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SM/90/142
Supplement 1

CONTAINS CONFIDENTIAL
INFORMATION

September 17, 1990

To: Members of the Executive Board

From: The Secretary

Subject: Guinea - Staff Report for the 1990 Article IV Consultation

The attached supplement to the staff report for the 1990 Article IV consultation with Guinea (SM/90/142, 7/17/90) has been prepared on the basis of additional information.

Mr. Kapur (ext. 8732) or Mr. Beaugrand (ext. 7009) is available to answer technical or factual questions relating to this paper prior to the Board discussion which is tentatively scheduled for Wednesday, October 10, 1990.

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CONTAINS CONFIDENTIAL INFORMATION

INTERNATIONAL MONETARY FUND

GUINEA

Staff Report for the 1990 Article IV Consultation Supplementary Information

Prepared by the African Department and the Exchange and Trade Relations Department

Approved by Evangelos A. Calamitsis and Anupam Basu

September 14, 1990

I. Introduction

Since the issuance of the staff report for the 1990 Article IV consultation with Guinea (SM/90/142), the Guinean authorities have communicated to the Fund (see attached letter dated July 17, 1990) a list of policy measures recently implemented, as well as a number of actions to be taken during the second half of 1990. 1/ On this basis, the authorities have prepared new revenue and expenditure estimates, which are reflected in a revised government budget for 1990 adopted in late July.

II. Recent Developments and Revised Outlook for 1990

A number of the measures recently taken or envisaged by the authorities had been considered in the context of the earlier discussions with the Fund staff. Among the policy actions that have been implemented, the main items refer to the restructuring of the petroleum sector. The Government has concluded an agreement with its foreign partners to privatize the National Hydrocarbons Office (ONAH) and it is currently streamlining the relations between ONAH and its major customers. In their letter, the authorities indicate that these measures have already had a beneficial effect on the collection of the special tax on petroleum products (TSPP) and could pave the way for an increase in petroleum product prices and in the TSPP. In addition, a 10 percent customs duty

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1/ Discussions on these issues took place in Washington during the period July 11-17, 1990. The representatives of Guinea included Mr. Benjamin, Minister of Economy and Finance, and Mr. Yansané, Governor of the Central Bank. The staff representatives were Mr. Kapur and Mr. Hilbers (both AFR). Mr. Mawakani, Executive Director for Guinea, attended the final meeting. Mr. Santos, Alternate Executive Director for Guinea, Mr. Toe, Advisor to the Executive Director for Guinea, and Mr. Tuluy, of the World Bank's Africa Region, were present in most of the meetings.

on rice imports was introduced on June 1, 1990. A technical assistance team is advising the management of the national electricity company, and a unit has been set up to monitor customs exemptions. Finally, the authorities have indicated that the Government and an alumina company (FRIGUIA) have reached an agreement providing for the payment of taxes on an accrual basis, instead of an assessment basis, as of mid-1990.

Furthermore, the authorities have announced that in the coming months additional measures will be introduced to improve tax collection, contain public expenditure, and speed up the restructuring of public enterprises. In particular, new customs and direct tax codes are to be introduced, the civil service roster will be completed, and a computerized system for civil service payroll disbursements will be in operation shortly.

As a result of these measures, the authorities expect that the overall fiscal situation will improve in comparison with the earlier staff projections. For 1990, revenue and grants are now estimated by the authorities at GF 329.3 billion, instead of the GF 319.1 billion indicated in the staff report (Table 1). Expenditures are projected to be slightly lower than had been foreseen, owing partly to savings stemming from the computerization of payroll disbursements. Thus, the overall fiscal deficit is expected to be about 1 percent of GDP lower than envisaged in the staff report and, assuming that the projected external assistance materializes, net repayments to the banking system are estimated to amount to GF 9.8 billion. However, fiscal and monetary data for the first seven months of 1990 suggest that the attainment of these objectives is likely to be difficult.

The authorities also expect the external position to improve, reflecting the higher tax payments by the mining companies (which are effected in foreign exchange) and the measures taken to curb the demand for imports (Table 2). Accordingly, the current account deficit for 1990 has been revised downward, and net foreign assets are expected to increase in comparison with earlier projections. No residual financing gap is projected for 1990, on the assumption that external financial assistance will be disbursed as expected. 1/ For later years, however, substantial gaps are likely to arise, which underscores the need for additional adjustment measures.

The authorities have maintained their objective of lowering the inflation rate to 16 percent for 1990, on the basis of a deceleration in the rate of inflation to 14.3 percent over the 12-month period ended May 1990. However, actual data for the first seven months of 1990 indicate an annual rate of inflation of almost 18 percent.

1/ This assistance includes disbursements totaling about US$75 million under three World Bank credits and associated cofinancing related to sectoral loans for education and the second tranche of the second SAC.

Table 1. Guinea: Financial Operations of the Central Government, 1986-93

(In billions of Guinean francs; excludes transactions with the U.S.S.R.)

	1986	1987	1988	1989		1990		1991	1992	1993
	Estimates			Prog.	Est.	SM/90/142	Rev. Budg. 1/	Projections 2/		
Revenue and grants	77.4	139.5	160.6	248.1	234.0	319.1	329.3	369.6	392.3	[illegible]
Mining sector revenues	50.6	76.1	72.3	107.4	108.0	140.8	155.1	153.2	153.0	[illegible]
Nonmining sector revenues	14.0	28.6	51.5	86.6	71.5	98.9	96.8	139.9	158.1	[illegible]
Taxes on income and profits	1.1	1.6	3.0	6.1	4.7	7.4	11.4	11.8	14.5	[illegible]
Taxes on domestic goods and services	4.0	10.4	23.4	48.5	37.9	47.9	43.7	71.8	82.1	[illegible]
Of which: petroleum excise tax	(—)	(1.7)	(10.0)	(30.0)	(18.7)	(22.5)	(18.0)	(40.7)	(46.4)	(51.0)
Taxes on international trade	5.4	8.4	11.1	17.4	15.3	25.0	30.2	33.4	36.5	38.6
Nontax revenue and miscellaneous taxes	3.5	8.2	14.0	14.6	13.6	18.6	11.5	22.9	25.0	27.4
Grants	12.8	34.8	36.8	54.1	54.5	79.4	77.4	76.5	81.2	79.1
Expenditures	116.9	182.4	251.3	317.7	325.0	398.1	393.7	450.0	480.9	493.4
Current expenditures	68.8	102.3	136.3	158.8	174.1	202.5	198.1	216.1	226.9	239.2
Wages and salaries	18.2	21.3	45.5	52.0	60.8	80.0	78.2	90.7	96.0	100.3
Other goods and services	29.0	48.0	37.3	50.1	57.7	65.0	62.6	71.5	78.7	[illegible]
Subsidies and transfers	9.5	16.0	22.9	20.2	25.8	20.0	19.8	19.0	18.0	18.0
Interest payments	12.1	17.0	30.6	36.5	29.8	37.5	37.5	34.9	34.2	34.5
Capital expenditures	48.1	80.1	115.0	158.9	150.9	195.6	195.6	233.9	254.0	[illegible]
Deficit (commitment basis, including grants)	-39.5	-42.9	-90.7	-69.6	-91.0	-79.0	-64.5	-80.4	-88.6	-84.5
Deficit (commitment basis, excluding grants)	-52.3	-77.7	-127.5	-123.7	-145.5	-158.4	-141.9	-156.9	-169.8	-173.6
Change in expenditure arrears (reduction -)	3.2	-1.6	13.2	-24.1	-7.5	-16.5	-15.3	—	—	—
Domestic arrears	—	3.7	1.0	-6.2	4.4	-14.0	-6.3	—	—	—
External arrears	3.2	-5.3	12.2	-17.9	-11.9	-2.5	-9.0	—	—	—
Deficit (cash basis)	-36.3	-44.5	-77.4	-93.7	-98.5	-95.5	-79.7	-80.4	-88.6	-94.5
Financing	36.3	44.5	77.4	5.8	98.5	63.0	79.7	80.4	88.6	94.5
Net external financing	34.1	45.3	65.3	10.3	105.5	63.0	89.5	106.7	92.1	93.6
Drawings	40.1	55.9	86.0	115.8	115.7	118.7	141.8	148.1	164.2	[illegible]
Project financing	(29.8)	(41.8)	(63.7)	(81.5)	(78.5)	(101.7)	(101.7)	(126.9)	(142.4)	(140.5)
Other	(10.3)	(14.1)	(22.3)	(34.3)	(37.2)	(17.0)	(40.1)	(21.2)	(21.8)	(14.7)
Amortization	-25.0	-30.1	-55.6	-55.8	-53.0	-59.4	-59.4 3/	-72.7	-78.7	-64.1
Arrears (reduction -)	-8.0	8.6	14.5	-49.7	-44.5	-5.0	-1.5	—	—	—
Debt relief	13.2	—	6.1	...	75.3	—	—	...	...	...
Debt rescheduling (in process)	13.8	10.9	14.3	—	12.0	8.7	8.7	6.9	6.6	5.5
Net domestic financing	2.2	-0.8	12.2	-4.5	-7.0	—	-9.8	-1.9	-3.5	0.9
Banking system	2.2	-0.8	12.2	-4.5	-7.0	—	-9.8	-1.9	-3.5	0.9
Other	—	—	—	—	—	...	...	...	...	—
Financing gap	—	—	—	87.9	—	32.5	—	—	—	—
Memorandum items:										
GDP at current market prices	654.3	880.1	1,126.2	1,548.7	1,591.2	1,939.5	1,939.5	2,188.7	2,401.3	2,610.0
Deficit (cash basis)/GDP (in percent)	-5.5	-5.1	-6.9	-6.1	-6.2	-4.9	-4.1	-3.7	-3.7	[illegible]
Deficit (commitment basis, excluding grants)/GDP (in percent)	-8.0	-8.8	-11.3	-8.0	-9.1	-8.2	-7.3	-7.2	-7.1	-6.7
Deficit (commitment basis, including grants)/GDP (in percent)	-6.0	-4.9	-8.1	-4.5	-5.7	-4.1	-3.3	-3.7	-3.7	[illegible]
Exchange rate (GF per US$)	345	428	475	573	593	661	661	705	[illegible]	[illegible]

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

1/ Projections based on a revised budget adopted by the Guinean authorities in July 1990.
2/ Staff projections for 1991-93 as discussed in medium-term scenario (see SM/90/142).
3/ Staff estimate.

Table 2. Guinea: Balance of Payments, 1986–94

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

	1986	1987	1988	1989		1990		1991	1992	1993	1994
				Prog.	Est.	SM/90/142	Rev. Proj. 1/	Projections 2/			
Trade balance	138.6	102.9	-25.0	107.7	94.3	121.1	138.1	69.7	65.1	62.3	[illegible]
Exports (f.o.b.)	527.2	548.2	520.3	644.0	645.3	718.8	718.8	695.4	714.8	721.7	[illegible]
Mixed mining companies	437.7	463.8	420.8	539.7	524.5	603.0	603.0	562.8	565.9	554.5	559.3
Other	89.6	84.4	99.5	104.3	120.7	115.8	115.8	132.6	148.8	167.2	191.1
Imports	-388.7	-445.3	-545.3	-536.4	-551.0	-597.8	-580.2	-625.7	-649.7	-653.4	-689.9
Of which: mixed mining companies	(-99.0)	(-131.1)	(-131.9)	(-125.8)	(-124.4)	(-142.6)	(-142.6)	(-158.0)	(-159.0)	(-152.3)	(-171.2)
Services and private transfers	-224.1	-283.3	-289.7	-329.3	-357.6	-380.8	-364.7	-351.6	-342.1	-338.2	[illegible]
Official transfers	42.3	82.8	83.5	96.5	97.9	116.7	116.7	108.5	112.0	109.0	110.9
Current account	-43.2	-97.6	-231.2	-125.1	-165.4	-143.0	-109.9	-173.3	-165.1	-161.9	-155.6
Of which: mixed mining companies	(206.8)	(196.4)	(156.8)	(233.8)	(218.0)	(249.7)	(264.3)	(231.8)	(243.4)	(234.5)	[illegible]
Capital movements	31.9	93.4	97.7	128.1	122.2	107.5	142.1	149.0	147.5	147.2	150.7
Public capital	29.7	72.0	61.9	127.5	103.6	90.0	124.6	106.9	117.9	120.2	117.1
Project-related loans	71.1	100.7	134.1	158.0	132.6	153.9	153.9	180.0	196.4	191.9	195.7
Program financing	31.5	44.5	46.9	66.8	60.7	25.9	60.5	30.0	30.0	20.0	5.0
Amortization 3/	-72.9	-73.2	119.1	-97.3	-89.6	-89.8	-89.8	-103.1	-108.5	-91.7	-83.6
Mixed mining companies	-2.8	16.2	29.3	-12.2	8.6	6.6	6.6	29.6	15.3	10.7	14.9
Other private, including net direct investment	5.0	5.2	6.5	12.8	10.0	10.9	10.9	12.5	14.3	16.3	18.7
Errors and omissions	-40.7	-6.5	10.4	...	8.4	...	...	...	...	...	...
Overall balance	-52.0	-10.7	-123.1	3.0	-34.8	-35.5	32.2	-24.3	-17.6	-14.6	-4.9
Of which: mixed mining companies	(204.0)	(212.6)	(186.1)	(221.6)	(226.6)	(256.3)	(270.9)	(261.4)	(258.7)	(245.2)	(242.1)
Financing items	52.0	10.7	123.1	-163.1	34.8	-15.1	-32.2	-4.7	3.5	0.5	-4.0
IMF credit (net)	10.9	14.6	—	17.7	17.2	-12.8	-12.8	-8.5	-1.0	-2.1	-5.5
Gold	—	-5.2	-19.6	—	-18.4	-24.0	-24.0	—	—	—	—
Other reserve movements (net)	-23.3	-34.0	42.0	-50.0	-22.9	22.3	5.1	-6.0	-4.6	-14.1	-4.9
Changes in arrears (net)	-288.3	7.5	57.0	-130.8	-88.5	-13.8	-13.8	—	—	—	—
Debt rescheduling	352.7	31.8	43.7	—	147.4	13.2	13.2	9.8	9.1	7.7	6.3
Residual financial gap	—	—	—	160.1	—	50.6	—	32.6	14.1	14.1	8.9
Memorandum items:											
Current account balance/GDP	-2.3	-4.7	-10.7	-5.3	-7.1	-5.5	-4.2	-6.2	-5.5	[illegible]	[illegible]
Current account balance (excluding public transfers)/GDP	-4.5	-8.8	-14.5	-9.5	-11.3	-10.9	-8.7	-10.1	-6.3	[illegible]	[illegible]
Exports/GDP	27.8	26.7	24.0	27.5	27.6	27.6	27.6	25.0	24.0	[illegible]	[illegible]
Imports/GDP	20.5	21.7	25.2	22.9	23.6	22.9	22.3	22.5	21.8	20.4	19.9
Foreign exchange position (end of period in millions of U.S. dollars)	12.5	45.5	4.5	54.5	27.4	5.1	22.3	31.9	36.5	[illegible]	[illegible]
Gold reserves	8.5	17.7	37.3	37.3	55.7	79.7	79.7	79.7	79.7	79.7	79.7
Total reserves	21.0	64.2	41.8	91.8	83.1	84.8	102.0	111.6	116.2	120.3	125.1
(In months of nonmining, non-PIP imports)	1.1	3.2	1.5	3.4	3.0	3.0	3.7	3.9	3.9	3.9	3.9
Debt service ratio	41.6	43.1	65.9	52.2	43.0	44.1	42.2	41.7	39.3	34.9	31.7
GDP	1,897	2,056	2,166	2,339	2,337	2,607	2,607	2,781	2,983	3,210	3,461

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

1/ Projections based on a revised budget adopted by the Guinean authorities in July 1990.
2/ Staff projections for 1991-94 as discussed in medium-term scenario (see SM/90/142).
3/ Includes the cancellation of debt by France in 1990.

III. Staff Appraisal

The Guinean authorities have recently implemented a number of key measures, including actions designed to restructure the energy sector, and they have marshaled additional resources to offset the financial consequences of a delay in adjusting the retail prices of petroleum products in 1990. The staff welcomes the policy actions that have been taken, as well as those that are envisaged, which could improve Guinea's overall economic and financial situation relative to that described in the staff report for the Article IV consultation. The authorities' objectives for 1990 appear attainable, although fiscal and monetary developments in the first seven months of the year suggest that this is likely to be difficult. It is thus important that the measures contemplated for the remainder of this year be implemented in a sufficiently forceful and timely manner. However, while the authorities' policy package could offset the immediate financial implications of the deferment of the increase in retail prices of petroleum products, it does not adequately address the fundamental structural issues at hand, especially the distortions caused by the budgetary losses on petroleum products.

The recent surge in world oil prices has reinforced the case for an early adjustment of the retail prices of petroleum products. The staff estimates that on the basis of an average oil import price of US$21 per barrel in 1990 and US$23 per barrel in 1991 (compared with US$16-18 per barrel in earlier projections), Guinea's current account deficit would widen by about US$18 million in 1990 and US$23 million in 1991 compared with the projections in the attached tables; in the absence of domestic price increases, the budgetary impact could amount to GF 6 billion in 1990 and GF 16 billion in 1991. In the circumstances, the staff is of the view that in the period ahead Guinea will need to adapt its financial and structural adjustment efforts in keeping with a sustainable medium-term macroeconomic framework.

Embassy of the Republic of Guinea
to the United States of America
2112 Leroy Place, N.W.
Washington, D.C. 20008

AGW/DIV/72/90 Washington, D.C., July 17, 1990

Mr. Michel Camdessus
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431

Dear Mr. Camdessus:

Further to our Head of State's letter of June 25, 1990 confirming the Guinean Government's determination to continue its economic recovery efforts, and our recent discussions with the Fund, we wish to inform you of the principal economic policy measures we plan to implement during the second half of the year in order to maintain a viable macroeconomic framework and thus build a sound foundation for an enhanced SAF in 1991.

Although the Government did not submit a request under SAF III, it has already introduced almost all the preliminary measures and operations agreed at the negotiations in May 1990. A list of the main measures is shown in Attachment I.

The list highlights the considerable efforts already made in the petroleum sector, namely, the signing and ratification of the privatization agreement for the National Hydrocarbons Office (ONAH), the creation of a new team for ONAH liquidation and the management of the petroleum sector, and the streamlining of relations between ONAH and its major customers (State, ENELGUI, AIR GUINEE). As stated in the Head of State's letter, these structural measures have already had a beneficial effect on collection of the specific tax on petroleum products (TSPP) and will pave the way for an eventual increase in petroleum product prices and in the TSPP.

Compensatory measures introduced include a 10 percent customs duty on rice imports, over and above the 10 percent turnover tax (TCA), thus raising the taxes on this product from the agreed 17 percent to 20 percent. At the same time, a technical assistance team has been brought in to manage ENELGUI and a unit set up to monitor customs exemptions.

Tighter controls on overall demand have moderated inflation, which has eased from 26 percent in 1989 to 14 percent in May 1990.

In the coming months, new measures will be introduced to improve the assessment and collection of nonmining taxes, to control and rationalize public expenditure, and to speed up the restructuring of public enterprises. More specifically, we are going to publish and implement the Customs Code and the Direct Tax Code, complete the civil service roster, and introduce a computerized system for civil service payroll disbursement beginning in October, which will result in savings in the wage bill. A list of these measures and their timetables appear in Attachment II.

All these measures are covered by a revised budget bill which is consistent with the macroeconomic framework and the table of government financial operations (TOFE) included in Attachment III. 1/ The results of all the supplementary adjustment efforts are shown in the table. The revised budget bill will be adopted end-July 1990.

With respect to the negotiations in May 1990, the TOFE and the balance of payments have improved considerably: the deficit, on the basis of government financial commitments, has declined from GF 67 billion to GF 61 billion, Treasury debt reduction operations at the Central Bank have gone from GF 2.5 billion to GF 9.9 billion, and Central Bank reserves (including gold) total US$102.2 million. Any revenue surplus would serve to reduce the deficit still further and increase Central Bank reserves.

We believe that implementation of all the measures contemplated and mobilization of the anticipated external assistance in support of the structural adjustment program will enable us to maintain a viable macroeconomic situation and lay the foundations for a successful program under an ESAF in 1991.

Sincerely yours,

/s/

Kerfalla Yansané
Governor of the
Central Bank of the
Republic of Guinea

/s/

Edouard Benjamin
Minister of Economy and
Finance

1/ N.B. This attachment is not included; the main data are shown in Table 1 of SM/90/142, Supplement 1.

Measures Implemented

A. Public finance

1. Introduction of a 10 percent customs duty on rice, over and above the 10 percent turnover tax (TCA). June 1, 1990.

2. Control of the wage bill.

3. Start-up of the unit for monitoring customs exemptions.

4. Implementation of the Government Accounting Plan at the special customs collection office. June 1, 1990.

B. Public enterprises

5. Signing of an agreement privatizing the national petroleum company (ONAH) with the [foreign] partners. May 22, 1990.

6. Introduction at ONAH of a new liquidation-management team. May 17, 1990.

7. Implementation of procedures for cash settlement of petroleum product sales and a schedule for payment every ten days of the specific tax on petroleum products (TSPP). June 7, 1990.

8. Ratification of the ONAH privatization agreement. June 26, 1990.

9. Setting up of a technical assistance team to handle restructuring of the national electric power company (ENELGUI). April 1990.

10. Signing of a fuel supply contract between ONAH and ENELGUI following introduction of the cash payment procedure. June 1990.

11. Non-active status for 183 ENELGUI employees. June 1990.

C. Money and foreign exchange

12. Maintenance of a flexible exchange rate policy and a policy of positive real interest rates.

Measures Planned for the Second Half of 1990

A. Public finance

1. Adoption of a revised budget bill. July 31, 1990.

2. Finalization of the general regulations on public accounting and the organic finance law. September 1990.

3. Negotiation of a new price structure for petroleum products with the petroleum partners. End-September 1990.

4. Adoption and application of the Customs Code. September 1990.

5. Adoption and application of the Direct Tax Code. November 1990.

6. Finalization of the taxpayer list of enterprises. September 1990.

7. Completion of the program for updating the civil service roster and implementation of computerized payroll disbursement. October 1990.

8. Transfer of general government accounts to the BCRG under Treasury supervision. October 1990.

B. Public enterprises

9. Presentation and adoption of a medium-term restructuring plan for ENELGUI. End-August 1990.

10. Installation of meters (70 percent of electric power consumption) and power limitation devices (30 percent of electric power consumption) and setting up of a computerized billing system at ENELGUI. November 1990.

11. Consolidation of ONAH and ENELGUI restructuring operations and formulation of a plan for restructuring other public enterprises. November 1990.

12. Adoption of a framework law governing the relations between the State and public enterprises. October 1990.

C. Money and foreign exchange

13. Clearing of external debt arrears before the end of the year.

14. Maintenance of a flexible exchange rate in order to stabilize the real effective exchange rate.

15. Assessment of interest rate policy and increase in the preferential refinancing rate (TREP) with a view to lowering the gap with the standard refinancing rate (TREN). September 1990.