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AGENDA**

EBS/83/148  
Correction 1

CONFIDENTIAL

August 3, 1983.

To: Members of the Executive Board  
From: The Secretary  
Subject: Guinea - Staff Report for the 1983 Article IV Consultation

The following corrections have been made in EBS/83/148 (7/19/83):

Page 5, line 2: for "18 per cent" read "22 per cent"

Page 18, para. 1, line 3: for "Article IV consultation" read "Article XIV  
consultation"

Corrected pages are attached.

Att: (2).

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 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.

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.