GRAY/20/2446

June 17, 2020

Statement by Mr. Bevilaqua, Mr. Saraiva, and Mr. Nithder Pierre on Guinea (Preliminary)
Executive Board Meeting
June 19, 2020

Guinea – RCF Request – Draft Gray

We thank staff for their comprehensive report, and Messrs. Raghani, Sylla, and N'Sonde for their helpful statement. As other countries, Guinea is suffering the economic consequences of the COVID-19 pandemic through external shocks and domestic containment measures. The crisis has significantly worsened the country's economic outlook, giving rise to an urgent balance of payments (BoP) need, adding further pressure to its already fragile social context and compounding risks of instability. Real GDP growth is projected to sharply decelerate to 1.4 percent in 2020 coupled with increased inflationary pressures. Furthermore, the necessary budget accommodation to cope with the pandemic's adverse impact, has resulted in an aggravated fiscal position. In such context and considering the country's capacity to repay the Fund, sustainable debt and a good track record in meeting obligations to the Fund, **we support Guinea's request for a disbursement under the RCF in the amount of SDR 107.1 million (50 percent of quota) in the form of budget support.**

We commend the authorities' plan to address the crisis in a decisive and transparent manner. We welcome the targeted measures to alleviate the burden on most vulnerable through household charges waiver and cash transfer with support of the World Bank, and on most affected sectors and SMEs, through temporary tax relief and repayment of government domestic arrears. *Could staff elaborate on the key challenges that might prevent the transfer program from being effective throughout the Guinea's territory?* We emphasize the importance of transparency and accountability as well as appropriate communication strategies to gain public support during the containment, mitigation and recovery phases. In this regard, we welcome the authorities' willingness to ensure the appropriate use and monitoring of resources to cope with the COVID-19 emergency. In addition, we are encouraged by their commitment to publish monthly reports on the execution of COVID-19 related spending and all the awarded procurement contracts, as well as conduct a third-party ex-post audit within one year of the RCF disbursement.

Ensuring medium-term fiscal and debt sustainability will be of the essence. We welcome the authorities' commitment to preserve debt sustainability, including by targeting a lower-than-previously-planned primary fiscal deficit path and rephasing non-priority externally-financed public investments in 2020 to create further fiscal space. As the proposed RCF disbursement covers around 42 percent of the total BoP financing gap, in order to avoid further disruptions in the economic outlook it is critical further financial support from donors is mobilized. In this regard, we take positive note of the authorities' intent to explore solutions to address the BoP and fiscal difficulties in the near term, including by reaching out to other bilateral and multilateral partners. In addition, we are pleased by the debt service relief provided by the IMF under the Catastrophe Containment and Relief Trust (CCRT) and the authorities' intent to adhere to requirements under the Debt Service Suspension Initiative (DSSI), including by maintaining non-concessional borrowing within the envelope allowed under the ECF program. Moreover, considering Guinea's large poverty incidence (about 60 percent of the population), we encourage other development partners to contribute further in filling the remaining gap, with additional grants and concessional loans, which will be key in alleviating debt pressures and helping bring the program back on track.

Continued vigilance is warranted to prevent further financial risk and safeguard the soundness of the of the banking system. We take positive note of the measures taken by the Central Bank of Republic of Guinea (BCRG) to limit interventions in the foreign exchange market and allow greater exchange rate flexibility, which will help an adequate level of reserves to counter additional external shocks. We agree with staff in limiting central bank budget financing to contain inflation despite large financing needs, and supporting the monetary policy stance and the reduction of reserve requirements which will help to support banks' liquidity and credit to the economy. Regarding financial risk mitigation, we support the establishment of a public guarantee fund for SMEs and the envisaged loan repayment rescheduling for firms in the most affected sectors, while underscoring the importance of prudent renegotiation of loan terms. Finally, while we are encouraged by the improvements in banking supervision and regulations as mentioned by staff in the fourth ECF review report, we recommend the BCRG to ensure that prudential requirements are being adhered to by banks to preserve financial stability.

Continuous support through the ECF arrangement will help anchor policy responses in a consistent framework. We acknowledge the difficulties entailed by the ongoing shock in holding comprehensive policy discussions. That said, while we fully support the current access through the emergency assistance facility, we highlight the importance of resuming dialogue around the ECF as soon as feasible, bringing the 5th and 6th reviews for completion and making the needed adjustments to the new circumstances, in order to allow the program to remain on track. In particular, we caution against trimming international reserves too low if not sufficient additional resources are mobilized to fill the gap, and underscore that an augmentation of the ECF or a second disbursement under the RCF should remain as options for the near term.