

## Recent macroeconomic and financial developments

Since 2020, the economy has demonstrated resilience to COVID-19. GDP growth was estimated at 4.3% in 2021, slower than 2020's 6.4%, despite new bauxite mines and gold-mining activities stimulated by favorable prices and private consumption. Inflation was 12.5% in 2021 due to increases in freight and fuel costs, and in imported inflation on consumer goods. Public finances improved with a budget deficit of 2.3% of GDP in 2021 against 2.9% in 2020, stemming from an increase in tax revenue derived from the effect of digitizing the financial system. Fiscal performance also benefited from budget consolidation and rationalization of operational and investment expenditures during the last trimester of 2021. Public debt stabilized at 43.3% of GDP in 2021 (43.4% in 2020), but Guinea is still at moderate risk of debt distress.

The current account deficit saw a huge narrowing in 2021 to 4% of GDP from 13.7% in 2020, due to a substantial reduction in the trade deficit. The current account deficit is funded by mining FDI. Foreign exchange reserves covered 2.4 months of imports in 2021, a slight increase from 2.2 months in 2020. The banking sector is stable, and NPLs are decreasing. The poverty rate dropped from 55.2% in 2012 to 43.7% in 2019, while unemployment described a bell curve from 3.8% in 2012 to 5.2% in 2014 and to 4.8% in 2018.

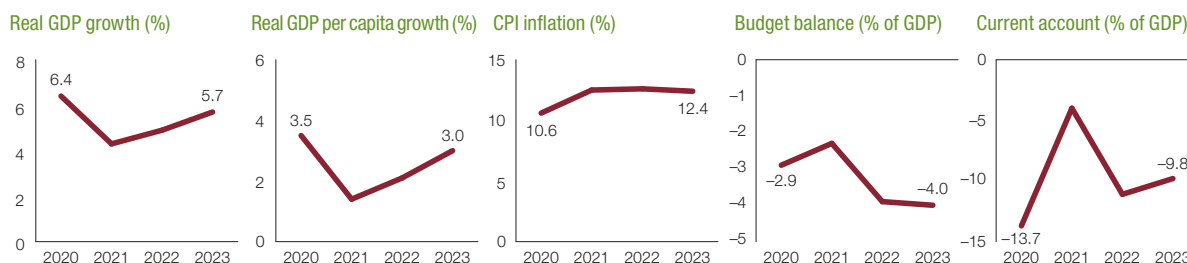
## Outlook and risks

GDP growth is forecast to reach 4.9% in 2022 and 5.7% in 2023, stimulated by mining projects, energy availability, and infrastructure investments. Inflation should remain above 10%, peaking at 12.6% in 2022 before falling to 12.5% in 2023, as supply chain disruptions subside. The upturn in COVID-19 cases in 2022 may lower household activity and incomes in the informal

sector, causing a rise in poverty and unemployment. The budget deficit is expected to widen to 3.9% of GDP in 2022 and 4.0% in 2023, attributable to additional costs associated with the upcoming elections. The current account deficit is expected to grow to 11.1% of GDP in 2022 before declining to 9.8% in 2023, when debt service payments resume after payment freezes by the G20, the Paris Club, and the IMF in response to COVID-19. This deficit is expected to be financed by mining FDI as well as loans and grants. The SDR allocation worth about \$290 million should promote a slight increase in foreign exchange reserves, to 2.5 months of imports in 2022–23 versus 2.4 months in 2021.

## Climate change issues and policy options

Guinea has poor climate adaptation and resilience capacities and is 115 on the 2021 GCRI. Agropastoral and fishing activities, which employ 66% of the active population, are vulnerable to climate variations. Despite its large water resources, it is subject to spatial and temporal variability in annual rainfall, now fewer than 6 to 9 months in the regions of Upper, Middle, and Lower Guinea compared with 9 to 10 months in Forested Guinea. In 2016, the government approved an NDC and is implementing projects with support from partners and climate funds. Revising the NDC to comply with the Paris Agreement will help translate Guinea's ambitions into low-carbon climate-resilient development policies. The cost to fund the NDC by 2030 is estimated at \$33 billion, \$23 billion from Guinea's own resources, with funding of \$10 billion needed. Slow implementation of climate change reforms has delayed the likely achievement of SDG 13 on climate action. Guinea should build its capacity for climate adaptation and resilience by integrating environmental priorities into its strategic and budget planning.



Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team.