COUNTRY BRIEF MAY 2017

Guinea

Introduction

The Republic of Guinea (also referred to as Guinea-Conakry) is located on the west coast of Africa and borders Guinea-Bissau, Sénégal and Mali in the north and Sierra Leone, Liberia and Côte d'Ivoire in the South. According to the World Bank, Guinea has a population of 12.6 million (2015) with per capita GDP estimated at around US$420. With a Human Development Index of 0.414 (2015), Guinea is ranked 183rd out of 188 countries and territories by the UN which puts it in the low human development category and among the poorest in Africa and around the world. Guinea was at the centre of the deadly Ebola epidemic in West Africa in 2015-2016, which dented household welfare and disrupted the country's economic and trade activities. However, and contrasting the low level of economic development, Guinea is endowed with vast mineral deposits, and accounts for over 50% of global bauxite reserves; it also has significant hydropower and agricultural resources.

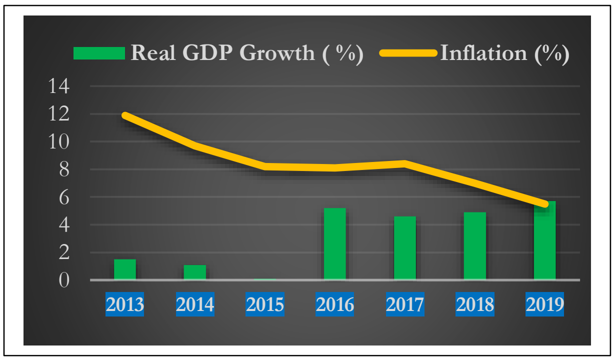
Political environment

Longtime opposition leader Alpha Condé became President in 2010 in what was Guinea's first democratic election since gaining independence from France in 1958. He won a second and final term in 2015 and enjoys a large legislative majority and relatively strong popular support. While his popularity will help ensure political stability until the end of his mandate, simmering ethnic and border tensions remain a challenge. Recently, these tensions have been further exacerbated by the influx of thousands of refugees from Liberia and Sierra Leone. At the same time, geopolitical risks in West Africa could undermine the country's stability. These relate to terrorist activities in Mali, with which Guinea shares a border, as well as maritime piracy in the region, given Guinea's weak naval surveillance and deterrence capabilities. Nonetheless, in the medium term, the return of political stability and the end of the Ebola epidemic will continue to improve confidence in the country.

Economic overview

GDP: According to the IMF, economic growth picked up strongly in 2016 to 5.2% compared with growth of 1.1% and 0.1% in 2014 and 2015 respectively (Figure 1). The sluggish economic performance seen between 2014 and 2015 was largely due to the economically debilitating impact of the Ebola epidemic which adversely affected investor and consumer confidence. The end of the Ebola pandemic resulted in the return of business confidence and the resumption of normal business activities. According to IMF forecasts, the economy will grow at an average rate of 5% in the medium term. This will be anchored on a strong mining sector, specifically, ongoing expansion of the Compagnie des Bauxites de Guinée, which will add to the already robust pickup in activity at the Boke mining company. Against the backdrop of an improved political climate, authorities in Guinea expect growth to be broad-based with productivity improvements in agriculture (due to the intensified use of fertilizer and irrigation), construction, and services and manufacturing (which accounts for about 7% of economic activity).

Figure 1: GDP Growth and Inflation



Downside risks to growth include a slowdown in global growth (particularly in China—both an investor and an importer of Guinea's aluminum ore) which could undermine the projected mining expansion and reduce financing opportunities for the government with adverse implications for growth prospects. Weather volatility, rising electricity tariffs, labor unrests and a decline in commodity prices also pose downside risks to Guinea's growth trajectory.

Inflation: The Central Bank of Guinea has maintained a tight monetary policy which effectively reduced annual average inflation from over 20% in 2011 to 8.2% in 2016. However, despite this decline, inflation remains relatively high and probably motivated the Central Bank decision to increase the policy rate from 11% to 12.5% in April 2016. Monetary authorities are keen to maintain strict control on prices, particularly if commodity prices rally, and so favour only a measured reduction in the banking sector reserve requirements, even as they look to stimulate the economy.

Fiscal balance: Except for 2015, largely as a result of plummeting commodity prices and contracting global demand, the overall fiscal balance in Guinea has improved markedly from a deficit of 5.3% in 2013 to less than 1% during 2016. This reflects an improvement in the government's fiscal management, most notably a reduction in fiscal expenditures and an expanding fiscal basket reflected in rising non-mining revenue. However, the budget deficit is expected to increase over the medium term as the government looks to stoke private sector growth, partly through the repayment of government arrears mainly to the electricity and mining companies. Notwithstanding the projected increase in the budget deficit, the fiscal balance will generally be within acceptable limits (3%) required for fiscal viability in line with the Maastricht criterion.

Overview of trade, reserves and financial sector

Trade: According to data from the Observatory of Economic Complexity (OEC), in 2015 Guinea ranked as the 124th largest export economy in the world with the value of Guinea's exports estimated at US$2.5 billion while imports were estimated at US$3.2 billion, resulting in a negative trade balance of US$706 million. Guinea's top four exports are Gold (40%), Aluminum Ore (30%), Crude Petroleum (7.5%) and Postage Stamps (5%). Its top five imports include Refined Petroleum (10%), Rice (7%), Packaged Medicines (3.2%), Special Purpose Ships (2.6%) and Motor Vehicles (2.3%). Like other African countries, Guinea trades more with the rest of the world than with Africa (Figure 2). The top export destinations for Guinean products are India (26%), Ghana (14%), Spain (6.4%), the United Arab Emirates (6.2%), and Ireland (5.7%). The top import origins are China (26%), the Netherlands (9.7%), India (8.2%), Belgium/Luxembourg (5.3%) and France (5%).

There is a relatively active cross-border trade between Guinea and the West African region, dominated by exports of precious minerals to Ghana. Other notable African trade partners include, South Africa, Sénégal and Morocco.

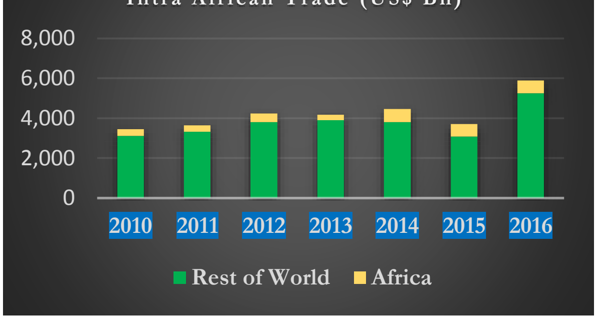


Figure 2:Trends in Guinea's Extra-and Intra African Trade (US$ Bn)

Current account balances: Guinea has a gaping current account deficit which is estimated by the IMF to have declined from 20.2% of GDP in 2015 to 12.2% in 2016. It is forecast to narrow even more in 2018, declining to 10.3%. The current account deficit is largely due to a large trade deficit reflecting a large capital and intermediate goods bill which has consistently exceeded US$1 billion since 2014. These imports reflect demand for mining equipment in line with increased activity in the mining sector. Meanwhile the decline in the current account deficit is premised on an increase in bauxite, gold and diamond exports in the post-Ebola crisis environment.

Debt: According to a World Bank and IMF Debt Sustainability Analysis (DSA), Guinea continues to be assessed as a moderate risk of debt distress. The country's debt is likely to remain sustainable, as long as the government continues to give priority to concessional external loans and grants which it has committed to maintaining. Data from the IMF shows that Guinea's external debt stock reached US$1.9 billion as at June 2016 which equates to around 52% of GDP; total debt service in 2016 was estimated at US$38.4 million or 2% of export revenues which is well below the 15% debt sustainability threshold for countries with weak institutional frameworks.

Exchange rate and Reserves: The Guinean Franc has depreciated significantly against the USD from USD/GNF 6758 in 2014 to a current rate of 9200 suggesting a 37% fall in the value of the currency. The currency and foreign exchange reserves have been pressured by the wide current account deficit as well as the spread between the exchange Bureaux and official rate. Guinean officials have committed to improving the flexibility of the official exchange rate and to limiting the activity of Foreign Exchange Bureaux to retail transactions. They have also committed to conducting the foreign exchange transactions of the Central Bank exclusively on the wholesale market with banks while facilitating foreign exchange transactions of companies with banks.

The rebound in gold prices in the first half of 2016, higher inflows from artisanal gold diggers and higher mining sector FDI inflows have helped contain foreign exchange pressures and lifted reserves from below 2 months of import cover to around 2.5 month of cover—which is still below the minimum threshold of 3 months of cover considered adequate. Although Guinea has previously been invited to join the CFA franc zone, which may help guarantee monetary stability, it is unlikely to join the zone.

Relationship with the African Export Import Bank

Opportunities for Bank Support

Guinea is exceptionally endowed with abundant natural resources in the extractive and hydraulic sectors as well as immense agricultural potentials which, if well-exploited could make the country an economic, maritime and riverine hub in the West African sub-region. For instance, the country has about 50% of the world's reserves in terms of bauxite and is also endowed with gold, diamonds, and uranium deposits which remain under-exploited and could play a vital role in the economic fortunes of the country.

With only one aluminum refinery with a capacity of just below 1 million tonnes, Guinea exports more than 95% of its bauxite as primary raw material. In this regard, the Bank could tap into that sub-sector by financing the expansion of the existing aluminum refinery and construction of new ones in efforts to boost the country's industrial capability and expand intra-African trade. Similar financing may also be considered in other sectors such as agriculture to increase the country agricultural processing capacity given the country's vast fresh water resources.

Given the immense hydro-electric potential—provided by surrounding rivers—the Bank could also assist to better exploit this resource by contributing to the financing of energy-related infrastructure which will enable firms to increase their productivity. These interventions align with the Bank's Plan V (Impact 2021). At the same time, the abundance of rivers offers opportunities for the financing of riverine port, transport and economic infrastructure for navigation beyond borders, economic use of river resources and facilitating intra-African trade in the sub-region. This also aligns well with the Bank's aspirations of supporting the development of the Blue Economy on the continent and will support ongoing efforts by the Mano River Union to accelerate economic development between member countries (Guinea, Sierra Leone, Liberia and Côte d'Ivoire).

The booming services sector which represent about 40% of the country's GDP also offers significant opportunities, especially in the area of telecommunications, where the Bank could collaborate with mobile operators in the country such as MTN, Sotelgui, Orange Guinea, Intercel Guinea, and Cellcom Guinea.

Table 1: Guinea: Selected Macroeconomic and financial indicators							
	2013	**2014**	**2015P**	**2016E**	**2017F**	**2018F**	**2019F**
Real GDP (%)	1.5	1.1	0.1	5.2	4.6	4.9	5.7
Inflation (%), Annual average	11.9	9.7	8.2	8.2	8.4	7.0	5.5
Fiscal balance, incl. grants (% GDP)	-5.3	-4.2	-8.9	-0.9	-0.6	-3.0	-2.4
Exports of goods and services (US$ m.)	1,929	1,958	1,613	2,009	2,292	2,791	3,094
Current acct. (incl. Official transfers) (% GDP)	-17.2	-17.6	-20.2	-12.2	-12.1	-10.3	-11.3
Gross reserves, Months of import	3.0	3.7	2.2	3.0	3.2	3.4	3.7
Total nominal Gov't debt, % GDP	42.5	43.8	50.7	52.1	49.2	48.7	47.4