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June 18, 2020

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

We thank staff for an informative report and Messrs. Raghani, Sylla, and N'Sonde for their insightful Buff statement. The COVID-19 pandemic has disrupted Guinea's progress under the Extended Credit Facility (ECF) arrangement and deepened social and political challenges in the run-up to the presidential election. Since the completion of the fourth ECF review, containment efforts in response to the local outbreak, alongside worsening global conditions have led to significant deterioration in economic activity and Guinea's short-term growth prospects. This has triggered urgent balance of payments and fiscal financing needs.

We support the request for a purchase under the Rapid Credit Facility (RCF). Guinea's public debt is assessed as sustainable under the COVID-19 baseline and its capacity to repay the Fund remains adequate. The authorities also have a good track record in meeting obligations to the Fund, remain committed to sound macroeconomic policies, and have committed to address remaining recommendations from their 2018 safeguards assessment and to undertake an update. We also welcome measures that have been taken to strengthen the anticorruption framework and the commitment shown to appropriate and transparent use and monitoring of COVID-19 resources, including the establishment of a budgetary fund to account for all COVID-related resources, publication of pandemic related spending and procurement contracts, joint monitoring with civil society, and the conduct and publication of a full audit of the use of COVID-19 spending by the Court of Accounts.

Additional financing and the RCF: We note that the authorities are seeking additional financing from donors and urge staff to actively support these efforts and ensure that the RCF helps to catalyze additional support. While we note the rationale provided by staff for the 50 percent of quota request, we also flag the significant risks to social stability that could arise from inadequate health and social spending in response to the pandemic and its impacts, given the fragile country-context with 60 percent of the population living in poverty. Accordingly, we urge the Fund to stand ready to provide an additional RCF or an augmentation of access under the ECF arrangement to help fill the financing gap in the event downside risks materialize. *We also*

note the authorities' resolve to sustain the ECF arrangement and ask staff to elaborate on the current remote engagement challenges they face and their engagement plans through 2021. With respect to the final reviews of the RCF, given the fact that the test dates coincide with the Covid-19 pandemic, could staff clarify how the reviews will treat the sizable impact on economic outcomes and the additional challenges to program implementation from this major shock, in such a challenging context?

Fiscal Response to the COVID-19 Pandemic: As we feared in our April 1 gray, there has been a rapid escalation in Covid-19 cases since March. Considering the extremely challenging environment in Guinea, we commend the authorities' swift response to the pandemic, including the adoption of the National Emergency Preparedness and Response Plan supported by the WHO and development partners. We welcome the planned increase in health spending noting the limited capacity of the health sector in Guinea relative to the number of people requiring hospitalization. We also support the measures adopted to mitigate the economic impact of the pandemic and containment measures on vulnerable households and businesses, and the strengthening of social safety nets. *Could staff share their views on the adequacy of social safety net allocations? We also note the authorities' plan to support firms in the informal sector, including through establishing a GNF 20 billion fund. Could staff indicate whether there is scope, or if plans are underway, to use fintech and mobile money in the provision of these funds to targeted firms in the informal sector?*

Debt management and debt sustainability: We encourage the authorities to advance ECF program-supported reforms to strengthen debt management and enhance debt reporting. In the same vein, we welcome the authorities' plans to refrain from contracting new loans that do not meet the criteria set under the ECF, to pursue a more moderate pace of scaling-up of public investment, and to undertake a limited share of planned external project financing in 2021-22. *Could staff clarify whether ongoing online or remote support to help with efforts to strengthen debt management is feasible?*

Monetary and financial policies: The easing of reserve requirements and the policy rate is appropriate to support liquidity. However, the authorities also need to strike the right balance between monetary accommodation and containing inflation given the recent increase in inflation rates. *Relatedly, we note the uptick in the net borrowing from the central bank and wonder whether other options can be explored to avoid the inflationary effects associated with deficit monetization.* We also note that inflation in recent years has been impacted by rising fuel and electricity prices as subsidies were lifted. *The sharp decline in fuel prices in the wake of the pandemic does not seem to pass through to domestic prices, however, as inflation continues to rise. Could staff clarify why this is and if programmed tariff increases play a role?* In the financial sector, we urge the authorities to pay attention to the concentration of loans in sectors that are most impacted by containment measures. Accelerating the implementation of the updated accounting framework and reporting system for banks will be important, to strengthen the monitoring of bank portfolios, as asset quality could be undermined by the impact of the ongoing crisis on borrowers' capacity to service loans.

Exchange rate policy: While we agree that the REER overvaluation reported by staff suggests that a case can be made to allow more exchange rate flexibility, we also find it hard to arrive at a meaningful judgement regarding management of the adjustment without more information on the implications of dominant currency effects in Guinea. As is the case elsewhere, an important consideration is the potential for an initial contractionary response to large depreciations due to

dominant currency financing and pricing effects. Guinea's exports are dominated by minerals that are likely to be priced in foreign currency. This would eliminate any expected boost to exports from depreciation. At the same time the country imports a lot, so devaluations could be inflationary – with inflation already high at about 9 percent. Furthermore, if limited non-mineral domestic production cannot replace essential imports, the reduction in the import bill may be limited. *Given the importance of country specifics in this context, we welcome staff views on assessing dominant currency effects in Guinea, in order to further inform exchange rate policy advice pertaining to the country's adjustment in response to this large shock.*

With these comments we wish the Guinean authorities success in their efforts to mitigate the impact of the pandemic.