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June 18, 2020

**Statement by Mr. Merk and Mr. Herold on Guinea
(Preliminary)
Executive Board Meeting 20/71
June 19, 2020**

We thank staff for their reports and Mr. Raghani, Mr. Sylla, and Mr. N'Sonde for their insightful Buff statement. We can support the authorities' request for a disbursement under the RCF in the amount of SDR 107.1 million. We have some concerns and would like to offer the following comments:

Fund obligations based on existing and prospective credit constitute almost 20 percent of debt service already in 2021. Thus, obligations to the Fund are and will remain significant over the projection period, which puts a premium on appropriate adjustment and prudent policies to ensure adequate capacity to repay. *On a more technical note, we would appreciate if staff included this number (i.e. annual obligations relative to overall debt service, gross reserves etc.) in future staff reports.*

We take note that preliminary data point to most end-March indicative targets under the ECF having been missed. While we recognize that this most likely has been due to the severity of the shock, we encourage the authorities to hold comprehensive policy discussions with staff once the crisis has calmed.

We understand that a temporary widening of the fiscal deficit is appropriate in order to address the health crisis and mitigate its severe economic impact. At the same time, we would like to highlight that it is important to resume fiscal reform efforts once the crisis has passed. We therefore welcome the authorities' commitment to medium-term fiscal and debt sustainability.

We regret to take note that the signature of the EUR 230 million loan agreement with a private investor to finance infrastructure development was not reported to IMF staff as required under the data reporting commitments for program monitoring under the

ECF arrangement. Even though this loan is considered to be concessional and thus does not affect the conditions established for the disbursement associated with the fourth review under the ECF, we echo staff's concerns about the transparency of debt reporting. Transparency and strengthened debt management are of utmost importance inter alia in order to ensure that financing is used for its intended purpose and to safeguard debt sustainability. Therefore, we are looking forward to a thorough discussion of this issue in the context of the next ECF review.

As already pointed out in the last review of the ECF arrangement, it is important to limit central bank lending to the government, which would also contribute to containing inflation. The latter is also crucial to rein in the appreciation of the real effective exchange rate, which has increased significantly as the inflation differential with trading partners widened.

We note that Guinea may legally only obtain financial resources under the RCF if disbursements under the concurrent ECF arrangement are delayed. Against this background, we do not understand the reference to the fourth review in para. 19 (see "In view of the delayed completion of the fourth ECF review"), as the fourth review was already completed on April 1st. Staff's comments would be welcome.

With regard to the banking sector, we take positive note that it remains stable and that provision of credit to the private sector has maintained. However, one should not neglect that banks' earnings and asset quality could be undermined if borrowers face difficulties to service their loans. Authorities and staff should therefore remain vigilant in order to ensure financial stability.