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To: Members of the Executive Board

From: The Secretary

Subject: Guinea - Structural Adjustment Facility -
Policy Framework Paper for 1989-91

Attached for consideration by the Executive Directors is the policy framework paper under the structural adjustment facility for Guinea. This subject, together with the report on a request by Guinea for a second annual arrangement under the structural adjustment facility (EBS/89/42, 3/8/89), will be brought to the agenda for discussion on a date to be announced.

Mr. Dhonte (ext. 4540) or Mr. Duran (ext. 8655) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

GUINEA

Structural Adjustment Facility

Policy Framework Paper for 1989-91

Prepared by the Guinean authorities in collaboration
with the staffs of the Fund and the World Bank

March 7, 1989

I. Introduction

1. After an intense three-year drive to introduce a market economy and to improve public sector management, the Government's adjustment program has led to a recovery in national economic activity. The program was supported in 1986 by a stand-by arrangement from the Fund (SDR 33 million) and a structural adjustment credit (SAC I) from the International Development Association (IDA) (SDR 38.5 million); in 1987 by the first annual arrangement under the Fund's structural adjustment facility (SAF) (SDR 11.6 million) and by another stand-by arrangement (SDR 11.6 million); and in 1988 by a second IDA structural adjustment credit (SDR 47 million). It also received financial assistance from other bilateral and multilateral sources.

2. However, inflationary expectations remain very high and the public sector fiscal deficit is still large, putting pressure on aggregate demand and resulting in a difficult financial situation. The purpose of this updated policy framework paper (PFP) is to analyze the current situation and the economic and financial outlook, and to set out the measures to be implemented by the Government in the second phase of the program.

II. The First-Year SAF Program: Objectives and Performance

3. The basic objectives of the program (as included in the first PFP) were to: (a) achieve an average annual rate of real economic growth of about 4 percent; (b) curb the rate of inflation to one that by 1989 would approximate that in Guinea's main trading partners and competitors; (c) restore the level of available foreign exchange reserves to the equivalent of 12 weeks' imports (other than those of the mining sector and the public investment program); and (d) raise steadily the rate of national savings so that the current account deficit would be held at less than 6 percent of GDP. 1/

1/ All data in this paper exclude transactions with the U.S.S.R.

4. The Government's strategy for achieving these objectives was to pursue a realistic interest rate policy and maintain a flexible exchange rate policy to complement the low and uniform level of tariff protection provided to domestic production. At the same time, the Government undertook to improve public sector performance through continuing the parapublic sector reforms, rationalizing the civil service, and enhancing economic management in general and public finance management in particular.

A. The economic and financial situation

5. The economy has reacted favorably to the liberalization measures taken. Gross domestic product (GDP) grew by 6 percent in 1987 and by an estimated 5 percent in 1988 (Table I). This growth stems mainly from the response of agriculture to price incentives (in particular the expansion of rice cultivation and the renewal of coffee and fruit plantations), the diversification of the mining sector (gold, diamonds, quarries), the renewal of activity in construction and public works, and the expansion of activities in the tertiary and small-scale commercial production sectors.

6. This economic performance has been achieved, however, in a context of high inflation. Although the rate of inflation is lower than it was in 1986 (72 percent), it remained particularly high, at 34 percent in 1987 and 27 percent in 1988. Inflationary expectations are placing a great deal of upward pressure on aggregate demand, and the level of savings is low. The sharp upsurge in aggregate demand is even more pronounced because of the size of the public sector deficit.

7. In the area of public finance, the execution of the government budget resulted in an overall deficit on a commitment basis and including grants of GF 106 billion in 1988, or approximately 9 percent of GDP, as compared to a target of approximately 5 percent.

8. In the area of government revenue, the most important development was the shortfall recorded in the collection of the specific tax on petroleum products (TSPP). Because of the complex financial situation of the Office National des Hydrocarbures (ONAH), the petroleum tax brought in GF 12 billion in 1988, compared with a budget forecast of GF 21 billion.

9. In the area of expenditure, there was some slippage in the current budget, especially in wages and salaries. Personnel expenditure totaled GF 41 billion, compared with a forecast GF 37 billion. This overrun was essentially due to the lack of control over civil service staff levels, approximately 63,000 in number, while the budget was prepared on the basis of 58,500 employees.

10. The Government's financial operations also suffered because a large portion of anticipated foreign assistance failed to materialize in 1988. The Government's fiscal deficit consequently had to be financed

by means of increased borrowing by the Treasury from the Central Bank and by the accumulation of new payments arrears with respect to external public debt servicing.

11. In the external sector, the expansion of aggregate demand resulted in a decline of US\$46 million in the foreign reserves of the Central Bank and thus in their virtual depletion. In addition, the Central Bank had to use a line of credit from its principal correspondent banks based on swap operations involving gold.

12. The foreign exchange deficit resulted from the difficulties in the Government's financial situation and the unsustainable rise in private demand for foreign exchange in the official market--the current account deficit rose to over 11 percent of GDP. Between early June and early December, weekly demand for foreign exchange increased from US\$2.5 million to about US\$4 million, despite a depreciation of the Guinean franc from GF 460 to GF 520 per U.S. dollar, indicating that exchange rate policy is not sufficient to control demand in an economic context characterized by inflationary expectations and a large public sector deficit. Despite pressure on demand, liberal access to the official market was maintained, and the gap between the official and parallel market rates remained below 10 percent.

13. The slippages that occurred during the latter part of 1988 precluded an early conclusion of an agreement for the second annual arrangement under the SAF. However, measures adopted at the end of 1988 have, to a significant degree, brought the program back on track.

B. Reforms undertaken

14. The monetary and banking reforms initiated in the wake of the currency exchange of January 1986 progressed further in 1987 with the opening in Conakry of a fourth foreign-affiliated bank. Moreover, in 1988, in order to increase the attractiveness of Guinean franc holdings, the monetary authorities took steps to facilitate the introduction of passbook savings deposits.

15. Prices for all goods other than for imported rice and petroleum products were decontrolled in 1986 and the private sector was permitted to engage freely in all levels of internal and external marketing. The Government ceased to intervene in the distribution of rice while allowing commercial importers to recover their costs fully. Following the devaluation of January 1986, petroleum product prices were increased fourfold to reflect international prices at the prevailing exchange rate. Subsequently, a substantial increase (from GF 25/liter to GF 135/liter) in the tax on petroleum products on December 31, 1987 resulted in an increase in the retail price of nearly 80 percent, from GF 140/liter to GF 250/liter. Tariffs for utilities and public services continue to be set administratively with significant elements of cross-subsidy between users. Tariffs have been increased in the water, port,

transport, and electricity sectors in order to reflect higher input costs. However, in some sectors these tariffs are not yet sufficient to cover variable costs.

16. Import and export procedures were radically simplified in 1986 as all import licensing was abolished and replaced with an import declaration, granted to all registered traders. While the forms are filed with commercial banks, the Central Bank still retains the authority for final approval for submission to the official foreign exchange market. This procedure is expected to be modified in 1989 (paragraph 53).

17. The Government started in 1986-87 to establish a more coherent legal/institutional framework to complete the incentive system supportive of efficient private sector growth. Four major new codes--relating to investment, mining, public procurement, and petroleum--have been adopted. Laws pertaining to regulation of the banking sector, accounting procedures and commercial activity have also been adopted and work is well advanced on the revised tax and customs codes.

18. The Government continued its efforts to develop an efficient and motivated civil service by reducing the number of redundant and unskilled employees, improving the organization and management of public agencies, and upgrading the employment conditions of remaining staff including granting significant salary increases. Delays in implementation owing to the political sensitivity of the proposed measures notwithstanding, substantial progress was made with the reduction in the number of civil servants on active duty by about 16,000 (or nearly 18 percent of the total public sector labor force) between April 1986 and September 1988. These reductions resulted from the closure of parastatals, the enforcement of the retirement and the early retirement ages, and the resignation of 1,750 civil servants who opted to take advantage of the voluntary departure scheme. During the same period work has begun on defining the new organizational structures of the government departments. A program was put in place to match, through staff evaluation, existing staff against the personnel requirements identified in the organization charts with termination of redundant and unqualified staff. No significant action had been taken by end-1988 but implementation is expected in 1989 (see paras. 25-29).

19. Notable progress in divestiture was achieved. Twenty public enterprises, mainly industrial, have been privatized since the beginning of 1986, 69 have been closed and are in an advanced stage of liquidation, of which 33 were agricultural marketing centers and 6 were banks. A further 29, mainly commercial enterprises, are currently in various stages of privatization or liquidation. Only 8 public enterprises of the nearly 130 in existence in 1986 are thus scheduled to remain in the public portfolio. However, the liquidation of closed

enterprise assets has not contributed in any significant manner to meeting the enterprises' debt obligations and a number of enterprises were sold at relatively low prices with generous payment terms. More significantly, the tax base was eroded and competition undermined as monopoly rights (e.g., cigarette, soft drinks, paint), high protection (e.g., cement), and generous fiscal holidays were granted to some privatized companies.

20. The Government's first three-year rolling public investment program (PIP) for 1987-89 was presented to the first Consultative Group for Guinea in March 1987. This PIP reflected the new, enlarged role accorded to the private sector and placed appropriate emphasis on the Government's role in rehabilitating physical and human infrastructure and public services in support of the private sector. In general, actual implementation to date has reflected the priorities laid down in this Program. However, despite improvements since 1986, investment programming and project preparation continue to be of uneven quality and continuing efforts are intended in this field.

III. Medium-Term Objectives

21. The objectives of the Government's program for the period 1989-91 are as follows:

(i) to achieve a 4 percent rate of real annual economic growth, or a rise in real per capita income of some 1.2 percent annually, based on a positive response from the private sector to the liberalization of the economy, the structure of economic incentives, and the improvements in basic infrastructure;

(ii) to reduce the inflation rate to 16 percent by 1991, by improving the competitiveness of the productive sectors;

(iii) to reduce the current account deficit of the balance of payments (including grants) to less than 5 percent of GDP on average (Table I), making it possible to achieve a level of official foreign exchange reserves equivalent to approximately 2.5 months of nonmining sector, nonpublic investment program imports; and

(iv) to reduce the Government's fiscal deficit on average to less than 5.5 percent of GDP (Table I), making it possible to reduce domestic payments arrears and eliminate external payments arrears on medium- and long-term external debt, and to maintain the debt service ratio consistent with the repayment capacity of the economy and the medium-term economic growth objective.

22. Since bauxite and alumina export operations are at current production capacity, economic growth will have to be achieved by exploitation of the potential of the agricultural and secondary sectors,

diversification of the mining sector, and further expansion of the tertiary sector. The agricultural sector should grow by an average of 4 percent annually during the 1989-91 period, as a result of the liberalization of prices and product distribution, the reconstruction of road networks, the completion of efficient rural development projects, and the planned improvement of agricultural support services (extension services, agricultural research, distribution of inputs, and rural engineering). In the secondary sector, the reopening of privatized enterprises and the positive response of small- and medium-sized manufacturing and construction enterprises to economic incentives should make it possible to attain an annual growth rate of 4.6 percent. The value added in the extractive industries should grow by 2.4 percent annually with the expansion of gold, diamond, and quarry operations. The tertiary sector should grow by 4 percent annually, as a result of the consolidation of the liberalization of the economy and the increase in 1989-90 of civil service wages and salaries.

IV. Economic Policy Measures 1/

23. To mobilize the country's development potential and improve the real per capita economic growth rate, the Government's strategy focuses on two main priorities:

(i) consolidation of the free market option by means of a flexible exchange rate policy, a prudent monetary policy, the achievement of positive real interest rates, the harmonization of customs tariffs, the liberalization of trade and prices, the promotion of private investment and small- and medium-sized enterprises, the disengagement of the Government from the industrial and commercial sectors, and the introduction of a regulatory and institutional framework adapted to free enterprise; and

(ii) improvement in the management of the national economy by rapidly completing the administrative reform, streamlining and improving management of public finances, pursuing a three-year program of public investment compatible with the repayment capacity of the economy, and restructuring the enterprises remaining in the Government's portfolio.

24. To restore the financial situation and lay the foundation for sustained growth in the medium term, the Government's plan of action for 1989-91 focuses on: (i) rapidly implementing the administrative reform measures; (ii) improving the management and monitoring of the economy; (iii) rehabilitating public finances; (iv) speeding up the program for the restructuring, privatization, and liquidation of public enterprises; and (v) consolidating the free market approach and improving the structure of incentives. The Government will also seek external

1/ An economic policy matrix is attached (Table II).

nonproject financial assistance from its principal donors to meet the financing needs of the economy.

A. Rapid implementation of the administrative reform measures

25. In the area of administrative reform, the Government has already adopted new decrees, orders, and organizational structures for the central and decentralized departments of all government ministries and secretariats and has organized evaluation/selection tests for 25,000 employees.

26. On the basis of these evaluation/selection tests, employees who are not retained will be released from their original ministries and placed on administrative reserve status for a period of two years during which a monthly severance payment equal to their wages (excluding the transportation allowance) in December 1988 will be paid.

27. Employees who are released from the civil service will have access to the services of the Bureau d'assistance à la reconversion des agents de la fonction publique (BARAF) to help them enter the private sector, including the preparation of bankable projects. The Government will provide part of the financing of projects eligible under the program.

28. The increase in the wages of civil servants who are confirmed or appointed to positions provided in the new organizational structures will entail a rise in personnel expenditure, which will be limited to an amount consistent with available government revenue.

29. On December 31, 1988, the Government ended the current administrative reserve status. A severance payment will be made to 2,400 civil servants previously on administrative reserve status.

B. Improved management and monitoring of the economy

30. Technical unit. The Economic and Financial Coordination Committee (EFCC) has already created a technical support unit to help monitor and give impetus to the economic and financial recovery program. This unit is already operational and has started to prepare the statistical tables required for the coordination of economic policy. It is responsible for systematically monitoring the economy and the recovery program.

31. PAGEN II. The Government has approved the second economic management support project (PAGEN II) in agreement with IDA and other donors. This project includes resident technical assistants and short-term consultancy services for the principal economic ministries: the Ministry of Economy and Finance (MEF), the Ministry of Planning and International Cooperation (MPCI), the Ministry of Administrative Reform and the Civil Service (MRAFP), and the Central Bank of the Republic of Guinea (BCRG). It will, in particular, help improve management of public finances.

C. Improvement of public finances

32. In the area of public finance, the objective is to reduce the Government's fiscal deficit and to improve budgetary and accounting procedures. This involves increasing revenue, controlling expenditure, and applying the rules already laid down regarding implementation of the budget.

33. One of the objectives of the Government's economic policy is to expand the nonmining tax effort. By strengthening the institutional framework, adjusting the rate of the specific tax on petroleum products, applying customs duties to rice imports, and improving the administration of the tax base and the collection of taxes and duties, nonmining revenue should increase from approximately 4 percent of GDP in 1988 to about 5.5 percent by 1991.

34. Moreover, the level and composition of expenditure must be strictly controlled, especially in light of the expected decline in mining revenues. Rationalizing expenditure policy also implies improving the quality of projects in the public investment program (PIP), increasing the concessionality of new loans, applying strict controls over current expenditure, and reinforcing administrative procedures and capacity so as to ensure compliance with economic policy decisions.

35. The institutional reforms to strengthen customs and tax administration will aim to: (i) improve substantially the exploitation of the available tax and duty bases without significantly raising customs duties; (ii) simplify customs procedures; (iii) facilitate the revision of the Tax and Customs Codes and apply them equitably; (iv) avoid high marginal rates of tax and duty as well as cascade effects so as to minimize evasion, fraud, and misrepresentation; and (v) establish a progressive income tax system, providing in particular for exemption from income tax for households below the poverty line.

36. In 1989, the authorities have already substantially increased the TSPP; they are also strengthening the special customs office for petroleum products, and are collecting the TSPP from the receiver/administrator of ONAH. More generally, the authorities will establish an incentives scheme for customs personnel, strengthen and equip the mobile customs units, and improve and monitor collections by means of systematic cross-checking with assessments and the implementation of legally binding measures.

37. The Government is improving budgetary procedures and strengthening expenditure controls. In this regard, the MEF has: (i) prepared and adopted a detailed, comprehensive austerity budget for 1989, which includes investment, recurrent expenditure, and public debt, and, in particular, provides adequate operating budgets for the technical ministries; (ii) established provisional monthly expenditure ceilings;

and (iii) improved debt monitoring and management capacities by means of strict controls over the contracting of nonconcessional loans and the periodic updating of the Government's computerized external debt statistics.

38. Particular emphasis is being placed on the establishment of a comprehensive annual investment budget, which includes all foreign-financed projects, so as to impose budgetary discipline and to take full account of associated recurrent expenditures. The Government has also prepared a PIP for the three-year period 1989-91 that is compatible with the repayment capacity of the economy. This program, which is financed mainly from grants and concessional loans, gives priority to agriculture, basic infrastructure, and human resources. By sector of economic activity, the Government's objectives in the rural sector are to promote the efficient production of foodstuffs and cash crops for export, largely based on smallholder agriculture, by building up national support services, rural infrastructure, and through the maintenance of appropriate pricing and marketing policies. In the infrastructure sector, government priorities are to rehabilitate the principal east-west and coastal road axes, upgrade the telecommunications network, and make major improvements in the energy and water distribution systems through institutional reforms accompanied by appropriate priority investments. Regarding human resource development, the education and training system will be revised to make it more consistent with the socio-economic needs of the changing economy and action plans for implementing the required changes will be developed over the next year.

39. More specifically, the Government will ensure in 1989 that: (i) all managers are notified of the expenditure ceilings in due time and that directors of administrative and financial affairs (DAAF) are appointed in the ministries; (ii) a monthly ceiling is placed on operating expenditure commitments; (iii) a stringent system of commitment accounting is introduced; (iv) a central, computerized payroll department is created within the Budget Directorate and a permanent mechanism is established for monitoring and controlling staff levels and the wage bill on the basis of the census of civil servants; (v) the new Public Procurement Code is applied; (vi) an ordinance providing a basic law for the finance acts is adopted; (vii) a decree regulating public accounting and including the new General Government Accounting Code to be applied by January 1, 1990 is adopted by June 30, 1989; (viii) the accelerated payment procedure is fully implemented in the context of budgetary control; (ix) close relations are restored with the BCRG in order to control the opening of letters of credit, to avoid automatic debits and respect the principle of the indivisibility of funds; (x) a monthly cash plan is prepared, indicating the amount of foreign exchange operations possible during the period in question; (xi) an agreement is concluded between the Treasury and the BCRG for setting a realistic ceiling and the rate of charges on advances to the Treasury; (xii) a critical and complete inventory of domestic arrears is

made and a payment schedule established by March 31, 1989; (xiii) a "payment order" system is established specifically for foreign exchange expenditures, especially external public debt payments; and (xiv) a system for bonding public accountants is set up.

40. In 1990, the focus will be on personnel training, taking into account developments with regard to the aforementioned regulations; improvements in the administration of the tax base and collection of taxes, customs duties, and levies; and computerization of procedures.

D. Disengagement of the Government from the
industrial and commercial sectors

41. The Government will complete its disengagement from the industrial and commercial sectors, although it will maintain a partial or total interest in the strategic mining enterprises and public services. Relations between the Government and the enterprises that remain in its reduced portfolio will be defined in a basic law to be promulgated in mid-1989. These enterprises will be subject to private enterprise management principles, and the role of the public authorities in their regard will be limited to final approval of decisions taken regarding policy planning and to overseeing financial performance and management.

42. As regards ONAH, the receiver/administrator has taken up his duties. He is implementing corrective measures to ensure that the TSPP is collected.

43. These measures involve, inter alia, the application of the prefinancing principle to all deliveries to filling stations, initially in Conakry and later in the interior. For one year these stations will be assigned to private managers who provide the required financial guarantees (cash payment for the first delivery or corresponding bank guarantee). Moreover, the liabilities of the Government and the National Electricity Company (SNE) to ONAH are being cleared, and no deliveries may be made to the government garages or any other administrative department without prior authorization by the National Budget Directorate, which is to be consistent with the monthly rate of consumption of fuel by the administrative departments.

44. Furthermore, no fuel may be released from the bonded warehouse without prior payment by the ONAH receiver/administrator of the corresponding duties and taxes (customs duties and TSPP). It is the responsibility of the ONAH receiver to take any financial steps necessary to ensure that this obligation is respected.

45. Finally, the Government and its private partners have negotiated an agreement for the creation of the Guinean Petroleum Company (SGP).

46. The Government is also pursuing its program of restructuring the energy and water sectors. For the energy sector, this involves an independent audit to establish an end-January 1989 balance sheet,

establishing the new management structure of the Guinean Electrical Power Company (ENELGUI--board of directors and general management), and applying the results of the SNE personnel evaluation/selection tests. For the water sector, it involves liquidating the Guinea Water Distribution Company (DEG), creating the Guinean National Water Company (SONEG), and establishing the operating contract between SONEG and the Guinean Water Utilization Company (SEEG).

47. The Government is currently restructuring the postal and telecommunications sector by creating a post office and a national telecommunications company.

48. Air Guinée will be restructured with a view to creating a joint venture air transport company.

49. For all companies remaining in its portfolio, the Government will take significant steps to adjust public tariffs, improve billing procedures (in particular for services rendered to the Government), and improve the monitoring of bank deposits.

50. With respect to the other commercial and industrial enterprises that have not yet been privatized, restructured, or liquidated, the Government will continue the studies and negotiations under way for the restructuring or privatization of some of them and will continue to seek private interests to take over the remaining companies. Where these approaches are not successful, these enterprises will be liquidated during the first half of 1989.

E. Consolidation of the free market option and structure of incentives

Exchange rate

51. The authorities have gradually liberalized the foreign exchange system over the past three years by assuring access for foreign exchange in the official market for all current international transactions. The authorities have maintained a generally realistic exchange rate, and the gap between the official rate and the parallel market rate has remained moderate.

52. For the 1989-91 period, the policy of flexible exchange rates will be maintained to ensure that the Guinean economy remains competitive in the medium term. To avoid any effective appreciation of the exchange rate, the policy of frequent and small nominal adjustments to correct for the inflation differential will continue. Such adjustments will need to be supported by other policies that are consistent with a gradual deceleration of the inflation rate.

53. In 1989, the monetary authorities will undertake to improve the operation of the official foreign exchange market. They will simplify the administrative procedures for access to this market by having the

Central Bank end the requirement for prior approval of import declarations.

54. In addition, studies will be undertaken to determine the modalities for the possible introduction of a forward foreign exchange market and for the adoption of an appropriate foreign exchange-basket to attenuate undesirable fluctuations in the national currency that result from erratic movements in the U.S. dollar, which is the reference currency.

Credit and interest rate policy

55. The medium-term objectives of domestic credit and monetary policy are to: (i) encourage the productive sectors of the economy; (ii) promote savings and a preference for holdings of the national currency; (iii) foster financial deepening and stabilize bank liquidity; and (iv) contribute, with fiscal policy, to maintaining aggregate domestic demand at a level compatible with foreign exchange resources.

56. An active policy of mobilizing savings will be pursued to facilitate noninflationary financing of national production in the medium term. The diversification of financial instruments has already begun with the introduction by the revamped banking system of passbook savings accounts, nonnegotiable certificates of deposit, deposit accounts with prior withdrawal notification, term deposits, and convertible Guinean franc deposits.

57. In this regard, the authorities are encouraging the banking system to diversify and are planning to issue treasury securities beginning in 1989. The purpose of these securities will not only be to reduce the involvement of the Central Bank in financing the budget deficit, but also to offer the banking system medium-term investment possibilities in order to encourage them to mobilize savings. Until now, the absence of a reliable guarantee system and other institutional factors have limited the medium-term assets of the banks and, as a result, have reduced their effort to mobilize savings. To remedy this situation, the Government will adopt a land tenure code, establish a land tenure registry, and promote the creation of mutual guarantee associations.

58. In the area of interest rates, in early 1989, the authorities deregulated commercial bank short-term lending rates. This freedom for the banks to negotiate the rate applicable to such operations with their customers will promote competition in the banking sector while allowing for a better remuneration of deposits. The interest rate structure and levels established by the authorities are intended in the medium term to provide depositors with positive real interest rates. In addition, they will promote the conversion to Guinean francs of large foreign exchange deposits in the banks. The new banking network, which is already established in all the provincial capitals, will be expanded in order to accelerate the monetization and financial deepening of the economy.

59. One of the instruments to control liquidity will be introduced in 1989 as part of an agreement between the Central Bank and the Treasury. This agreement will define: (i) the level and structure of lending rates henceforth applicable to all monetary financing of the Treasury; and (ii) the various levels of financing that will automatically trigger discussion procedures between the two administrations.

Prices

60. In order to encourage local production of rice, imports of which are a heavy burden on the country's foreign exchange reserves, pricing policy will be geared to improving the competitiveness of domestic output. In this context, consultations between the authorities and importers/distributors will continue. The price of imported rice and food-aid rice will continue to be harmonized so as to avoid distortions of this market. In addition, the authorities are determined to enforce the import tax on rice, which would be adjustable to compensate for fluctuations in world prices and the exchange rate.

61. A major readjustment of the rates for public utilities, particularly water and electricity, will be implemented in 1989 so as to cover production costs and to generate resources, over the medium term, for replacement and expansion of capacity. For the following years, adjustments in the water and electricity rates should make it possible to continue to cover costs.

V. Social Impact of the Program

62. The improvement in the relative position of the private sector in general and the rural sector in particular has been a major impetus to activity. A recent consumer survey revealed that average household consumption in Conakry has increased by 16 percent in real terms since 1984. However, some segments of the urban population, civil servants in particular, have suffered a decline in their purchasing power. In order to mitigate the adverse impact of the adjustment on such groups, the Government has adopted a number of transitional measures. These include: (i) pay supplements to civil servants to compensate for the increases in the cost of living resulting from the depreciation of the Guinean franc and the increase in petroleum prices; (ii) continued payment, for two years, of wages to civil servants who have been released; (iii) severance payments with access to loans on favorable terms for civil servants submitting projects eligible for bank financing; and (iv) labor-intensive work programs in Conakry.

63. In the second phase of its economic reform program, the Government intends to implement a social policy aimed at encouraging greater participation of the population in the economic growth process and protecting the groups most seriously affected during the transitional phase of the adjustment. To this end, the Government intends to

implement a priority action program in order to directly improve the living conditions of vulnerable social groups. An initial overview of the social sectors was conducted by a national task force; it included a poverty profile of the Guinean population, identified vulnerable groups in rural and urban areas, defined specific criteria for the selection of projects to be undertaken, and identified an initial series of projects in the areas of basic education, primary health care, nutrition, job creation, and microcredit schemes. To support the implementation of the priority action program, the Government intends to establish a Socio-economic Development Program in 1989 to finance small-scale projects.

64. During the transitional phase, the Government's efforts to streamline the civil service will result in a reduction in the number of civil servants. To ease this transition, the Government will continue to provide severance packages compatible with available domestic financial resources, establish vocational training programs, and extend the mandate of the agency assisting civil servants to prepare projects eligible for bank financing.

VI. Balance of Payments Outlook and External Financing Needs

65. Guinea's external payments position is projected to remain under pressure in the medium term. Sustained external financial assistance on highly concessional terms will be required. The foreseen medium-term pressure is explained mainly by an anticipated deterioration in the terms of trade and the decline in export earnings from bauxite. These trends--together with the growth in private sector and PIP imports, which is compatible with the GDP growth objectives--and increased interest payments on external public debt are projected to result in a cumulative external current account deficit of US\$737 million over the 1989-93 period despite a sharp projected rise in official transfers (Table III). Given scheduled debt amortization, other capital outflows from the mining sector, the objectives of eliminating external payments arrears on medium- and long-term debt and of building up official foreign exchange reserves, and the payment of other liabilities, the total external financing requirement will amount to some US\$1.55 billion during the five-year period ending in 1993. 1/

66. Some US\$873 million is expected to be disbursed under the PIP. Private capital inflows in the form of direct investment are projected at US\$69 million, bringing the total financing needs to US\$606 million for the 1989-93 period. With about US\$172 million in nonproject financing already secured, including about US\$63.5 million under the

1/ It should be noted that the exclusion of transactions with the U.S.S.R. has the effect of reducing debt service to export ratios to below 30 percent for all years except 1988.

second IDA SAC, residual financing requirements should total US\$434 million for the 1989-93 period, of which US\$176 million in 1989. The 1989 residual financing gap is expected to be covered by debt relief and resources from the Fund's SAF. The requirements of the 1990-93 period could be covered by a combination of additional concessional financial aid, including further resources from the Fund's SAF and the World Bank's Special Program for Africa, and through debt relief in the form of rescheduling on preferential terms.

Table I. Guinea: Selected Economic and Financial Indicators, 1984-91 ^{1/}
(Excludes all transactions with the U.S.S.R.)

	1984	1985	1986	1987	1988	1989	1990	1991
	Estimates			Projections				
	(Annual percentage change)							
Income								
GDP at constant prices	...	...	...	6.1	5.2	4.1	4.4	3.7
GDP at current market prices	...	...	...	40.1	29.9	31.6	24.5	18.4
GDP deflator	...	...	...	32.0	23.5	26.4	19.3	14.2
Consumer prices								
Average	...	...	64.7	36.8	27.8	25.2	20.0	16.0
End of period	...	...	71.8	33.7	27.0	25.0	19.9	16.0
External sector (in U.S. dollar terms)								
Exports, f.o.b.	1.8	0.6	...	6.7	-4.1	23.2	-2.8	0.0
Imports, c.i.f.	11.2	-7.4	...	14.7	27.1	-3.2	3.8	6.0
Export volume	1.6	4.8	...	10.3	3.3	13.6	-3.5	2.5
Import volume	14.4	-7.2	...	5.0	21.1	-7.1	0.1	2.4
Terms of trade (deterioration -)	3.3	-4.2	...	-11.4	-11.5	4.5	-2.3	-5.8
Nominal exchange rate (depreciation -)	14.0	10.9	-93.6	-19.4	-9.9	...	...	...
Real exchange rate (depreciation -)	...	...	-89.7	6.3	10.6	...	...	...
Central government finance								
Revenue and grants	7.7	-17.1	...	80.2	9.3	62.7	16.7	13.4
Total expenditures	-12.9	61.1	...	52.3	41.9	26.2	21.0	14.2
Money and credit								
Net domestic assets (net) ^{2/}	...	...	52.6	1.6	53.4	15.6	...	...
Public sector ^{2/}	...	...	-4.3	-17.8	29.4	-5.2	...	...
Private sector ^{2/}	...	...	42.3	27.7	17.5	20.8	...	...
Money plus quasi-money	...	...	72.5	39.9	30.0	41.0	...	...
Interest rate (minimum annual rate on six-month term deposits)	...	...	...	15.0	17.0	19.0 ^{3/}	...	...
Velocity (GDP/broad money)	...	...	19.2	17.7	17.2	16.6	...	...
	(In percent of GDP)							
Overall government deficit								
Excluding grants (commitment)	...	...	-8.5	-8.6	-11.8	-8.6	-9.0	-8.8
Including grants (commitment)	...	...	-6.6	-4.7	-9.0	-5.1	-5.5	-5.4
Including grants (cash)	...	...	-6.1	-4.9	-7.9	-7.5	-5.5	-5.4
Net domestic financing	...	...	0.3	-0.1	0.9	-0.3	0.3	0.5
Net external financing	...	...	5.7	5.0	7.0	7.8	5.2	4.9
Gross domestic investment	...	...	17.9	20.7	23.0	19.5	19.8	20.3
Gross domestic savings	...	...	21.0	20.5	18.1	20.0	20.0	19.4
Gross national savings	...	...	16.3	16.2	13.3	14.8	16.1	15.8
External current account deficit (including public transfers) (-)	...	...	-1.5	-4.7	-11.3	-5.3	-4.3	-5.2
External current account deficit (excluding public transfers) (-)	...	...	-3.8	-8.0	-14.5	-9.5	-8.4	-9.2
External debt (excluding U.S.S.R.; including IMF; net of official reserves)	...	...	70.8	71.5	77.8	77.8	76.9	77.3
	(In percent of exports) ^{4/}							
Actual external debt service ratio ^{5/}	...	...	11.2	27.3	28.0	81.2	54.5	57.1
	(In millions of U.S. dollars)							
Exports	510.0	513.0	511.0	545.2	522.6	644.0	626.1	626.3
Imports	407.0	377.0	-380.3	-436.1	-554.1	-536.4	-556.7	-590.3
External current account deficit (-)	-11.0	-47.0	-28.6	-94.6	-240.4	-125.1	-107.8	-139.5
Balance of payments deficit	-95.0	-89.0	-52.0	-13.0	-149.6	3.0	34.8	-50.9
Medium- and long-term debt arrears outstanding	223	271	10	27	94	—	—	—
	(In months of nonmining sector, non-PIF imports)							
Gross official foreign reserves (end of period)	...	...	0.7	2.4	0.0	1.7	2.8	2.8

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

^{1/} Data prior to 1986 subject to large margin of error and to be interpreted with caution.

^{2/} In percent of liabilities to the private sector at the beginning of the period.

^{3/} Three-month term deposits.

^{4/} Net of mixed mining companies' imports, service payments, transfers, and net capital flows.

^{5/} Includes IMF charges and repurchases and cash payments of arrears reduction.

Table II. Guinea: Economic Policy Matrix, 1989-91

Objectives and areas	Measures contemplated and action timetable	Agencies responsible
<u>I. Administrative reform</u>		
(a) Finalization of organizational structures	Adoption of organizational structures for all central and decentralized departments of all ministries (January 1989).	MRAFP
(b) Evaluation Selection Tests	Organize tests for the Ministry of Health (June 1989).	MRAFP, Ministry of Public Health and Population (MSPP)
	Publish results of tests for the MEF and the MARA (December 1988).	MEF, Ministry of Agriculture and Animal Resources (MARA) MRAFP
(c) Confirmation of employees, administrative reserve status, and staff reduction	Confirm employees selected for the positions provided for in the organizational structures (January-June 1989).	MRAFP
	Publish a text limiting to two years the administrative reserve status of employees not retained after the tests or to be trained (December 1988).	MRAFP, MEF
	Place on administrative reserve status those employees released and employees to be trained and take them out of their original ministries (January-June 1989).	MRAFP, MEF
(d) Re-entry program	Adoption of a re-entry program for employees leaving the civil service (January 1989).	MRAFP, MEF, BARAF

Table II (continued). Guinea: Economic Policy Matrix, 1989-91

Objectives and areas	Measures contemplated and action timetable	Agencies responsible
(e) Wages and bonuses	Make severance payments to employees released after being on administrative reserve status (December 1988).	MRAFP, MEF
	Pay employees chosen through the tests a selection bonus of GF 15,000 (January 1989).	MEF
	Introduce a new pay scale (July 1989).	MEF, MRAFP
II. <u>Managing and steering the economy</u>		
(a) EFCC support unit	Establish the unit responsible for monitoring the economy (November 1988). Monitor and control the implementation of the program (ongoing).	EFCC
(b) PAGEN II	Sign PAGEN II (December 1988). Ensure effective implementation of the project (February 1989).	
III. <u>Rehabilitation of public finances</u>		
(a) Raising nonmining revenue	Implement TSPP increase (January 1989).	MEF
	Reinforce mobile customs units (March 1989).	MEF
	Adopt Tax and Customs Codes (March 1989).	MEF
	Issue a circular implementing the decree on customs incentives (January 1989).	MEF

Table II (continued). Guinea: Economic Policy Matrix, 1989-91

Objectives and areas	Measures contemplated and action timetable	Agencies responsible
(b) Expenditure control	Adopt a budget law for 1989 (January 1989).	MEF
	Introduce monthly expenditure ceilings (January 1989).	
	Introduce a system for controlling expenditure commitments and accounting procedures for commitments (January 1989).	MEF
	Establish a central payroll unit and introduce a mechanism to control and monitor staff and the wage bill (July 1989).	MEF, MRAFP
	Advise all ministries of their expenditure ceilings (January 1989).	MEF
	Adopt PIP for 1989-91 (January 1989).	MPCI
	Adopt Public Procurement Code (December 1988).	MEF
	Adopt a basic law for finance acts (June 1989). Adopt a decree regulating government accounting procedures (June 1989).	MEF
	Ensure compliance with the principle of the indivisibility of funds (ongoing).	MEF

Table II (continued). Guinea: Economic Policy Matrix, 1989-91

Objectives and areas	Measures contemplated and action timetable	Agencies responsible
	Adopt BCRG/Treasury agreement (March 1989).	BCRG, MEF
	Implement use of payment orders for external public debt payments (January 1989).	MEF
<u>IV. Government disengagement from the productive and commercial sectors</u>		
(a) Petroleum (ONAH, SGP)	Ensure that the ONAH receiver/administrator takes office (December 1988).	Ministry of Industry, Commerce, and Handicrafts (MICA)
	Implement corrective measures, in particular concerning the collection of the TSPP.	MEF, MICA
	Sign the agreement creating the SGP (February 1989).	MICA
	Ensure that SGP operations commence (July 1989).	MICA
(b) Continuation of program in the energy sector	Prepare balance sheet for ENELGUI, put new management structure in place (general management and board of directors), and implement results of evaluation tests (January 1989).	State Secretariat for Energy (SEE)
(c) Restructuring of the water sector	Liquidate DEG, set up SONEG, and implement the contract between SONEG and SEEG (February 1989).	SEE

Table II (continued). Guinea: Economic Policy Matrix, 1989-91

Objectives and areas	Measures contemplated and action timetable	Agencies responsible
(d) Restructuring of the postal and telecommunications sector	Establish a post office and a national telecommunications corporation (July 1989). Prepare a restructuring and investment program comparable to the water sector program (July 1989).	Ministry of Posts and Telecommunications (MPT) MPT
(e) Air Guinée	Restructure with a view to forming a joint venture (July 1989).	Ministry of Transport and Public Works (MTTP)
(f) Other public enterprises	Privatize all other public enterprises (except public service enterprises and strategic enterprises in the mining sector). Liquidate those not privatized by June 30, 1989.	MICA
(g) Regulation and billing	Adopt the basic law regulating public enterprises (June 1989). Improve billing for public enterprises, especially for services rendered to the public sector.	MRAFP, MICA MEF and ministries concerned
V. <u>Consolidation of the free market option and the incentives structure</u>		
Flexible exchange rate, interest rate, and monetary policies	Pursue realistic exchange rate adjustment policy.	BCRG

Table II (concluded). Guinea: Economic Policy Matrix, 1989-91

Objectives and areas	Measures contemplated and action timetable	Agencies responsible
	Simplify access to official foreign exchange market; in particular, end the prior authorization by BCRG of import declarations.	BCRG
	Study the modalities for a forward foreign exchange market and for an exchange rate basket.	BCRG
	Deregulate lending rates on short-term commercial transactions (January 1989).	BCRG
	Adjust interest rates on time deposits and the normal refinancing rate (January 1989).	BCRG
	Monitor external competitiveness and interest rates (quarterly).	BCRG, MEF, MPC
	Adopt a Treasury/BCRG agreement (February 1989).	BCRG, MEF
	Set up a credit information bureau.	BCRG
	Adopt the Land Tenure Code (July 1989).	Ministry of Housing and Urban Affairs (MUH)
	Establish a land tenure register (September 1989).	MUH, MEF
	Study the establishment of mutual guarantee associations (September 1989).	BCRG

Table III. Guinea: External Financing Requirements, 1988-93

(In millions of US dollars; excludes
transactions with the U.S.S.R.)

	1988	1989	1990	1991	1992	1993	Total 1989-93
Financing requirements	-238.2	-414.2	-270.0	-274.0	-289.1	-300.4	-1,547.7
Current account deficit	-240.4	-125.1	-107.8	-139.5	-166.4	-198.7	-737.4
Public debt amortization	-120.2	-97.3	-93.2	-105.3	-114.8	-99.8	-510.4
Mixed mining companies' capital	15.5	-12.2	-23.5	-15.5	-4.4	1.2	-54.4
IMF repayment and repurchases	...	-5.7	-13.3	-8.7	-1.0	-3.2	-31.9
Reserve movement (including gold)	31.3	-43.1	-32.2	-5.0	-2.5	--	-82.8
Changes in arrears	73.4	-116.9	...	...	...	...	-116.9
Other liabilities <u>1/</u>	2.2	-13.9	...	...	...	...	-13.9
Resources	238.2	260.9	270.0	209.4	200.5	206.9	1,147.8
Public capital, long-term	200.6	224.8	246.0	195.6	186.1	191.9	1,044.4
Project-related loans	153.7	158.0	165.9	174.2	182.8	191.9	872.8
IDA and cofinancing (including PME loans)	46.9	66.8	80.1	21.4	3.3	--	171.6
Private sector (direct investment)	6.5	12.8	13.3	13.8	14.4	15.0	69.3
IMF credit (SAF)	...	23.4	10.7	...	...	...	34.1
Paris Club debt rescheduling (1989-93)	...	...	...	...	...	...	--
Other debt reschedulings	31.1	...	...	...	...	...	--
Residual financing gap	--	153.2	--	64.6	88.6	93.6	399.9

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

1/ Including errors and omissions