FOR AGENDA

SM/83/4

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January 4, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Equatorial Guinea - Staff Report for the 1982 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1982 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.

Att: (1)

Other Distribution:
Department Heads

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INTERNATIONAL MONETARY FUND

EQUATORIAL GUINEA

Staff Report for the 1982 Article IV Consultation

Prepared by the Staff Representatives for the 1982
Consultation with Equatorial Guinea

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

January 3, 1983

I. Introduction

The 1982 Article IV consultation discussions with Equatorial Guinea were held in Malabo during the period October 23-November 6, 1982. The Equatorial Guinean representatives included Mr. Guillermo Nguema Ela, Minister of Development Planning; Mr. Andrés Nko Ivasa, Minister of Economy and Finance; Mr. Martín Nkoha Eyi Nzang, Governor of the Bank of Equatorial Guinea; and senior officials of ministries and agencies concerned with economic and financial matters. The mission was received by His Excellency, Teodoro Obiang Nguema Mbazogo, President of the Republic.

The staff representatives were Mr. T.P. McLoughlin (head-AFR), Mr. J.S. Porras (FAD), Mr. C.E. Hunter (AFR), Miss R.A. Valdivieso (AFR), Mr. I.S. McCarthy (AFR), and Mrs. M.L. Maldonado (secretary-INST).

Equatorial Guinea continues to avail itself of the transitional arrangements of Article XIV. A summary of Equatorial Guinea's relations with the Fund is contained in Appendix I, while relations with the World Bank Group are presented in Appendix II.

II. Recent Economic and Financial Developments 1/

The new government which took office in August 1979 inherited a very difficult economic and financial situation. During the 1970s the economy had experienced a sharp decline. Output of cocoa, the principal cash crop, had fallen from a high of about 40,000 metric tons in the 1960s to around 5,000 tons in the 1979/80 crop year; production of wood had dropped from over 300,000 cubic meters to 1,300 cubic meters in 1978; and officially marketed coffee production had virtually disappeared.

1/ Despite some improvement in recent years, the statistical base in Equatorial Guinea remains weak. In several key areas no data are available. Moreover, even in some cases where data are available, considerable caution is required in their interpretation, and inter-period comparisons are frequently precluded by changes in definition or coverage.

To redress the situation, the authorities underook a financial program covering the period April 1980-June 1981, which was supported by a one-year stand-by arrangement in the upper credit tranches.1/ The principal objectives of the program were the revival of agricultural output and the restoration of financial stability. To these ends the authorities established remunerative producer prices, adopted the first formal budget in a number of years, introduced a number of tax measures, created a minimum salary differential in favor of the agricultural sector, and devalued the currency 2/ by 50 per cent in foreign exchange terms.

1. The 1980/81 financial program

Performance under the stand-by arrangement was mixed (Table 1). The increases in producer prices and agricultural wages, together with a higher level of imports, led to a dramatic turnaround in real economic activity, with cocoa production rebounding to 8,000 tons in the 1980/81 crop year and timber output rising to 16,000 cubic meters in 1980. Following this initial surge, cocoa production stagnated, largely reflecting labor shortages. Timber production continued to expand owing to the high profitability of the sector. The purchasing power of exports, however, was eroded significantly by adverse terms of trade developments. In terms of SDRs export prices fell by 38 per cent in 1980 and 22 per cent in 1981, while import prices rose by 17 per cent and 6 per cent, respectively.

In the fiscal area there was a substantial divergence between the program targets and the actual outcome. The program had envisaged the implementation of a formalized budget and the application of effective controls over expenditure. In addition, the loss-making state enterprises were to be reorganized or, as in the case of the State Commerce Enterprise (SCE), to be closed down. To improve fiscal discipline an Executive Policy Committee (CEPE) was created in January 1981; CEPE was intended to help the authorities to avoid extrabudgetary outlays and also to advise upon the issuance of import licenses. In the event, the CEPE functioned effectively for only four months and was ultimately disbanded. The state enterprises as a whole continued to experience substantial operating losses, and the SCE is still functioning, albeit on a much reduced scale. In contrast to the program's targets of balanced budgets in 1980 and 1981, fiscal deficits of Bipk. 1.1 billion and Bipk. 1.4 billion, respectively, were recorded as a result of poor expenditure control (Table 2).

The performance criterion on the increase in net bank claims on the Governnment and the public institutions during 1980, which was set at Bipk. 200 million, was greatly exceeded, with actual net claims rising by Bipk. 1.2 billion. During the second half of the stand-by arrangement performance improved. Net bank credit expansion to the Central Government was not to exceed Bipk. 500 million during the first six months of 1981;

1/ Equatorial Guinea's request for the stand-by arrangement for an amount of SDR 5.5 million (55 per cent of quota) was presented in EBS/80/144; EBS/81/52 describes the review and consultation under the stand-by arrangement.

2/ The currency of Equatorial Guinea is the ekwele (plural, bipkwele). The ekwele is pegged to the Spanish peseta at the rate of Bipk. 2 = Pta 1.

Table 1. Equatorial Guinea: Summary of Performance During the 1980/81 Financial Program

Measures to be taken	Performance
Fiscal Policy	
a. Gradual reorganization or elimination of loss-making public enterprises.	This was not done.
b. Policy of covering costs of public transportation and electricity.	Prices were raised but not sufficiently to cover costs.
c. Formal budget to be adopted for 1980, which would be in equilibrium.	A formal budget was adopted, but a substantial deficit was incurred.
d. For 1981 the budget was supposed to be in equilibrium.	A substantial deficit was recorded.
e. Import tariffs were to be raised.	Rates were raised but not to the extent envisaged.
Monetary Policy	
a. During the program period the banking system's net claims on Government were subject to two ceilings.	The first ceiling, for December 1980, was exceeded by a wide margin, but the ceiling for June 1981 was easily respected.
b. Interest rates were to be freed.	This was not done.
c. The commercial banks were to refrain from granting credit to the Government or public institutions.	This was done.
d. Credit norms were to be observed, and a rediscount and reserve requirement was to be implemented.	This was not effectively implemented.
External Sector Policies	
A substantial liberalization of the exchange and trade system was envisaged.	This was partially implemented. The currency was devalued by 50 per cent in foreign exchange terms.
Supply Side Policies	
a. Minimum wages in agriculture were to be raised.	Minimum wages were raised by 21 per cent.
b. Minimum producer prices were to be increased for cocoa and coffee	This was done.
c. A cocoa project financed by the African Development Bank was to be implemented.	The project was initiated, but difficulties are being experienced.

Table 2. Equatorial Guinea: Financial Transactions of the Central Administration, 1980-82

(In millions of bipkwele)

	1980	1981 Preliminary	1982 Staff estimate
1. Total revenue	2,642	2,308	3,468
Tax revenue	1,113	1,648	2,707
Of which: taxes on international trade	(832)	(1,312)	(2,370)
Nontax revenue	1,529 1/	660	761
2. Expenditure	3,724	3,754	5,760
Current	2,791	3,006	3,714
Of which: wages and salaries	(1,280)	(1,473)	(2,020)
Capital	933	748	2,046
Of which: advance payments 2/	(--)	(--)	(1,000)
3. Overall deficit (1-2)	-1,082	-1,446	-2,292
4. Financing	1,082	1,446	2,292
Central bank	1,189	1,622	2,353
Amortization of external debt	-122	-219	-61
Use of deposits	15	43	--

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

1/ Includes Bipk. 853 million from the seizure of funds of key officials of the former regime and reimbursement of unspent funds in previous years.
2/ Reflects advance payments for construction not yet completed.

actually, there was a decline of Bipk. 149 million. Targets were not set for overall credit expansion because of difficulties in estimating credit needs of the private sector but, given the expected remonetization of the economy, a substantial increase in credit to the private sector was expected. Nonetheless the program envisaged strict control by the central bank over the pace of credit expansion. In practice, the central bank pursued a passive and accommodating credit policy, and during the program period credit to the private sector almost quadrupled. (Table 3).

On the external side, the continued weakness of the underlying balance of payments position prevented the authorities from liberalizing imports and eliminating or reducing trade restrictions to the extent that had been planned. The program had envisaged that during 1980 the current account deficit of the balance of payments would be limited to SDR 18.6 million. The actual outcome was better than programed with the deficit reaching only SDR 16.1 million, mainly owing to a slightly lower than expected level of imports (Table 4).

Regarding the overall balance of payments, the outcome was also better than had been expected, with the deficit amounting to SDR 10.2 million, compared to a target of SDR 12.7 million. In 1981, however, the current account deficit, at SDR 25.2 million, exceeded by a very wide margin the program target of SDR 13.3 million, largely reflecting a shortfall of SDR 9.6 million from projected export receipts, attributable to lower-than-expected export volumes for cocoa and timber and adverse price developments. Consequently, the overall balance of payments deficit at SDR 13.8 million was much higher than the program target of SDR 7.3 million.

2. Post-program developments

In 1982 cocoa production continued to stagnate. By contrast, timber production expanded rapidly, as the high profitability of the sector stimulated the entry of new concessionaires. Available data suggest that marketed food production probably rose slowly, in part reflecting disincentives arising from the shortage of traded goods. Tentative projections suggest that real GDP in 1982 may have risen by about 2-3 per cent above the estimated 1981 level of SDR 52 million 1/ (SDR 136 per capita).

In 1982 budgetary revenues were estimated to have risen sharply, increasing by 50 per cent to Bipk. 3.5 billion. The bulk of this increase resulted from higher receipts from taxes on international trade, a significant part of which was due but not collected in 1981. Expenditures were estimated to have increased by 53 per cent reflecting mainly a near tripling of capital outlays largely because of the institution of prepayments to private construction enterprises and increases in the number and average remuneration of government sector employees. The overall deficit is estimated to have widened to Bipk. 2.3 billion and was entirely financed by the central bank. Overall, the large and growing fiscal imbalance in recent years reflects in part the limited tax base but, mostly, a failure to control the growth of outlays.

1/ IBRD estimate prepared for the UNDP (UN Report A/37/130).

Table 3. Equatorial Guinea: Monetary Survey,
December 1979–September 1982

(In millions of bipwkele)

	1979	1980	1981				1982		
	Dec.	Dec.	March	June	Sept.	Dec.	March	June	Sept.
Net foreign assets	1,326	788	258	-1,708	-2,075	-2,008	-3,059	-1,232	-3,583
Assets	(1,326)	(2,636)	(1,840)	(1,519)	(1,180)	(1,336)	(1,846)	(3,742)	(1,423)
Liabilities	(--)	(1,848)	(1,582)	(3,227)	(3,255)	(3,344)	(4,905)	(4,974)	(5,006)
Domestic credit	1,295	8,487	8,919	9,567	10,849	13,011	13,841	12,539	14,782
Claims on government sector (net)	-959	254	14	105	322	950	1,904	408	2,119
Claims on private sector	2,254	8,233	8,905	9,462	10,527	12,061	11,937	12,131	12,663
Money and quasi-money	3,334	5,582	6,972	5,281	5,852	6,823	7,416	8,412	8,986
Other items (net)	-713	3,693	2,205	2,578	2,922	4,180	3,366	2,895	2,213

Source: Data provided by the Bank of Equatorial Guinea.

Table 4. Equatorial Guinea: Balance of Payments, 1979-82

(In millions of SDRs)

	1979	1980	1981 Preliminary	1982 Estimated
Exports, f.o.b.	22.1	10.2	13.7	17.9
Of which: cocoa	(21.2)	(8.7)	(11.1)	(12.8)
timber	(0.6)	(1.5)	(2.6)	(4.5)
Imports, c.i.f.	-18.3	-28.4	-38.1	-42.8
Of which: petroleum products	(...)	(-6.0)	(-8.2)	(-7.8)
Services (net)	-0.7	-0.6	-4.0	-6.0
Unrequited transfers	-0.1 1/	2.7	3.2	6.7
Current account balance	3.0	-16.1	-25.2	-24.2
Capital account (including errors and omissions)	1.2	4.9	10.4	14.7
Long-term	...	5.4	7.1	19.9
Credit lines	(...)	(6.7)	(2.6)	(11.7)
Suppliers' credits	(...)	(--)	(2.5)	(9.1)
Other	(...)	(-1.3) 2/	(2.0)	(-0.9)
Short-term	...	2.6	2.5	-4.0
Credit lines	(...)	(2.6)	(-1.3)	(0.3)
Other	(...)	(--)	(3.8)	(-4.3)
Allocation of SDRs	1.0	1.0	1.0	--
Overall balance (deficit -)	5.2	-10.2	-13.8	-9.5
Financing	-5.2	10.2	13.8	9.5
Changes in foreign assets	(-5.2)	(10.2)	(13.8)	(3.1)
Exceptional financing	(--)	(--)	(--)	(6.4)
Memorandum items:				
Cocoa exports (metric tons)	7,963	5,442	8,666	8,247
Wood exports (cubic meters)	7,500	16,000	57,600	86,000

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

1/ During 1979 there were no official unrequited transfers.

2/ Including a Trust Fund loan of SDR 4.5 million.

Recently there has been a major deterioration in the net foreign asset position. By end-1981 net foreign assets were negative to the extent of Bipk. 2.0 billion. In the first nine months of 1982 the net foreign asset position exhibited pronounced fluctuations, but by end-September a further deterioration to minus Bipk. 3.6 billion had occurred. Underlying this evolution was a rapid expansion in domestic credit. Overall, the very large growth in domestic credit in recent times has far exceeded the productive needs of the economy and has placed severe pressures on domestic prices and the balance of payments. A major factor contributing to the rapid credit expansion has been the passive attitude of the central bank toward refinancing of the state-owned commercial bank and financing of the government sector. 1/ In 1981 domestic credit rose by 53 per cent to Bipk. 13.0 billion, largely on account of a rapid growth in private sector credit. During the first nine months of 1982 domestic credit expanded by 14 per cent to Bipk. 14.8 billion; this development reflected mainly a further weakening of the fiscal situation.

Export receipts in 1982 were estimated to have risen to SDR 17.9 million. With the continuation of expansionary monetary and fiscal policies in 1982, import demand was further intensified. However, as reserves were being rapidly depleted and difficulties in obtaining import financing increased, actual imports were more closely controlled and were estimated to have risen by only 12 per cent to SDR 42.8 million. At this level there was considerable unsatisfied import demand, which in turn put pressure on domestic prices and expanded the size of the parallel market, where the ekwele is traded at a very significant discount (7-10 bipkwele per peseta) from the official rate of Bipk. 2 = Pta 1. Reflecting an unusually large amount of official foreign travel in 1982 as well as a better statistical coverage of services financed through foreign aid, the deficit on the services account was estimated to have widened sharply to SDR 6 million. Exceptional transfer receipts of SDR 3.7 million were recorded in 1982, relating to oil exploration. As a result, although the underlying current account deficit was estimated to actually deteriorate, the recorded current account deficit was expected to narrow fractionally to SDR 24.2 million. This lower deficit, combined with a substantially higher capital inflow, mainly due to a utilization of credit lines provided by Spain and suppliers' credits, was projected to result in the overall balance of payments deficit being reduced to SDR 9.5 million. The deficit was expected to be financed largely by exceptional balance of payments assistance provided by Spain. 2/ At end-1982 gross official reserves were expected to decline to about SDR 2.7 million, the equivalent of three weeks of projected 1982 imports.

1/ Claims on the government sector (net) as reported in the monetary survey include deposits of and loans to various public enterprises. Existing data do not permit a disaggregation which would separately identify the component elements of the government sector.

2/ During 1980 Spain established a Ptas 700 million balance of payments line of credit for Equatorial Guinea. This amount was fully drawn in 1982.

Considerable strain was placed on the balance of payments in 1982 by external debt service payments, which were expected to amount to the equivalent of 33 per cent of exports of goods and nonfactor services, largely because of repayments of short-term credit lines, compared with 13 per cent in 1981. Outstanding debt more than doubled between 1980 and 1982, reaching SDR 72.8 million. The effect of the increase was exacerbated by the concentration of short-term debt, since the majority of the new debt contracted has a maturity of less than 10 years, with no grace period. For 1983 the debt service ratio is projected to be 28 per cent.

Following the 50 per cent devaluation in June 1980, the ekwele has fluctuated only marginally in terms of an import-weighted basket of currencies. Between the end of June 1980 and the end of September 1982 the nominal import-weighted exchange rate depreciated by 0.6 per cent. However, against the U.S. dollar the ekwele depreciated by 62.8 per cent in domestic currency terms during the same period.

III. Report on the Discussions

In the course of the discussions the Equatorial Guinean representatives agreed that the overall economic and financial situation had continued to weaken in the past two years. They acknowledged that expansionary fiscal and monetary policies had promoted an excessive growth in consumption outlays and led to severe pressures on domestic prices and the balance of payments. At the same time, they noted that the necessary actions to ensure a sustained expansion in cocoa and timber production had not yet been taken. Against this background, the discussions focused on the twin challenges which the authorities now face: the establishment of a medium-term development strategy designed to exploit the economy's considerable potential, and the necessary adjustment effort, which is urgently required to restore financial stability, strengthen internal and external confidence, and create conditions propitious for sustainable economic growth.

1. Development planning and supply side policies

In the area of development planning the policy orientation being pursued reflects the priorites outlined to the Donors' Conference in Geneva in April 1982, and places particular emphasis on infrastructure, health, and education. For the three-year period 1982-84 the total cost is estimated at US$141 million. To date, it appears that tentative commitments amounting to US$90 million have been obtained. It is intended to complete, as soon as possible, a formal Development Plan, and at the same time to establish the necessary administrative machinery to follow the implementation of projects in an organized manner. Assistance in development planning is being received under the auspices of the EC and the IBRD had been requested to provide technical support.

In commenting on the orientation of development strategy, the staff representatives took the position that, while the projects presented in the Donors' Conference were desirable, greater emphasis should perhaps be placed on quick-yielding projects in directly productive sectors, notably cocoa, timber, and foodstuffs. These areas would produce the highest yields and make the greatest contribution in the short run to improving the supply situation and to strengthening the balance of payments. Much of the external financing which would become available in the near future would be for feasibility studies and would have little impact on the growth of output in the short run. Furthermore, given the limited administrative and absorptive capacity, caution should be exercised to avoid undertaking a larger number of projects than could be adequately managed. It would also be necessary to generate budgetary resources to meet the recurrent foreign and local currency costs of any investments undertaken.

While prospects for the short run were not bright, the outlook for the medium and long terms was much more encouraging. With appropriate policies, production of timber and cocoa could be expanded significantly in the medium term. More important, encouraging results had been obtained following exploratory oil prospection studies. For 1982 and 1983 some receipts are expected from oil exploration rights and signature bonuses. Thereafter, no additional payments will be made until production actually begins around the end of the decade. For the longer term, however, it was hoped that petroleum production could contribute substantially to strengthening the balance of payments.

During 1981 domestic sale prices for petroleum products were raised. The State Petroleum Enterprise continues, however, to incur substantial losses, largely on account of a failure to collect accounts receivable, especially from the public sector. Efforts are under way to expand hydroelectric power generation in order to reduce reliance on imported oil. An existing hydroelectric plant on Bioko is being rehabilitated, and a large plant is being constructed near Bata, on the mainland.

Where cocoa production was concerned it was recognized that while the output levels of around 40,000 tons recorded in the late 1960s could not be equaled in the foreseeable future, it should nevertheless be possible, with appropriate policies, to envisage a steady rise in output above the current annual production level of 8,000 metric tons. The policies required to achieve a sustained growth in output are those ensuring continued profitability of the sector, timely availability of necessary inputs, and a gradual increase in the labor supply. Cocoa producers now claim that, despite a recent increase in producer prices, the sector is only marginally profitable and that it cannot sustain the existing export tax, which amounts to 8 per cent of the f.o.b price. Accordingly, the producers have requested the authorities to remove this tax and to aid the sector further by subsidizing inputs. The sizable volume of technical data available corroborates the IBRD's assessment that cocoa production appears to be profitable in local currency terms at present, largely because of yields which are several times higher than world averages. Accordingly, the staff representatives took the position that, if it were desired to offer further financial incentives to producers, the most appropriate mechanism would be an exchange rate action rather than a reduction in taxation or the subsidization of inputs. It was also pointed out that a streamlining of marketing arrangements could have a positive impact on production. Priority needs to be given to allocating the necessary foreign exchange to purchase insecticides and fertilizers for the 1983/84 crop. Unless the required financing is made available shortly, the imported insecticides will not arrive on time, and the risk of a major loss in output through disease is very real.

A significant increase in timber exports could be achieved within a very short time. At present the major impediments to increased production are shortages of foreign exchange to purchase equipment and spare parts, frequent interruptions in the availability of fuels and other key inputs, and a failure to define clearly and apply the regulatory framework. Production has also been hampered by restrictions placed on utilization of the road network and difficulties with loading and shipping facilities. Furthermore, frequent delays in meeting contract deadlines have resulted in foreign buyers offering prices which are far below world market levels. Finally, restrictions on transfers of profits have contributed to a widespread practice of underinvoicing. Given that the forestry sector offers the greatest potential for generating additional foreign exchange in the short run, action needs to be taken to ease the existing impediments which encumber the sector. First, clear regulations governing forestry activity must be promulgated and applied. Second, every effort must be made to facilitate the importation of necessary equipment, supplies, and spare parts. Finally, an easing of existing restrictions on transfers of profits would both encourage new investment and help to curtail the level of underinvoicing.

2. Financial policies

On fiscal policy, it was agreed that the 1983 budget should be one of restraint and that, unlike the 1982 budget, it should incorporate all projected expenditures, including debt service. Once established, the expenditure limits in the new budget would need to be strictly respected, and, moreover, it would be essential to eliminate extra-Treasury outlays. To keep the rise in expenditure to a minimum, restrained recruitment and salary policies would be required together with the adoption of adequate measures to effectively contain the growth of nonessential outlays. Regarding revenue possibilities, consideration could be given to implementing the recommendations of a previous Fund technical assistance mission with a view to increasing receipts from income and sales taxes. The staff representatives urged that the overall deficit should be limited to an amount that could be largely financed through external concessional resources so that substantial recourse to central bank credit would not be required. The Equatorial Guinean representatives affirmed that it was their intention to implement a budget of strict austerity in 1983.

Furthermore, they formally requested technical assistance from the Fund in the preparation and execution of the 1983 budget and in revising tax legislation.

The adoption of restrictive fiscal policies in 1983 would greatly ease the pressures for central bank financing of government operations. If, in addition, the existing norms for credit to the private sector were vigorously enforced and refinancing by the central bank restrained, it should be possible to limit the growth of such credit to productive purposes and the financing of necessary imports. Such policies could contribute importantly to reducing pressures on domestic prices and the balance of payments.

3. External sector prospects and policies

Prospects in the external sector are distinctly unfavorable in the short term. By end-1982 gross foreign reserves were expected to have fallen to a very low level. For 1983 export receipts are forecast to be largely unchanged, as higher earnings from timber will be offset by a decline in cocoa proceeds attributable to lower unit values. In addition, during 1982 a significant amount of imports received guarantees from the central bank, and the bulk of these payments will fall due during 1983. At present it is not foreseen that any exceptional balance of payments financing such as that mobilized in 1982 will be available. Therefore, it appears that under present conditions the economy's capacity to import will be greatly curtailed, and that imports, in the extreme case, would have to decline by as much as 40 per cent in value terms.

Faced with this prospect, the Equatorial Guinean representatives expressed great concern. While acknowledging that there was scope for some reduction in imports, especially for consumer goods, they noted that a decline of the amount envisaged would have very disruptive effects on economic activity. To cope with this difficult problem it was intended, while pursuing restrictive policies to dampen domestic demand, to seek external financing to maintain a reasonable level of imports. In order to ensure that the limited foreign exchange receipts which would become available were used efficiently, the existing licensing system for imports would remain in force and would be more effectively applied.

During the past two years an active parallel market has developed, where the ekwele is traded at a very significant discount from the official rate. This market has many adverse features, and has exacerbated existing cost/price distortions within the economy. The Equatorial Guinean representatives acknowledged that an adjustment in the exchange rate would permit an increase in the profitability of the cocoa sector in local currency terms, would probably improve the overall budgetary situation, and allow the removal of many of the existing cost/price distortions. To be effective such action would have to be supported by appropriate complementary fiscal and monetary policy measures. They indicated, however, that the question of a possible exchange rate action would require careful study.

Concerning external debt, it was agreed that caution in contracting new obligations was needed and that every effort should be made to discharge existing debt service obligations as they fell due. However, it was noted that the tight foreign exchange situation could cause some difficulties with debt service payments in 1983. Delays in respecting financial obligations to the Fund in the past have been due to administrative problems and every effort will be made to meet future obligations as they fall due.

Equatorial Guinea maintains exchange restrictions and applies multiple currency practices arising from taxes on certain current transfers which are subject to Fund approval under Article VIII. The multiple currency practices arise from taxes ranging from 8 to 35 per cent on transfers of net investment income and patent, trademark, and royalty income. In practice, virtually no transactions of this type have taken place. It was recommended that these restrictions be reduced and the multiple currency practices eliminated and the Equatorial Guinean representatives indicated they would be favorably disposed to take action in this area as the country's reserve and balance of payments position improves.

IV. Staff Appraisal

As a result of a long period of inappropriate policies, Equatorial Guinea's overall economic and financial situation is very weak. Production of cocoa and timber, the key exports, is far below potential. Meanwhile, import demand has risen rapidly at a time when export receipts were being affected by adverse price developments, and the external position has now reached a critical stage. The major factors underlying this evolution have been a failure to implement adequate supply side measures and lax fiscal and monetary policies, which have allowed the gap between domestic consumption and production to reach an alarming level.

In the circumstances there is a need for a fundamental reorientation of economic and financial policies to curb the growth of consumption outlays, stimulate production in the export sector, and create conditions conducive to the achievement of a satisfactory rate of economic growth. Action is required both to promote adjustment in the short run and to expand productive potential in the medium term through a well-structured development strategy. During the recent Donors' Conference numerous projects were discussed which could, over time, enhance the country's productive potential. However, given the limited administrative and absorptive capacity, the staff feels that priority should be given to quick-yielding projects in the cocoa, timber, and foodstuffs sectors. These areas are likely to generate the highest returns and make the maximum contribution to strengthening the balance of payments.

For the immediate future, fiscal restraint will clearly be necessary, and the 1983 budget will need to be an austere one. Since little growth is expected on the revenue side, limiting budgetary expenditure will be essential. To this end an effective information and control process will need to be instituted in order to avoid nonessential outlays and eliminate extra-Treasury expenditures. In the medium term the overall fiscal deficit will have to be tightly constrained through greater mobilization of domestic resources, either by increased taxes on international trade or a broadening of the tax base. Concessional external financing will also be necessary as well as continued restraint on the growth of total expenditure.

Monetary policy for 1983 should also be restrictive. The adoption and implementation of a prudent fiscal policy could help significantly in this regard. However, there will also be a need for the monetary authorities to control the growth of private sector credit strictly. For this reason, existing policy instruments should be vigorously enforced and bank financing limited to assisting productive activities and obtaining necessary imports.

Even with the adoption of restrictive demand management policies, the external position will be extremely precarious in 1983. Nevertheless, every effort should be made to ensure that external obligations are respected as they fall due. Furthermore, serious consideration should be given to an exchange rate action, which could have very positive effects in both the short and the medium term.

In view of the present balance of payments and reserve position, the staff agrees with the authorities' view that the existing comprehensive system of import licensing and exchange restrictions cannot be liberalized significantly. However, it is the Equatorial Guinean representatives' intention to adopt policies aimed at balance of payments viability in the medium term, and they have indicated a willingness to reduce prevailing restrictions as the balance of payments and reserve position improves. Given the Equatorial Guinean representatives' stated intention in this regard, and their affirmation that the existing multiple currency practices are temporary in character, the staff recommends continued approval.

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 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. The Fund 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.

EQUATORIAL GUINEA--Relations with the Fund
(As of November 30, 1982)

Date of membership	December 22, 1969
Quota	SDR 15 million
Status	Article XIV
Exchange rate	The ekwele is pegged to the Spanish peseta at the rate of Bipk. 2 = Pta 1. Most transactions occur in Spanish pesetas.
Fund holdings of Equatorial Guinean bipkwele	SDR 29.3 million, or 195.0 per cent of quota, of which SDR 10.5 million (70 per cent of quota) under the CFF.
Trust Fund loan disbursements	For the second period SDR 4.5 million has been disbursed.
Stand-by arrangement	A one-year stand-by of SDR 5.5 million was approved on June 30, 1980, and was fully drawn.
Compensatory financing facility	Equatorial Guinea has purchased a total of SDR 10.5 million under the compensatory financing facility.
SDR position	Holdings of SDRs: SDR 23,559, or 0.41 per cent of the net cumulative allocation of SDR 5.08 million
Direct distribution of profits from gold sales	First period US$0.35 million; second period US$0.90 million
Gold distribution	6,691.7 fine ounces (4 distributions)

Technical assistance	In recent years Equatorial Guinea has received substantial technical assistance from the Fund. An expert from the CBD panel is currently assigned as Advisor to the Governor of the central bank. A second expert from the CBD panel will shortly be assigned as Deputy Governor. A request for short-term technical assistance in the fiscal area has been approved. TRE has provided short-term technical assistance to explain the procedures relating to Fund accounts.
Last consultation	The last Article IV consultation discussions were held in Malabo during the period November 6-25, 1980, and the staff report (SM/81/53) was considered by the Executive Board on March 27, 1981.

EQUATORIAL GUINEA--Relations with the World Bank Group

The IBRD has provided technical assistance in drafting and administering laws relating to petroleum and mineral exploitation, and aided in arranging the Donors' Conference held in Geneva in April 1982. In addition, a project appraisal team recently visited Equatorial Guinea to prepare a cocoa/coffee rehabilitation project. Assistance has been provided in assessing forestry prospects and the adequacy of the road system and estimating GDP and population. A further project to provide technical assistance in development planning is also under consideration. An IDA credit of SDR 2.3 million has been approved to provide technical assistance in petroleum exploration.

EQUATORIAL GUINEA--Basic Data

Area and population

Area	28,051 square kilometers
Population	382,000 (1982 official estimate) 1/

Domestic production	1979	1980	1981	1982 Estimated	1983 Projected
Cocoa (metric tons) 2/	7,959	5,366	7,992	8,125	8,200
Coffee (metric tons) 3/	695	108	600	445	400
Timber (cubic meters)	7,000	16,000	60,244	87,302	110,000

(In millions of bipkwele)

Public finance	1980 Actual	1981 Preliminary	1982 Estimated
Revenue	2,642	2,308	3,468
Expenditure	3,724	3,754	5,760
Current	(2,791)	(3,006)	(3,714)
Capital	(933)	(748)	(2,046)
Overall deficit (-)	-1,082	-1,446	-2,292

(In millions of bipkwele; end of period)

Money and credit	1979	1980	1981	1982 Sept.
Net foreign assets	1,326	788	-2,008	-3,583
Domestic credit	1,295	8,487	13,011	14,782
Claims on Government (net)	(-959)	(254)	(950)	(2,119)
Claims on private sector	(2,254)	(8,233)	(12,061)	(12,663)
Money and quasi-money	3,334	5,582	6,823	8,986

1/ Estimate, pilot census May/June 1982.
2/ Crop year ending May 31, i.e., 1978/79 corresponds to 1979.
3/ Officially marketed volume.

EQUATORIAL GUINEA--Basic Data (concluded)

(In millions of SDRs)

Balance of payments	1979	1980	1981 Preliminary	1982 Estimated
Exports, f.o.b.	22.1	10.2	13.7	17.9
Imports, c.i.f.	-18.3	-28.4	-38.1	-42.8
Trade balance	3.8	-18.2	-24.4	-24.9
Services (net)	-0.7	-0.6	-4.0	-6.0
Unrequited transfers	-0.1	2.7	3.2	6.7
Current account balance	3.0	-16.1	-25.2	-24.2
Capital account (including errors and omissions)	1.2	4.9	10.4	14.7
Allocation of SDRs	1.0	1.0	1.0	--
Overall balance	5.2	-10.2	-13.8	-9.5
Gross official foreign reserves (end of period)				
Total	15.1	13.0	5.8	2.7
In weeks of imports	43.1	23.6	7.9	3.3
External public debt (disbursed)				
Total outstanding	...	34.9	43.8	72.8
Debt service as percentage of exports of goods and nonfactor services	...	...	12.8	33.0