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June 17, 2020

**Statement by Mr. Kaya, Mr. Benk, and Mr. Marek on Guinea  
(Preliminary)  
Executive Board Meeting  
June 19, 2020**

We thank staff for the succinct set of reports, and Messrs. Raghani, Sylla, and N'Sonde for their helpful Buff statement. Guinea is severely impacted by the COVID-19 crisis, particularly through a slowdown in international trade and the restrictive measures introduced to contain the spread of the pandemic. While the fiscal position worsened amid declining tax receipts from mining exports, the decrease in FDI weighs on the external position. In addition, economic growth is projected to sharply decelerate from 5.8 percent to 1.4 percent in 2020. **We therefore support the authorities' request for a disbursement under the Rapid Credit Facility in the amount of SDR 107.1 million, equivalent to 50 percent of quota.** Resuming with reforms under the Extended Credit Facility (ECF) arrangement will be instrumental to bring the program back on track and catalyze additional support from international partners to meet the significant residual financing needs.

**Fiscal policies should focus on maintaining medium-term sustainability.** The authorities' COVID-19 response plan is commendable, and we concur that a temporary widening of fiscal deficit is warranted to strengthen the healthcare system, reinforce the social safety net, and support the economy. While we note that the overall risk of public debt distress is assessed to be moderate, Guinea's limited capacity to absorb shocks is worrying. The authorities should stand ready to reprioritize public investment to create buffers. *Can staff comment on the substantial downward revision in expenditure and net lending for 2020 (18.2 percent of GDP under the fourth ECF Review, compared to 17.3 percent of GDP in the current projection)?* Against this backdrop, we see merit in postponing spending on infrastructure projects, but this should not hinder the country's development goals going forward. *Could staff explain what options would be available for Guinea to mobilize additional financing after the pandemic subsides?* The public guarantee fund for SME loans needs to be well-governed to prevent a buildup of contingent liabilities, which would further weigh on Guinea's fiscal position.

**Credible safeguards and governance measures have to be implemented to ensure the transparent use of emergency resources.** We take positive note of the authorities' intention to create a budgetary fund for the emergency resources to track the spending. It is critical to publicly disclose all monthly reports on spending, as well as the respective procurement contracts. The Court of Accounts should conduct a full ex post audit of the COVID-19 spending needs. We are encouraged that the authorities are committed to signing a Memorandum of Understanding between the Ministry of Economy and Finance and the Central Bank of the Republic of Guinea (BCRG) on their respective roles for servicing financial obligations to the Fund, which is the right step to strengthen governance and place the cooperation between both institutions on a firm footing. The authorities should also move ahead in addressing the remaining recommendations of the 2018 Safeguards Assessment.

**The BCRG should closely monitor financial sector risks and ensure the sound conduct of monetary policy.** The current pandemic will likely have an adverse impact on the private sector's capacity to service their bank loans. In view of the banks' relatively high exposures to the sectors where the adverse effects of the crisis are expected to be significant, it is critical to keep the banks' balance sheet quality in check. The authorities should step up their efforts to implement the updated accounting framework and reporting system for banks, and provide them with guidance on loan repayments. While we take positive note of the authorities' commitment to allow greater exchange rate flexibility in order to absorb the current shock and maintain an adequate level of reserves, we encourage them to limit the central bank budget financing to contain inflation.