.	High	**High** Persistent volatility in world prices for aluminum, gold or iron could reduce investment, production, and exports in the mining sector, slowing GDP growth and reducing government revenues.	Allow exchange rate to buffer external price shocks. Conditioning the sale of reserves to the rule-based FX intervention policy.
Abrupt global slowdown. Global and idiosyncratic risk factors cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation triggering sudden stops in EMDEs. **China:** Sharper-than-expected contraction in the property sector weighs on private demand, further amplifies local government fiscal strains, and results in disinflationary pressures and adverse macro-financial feedback loops.	Medium	**High** Persistent slowdown in the Chinese economy could have a significant negative impact on the mining sector, given Guinea's dependence on mining exports.	Intensify structural reforms to remove bottlenecks to growth and support economic diversification.
Structural Risks			
Extreme climate events. Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	Medium	**Medium** Rising sea level, extreme precipitation, flooding and drought could affect food production and livelihoods, worsening already chronic food insecurity.	Build the country's resilience for adaptation to climate change in the agriculture and rural livelihoods. Implement the recommendations of the 2023 C-PIMA mission.

Risks	Likelihood	Expected Impact if Realized	Policy Response
Domestic Risks			
Risks of political and social instability. Non-mining recovery could be delayed by social unrest.	**High**	**Medium** Investment and growth could be affected. macroeconomic stability could deteriorate.	Improve social dialogue and inclusiveness of government policies.
Extended fuel shortages. The fuel shortages could turn out to be prolonged in case the temporary solutions are less effective and the construction of the new depot takes longer than expected.	**Medium**	**High** Investment and growth could be affected. Macroeconomic stability could deteriorate. Political unrest.	Rapid restoration of fuel import and storage infrastructure.
BCRG's monetary policy miscalibration. Amid high economic uncertainty, BCRG loosens policy stance prematurely, hindering disinflation, or keeps it tight for longer than warranted, causing abrupt adjustments in financial markets and weakening the credibility of BCRG.	**Medium**	**Medium** In case of premature loosening, inflation (particularly food inflation) could spike, worsening food insecurity and vulnerable people conditions. In case of longer-than-warranted tightening, economic growth could slow down.	Implement prudent monetary policy (avoiding abrupt loosening). Scale up investment in agriculture (irrigation, producers training, etc.) Reduce gradually untargeted subsidies on fuel and energy to create fiscal space for priority spending, including widening the social safety net. Take a data-dependent approach for monetary policymaking to reduce the risk of miscalibration.
Intensified sovereign-bank nexus. Due to the banks' high exposure to government securities (up to 28 percent of total assets in October 2023, from 21.6 percent one year earlier), a sudden weakening in the government's balance sheet could result in a large loss in banks' balance sheet, triggering the "doom loop".	**Medium**	Inflation through monetary financing could spike and private sector credit crowd out exacerbated.	Keep monetary financing under its limits and step-up government securities market development.
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.			

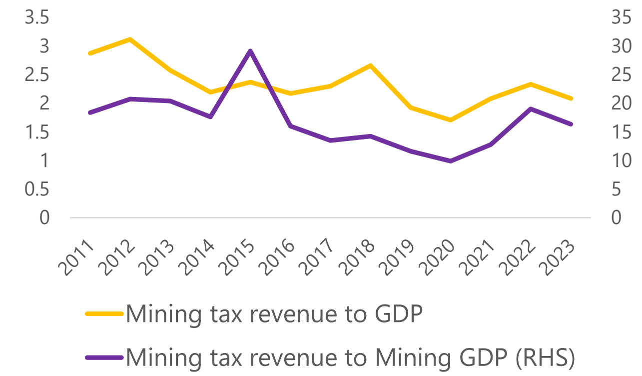
Annex VII. Assessing Mining Revenue Losses

Mining revenues have been lower than expected due to transfer mispricing and tax exemptions. Annual revenue losses for 2019-20 are tentatively estimated at 2¼ percent of GDP, of which 1.7 percent of GDP could be recuperated through strengthened tax audits, to ensure that mining companies declare the actual sale prices.

1. The contribution of the mining sector to domestic revenue has been low and is on a declining trend. Mining tax revenue (mainly in the forms of corporate income tax, extraction tax, export tax, dividends to the government, and contributions to local development) declined from around 3 percent of GDP in 2010-2012 to 2.1-percent of GDP in 2023. Mining tax collection did not keep pace with the strong mining sector growth especially since 2016. This development reflects both tax exemptions and the shifting of profits through transfer mispricing and thin capitalization schemes.

Text Figure 1. Guinea: Mining Tax Revenue Developments, 2011-23

(Percent)



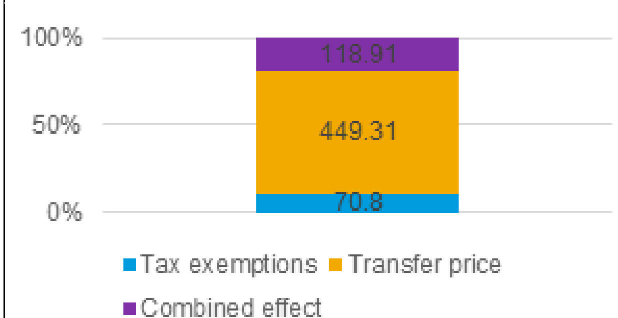
Source: Guinean authorities; and IMF staff calculations.

2. The authorities are implementing the decree adopted in July 2022 aimed at containing transfer mispricing by bauxite companies. The decree sets the reference price for the FOB export price for Guinea's bauxite, based on the CBIX index for the sale price of bauxite delivered in China. Prices below the reference price can be used if they are justified to tax administration by proper documentation (Box 1). A major goal of this framework is to create an opportunity for dialogue on price between the authorities and the companies.

3. The authorities have started to estimate the loss of revenue stemming from tax exemptions and transfer mispricing. With the help of Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development (IGF), the authorities computed the bauxite reference price for the last quarter of 2022 in the range of US$38.5-54.6 per metric tonne, compared to an export price of less than US$15 declared by some operators prior to the 2022 decree.

Estimated Revenue Loss, 2019-20

(In million dollars)



While the declared bauxite price following for 2022 decree has increased, available data for the last quarter of 2022 suggests that companies did not comply with the reference price, with mispricing rates between 11 percent and 38 percent.

Box 1. Implementation Status of the 2022 Decree on the Reference Price for Bauxite

In July 2022, the authorities adopted a decree aimed at minimizing mining revenue losses by increasing transparency of transactions and containing transfer mispricing by bauxite companies. The decree, drafted with Fund technical assistance, sets a formula determining the market price for the FOB export price—"reference price"—for Guinea's bauxite, based on the CBIX index for the sale price of bauxite delivered in China. Prices below the reference price can be used if they are justified to tax administration by proper documentation. The reference price decree was later complemented by the inclusion in the 2024 budget law of the obligation for mining companies to declare sale prices.

After the first two-month grace period, in which the decree was explained to mining companies, the authorities began to apply the decree in September 2022. With the help of Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development (IGF), the authorities computed bauxite reference prices for the last four months of 2022. While the declared bauxite prices increased after the decree, they remained below the computed reference prices, suggesting that mining companies did not fully comply with the decree.

An intergovernmental committee established to monitor the implementation of the reference price decree estimated a potential misreporting by bauxite companies on the turnover by some $580 million over the last four months of 2022. The tax department plans to conduct tax audits on these companies, while it is awaiting the report for the full year implementation of the decree in 2023. The CIT returns for 2023 expected in April 2024 will be an opportunity to have a better evaluation of the implementation of the decree.

According to the tax department, the significant revenue potential expected from the application of reference price decree has not yet materialized, due mainly to the following enforcement constraints:

- The limited access to the database on bauxite prices. The tax department no longer has access to this database, which used to be provided by GIZ. Continued access to this database is crucial to calculating an adequate reference price.
- Staff capacity constraints. To conduct meaningful tax audits, staff of the tax department needs to increase capacity in analyzing the financial accounts of mining companies.

In addition, there is a risk of mining companies mis-reporting the quality and quantity of bauxite exports, which would require the surveyors employed by the mining companies. The National Geology Laboratory in charge of measuring and certifying the quality was instrumental in that respect, however it was seriously damaged by the gasoline deposit explosion. Repairing the damage and strengthening quality controls would help to further ensuring that mining revenues do not fall behind mining export growth.

Further IMF capacity development on revenue administration would be instrumental in helping the authorities to strengthen implementation. The following areas:

(i) International taxation: In coordination with IGF/OECD, provide support on the effective implementation of the reference price, broader transfer pricing issues and treaty/withholding tax abuses, as well as tax auditing of mining companies.

(ii) Financial monitoring: Resume the work on the financial monitoring of mining projects would help both for revenue forecasting and for identifying tax risks for tax audits.

4. Revenue losses were estimated for 2019-2020 for 12 companies (9 in the bauxite sector and 3 in the industrial gold sector) for which data was available.[1] These companies were classified under two categories of conventions: (i) 8 conventions pre-dating the 2013 mining code;[2] and (ii) 4 conventions signed after the 2013 mining code. Estimates were based on the plausible assumptions on costs and prices in Text Table 1.

Text Table 1. Guinea: Key Assumptions for Estimating the Mining Revenue Losses, 2019-20

Variables	Units	2019	2020
Deductible costs			
Bauxite	US$ per tonne	18.0	18.0
Alumina	US$ per tonne	250.0	250.0
Gold	US$ per oz	1,206.0	1,397.0
Prices			
Bauxite	US$ per tonne	32.0	30.0
Alumina	US$ per tonne	326.9	484.4
Aluminum	US$ per tonne	1,794.5	1,704.4
Gold	US$ per oz	1,392.5	1,770.3

Source: Guinean authorities

5. Potential revenue losses are substantial. Revenue losses for 2019-2020 were tentatively estimated at around US$640 million,[3] namely US$ 275 million in 2019 (2.0 percent of GDP) and US$364 million in 2020 (2.6 percent of GDP).[4] The loss reflects (i) US$ 448 million due to potential transfer mispricing; (ii) US$ 71 million due to tax exemptions;[5] and (iii) US$118 million due to the revenue loss from transfer mispricing on tax-exempted operations.[6] The estimated annual revenue loss due to potential transfer mispricing (some 1.7 percent of GDP) could be recovered through strengthened tax audits and strict application of the 2022 decree on the reference price for bauxite. Given that the market price for bauxite used in the authorities' calculations appears lower than the reference price computed for 2022, the revenue loss from bauxite may be higher.

[1] These estimates were conducted under the leadership of the economic and fiscal advisor of Ministry of Mines and Geology.

[2] Article 4 of the 2013 mining code provided a transition period in which amendments to the previous conventions would be "negotiated" with the government.

[3] Half of this potential revenue loss (US$330 million) is imputed to only one major bauxite company. The potential loss is due to an undervalued sale price of US$ 12 per metric ton.

[4] The following taxes are considered in the calculations: the CIT (30 percent), the contribution to local development (0.5 percent of turnover), the extraction tax/the export tax (0.075 percent of the bauxite price based on the LME aluminum price), dividends to the government (15 percent participation), and the withholding tax on dividends (10 percent).

[5] The revenue loss on tax exemptions is due mainly to tax holidays on the corporate income tax. The revenue loss on industrial gold results only from tax exemptions, not from the undervaluation of export prices.

[6] These calculations, made using some assumptions notably on costs and the quality of bauxite, need to be compared with actual information in the tax returns submitted by mining companies to determine the actual revenue loss.

6. The authorities should strengthen the monitoring of tax exemptions and enhance enforcement in case of noncompliance. While the stabilization clause forbids the unilateral change of the terms in the contract, the government can still conduct an audit of tax exemptions to: (i) ascertain that mining companies have respected their contractual obligations; (ii) assess whether the reasons underlying the granting of tax exemptions are still valid; and (iii) ensure that tax exemptions are not automatically renewed at their expiration (for example, holidays period time or clauses allowing full interest deductibility). The authorities should also refrain from granting tax exemptions outside the mining code.

7. The artisanal gold sector is mostly untaxed. In 2022, the government introduced a tax of $200 per kilo on individual gold exporters (the 1 percent export tax was suspended in 2016). However, due to informal gold trading with neighboring countries, the tax was reduced to $50 per kilo. Artisanal production declined from 40 tonnes in 2021 to 35.2 tonnes in 2022 and 29.1 tonnes in 2023 The authorities are establishing a survey of artisanal gold mining, an important step towards a broader strategy to formalize the sector and improve its taxation. An electronic data base of artisanal gold miners will be established in 2024 with support from GIZ, based on a survey conducted by INS.

Annex VIII. The Potential Impact of the Simandou Iron Ore Project on the Economy, Poverty and Inequality in Guinea

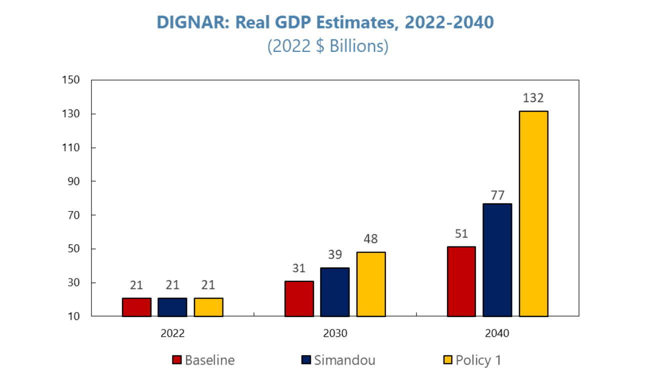
The Simandou iron ore mining project could potentially change Guinea's economic trajectory. We combine two IMF models (DIGNAR and MIMMI) to assess the project's potential medium and long-term economic and social impact. If production began in 2025, the level of real GDP would be 26 to 55 percent higher by 2030, depending on how potential tax revenues are spent. This is compared to a baseline scenario without the project. Spending the potential tax revenues on education and infrastructure could result in higher growth and stronger poverty reduction. This annex summarizes the Staff's Selected Issues Paper with the same title.

1. **Guinea is a resource-rich country with high poverty and a lack of education.** The mining sector accounted for 21 percent of GDP in 2022 and over 90 percent of exports. The country's exports are dominated by bauxite and gold. At the same time, about 43 percent of Guinean households live below the poverty line. Only 45 percent of the adult population is literate. Public spending on education is lower than the average of both Sub-Saharan and low-income countries.

2. **The Simandou project could become the largest iron ore mining project in the world.** The production could total almost 120 million mt after completion and would double the value of Guinea's current mining exports according to Rio Tinto. The project could make the country the fifth largest producer of iron ore in the world. Development is being undertaken by international companies based on private investments totaling about US$20 billion until 2030. First production is planned for the end of 2025, but it is possible that the timeline gets delayed.

3. **The Selected Issues Paper assesses the potential economic and social impact. We** employ the IMF's Debt, Investment, Growth, and Natural Resources (DIGNAR) model to assess the medium-term macroeconomic impacts of the Simandou project. The IMF's Multi-Sector Macro-Inequality Model (MIMMI) analyzes the impact on poverty and inequality over the long term.

Text Figure 1. Guinea: Estimates for the Real GDP Level Without and With the Simandou Project, 2022-40



Source: IMF staff estimates. Note: Policy 1: Additional public investment equivalent to 3 percent GDP from 2025 onwards.

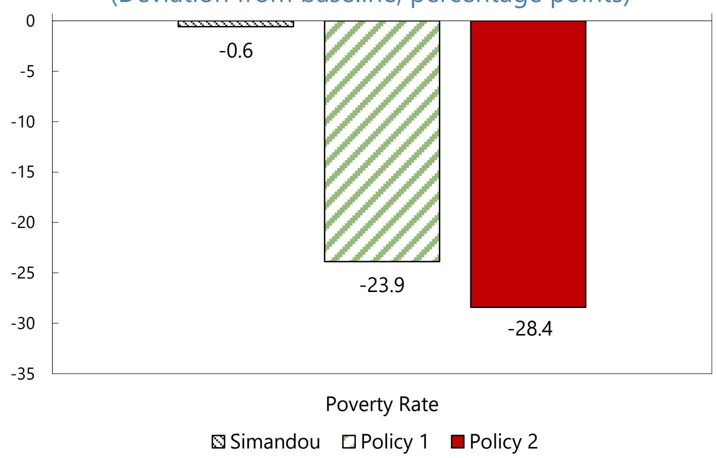
4. **The Simandou project could have a significant impact on the Guinean economy.** The level of real GDP could be 26 to 55 percent higher by 2030 compared to the baseline without Simandou (Text Figure 1) depending on policies. The project could induce a currency appreciation of around 3 to 5 percent in 2025 and 2 to 4 percent in 2030. Employment could increase by about 4 to 10 percent in 2030. The lower bound estimates assume that tax revenues from the project equivalent to 3 percent of GDP would be spend on

consumption, whereas the upper bound estimates presume that they are used for general public investment.

5. Public expenditure on education and infrastructure reduces poverty the most. Investing tax revenues equivalent to 3 percent of GDP into infrastructure could lower the poverty rate by 24 percent points, as infrastructure created positive spillovers to other sectors (Text Figure 2, Policy Scenario 1). Combining public investment in education with infrastructure reduces poverty even more, because it supports productivity growth of the workforce (Text Figure 2, Policy Scenario 2).[1]

Text Figure 2. Guinea: Long-Run Impact of the Simandou Project on Poverty

(Deviation from baseline, percentage points)



6. Spending tax revenues on a mix of education and infrastructure could boost productivity. Education increases labor productivity and, thus, income and long-run GDP. Among others, the authorities could target measures to promote girls' education. School canteen programs, one of the FSW-funded interventions, could also be broadened and made permanent. In addition, well-targeted spending on social protection would also serve to reduce poverty. To this end, tax exemptions for the iron ore mining companies should be limited, and a fair export price applied, especially for firms of the same holding company. A transfer pricing reform - like the one implemented for bauxite - could be explored. The authorities should strengthen the customs authorities' capacity to control mining exports. The IMF stands ready to support the authorities.

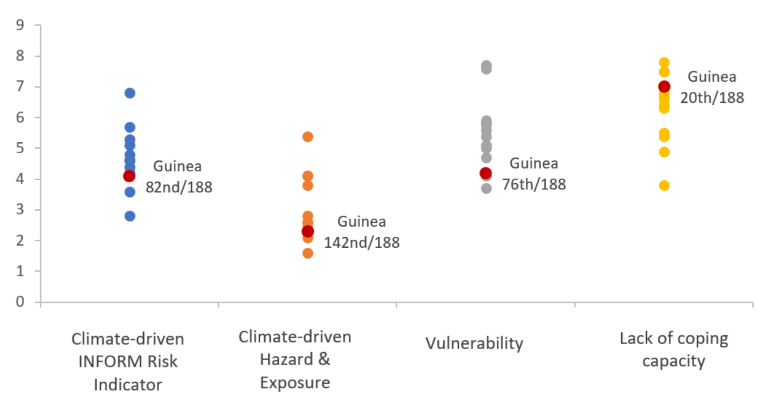
[1] Quality education, clean water and sanitation, affordable and clean energy, and industry innovation and infrastructure are four out of ten sustainable development goals, where major challenges remain in Guinea according to Sachs et al (2023). IMF staff research also shows that investments in infrastructure, education and social protection interventions have the highest impact on growth, poverty, and equity in Guinea (IMF Country Report No. 23/43, Annex VI).

Annex IX. Natural Disasters and Climate Policies in Guinea[1]

Natural disasters (especially floods) have become more frequent and severe in Guinea, and its large mining sector might increase emissions significantly over time. Simulations show that ex ante resilience investment, financed by grants and complemented with public investment efficiency reforms, yields best macroeconomic outcomes after natural disasters. Accelerating the implementation of recent TA recommendations on C-PIMA, as well as improving the collaborations between Ministry of Environment and other project planning/implementation ministries, are crucial for enhancing the country's resilience. The authorities should also reduce emissions from the agriculture sector, slow down or reverse deforestation, and continue their ongoing efforts to mitigate emissions while ensuring the sustainable expansion of Guinea's renewable energy sector.

1. Building resilience against erratic rainfalls and higher temperatures, as well as mitigating emissions, are macro-critical for Guinea. While Guinea's historical exposure to natural disasters and climate change is relatively moderate (Text Figure 1), natural disasters (especially floods) have become more frequent and severe, and Guinea's capacity to cope with such natural disaster risks is among the lowest. Moreover, although Guinea is currently a small carbon emitter, its large mining sector might push up its emissions significantly over time, whereas its large hydropower potential provides a great opportunity for mitigating emissions due to the country's rich water resources (possessing one of the highest hydroelectric potentials in West Africa).

Text Figure 1. Guinea: Climate Vulnerability and Coping Capacity in Guinea and West Africa (2022)



Source: INFORM Risk; IMF Climate Change Indicators Dashboard, staff calculations.
Index: Scale from 0-10. The higher the indicator the higher the risk.
Each dot represents a West African country (Benin, Burkina Faso, Cabo Verde, Côte d'Ivoire, The Gambia, Ghana, Guinea, Liberia, Niger, Nigeria, Senegal, Sierra Leone, Togo).

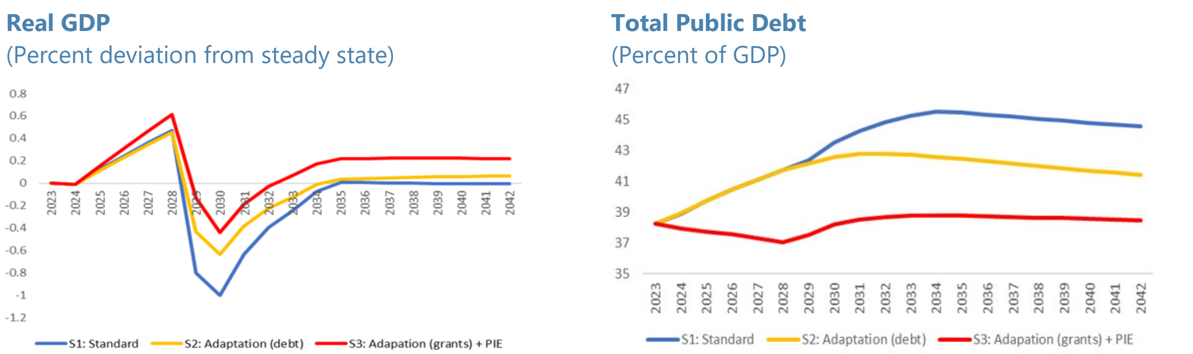
2. This annex focuses on adaptation issues in Guinea, while providing a data-driven and largely descriptive analysis of the mitigation issues. In addition to examining Guinea's exposure to natural disasters, the annex simulates their macroeconomic effects, presents the financing gap for achieving resilience to natural disasters, and explores options for closing the financing gap using the

[1] This annex summarizes the accompanying Selected Issues Paper and is prepared by Aristide Medenou (AFR), Ha Nguyen (ICD), Miguel Eduardo Otero Nule (AFR), Azar Sultanov (RES), Tolga Tiryaki (ICD), and Yunhui Zhao (SPR).

IMF's Debt, Investment, Growth, and Natural Disasters (DIGNAD) model.[2] The annex then provides an overview of Guinea's emission patterns using the IMF's newly developed Machine Learning Toolbox for Climate Policy Analysis,[3] and some descriptive analysis of the hydropower sector.

3. *Ex ante* resilience investment, financed by grants and complemented with public investment efficiency reforms, yields best macroeconomic outcomes after natural disasters. The annex simulates three scenarios: Scenario 1 assumes an additional 1 percent of GDP[4] investment on standard infrastructures between 2024 and 2028, financed by concessional debt; Scenario 2 assumes an additional 1 percent of GDP investment on resilient infrastructures instead, also financed by concessional debt; and Scenario 3 assumes that the resilient investment is instead financed by grants, and that public investment efficiency (PIE) reforms are implemented, leading to an increase in the PIE by 20 percentage points. All scenarios assume that the same natural disaster hits in 2029. As shown in Text Figure 2, Scenario 3 yields the best outcomes: after the disaster, thanks to the *ex ante* investment in resilient infrastructures and the improvement in investment efficiency, the economic damage and the required *ex post* reconstruction investment are low. Moreover, because the *ex ante* investment in resilient infrastructures is financed by grants rather than debt in Scenario 3, public debt increases by the least after the disaster, in both the short and the long run.

Text Figure 2. Guinea: Simulated Macroeconomic Outcomes After Disasters



Source: IMF staff.

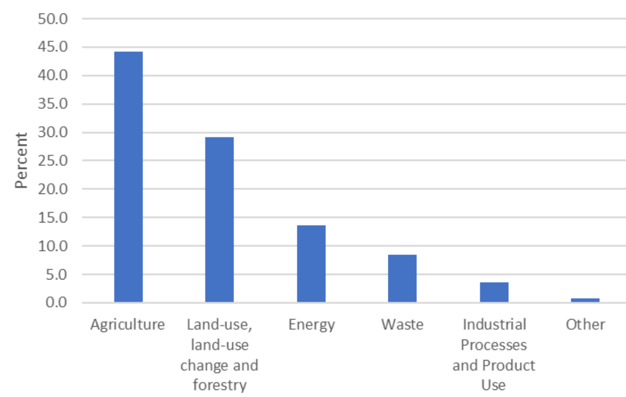
[2] The DIGNAD model has been used by IMF staff for some other countries, including Rwanda (2022), Seychelles (2023), and Kenya (2023), in the context of the Resilience and Sustainability Trust.

[3] The tool was developed in the context of the Climate Innovation Challenge and launched in the 2023 Annual Meetings in Marrakech, Morocco. More details are available here.

[4] For low-income and developing countries, the IMF estimates adaptation costs will exceed 1 percent of GDP a year (Georgieva, 2022). For simulation purposes, a 1 percent value is used. Moreover, we intend to capture the impact of a hypothetical, reasonably large natural disaster for Guinea. We use the 1 percent because it is widely used in the literature for capturing large natural disasters. In the case of Western Africa, the large floods caused damages of 1.59 percent and 1.96 percent percent for Burkina Faso (2009) and Niger (2012), respectively.

4. Guinea's greenhouse gas (GHG) emissions mainly come from the agriculture and land-use, land-use change and forestry (LULUCF) sectors,[5] followed by the energy sector. The top two sectors' GHG emissions accounted for 73.4 percent of the total in Guinea in 2022 (Text Figure 3), reflecting the high methane emissions from agriculture and negative consequences of deforestation. The energy sector also contributed to 13.7 percent of the total GHG emission in Guinea. Note that our subsequent analysis focuses on CO2 emissions because the MLCPA climate tool was designed to be applicable in a cross-country setting, where (valid) CO2 data are available for more countries than the GHG data. The share of CO2 emissions in the total GHG emissions averages at 45.3 percent from 2000 to 2022,[6] and we will delegate the analysis of non-CO2 GHG emissions to future studies.

Text Figure 3. Guinea: Sectoral Decomposition of Guinea's GHG Emissions (2022)



Sources: [IMF Climate Change Dashboard](); IMF staff.

5. Guinea's annual CO2 emissions have experienced a broadly increasing pattern since 1965, with a dramatic acceleration in 2014. Throughout the past half a century, the annual CO2 emissions in Guinea have only experienced one mild downward trend shift in 1981 and another short-lived downward trend shift in 2011 (Text Figure 4). Moreover, important global climate initiatives, such as the 1992 United Nations Framework Convention on Climate Change and the 2015 Paris Agreement, were not associated with downward trend shifts in Guinea's emissions, consistent with the grave challenge of climate change faced by all countries. Instead, since 2014, emissions in Guinea have increased much faster than before, although the level of emissions still stays relatively low.

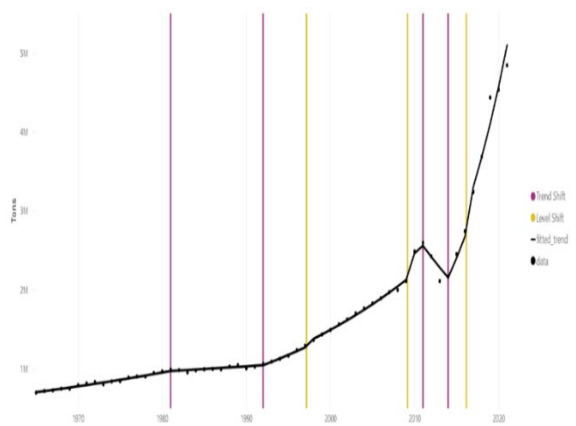
6. The share of hydropower in the energy mix has been high and has increased further in recent years. The share of electricity generated with hydro and marine powers[7] stayed above 60 percent since 2016 and increased dramatically to 87 percent in 2021 (the year with the latest data) (Text Figure 5). Together with the 1 percent from solar power, the share of electricity generated by renewable energies accounted for 88 percent in 2021. The Souapiti Dam, with a capacity of 450 MW, plays a significant role in Guinea's renewable energy landscape. It is part of a broader initiative to exploit the country's hydroelectric potential and is complemented by some other dams.

[5] These sectors are also covered by the mitigation strategy of Guinea's Nationally Determined Contribution plan.

[6] Calculated based on the IMF Climate Change Dashboard.

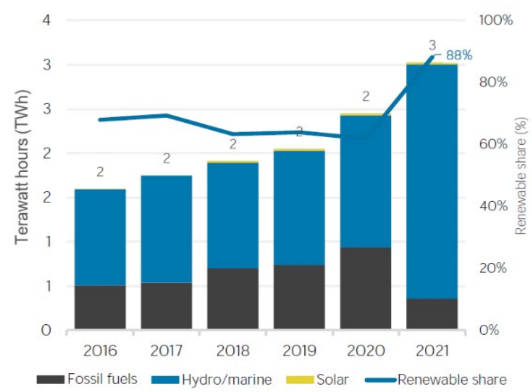
[7] Marine power is the energy carried by ocean waves, tides, salinity, and ocean temperature differences.

Text Figure 4. Guinea: Structural Breaks for Guinea's CO2 Emissions (1965-2021)



Sources: Global Carbon Project, IMF staff.

Text Figure 5. Guinea: Electricity Generation Trend in Guinea (2016-21)



Sources: International Renewable Energy Agency (2023).

7. In terms of adaptation, a comprehensive policy package is needed to facilitate early investment in resilience infrastructures *ex ante*. Guinea's National Adaptation Plan would cost at least US$14 billion (more than 70 percent of 2021 GDP) to implement over the medium term (authorities' estimate; see IMF, 2023). Tapping grants, "windfall revenues" (such as those from Simandou), and other financing sources at concessional terms for resilience investments are crucial in preserving medium-term debt sustainability. These efforts should also be accompanied by reforms to raise public investment efficiency. Moreover, accelerating the implementation of recent TA recommendations on C-PIMA and climate budgeting, as well as enhancing the collaborations between Ministry of Environment and other project planning/implementation ministries, are crucial.

8. In terms of mitigation, the authorities should continue their ongoing efforts while ensuring the sustainable expansion of Guinea's renewable energy sector. These include signing and enforcing the climate executive decree, engaging with multilateral partners to design and implement carbon pricing (including Emission Trading System), reducing emissions from the agriculture sector, slowing down or reversing deforestation, as well as promptly completing the compilation of granular climate data. The authorities should accelerate the completion of the transmission infrastructure to fully utilize the production capacity of Souapiti and other hydropower dams, as well as enhance Souapiti's commercial viability. They should also continue the ongoing venturing into solar energy to further diversify Guinea's energy mix,[8] while avoiding over-capacity in its domestic market through thorough feasibility studies and market analyses.

[8] Guinea has a large solar power potential. The first solar power (Khoumagueli, 40 MW) is being developed and, with donor support, the authorities plan to organize a competitive procurement scheme to deliver an additional 100 MW of solar. According to AfDB (2021), to keep up with demand, Guinea will need to add 600 MW of solar capacity to the generation fleet by 2030.

Annex X. Capacity Building

1. Capacity Development (CD) priority areas are aligned with the authorities' reform agenda under the transitional government's draft 2022-2025 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 mining revenue, strengthening public financial management and public investment management, strengthening the governance framework including AML/CFT, reducing fiscal risks, strengthening the monetary policy framework while improving banking supervision, and improving collection and dissemination of macroeconomic and financial statistics.

2. The authorities' commitment to the implementation of CD recommendations is hampered by capacity constraints. The CD strategy aims to ensure adequate integration of CD recommendations with policy advice in the context of surveillance. 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.

3. The main CD priorities and objectives are summarized in Table 1.

Table 1. Guinea: CD Priorities and Objectives	
Priorities	**Objectives**
Monetary Policy	• Finalizing the amendments of the BCRG Law to strengthen its governance and oversight autonomy provisions and enhance its decision-making structures. • Enhance BCRG's financial stability function and establish a framework for financial stability surveillance. • Improve BCRG's liquidity management and forecasting. • Support the modernization of the monetary policy framework.
Public Financial Management	• Enhance the capacity of the Ministry of Finance to plan, implement and sustain PFM reforms. • Improve public investment execution, controls, and transparency. • Expand the coverage of the Treasury Single Account. • Strengthen capacity to manage fiscal risks arising from public autonomous entities and PPP. • Improve budget preparation, including the introduction of program budgeting. • Improve PIM including climate considerations and investment multiyear budgeting (AE/CP). • Introduce climate and gender in public financial management.
Revenue Administration	• Expand digital tax management to all taxpayers. • Match tax and customs databases. • Apply a risk-based approach to detecting non-compliance. • Develop a medium-term strategy to prioritize revenue administrative reforms. • Strengthen the management, governance arrangements and the core functions of the tax administration, building on the recently concluded Tax Administration Diagnostic Assessment Tool (TADAT) • Strengthen the core functions of the customs administration.
Debt Management	• Support the development and the functioning of the government debt market. • Strengthen debt management capacity, including by improving the formulation and implementation of a sound medium-term debt management strategy. • Improve the debt management institutional framework.
Tax Policy	• Conduct an audit of tax exemptions in the mining sector to support revenue mobilization. • Enforce the existing transfer pricing mechanism in the mining sector, with an emphasis on bauxite. • Draft and adopt implementation texts of the new Tax Code.
Expenditure Policies	• Improve the quality of expenditure via a reduction in regressive subsidies. • Assess the cost for reaching the SDGs in the areas of education, health, and infrastructure (roads, electricity, water/sanitation).
Government Finance Statistics	• Finalize the migration of budgetary central government statistics to GFSM 2014. • Produce the consolidated TOFE of the general government. • Produce the budgetary central government's statement of operations, the statement of sources and uses of cash, the financial balance sheet, and the statement of debt. • Sensitize the authorities on the importance of public finance statistics in evaluating fiscal policies.
External Sector	• Improve the quality of BOP statistics, particularly on imports, the financial account, and the artisanal gold sector. • Improve mining sector data quality in external sector statistics.

Table 1. Guinea: CD Priorities and Objectives (concluded)	
Priorities	**Objectives**
Real Sector Statistics	• Improve the timeliness of publication of real sector statistics. • Finalize the national accounts rebasing project and develop quarterly national accounts estimates. • Improve mining (artisanal gold) and non-mining sector data collection/dissemination. • Develop more high-frequency indicators (including the producer price index); improve source data on gold exports.
Data Transparency and Dissemination	• Strengthen performance under the e-GDDS and take actions to advance toward the SDDS.
Governance and Anti-Corruption	• Implementation of the asset declaration regime. • Implementation of risk-based AML/CFT supervision. • Strengthening the capacity of the financial intelligence unit (FIU) • Amending the BCRG law.
Macro Frameworks	• Support the development of macro models and forecasting tools in the Ministry of Planning and the Ministry of Finance to strengthen policy analysis and decision making.
Frameworks for Crisis Management, Bank Resolution, and Safety Nets	• Building on the amendments in the banking law, TA will be provided to implement the special bank resolution regime. The TA will provide capacity development and advise the BCRG on resolvability analysis and the drafting of resolution strategies.
Emergency Liquidity Assistance	• Operationalize the ELA framework.

Appendix I. Letter of Intent

MINISTRY OF ECONOMY AND FINANCE (MEF)	CENTRAL BANK OF THE REPUBLIC OF GUINEA (BCRG)

Conakry, Guinea
May 6, 2024

Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Madam Managing Director:

1. **During the night of December 17 to 18, 2023, a fire broke out in the Republic of Guinea's main oil depot, located in the Kaloum district of Conakry.** Twenty-four people were killed in the fire, 454 others were injured, some 2,141 households were affected, and numerous people were displaced. As well, the technical facilities of the Guinean Oil Company (SGP) and public and private buildings located in the area, including homes, were destroyed. Under the protective and security measures taken by the government, gas stations and schools were closed and work was stopped in the public and private sectors, especially in the Kaloum district, for three weeks starting on December 19, 2023. More broadly, the movement of persons and goods and agricultural products was significantly impacted throughout the country.

2. **The fire had severe economic and social consequences.** All economic sectors were disrupted. Guinea's balance of payments could be adversely affected as a result, given the increase in costs related to the implementation of new oil supply channels from neighboring countries and the risk of a slowdown of Guinea's exports. Our growth forecasts for 2024 have been revised downward 1.6 percent and inflation is expected to increase by 3.2 percentage points to 11 percent in 2024. The fiscal deficit could reach 3 percent of GDP in 2024, with a deterioration of the current account of 10 percent of GDP also expected, along with a decline in the foreign exchange reserves to 2.5 months of imports.

3. **In this context, we are requesting emergency financial assistance equivalent to 25 percent of our quota, or SDR 53.55 million, in the form of budgetary support.** We consider an emergency disbursement to be essential to shore up the budgetary resources needed to respond to the devastating effects of the fire. Public expenditure will rise owing to the assistance provided to those affected by the fire, the gradual establishment of alternative oil supply channels and the

construction of a new, more secure depot, and at the same time fiscal revenues will decline owing to the economic slowdown. We are convinced that financial assistance from the IMF will act as a catalyst for financial support from our development partners from whom we are seeking additional funding.

4. We plan to use the IMF emergency resources to finance the immediate needs of our fire response plan. The expenditures resulting from the explosion include: (i) the purchase of goods and services, especially for decontamination of the site; (ii) social transfers in cash and in kind to the households affected; (iii) the construction of housing and school and health infrastructure and the repair of damaged public buildings; (iv) assistance to households to help them recover using lines of credit from banks to finance income-generating microprojects; and (v) start of construction of a modern fuel depot. The emergency financing, which will be included in the 2024 supplementary budget (LFR 2024), will also serve to partially cover the public revenue losses attributable to the fire.

5. We plan to use the emergency resources to help deal with the effects of the fire at the Kaloum depot as follows:

- US$18.5 million for decontamination of the site and the start of the work to build a modern fuel deposit. An assessment of the decontamination cost would need to be prepared before June 2024 to inform the allocation of specific amounts;
- US$13 million for social transfers in cash and in kind to the households affected, including US$5 million for the distribution of food stuffs and health care;
- US$35 million for the construction of housing and school and health infrastructure and the repair of damaged public buildings;
- US$5 million to help households recover using lines of credit from banks to finance income-generating microprojects, including the necessary safeguard measures;

6. We will adapt our policies to respond to the shock resulting from the oil depot fire. We will continue our efforts to complete negotiations with Côte d’Ivoire and Sierra Leone and to develop a new oil supply mechanism from the port of Conakry with a view to bringing new supply channels. To mitigate the price shock, we have held selling prices of petroleum products steady. We have launched a national mobilization effort to establish support mechanisms to help provide care for the victims free of charge. We are committed to seeking concessional financing to the extent possible to implement our response plan.

7. We will respond to the balance of payments shock by having recourse to the external financing to be mobilized to implement the response plan. 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. The Central Bank of the Republic of Guinea (BCRG) will thus limit its interventions on the foreign exchange market while following its rule-based intervention strategy. In September 2023, the BCRG reduced its policy rate and the reserve ratio to support growth and bank lending. Despite significant financing needs, we are committed to keeping budget financing by the BCRG within statutory limits of 5 percent of the average budgetary revenue over the last three years, in order to control inflation. This limit may only be exceeded under exceptional circumstances established by Article 36 of the central bank statutes, such as major economic crises or natural disasters. IMF staff will be consulted beforehand. The BCRG will continue to monitor inflation trends and will take appropriate measures to control any inflationary pressures that could cause the conditions facing the most vulnerable members of society to worsen. The BCRG is prepared to (i) adjust the policy rate in the context of bank refinancing operations; (ii) refrain from including future bond issues held by banks in the required reserves and instead adjust the adequate rate of required reserves; and (iii) restore the required reserves at a level sufficient to support the monetary policy's fundamental objective of maintaining price stability.

8. Our policies will be adjusted to respond appropriately to the shock caused by the explosion while protecting fiscal and medium-term debt sustainability. Policies for 2024 will aim to minimize slippages vis-à-vis the targets in our Interim Reference Plan (PRI) and our Economic Recovery Plan (PRE). The fiscal position in 2024 will be eased to offer temporary room for the additional expenditures resulting from the explosion. However, the overall fiscal deficit will be limited to 3 percent of GDP in 2024, a level that can be financed without crowding out bank credit to the private sector or further increasing banks' exposure to the government. As the impact of the crisis is brought under control, we will bring the fiscal deficit below 3 percent of GDP in 2025 and below the medium-term objective of 2½ percent of GDP to protect debt sustainability consistent with a moderate risk of debt distress in the medium term while addressing development needs in the context of the PRI/PRE. To this end, we plan to improve execution of infrastructure investment to the extent possible and to prepare a plan to eliminate costly fuel and electricity subsidies while strengthening the social protection system.

9. We are committed to taking the following prior actions: (i) publish all public procurement contracts issued for management of the resources of the Food Shock Window (FSW) on the website of the Ministry of the Budget, including information about the selection procedures for suppliers and beneficial ownership of persons awarded the contracts; (ii) publish all monthly and/or quarterly reports prepared between December 2022 and end-March 2024 on the use of the resources allocated under the FSW on the website; and (iii) share with IMF staff the provisional report of the Court of Audit on the implementation of the Court's recommendations on the use of the Covid-19 emergency financing, pending its publication by end-June 2024.

10. We are committed to implementing transparency and good governance measures in the context of the new Rapid Credit Facility (RCF) to ensure appropriate use and monitoring of the resources intended to respond to the Kaloum fire emergency. In this context, the government intends to:

i. Follow through on its commitments in the management of the resources allocated under the Food Shock Window (FSW), specifically completion of the audit by the Court of Audit, and to this end prepare an action plan by June 30, 2024, with an evaluation by end-December 2024.

ii. Publish the full final report of the Court of Audit on implementation of the recommendations of its audit of the Covid-19 resources on the Court's website by end-June 2024.

iii. Sign an agreement with the BCRG to open an account in the Single Treasury Account for the RCF resources for the Kaloum fire. This agreement will specify the accounting procedures and rules and appropriate accountability and control measures.

iv. Publish on the website of the Ministry of the Budget complete budget execution reports on expenditures executed on RCF resources in response to the explosion every three months and once a year, no later than 30 days following the end of the quarter, in addition to the annual reports.

v. Each quarter publish all public procurement contracts related to the use of RCF resources on the Ministry of the Budget website, including the supplier selection procedures and, consistent with the FATF standard, publish information on the beneficial ownership of all persons or entities awarded such contracts. based on the FATF definition of beneficiary companies. We will explore how to add to Guinea's legal framework for procurement a definition of beneficial owner and a requirement to collect and publish beneficial ownership information for all persons or entities awarded public procurement contracts consistent with FATF Recommendation 24.2024 and publish the results. These audit reports will highlight the resources received and their use based on the GFSM 2014 budget nomenclature.

vi. Deposit the resources in the Single Treasury Account and disburse payments for all related expenditures from the Single Treasury Account.

vii. Adopt the proper budgeting of targeted programs, with specific tagging to make them visible and transparent.

11. We are also committed to implementing the recommendations of the 2023 safeguards assessment. Specifically: (i) we will abide by the amendments of the BCRG law prepared in consultation with IMF staff to strengthen the autonomy of the BCRG and its governance bodies by June 2024; (ii) we will strengthen governance and supervision of the BCRG by adopting the bylaws of the BCRG Board of Directors and the Cabinet Council (*Conseil de Cabinet*) by June 2024; (iii) we will gradually eliminate purchases of unrefined gold by March 2025 and in the interim, start implementing the risk mitigating measures proposed by external auditors, and (iv) we will ensure timely preparation of the audited financial statements of the BCRG. We have authorized IMF staff to hold discussions with the central bank's external Audit and have access to external audit reports. The BCRG and the Ministry for Finance will establish a framework agreement on their respective responsibilities for servicing financial obligations to the IMF.

12. To ensure that these recommendations can be implemented, we will improve our public financial management. We are committed to the proper execution of expenditures through strengthening resources of the higher audit bodies (Court of Audit, Office of the Inspector General of Finance, Office of the State Inspector General) and the activities of the Court for the Prosecution of Financial and Economic Offenses (CRIEF).

13. We are determined to continue our close cooperation with the IMF in pursuit of an arrangement on a structural program as soon as possible. We acknowledge that structural reforms will be necessary to manage Guinea's vulnerability to domestic and external shocks. We are therefore committed to continuing our discussions with the IMF, specifically through the advice provided in the context of the technical assistance work under way, and possibly a formal program to enable Guinea to address its long-term structural challenges.

14. We are committed to protecting fiscal and medium-term debt sustainability. Once the impact of the crisis has subsided, we will focus our fiscal policy on protecting debt sustainability and will target a more appropriate primary fiscal deficit trajectory.

15. In keeping with our commitment to transparency and accountability described above, we authorize the IMF to publish this letter of intent and the staff report for the request for disbursement under the Rapid Credit Facility (RCF).

Very truly yours,

/s/	/s/
Mourana Soumah	Karamo Kaba
Minister of Economy and Finance	Governor of the Central Bank of the Republic of Guinea

INTERNATIONAL MONETARY FUND

GUINEA

May 6, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION AND REQUEST FOR A DISBURSEMENT UNDER THE RAPID CREDIT FACILITY(RCF)—DEBT SUSTAINABILITY ANALYSIS

Approved By
Montfort Mlachila (IMF), Bergljot Barkbu (IMF), Manuela Francisco (IDA), and Abebe Adugna (IDA)

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

Guinea: Joint Bank-Fund Debt Sustainability Analysis[1]	
Risk of external debt distress	*Moderate*
Overall risk of debt distress	*Moderate*
Granularity in the risk rating	*Some space to absorb shocks*
Application of judgment	*Yes.*

Guinea remains at moderate risk of external debt distress. All external debt ratios lie sufficiently below thresholds to allow some space to absorb shocks. The risk of overall public debt distress has increased significantly since the last DSA but is assessed to remain moderate. While the mechanical risk signals point to a high risk of overall debt distress, judgement was applied given that the breaches of the threshold for PV of overall public debt-to-GDP ratio are marginal in 2024-25 and within decimal point in 2026-27. In addition, the start of the exploitation of the Simandou project, currently anticipated by end-2025 and not yet included in the baseline, can be an important mitigating factor if realized. The total debt service-to-revenue ratio is also on a declining trend. Stress tests suggest that debt vulnerabilities would increase should 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 stood at 40.3 percent of GDP at end-2023, with domestic debt exceeding external debt which declined to 19.7 percent.

[1] The Composite Indicator (CI) for Guinea is 2.51 based on the October 2023 WEO and the 2022 CPIA index, which classifies Guinea's debt-carrying capacity as weak.

Prudent macroeconomic, fiscal, and financial policies, including maximizing the concessionality of new debt, 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, the recent shift toward more non-concessional borrowing, uncertainty around the stock of domestic payments arrears to suppliers, and gaps in debt coverage. On the other hand, the Simandou iron-ore project is an upside risk.

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 (Text 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] 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 to improve capacity to address debt data weaknesses, including SOE 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 hence ultimately responsible for servicing the loan.[6]

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

Public debt coverage

A. Please select "X" for each subsector of the public sector below when it is covered in your public debt data.

	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	

Public debt coverage and the magnitude of the contingent liability tailored stress test

B. Please customize elements of the contingent liability tailored test, as applicable.

		Default	Used for the analysis	Reasons for deviations from the default settings
1	The country's coverage of public debt	The central government plus social security, central bank, government-guaranteed debt		
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. The reform of SOEs is also expected to address contingent liabilities to the government's budget.

[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 public sector exposure to SOEs, PPPs, financial market shocks, and payments arrears to suppliers.** Given limited data availability, in line with the 2022 DSA, this test was undertaken conservatively. The default DSA parameters imply 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 (5 percent of GDP), and to arrears to suppliers (2.9 percent of GDP) (Text Table 1).

RECENT DEBT DEVELOPMENTS

3. **The public debt ratio was broadly unchanged in 2023.** Total public debt increased slightly as a percentage of GDP to 40.3 percent in 2023 from 40.0 percent in 2022, with external public debt declining to 19.7 percent from 21.4 percent (Text Table 2). These trends reflect a temporary pause in key financing partner support in the immediate aftermath of the military coup in September 2021 and a reduction in the fiscal deficit, amid GDP growth and exchange rate appreciation. The stock of external arrears amounted to 0.6 percent of GDP at end-2023.[7] Domestic debt, including domestic arrears, increased to 20.6 percent of GDP at end-2023 from 18.6 at end-2022.

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

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

	2019	2020	2021	2022	2023	Percent of Total	Percent of GDP
Total PPG Debt	**5,019**	**6,396**	**7,420**	**7,963**	**9,265**	**100.0**	**40.3**
Domestic Debt	**2,397**	**2,612**	**3,468**	**3,712**	**4,734**	**51.1**	**20.6**
Treasury bills (<12 months)	517	726	827	959	765	8.3	3.3
Treasury instruments (1-5 years)	160	209	126	369	1,002	10.8	4.4
Securitized debt to suppliers	194	256	137	412	414	4.5	1.8
BCRG (short-term advances)	137	335	455	407	1	0.0	0.0
BCRG (long-term obligations)	1,122	1,028	687	732	1,462	15.8	6.4
Misc. (VAT credits; domestic arrears)	267	58	1,236	832	1,091	11.8	4.7
External Debt	**2,622**	**3,784**	**3,952**	**4,251**	**4,531**	**48.9**	**19.7**
Multilateral creditors	1,337	1,737	1,895	2,083	2,247	24.3	9.8
IMF	338	520	480	475	433	4.7	1.9
World Bank	467	575	622	614	657	7.1	2.9
African Dev. Bank Group	173	208	202	223	249	2.7	1.1
Islamic Dev. Bank	195	217	310	403	464	5.0	2.0
European Union	38	73	96	140	179	1.9	0.8
Other Multilateral creditors	125	143	185	229	266	2.9	1.2
Official Bilateral Creditors	1,181	1,800	1,766	1,771	1,695	18.3	7.4
Paris Club (excl. C2D)	33	41	46	82	98	1.1	0.4
Non-Paris Club	1,147	1,759	1,720	1,689	1,597	17.2	6.9
Angola	117	113	113	108	94	1.0	0.4
China	650	1,277	1,245	1,212	1,171	12.6	5.1
of which: Loan for Souapiti dam	0	575	575	575	575	6.2	2.5
Kuwait	78	75	76	83	93	1.0	0.4
Libya	42	52	52	52	52	0.6	0.2
Saudi Arabia	106	104	103	104	128	1.4	0.6
Others	154	139	132	129	59	0.6	0.3
Commercial Creditors	104	246	291	397	589	6.4	2.6
ICBC	44	202	259	372	568	6.1	2.5
Memo items							
External Arrears	149	164	159	135	134	1.5	0.6
C2D balance [1/]	47	51	47	37	6		
GNF per USD: Official (EOP)	9,401	9,990	9,114	8,553	8,512		

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.

4. **The share of external debt in total debt declined to 48.9 percent at end-2023 from 53.4 percent at end-2022.** Multilateral debt declined to 24.3 percent at end-2023 from 26.2 percent at end-2022. At end-2022, the IMF disbursed SDR 53.55 million (25 percent of Guinea's quota) to respond to the food crisis under the IMF's Food Shock Window (FSW).[8] Official bilateral debt declined to 18.3 percent of total PPG from 22.2 percent, mostly due to negative net financing flows

[7] Guinea is in arrears to Libya, which were to be treated in the context of the HIPC initiative. The authorities met with the creditors and agreed to hold technical meetings to resolve the arrears. These arrears are deemed away under the policy on arrears to official bilateral creditors, as the underlying Paris Club agreement is adequately representative and the authorities are making best efforts to resolve the arrears.

[8] FSW resources were used as budget support to assist the most vulnerable through food and cash distribution, and to improve the supply of fertilizers and support farmers.

with non-Paris creditors in 2023. Commercial debt, mostly owed to the Industrial and Commercial Bank of China (ICBC), inched higher to 6.4 percent of total PPG debt (from 5.0 percent at end-2022).

5. Domestic debt increased to 20.6 percent of GDP in 2023 from 18.6 percent in 2022. Regarding domestic debt, there was an almost 5-percentage point increase in its share in total debt, imputable mainly to the resort to longer term Treasury instruments.[9] In 2023, the outstanding stock of Treasury bills and Treasury bonds increased to 7.7 percent of GDP from 6.7 percent in 2022, with the share of Treasury bills decreasing to 42.9 from 71.6 percent in 2022. The total stock of central bank debt increased to 6.4 percent of GDP in 2023 from 5.7 percent in 2022, reflecting an increase in long-term obligations (consolidated advances). In July 2023, additional short-term liabilities (GNF 6,561 billion) were consolidated over a 20-year period. Other domestic obligations increased to 6.5 percent of GDP at end-2023 from 6.3 percent in 2022, reflecting a slight increase in domestic payments arrears. Audited and validated arrears to suppliers over the period 1982–2013 have been included in the baseline. The audit of arrears accumulated during 2014-2020, completed in November 2023, established the stock of validated arrears at GNF 2,075 billion (1.2 percent of GDP). Starting from 2024, the government will repay these obligations in line with the clearance strategy adopted in October 2023. The actual stock of arrears accumulated after 2020 is subject to an additional audit, with some potential to increase the stock of debt. Staff view these domestic payments arrears as reflecting capacity challenges rather than solvency or liquidity issues.

6. 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. The DSA incorporates the US$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 were rescheduled to 2022-25 under the DSSI. More than half of these amounts corresponds to the rescheduling of Debt Reduction-Development Contracts (C2D) loans, which are not included in the DSA (Text Table 2, Footnote 1).

7. 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 passed on to the government. 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 used the SDR allocation for infrastructure spending, repayment of central bank advances and some arrears from the 2021 budget.[10]

[9] The government started issuing 1–5-year T-bonds in 2022, which amounted to GNF 3,160 billion at end-2022 and GNF 6,468 billion at end-2023. At end-2023, the stock of T-bonds amounted to GNF 8,527 billion. The proceeds were largely used to finance priority infrastructure investments.

[10] Out of the stock of domestic arrears 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.

UNDERLYING MACROECONOMIC ASSUMPTIONS

8. Key assumptions are consistent with the macroeconomic framework outlined in the staff report for the 2024 Article IV Consultation:[11]

- **Real GDP growth** is estimated at 4.0 percent in 2022 and at 5.7 percent for 2023 (Text Table 3). Growth in 2023 is pulled by the mining sector and a strong agricultural campaign which benefitted from IMF financing under the FSW.[12] Growth is projected to drop to 4.1 percent in 2024, due to the negative impacts of the explosion of the Conakry fuel depot on December 18, 2023.[13] But it is expected to rebound to 5.6 percent in 2025 and remain strong over the medium-term, supported by increased production capacity and ongoing investment in new mines. The non-mining sector is expected to recover further as the domestic political situation normalizes.

- **Risks** to the outlook include a slowdown in global growth that may result in lower demand for bauxite; a worsening political situation and social instability could weaken the non-mining sector; and an escalation of the war in Ukraine and other regional conflicts which could trigger a new wave of trade disruptions and inflation. Greater government resort to bank financing could crowd out the already low private sector credit, while central bank lending to the government beyond the statutory limit could fuel inflation pressures. Extended fuel shortages could affect investment and growth, and lead to macroeconomic instability and socio-political disturbances. In the medium-term, the authorities' efforts to enhance diversification under their Economic Recovery Plan (PRE) and promote an inclusive political dialogue could help mitigate these risks. Upside risks include the start of production by the Simandou iron ore project anticipated by end-2025.

[11] Due to the impacts of the fuel explosion in December 2023, medium-term macroeconomic projections are less favorable than under the 2022 DSA, including lower non-mining GDP growth, as well as weaker fiscal and external positions. Weaknesses in the external position persist over the whole projection period. However, the large FDI inflows expected during the construction phase of the Simandou projecte, and a potential start of production, currently scheduled by the authorities at end-2025, which is not yet included in the macroframework (FDI, exports or fiscal revenues), contribute to a significant upward risk.

[12] Growth in agriculture reflects ongoing recovery of sector yields responding to increased provision and application of fertilizer and other inputs toward levels attained in the past.

[13] The explosion of a major fuel import and storage facility in Conakry on December 18, 2023, has caused deaths and injuries, destruction of properties, fuel shortages and new urgent financing needs. It has affected the supply chain of petroleum products, disturbing the mobility of people and goods. If not fully addressed, the shock could lead to a general increase in prices, hurt economic activity, and deteriorate the fiscal position. The external position could weaken, due to lower mining exports and higher imports of capital goods for the reconstruction of infrastructure. The government will also need to provide targeted assistance to the affected households and businesses.

Text 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 (annual percent change)	4.3	4.7	5.6	5.5	5.0	5.6	4.0	5.7	5.8	5.0	1.3	-0.7	0.1	0.3	0.0
Mining (annual percent change)	6.6	11.8	11.1	5.1	5.1	2.9	6.8	9.4	11.7	5.1	-3.7	-5.0	-1.7	6.6	0.0
Non-mining (annual percent change)	3.7	2.9	4.1	5.6	5.0	6.3	3.3	4.8	4.0	4.9	2.6	0.4	0.7	-1.5	0.0
Inflation Average (percent)	12.6	12.2	11.4	8.3	7.8	12.6	10.5	7.8	9.7	7.5	0.0	-1.7	-3.6	1.4	-0.3
Central government finances															
Total revenue and grants	13.6	13.1	13.0	15.0	15.6	13.5	13.7	13.9	13.6	14.4	-0.1	0.6	0.9	-1.4	-1.2
Expenditures and net lending	15.3	14.4	15.3	17.6	18.0	15.2	14.5	15.5	16.2	16.3	-0.2	0.1	0.2	-1.4	-1.7
Overall balance including grants	-1.7	-1.3	-2.3	-2.6	-2.4	-1.7	-0.8	-1.6	-2.6	-1.9	0.0	0.5	0.7	0.0	0.4
External sector															
Current account balance (including official transfers)	-2.1	-7.4	-6.8	-2.6	-1.4	-2.5	-8.6	-8.7	-8.7	-8.8	-0.4	-1.2	-1.9	-6.1	-7.4
Overall balance of payments	2.4	-0.3	0.4	1.2	0.7	2.4	2.1	-0.8	0.8	0.7	0.0	2.4	-1.2	-0.4	0.0
Gross available reserves (months of imports)[1]	2.7	2.5	2.4	2.7	3.0	2.8	3.4	2.5	2.3	2.4	0.1	0.9	0.1	-0.5	-0.6
Gross public debt	40.4	34.9	35.3	36.9	36.9	42.4	40.1	40.3	37.9	35.6	2.1	5.2	5.0	1.0	-1.3

Source: Guinean authorities, IMF and World Bank staff estimates.
[1]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.

- **Inflation.** Inflation dropped from 10.5 percent in 2022 to 7.8 percent in 2023. It is projected to rise to 11 percent in 2024, as fuel shortages that followed the explosion pushed up prices for transport and food, before gradually declining over the medium term, reflecting the end of fuel shortages and the easing of international commodity price pressures.

- **Fiscal balance**. The overall fiscal deficit (including grants) widened from 0.8 percent of GDP in 2022 to 1.6 percent of GDP in 2023. It is projected to deteriorate to 3.0 percent in 2024, reflecting increased capital spending and the fiscal impact of the explosion, and to stabilize at around 2½ percent thereafter. The primary fiscal deficit is expected to average 1.6 percent of GDP over 2024–27, reflecting the aim to rebuild fiscal resilience while allocating more resources to infrastructure and human capital investment and social programs. Continued revenue mobilization efforts, including transfer mispricing reform and modernization of tax and customs administrations, are expected to lead to a gradual increase of government revenue by about 1 percent of GDP over 2024–27.[14] Grants declined to 0.9 percent of GDP in 2023, from 1.2 percent in 2020, due to a pause in development partner support following the 2021 military coup. They are expected to further decline to 0.5 percent of GDP by 2024, and 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) widened to 8.4 percent of GDP in 2023 from 2.3 percent in 2021, as export growth in 2023 was hindered by sluggish external

[14] 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.

demand[15,16] while food imports increased. It is expected to average around 10.1 percent of GDP during 2024-25 (partly reflecting the adverse impact of the explosion, on top of the high remuneration of capital and skilled labor in mining operations), before dropping to 8.4 percent in 2026 and 7.9 percent in 2028. While strong FDI, including for the bauxite sector and for some of the infrastructure needed for the Simandou iron ore project during 2023-25, will contribute greatly to finance the expected deficits, BOP dynamics remain challenging in the near term, particularly due to the explosion.

- **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 2023-28, project loan disbursement projections have been adjusted downward for 2023-28 to bring them to levels more compatible with past execution rates (Text Table 4).[17] Financing terms were also adjusted to reflect information from development partners and generally tighter financial conditions. Notably, the remaining two loan disbursements for the Souapiti hydropower project from Eximbank China would be delayed to 2026 and 2027.[18] Accordingly, compared with the last DSA, external borrowing was assumed to increase by a smaller amount to an average of 2.3 percent of GDP in 2024-2025;

Text Table 4. Guinea: Projected External Financing

(USD million) Source: IMF staff calculations.

	2023	2024	2025	2026	2027	2028
Total External Financing	483.9	844.4	659.4	1,091.1	1,345.7	788.4
Multilaterals	314.7	397.1	471.6	567.4	550.3	452.5
IMF	0.0	71.5	0.0	0.0	0.0	0.0
World Bank	80.6	117.7	172.2	172.2	242.1	218.0
WB (IDA - regular)	0.0	0.0	0.0	172.2	242.1	218.0
WB (IDA - 50Y loans)	80.6	117.7	172.2	0.0	0.0	0.0
WB (IDA SML)						
Other multilaterals (excl. IMF and WB)	234.1	207.9	299.4	395.2	308.3	234.6
Official Bilaterals	106.3	128.4	167.6	494.5	619.3	248.4
Paris Club	26.5	42.8	57.1	83.4	31.4	23.7
Non Paris Club	79.9	85.7	110.5	411.1	588.0	224.7
Eximbank Chine - Souapiti	0.0	0.0	0.0	299.7	300.6	0.0
Eximbank Chine - Other	31.1	21.9	28.2	0.0	203.8	159.7
Other Non Paris Club	48.7	63.8	82.3	111.4	83.6	65.0
Commercial	62.8	318.9	20.3	29.2	176.0	87.6

15 Guinea's exports markets are concentrated, mostly in India, China and the UAE, and hence are sensitive to external demand movements and other sector-specific characteristics such as the dominance of informal artisanal gold mining activity that often reflects informal regional cross-border flows. The reduction in exports from 2021 to 2023, for example, reflects a decline in gold reexports relative to the exceptionally high level of 2021. The decline in gold reexports is associated with lower gold imports. Relative to the 2022 DSA, the current DSA projects a permanently lower production of artisanal gold (i.e., gold produced in the informal sector), based on more information gathered from multiple engagements with the authorities and the private sector.

16 Guinea is a resource rich country whose exports are dominated for the foreseeable future by minerals— primarily gold and bauxite, and possibly soon to include iron ore from the Simandou project. The dominance of the extractive sector over the medium term and beyond implies that Guinea is faced with the classic macroeconomic dynamics associated with the so-called Dutch Disease. As a result, the competitiveness of the non-mining sector is challenged through an appreciated currency. The authorities already encourage more processing of minerals, for example alumina production to add value to bauxite mining, and higher use of local intermediate inputs and labor in the building and operation of mines. Based on WB dialogue and support, the authorities are beginning to expand their attention to policies aimed at counteracting the Dutch-disease dynamics and to strengthen prospects for non-mining growth, diversification, and structural transformation.

17 In February 2024, a mandate was signed on a prospective loan of €650 million to finance the PSD (*programme sectoriel de désenclavement)*, an infrastructure program to build road and bridges, including in rural areas. In the absence of a loan agreement, it is not included in the baseline.

18 The $1.2 billion loan was signed on September 4, 2018. The first tranche of US$575 million was disbursed at the end of 2020.

and to moderate slowly in the long-run, toward 2.0 percent of GDP in 2043. Per the authorities' projected disbursements and information from development partners, the average grant element of new external borrowing is expected to average 27.6 percent over 2024-28. 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 creditors, other multilaterals, and commercial debt), with the average grant element gradually decreasing to 20.9 percent by 2044.

- *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$515 million in 2024-26. The Guinean authorities requested IMF financing to address an urgent BOP need associated with the recent explosion of a major fuel import and storage facility in Conakry. IMF assistance could be provided under the RCF worth of 25 percent of quota (SDR 53.55 million or about US$71.5 million). In line with the authorities' medium-term debt management strategy, multilaterals excluding the World Bank and IMF are expected to provide an average of 30.6 percent of the external financing mix during 2024-28, with the largest share (18.2 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 on average 35.1 percent of external financing in 2024-2028, with Guinea's transition to elected government anticipated by 2026. Paris Club creditors are expected to provide some 14.4 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 an estimate of 11.4 percent of external financing in the form of non-concessional project loans in 2023. Commercial creditors are expected to provide about 13.3 percent of projected disbursements (also project loans) during 2024-28.

- **Domestic borrowing**. The government has continued repaying the central bank on the consolidated debt and has resorted less to central bank advances. It has cleared a significant fraction of verified domestic arrears and has increased the maturity of domestic government debt. Over the medium-term, the government is assumed to continue gradually repaying the outstanding stock of verified arrears in full, and to increase the share of medium-term T-bonds in domestic borrowing.[19]

[19] Commercial banks have shown appetite to T-bonds, which remain lower-risk assets (guaranteed by the central bank). However, commercial banks' exposure to the public sector has risen substantially, from 15.2 percent in 2014 to 29.6 percent of banks' total assets at end-2023, which remains high compared to Low-Income Countries (LICs). Moreover, as indicated in paragraph 8 , greater government resort to bank financing could crowd out the already low private sector credit". Therefore, there is need to broaden the investor base in the government bond market. In this regard, the implementation of the government securities market action plan designed by AFRITAC West in 2022 would help create alternative avenues to finance the government.

9. 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), the FDI is expected to be fully absorbed by the current account deficit, and the nominal interest rate is projected to contribute more to debt generation, with a lower debt-creating residual. For overall public debt (Figure 3, lower panel), staff projections are more conservative than in the past for all debt-creating flows, except for the primary deficit. Second, the projected three-year fiscal balance lies well within the more conservative adjustments observed in LICs (Figure 4, top left). Third, the fiscal stimulus underlying the fiscal assumptions alone does not account for the expected growth (Figure 4, top right), which mainly reflects prospects for mining output and exports and, specifically in 2024, by the impact of the fuel explosion on non-mining activities. Finally, although a scaling-up of public investment is expected to support growth (Figure 4, bottom panel), the assumed investment-growth nexus is relatively weak, though stronger than historically, thanks to improvements in public investment management with Fund technical assistance.

COUNTRY CLASSIFICATION AND STRESS TESTS

10. The Composite Indicator (CI) for Guinea is 2.51 based on the October 2023 WEO and the 2022 CPIA index, with classifies Guinea's debt-carrying capacity as weak (Text Table 5). Guinea's overall CPIA score of 3.4 (scale 1-6) is aided by a relatively high score of 3.8 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.

Text Table 5. Guinea: Calculation of CI Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.333	1.28	51%
Real growth rate (in percent)	2.719	5.395	0.15	6%
Import coverage of reserves (in percent)	4.052	20.132	0.82	33%
Import coverage of reserves^2 (in percent)	-3.990	4.053	-0.16	-6%
Remittances (in percent)	2.022	1.622	0.03	1%
World economic growth (in percent)	13.520	2.889	0.39	16%
CI Score			2.51	100%
CI rating			Weak	

11. 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 (Text Table 1), tailored to reflect Guinea's PPP stock and to include risks related to the expected increase in the stock of arrears following completion of the audit; 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, Guinea's top two export products.

MODEL RISK SIGNALS

A. External Debt

12. Guinea stands at moderate risk of external debt distress, with some space to absorb shocks (Table 1, Figure 1, and Figure 5). Under the baseline scenario, all external debt ratios remain below their policy dependent thresholds with comfortable margins, which gives Guinea some space to absorb shocks. Medium-term external debt dynamics are broadly in line with those of the 2022 DSA. The PV of external debt-to-GDP is expected to remain within 18-20 percent of GDP during 2024-27, before declining progressively to 16.4 percent by 2044. All liquidity ratios are expected to remain below policy dependent thresholds, particularly the debt-service-to-exports ratio (in line with the 2022 DSA).

13. 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 3, Figure 1). This highlights that under most of these shocks Guinea could breach external debt thresholds, particularly the PV of 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 50 percent during 2026-2030, while the PV of debt-to-exports ratio would jump to 355 percent in 2027. Liquidity ratios would also increase sharply, particularly the debt-service-to-exports ratio. Under historical scenarios, all the debt ratios would remain below the thresholds.[20] This is an improvement relative to the 2022 DSA, where only the debt-service-to-export ratio would remain below the threshold.

B. Public Debt

14. Under the baseline scenario, the PV of total public debt-to-GDP exceeds the threshold of 35 percent of GDP during 2024-27, but the risk of debt distress is assessed to remain moderate. The breaches are marginal in 2024-25 and within decimal point in 2026-27. This, alongside the fact that the potential economic benefits from the Simandou project are not yet included in the baseline, support the application of judgement over the model's mechanical risk signal (Table 2[21] and Figure 2). The PV of total public debt-to-GDP ratio is projected to fall from 37.6 percent in 2024 to 35.8 percent in 2026, and to below 30 percent of GDP from 2036. 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 slippages (Table 4). Public debt dynamics are generally more favorable than under historical scenarios, as baseline projections are more conservative notably as regards the primary balance.

[20] 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.

[21] In Table 3, the large residual for 2020 reflects the fact that the loan for the Souapiti dam is not included in the primary balance.

15. The moderate risk of overall public debt distress reflects recent updates to domestic debt data and the use of judgement. Under the 2022 DSA, domestic debt was projected to decline from 17.6 percent of GDP in 2021 to 13.7 percent in 2022 and 13.4 percent in 2023. Actual data shows that domestic debt stood at 18.6 percent of GDP at end 2022 and at 20.6 percent of GDP at end-2023. The increase in domestic debt reflects the issuance of medium-term government securities since 2022 to finance priority investments and to a lesser extent obligations to the central bank (Text Table 2 and Paragraph 5). The authorities are in the process to identify a strategy for repayment of arrears by using government deposits, which amounted about 2.5 percent of GDP in January 2024

RISK RATING AND VULNERABILITIES

16. Applying judgement, Guinea is assessed to be at moderate risk of overall and external debt distress, with some space to absorb shocks. Under the baseline scenario, all external debt indicators are below their respective thresholds, but they all breach the thresholds when subjected to stress tests. With regard to total public debt, under the baseline scenario, the PV of total public debt-to-GDP ratio exceeds the threshold of 35 percent of GDP during 2024-27. 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. On the other hand, the Simandou iron-ore project is an upside risk. Staff recommends pursuing prudent macroeconomic, fiscal, and financial policies, including maximizing the share of concessional borrowing, 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 as of December 31, 2023, stand at SDR322.3 million (about 2.3 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.

AUTHORITIES' VIEWS

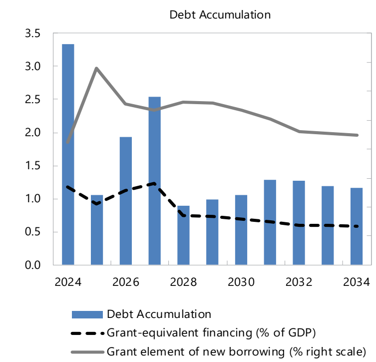
18. The authorities broadly agreed with the conclusions of the DSA. They highlighted their commitment to maintaining a sustainable level of debt that helps a moderate risk of debt distress. In this context, they are considering a faster repayment of domestic debt. While they concurred with the importance of maximizing concessional financing, they noted the unavailability of concessional loans. They stressed the importance of enhancing the quality and management of investment projects. They requested Fund technical assistance to the National debt department on the DSA framework.

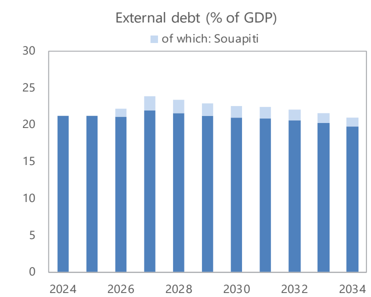
Table 1. Guinea: External Debt Sustainability Framework, Baseline Scenario, 2021-44

(Percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2034	2044	Historical	Projections
External debt (nominal) 1/	22.6	21.4	19.7	21.2	21.1	22.1	23.9	23.4	22.9	21.0	12.0	21.4	22.2
of which: public and publicly guaranteed (PPG)	22.6	21.4	19.7	21.2	21.1	22.1	23.9	23.4	22.9	21.0	12.0	21.4	22.2
Change in external debt	-5.4	-1.2	-1.7	1.5	-0.1	1.0	1.7	-0.5	-0.5	-0.6	-0.9		
Identified net debt-creating flows	-11.9	-5.7	-3.8	1.0	-0.8	-1.5	-0.8	-0.4	0.0	0.6	1.9	0.9	-0.1
Non-interest current account deficit	2.3	8.4	8.4	10.3	9.7	8.4	7.4	7.9	8.3	9.0	10.6	13.2	8.7
Deficit in balance of goods and services	-8.9	0.1	0.6	3.6	2.8	0.7	0.1	0.0	1.0	1.3	2.2	8.6	1.3
Exports	62.9	42.3	35.4	33.9	35.2	35.7	35.9	36.0	36.0	35.9	35.9		
Imports	54.0	42.5	36.0	37.5	38.1	36.4	36.0	35.9	36.9	37.2	38.1		
Net current transfers (negative = inflow)	-2.6	-3.1	-2.8	-2.6	-2.4	-2.3	-2.2	-2.1	-2.0	-1.6	-1.0	-1.6	-2.0
of which: official	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other current account flows (negative = net inflow)	13.7	11.3	10.6	9.2	9.3	10.0	9.5	10.0	9.3	9.3	9.3	6.2	9.4
Net FDI (negative = inflow)	-10.5	-10.5	-9.3	-8.9	-9.7	-9.1	-7.5	-7.5	-7.5	-7.5	-7.5	-10.5	-8.0
Endogenous debt dynamics 2/	-3.7	-3.6	-2.9	-0.4	-0.8	-0.9	-0.7	-0.8	-0.8	-0.9	-1.2		
Contribution from nominal interest rate	0.2	0.2	0.3	0.4	0.3	0.3	0.4	0.5	0.4	0.1	-0.6		
Contribution from real GDP growth	-1.4	-0.7	-1.0	-0.7	-1.1	-1.1	-1.2	-1.3	-1.2	-1.0	-0.6		
Contribution from price and exchange rate changes	-2.5	-3.0	-2.1	...	...	...	...	...	...	...	...		
Residual 3/	6.4	4.5	2.1	0.4	0.7	2.5	2.6	0.0	-0.4	-1.2	-2.8	-0.6	0.2
of which: exceptional financing	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	17.4	18.7	18.5	19.2	20.3	19.9	19.5	18.8	16.4		
PV of PPG external debt-to-exports ratio	...	...	49.1	55.3	52.6	53.6	56.7	55.2	54.3	52.2	45.7		
PPG debt service-to-exports ratio	0.6	1.2	2.7	3.2	4.0	4.8	4.6	4.9	4.7	4.1	4.3		
PPG debt service-to-revenue ratio	3.0	3.9	7.3	8.5	10.8	12.8	12.0	12.7	11.9	10.3	10.9		
Gross external financing need (Billion of U.S. dollars)	-1.3	-0.3	0.0	0.6	0.4	0.3	0.5	0.7	0.9	1.5	4.6		
Key macroeconomic assumptions													
Real GDP growth (in percent)	5.6	4.0	5.7	4.1	5.6	5.8	5.6	5.6	5.6	5.0	5.0	6.1	5.2
GDP deflator in US dollar terms (change in percent)	9.7	15.4	11.1	6.3	1.3	0.8	1.2	1.2	1.1	2.0	2.0	4.6	2.0
Effective interest rate (percent) 4/	0.8	1.1	1.5	2.1	1.4	1.4	2.0	2.0	2.0	0.3	-4.6	1.1	1.5
Growth of exports of G&S (US dollar terms, in percent)	14.1	-19.3	-1.8	5.8	11.2	8.3	7.1	7.2	6.8	7.1	7.1	21.0	7.4
Growth of imports of G&S (US dollar terms, in percent)	-12.7	-5.7	-0.6	15.3	8.6	2.1	5.5	6.8	9.8	7.3	7.5	16.5	7.7
Grant element of new public sector borrowing (in percent)	...	...	...	21.2	34.0	27.8	26.7	28.2	27.9	22.4	20.9	...	26.0
Government revenues (excluding grants, in percent of GDP)	12.9	13.2	13.0	12.9	13.1	13.5	13.7	13.9	14.1	14.4	14.1	13.5	13.9
Aid flows (in Billion of US dollars) 5/	0.1	0.1	0.2	0.2	0.2	0.2	0.3	0.2	0.3	0.2	0.2		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	1.2	0.9	1.1	1.2	0.7	0.7	0.6	0.5	...	0.8
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	31.2	36.4	29.3	28.0	30.4	30.2	25.0	23.8	...	28.9
Nominal GDP (Billion of US dollars)	16	20	23	25	27	29	31	33	35	50	99		
Nominal dollar GDP growth	15.8	20.0	17.4	10.6	7.0	6.7	6.8	6.9	6.8	7.1	7.1	10.9	7.3
Memorandum items:													
PV of external debt 7/	...	...	17.4	18.7	18.5	19.2	20.3	19.9	19.5	18.8	16.4		
In percent of exports	...	...	49.1	55.3	52.6	53.6	56.7	55.2	54.3	52.2	45.7		
Total external debt service-to-exports ratio	0.6	1.2	2.7	3.2	4.0	4.8	4.6	4.9	4.7	4.1	4.3		
PV of PPG external debt (in Billion of US dollars)			4.0	4.8	5.0	5.6	6.3	6.6	6.9	9.4	16.3		
(PVt-PVt-1)/GDPt-1 (in percent)				3.3	1.1	1.9	2.5	0.9	1.0	1.2	0.9		
Non-interest current account deficit that stabilizes debt ratio	7.7	9.6	10.1	8.8	9.8	7.4	5.7	8.4	8.7	9.6	11.5		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

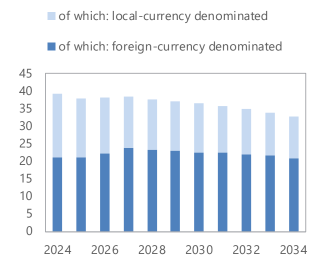
Table 2. Guinea: Public Sector Debt Sustainability Framework, Baseline Scenario, 2021–44

(Percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2034	2044	Historical	Projections
Public sector debt 1/	**42.4**	**40.1**	**40.3**	**39.3**	**38.0**	**38.0**	**38.4**	**37.7**	**37.1**	**32.7**	**20.4**	**41.5**	**36.5**
of which: external debt	**22.6**	**21.4**	**19.7**	**21.2**	**21.1**	**22.1**	**23.9**	**23.4**	**22.9**	**21.0**	**12.0**	**21.4**	**22.2**
Change in public sector debt	-5.0	-2.4	0.2	-1.0	-1.3	0.1	0.4	-0.7	-0.6	-1.1	-1.1		
Identified debt-creating flows	**-7.8**	**-3.2**	**-3.8**	**-0.9**	**-1.2**	**-0.9**	**-0.6**	**-0.6**	**-0.5**	**-1.1**	**-1.1**	**-2.5**	**-0.8**
Primary deficit	**1.1**	**-0.1**	**0.9**	**2.0**	**1.4**	**1.5**	**1.4**	**1.5**	**1.4**	**0.8**	**0.7**	**1.3**	**1.3**
Revenue and grants	13.3	13.7	13.9	13.4	13.2	13.6	13.8	14.0	14.2	14.5	14.2	**14.7**	**14.0**
of which: grants	0.4	0.5	0.9	0.5	0.1	0.1	0.1	0.1	0.1	0.1	0.1		
Primary (noninterest) expenditure	14.4	13.6	14.8	15.4	14.6	15.1	15.2	15.4	15.6	15.3	14.9	**15.9**	**15.3**
Automatic debt dynamics	**-8.9**	**-3.2**	**-4.7**	**-2.7**	**-2.7**	**-2.4**	**-2.0**	**-2.1**	**-2.0**	**-1.9**	**-1.8**		
Contribution from interest rate/growth differential	-5.1	-2.7	-3.7	-2.7	-2.7	-2.4	-2.0	-2.1	-2.0	-1.9	-1.8		
of which: contribution from average real interest rate	-2.6	-1.1	-1.5	-1.2	-0.6	-0.3	0.0	-0.1	0.1	-0.3	-0.7		
of which: contribution from real GDP growth	-2.5	-1.6	-2.2	-1.6	-2.1	-2.1	-2.0	-2.1	-2.0	-1.6	-1.0		
Contribution from real exchange rate depreciation	-3.8	-0.5	-1.0	...	...	...	...	...	...	...	...		
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**	**-0.1**	**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	**2.8**	**0.9**	**4.0**	**-0.1**	**-0.1**	**1.0**	**0.9**	**-0.1**	**-0.1**	**0.0**	**0.0**	**3.4**	**0.1**
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	**...**	**...**	**38.0**	**37.6**	**36.1**	**35.8**	**35.5**	**34.8**	**34.2**	**31.0**	**25.3**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**273.6**	**280.5**	**273.3**	**263.1**	**257.2**	**249.2**	**241.5**	**213.4**	**178.1**		
Debt service-to-revenue and grants ratio 3/	**66.8**	**76.5**	**26.8**	**29.7**	**32.8**	**37.2**	**37.5**	**33.4**	**35.8**	**34.9**	**31.0**		
Gross financing need 4/	10.0	10.4	4.6	5.8	5.7	7.6	7.6	6.1	6.5	5.8	5.1		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	5.6	4.0	5.7	4.1	5.6	5.8	5.6	5.6	5.6	5.0	5.0	**6.1**	**5.2**
Average nominal interest rate on external debt (in percent)	0.8	1.0	1.5	2.1	1.4	1.4	2.1	2.1	2.0	0.3	-4.8	**1.1**	**1.5**
Average real interest rate on domestic debt (in percent)	-9.0	0.8	-6.1	-5.9	-3.0	-1.4	-0.1	-0.7	0.2	0.3	0.8	**-2.9**	**-0.9**
Real exchange rate depreciation (in percent, + indicates depreciation)	-14.8	-2.3	-5.2	...	...	...	...	...	...	...	...	**-1.5**	**...**
Inflation rate (GDP deflator, in percent)	12.0	2.8	8.8	11.0	10.1	9.0	8.5	8.0	7.1	7.5	7.5	**6.6**	**8.3**
Growth of real primary spending (deflated by GDP deflator, in percent)	-7.1	-2.0	15.0	8.0	0.5	9.1	6.4	7.0	6.8	4.6	4.8	**5.1**	**5.5**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	6.1	2.3	0.7	3.0	2.8	1.4	1.0	2.2	2.0	1.9	1.8	**3.0**	**2.0**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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

Public sector debt 1/



Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government 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.

Table 3. Guinea: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2024–34

(Percent)

	Projections 1/										
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
PV of debt-to GDP ratio											
Baseline	19	19	19	20	20	20	19	19	19	19	19
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	19	20	22	25	25	25	26	26	26	26	25
B. Bound Tests											
B1. Real GDP growth	19	19	21	22	21	21	21	21	21	20	20
B2. Primary balance	19	19	20	21	21	20	20	20	20	20	20
B3. Exports	19	**32**	**54**	**55**	**53**	**52**	**51**	**50**	**49**	**46**	**44**
B4. Other flows 3/	19	24	30	**31**	**30**	29	29	29	28	27	26
B5. Depreciation	19	23	23	24	24	23	23	23	23	23	23
B6. Combination of B1-B5	19	28	**33**	**34**	**33**	**32**	**31**	**31**	**30**	29	28
C. Tailored Tests											
C1. Combined contingent liabilities	19	22	23	24	24	24	24	24	24	24	24
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	19	20	23	24	24	23	23	23	22	22	21
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	55	53	54	57	55	54	53	53	53	53	52
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	55	57	63	69	70	71	71	72	72	72	70
B. Bound Tests											
B1. Real GDP growth	55	53	54	57	55	54	53	53	53	53	52
B2. Primary balance	55	54	57	59	58	57	56	56	56	55	55
B3. Exports	55	134	**354**	**357**	**347**	**340**	**333**	**327**	**318**	**302**	**286**
B4. Other flows 3/	55	68	84	86	84	82	80	80	78	75	73
B5. Depreciation	55	53	51	54	52	51	51	51	50	50	50
B6. Combination of B1-B5	55	95	85	136	132	129	127	125	122	118	114
C. Tailored Tests											
C1. Combined contingent liabilities	55	63	66	68	67	68	67	67	66	66	65
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	55	61	67	69	67	66	64	63	63	62	60
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio											
Baseline	3	4	5	5	5	5	4	4	4	4	4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	3	4	5	5	5	5	4	4	4	4	5
B. Bound Tests											
B1. Real GDP growth	3	4	5	5	5	5	4	4	4	4	4
B2. Primary balance	3	4	5	5	5	5	4	4	4	4	4
B3. Exports	3	7	**16**	**19**	**20**	**19**	**18**	**16**	**20**	**27**	**26**
B4. Other flows 3/	3	4	5	6	6	6	5	5	5	6	6
B5. Depreciation	3	4	5	5	5	5	4	4	4	4	4
B6. Combination of B1-B5	3	5	9	9	9	9	8	7	9	10	10
C. Tailored Tests											
C1. Combined contingent liabilities	3	4	5	5	5	5	5	4	4	4	5
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	3	4	5	5	5	5	5	4	5	5	5
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	8	11	13	12	13	12	11	10	10	10	10
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	8	10	12	12	12	12	11	10	10	11	11
B. Bound Tests											
B1. Real GDP growth	8	11	14	13	14	13	12	10	11	11	11
B2. Primary balance	8	11	13	12	13	12	11	10	10	11	11
B3. Exports	8	12	**18**	**21**	**22**	**20**	**19**	**17**	**21**	**28**	**28**
B4. Other flows 3/	8	11	**14**	**14**	**15**	**14**	13	12	14	**16**	**16**
B5. Depreciation	8	14	**16**	**15**	**16**	**15**	14	12	12	12	12
B6. Combination of B1-B5	8	11	**16**	**16**	**16**	**15**	**14**	13	**16**	**17**	**17**
C. Tailored Tests											
C1. Combined contingent liabilities	8	11	14	13	14	13	12	11	11	11	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	**14**	**14**	**15**	13	12	11	11	12	12
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	14	14	14	14	14	14	14	14	14	14	14

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Guinea: Sensitivity Analysis for Key Indicators of Public Debt, 2024–34

(Percent)

	Projections 1/										
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
PV of Debt-to-GDP Ratio											
Baseline	**38**	**36**	**36**	**36**	35	34	34	33	32	32	31
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	**38**	**37**	**37**	**38**	**37**	**36**	35	34	34	33	32
B. Bound Tests											
B1. Real GDP growth	**38**	**38**	**40**	**41**	**41**	**41**	**41**	**41**	**41**	**41**	**41**
B2. Primary balance	**38**	**38**	**39**	**39**	**38**	**37**	**36**	**35**	35	34	33
B3. Exports	**38**	**47**	**64**	**63**	**62**	**60**	**59**	**58**	**56**	**53**	**50**
B4. Other flows 3/	**38**	**42**	**47**	**46**	**45**	**44**	**44**	**43**	**42**	**40**	**39**
B5. Depreciation	**38**	**38**	**36**	**35**	34	32	31	29	28	26	25
B6. Combination of B1-B5	**38**	**36**	**36**	**36**	**36**	35	34	33	33	32	31
C. Tailored Tests											
C1. Combined contingent liabilities	**38**	**46**	**45**	**45**	**43**	**42**	**41**	**40**	**39**	**38**	**37**
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	**38**	**38**	**39**	**41**	**42**	**42**	**43**	**43**	**43**	**42**	**42**
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
PV of Debt-to-Revenue Ratio											
Baseline	280	273	263	257	249	241	235	230	224	219	213
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	280	280	275	272	263	253	244	238	233	228	224
B. Bound Tests											
B1. Real GDP growth	280	287	295	295	292	288	286	285	283	282	280
B2. Primary balance	280	286	288	280	270	260	252	246	239	232	226
B3. Exports	280	356	472	457	442	426	413	402	387	367	348
B4. Other flows 3/	280	317	345	336	325	314	305	297	288	276	266
B5. Depreciation	280	288	268	257	241	227	214	203	192	182	172
B6. Combination of B1-B5	280	273	266	258	255	246	239	232	227	221	215
C. Tailored Tests											
C1. Combined contingent liabilities	280	349	332	323	310	297	288	280	272	264	256
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	280	309	313	321	316	310	304	297	295	293	291
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	30	33	37	38	33	36	38	34	34	34	35
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	30	34	39	40	35	38	40	36	36	36	36
B. Bound Tests											
B1. Real GDP growth	30	34	41	41	37	41	44	42	43	44	45
B2. Primary balance	30	33	41	41	35	39	39	35	35	36	36
B3. Exports	30	33	40	44	39	41	43	39	43	49	48
B4. Other flows 3/	30	33	38	40	36	38	40	36	38	40	40
B5. Depreciation	30	32	38	35	34	34	36	33	33	33	33
B6. Combination of B1-B5	30	32	37	37	33	35	37	34	35	35	35
C. Tailored Tests											
C1. Combined contingent liabilities	30	33	60	44	44	49	44	39	39	39	38
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	30	36	41	42	39	43	46	44	45	46	47
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

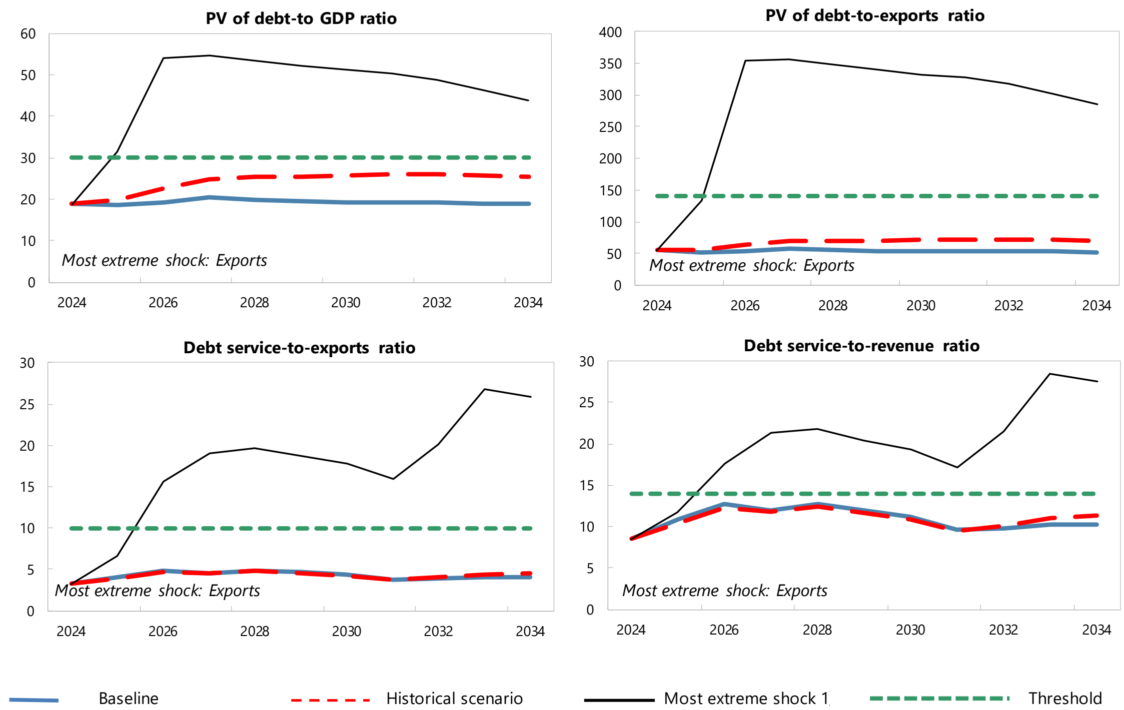
Sources: Country authorities; and staff estimates and projections.

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

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Figure 1. Guinea: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2024–34



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

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

Borrowing assumptions 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	2.6%	2.6%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	22	22
Avg. grace period	6	6

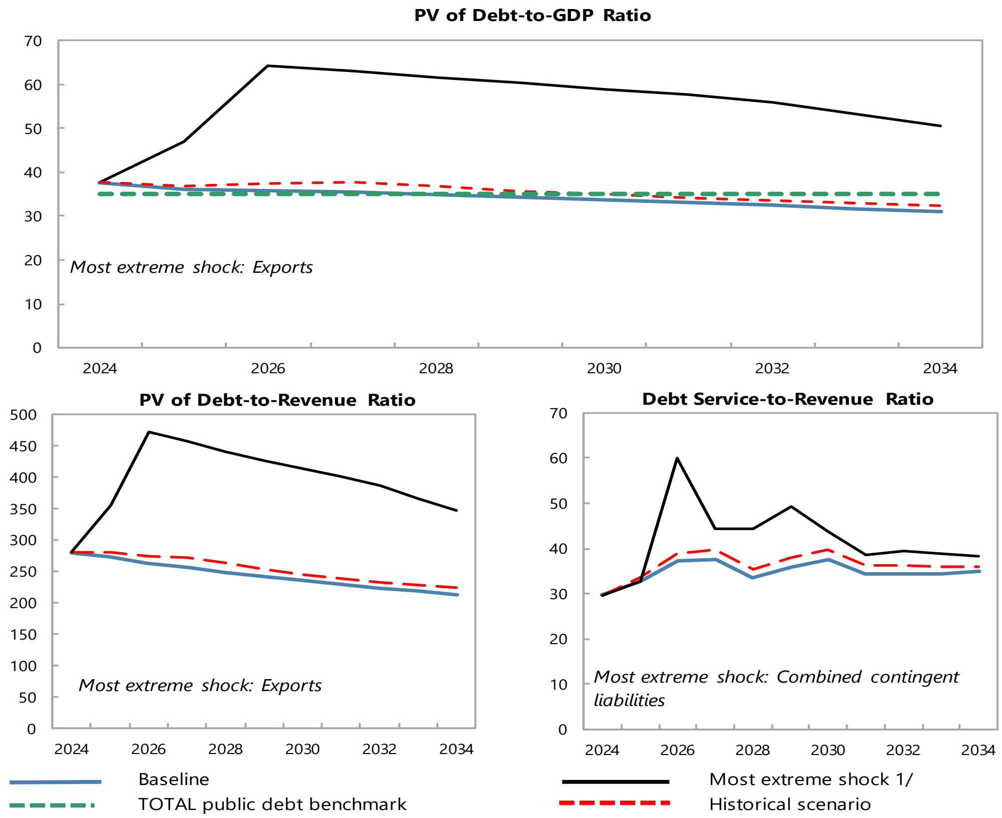
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2034. 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.

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

Figure 2. Guinea: Indicators of Public Debt Under Alternative Scenarios, 2024–34



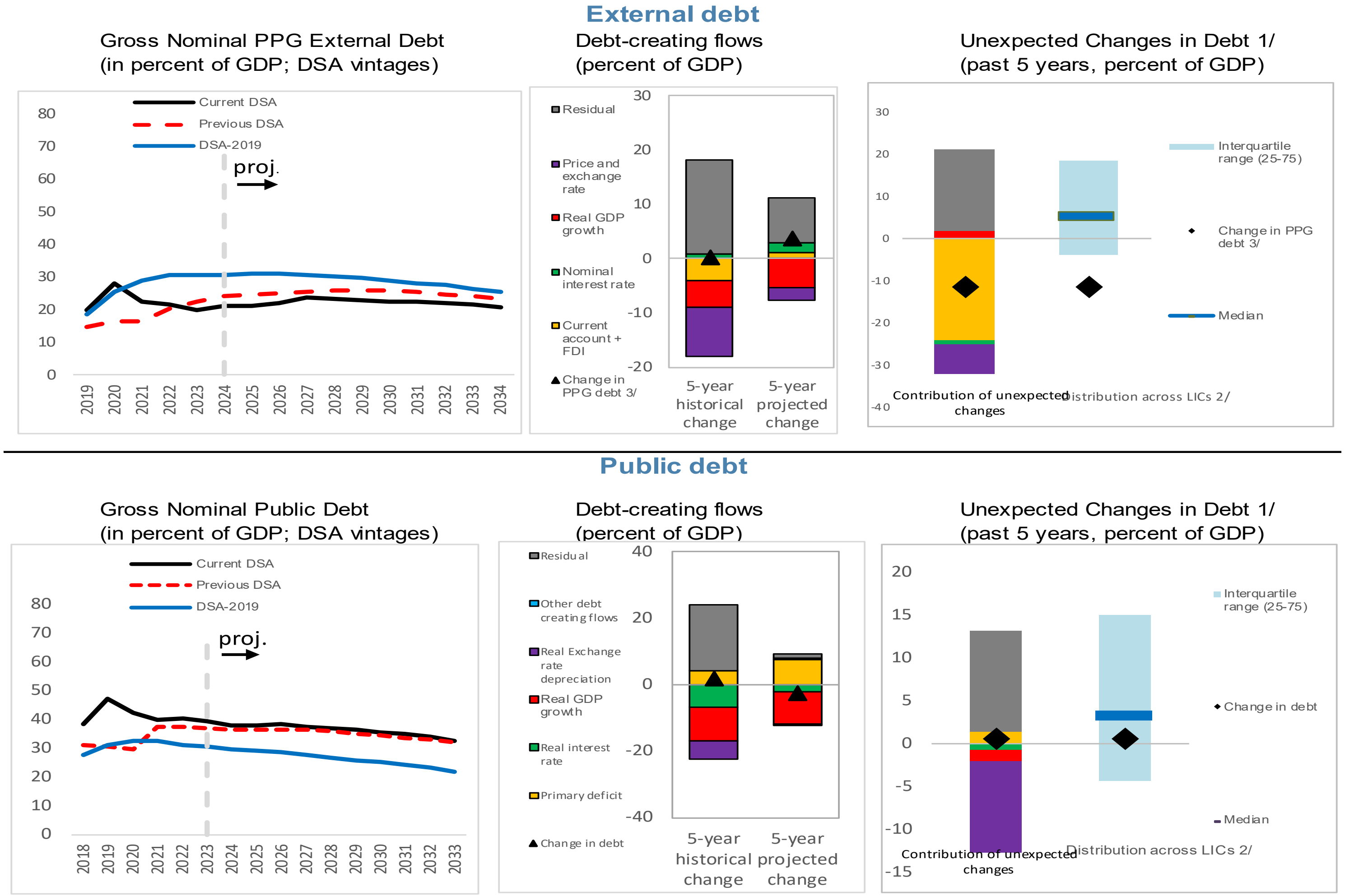
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	44%	44%
Domestic medium and long-term	31%	31%
Domestic short-term	25%	25%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.6%	2.6%
Avg. maturity (incl. grace period)	22	22
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	1.3%	1.3%
Avg. maturity (incl. grace period)	4	4
Avg. grace period	2	2
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 2034. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

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



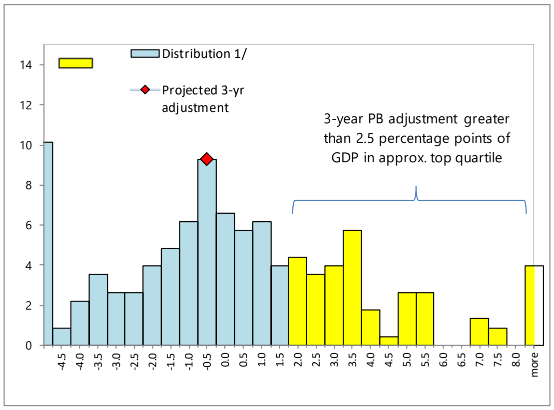
1/ Difference between anticipated and actual contributions on debt ratios.

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.

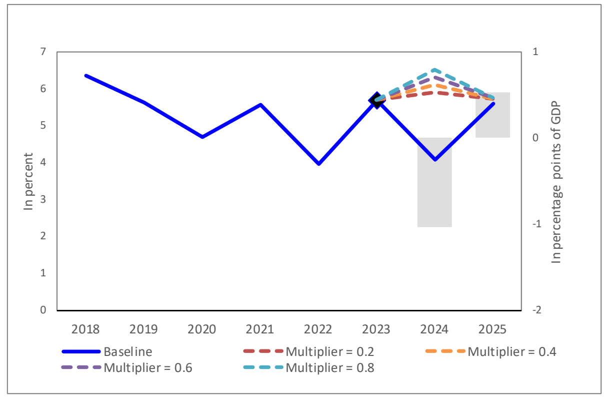
Figure 4. Guinea: Realism Tool

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



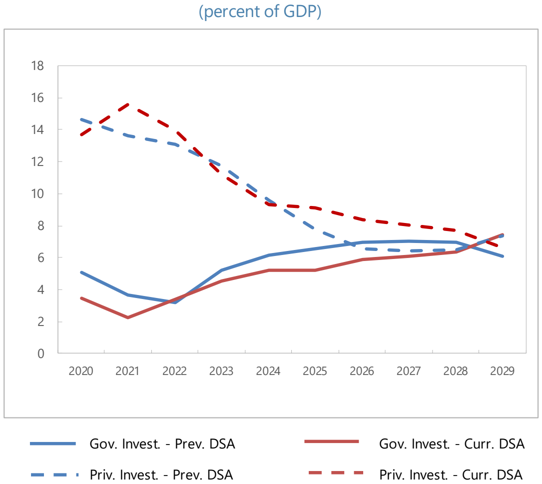
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

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)

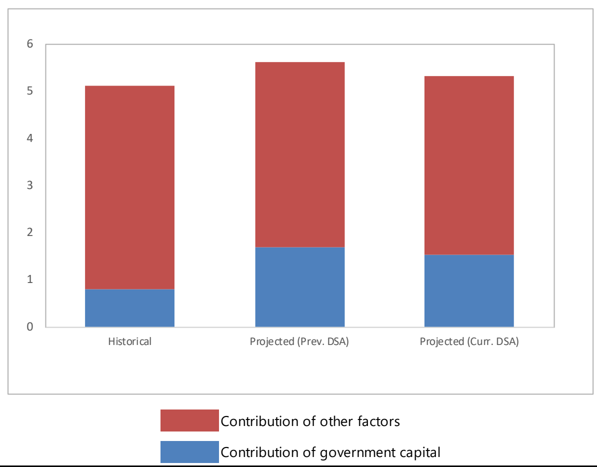
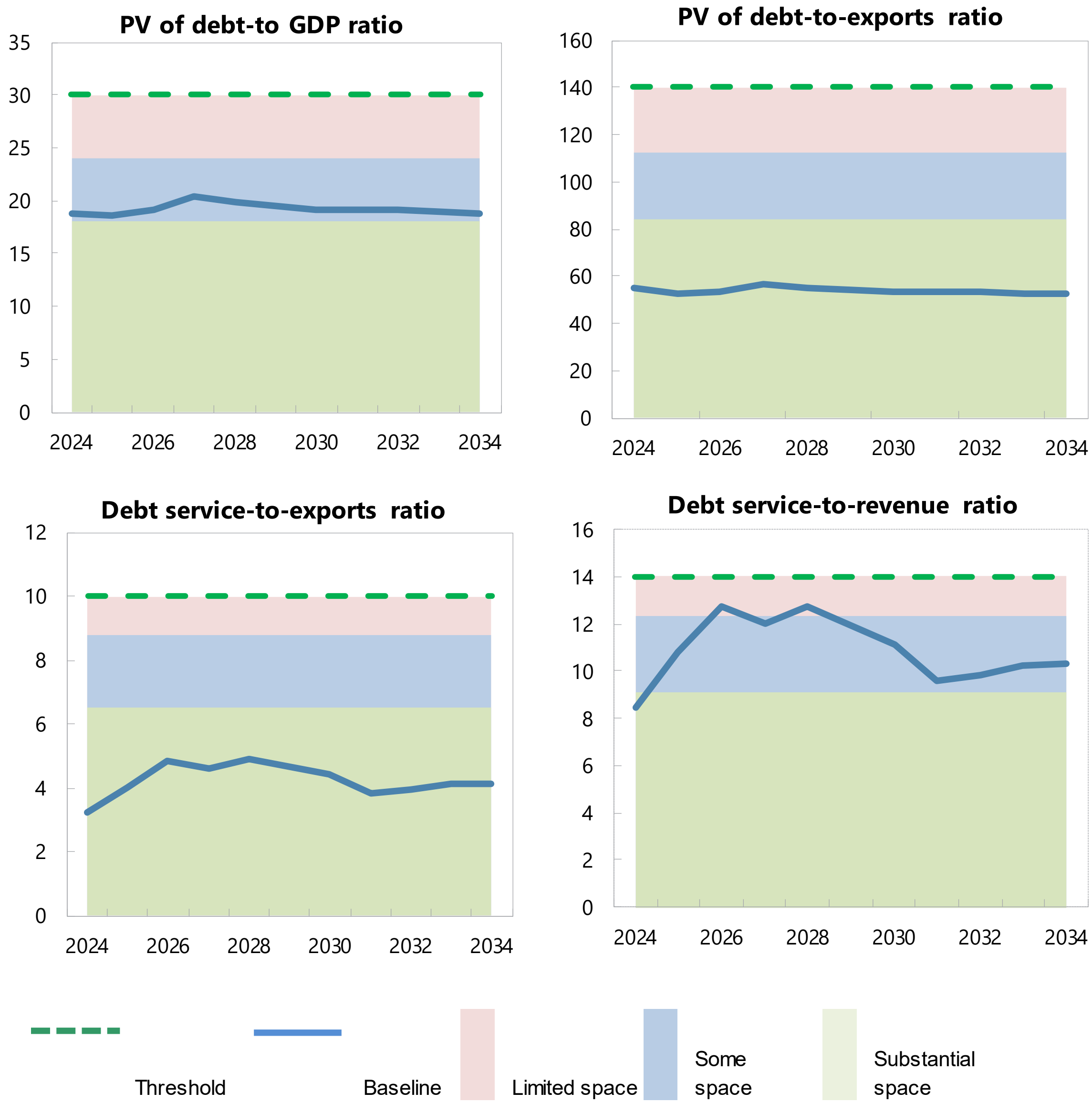


Figure 5. Guinea: Qualification of the Moderate Category, 2024–34[1]



Sources: Country authorities; and staff estimates and projections.

1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.
Note. This chart calculates the indicators for all countries for illustrative purposes, not just for those classified as moderate.

INTERNATIONAL MONETARY FUND

GUINEA

April 24, 2024

STAFF REPORT FOR THE 2024 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

(As of February 29, 2024)

Membership Status: Joined: September 28, 1963; Article VIII

General Resources Account:	**SDR Million**	**%Quota**
Quota	214.20	100.00
IMF's Holdings of Currency (Holdings Rate)	187.35	87.47
Reserve Tranche Position	26.85	12.54

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	307.77	100.00
Holdings	37.19	12.09

Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
RCF Loans	166.01	77.50
ECF Arrangements	146.38	68.34

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/Expired	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
RCF	Dec 22, 2022	Dec 27, 2022	53.55	53.55
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				
	2024	2025	2026	2027	2028
Principal	27.65	38.06	51.03	45.52	52.79
Charges/Interest	8.29	11.08	11.09	11.09	11.09
Total	35.95	49.14	62.11	56.61	63.88

[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

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

An update safeguards assessment of the BCRG was completed in December 2023. The assessment found limited progress in addressing the 2021 safeguards recommendations and emergence of new risks. Key vulnerabilities noted related to governance arrangements; management of foreign reserve; monetary financing; purchases of unrefined gold; arrangements with a state-owned oil importer (SONAP); and transparency and accountability mechanisms. Main recommendations included the need for comprehensive governance reforms including through amendment of the BCRG Law, strengthening controls around central bank operations including on reserves management, transactions with state-owned entities and the government, and addressing the delays in publication of IFRS financial statements. The BCRG has initiated steps to address these recommendations by drafting amendments to the BCRG law and staff is engaging on the rest of the recommendations.

Exchange Rate Arrangement

Guinea's de jure exchange rate arrangement is managed floating, but its de facto exchange rate arrangement is classified as a stabilized arrangement. Guinea has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF's Articles of Agreement. Guinea maintains an exchange rate system free of restrictions on the making of payment and transfers for current international transactions and multiple currency practices.[1]

Article IV Consultation

The last Article IV consultation was concluded by the Executive Board on December 22, 2022.

Mission Chief and Resident Representative

Ms. Pilar Garcia Martinez has been the IMF's Mission Chief since July 2023. Mr. Neree Noumon has been the IMF's Resident Representative since August 2023.

[1] In line with the revised MCP policy that became effective on February 1, 2024, all MCPs maintained by members under the previous MCP policy are considered eliminated. Guinea previously maintained a multiple currency practice, subject to IMF approval under Article VIII, Section 3 of the IMF's Articles of Agreement, because the reference rate could potentially deviate by more than 2% from the commercial banks' purchase and sales rates on a given day.

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 April 4, 2024)

I. Assessment of Data Adequacy for Surveillance
General: The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.
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 is working to update the national accounts series, implementing the recommendations of the 2008 SNA and using 2018 as new benchmark year. However, to finalize the update of the national accounts, additional work is needed including the compilation of estimates for the current years, backcasted series, and quarterly estimates consistent with the new base year. Employment and population statistics are published on an annual frequency. The 2018–19 National Household Living Standards Survey was published in December 2020.
Price Statistics: The National Institute of Statistics (INS) introduced an updated consumer price index (CPI) in November 2022. Data from August to November 2022 were disseminated. In addition to updated weights, geographic coverage was expanded beyond Conakry to include the entire country. In addition to the national index, indexes for 8 regions (including Conakry) are disseminated. TA to develop the new CPI was provided by AFRISTAT and the methodology reflects the methods of the harmonized CPI compiled and disseminated by the WAEMU-member countries. In coordination with AFR, the Statistics Department reviewed the new index methodology and discussed the creation of a continuous time series of data for the Conakry index. The INS agreed to gradually implement recommendations discussed.
Government Finance Statistics: The Ministry of Economy and Finance compiles comprehensive monthly budgetary central government data. This data includes revenues on a cash basis and expenditures on both commitment and cash basis. The presentation format has been transitioning to the GFSM 2014 form*at* The latest Government Finance Statistics (GFS) TA mission (January 2024) took stock of previous missions' recommendations regarding the compilation of the government financial operations table (TOFE) of the central government, consistent with the GFSM 2014, provided guidance for the experimental expansion of the GFS compilation work to extrabudgetary units (EBU) and local governments (LG), and helped with the preparation of the public sector debt statement by subsector according to maturity and type of instrument, according to currency and according to the residence of the creditor. The methodology for compiling the 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 has not submitted MFS data to STA since 2022Q4. 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: The BCRG has not submitted FSI data since 2022Q3, and migration to the new FSI forms recommended by the 2019 FSIs Guide has not been conducted. An FSI TA mission is planned for FY25, possibly jointly with an MFS mission.
External Sector Statistics: The Central Bank (CB) 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 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, considering the large increase in gold exports in 2021. The mission also prompted the National Statistical Institute (NSI) to conduct a survey in 2022 on the production of artisanal gold. A follow-up TA mission on BOP in June 2023 noted that the survey had provided trove of information regarding the organization of gold-panning, the actors involved, the production in various regions and the exploitation models. However, since the sector is dynamic, the mission recommended to conduct this survey at least every other year. The mission also reviewed CB's reporting of the mining companies and noted that it covers only the minimum of transactions in goods and services and no primary income flows or stock of external assets and liabilities. The mission gave a list of recommendations to address these issues. The mission also noted inconsistencies in transactions/positions with IMF between BOP and the National Summary Data Page (NSDP) and provided guidance to resolve these. The National Debt Directorate agreed to Guinea's participation in the World Bank's Quarterly External Debt Statistics. The CB has indicated that Guinea intends to subscribe to the SDDS and, in view of this, are currently preparing to report the International Reserves and Foreign Currency Liquidity template to the IMF.

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.
The authorities are working with STA on a roadmap to subscribing to the SDDS.	

Table 1. Guinea: Common Indicators Required for Surveillance
(As of April 4, 2024)

	Date of Latest Information	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication [6]
Exchange Rates	03/29/2024	03/29/2024	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	01/31/2024	3/18/2024	M	M	M
Reserve/Base money	01/31/2024	03/18/2024	M	M	M
Broad Money	01/31/2024	03/18/2024	M	M	M
Central Bank Balance Sheet	01/31/2024	03/18/2024	M	M	M
Consolidated Balance Sheet of the Banking System	01/31/2024	03/18/2024	M	M	M
Interest Rates[2]	01/31/2024	03/18/2024	M	M	M
Consumer Price Index	01/31/2024	03/04/2024	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	12/31/2023	01/31/2024	M	M	M
Stocks of Central Government and Central Government - Guaranteed Debt[5]	12/31/2023	01/31/2024	A	A	A
External Current Account Balance	09/30/2023	01/31/2024	Q	Q	Q
Exports and Imports of Goods and Services	09/30/2023	01/31/2024	Q	Q	Q
GDP/GNP	12/31/2022	01/31/2024	A	A	A
Gross External Debt	12/31/2023	01/31/2024	A	A	A
International Investment Position	12/31/2022	06/30/2023	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. Data not available due to capacity issues.
[4] The general government consists of the central government (budgetary and extra-budgetary funds, and social security funds) and state and local governments. Data not available due to capacity issues.
[5] Including currency and maturity composition.
[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Not Available (NA).

Statement by Mr. Regis O. N'Sonde and Mrs. Raguiata Bah
on Guinea
May 6, 2024

Introduction

1. Our Guinean authorities highly appreciate the constructive policy discussions held during the 2024 Article IV consultation mission and the discussions on Guinea's request for emergency financing under the Rapid Credit Facility (RCF). These dialogues have supported ongoing reforms and pave the way towards an Upper Credit Tranche (UCT)-quality program. Our authorities view the RCF as essential in addressing the economic and social consequences of the explosion of a major fuel import and storage facility, which occurred in mid-December 2023, affected all the sectors of the economy, and claimed human lives and other casualties. The authorities broadly agree with staff's assessment on Guinea's socio- economic challenges and policies needed to further strengthen resilience and achieve sustainable development goals.

2. Despite the vulnerabilities related to the food and cost-of-living crises, Guinea's economy has been resilient in recent years, supported by the mining sector. The Food Shock Window (FSW) played a critical role in mitigating the food crisis with impactful interventions to provide affordable fertilizers and seeds to farmers and deliver money transfers and food to vulnerable households in fragile areas.

3. The fire at the oil products warehouse had a multi-layered impact on the country, affecting human safety, economic stability, and production in critical sectors, including agriculture. The entire gasoline storage and 40 percent of the total petroleum product supplies were destroyed. The government's response, while aimed at ensuring safety and minimizing further damage, also contributed to economic challenges by restricting movements and transportation, highlighting the delicate balance to strike in crisis management.

4. Against this background, Guinea is facing significant financial strains and an urgent need for external financial support to restore fiscal stability and effectively manage the crisis. Our Guinean authorities are requesting budget support under the Rapid Credit Facility in an amount equivalent to 25 percent of quota (SDR 53.55 million or about US$71.5 million). This would also help catalyze financial and in-kind assistance from other development partners and strengthen the government's response to the tragedy caused by the explosion.

Recent Developments and Outlook

5. Economic growth has reached 5.7 percent in 2023, driven by the mining sector, but is expected to decelerate in 2024. The growth rate of the mining sector stood at 9.4 percent in 2023. Growth in the non-mining sector was more subdued but agriculture is expected to expand by 4.8 percent in 2023, benefiting significantly from the FSW emergency financing. In fact, the *Fonds de Développement Agricole* (FODA), which provides support to the agricultural sector used the FSW funding to support farmers, including by facilitating access to rice and corn seeds, reducing transportation costs for fertilizers, and supporting mechanization. Growth is expected to slow down to 4.1 percent in 2024 due to impeded economic activity in all sectors following the fire. Average inflation fell to 7.8 percent in December 2023, from 10.2 percent in 2022, mainly driven by decreasing food prices and further appreciation of the Guinean franc against major currencies. However, going forward, growth is expected to continue to be negatively impacted by the explosion-induced shock, given the rising costs associated with the implementation of new oil supply channels from neighboring countries and the risks on economic activity and exports. The growth forecast for 2024 has been revised down by 1.6% and the overall fiscal deficit is projected to widen from to 3.0 percent of GDP in 2024, against 2.4 percent in the pre-blast scenario, leading to urgent financing needs estimated at US$164 million.

6. The medium-term economic outlook for Guinea remains broadly favorable despite the challenges facing the country. The authorities expect economic growth to strengthen and average around 6.7 percent over 2025-28, reflecting increased production capacity in the mining sector and ongoing investment in new mines, notably in the *Simandou* iron ore operations. The non-mining sector is also projected to further recover as the international shocks and the impact of the fire abate. On inflation, the authorities expect a gradual decline to 9.2 by 2027 on the back of tighter monetary policy over the period, and a stronger Guinean franc mainly explained by the repatriation measures.

7. Downside risks to the outlook stem particularly from uncertainties regarding international geopolitical tensions, disruptions in fuel supply and the difficult political consensus on the implementation of the transitional timeline.

Fiscal Policy

8. The fiscal strategy in the short term aims to enhance domestic revenue to cushion the adverse effects of the fire. Domestic revenue collection deteriorated slightly in 2023, owing

to lower mining and non-tax revenue. To ensure that transfer pricing fairly reflects competitive market prices, particularly in the bauxite industry, the authorities have started to enforce the decree signed in July 2022 to limit transfer mispricing of bauxite. This measure is expected to help boost revenue by narrowing the disproportionate gap between mining output and revenue collected from that sector. The tax department is planning to conduct tax audits in 2024 to detect under-estimations. Non-mining tax revenue increased, supported by the improvement of tax compliance following the digitalization of tax declaration and the implementation of the single taxpayer identifier. On the expenditure side, public investment was stepped up to support Guinea's development agenda, while subsidies were lowered. The implementation of priority capital projects was ramped-up by 1.1 percent to 4.5 percent of GDP. In addition, the authorities are fully committed to rationalizing tax exemptions and subsidies. To this end, the subsidies to the electricity company (*Electricité de Guinée*) were reduced in the budget by 0.6 percent of GDP since the 2024 budget.

9. The authorities are easing the fiscal position in 2024 to accommodate the additional expenditures resulting from the fire, while limiting the overall fiscal deficit to 3 percent of GDP. The fire fueled unplanned public expenditure, given the budgetary resources needed to respond to its devastating effects on the economy and people. Public expenditure has risen significantly owing to the assistance provided to the victims and the gradual establishment of alternative oil supply channels. The Government is conducting negotiations with neighboring Côte d'Ivoire and Sierra Leone to develop oil supply mechanisms for the country. The national mobilization effort by the Guinean population helped establish gracious support mechanisms to provide free care to the victims. Nonetheless, the overall fiscal deficit for 2024 is projected at 3 percent of GDP, and below 3 percent in 2025. Despite the challenging circumstances, the authorities are committed to maintaining the budget deficit on a sustainable trajectory, while meeting emergency relief and development needs. Going forward, they will mainly resort to concessional financing to keep Guinea's debt at moderate risk of distress, although they regret that such financing remains scarce, while development needs in Guinea are substantial.

Monetary Policy

10. While inflation remained relatively subdued, surging food and energy bills are fueling inflationary pressures in 2024. The appreciation of the Guinean franc has helped contain inflation at 7.8 percent in 2023 as compared to 12.2 percent in 2022. Following shocks, *Banque Centrale de la République de Guinée* (BCRG) reduced its policy rate to 11 percent

from 11.5 percent and cut reserve requirements to 13 percent ratio from 15 percent in September 2023 to support growth. In March 2024, the Monetary Policy Committee maintained the monetary stance unchanged. In 2024, inflation is expected to rise to 11 percent due to the negative impact of the scarcity of fuel on agricultural activities and transportation of goods across the country. To contain inflationary pressures, the BCRG is ready to further tighten its monetary policy stance as needed and has committed to keeping budget financing within statutory limits.

11. The higher food and fuel imports are putting a strain on foreign reserves, but the BCRG is redoubling efforts to rebuild external buffers. The 2023 balance of payments was affected by a significant increase in food, fuel, and capital goods imports with an expected deterioration 2.4 months of import coverage in January 2024 from 3.4 months in December 2022, also affected by declines in gold and non-mining exports. Thus, the BCRG will strengthen exchange rate flexibility and limit its interventions on the foreign exchange market to support reserve accumulation. The BCRG is also enforcing the order taken in 2022 requiring exporters to sell a significant part of their foreign-exchange proceeds to local banks. As a result of the BCRG's closer monitoring of compliance to the repatriation requirement by exporting companies, approximately 42.3 percent of export revenue were repatriated in 2023, representing USD$432.9 million.

12. The banking sector remains resilient and profitable while financial inclusion is improving. Mobile money account openings continue to steadily increase both in rural and urban areas, thus widening access to much-needed financial services to the population.

The Negative Spillovers of the Fire, and Policy Response

13. Availability of fuel has been significantly constrained by the fire-related shock, causing difficulties to maintain economic activity. Due to the rationing of fuel in the aftermath of the explosion and the challenging and costly establishment of alternative supply channels, the availability of fuel to operate agricultural and industrial machineries was greatly hindered. Access to electricity were also heavily constrained, while transportation of goods became challenging. These constraints, coupled with global cereal shortages and high food prices put a heavy pressure on the cost of living for the Guinean households.

14. Despite the challenging environment, the authorities responded decisively to bring economic activity back to normal. They took urgent measures to supply food and health care, notably through the *Agence Nationale d'Inclusion Economique et Sociale* (ANIES) and the *Fonds de Développement Social et d'Indigence* (FDSI) and facilitated the establishment of solidarity mechanisms to provide urgent care to the most impacted households. Moreover, the authorities established alternative supply chains to swiftly restore the provision of fuel from neighboring countries.

15. The emergency financing under the RCF will help support the authorities' response, in view of addressing the adverse effects of the explosion. Adequate external financing is needed to swiftly implement the response plan and address the current balance of payments shock. The resources from the RCF will strengthen the government's response by supporting emergency relief to the victims, as well as decontamination and reconstruction efforts in the fuel depot site and neighborhood. These resources will also facilitate cash transfers to victims.

Pursuing Structural Reforms

16. Our authorities are pursuing policies to improve revenue mobilization from the mining sector. The *Simandou* iron ore project, with private investments totaling about US$20 billion, has been finalized in April 2024 and should help augment mining revenue and catalyze synergies in the rest of the economy. The authorities have introduced a strong local content framework in the project with the view to develop infrastructure and human capital.

17. On climate change, our Guinean authorities are making important progress on designing and implementing policies, to address increased vulnerabilities. They remain committed to their climate agenda, although the lack of adequate financing imposes major challenges in adapting to climate change. Further, they will continue to work to integrate climate considerations into project planning and strengthening institutional coordination on climate issues, as recommended by recent Fund technical assistance on Climate Public Investment Management Assessment (C-PIMA).

18. On governance, significant progress is noted in combatting corruption and strengthening AML/CFT. Four commercial courts are efficiently delivering judgements to the satisfaction of the business community despite capacity constraints. Besides, reforms to strengthen the AML/CFT regime are advancing steadily since the financial intelligence unit (CENTIF) has moved to the central bank, thus benefiting from improved working conditions.

Moreover, the *Cour de Répression des Infractions Économiques et Financières* (CRIEF), the jurisdiction in charge of fighting economic and financial crimes is pursing efforts to combat corruption with the prosecution of several officials for corruption and embezzlement.

Conclusion

19. The Guinean authorities have made significant efforts to mitigate the impacts of the explosion-related shock on lives and livelihoods and are determined to continue their close collaboration with the IMF on designing and implementing sound policies and reforms. They plan to promptly negotiate an arrangement for a Fund-supported program, which incorporates transformational reforms needed to reduce Guinea's vulnerability to shocks, enhance resilience and promote sustainable development.

20. The emergency financing through the RCF should provide leverage to the authorities in the near term to address vulnerabilities brought about by the fire. In this context, the authorities' engagement to reinvigorate macroeconomic stability should pave the way for further progress in structural reforms. Our Guinean authorities would appreciate Executive Directors' support to a disbursement under the Rapid Credit Facility.