

Recent macroeconomic and financial developments

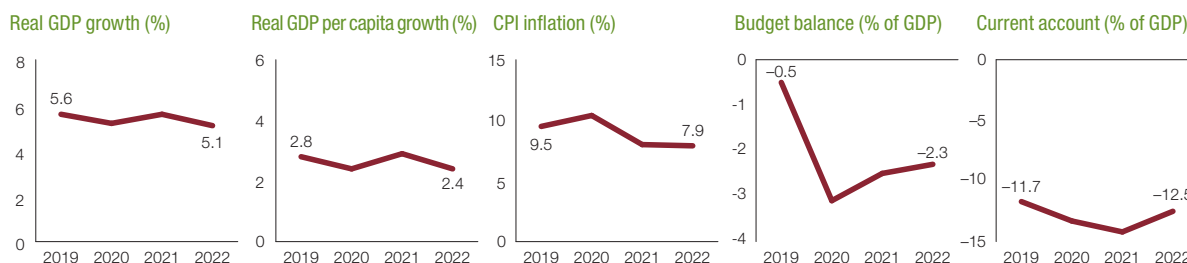
The Guinean economy has been resilient in the face of the global pandemic. Real GDP grew 5.2%, only slightly less than 5.6% in 2019 and far more than the 1.4% forecast at the start of the pandemic. This remarkable performance is linked to the strong 18.4% increase in mining activity in 2020, compared with 8% in 2019, the result of a recovery in Chinese demand for bauxite and aluminum, of which Guinea has been the major supplier since displacing Australia in 2017. But the pandemic hurt nonmining sectors, whose growth fell to 2.5% in 2020 from 5.1% in 2019, largely because of delays of major projects and the temporary closure of borders and measures to contain COVID-19, which disrupted agricultural, manufacturing and service activities. Those disruptions also led to an increase in inflation to 10.4% in 2020 from 9.5% in 2019. The central bank narrowed the differential between the official and parallel exchange rates to limit the inflationary impact of imported capital and consumer goods. A fall in tax revenues and spending increases to mitigate the effects of pandemic combined to raise the budget deficit to 3.1% of GDP in 2020, compared with 0.5% in 2019. It will be financed through advances from the central bank and the issuance of treasury bills. The massive importation of capital goods for major projects and the reduction in exports are expected to widen the current account deficit from 11.7% in 2019 to 13.3% in 2020. It would be financed by foreign direct investment in mining.

Outlook and risks

Medium-term growth is expected to reach 5.6% in 2021 and 5.1% in 2022, stimulated by a substantial energy supply from the new 450-megawatt Souapiti dam, new mining projects, and higher infrastructure spending. The budget deficit should gradually shrink to 2.5% in 2021 and 2.3% in 2022, the result of rationalization of public expenditure, a reduction of subsidies on electricity tariffs, improved taxation more suited to the nonmining sector, a broadening of the tax base and the strict application of the fiscal provisions of the mining code. New mining production should increase exports, and starting in 2022, reduce the current account deficit currently financed by foreign direct investment. The level of international foreign exchange reserves is expected to improve to cover more than 4 months of imports in 2021 and 2022, compared with 3.8 months in 2020.

Financing issues and options

Guinea's debt is sustainable, with a moderate risk of external debt distress. In 2019, the total public debt outstanding represented 36.5% of GDP, about 53% of it domestic. In 2020, the outstanding amount could reach 40.2% of GDP, about 60% it external. This moderate level of indebtedness should make it possible to undertake new concessional borrowing to finance priority spending and new investments in the country's national strategy to combat COVID-19. The authorities should focus on a prudent external borrowing policy in the future, while enhancing the effectiveness and efficiency of public investments.



Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.