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SM/84/199

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August 16, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Equatorial Guinea - Staff Report for the 1984 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1984 Article IV consultation with Equatorial Guinea. A draft decision appears on page 15.

This subject will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. McLoughlin (ext. (5)8652) or Miss Valdivieso (ext. (5)8663).

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INTERNATIONAL MONETARY FUND

EQUATORIAL GUINEA

Staff Report for the 1984 Article IV Consultation

Prepared by the Staff Representatives for the 1984 Consultation with Equatorial Guinea

Approved by J.B. Zulu and Eduard Brau

August 14, 1984

I. Introduction

The 1984 Article IV consultation discussions with Equatorial Guinea were held in Malabo June 14-26, 1984. The Equatorial Guinean representatives included Mr. Guillermo Nguema Ela, Minister of Economic Development Planning; Mr. Marcos Mbâ Ondô, Acting Minister of Finance; Mr. Baltasar Engonga Edjo, Acting Governor of the central bank; and other ministers and senior officials concerned with economic and financial matters. The staff team consisted of Mr. T.P. McLoughlin (head-AFR), Ms. R.A. Valdivieso (AFR), Messrs. D.L. Budhoo (WHD), E. Matayoshi (STAT), and M. Kuhn (EP-ETR), and Ms. P. Herran (secretary-WHD). Mr. J.C. Obame, Advisor to Mr. Alfidja, attended the principal policy meetings.

Equatorial Guinea continues to avail itself of the transitional arrangements of Article XIV. Equatorial Guinea's relations with the Fund and World Bank Group are summarized in Appendices I and II, respectively.

Equatorial Guinea has overdue financial obligations to the Fund totaling SDR 1,210 thousand, of which SDR 876 thousand are in respect of repurchases, due on July 2, 9, and 12, 1984, SDR 323 thousand are in respect of SDR and quarterly charges due on August 1 and 8, 1984, and SDR 11 thousand are in respect of interest on the Trust Fund loan, due on June 29, 1984.

II. Recent Economic Developments 1/

Since the last consultation discussions, which were held in late 1982, the overall performance of the Equatorial Guinean economy has

1/ The analysis of economic phenomena in Equatorial Guinea is rendered very difficult by the weakness of the statistical base. Even in cases where time series do exist, coverage is not always identical between years, and accordingly caution is warranted in interpreting the statistical material presented in this report.

continued to be disappointing. While no reliable data are available on the evolution of real gross domestic product (GDP), it appears that real per capita income declined again in 1983, and a further reduction in 1984 seems probable. To a very large extent this unfavorable evolution reflects the inevitable consequences of the pursuit of inappropriate domestic policies over a long period. The maintenance of a highly overvalued exchange rate of the currency, the ekwele, 1/ has given rise to major cost/price distortions and discouraged production of exports, thereby reducing the flows of budgetary revenue and foreign exchange to the official sector and leading to an extremely fragile balance of payments situation. The adverse consequences of this exchange rate policy have been compounded by a general lack of fiscal discipline and by accommodating monetary and credit policies. Together these factors have brought about a situation where, by early 1984, economic activity had largely reverted to subsistence agriculture, gross official foreign exchange reserves were at a very low level, the external debt was extremely onerous, and great difficulties were being experienced in financing even essential imports.

Production of cocoa, the principal export, has declined steadily from nearly 8,000 tons in 1981 to slightly less than 7,000 tons in 1983 and is likely to continue its downward trend in 1984. This compares with peak output levels of 40,000 tons in the late 1960s. While labor shortages have undoubtedly been partly responsible for this low level of production, the major causes have been the declining incentives to producers resulting from a situation where output had to be sold at a relatively low official price while most inputs had to be purchased at ever-increasing cost on the parallel market. In the case of timber, the other major source of foreign exchange, output has expanded from under 70,000 cubic meters to around 90,000 cubic meters between 1981 and 1983, and a further increase to 100,000 cubic meters is in prospect for 1984; nevertheless, at this level output remains far below the potential output level of some 300,000 cubic meters that is technically feasible. The expansion of production has been hampered by complex administrative regulations, restrictions placed on use of the highway system, and a shortage of spare parts and fuels.

In the area of the budget there was a major improvement in 1983, with the overall deficit being reduced to Bipk. 740 million, or the equivalent of 7 percent of beginning money stock (Table 1 and chart). This development reflected essentially the transfer to the Treasury of Bipk. 2 billion of revenue that had been collected over a number of earlier years but not credited to the account of the central administration. As a result of this exceptional item, total revenue in 1983 reached a record level of Bipk. 6.1 billion. Thus, even though expenditure rose by 18 percent to Bipk. 6.8 billion, the overall deficit was relatively modest.

1/ The currency of Equatorial Guinea, the ekwele, in the plural bipkwele, is pegged to the Spanish peseta at the rate of Bipk. 2 = Pta 1. There exists an active parallel market where the ekwele is traded at a very significant discount.

Table 1. Equatorial Guinea: Financial Transactions of the Central Administration 1/, 1981-84

(In millions of bipkwele)

	1981	1982	1983	1984 Projected
Total revenue	2,348	3,758	6,059	6,000
Tax revenue	1,688	2,931	2,322	3,220
Of which: taxes on international trade	(1,313)	(2,567)	(1,574)	(2,160)
Nontax revenue	660	827	3,737	2,780
Expenditure	3,695	5,760	6,799	8,410
Current	2,959	3,714	4,825	6,410
Of which: wages and salaries	(1,450)	(2,020)	(2,173)	(2,650)
Capital	736	2,046	1,974	2,000
Overall deficit	-1,347	-2,002	-740	-2,410
Financing	1,347	2,002	740	2,410
Central bank	1,552	961	448	...
Use of deposits	742	260	--	1,000
Other 2/	-947	781	292	...

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

1/ Includes only transactions identified in the Treasury accounts. Information is not available on investment outlays financed from abroad.
2/ Includes net foreign financing and items in transit.

Credit policy in 1983, while much less expansionary than in earlier years, remained accommodating, with domestic credit rising by 15 percent to Bipk. 22.8 billion (Table 2). More than half of this increase was channeled to the private sector and appears to have increased liquidity beyond the level required to finance productive activity, thus exerting further pressure on an already weak external payments position and increasing the discount on the ekwele in the parallel market. A significant portion of the remainder was used by the public enterprises, whose financial situation continued to deteriorate. Money supply, broadly defined, rose by 16 percent in 1983 to Bipk. 11.6 billion, with most of the increase being in quasi-money.

In the external sector the impact of the worsening economic and financial situation became very apparent in 1983. Thus, even though exports rose by 27 percent to SDR 16.9 million, an inability to mobilize external financing in the desired amounts led to a decline in the level of imports of 18 percent to SDR 30.3 million (Table 3). This, in turn, contributed to a major, though unplanned, improvement in the current account deficit, which fell by SDR 8.7 million to SDR 14.3 million. However, even though the inflow of official capital amounted to SDR 22.2 million, a sharp increase in scheduled amortization payments, together with continuing large private capital outflows (including errors and omissions), resulted in a net negative movement on capital account of SDR 2.5 million. Consequently, the overall balance of payments deficit in 1983, before rescheduling, reached SDR 16.8 million, or roughly the same level as in 1982. This deficit was financed largely through the accumulation of arrears on external debt service of SDR 8.5 million and by bilateral rescheduling of external debt service obligations with Spain in the amount of SDR 6.9 million.1/ At end-1983 external debt disbursed and outstanding stood at SDR 133.9 million, or the equivalent of nearly 7 years of projected 1984 exports of goods and services. Scheduled debt service for 1984 is equal to projected receipts from exports of goods and services.

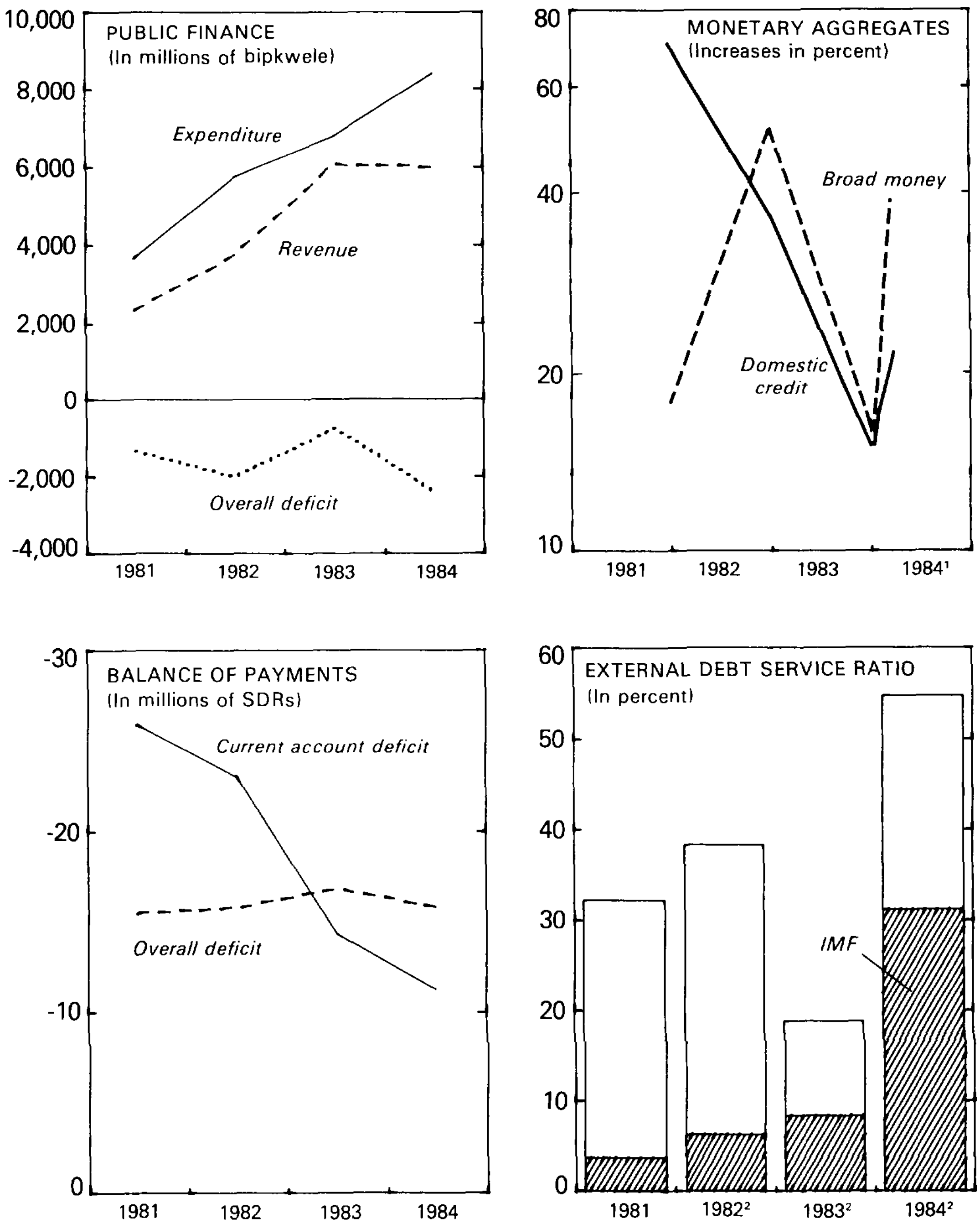
III. Report on the Discussions

Against this background of unsustainable disequilibria, the discussions focused on identifying the major areas where urgent corrective action was required and devising a structured and systematic approach to deal with the most pressing short-run exigencies while at the same time initiating the process of a return to a viable internal and external financial situation over the medium term.

1/ The rescheduling agreement signed on December 8, 1983 was contingent upon Equatorial Guinea having an upper credit tranche arrangement with the Fund by August 1, 1984. This contingency clause is at present under review by the Spanish authorities.

EQUATORIAL GUINEA

KEY INDICATORS, 1981-84



Sources: Data provided by the Equatorial Guinean authorities; and staff estimates and projections.
[1]Change over March 1983.
[2]Actually paid after rescheduling and arrears.

Table 2. Equatorial Guinea: Monetary Survey, December 1980-March 1984

(In millions of bipkwele)

	1980	1981	1982	1983				1984
		Dec.		Mar.	June	Sept.	Dec.	Mar.
Net foreign assets	919	-2,006	-3,480	-2,923	-3,825	-4,064	-4,391	-2,545
Assets	(2,566)	(1,338)	(605)	(1,420)	(754)	(670)	(445)	(1,602)
Liabilities	(-1,647)	(-3,344)	(-4,085)	(-4,343)	(-4,579)	(-4,734)	(-4,836)	(-4,147)
Domestic credit	8,380	14,449	19,788	19,645	18,823	20,653	22,832	23,920
Claims on Government (net)	421	1,973	2,934	2,836	2,957	2,802	3,382	2,243
Claims on public enterprises	15	1,211	2,829	2,733	2,714	3,740	3,658	7,028
Claims on private sector	7,944	11,265	14,025	14,076	13,152	14,111	15,792	14,649
Money and quasi-money	5,614	6,593	10,014	10,116	9,804	10,445	11,619	13,880
Medium- and long-term liabilities	1,700	3,847	4,675	4,931	5,115	5,392	5,556	5,376
SDR allocation	968	1,318	1,610	1,712	1,805	1,866	1,907	1,840
Other items (net)	1,017	685	9	-37	-1,726	-1,114	-641	279

Source: Data provided by the Bank of Equatorial Guinea.

Table 3. Equatorial Guinea: Balance of Payments, 1981-84

(In millions of SDRs)

	1981	1982	1983 Preliminary	1984 Projected 1/
Exports, f.o.b.	13.0	13.3	16.9	16.6
Of which: cocoa	(10.9)	(9.9)	(12.3)	(11.2)
timber	(2.1)	(3.1)	(4.3)	(5.1)
Imports, c.i.f.	-38.3	-36.9	-30.3	-26.7
Of which: petroleum products	(-7.2)	(-8.2)	(-7.8)	(-7.5)
Services (net)	-4.0	-4.2	-6.6	-7.4
Of which: interest	(-1.8)	(-3.2)	(-5.3)	(-5.7)
Unrequited transfers	3.4	4.8	5.8	6.2
Current account deficit	-25.9	-23.0	-14.3	-11.2
Capital account (including errors and omissions)	10.4	7.2	-2.5	-4.6
Official	10.4	16.8	9.0	1.1
Drawings	15.7	25.4	22.2	10.0
Amortization	-5.3	-8.6	-13.2	-8.9
Private 2/	--	-9.6	-11.5	-5.7
Overall deficit	-15.5	-15.8	-16.8	-15.8
Financing	15.5	15.8	16.8	15.8
Changes in net foreign assets	13.4	3.7	0.1	-5.3
Of which: use of Fund resources	(6.6)	(--)	(-0.7)	(-5.3)
Exceptional financing 3/	--	6.4	1.3	1.6
Change in arrears 4/	2.1	5.7	8.5	1.2
Debt rescheduling 5/	--	--	6.9	7.8
Financing gap	--	--	--	10.5

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

1/ Does not include capital contribution associated with entry into the BEAC.

2/ Includes errors and omissions and, in 1981, an SDR allocation of SDR 1.0 million.

3/ Exceptional balance of payments support in 1982; commercial arrears in 1983 and 1984.

4/ Accumulation of arrears on external debt service obligations minus cash payments of previously accumulated arrears.

5/ Rescheduling of current debt service obligations.

The Equatorial Guinean representatives and the staff team agreed that the existing weaknesses in administrative capacity were a major handicap in the design and implementation of adjustment measures. While foreign technical assistance provided so far, including that from the Fund, had been useful, continued support would certainly be required in the period ahead. In this connection the Equatorial Guinean representatives expressed the hope that adequate technical assistance would be forthcoming from bilateral and multilateral sources. Moreover, they recognized that urgent action would have to be taken to improve administrative arrangements so as to enhance the prospects for attracting and retaining suitable foreign experts.

The Equatorial Guinean representatives stated that their intentions were to tackle the country's pressing problems by undertaking a comprehensive adjustment program that they hoped would be supported by a stand-by arrangement with the Fund and by becoming a member of the Bank of Central African States (BEAC) 1/ at the beginning of 1985. In recognition of the profound policy and institutional changes that these decisions entail, it was agreed that the consultation discussions should delineate major areas where policy action was warranted and identify specific measures that now appeared timely while paving the way for the negotiation of a financial program at a date closer to membership in the BEAC. In this context, particular emphasis was placed on production and pricing policies, financial policies, and external sector policies.

1. Production, pricing, and development policies

The Equatorial Guinean representatives and the staff team agreed that high priority should be accorded to boosting cocoa production. In the short run this would entail a major improvement in producer incentives. This in turn would be achieved most effectively by an appropriate exchange rate action, the effects of which would be largely passed on to cocoa producers. The Equatorial Guinean representatives affirmed that such action would be taken in time to influence the 1984/85 harvest, which starts around November. While such action should boost output somewhat in the current year, it was recognized that the full effects would probably not be felt before the crop year 1985/86. Moreover, a sustained expansion in output would require the eventual mobilization of both new foreign investment and an inflow of labor from other countries.

1/ The BEAC is the common central bank of Cameroon, the Central African Republic, Chad, Gabon, and the People's Republic of the Congo. These countries share a common currency, the CFA franc, which is pegged to the French franc. In July 1984 the BEAC and Equatorial Guinea reached agreement on the necessary texts permitting the latter to become a member effective January 1, 1985. At the time of membership, the ekwele will be withdrawn and replaced by the CFA franc, and the institutional structure in Equatorial Guinea will be modified to conform to that prevailing in other BEAC countries.

The Equatorial Guinean representatives were hopeful that existence of a convertible currency and the liberalization of the exchange and trade system that would result from membership in the BEAC would facilitate the solution of these problems.

Regarding the timber sector, intensified efforts would be made to ensure the availability of fuels and spare parts. The imminent entry into the BEAC was expected to stimulate new investment in this sector, and, as the activity required only relatively limited labor inputs, output could expand significantly even in the short run. With the entry into the BEAC it was envisaged that the problem of under-invoicing of timber exports would largely disappear, thereby significantly increasing the flow of foreign exchange to the central bank.

Concerning pricing policies, it was acknowledged that the prevailing exchange rate gave rise to a number of serious distortions and related inefficiencies, especially in the case of petroleum products. For instance, a significant part of the petroleum products imported by Equatorial Guinea was re-exported clandestinely to neighboring countries, thus placing even further strain on the already acute foreign exchange situation of the official sector. Furthermore, the relatively low official prices of petroleum products, as measured in terms of the parallel market rate, were not compatible with the authorities' desire to promote economy in the use of petroleum products, which at present were all imported, a situation that would continue to prevail for probably another five years until Equatorial Guinea began exploiting its own petroleum deposits. For all these reasons, it was their intention to raise the sale prices of petroleum products very significantly in the near future, and the matter would be further reviewed at the time of the exchange rate action.

As regards development policies, the Equatorial Guinean representatives explained that the major objectives were to foster a rapid expansion of domestic food production and to stimulate the production of export commodities. To achieve this, it would be necessary to mobilize considerable external financial and technical assistance. They acknowledged that weaknesses in the planning process had, hitherto, slowed the identification and execution of development projects in these areas. It was also recognized that in the future a far larger share of foreign financing would have to be devoted to investment. A recently approved technical assistance project financed by the IBRD would provide resident experts in a number of key areas, including economic planning, agriculture, forestry, mining and education. The most promising development project was a major cocoa rehabilitation project which was to be financed by the IBRD, following adjustments of the exchange rate and cocoa producer prices. The Equatorial Guinean representatives expressed the hope that a strengthening of the planning process, in conjunction with a re-orientation of economic policies, would facilitate the mobilization of further development assistance.

2. Financial policies

While expressing satisfaction that it had been possible to limit the budgetary deficit to some Bipk. 740 million in 1983, the Equatorial Guinean representatives acknowledged that this had been principally attributable to the inflow of approximately Bipk. 2.0 billion of extraordinary revenue. The budgetary situation in 1984 was rather worrisome, as, despite intense efforts to strengthen tax administration in the early months of the year, it appeared that total revenue would amount to only Bipk. 6.0 billion, or approximately the same level as in 1983. The Equatorial Guinean representatives pointed out that during 1984 tax revenue was projected to rise by 39 percent, reflecting both intensified collection efforts and adjustments in rates resulting from the application of the UDEAC tariff structure that is being gradually introduced. Since the scope for additional discretionary tax changes, except in the case of taxes on international trade, was felt to be extremely limited at present, given the very narrow tax base, it was agreed that, if the prospective deficit were to be contained to manageable proportions, significant adjustment would have to be made on the expenditure side. In this connection, the Equatorial Guinean representatives also agreed with the staff team's assessment that, in the absence of corrective action, total expenditure in 1984 could reach about Bipk. 9.8 billion, implying a deficit of Bipk. 3.8 billion.

The Equatorial Guinean representatives explained that expenditure was currently being reviewed to determine where significant economies could be achieved. Regarding outlays on wages and salaries, it was stated that pressures for increases would be resisted even though real incomes had been significantly reduced in the past few years. Since early 1984 a regrading exercise was being conducted for civil servants, and those who failed to pass tests designed to evaluate their suitability for the posts they held were being demoted. In this way some savings were being realized. However, it was acknowledged that, while the number of public employees, at around 8,000, was clearly excessive, the problem of bringing the size of the public sector payroll more in line with the economy's real needs would have to be solved in a medium-term context. It was intended to follow a policy of reducing the number of public employees through attrition, and it was also hoped that the increased incentives in the agricultural sector that would shortly be introduced would encourage some public employees to consider shifting to the private sector. There was some scope for trimming outlays on materials and supplies in the current year without depriving ministries of items necessary to operate effectively, and vigorous action was planned in this area. Regarding capital expenditure, it was stated that radical action was planned to contain expenditure for the remainder of 1984. No new projects would be initiated, and work would be halted or slowed on all existing projects except those that were both considered as priority and involved the directly productive sectors.

These initiatives, it was hoped, would limit total expenditure to around Bipk. 8.4 billion, leaving an overall deficit of some Bipk. 2.4 billion, or the equivalent of 21 percent of beginning money stock. As this deficit would probably have to be financed mainly by the central bank, a significant expansion of domestic liquidity was in prospect for 1984 as a result of government operations alone. The Equatorial Guinean representatives agreed with the staff team's view that great restraint was accordingly warranted in the case of credit to the private sector. They explained that credit demands would receive more intense scrutiny, and only those for genuinely productive purposes would be approved. In this connection, the central bank would play a stronger role than hitherto in influencing the volume and sectoral distribution of private sector credit. Finally, they stated that the entire structure of interest rates was presently being reviewed with a view to early action to bring it in line with rates prevailing in BEAC countries.

3. External sector policies

The Equatorial Guinean representatives fully shared the staff team's view that the external position in 1984 and 1985 would be extremely difficult. Even with a far-reaching adjustment effort, which inter alia would compress imports to the strict minimum in 1984, financing gaps of some SDR 11 million and SDR 21 million loomed ahead for 1984 and 1985, respectively. Faced with this prospect, the Equatorial Guinean representatives agreed that a satisfactory solution required both profound changes in existing policies and substantial foreign assistance, which in turn was predicated on the former.

The pivotal element in the adjustment effort to be undertaken in 1984 will be a substantial exchange rate action. While the precise magnitude remains to be determined, it is intended that it will be adequate to restore the profitability of the cocoa sector, which will probably imply a very major devaluation. To support this action, appropriate adjustments will be made in producer and consumer prices, and restrained fiscal and monetary policies will be pursued. In the context of the adjustment effort, the Equatorial Guinean representatives expressed the hope that a stand-by arrangement with the Fund could be approved by the Executive Board around year-end. It was recognized that substantial resources would have to be mobilized from creditors and donors and in this context the Equatorial Guinean representatives requested that the Fund use its good offices in assisting Equatorial Guinea to mobilize the required resources.

For both 1984 and 1985 the external debt situation will be critical, with scheduled debt service payments being almost equal to projected exports of goods and services in both years. This situation reflects in large part a bunching of obligations in these two years, especially to the Fund, and a significant reduction in the debt service ratio is in prospect for 1986 and beyond (Table 4). In the circumstances, the only

Table 4. Equatorial Guinea: External Public Debt, 1981-87 1/

	1981	1982	1983	1984	1985	1986	1987
			(In millions of SDRs)				
Disbursed and outstanding (Jan. 1)	52.5	74.7	104.7	133.9	154.4	176.6	194.8
Of which: IMF 2/	(8.1)	(14.7)	(14.7)	(14.0)	(8.7)	(1.8)	(--)
rescheduled 3/	(--)	(--)	(--)	(9.6)	(25.3)	(40.7)	(49.9)
Disbursements	22.3	31.8	22.5	20.5	28.7	19.0	16.1
Of which: disbursements from new commitments 4/	(--)	(--)	(--)	(10.5)	(20.6)	(14.0)	(9.1)
Total debt service	7.1	11.8	19.2	19.9	22.4	18.7	18.4
Of which: IMF	(0.6)	(1.0)	(1.7)	(6.2)	(7.5)	(1.9)	(--)
Amortization	5.3	8.6	13.9	14.2	16.4	12.4	11.3
Of which: IMF	(--)	(--)	(0.7)	(5.3)	(6.9)	(1.8)	(--)
Interest payments 5/	1.8	3.2	5.3	5.7	6.0	6.3	7.1
Of which: IMF	(0.6)	(1.0)	(1.0)	(0.9)	(0.6)	(0.1)	(--)
Rescheduling of current debt service payments 6/	--	--	6.9	7.8	9.8	9.2	7.3
Arrears (net) 7/	2.1	5.7	6.0	-6.7	-7.1	--	--
Accumulation	2.1	5.7	8.5	2.0	--	--	--
Cash reduction	--	--	--	-0.8	-1.5	--	--
Rescheduling	--	--	-2.5	-7.9	-5.6	--	--
Effective debt service 8/	5.0	6.1	3.8	10.9	14.1	9.5	11.1
		(In percent of exports of goods and services) 9/					
Total debt service	45.5	73.9	94.6	100.0	93.8	62.6	48.0
Of which: IMF	(3.8)	(6.3)	(8.4)	(31.1)	(31.4)	(6.4)	(--)
Amortization	34.0	53.8	68.5	71.4	68.7	41.5	29.5
Of which: IMF	(--)	(--)	(3.5)	(26.6)	(28.9)	(6.0)	(--)
Interest payments	11.5	20.1	26.1	28.6	25.1	21.1	18.5
Of which: IMF	(3.8)	(6.3)	(4.9)	(4.5)	(2.5)	(0.3)	(--)
Effective debt service	32.1	38.2	18.7	54.8	59.0	31.8	29.0
Memorandum items:			(In millions of SDRs)				
Exports of goods and services 10/	15.6	16.0	20.3	19.9	23.9	29.9	38.3
Current account deficit 10/	25.9	23.0	14.3	11.2	14.8	12.5	9.7

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

1/ On the basis of existing debts as of May 31, 1984; includes short-term debt. New disbursements from this date onward include financing required to fill the projected financing gaps (including a gradual buildup of reserves). The projected levels of debt outstanding might be biased upward to the extent that financing can be obtained in the form of outright grants or in the form of nondebt-creating capital flows. No Fund program is assumed.

2/ Excludes Trust Fund.

3/ Includes rescheduled debt service obligations and rescheduled arrears.

4/ New commitments are assumed to carry the following concessional terms: maturity of 15 years, 5 years grace, and interest of 4 percent.

5/ Includes interest on debt arising from projected reschedulings at the same rate as that on the original debt.

6/ Projected reschedulings from 1984 onward is highly tentative.

7/ The arrears shown in Table 3 as a financing item in the balance of payments consist of arrears accumulation minus cash reduction. Rescheduling of arrears assumes cash payment of 20 percent in 1985.

8/ Actual debt service payments, taking into account rescheduling of current debt service obligations, arrears accumulation, and arrears cash reductions.

9/ Details may not add to totals due to rounding.

10/ The assumptions underlying the projections from 1984 onward are described in the text.

option is to request rescheduling agreements from the principal bilateral creditors. Provided rescheduling agreements can be negotiated, the actual debt service ratios in 1984 and 1985 could be reduced to around 57 percent. Given the extremely difficult external debt situation, the Equatorial Guinean representatives fully endorsed the staff team's view that no new nonconcessional foreign borrowing should be contracted in the period ahead.

Over the medium term the external debt situation will still remain difficult. Under the assumption of a change in policies that will restore profitability to the cocoa sector and will reduce the incentives for under-invoicing, export earnings are projected to recover vigorously at an average annual rate of 24 percent between 1984 and 1987. 1/ Such a recovery will depend on the availability of imports, projected to grow at an average yearly rate of 10 percent during 1985-87 after a large one-time increase in 1985 from the very constrained level in 1984. In the circumstances, the current account deficit is expected to increase in 1985 and to decline thereafter only gradually. If these deficits can be financed through borrowing on concessional terms, a major reduction will occur in scheduled debt service to 63 and 48 percent of projected exports of goods and services in 1986 and 1987, respectively. The actual debt service burden could be reduced to about 30 percent in both years with appropriate reschedulings.

Equatorial Guinea maintains a highly restrictive trade and payments system and applies certain minor multiple currency practices which have received Fund approval through September 30, 1984. In addition to the multiple currency practices that arise from taxes applied to certain invisibles transfers, Equatorial Guinea maintains exchange restrictions, as described in SM/84/199, under the transitional arrangement of Article XIV, subject to approval under the Fund's Article VIII. The Equatorial Guinean representatives explained that the trade and payments restrictions would be greatly eased at the time of entry into the BEAC and that the existing multiple currency practices would be eliminated.

IV. Staff Appraisal

As a result of the pursuit of inappropriate domestic policies over a long period, Equatorial Guinea currently faces a very difficult economic and financial situation. Production of cocoa and timber, the principal exports, is far below potential, largely because of distortions arising from the maintenance of a highly overvalued exchange rate. Budgetary and

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1/ In particular, volume is projected to grow at a rate of 14 percent, which includes a return of coffee exports to official channels, while unit values are projected to grow at a rate of 10 percent, half of which is expected to be contributed by increases in the ratio of actual unit values to world market prices.

monetary policies have, on the whole, further exacerbated the situation in recent years. The external position is extremely fragile; great difficulties are being experienced in financing even essential imports; and debt service obligations in both the present and coming year are unmanageable without rescheduling.

In the circumstances, a fundamental reorientation of policies is urgently required. The centerpiece of any such adjustment should be a major exchange rate action that is adequate to restore profitability to the cocoa sector. To be successful, such action would have to be accompanied by appropriate adjustments in producer and consumer prices and by suitably restrained fiscal and monetary policies. Moreover, a well-defined development program which concentrates on expanding output in the directly productive sectors would be of crucial importance if the process of recovery is to be sustainable.

Given existing weaknesses in administrative capacity, foreign technical assistance will have a crucial role to play in enabling Equatorial Guinea to effectively pursue its objectives in the areas of stabilization and development policies. It will be essential that appropriate action be taken without delay so that administrative arrangements are adequate to ensure that foreign technical assistance can be obtained and effectively utilized.

The Equatorial Guinean authorities have committed themselves to undertaking a comprehensive adjustment program that they hope will be supported by a stand-by arrangement with the Fund. This program, which will aim at re-establishing internal and external financial equilibrium, will be formulated in the context of the changing institutional structures that will result from Equatorial Guinea's membership in the BEAC, which is scheduled to occur on January 1, 1985. While the major policy changes contemplated by the Equatorial Guinean authorities and the advantages of a convertible currency, which will automatically flow from membership in the BEAC, will contribute substantially to a revival of internal and external confidence, they will not, per se, be adequate to fully address the country's short-term needs. Accordingly, it will be necessary to mobilize significant additional resources from donors and creditors if the prospective financing gaps for the period ahead are to be closed. In particular, debt rescheduling will be of crucial importance in 1984 and 1985. Without adequate support from its principal creditors and donors in the near term, Equatorial Guinea's domestic adjustment efforts will not be successful.

Provided Equatorial Guinea vigorously implements the type of adjustment measures presently contemplated and that such efforts receive adequate external support, the prospects for re-establishing viability in the medium term are good. Given this situation, and the authorities' intentions to liberalize substantially the exchange system in the very near future, it is recommended that the Executive Board grant approval for existing restrictions on payments and transfers for current international transactions and the prevailing multiple currency practices, subject to approval under the Fund's Article VIII, until December 31, 1984.

In view of the seriousness of Equatorial Guinea's economic and financial situation and the major adjustment effort to be undertaken in the near future, it is desirable that future consultations be held on the 12-month rather than the 18-month cycle.

V. Proposed Decision

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

1. The Fund takes this decision relating to Equatorial Guinea's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1984 Article XIV consultation with Equatorial Guinea, in the light of the 1984 Article IV consultation with Equatorial Guinea conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Equatorial Guinea maintains restrictions on payments and transfers for current international transactions and multiple currency practices, as described in SM/84/199 and SM/84/200. The Fund welcomes the intention of the authorities to liberalize exchange restrictions and to eliminate the existing multiple currency practices at the time of entry into the BEAC, scheduled for January 1, 1985. In the meantime, the Fund grants approval of the restrictions on payments and transfers for current international transactions and multiple currency practices as described in SM/84/199 and SM/84/200 until December 31, 1984.

EQUATORIAL GUINEA - Relations with the Fund
(As of August 10, 1984)

(Amounts in millions of SDRs, unless otherwise indicated)

I. Membership Status

(a) Date of membership — December 22, 1969

(b) Status — Article XIV

A. Financial Relations

II. General Department (General Resources Account)

(a) Quota — 18.4 million

(b) Total Fund holdings of member's currency — 30.3 million, or 164.6 percent of quota

(c) Fund credit - 11.8 million, or 64.1 percent of quota
Of which: 4.2 million, or 22.8 percent of quota under credit tranche
Of which: 7.6 million or 41.3 percent of quota under compensatory financing facility

(d) Reserve tranche position — Nil

III. Stand-By or Extended Arrangements and Special Facilities

(a) A one-year stand-by arrangement of SDR 5.5 million was approved on June 30, 1980, and was fully drawn.

(b) Equatorial Guinea purchased a total of SDR 10.5 million under the compensatory financing facility during July 1980-April 1981.

IV. SDR Department

(a) Net cumulative allocation — 5.8 million

(b) Holdings — Nil

EQUATORIAL GUINEA - Relations with the Fund (continued)

V. Administered Accounts

Trust Fund Loans	
(a) Disbursed	4.5 million
(b) Outstanding	4.5 million

VI. Overdue Obligations to the Fund (actual amounts and dates due)

(a) General Department:	Repurchases	875,691	
	Compensatory financing facility	(38,191)	(July 2)
	Credit tranche	(250,000)	(July 9)
	Compensatory financing facility	(587,500)	(July 12)
	Charges	322,797	
	Net SDR charges	(102,187)	(August 1)
	Quarterly charges	(220,610)	(August 8)
(b) Trust Fund:	Interest	11,195	(June 29)
	TOTAL	1,209,683	

B. Nonfinancial Relations

VII. Exchange rate arrangement. The ekwele is pegged to the Spanish peseta at the rate of Bipk. 2 = Pta 1. Most transactions occur in Spanish pesetas.

VIII. The last Article IV consultation discussions were held in Malabo October 23-November 6, 1982. The staff report (SM/83/4) and the recent economic developments paper (SM/83/11) were discussed by the Executive Board on February 16, 1983. The decision adopted was as follows:

1. The Fund takes this decision relating to Equatorial Guinea's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1982 Article XIV consultation with Equatorial Guinea, in the light of the 1982 Article IV consultation with Equatorial Guinea conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Equatorial Guinea maintains restrictions on payments and transfers for current international transactions and multiple currency practices, as described in SM/83/4 (1/4/83). The Fund

EQUATORIAL GUINEA - Relations with the Fund (concluded)

welcomes the intention of the authorities to liberalize exchange restrictions as the balance of payments and reserve position improves. In the meantime, the Fund grants approval of the restrictions on payments and transfers for current international transactions and multiple currency practices as described in SM/83/4 until March 31, 1984.

The above decision on restrictions on payments and transfers for current international transactions and multiple currency practices was extended on March 30, 1984, until September 30, 1984 or the completion of the 1984 Article IV consultation with Equatorial Guinea, whichever is the earlier.

Equatorial Guinea is on the 18-month consultation cycle.

IX. Technical Assistance

(a) The Central Banking Department (CBD) has provided technical assistance to Equatorial Guinea on an almost continuous basis in recent years.

(b) Short-term technical assistance for the preparation of the 1983 budget was provided to the Ministry of Finance during January-February 1983.

(c) The Treasurer's Department provided short-term technical assistance during October-November 1982 to explain the procedures relating to the Fund accounts.

EQUATORIAL GUINEA - Relations with the World Bank Group

The World Bank executed a UNDP-financed technical assistance project in the petroleum sector that aided the Government by drafting a basic hydrocarbons law and a draft production-sharing contract, evaluating the country's petroleum resources, training nationals in the oil sector, and preparing an international competitive tender for offshore exploration and production rights. The tender took place in March 1983. An IDA credit of SDR 2.3 million was approved for a follow-up technical assistance project in the petroleum sector. The project is assisting the Government in establishing and staffing the Ministry of Hydrocarbons and in establishing an energy-sector data base. The World Bank also assisted the Government and UNDP in arranging an international Donors' Conference held in Geneva in April 1982. A technical assistance project was appraised in June 1983 and was approved by the Board on May 31, 1984. The credit agreement (1489EG) was signed on June 27, 1984. The project will be financed in part by an IDA credit in SDRs equivalent to US$6.0 million and will provide resident technical experts in economic planning, agriculture on the continent (Rio Muni), forestry, mining, and education planning; short-term consultants in school architecture, public debt, and training; and training at home and abroad for Equatorial Guineans.

A cocoa rehabilitation project was appraised in June 1983, negotiated in mid-July 1984, and is scheduled to be presented to the Board in the fall of 1984. However, Board presentation is contingent upon the adoption of an appropriate exchange rate policy; the project would provide technical expertise and a line of credit to rehabilitate cocoa plantations on the island of Bioko. A project to assist the primary education subsector is to be identified in October 1984; in addition, reconnaissance missions in forestry and highways sectors have visited the country, although no projects are foreseen in these areas in the near future. Finally, assistance was provided in estimating GDP and population.

EQUATORIAL GUINEA--Basic Data

Area and population

Area	28,051 square kilometers
Population (1983 official estimate) 1/	300,000

Domestic production	1980	1981	1982	1983	1984 Proj.
Cocoa (metric tons) 2/	5,350	7,859	7,323	6,851	6,683
Coffee (metric tons) 3/	108	600	445	400	400
Timber (cubic meters)	26,651	47,485	68,735	93,663	103,029
Public finance	(In millions of bipkwele)				
Revenue	2,642	2,348	3,758	6,059	6,000
Expenditure	3,724	3,695	5,760	6,799	8,410
Current	(2,791)	(2,959)	(3,714)	(4,825)	(6,410)
Capital	(933)	(736)	(2,046)	(1,974)	(2,000)
Overall deficit (-)	-1,082	-1,347	-2,002	-740	-2,410

	1980	1981	1982	1983	1984 Mar.
Money and credit	(In millions of bipkwele; end of period)				
Net foreign assets	919	-2,006	-3,480	-4,391	-2,545
Domestic credit	8,380	14,449	19,788	22,832	23,920
Claims on Government (net)	421	1,973	2,934	3,382	2,243
Claims on public enterprises	15	1,211	2,829	3.658	7,028
Claims on private sector	7,944	11,265	14,025	15,792	14,649
Money and quasi-money	5,614	6,593	10,014	11,619	13,880

1/ National census, July 1983.
2/ Crop year, e.g., 1979/80, corresponds to 1980.
3/ Officially marketed volume.

EQUATORIAL GUINEA--Basic Data (concluded)

	1980	1981	1982	1983 Prel.	1984 Proj.
Balance of payments			(In millions of SDRs)		
Exports, f.o.b.	10.9	13.0	13.3	16.9	16.6
Imports, c.i.f.	-28.4	-38.3	-36.9	-30.3	-26.7
Trade balance	-17.5	-25.3	-23.6	-13.4	-10.1
Services (net)	-1.9	-4.0	-4.2	-6.6	-7.4
Unrequited transfers	2.6	3.4	4.8	5.8	6.2
Current account balance	-16.8	-25.9	-23.0	-14.3	-11.2
Capital account (including errors and omissions)	6.3	10.4	7.2	-2.5	-4.6
Overall balance	-10.5	-15.5	-15.8	-16.8	-15.8
Gross official foreign reserves (end of period)					
Total	12.7	5.9	2.2	1.3	1.3
In weeks of imports	23.2	8.0	3.1	2.3	2.5
External public debt (disbursed)					
Total outstanding	52.5	74.7	104.7	133.9	154.4
Debt service as percentage of exports of goods and services					
Scheduled	16.8	45.5	73.9	94.6	100.0
Effective 1/	16.8	32.1	38.2	18.7	54.7
Exchange rates					
Bipkwele per SDR					
End of period	202.15	226.86	277.10	328.11	319.48
Period averages	141.71	217.71	242.57	306.65	319.70

1/ Debt service actually paid after rescheduling and arrears.