

GUINEA

Table 1 2019

Population, million	13.6
GDP, current US\$ billion	13.8
GDP per capita, current US\$	1012.5
International poverty rate (\$ 1.9) ^a	36.1
Lower middle-income poverty rate (\$3.2) ^a	70.9
Upper middle-income poverty rate (\$5.5) ^a	92.5
Gini index ^a	33.7
School enrollment, primary (% gross) ^b	91.5
Life expectancy at birth, years ^b	61.2

Source: WDI, Macro Poverty Outlook, and official data.

Notes:

(a) Most recent value (2012), 2011 PPPs.

(b) WDI for School enrollment (2016); Life expectancy (2018)

Growth slowed to 5.6 percent in 2019 as the mining boom eased, relatively to 2018, while the fiscal deficit declined due to lower public investment. Growth is projected to decline to 4.2 percent and the fiscal deficit will widen to 3.4 percent of GDP in 2020 due to the COVID-19 outbreak slowing down poverty reduction. Downside risks have risen and include the persistent effects of the COVID-19 outbreak and social instability ahead of presidential elections.

Recent developments

Growth slowed down in 2019 to 5.6 percent (3.0 percent in per capita terms), following reductions in both mining growth due to unexpected bad weather. This is above the estimated potential growth rate of 4.3 percent. In the first half of 2020, economic activity in the services sector decelerated due to the impact of social distancing measures, but mining production increased, particularly artisanal gold due to higher international prices. Inflation had declined to 9.5 percent in 2019, owing to tighter monetary policy, but accelerated to 11.5 percent in the first half of 2020 with higher food prices and an increase in central bank financing to meet the growing fiscal deficit resulting from COVID-19 mitigation measures.

After declining to 13.7 percent of GDP in 2019, the current account deficit is widening in 2020. Mining-related FDI continued to be the main source of external financing and remained unchanged at 12.9 percent of GDP in 2019. International reserves improved to reach 4.8 months of imports in 2019. In the first half of 2020, import volume growth has accelerated, reflecting imports of medicines, sugar, and intermediate and capital goods.

The overall fiscal deficit (including grants) was 0.5 percent of GDP in 2019. Tax revenues barely increased, to 12.5 percent of GDP, in 2019 as mining revenues declined due to tax exemptions. Meanwhile, subsidies to the public electricity utility more than doubled to 1.7 percent of GDP in 2019 reflecting payments for electricity

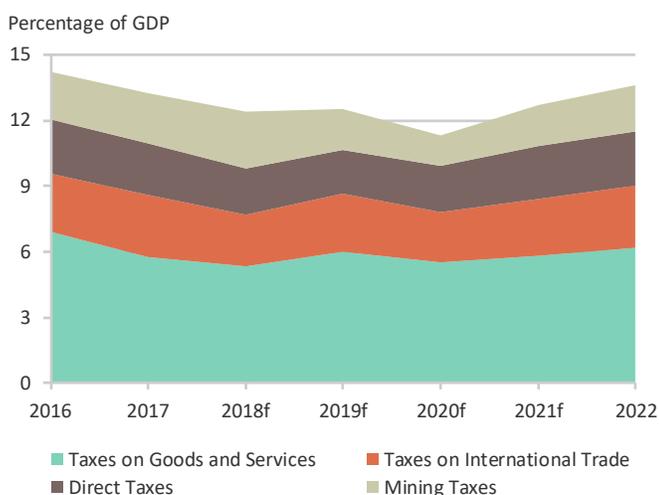
from the Kaleta project. To contain the fiscal deficit, capital expenditures were under executed. The fiscal deficit widened in the first half of 2020 as revenues dropped, and government spending increased due to the crisis to strengthen health infrastructure, expand social protection to vulnerable households, and support for the private sector (1.5 percent of GDP).

Public debt declined to 31.1 percent in 2019, largely owing to delayed implementation of externally financed projects. Although the share of non-concessional borrowing increased, it remained within the ceiling agreed under the IMF ECF program to support debt sustainability. The risk of public debt distress remains moderate.

Guinea has a flexible exchange rate regime. The Real Effective Exchange Rate (REER) appreciated by 9.5 percent in 2019, as inflation did not decline as expected. The IMF estimates that the REER was 16-31 percent over-valued at end-2018.

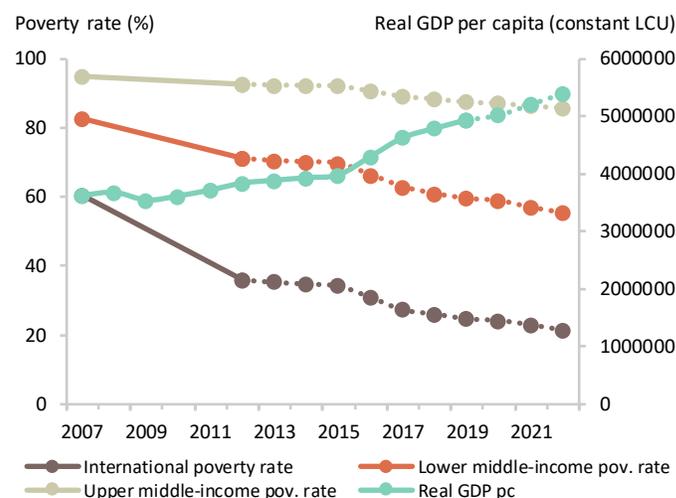
Projections based on GDP per capita growth suggest that the extreme poverty rate (percentage of population living below the international poverty line of US\$1.90 per day, 2011 PPP) declined from 26.1 percent in 2018 to 24.7 percent in 2019. Statistics from the COVID-19 household high-frequency survey indicate that almost 9 out of 10 households experienced earning losses due to the COVID-19 pandemic with households receiving transfers and those owning nonfarm enterprises being the most affected. Non-monetary poverty – the Multidimensional Poverty Index – estimated at nearly 66 percent in 2018, remains high.

FIGURE 1 Guinea / Tax Composition



Sources: Guinean authorities and WB/IMF staff estimates and projections

FIGURE 2 Guinea / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

Outlook

The COVID-19 pandemic dampened the growth outlook, which is projected to decline to 4.2 percent in 2020. The service sector is expected to contract because of declining hotel, restaurant and transport activities. Strong bauxite and gold production will sustain growth in 2020. Over the medium-term mining-related infrastructure investment would continue to drive growth. Public and private investment for infrastructure (energy and transport) will support the construction sector. Better provisioning of agriculture inputs and infrastructure investments should improve agricultural productivity. The implementation of structural reforms to strengthen governance and business climate, as well as more reliable electricity provision thanks to the completion of the Souapiti hydropower project in 2020, will support private sector development over the medium-term. Inflation is expected to remain high but decline gradually to 7.9 percent in 2022.

The external current account deficit is projected to increase to 18.9 percent of GDP in 2020, reflecting higher imports of health products and, foods and capital goods for infrastructure. The deficit is projected to decline thereafter to 11.1

percent of GDP by 2022, with exports projected to grow faster than imports after completion of the dam. FDI inflows will meet over 70 percent of financing requirements between 2020 and 2022, with long-term loans meeting the rest.

The fiscal deficit (including grants) is expected to average to 3.1 percent of GDP in 2020-2021, to accommodate budgetary pressures due to COVID-19, before declining to 2.2 percent in 2022. Planned implementation of tax policy and administration measures, including minimizing tax exemptions and tax code simplification, could help to sustain tax revenues. Meanwhile, efforts to reduce electricity subsidies should help keep expenditure under control. However, capital expenditures are projected to increase to 4.9 percent of GDP in 2020 and accelerate further in 2021-2022 to fund an ambitious infrastructure program. External borrowing will significantly increase in 2020 (by approximately 10.4 percentage points of GDP) to finance exceptional budgetary needs to respond to the crisis and finance the Souapiti project under a special purpose vehicle that is not part of the central government.

The extreme poverty rate is projected to decrease to 24.2 percent in 2020 aligned with modest expected growth and will further decrease to 21.4 percent by 2022 based on growth projections. However, lower agricultural GDP growth in 2019

and 2020, is likely to offset some of the growth effects on poverty reduction. Food inflation continues to exert downward pressure on household purchasing power, which is increasing during the pandemic. The recovery of the service sector may support earnings and employment in urban areas.

Risks and challenges

Downside risks dominate the economic outlook. Social unrest and political instability in the run-up to the presidential election in October 2020 could weaken near-term growth, fiscal discipline, and delay reform implementation. Increased spending during the upcoming election or in response to protests and union activity poses additional risks. The COVID-19 outbreak will result in health and economic shocks with significant effects on household welfare and the fiscal outlook that are likely to persist into 2021. The informal sector and small businesses may continue to be badly hit by the impacts of COVID-19, seriously undermining the livelihoods of the poor who have limited savings and access to financial services that would offer alternative coping mechanisms.

TABLE 2 Guinea / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	10.3	6.2	5.6	4.2	6.3	6.2
Private Consumption	2.9	3.8	5.4	3.5	3.2	1.4
Government Consumption	28.4	-7.2	-6.3	27.1	0.9	12.2
Gross Fixed Capital Investment	-62.3	8.7	-8.4	34.3	30.2	7.5
Exports, Goods and Services	67.5	7.2	-0.6	8.9	6.0	5.6
Imports, Goods and Services	-20.4	3.7	-9.5	26.9	8.6	3.6
Real GDP growth, at constant factor prices	12.5	6.7	6.5	4.2	6.3	6.2
Agriculture	2.5	5.4	4.8	3.1	3.9	4.4
Industry	26.6	6.4	8.0	11.3	8.6	7.8
Services	7.5	7.4	5.9	-0.6	5.2	5.4
Inflation (Consumer Price Index)	8.9	9.8	9.5	10.6	8.0	7.9
Current Account Balance (% of GDP)	-6.7	-18.7	-13.7	-18.9	-15.1	-11.1
Net Foreign Direct Investment (% of GDP)	11.0	11.0	13.0	9.0	8.8	6.7
Fiscal Balance (% of GDP)	-2.0	-1.1	-0.5	-3.4	-2.9	-2.2
Debt (% of GDP)	39.5	37.4	33.1	43.4	45.0	43.5
Primary Balance (% of GDP)	-1.1	-0.3	0.0	-2.8	-2.0	-1.3
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	27.3	26.1	24.7	24.2	22.9	21.4
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	62.9	60.9	59.5	58.8	56.9	55.4
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	89.1	88.4	87.5	87.2	86.4	85.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

Notes: e = estimate, f = forecast.

(a) Calculations based on 2012-ELEP. Actual data: 2012. Nowcast: 2013-2019. Forecast are from 2020 to 2022.

(b) Projection using neutral distribution (2012) with pass-through = 0.7 based on GDP per capita in constant LCU.