FOR AGENDA

EBS/83/148

CONFIDENTIAL

July 19, 1983

To: Members of the Executive Board

From: The Acting Secretary

Subject: Guinea - Staff Report for the 1983 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1983 Article IV consultation with Guinea. A draft decision appears on page 18. The three-month period for the completion of the 1983 Article IV consultation with Guinea will end tomorrow, July 20, 1983. It became necessary to delay the completion and circulation of the staff report for the consultation in order to incorporate needed information dispatched by the authorities following the return of the mission to headquarters. It is understood that the Executive Director elected by Guinea will ask the Executive Board whether it would be possible to bring this subject to the agenda for discussion prior to the informal Board recess. Accordingly, the decision to extend the period for Executive Board consideration of this consultation can be taken at that time.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Osunsade, ext. 73713.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

GUINEA

Staff Report for the 1983 Article IV Consultation

Prepared by the Staff Representatives for the 1983
Article IV Consultation with Guinea

(In consultation with the Exchange and Trade Relations,
Fiscal Affairs, Legal, and Treasurer's Departments)

Approved by J. B. Zulu and S. Kanesa-Thasan

July 18, 1983

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I. Introduction

The 1983 Article IV consultation discussions with Guinea and discussions relating to a review of Guinea's performance under the one-year stand-by arrangement granted by the Fund on December 1, 1982, in an amount equivalent to SDR 25 million (55.56 per cent of quota), took place concurrently in Conakry during the period April 3-20, 1983. The Guinean representatives, led by Honorable Mohamed Lamine Toure, Governor of the Banque Centrale de la Republique de Guinee (BCRG), included senior officials of the BCRG, the Ministries of Finance and Planning, the (state-owned) banks, and IMPORTEX, the principal public enterprise in charge of state trading. The mission was also received by the Head of State, President Ahmed Sekou Toure, who took an active interest in the work and held lengthy discussions on major issues of adjustment policy with members of the staff team. The Fund staff mission consisted of Mr. Osunsade (head, ETR), Mr. McLoughlin and Ms. Doize (both AFR), Mr. Schneider (FAD), Mr. Abisourour (ETR), and Ms. Le (secretary, BLS). Mr. Calamitsis (AFR) participated in the major policy discussions; and Mr. Sangare, Executive Director for Guinea, attended some of the principal meetings.

At EBM/81/117 (8/28/81), the Executive Board considered the staff report on the last Article IV consultation discussions with Guinea; and at EBM/82/154 (12/1/82), the above-mentioned stand-by arrangement was granted to Guinea by the Board. The restrictive exchange practices in Guinea are being maintained by the authorities mostly within the framework of the transitional arrangements under Article XIV; apart from a multiple currency practice arising from the adoption of a dual exchange rate structure under the adjustment program supported by the stand-by arrangement, the existing restrictive exchange measure adopted in the period since Guinea's accession to Fund membership, and therefore subject to Fund approval under Article VIII, is in the form of arrears on external debt service payments. Among the restrictive practices antedating Guinea's membership of the Fund are four remaining bilateral payments arrangements with Fund members, of which all but the one with the People's Republic of China are inoperative.

II. Background to the Discussions 1/

1. Institutional and structural changes

The basic guiding force of economic and financial developments in Guinea during the past three to four years has been the declared objective

1/ Available data on the Guinean economy suffer from major limitations of coverage and quality. While there have always been inadequacies in the data, the statistical situation appears to have deteriorated lately, in part because the data problems associated with ongoing institutional changes have not been matched with increased efforts in this area, including use of available outside technical assistance.

of the Guinean authorities to reorientate the economy over time away from a centrally planned, collectivized model to a liberalized system with free scope for private economic initiatives. In the domestic economy, liberalization has entailed restoration of private economic activity, notably in agriculture and distribution, leading to the revival of a free market in goods and services. Sales of domestic agricultural products to official procurement centers at administered prices are, in principle, obligatory only as an eligibility condition for purchases through official channels, of production inputs and basic consumer goods which can also be obtained (at comparatively higher prices) from the free market. In the external sector, the right of private exportation and importation has been restored (in the latter case, solely on the basis of use of own foreign exchange), and the range of goods traded exclusively by the public sector has been reduced substantially; by early 1983, the range of products over which IMPORTEX had a monopoly of marketing through official channels had been limited to coffee and palm kernels on the export side and rice, pharmaceuticals, and petroleum products on the import side--amounting in the latter case to about 20 per cent of total recorded imports.

As there have been virtually no sales of foreign exchange 1/ to the private sector from official sources, the supply of nonagricultural goods to the expanding free market has consisted mainly of unrecorded imports financed with exports through unofficial channels, and partly of owner-financed imports through official channels (the so-called importation sans reglement financier). The main commodities involved in the trade through unofficial channels are rice, coffee, and cattle on the export side, and a wide range of consumer goods, together with a limited number of production inputs, on the import side. Unofficial estimates suggest that agricultural exports outside official channels may be of the order of US$100 million on an annual basis, with (domestically produced) rice accounting for about a half and coffee a third of the total. In addition, there are reportedly significant unofficial exports of gold and diamond.

Recent institutional changes in Guinea have also included a reform of the public enterprise sector, with the aim, inter alia, of shifting over to the private sector economic activities that individual public enterprises have proved unable to perform on a profitable basis. To improve administration and curtail overhead costs, the five sectoral holding companies controlling the individual public enterprises were abolished in October 1981, and each enterprise was given corporate autonomy in its areas of operation, including matters relating to employment and pricing. By early 1982 the authorities had put in place a policy under which the performance of individual public enterprises would be subject to periodic review and loss-making enterprises would be closed down. In the period of

1/ Guinea's currency (the syli) is pegged to the SDR at a rate of GS 24.6853 = SDR 1, equivalent at the end of June 1983 to roughly GS 23 = US$1.

slightly over one year to the end of March 1983, some 150 business units within the public enterprise sector had been disbanded. Pressure for improved performance by the public enterprises has also stemmed increasingly from competition from the reviving private sector; in this connection, the authorities in early 1980 set up a ministry to facilitate the development of small-scale and medium-scale private enteprises.

While successful implementation of the liberalization policy can be expected over time to permit a release of labor from the public to the private sector, the ongoing transition from one system of economic organization to another has tended to impose strains on Guinea's administrative resources. In particular, considerable time and effort have had to be devoted to tasks relating to settlement of claims and counterclaims resulting from the dissolution of long-standing public sector institutions. The fact that the transition has involved government officials in learning new ways of doing things (including in some cases familiarization with certain concepts and methodology) has inevitably also affected the pace of change. Furthermore, the fact that the existing machinery has not been fully adapted to capture developments in the private sector imposes major limitations of coverage and quality on available economic and financial statistics. For example, with the exception of the agricultural sector, available data on the national accounts relate essentially to the public sector, thus abstracting largely from the private economy where the scope of economic activity is roughly estimated by the staff to be about as large as the official economy. These and other statistical inadequacies impose a limitation on the quality of available data as a basis for judgment.

2. Output, prices, and wages

According to the official data on gross domestic product (GDP), economic growth in Guinea has been minimal in recent years; during the four-year period ended 1982, measured real GDP grew at a compound annual rate of just over 1 per cent, in the face of a population growth rate of about 3 per cent per annum. Partly under the influence of weather factors but largely because of inadequacy of price and other incentives, internally marketed agricultural production has virtually stagnated, growing at an average annual rate of only about 1 per cent during the four-year period ended in 1982. Reflecting a variety of unfavorable factors, particularly shortages of raw materials and spare parts and management problems, measured industrial production has declined in three of the last four years. Notable economic growth during the four-year period has been recorded only in the area of services, including the public administration and the distributive trade.

The recourse to mechanization of agriculture for many years, coupled with the establishment of a wide range of nonagricultural production units with substantial excess capacity, has involved extensive and intensive use of capital in the production process, leading to very limited productivity of capital (including external borrowing) over a wide range. In more recent years, the problem has been compounded by the prevalence of large idle capacity in connection with ongoing structural changes in the public enterprise sector.

In the absence of official data on price developments, the staff has computed a series based essentially on changes in the unit price of imports in foreign currency, translated to domestic currency prices at the exchange rate in the free (parallel) market. On this basis, consumer prices are estimated to have risen at an average annual rate of about 29 per cent during the four-year period ended in 1982, with the increase amounting to some 40 per cent in 1980. Within the shrinking domain of officially administered prices, the authorities havd in recent years been breaking gradually away from the practice of keeping prices rigidly fixed; thus, official retail prices were raised significantly beginning mainly in 1981 on a number of products, including cement, petroleum products, rice, and sugar. In view of the rising cost of production, the growing diversion of output toward unofficial marketing channels, and as part of overall adjustment efforts, the authorities also increased the producer prices of a number of agricultural products in early 1982 and again in early 1983. The indications (including the continued unofficial traffic of primary products to neighboring countries) are, however, that prevailing official producer prices are inadequate from the viewpoint of production and domestic marketing incentives.

As the estimated rise in overall consumer prices has more than offset the generalized increase (averaging 16 per cent) in wages and salaries granted in mid-1980 (the only such adjustment during the last 18 years), real wages have declined markedly. A contributory factor to the declining trend in real wages has been the fact that the proportion of urban household purchases supplied at freely determined prices outside the official economy has increased steadily, reaching a level estimated on the basis of a household consumer survey at about 90 per cent by 1981.

3. Domestic financial developments

Public finance developments have been dominated since 1979 by sharp swings in the financial position of the public enterprises and consequently their need for transfers from the Central Government. Thus, in 1979 (the first year when major payments were made) almost GS 8 billion in central government transfers to these enterprises was recorded. In 1980 no such payments were made, but they re-emerged in 1981 (GS 3 billion) and quadrupled (GS 11.5 billion) in 1982 despite the authorities' declared intention of curtailing these payments. Although full information is not available, it appears that these transfers to enterprises were in large measure necessitated by deteriorating operating performance, the need for plant rehabilitation, and the need to retire public enterprise debt.

Following the pattern of these swings, the overall deficit of the Central Government was substantially reduced in 1980 from the peak level of GS 5.2 billion reached in 1979 but since then has risen rapidly to reach GS 5.8 billion in 1982. This has occurred despite a revenue growth since 1980 which has averaged 22 per cent annually. Expenditures (other than transfer payments to enterprises) have grown over this period by about 11 per cent annually, mostly reflecting outlays on personnel, materials and supplies, and OAU-related items. In financing the increased deficits, the Central Government has placed principal reliance on domestic financing which has risen from GS 138 million in 1980 (1.5 per cent of beginning-of-year money stock) to over GS 5 billion (29.8 per cent of money stock) in 1982, while the fluctuating foreign financing has remained in the GS 0.7-GS 5.1 billion range in recent years. By contrast, though to a large extent reflecting budgetary transfers from the Central Government, the financial position of the public enterprises as a whole, following a marked weakening in 1980, has improved during the past two years, to the tune of about GS 5.7 billion in 1982 (as measured by the change in their net position vis-a-vis the banking system). Taken together, these developments resulted in a decline in the overall public sector deficit from GS 6.9 billion in 1980 to GS 2.6 billion in 1981, followed by a rise to GS 4.1 billion in 1982; in relation to GDP, the deficit fell from 21.2 per cent in 1980 to 7.2 per cent in 1981 but rose again to 10.3 per cent in 1982. The proportion of overall public sector expenditure covered by deficit financing fell from a record level of 63 per cent in 1980 to 20 per cent in 1981, but rose to 32 per cent in 1982 (Attachment I).

Within the framework of the Five-Year Development Plan (1981-85), the major capital expenditure programs in recent years have included those relating to the OAU conference (now scheduled to be held in Conakry around mid-1984), and the semimechanized agropastoral farms (Ferme Agro-Pastorale d'Arrondissement, FAPA) conceived by the authorities as a means of canalizing the skills of young graduates in agronomy and engineering toward modernized agriculture, thereby also seeking to minimize the problem of population drift to the cities and to impart positive externalities to the general public in the rural areas. Data provided by the Guinean authorities showed that expenditure on the OAU project amounted to a cumulative total of about GS 900 million (about US$40 million at the official rate) by the end of 1982; an additional GS 1.5 billion (some US$70 million) has been officially projected for this project during 1983. All but about 10 per cent of the expenditures on this project was scheduled to be financed by concessional bilateral assistance.

The domestic money stock (broadly defined to include quasi-money) has increased rapidly in Guinea in recent year, expanding at a compound annual rate of 22 per cent during 1980-82; abstracting from changes in quasi-money (which are influenced by timing factors such as placement of margin deposits for import letters of credit and use of the local currency counterpart of external aid funds), domestic monetary expansion averaged out at an annual rate of 44 per cent during the three-year period ended in 1982. As the period witnessed an almost uninterrupted deterioration in Guinea's net foreign assets position, the growth of domestic liquidity was fueled predominantly by domestic credit expansion. Although the increase in domestic bank credit during the period was partly attributable to the

Central Government, the largest share was used to cover the financing needs of the public enterprises. Domestic bank credit to the private sector has remained relatively insignificant. Against this background, and given a a diminishing availability of goods through official channels, the rapid monetary expansion has fueled domestic demand pressures, contributing to a steady depreciation of the syli in the unofficial market for foreign exchange.

4. External sector developments

Reflecting partly the institutional and structural changes, available time series data on Guinea's balance of payments cover the external transactions of (a) the official sector, (b) the mining companies jointly owned by the Government and foreign corporate interests, and (c) the domestic private economy to the extent known through licenses issued for self-financed imports. On this basis, Guinea's traditional export surplus which rose substantially in 1980, declined appreciably during the following two years, partly under the impact of weakening external demand for mineral exports. With the exception of 1981 (when a change was made from a bilaterally negotiated to a world market-related pricing arrangement for a portion of Guinea's export of bauxite), terms of trade developments have contributed negatively to the changes in the merchandise trade balance, to the tune of about SDR 15 million in 1982. Reflecting foreign exchange constraints, imports through official channels during the last three years have stagnated at around SDR 300 million. With continued growth of the deficit on services and private transfers (including dividend payments on foreign investments in the mineral sector), and modest receipts of official transfers (averaging SDR 17 million annually during 1980-82), the external current account deficit was in the range of SDR 20-60 million (2-4 per cent of GDP) during the three years 1980-82. The overall deficit, which involved a large deterioration in net official reserves as well as an accumulation of payments arrears, reached a peak of SDR 93 million in 1981, but declined to SDR 35 million in 1982. Guinea's gross foreign assets registered an increase in 1982, largely reflecting exceptional receipts in the form of advance payments of certain mineral taxes; even so, gross reserves amounted to barely a quarter of gross foreign liabilities at the end of the year.

Guinea's external public debt disbursed and outstanding at the end of 1982 amounted to the equivalent of SDR 1.1 billion, or some 70 per cent of GDP and slightly less than three times the annual value of exports. Debt service commitments in 1982 were very sizable, amounting to about a quarter of exports of goods and services through official channels. Because of their concessional nature, borrowings related to the OAU project are not expected to aggravate the debt service burden in the near future; the debt service ratio is projected to remain fairly stable in the foreseeable future. By the end of 1982, arrears on external debt service payment amounted to the equivalent of SDR 160 million, of which about 40 per cent was owed to DAC member countries.

Under the exchange arrangement maintained by Guinea, the syli has been pegged to the SDR since 1975 at a rate of GS 24.6853 = SDR 1, equivalent to the official parity of Guinea's previous currency (the Guinea franc) as introduced in 1960. In light of the marked increases in costs and prices during the subsequent period, maintenance of an unchanged official exchange rate has led to a large appreciation of the syli; during the period 1975-82 the bilateral trade-weighted effective exchange rate appreciated by close to 80 per cent in real terms (Chart 1). As mentioned earlier, the disequilibrium in the official foreign exchange market has spilled over into a substantial parallel market in which the syli traded in early 1983 at a rate of about GS 150 per US$1, representing a depreciation of some 85 per cent from the official exchange rate. Previously a very narrow market with considerable risk of illegality, the parallel foreign exchange market has grown substantially in recent years, as liberalization has proceeded in the midst of a worsening official foreign exchange position, and it has been treated with increased tolerance by the authorities.

The evolution of Guinea's exchange and trade system has been broadly in line with the trend toward economic liberalization. State monopoly in internal and external trade has become the exception rather than (as previously) the rule. As mentioned above, in general there are no official sales of foreign exchange for use by the private sector. On the other hand, with the exception of privately mined diamond delivered to the Central Bank for auction, foreign exchange receipts from private sector exports are not surrendered to the banking system.

III. Adjustment Program and Performance

The Fund-supported adjustment program adopted by the Guinean authorities for the 12-month period which began in July 1982 aimed at arresting the deterioration in Guinea's financial position and at strengthening the conditions for renewed economic growth, including the revival of internal and external confidence in the Guinean economy (EBS/82/207, 11/10/82). To this end, the program included targets calling for (a) deceleration of inflation (to 15 per cent during the program period), (b) curtailment of domestic liquidity expansion (to an annual rate of 15 per cent), (c) avoidance of further deterioration in the overall balance of payments, and (d) reduction of external payments arrears through cash payments by SDR 20 million during the program period. Among the principal policy measures to be applied in pursuit of these objectives were, on the fiscal side, (a) discontinuation of automatic recruitment into the public service, (b) abstention from general increases in wages and salaries, (c) cuts in central government expenditure to a level not to exceed GS 16 billion in 1982, to be followed by additional action with a view to reducing the overall public sector deficit in 1983 to the equivalent of 2 per cent of GDP, (d) abstention from financial transfers to the public enterprises for the purpose of covering operating losses, and (e) curtailment of expenditures in other areas consistent with the need to reconcile OAU-related outlays with the fiscal target under the program, including suspension of capital expenditure projects having no immediate prospects of external financing.

Other policy commitments of the authorities within the framework of the adjustment program included (a) operational autonomy for the public enterprises in financial, pricing, and employment matters, (b) continued implementation of the policy approach of liquidating loss-making enterprises, (c) prohibition of an increase in aggregate domestic bank credit to the public enterprises, and (d) continued implementation of the policy of price liberalization, with the exception of prices of specified strategic goods still supplied through official channels, with the latter prices to be reviewed from time to time in light of evolving circumstances. In the key policy area of the exchange rate, the authorities made a commitment (a) as a transitional step, to limit official sales of foreign exchange (at the official exchange rate) to foreign exchange resources becoming available through official channels, with all other foreign exchange transactions to be channeled through the parallel foreign exchange market, and (b) as a performance criterion, to carry out jointly with the Fund staff before the end of 1982 a detailed review of the exchange rate system, with a view to making appropriate formal changes in the system before the end of February 1983. In addition to the standard clause on the exchange and trade system and other quantitative limits mentioned above, the program also included ceilings and subceilings on domestic credit expansion and on external borrowing.

While a number of performance criteria have been observed, the results during the first half of the program period were mostly out of line with expectations (Table 1). 1/ The quantitative performance criteria that were observed by Guinea during the first half of the program year were those relating to (a) total domestic credit expansion, (b) net domestic bank credit to the Central Government, and (c) the limits on the contracting or guaranteeing of external loans on nonconcessional terms. The performance criteria that were not observed were those calling for no decline in net international reserves of the banking system during the program period and a phased reduction in external payments arrears. In addition, results fell markedly short of commitments in respect of an important area of adjustment policy: whereas the program called for no further extension of budgetary transfers to the public enterprises as a means of helping them to solve their operational problems, such transfers amounted to GS 11.5 billion in 1982. On the other hand, domestic bank credit to the public enterprises, which had been programed not to increase in the aggregate, declined by close to GS 5 billion during the first six months of the program period, reflecting the receipt of substantial subsidies from the Central Government.

In regard to exchange rate policy, the declared intention of the Guinean authorities "to complete before the end of 1982 a detailed review of this

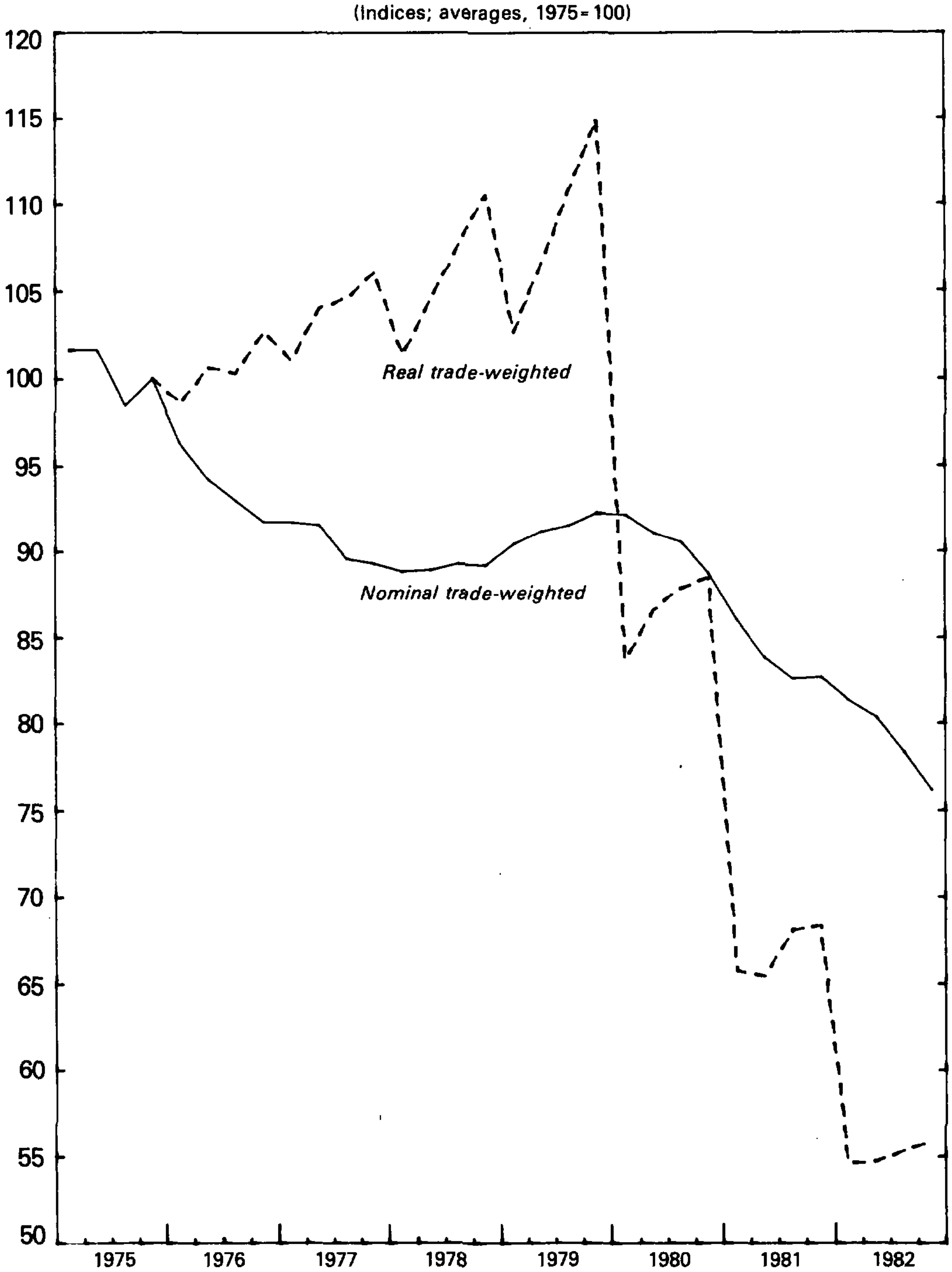
1/ Following an initial purchase of SDR 11.5 million (equivalent to 25.6 per cent of quota), Guinea has not been able to make further purchases under the stand-by arrangement.

CHART 1

GUINEA

EFFECTIVE TRADE-WEIGHTED EXCHANGE RATES OF THE SYLI; NOMINAL AND REAL (1975-82)

(Indices; averages, 1975 = 100)



Source: IMF Data Fund; and Fund staff estimates.
[1]In terms of local currency units per unit of foreign currency, i.e., decreasing index implies appreciation.

Table 1. Guinea: Quantitative Performance Criteria Under the Stand-By Arrangement, 1982 1/

	1982 (End of Period)		
	June (Base period) 2/	October	December
	(In millions of sylis)		
1. Net foreign liabilities of the banking system			
Ceiling	...	8,644.4	8,644.4
Actual	8,644.4	9,059.9	10,138.0
2. Domestic credit			
Ceiling	...	31,056.9	31,488.0
Actual	28,625.9	25,006.3	20,136.9
3. Credit to the Central Government (net)			
Ceiling	...	13,016.3	12,967.4
Actual	12,818.7	8,586.8	9,090.0
	(In millions of SDRs)		
4. Level of arrears			
Target	...	135.0	130.0
Actual	139.7	157.8	159.8
5. External borrowing (cumulative)			
1 - 12 years Limit	...	50.0	50.0
Actual	...	5.5	5.5
1 - 5 years Limit	...	5.0	5.0
Actual	...	0.6	0.6
6. Memorandum items	(In millions of sylis)		
a. Financial transfers to public enterprises by Central Government (year to specified date)			
Programed level	...	...	--
Actual	3,000.0 3/	...	11,523.7
b. Domestic bank credit to the public enterprises			
Programed level	...	15,177.4	15,177.4
Actual	15,177.4	15,539.2	10,458.6

Sources: EBS/82/207 (p. 25); and data provided by the Guinean authorities.

1/ No data beyond December 1982 have been communicated by the Guinean authorities.

2/ Data provided to the staff by the Guinean authorities showed that the initial base-period data had been revised as follows (in millions of sylis):

	Base-Period Data (June 1982)	
	Initial	Revised
1. Net foreign liabilities	10,491.3	8,644.4
2. Total domestic credit	30,220.3	28,625.9
3. Credit to Central Government (net)	13,581.7	12,818.7
4. Payments arrears (millions of SDRs)	140.0	139.7
5. Domestic bank credit to the public enterprises	16,000.0	15,177.4

3/ Data as at end-1981.

subject jointly with the Fund staff and to reach understandings (thereon) with the Fund ... before the end of February 1983" (EBS/82/207; page 39, paragraph 13 of the letter of intent) was only partially carried out. While the joint study was concluded as envisaged, the Guinean authorities did not subscribe to the conclusions reached by the staff that decisive action was urgently needed. For reasons explained below, they considered that such action was "inopportune" in their circumstances. In addition, the overall review of the adjustment program, which, as a performance criterion, was to be completed with the Fund before the end of February 1983, did not occur as scheduled; the Guinean authorities made representation in early 1983 that, because of the unexpectedly increased claims on available personnel resources, it was not possible for them to receive a Fund staff team for the review discussions before April 1983. In the absence of concurrence by the Guinean authorities on exchange rate action, it was not possible during the review discussions to reach understandings on the elements of adjustment policy for the rest of the program period.

IV. Report on the Discussions of Policies and Prospects

1. Development strategy and liberalization policy

The Guinean authorities were keenly aware of the fact that the persistence of serious financial imbalances hindered realization of the large development potential of the Guinean economy. During the past few years, little progress has been made in the implementation of development projects under the Five-Year Development Plan (1981-85), as the mobilization of internal resources has been difficult, and the availability of external financing has been limited. In addition, against a general background of scarce domestic supply of high-level skills, preoccupation with short-term adjustment problems has inevitably preempted resources away from tasks relating to longer-term development and structural change. Reflecting the recession in the international economy, implementation of a number of projects aimed at further developing the mining sector on joint-venture basis with foreign governments or corporations has had to be deferred.

On the question of development finance and project execution, the Guinean representatives stated that recent experience had shown considerable room for improvement in terms of interdepartmental coordination and the reconciliation of donors' with the recipient country's priorities. It was hoped that the Central Office for Project Appraisal (Bureau Central d'Etude des Projets), recently instituted (with the advice of the IBRD) within the Office of the President as a complement to the Ministry of Planning, would help in ameliorating the process of development planning, project selection, and program implementation.

As mentioned at the outset, the authorities' avowed commitment to economic liberalization has been a basic guiding principle for the reorientation of economic and financial policies. In the nonmining sector, and based on empirical evidence during the past few years, the freeing-up of scope for private business was expected to provide a positive and enduring basis for the recovery and growth of the Guinean economy. Nevertheless, re-emerging after many years of state control, free private enterprise in Guinea remained rudimentary in its organizational structure; and it was not clear to what extent it could be said that there were no vestigial, if unintended, cases of institutional impediments to the pursuit of private business even in activities that have been formally liberalized. Within the agricultural sector, the decision of the authorities to phase out government involvement in the FAPA program and to turn the FAPAs into independent and self-reliant production units could be seen as part of the economic liberalization process. Given the operational features of the FAPA program, however, including limitations of organization, incentives, and funding, the staff mission did not see strong prospects of economic and financial viability of these units.

2. Issues of adjustment policy

Data provided by the Guinean authorities showed that far from registering the expected improvement, the General Government's budgetary situation deteriorated sharply during 1982. While general government revenue during the year (including minor transactions by local governments) exceeded the programed target by about 30 per cent, expenditures rose even more sharply, exceeding the programed limit by over 50 per cent. The Guinean representatives attributed the improved revenue performance to (a) intensified tax efforts (including the collection of tax arrears from certain public enterprises), (b) advance payment in respect of the special tax on mining output, (c) nontax receipts from the liquidation of certain public enterprises, and (d) the full-year impact of tax measures introduced in May 1981. However, the better-than-expected performance on the revenue side (involving an increase of GS 5,155 million in central government revenue during 1982) was more than offset by the GS 8,524 million growth (GS 6,534 million on a net basis) in annual budgetary transfers to the public enterprises. The Guinean representatives explained that the increased subsidies to the public enterprises should be seen as part of their rationalization efforts, aimed at limiting the size of this sector to units with foreseeable long-term viability. It was not clear to the staff mission whether all the recorded GS 11,524 million of these transfers in 1982 was effected during the year, or (as seemed likely to the mission) represented in large part a mere regularization of financial flows that occurred in previous years. In any case, it was clear that these very large government transfers to the public enterprises represented a weakening of resolve and could not be helpful to the declared objective of promoting efficiency in the operations of these enterprises and generally strengthening confidence in the Guinean economy. On another important fiscal variable, namely, wages and salaries, there was an increase of 12 per cent in 1982, against an underlying wage drift of 8-10 per cent. In this regard, the Guinean representatives explained that, without abandoning their commitment to a discontinuation of automatic recruitment of new graduates into the public services, they had felt obliged on social grounds to absorb some of the labor displaced by the liquidation of ailing public enterprises, especially the managerial personnel.

For 1983, the approved budget estimates for the General Government implied a sharp reduction in the overall deficit to slightly under GS 0.5 billion from GS 5.8 billion (14.7 per cent of GDP) in the preceding year. However, projections made by the staff mission on the basis of existing trends and the probable outlook show that, even on the assumption that the Government would be able to prune down budgetary transfer to the public enterprises to no more than about a third of the level in the preceding year, the overall budget deficit of the General Government in 1983 could be in the neighborhood of GS 5 billion. On the revenue side, considering (a) the foreign exchange constraints and (b) the fact that import duty collections amounted to only about GS 1 billion in 1982, the GS 2.4 billion budgeted receipts from such duties in 1983 seemed unlikely to be realized. Moreover, in view of the continued underlying weakness of the public enterprise sector, together with the ongoing reorganization, little or no revenue contribution could be expected from this sector in the near term. On the expenditure side, unless existing practices about the public hiring of labor displaced by the rationalization of the public enterprises and the announced changes in the FAPA program were to be sharply reversed, overall outlays of the General Government could be of the order of GS 17 billion in 1983, or about GS 2.2 billion more than budgeted.

As indicated below, the budgetary outlook is very sensitive to assumptions made about the evolution of key variables in the external sector, such as increases in producer prices of export crops and the means for financing such increases, including a change in relative currency values. The near-term budgetary outlook in Guinea would also be influenced by the fact that, while economic activities formerly monopolized by the public sector were being reabsorbed by the private sector, the Guinean authorities had not yet put in place effective means of taxing income from such sources.

On monetary and credit developments, the Guinean representatives said that the reduction of about GS 2 billion in net bank credit to the Government during 1982 (despite a sharply increased budget deficit) was made possible by the receipt of funds from certain nonrecurrent sources, details of which were not clarified; this was reflected in the 1982 data in the form of a financing item of some GS 7 billion in addition to normal external loans and grants. As pointed out to the Guinean authorities, the staff mission was of the view that the data on financial developments in 1982 reflected, at least in part, serious inadequacies in the processing of the basic statistics, calling for early action to improve the quality (including the internal consistency) of the country's financial statistics. As for the public enterprises, the decline of more than GS 4 billion in borrowing from the banking system during 1982 was attributable to the sharply increased subsidy from the Government, rather than to an improvement in the underlying situation. The Guinean representatives took note of the concern of the staff mission that effective deficit financing of the public enterprises during 1982 was out of line with the declared objective of financial viability for these enterprises; they expressed the hope that, with the continuing efforts at rationalizing the operations of these enterprises, it would be possible to hold the line on the dependence of these enterprises on inflationary financing.

On the question of credit to the private sector, the Guinean representatives stated that the decline of GS 429 million in 1982 did not reflect the prevailing policy stance, which they explained as basically intended to support the ongoing liberalization process by making domestic bank credit available for private business in legitimate cases; it appeared that for a number of institutional reasons, possibly including those related to business confidence and slow adaptation in banking procedures, there has been a lag in the extension of domestic bank credit to the private sector. Looking ahead, the Guinean authorities stated that their plan to involve private participation in the banking system included the granting of authorization for the establishment of private banks in Guinea. In this context, they added that two privately-owned banking and investment institutions with foreign participation were scheduled to commence operations in Guinea during the second half of 1983.

In the discussion of interest rate policy within the existing institutional framework, the Guinean representatives said that the experience with the upward adjustments made in September 1981 had been mixed; to the extent that the increase in deposit rates had induced a rise in savings deposits, the profit margins of the banks had been squeezed because of the limited opportunities for the investment of mobilized funds. Thus, while in principle not unreceptive to the idea of periodic review of the level and structure of interest rates, the Guinean representatives believed that in the prevailing circumstances further upward adjustments of interest rates would have to await the expected recovery in private economic activity as well as the necessary adaptations in banking operations. On credit policy, the Guinean representatives stated that credit allocation within the public sector continued to be subject strictly to the approval of the National Credit Council for all individual loans in excess of GS 1 million; and the criteria for credit allocation remained as defined on the basis of sectoral priorities of the Five-Year Development Plan. Among other aspects of policies on the banking system, the Guinean representatives reaffirmed their determination to continue efforts aimed at expanding the use of the banking system, especially in the rural areas. In light of the data situation and the declared policy objectives, they took note of the counsel that outside technical assistance, which has so far been very sparingly used by the authorities, would be very helpful in making the necessary institutional and operational changes; in particular, it was not helpful that the Guinean authorities had not yet found it possible to put in place the expert in banking operations for whom arrangements had been completed under the Fund's technical assistance program within the framework of the adjustment program.

On external sector policies, the Guinean authorities shared the view that, given the continued deterioration in the balance of payments, there was an undeniable need for adjustment action. In this connection, they recognized the fact that the prevailing situation (including the substantially more depreciated exchange rate in the parallel market) involved substantial smuggling of export crops to neighboring countries. In their view, however, the growing importance of illicit trade could not be explained solely in terms of the differential in exchange rates; they believed that such a tendency would be minimized if it were possible for the authorities to make foreign exchange available for the financing of the necessary imports and other incentive goods in the domestic market. On the strategy of adjustment action, while not formally refuting the fact that the present official exchange rate of the syli appeared to be seriously out of line, the Guinean authorities felt unconvinced that, with minerals being dominant in the export sector, a downward exchange rate adjustment would bring about a significant increase in exports. In addition, it was their strong feeling that, against the background of a tight wages policy under which only one across-the-board increase in wages had been granted during the last 18 years, it would be difficult for them to permit a downward change in the exchange rate of the syli without compensating changes in wages and salaries within the public sector. In this connection, they took note of the mission's view that such a compensating change in money incomes within the public sector would be counterproductive in the sense of nullifying the necessary compression of aggregate absorption in the economy.

The Guinean representatives explained that because of their stated strong reservations about exchange rate action, it was their preference to seek to effect the necessary adjustment solely through internal measures. Accordingly, they were considering the imposition of levies on consumer goods marketed through official channels, with a view to mobilizing the necessary resources to finance increases in producer prices of major agricultural export crops. The staff mission pointed out that because of its partial impact in terms of both the domestic economy and the balance of payments aggregates, adjustment through the envisaged internal measures was likely to be comparatively less effective; in addition, imposition of the envisaged consumer levies, or other similar actions impinging solely on domestic demand and employment, could prove to be socially intolerable. Calculations made by the mission for illustrative purposes and discussed with the authorities showed that in terms of balance of payments effects, straight action on the exchange rate by a specified margin, in combination with appropriate demand management and incomes policies, would yield a superior effect to a corresponding internal measure in the form of tax-financed increases in producer prices. In terms of the domestic financial impact, calculations made by the staff also showed that for the major export crops mostly affected by export smuggling, and for given volumes of domestic production and world market prices, application of domestic producer prices equivalent to a full pass-through of a downward change in the exchange rate would involve a substantial financial loss by the official marketing agencies, which would have to be covered from budgetary resources. By contrast, adjustment of the exchange rate fully passed-through to the domestic economy would permit an increase of producer prices by the extent of the adjustment in the exchange rate, without recourse to domestic financing of such increases in producer prices.

The Guinean authorities reiterated the view that exchange rate action was not "opportune" in their prevailing circumstances. They intimated that time was necessary for them to reflect further on the different scenarios as well as their broader implications in the context of their overall policies. They took note of the point that against a background in which the stand-by arrangement with the Fund had become inoperative, exchange rate action was of primary importance as a means of giving content to the declared policy of liberalization and rekindling confidence. The urgency of such action was also underlined by the difficult nature of the foreseeable outlook, including continued weakness of the external current account, the impediment to new capital inflow posed by the existence of substantial payments arrears, the inherent uncertainties about bilateral external financial assistance, and the rising volume of foreign trade through unofficial channels. In the medium term, if no major adjustment actions are taken, projected imports of goods and services by the mining sector, together with an allowance for scheduled debt service payments and for phased elimination of external payments arrears over a period of three to four years, would roughly equal all the projected exports through official channels; this would in principle leave little or no financing margin for the import requirements of the official sector, including those needed for the execution of nonforeign-financed development projects.

Concerning other elements of external sector policies, the Guinean representatives said that they remained committed to phasing out the existing external payments arrears as soon as possible; they reaffirmed that for fear of adverse international publicity (such as they believed to have happened in some cases), they were generally disinclined to follow the approach of multilateral debt renegotiations. However, they took note of the staff mission's point that such renegotiations could prove helpful in providing the country with the debt relief needed to alleviate external payments pressures in the context of a new adjustment program.

V. Staff Appraisal

Economic and financial conditions in Guinea have remained difficult during the past several years. Economic growth has been substantially below potential, and financial imbalances have posed serious problems.

Against this background, the policy of economic liberalization adopted by the Guinean authorities contained the potential for a resolution of these difficulties and a revival of confidence in the economy, including development of the country's large agricultural and mineral resources. The adjustment program adopted by the Guinean authorities for the year beginning mid-1982, and supported by a stand-by arrangement with the Fund, was aimed at consolidating the gains that have been made, while strengthening the bases for further adjustment and growth of the Guinean economy. While notable efforts have been made in a number of areas, including a wage freeze, performance under the adjustment program has been generally less than satisfactory. Economic growth has continued to be minimal, and the expected improvement in domestic finances has not materialized. In the circumstances, it is important for the Guinean authorities to expedite the necessary adjustments in the economy and to infuse increased momentum to the liberalization process, thereby strengthening the conditions for a revival of economic growth.

Interpretation of recent financial developments in the Guinean economy is handicapped by an apparent weakening in the quality of available data, calling for intensified efforts, including appropriate technical assistance, to improve their compilation and internal consistency. While, on the basis of available data, government dependence on domestic bank credit in 1982 was reduced, due essentially to certain transient factors, there has been a major setback in the program's aim of moderating the reliance of the public enterprises on government transfers. In addition, the necessary realignment in the tax system has not been made, to reflect the shifting frontier of economic activity as between the public and private sector under the liberalization process. As regards domestic credit policy, the commitment to economic liberalization has so far not been reflected in increased bank credit for the private sector, owing at least in part to lagging adaptations of institutional arrangements and prevailing practices. It is important that the Guinean authorities redouble their efforts to achieve financial viability of the public enterprises, and that necessary adaptations be made in the banking system to cater to genuine credit needs of the private sector. As the recovery of the economy gets under way, it would also be well to keep under close review the evolution of domestic interest rates, taking account of prevailing price trends as well as corresponding conditions in neighboring countries.

In the external sector, continued application of the present official exchange arrangement involves large losses for Guinea in the form not only of substantial leakages of scarce resources but also of deterrence of much needed capital inflow from both official and private sources. Early action on this matter is an indispensable step for the rectification of the large financial imbalances in Guinea and for the revival of growth as well as external and internal confidence in the Guinean economy. Particularly in light of the recent deterioration in domestic finances, corrective action on the exchange arrangement would need to be accompanied with firm restraint in the management of aggregate domestic demand and a cautious stance on wages and salaries. In the context of the liberalization policy and the necessary change in the exchange arrangement, complementary steps also need to be taken to ensure that recanalization toward official channels, of agricultural exports previously traded unofficially is accompanied with the opening-up of the official foreign exchange market for the financing of legitimate import needs of the private sector. It would also be helpful to the Guinean authorities and to their international credit standing if their commitment to the phased elimination of external payments arrears could be pursued within an orderly multilateral framework. In any case, given the present difficult financial situation and the uncertainties in the near term, maximum caution needs to be exercised in the area of external debt management.

On the exchange and trade system, while generally continuing the trend toward liberalization, Guinea needs to make further progress in the elimination of restrictive practices; as mentioned in the introductory section, these practices include (a) multiple currency practice arising from a dual exchange rate structure, (b) maintenance of external payments arrears, and (b) bilateral payments agreements with Fund members. In the circumstances, including the uncertain prospects for adjustment action and the absence of a clear timetable for the elimination of payments arrears, the staff does not recommend Fund approval of these restrictive practices.

It is recommended that the next Article IV consultation with Guinea be held on the standard 12-month cycle.

VI. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1983 Article IV Consultation

1. The Fund takes this decision relating to Guinea's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1983 Article XIV consultation with Guinea, in light of the 1983 Article IV consultation with Guinea conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. While generally continuing the trend toward liberalization, Guinea maintains a number of restrictive exchange practices as described in EBS/83/148. The Fund welcomes the progress made in Guinea in the pursuit of liberalization policy, but would urge the authorities to take early comprehensive action to correct the maladjustment in costs and prices in the Guinean economy and to accelerate progress in eliminating restrictive practices, including the external payments arrears and the bilateral payments arrangements with Fund members.

Guinea - Basic Data

Area and population

Area	95,000 square miles
Population (mid-1982)	5.7 million
Population growth rate	2.9 per cent

	1978	1979	1980	1981	1982
	(In millions of sylis)				
Gross domestic product (at current market prices)					
Agriculture	9,050	8,311	10,399	11,534	13,018
Mining	5,184	5,348	6,928	7,690	7,708
Manufacturing	1,372	1,400	1,176	1,270	1,394
Construction	758	755	1,077	1,158	1,248
Commerce	4,855	5,200	4,507	4,968	5,603
Administration	2,582	2,997	3,546	3,952	4,398
Other sectors	5,215	5,189	4,926	5,570	6,303
Total	29,016	29,200	32,559	36,142	39,672
	(Annual per cent changes)				
Prices					
GDP deflator	2.1	1.9	8.8	9.4	8.3
Consumer prices in Conakry	6.7	11.2	40.0	35.0	30.0

	1978	1979	1980	1981	1982 Program	1982 Actuals	1983 Official budget	1983 Staff proj.
General government finance				(In millions of sylis)				
(Excluding changes in domestic currency counterpart of external payments arrears)								
Revenue	9,056	9,971	10,074	13,145	14,084	18,300	14,349	12,314
Expenditure	6,822	15,190	10,959	15,776	15,964	24,123	14,803	16,969
Current	4,264	4,966	6,580	6,258	8,601	7,237	8,207	8,373
Capital	1,899	1,858	3,670	5,610	5,851	4,338	3,452	3,452
Extraordinary transfers	95	7,858	--	3,000	--	11,524	2,000	4,000
Expenditures of local governments	564	508	708	907	1,512	1,024	1,145	1,145
Overall surplus/deficit (-)	2,234	-5,219	-885	-2,631	-1,880	-5,822	-453	-4,654
Financing								
External (net)	1,650	1,065	747	1,257	473	704	564	564
Domestic (net)	-3,884	4,154	138	1,374	1,407	5,118	-111	4,090
Banking system (net)	(-2,928)	(4,229)	(-1,589)	(5,080)	(...)	(-2,016)	(...)	(...)

Guinea - Basic Data (concluded)

Money and banking	1978	1979	1980	1981	1982
	(In millions of sylis; end of period)				
Foreign assets (net)	-6,956	-7,611	-6,574	-9,077	-10,138
Domestic credit	15,521	14,280	21,733	26,760	20,137
Government (net)	3,386	7,615	6,026	11,106	9,090
State enterprises	11,432	5,910	14,497	14,637	10,459
Private sector	703	755	1,210	1,017	588
Money and quasi-money	8,950	9,016	12,502	17,195	16,329
Money	6,037	4,964	7,050	11,925	14,947
Of which: Deposits by state enterprises	(3,048)	(1,034)	(2,590)	(2,787)	(4,338)
Quasi-money	2,913	4,052	5,452	5,270	1,382
Of which: Deposits by state enterprises	(2,463)	(3,420)	(4,434)	(4,276)	(296)
Other items (net)	-385	-2,347	2,657	488	-6,330

Balance of payments	1978	1979	1980	1981	1982	1983 1/
	(In millions of SDRs)					
Balance of trade	48.3	42.2	79.6	57.2	63.8	70.0
Exports, f.o.b.	262.0	281.6	376.5	414.9	402.1	424.8
Imports, c.i.f.	-213.7	-239.4	-296.9	-357.7	-338.3	-354.8
Services and private transfers	-104.1	-90.2	-113.2	-134.5	-140.7	-151.5
Official transfers	26.2	6.9	13.0	13.9	23.7	19.6
Current account deficit (-)	-29.6	-41.1	-20.5	-63.4	-53.2	-61.9
Capital movements (net)	-4.2	23.3	8.1	57.9	49.7	44.6
SDR allocations	--	3.1	3.1	3.1	--	--
Net errors and omissions	-49.4	-16.4	-27.7	-90.4	-31.4	--
Overall deficit (-)	-83.2	-31.1	-45.1	-92.8	-34.9	-17.3
Change in payments arrears	41.2	9.1	19.0	30.9	29.8	...
Reserve movements (net)	42.0	22.0	26.1	61.9	5.1	...
Memorandum items						
Percentage change in terms of trade	...	-15.0	-3.5	28.0	-3.8	...
Change in trade balance due to terms of trade change	...	-34.0	-3.6	89.6	-14.8	...
Official reserves (End of period)						
Gross official reserves	45.3	50.4	77.5	78.3	124.7 2/	
Net official reserves	-281.8	-308.3	-266.3	-367.7	-410.7	
External public debt (End of period)						
Disbursed and outstanding	751.8	752.4	799.5	1,070.6	1,116.0	
Cumulated arrears	105.7	147.4	83.8	123.2	159.8	

1/ Projections based on existing trends.
2/ Largely reflects an exceptional factor in the form of prepayment of certain taxes on mineral exports.

Guinea: Selected Economic and Financial Indicators, 1979-83 (Continued)

	1979	1980	1981	1982	1983 1/
	(Annual per cent changes, unless specified otherwise)				
National income and prices					
GDP at constant prices	-1.2	2.5	1.5	2.6	...
Consumer prices 2/	11.2	40.0	35.0	30.0	...
External sector (on the basis of SDRs; total recorded) 3/					
Exports, f.o.b.	7.5	33.7	10.2	-3.1	5.6
Imports, c.i.f.	12.0	24.0	20.5	-5.4	4.9
Non-oil imports, c.i.f.	11.2	20.4	20.0	-6.4	5.8
Export volume	2.4	11.4	-12.1	-1.8	5.6
Import volume	-8.1	-1.0	22.8	-7.8	0.3
Terms of trade (deterioration -)	-15.0	-3.5	28.0 4/	-3.8	-4.6
Nominal effective exchange rate (depreciation -)	-2.5	0.7	8.8	4.0	...
General Government					
Revenue	4.0	1.0	30.5	39.2	-32.7
Total expenditure	111.9	-27.9	44.0	52.9	-29.7
Money and credit					
Domestic credit	-8.0	52.2	23.1	-24.7	...
Central Government (net)	114.5	-20.9	84.3	-18.2	...
Public enterprises	-48.3	145.3	1.0	-28.5	...
Private sector	7.4	60.3	-16.0	-42.2	...
Money supply (M_1)	-17.8	42.0	69.2	25.3	...
Velocity (GDP relative to M_1)	17.0	21.7	33.0	36.7	...
Interest rate (annual rate, one-year savings deposit)	2.5	2.5	6.0 5/	6.0	6.0
Interest rate (annual rate, one-year loan)	7.5	7.5	10.0 5/	10.0	10.0
		(In per cent of GDP)			
Overall public sector deficit	2.6	21.2	7.2	10.3	...
Domestic financing 6/	-41.4	89.2	51.5	82.7	...
Foreign financing 6/	141.4	10.8	48.5	17.3	...
External current account deficit					
Including grants	3.5	1.6	4.3	3.3	...

Guinea: Selected Economic and Financial Indicators, 1979-83 (Concluded)

	1979	1980	1981	1982	1983 1/
			(In per cent of GDP)		
External debt					
Inclusive of use of Fund credit (outstanding only)	63.7	60.5	73.0	69.3	...
Debt service ratio	28.1	24.5	24.4	25.2	26.8
Interest payments (in per cent of exports of goods and services)	6.3	5.3	1.6	1.7	6.0
			(In millions of SDRs)		
Overall balance of payments (recorded sector)	-31.1	-45.1	-92.8	-34.9	-17.3
Gross official reserves (in months of imports)	2.5	3.1	2.6	4.4 7/	...
External payments arrears	150.3	82.1	121.6	159.5	...

Sources: Data provided by the Guinean authorities; and Fund staff estimates.

1/ Projections based on existing trends.
2/ Includes an allowance for parallel market inflation.
3/ Consists of the external transactions of the public sector and the mixed enterprises, plus the recorded transactions of the private sector, excluding parallel market transactions.
4/ Mainly reflects an increase in the contracted price for bauxite and alumina.
5/ Effective September 1, 1981
6/ As a per cent of overall public sector deficit.
7/ Reflects exceptional receipts in the form of advance payments of certain mineral taxes.

Guinea - Relations with the Fund
(As of July 6, 1983)

IMF Data

Date of membership:	September 28, 1963
Present quota:	SDR 45.0 million
New quota:	SDR 57.9 million
Fund holdings of sylis as per cent of quota:	125.57
Net cumulative allocation of SDRs:	SDR 17.6 million
Holdings of SDRs:	--
Trust Fund loan disbursement (first period):	SDR 9.947 million
Trust Fund loan disbursement (second period):	SDR 13.507 million
Direct distribution of profits from gold sales:	US$3.81 million
Gold distribution:	Guinea acquired 20,497.774 ounces of fine gold in four phases of distribution
Intervention currency and the rate:	US$1.00 = GS 23.1572 (July 6, 1983)
SDR/local currency equivalent:	SDR 1 = GS 24.6853

Staff Contacts

1981 Article IV consultation	June-July 1981
Mission for discussions on requested use of Fund resources	September 1981
Mission for negotiations on requested use of Fund resources	December 1981
Discussions with Guinean delegation in Washington on requested use of Fund resources	February 1982
Mission for negotiations on requested use of Fund resources	July 1982
Mission to review exchange rate system jointly with Guinean officials, as required under stand-by arrangement approved on December 1, 1982	December 1982
1983 Article IV consultation and stand-by review	April 1983

Guinea: Relations with the World Bank Group, 1976-84 (Continued)

	IBRD 1/	IDA	Total
	(In millions of U.S. dollars)		
A. Financial relations with IBRD and IDA			
1. Disbursements during fiscal years			
1976	--	0.4	0.4
1977	--	3.4	3.4
1978	--	8.3	8.3
1979	--	6.8	6.8
1980	--	7.4	7.4
1981	--	12.3	12.3
1982	--	11.4	11.4
1983	--	31.1	31.1
2. Commitments (year ending June 30)			
FY 1983	--	24.0	24.0
FY 1984	--	22.0	22.0

B. Financial relations with IFC

In December 1982 the IFC approved an investment amounting to US$15.31 million, consisting of a US$13.9 million equivalent loan to Societe Mixte Aredor-Guinee and a US$1.41 million equivalent equity participation in Aredor Holdings Ltd. for the development and operation of a surface diamond mine. The loan has been disbursed.

C. Technical assistance in selected areas

1. Agricultural pricing study. Study by outside consultants on prices and incentives in the rural sector (in connection with IDA-financed rice project).

2. Industrial rehabilitation and promotion project. Provision of foreign staff, equipment, and training for the newly established Ministry of Small- and Medium-Scale Enterprises as well as to the major commercial bank (Credit National pour le Commerce, l'Industrie, et l'Habitat).

3. Project formulation and preparation. Formal request already submitted to the IBRD by the Guinean authorities, partly in connection with their interest in an EFF arrangement with the Fund. (Discussions currently under way on this matter between Guinea and the IBRD.)

Guinea: Relations with the World Bank Group, 1976-84 (Concluded)

4. Organization of external debt data. Various visits by IBRD staff members to Guinea to assist Guinean officials in the compilation and presentation of external debt statistics.

5. Agricultural sector survey. From November 21-December 22, 1982 a large agricultural sector mission visited Guinea to obtain a global view of the agricultural sector; in addition to making a systematic review of the various subsectors to identify potential investments for the long-term growth of the sector, special attention was paid to policy questions regarding producer incentives, modes of production, agricultural marketing and pricing, the exchange rate of the syli, agro-industries, and institutional environment.

Sources: IBRD; and data provided by the Guinean authorities.

1/ IBRD gross disbursements in the years through 1975 amounted to US$73.5 million, which was used to finance the necessary infrastructure for the Boke bauxite development project.

Guinea: Financial Operations of the Public Sector, 1978-83

(In millions of sylis)

	1978	1979	1980	1981	1982	Budget 1983	Staff Estimates 1983
Revenue	6,639.60	6,579.00	4,055.93	10,184.51	8,525.44	12,349.50	8,314.50
Central Government	3,005.50	3,043.50	5,770.91	7,690.30	9,088.57	9,076.50	7,664.50
Regional governments	303.60	243.40	405.70	433.30	499.31	650.00	650.00
Public enterprises 1/	3,330.50	3,292.10	-2,120.68	2,060.91	-1,062.44	2,623.00	--
Expenditure	6,727.27	7,331.87	10,958.72	12,775.59	12,599.50	12,803.30	12,969.30
Current	4,698.37	5,372.07	6,955.58	6,591.59	7,562.20	8,582.00	8,748.00
Central Government	(4,264.00)	(4,965.57)	(6,580.18)	(6,258.19)	(7,237.10)	(8,206.60)	(8,372.60)
Regional governments	(434.37)	(406.50)	(375.40)	(333.40)	(325.10)	(375.40)	(375.40)
Capital	2,028.90	1,959.80	4,003.14	6,184.00	5,037.30	4,221.30	4,221.30
Central Government and public enterprises	(1,898.80)	(1,858.20)	(3,670.14)	(5,610.40)	(4,337.90)	(3,452.00)	(3,452.00)
Regional governments	(130.10)	(101.60)	(333.00)	(573.60)	(699.40)	(769.30)	(769.30)
Overall public sector surplus or deficit (-)	-87.67	-752.87	-6,902.79	-2,591.08	-4,074.06	-453.00	-4,654.80
Financing	87.67	752.87	6,902.79	2,591.08	4,074.06	453.00	4,654.80
Domestic	-1,561.83	-311.71	6,155.68	1,334.12	3,369.59	-110.65	4,090.35
Banking system	(-606.90)	(-236.80)	(4,428.50)	(5,180.90)	(-3,765.30)	(--)	(--)
Other 2/	(-954.93)	(-74.91)	(1,727.18)	(-3,846.78)	(7,134.89)	(-110.65)	(4,090.35)
Foreign	1,649.50	1,064.58	747.11	1,256.96	704.47	564.45	564.45
Memorandum items:							
Public sector deficit in per cent of GDP	0.30	2.58	21.20	7.17	10.27	...	...
Public sector deficit in per cent of public sector expenditure	1.30	10.27	63.00	20.28	32.34	...	...

Sources: Data provided by the Guinean authorities; and staff estimates.

1/ Net of receipts of government transfers and domestic bank borrowing.

2/ Includes changes in cash holdings, deposits with the Treasury, transactions of the regional governments, other Treasury operations, stock changes, and errors and omissions.