Macroeconomic Challenges in Guinea

Presentation at the International Labor Conference on Solidarity for the Promotion of Sustainable Development in Guinea

23-25 May 2007, Mariador Palace Hotel, Conakry, Guinea

By Alvin Hilaire, Resident Representative of the International Monetary Fund in the Republic of Guinea and the Republic of Sierra Leone

Ladies and gentlemen, it is a great honor and pleasure for me to have been invited to participate in this important conference, and to have the opportunity to develop a dialogue with the labor movement. On this occasion, I would like to share with you five observations on Guinea's macroeconomic situation.

The first observation reflects a deep paradox—Guinea is a very rich country but with extremely weak social indicators. In fact, several participants in this conference have already highlighted this theme. The Republic of Guinea is endowed with vast mineral resources—a third of the world's bauxite reserves, over 1.8 billion tonnes of high quality iron ore, diamond and gold deposits, as well as large quantities of uranium. Moreover, the country possesses enormous growth potential in agriculture, fishing and animal breeding. With rich soil, good waterways and favorable climatic conditions, Guinea also has great scope to provide irrigation for enough agricultural produce to feed a vibrant agro-industry. By contrast, according to the latest Indicators of Human Development, Guinea continues to be among the worst performing countries—moving down from an already low 157th in 2005 to 160th place in 2006 out of 177 countries. Cholera continues to claim victims in the country's large towns, with half of the population not having access to potable water. As regards education, only about 30 percent of the adult population can read and write. Under these circumstances, the life expectancy of a Guinean is just 54 years.

The second observation is that the current macroeconomic situation is weak on many fronts. The growth rate of the country's real gross domestic product (GDP) declined from 3.3 percent in 2005 to 2.1 percent in 2006. For this year, the growth rate is projected to be only 1.5 percent. The condition of the public finances is characterized by excessive debt and monetary financing, aggravated by the halt to economic activity during the recent strikes. By way of illustration, the interest cost that the government incurs in a year is equivalent to 80 percent of what the state now gets in revenue from the mining sector. At the end of 2006, the inflation rate was close to 40 percent, the highest inflation rate in Africa after Zimbabwe. International reserves amount to less than a month of imports, offering very little buffer in case of emergency. To crown it all, at over US$ 3 billion, Guinea's external public debt is clearly unsustainable.

The third observation is that a strategy to resolve these problems has to simultaneously incorporate several elements of strong policy—deep control over the public finances and strict monetary policy in the context of a flexible exchange rate. Fiscal order involves strict management of expenditure (especially an avoidance of spending that is not budgeted), together with greater mobilization of revenue in order to rein in the public debt. It is essential that the efforts on the fiscal side be complemented by rigorous monetary policy if inflation is to be reduced. We have all witnessed first hand the disastrous consequences of a rapid escalation of prices here—for example, in September 2006, a survey showed that many school children did not return to school in Conakry because of the rise in the cost of school supplies and transportation. In the transitional period after the strikes, the Guinean franc has appreciated strongly—this is related to the sharp slowdown in economic activity and imports as well as renewed confidence. The appreciation has been reflected in a marked decline in the inflation rate. Overall, Guinea's flexible exchange rate helps to balance the supply and demand for foreign currency and the system should be maintained.

Observation four—growth cannot be firmly established in Guinea unless the rules of the game in the economy are the same for everyone, and the fruits of growth are equitably shared. It is helpful to think of the Guinean economy as a big cake. If large slices of this cake are diverted or misappropriated, then there would be little left to share among the population—the cake is not unlimited in size. This is why good governance must be at the heart of any economic strategy. Clarity in the way in which things are managed, in other words the level of transparency, is of course closely linked to good governance. In order to properly position itself in the modern world, Guinea must of necessity adopt international standards of transparency, accounting and procedures at all levels : including especially the public finances, the central bank, and the provision of credible economic and financial statistics for everyone to understand what is going on.

A fifth observation is that reaching the HIPC Initiative completion point can contribute a great deal to poverty reduction. In 2000, Guinea was declared eligible for a significant reduction in its external debt when it reached the so-called 'decision point' of the Heavily Indebted Poor Countries (HIPC) Initiative. This Initiative involves a global mechanism to reduce the debt of very poor countries and was launched in 1996—to date, debt relief has been approved for 30 countries, 25 of which are in Africa (including Cameroon, Mali, Senegal, Sierra Leone etc.) In order to fully benefit from the promised debt relief, Guinea now has to reach the HIPC 'completion point'. The conditions for this are the following : (i) implementation of a Poverty Reduction Strategy Paper (PRSP)—this is a key document that incorporates the priorities of the Guinean government and society, including the labor movement ; (ii) stable economic policy in the framework of a Poverty Reduction and Growth Facility (PRGF) arrangement with the International Monetary Fund ; (iii) in the area of governance, publication of reports of the Anti-Corruption Committee as well as audits of large government contracts ; (iv) in the field of education, an increase in the enrollment rate for primary school students and the number of primary school teachers ; and (v) with respect to health, an increase in the immunization rate for children and the number of pregnant women benefiting from prenatal care.

Attaining the completion point would also mean that Guinea would benefit from the Multilateral Debt Relief Initiative (MDRI). Established in 2005, the MDRI provides for 100 percent relief on eligible debt from three multilateral institutions—the IMF, World Bank and

African Development Bank—to a group of low-income countries. With these two debt relief initiatives (HIPC and MDRI), Guinea could have a write-off of its external debt to the tune of around US$1.1 billion. Consequently, external public debt service could be reduced by over US$100 million a year—money that the government could spend instead on projects to reduce poverty.

Ladies and gentlemen, I would like to associate myself with the spirit of optimism that has characterized this conference by concluding that despite the difficulties, there are a lot of actions that can be taken to improve the economic situation and thereby raise the standard of living of Guinean citizens.