May 2005
IMF Country Report No. 05/150

Republic of Equatorial Guinea: 2005 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for the Republic of Equatorial Guinea

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2004 Article IV consultation with the Republic of Equatorial Guinea, the following documents have been released and are included in this package:

- the staff report for the 2005 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on April 25, 2005, with the officials of the Republic of Equatorial Guinea on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 31, 2005. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its April 25, 2005 discussion of the staff report that concluded the Article IV consultation.

- a statement by the Executive Director for the Republic of Equatorial Guinea.

The documents listed below have been or will be separately released.

Report on the Observance of Standards and Codes—Fiscal Transparency Module
Statistical Appendix

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

EQUATORIAL GUINEA

Staff Report for the 2005 Article IV Consultation

Prepared by the Staff Representatives for the 2005 Consultation with Equatorial Guinea

Approved by Siddharth Tiwari and Martin Fetherston

May 3, 2005

- The discussions for the Article IV consultation with Equatorial Guinea were held in Malabo during January 12-26, 2005. The mission included Messrs. Ames (head), Ellyne, Franken, Kovtun, Yao (all AFR), Mr. Maseda, and Mrs. López (both TGS). Messrs. Bah and Rutayisire of the Office of the Executive Director for Equatorial Guinea attended the discussions. Mr. Carstens, Deputy Managing Director, and Mr. Tiwari (AFR) also participated in the final meetings. The mission overlapped with an IMF fiscal transparency Report on Observance of Standards and Codes (ROSC) mission and a World Bank Petroleum Sector and Extractive Industries Transparency Initiative (EITI) mission.

- The mission met with the President of the Republic; the Prime Minister; the Ministers of Finance, National Planning, Economy, and Mines; the National Director of the BEAC; and other senior government officials. It also met with representatives of the private sector, civil society, and the donor community.

- At the conclusion of the last Article IV consultation on November 12, 2003, Executive Directors agreed that oil-related inflows posed considerable challenges to Equatorial Guinea's macroeconomic management, including by raising public spending to unsustainable levels and exerting significant upward pressures on prices and the real exchange rate. They noted that these developments threatened non-oil activities and had potentially serious economic and social consequences. Directors underscored the urgency of developing a medium-term strategy to transform Equatorial Guinea's oil wealth into sustained growth and development. They noted that this would require further improvements in governance and transparency, the development of a transparent framework to manage the county's oil wealth, and structural reforms to bolster the non-oil sector.

- As a member of the Bank of Central African States (BEAC), Equatorial Guinea has accepted the obligations under Article VIII of the Fund's Articles of Agreement (Appendix I).

- World Bank assistance has been limited mainly to economic sector work, including with regard to transparency in oil sector resource management (Appendix II).

Contents

EXECUTIVE SUMMARY

- **Hydrocarbon production will continue to be the engine of growth for the foreseeable future.** Given that oil and gas are nonrenewable resources and have a limited impact on employment, the authorities need to develop the non-oil economy.

- **Equatorial Guinea should be able to make rapid progress toward achieving the Millennium Development Goals (MDGs).** As yet, however, living standards of the majority of the population have not improved measurably.

- **The country has made important progress in increasing transparency and accountability in oil sector management and public finance.** The authorities indicated their commitment to implement the recommendations of the fiscal transparency Report on Observance of Standards and Codes (ROSC) and to participate in the Extractive Industries Transparency Initiative (EITI).

- **The fiscal outcome for 2004 was marked by a stronger-than-expected revenue performance on account of higher oil prices and increases in hydrocarbon production.** However, this was offset by overruns in capital expenditure, underscoring the need for better public expenditure management (PEM).

- **The liquidity overhang poses a risk to macroeconomic stability and financial sector soundness.** In view of the insufficient instruments available to the regional central bank to mop up excess liquidity, the burden of adjustment falls on fiscal policy.

- **The country's immediate challenge is to prepare a comprehensive development strategy that channels the country's oil wealth into priority sectors while safeguarding macroeconomic stability.** In formulating this strategy, the authorities will need to balance short-term social needs with longer-term intergenerational equity considerations.

- **Institutional capacity constraints continue to hinder the authorities' ability to formulate and monitor macroeconomic policy.** Priority should be placed therefore on building capacity in the areas identified by the fiscal transparency ROSC and World Bank EITI mission, as well as on the development of a poverty profile and the carrying out of a public expenditure review (PER).

I. Introduction

1. **The Article IV consultation discussions took place against the backdrop of expanded hydrocarbon production, high oil prices, widespread poverty, and concerns over transparency and accountability.** With a small population[1] and the third-largest hydrocarbon production in sub-Saharan Africa, Equatorial Guinea should be able to make rapid progress toward achieving the MDGs. However, the authorities will first need to implement a development strategy that directs expenditure to priority sectors, strengthens the country's institutional capacity, and creates an environment conducive to private sector investment.

2. **The authorities' response to past policy advice has been mixed.** They have adopted the Fund's recommendations on improving the management of the oil sector, streamlining the tax system, imposing fiscal rules on current and capital spending, and increasing fiscal transparency. However, progress in keeping aggregate expenditure within budget and in developing a poverty reduction strategy has been limited. This reflects weaknesses in the fiscal framework, as well as limited institutional capacity.

II. Background

3. **Since oil production began in 1995, the hydrocarbon sector has been the engine of growth.** Hydrocarbon production has increased from 6,000 barrels of oil equivalent (boe) a day to 282,000 boe a day in 2003, supporting an average annual GDP growth of 31 percent. Total proven reserves are estimated at 2.5 billion boe.

4. **Unfortunately, this wealth has not yet led to measurable improvements in living conditions.** Despite an increase in per capita GNP from US$346 (1995) to US$2,211 (2003), the country's social indicators have not improved commensurately (Appendix III).

5. **The non-oil economy is narrow and accounts for only 10 percent of GDP.** Construction and infrastructure have been the main sources of non-oil growth, driven by high government capital expenditure. At the same time, labor migration from the rural to the urban sector in search of higher wages has contributed to the decline in cocoa and coffee. The contribution of manufacturing, trade, and commerce to GDP is marginal.

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[1] According to the United Nations Population Division, the country had 462,000 inhabitants in 2001. The authorities claim, however, that the population was over one million.

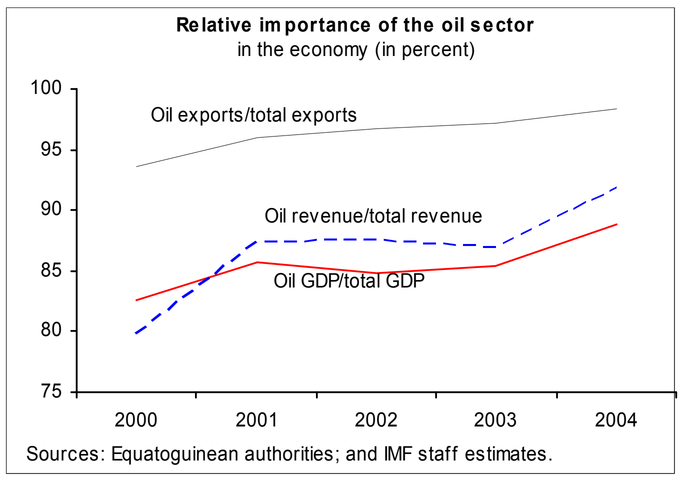
6. **Equatorial Guinea lacks transparency and accountability in oil sector management and public finances.** This was recently underscored by the controversy associated with the Riggs Bank scandal. With a view to addressing this problem, the authorities decided to participate in the UK-sponsored EITI and requested the IMF to conduct a fiscal transparency ROSC.

7. **Equatorial Guinea's statistical apparatus remains very weak.** The lack of timely, accurate, and comprehensive macroeconomic data hampers policy formulation. These problems stem principally from severe institutional capacity constraints.[2] Nonetheless, data provided by the authorities are broadly adequate for surveillance (Appendix IV).

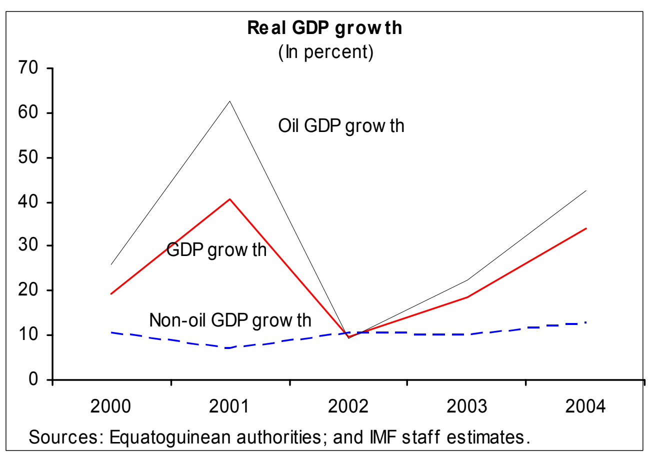
III. Recent Economic Developments

Real sector

8. **Macroeconomic developments in 2004 continued to be dominated by the hydrocarbon sector**, with oil and gas accounting for about 90 percent of GDP, 98 percent of exports, and over 90 percent of government revenues (Table 1). Daily production of hydrocarbons rose to 383,000 boe/day in 2004, from 282,000 boe/day in 2003, largely on account of improved extraction techniques.



9. **Real GDP grew by about 34 percent in 2004, driven by the sharp expansion in hydrocarbon production.** Non-oil GDP increased by about 13 percent—owing to continued strong performance in the construction, infrastructure, and services sectors—stimulated by government spending. Inflation is reported to have decelerated to



[2] The authorities are meeting their data reporting obligations under Article VIII, Section 5(a).

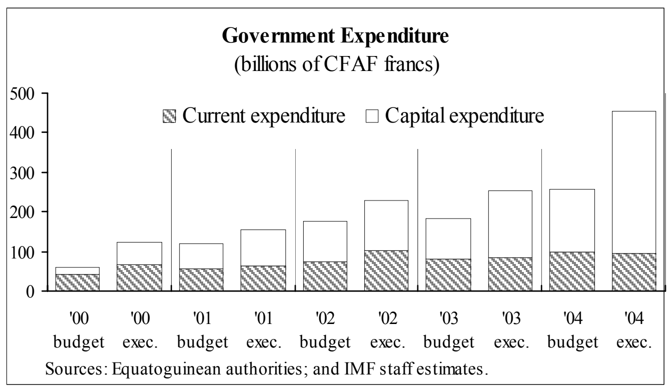
6 percent in 2004 (down from a peak of 9 percent in 2001).[3]

Fiscal sector

10. **The fiscal outcome for 2004 was marked by stronger-than-expected revenue performance offset by substantial over-spending.** The overall fiscal surplus was an estimated 13 percent of GDP and the primary non-oil fiscal deficit an estimated 17 percent of GDP (153 percent of non-oil GDP), both lower than budgeted (Tables 2 and 3).[4]

11. **Total revenue, estimated at 37 percent of GDP, was 44 percent higher than budgeted primarily on account of a larger-than-expected increase in oil receipts.** Oil revenues rose to 34 percent of GDP owing to both higher world oil prices and increases in production. An audit of the oil companies was also conducted, which resulted in one-time tax collections of about 4 percent of GDP. Non-oil revenue, equivalent to 3 percent of GDP, rose by 12 percent relative to budget due to economic growth and improvements in tax administration.

12. **Current and capital expenditure, estimated at 19 percent of GDP, was 77 percent higher than budgeted.** This was on account of significant overruns in capital spending, mainly with regard to infrastructure. In contrast, social sector spending was significantly below budget in 2004. Current expenditure remained within budget while other unreconciled expenditures accounted for some 1 percent of GDP.[5] The cost of the government's participation in the LNG project, which was outside the budget in the form of an in-kind contribution, is now captured in the fiscal accounts.[6]



[3] The composition and weights of the CPI have not been updated since 1985 and do not reflect current household consumption patterns.

[4] The staff believe that the primary non-oil fiscal deficit (which excludes oil revenue, oil-related expenditure, and interest earned on savings) is the most appropriate fiscal indicator for Equatorial Guinea, as changes in oil revenues result in swings in the overall balance and primary balance even though fiscal policy remains unchanged (see Section V).

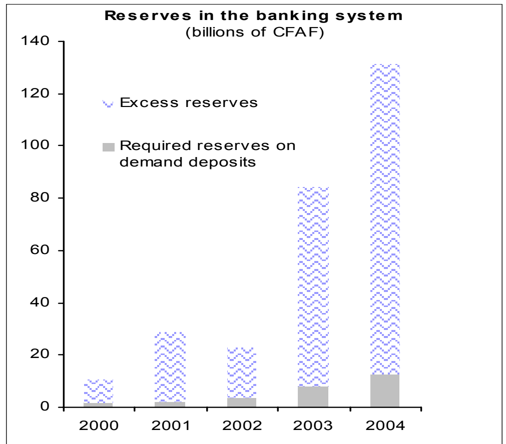
[5] Discrepancies between the fiscal and monetary accounts are treated as "unidentified expenditure" above the line. These expenditures have ranged from -3 to 8 percent of GDP in previous years.

[6] The government's contribution amounted to about 10,000 barrels of oil a day.

13. **A new tax code became effective January 1, 2005.** It replaces the domestic turnover tax with a value added tax (VAT); raises the corporate income tax; strengthens the progressive nature of the personal income tax; raises the tax on gross income for nonresidents; and reduces the withholding tax for nonresidents on dividends paid and interest earned in Equatorial Guinea.[7] In addition, the tax authority was reorganized.

Monetary and financial sector

14. **Monetary developments continue to be dominated by fiscal policy.** Broad money grew by an estimated 45 percent in 2004, owing to the large inflow of government oil revenue and transfers from international oil companies (Table 4). Excess liquidity in the banking system continued to rise, but limited viable lending opportunities kept the growth in credit to the private sector in check, thereby helping to contain inflationary pressures.



Sources: Equatoguinean authorities; and IMF staff estimates.

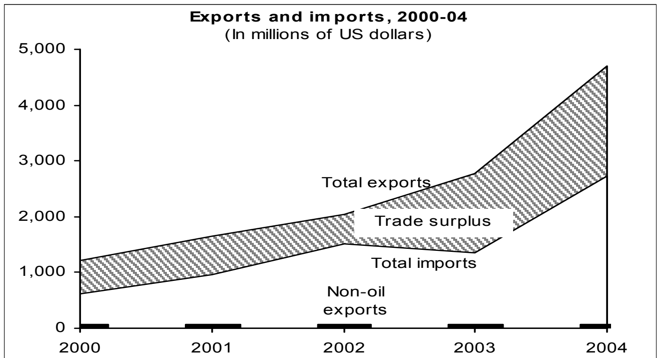
15. **The banking system in Equatorial Guinea is broadly sound**, with the regional banking supervisory agency (COBAC) rating the three commercial banks well above the average of the members of the Central African Economic and Monetary Union (CEMAC).[8] However, compliance with prudential regulations continued to be mixed, with all three banks meeting the liquidity prudential ratios, but only two of the banks observing all of the solvency ratios. Nonperforming loans as a share of total loans increased to 16 percent in 2004 compared to 13 percent at end-2003, as banks took on riskier loans due to the excess liquidity situation coupled with limited lending opportunities. These loans, however, were fully provisioned. A fourth bank had its license approved in 2004 and is expected to commence operation shortly.

[7] Tax Summary, Statistical Appendix, 2005 (www.imf.org).

[8] The CEMAC consists of six countries: Central African Republic, Cameroon, Chad, Gabon, the Republic of Congo, and Equatorial Guinea.

External sector

16. **The overall balance of payments surplus in 2004 more than doubled to an estimated US$713 million.** This is largely because of an increase in the trade surplus driven by oil exports (Table 5). The external current account deficit decreased from 27 percent of GDP in 2003 to 14 percent in 2004. The capital account continued to be dominated by large inflows of foreign direct investment in the hydrocarbon sector. Official international reserves are estimated at US$945 million at end-2004 (about 18 months of imports of goods related to the non-oil sector).[9]



Sources: Equatoguinean authorities; and IMF staff estimates.

17. **Total external public debt declined to an estimated US$115 million at end-2004 (less than 3 percent of GDP), with external debt service becoming insignificant.** Arrears on external debt to Spain were regularized in 2004 and arrears to Italy are expected to be regularized shortly. The backlog in external debt payments to the Kuwait Fund continued.[10]

18. **Equatorial Guinea has observed three of the four CEMAC convergence criteria,** the exception being the inflation criterion which it continues to miss by a wide margin (Box 1).

Box 1. CEMAC Convergence Criteria

The CEMAC treaty on the convergence of economic policies was ratified by members in 1999. In 2001, the Council of Ministers adopted the convergence criteria, which focus on price stability, and on debt and fiscal sustainability.

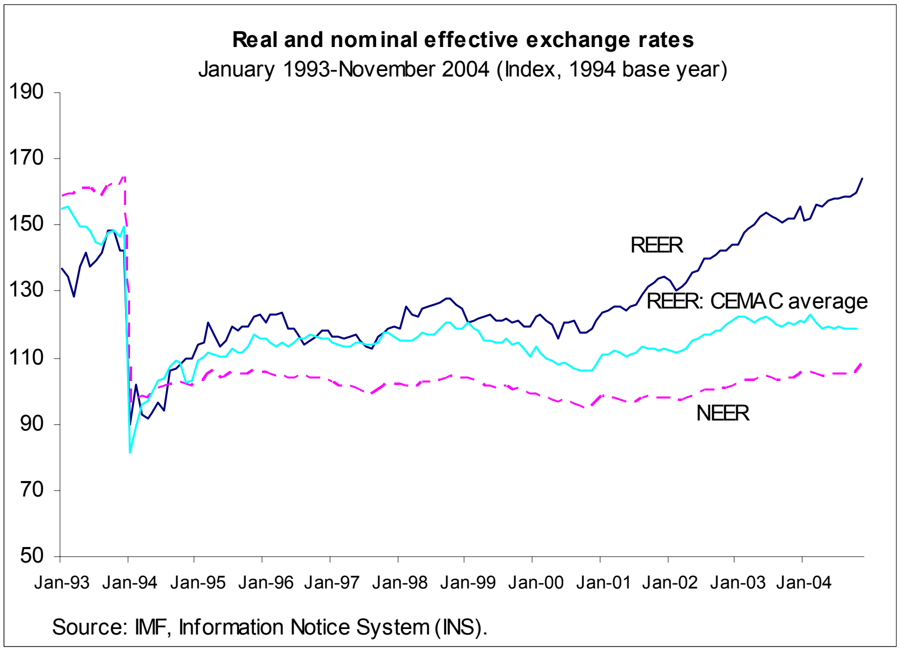
	CEMAC targets	2001	2002	2003	2004
Annual average inflation (percent)	<3	8.8	7.6	7.3	5.9
Domestic and external debt (in percent of GDP)	<70	14.9	14.5	6.2	2.9
Basic balance (in percent of GDP)	>0	11.7	18.1	6.8	13.9
Non-accumulation of arrears	0	—	—	—	—

Sources: The BEAC; Equatoguinean authorities; and IMF staff estimates.

[9] Official reserves are held by the BEAC. The government also holds two offshore treasury accounts amounting to US$636 million.

[10] This is due to delays in receiving documentation from the Kuwait Fund in compliance with international standards for the prevention of money laundering and the financing of terrorism.

19. **Equatorial Guinea maintains an exchange rate system free of any restrictions on current transactions.** As a member of the CEMAC, Equatorial Guinea's nominal exchange rate is fixed and the real effective exchange rate (REER) is driven principally by the inflation differential vis-à-vis the country's major trading partners.[11] The REER appreciated by about 5 percent in 2004 for an accumulated real appreciation of 32 percent since 2000.



20. **Equatorial Guinea has adopted the CEMAC common external tariff (CET).**[12] However, the authorities at times have reclassified goods from higher category tariffs to lower category tariffs and imposed ad hoc taxes and fees on imports of capital goods. Significant progress has nonetheless been made with regard to eliminating import tariffs on goods produced within CEMAC. The authorities continue to retain discretion to set of export tariffs on coffee, cocoa, and logs.

[11] Given the significant structural change in the economy since the onset of oil production, any estimate of the equilibrium real exchange rate is subject to a wide margin of error. Moreover, the lack of reliable CPI data impedes the quality of the calculation of the REER. Nevertheless, the accumulated appreciation of the REER relative to that in other CEMAC countries reflects the dominance of oil in the economy, the higher and increasing levels of government spending, and the corresponding pressure on domestic prices.

[12] The CET comprises four rates (5, 10, 20, and 30 percent).

Transparency and accountability

21. **Important progress has been made with regard to transparency and accountability.** The authorities have been receiving assistance from the World Bank regarding the country's participation in the EITI. A fiscal transparency ROSC was completed in early 2005 (Box 2). Moreover, during the Article IV consultation mission, the staff was able to reconcile data regarding government oil production shares, exports, and revenues, and, broadly speaking, the fiscal accounts with monetary accounts.

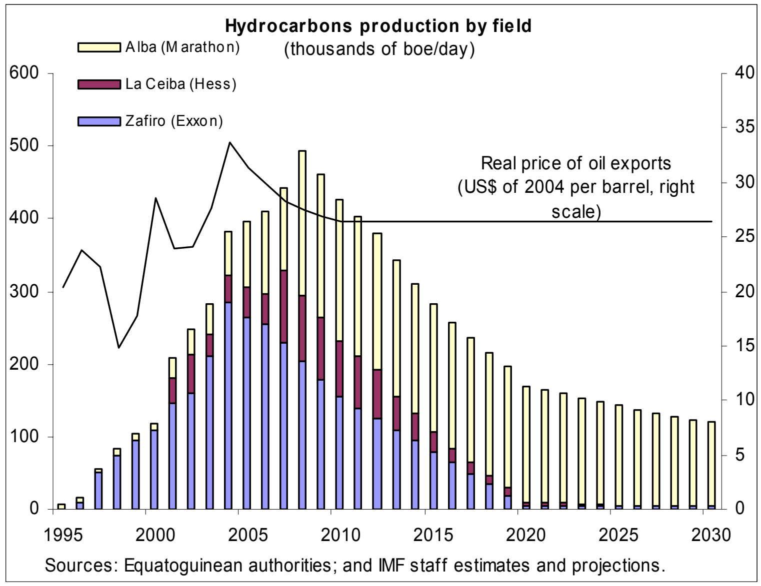
Box 2. Fiscal Transparency ROSC

An FAD fiscal transparency ROSC mission visited Malabo in November 2004 and January 2005. The main findings and recommendations are summarized below.

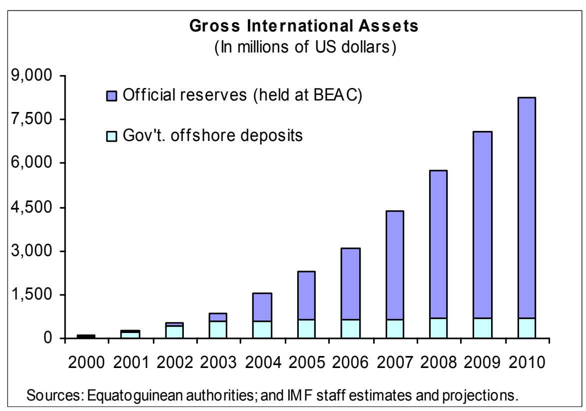
- Equatorial Guinea needs to improve transparency in many areas of the Code of Good Practices on Fiscal Transparency, but a sound basis is being established to implement key fiscal transparency practices. An improved legal framework for fiscal management has been put in place, notably through the 2003 Public Finance Law and the 2005 Tax Code.
- A balanced approach to improve transparency at all levels of fiscal management was recommended, with an initial focus on:
    - establishing a clear fiscal policy for the management of hydrocarbon wealth and a firm budget constraint supported by strengthening the budget law;
    - establishing a more formalized budget priority-setting process and introduction of a functional classification to clearly identify allocations in relation to stated priorities;
    - publishing reconciled data on government oil revenue flows and fiscal and monetary accounts; and
    - defining the mandate and corporate governance structure of the national oil company (GEPetrol), with World Bank assistance.
- The authorities are initiating actions in some of these areas, but weaknesses in administrative capacity and inadequately defined responsibilities and oversight mechanisms present formidable barriers to rapid reform. Technical support will be needed for successful implementation of reforms.

IV. Medium-Term Economic Outlook

22. **The medium-term outlook is dominated by developments in the hydrocarbon sector.** Recent discoveries of oil and gas are expected to further increase the production of hydrocarbons to about 500,000 boe a day by 2008. However, in the absence of significant new discoveries, oil production will start to decline in 2009, with the non-oil sector becoming the main source of growth in subsequent years. The price for Equatoguinean oil is projected to decline from an average of US$34 per barrel in 2004 to US$32 per barrel in 2005 and towards a long-run oil price equivalent to US$30 per barrel beginning in 2010.[13]



23. **Overall GDP growth is projected to average 5 percent a year between 2005 and 2010 and inflation is expected to remain in the range of 7-8 percent.** While oil production peaks in 2008, the non-oil sector should grow rapidly over the medium term fueled by government capital spending on infrastructure and social sector projects. Construction, utilities, transportation and other services are expected to drive non-oil sector growth. Also, with oil revenue remaining strong, fiscal surpluses should average 15 percent of GDP between 2005 and 2010, and the external current account should turn to a surplus in 2007, owing to a decline in oil sector imports of capital goods and services, reaching about 20 percent of GDP



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[13] These prices are consistent with the December 2004 WEO projections less a discount of US$2-5 per barrel due to the lower quality of Equatoguinean oil relative to the benchmark Brent crude oil price.

in 2009 before declining. As a result of these surpluses, gross official assets (official BEAC foreign reserves plus offshore government deposits) should be over \$8 billion (about 33 months of import of goods and services) by 2010 (Tables 6 and 7).

24. **A key decision for the authorities over the medium term is how much of the oil revenue it should spend in a given year and how much it should save for the benefit of future generations.** In determining an appropriate fiscal rule for managing oil wealth, the staff recommended that the authorities consider adopting a permanent income approach (Box 3). This approach would maintain a constant level of real per capita expenditure over the long run. The trade-off would be between investing more in education, health, and infrastructure today and not investing and maintaining the real value of the oil wealth in the form of financial assets. Strengthened PEM can help insure that this balance is managed appropriately in order to increase productivity and avoid wasting resources. There may also be absorptive capacity constraints which limit the level of spending that can be incurred in a given year. The authorities will therefore need to assess and balance each of these considerations in deciding how much to spend and save.

25. **Regarding risks and vulnerability, the staff conducted a sensitivity analysis on the level of sustainable real permanent expenditure.** A US\$1 per barrel increase/decrease in price of oil would raise/lower the permanent real per capita expenditure by about 2 percent. Similarly, a decrease/increase in the real interest rate of 1 percent per annum would reduce/increase permanent real per capita expenditure by about 5 percent. Finally, a reduction/increase in annual non-oil GDP growth by one percent would reduce/increase permanent real per capita government expenditure by about 18 percent. This underscores the importance of preparing a strategy for the management of the country's oil wealth and for the development of the non-oil sector.

V. Report on the Discussions

26. **The discussions took place against the backdrop of high world oil prices, increased hydrocarbon production, continued poor social development indicators, and concerns over transparency and accountability in the management of natural resources and public finance.** While broadly agreeing with the thrust of the staff's assessment and recommendations, the authorities underscored the severe institutional capacity constraints within which they were conducting economic policy and requested assistance to address these concerns.

A. Poverty Reduction Strategy

27. **The immediate challenge facing the Equatoguinean authorities is to prepare a comprehensive development strategy to reduce poverty and foster broad-based economic growth.** The authorities agreed with the staff on the urgent need to prepare an interim paper that could serve as a roadmap for the preparation of the strategy and facilitate technical assistance from development partners. The World Bank and others are expected to help the authorities prepare a poverty profile and carry out a PER. The authorities

acknowledged the importance of developing a comprehensive strategy to guide government policy over the medium term.

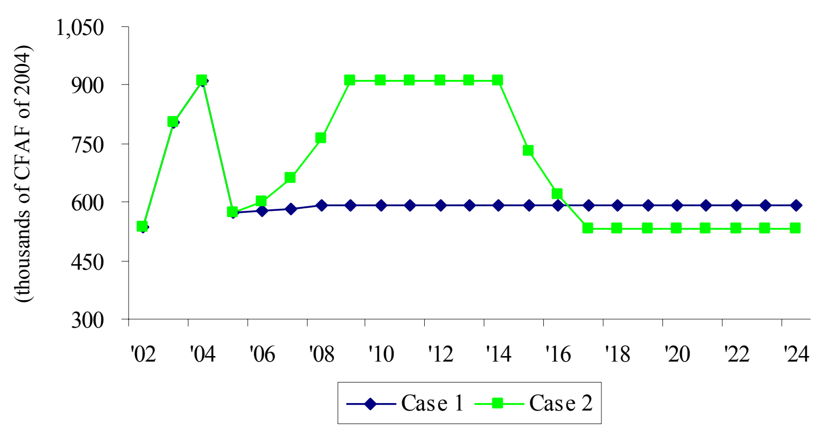
Box 3. Long-Run Fiscal Framework

The staff proposed a long-run fiscal framework based on the permanent income approach. In this framework, respecting intergenerational equity would imply maintaining a constant level of real per capita expenditure over the long run. Alternatively, if the government considers addressing poverty reduction in the short term as a more urgent priority, it may decide to increase real per capita expenditure during the near term, even if that translates into a lower level of public spending thereafter. To calculate the implications of these two alternatives, the staff made the following assumptions:

- economic growth through 2010 in line with the medium-term outlook presented in Table 5, and a 5 percent rate of growth of the non-oil economy thereafter;
- long-run real oil price equivalent to US$30 a barrel beginning in 2010;
- no new hydrocarbon discoveries;
- a real rate of return on financial assets of 2 percent; and
- a population of 500,000 inhabitants in 2004, with a growth rate of 2.5 percent a year thereafter.

The staff estimates that if intergenerational equity is the main consideration (Case 1), a long-run constant real per capita government expenditure of CFAF 590,000 per year (measured in constant 2004 CFA francs) could be maintained. However, if poverty reduction considerations lead the government to spend more during the near term (Case 2), a lower level of long-run constant real per capita government expenditure could be maintained (CFAF533,000 a year). With the latter expenditure profile, the government would need to be mindful of absorptive capacity constraints to avoid jeopardizing macroeconomic stability.1/

Long-Run Fiscal Sustainability



Source: IMF staff calculations.

1/ This analysis assumes that the authorities would not incur any new debt to finance public expenditure. If, however, they incurred a sustainable level of debt to finance additional spending, the level of permanent real per capita expenditure would be higher.

B. Macroeconomic Policies

Fiscal policy

28. **The challenge for fiscal policy over both the short and medium term is to channel the country's oil wealth to priority sectors.** At the same time, the authorities must safeguard macroeconomic stability and intergenerational equity, while paving the way for an eventual shift to a non-oil economy. The staff discussed the long-run fiscal framework outlined in Section IV. The authorities found the framework to be useful, but underscored the urgency of directing resources into improving social conditions in the near term. The staff concurred, but urged the authorities to be mindful of both intergenerational equity considerations and the economy's limited absorptive capacity at present.[14]

29. **The staff recommended a three stage approach to fiscal policy.** In the period immediately preceding the finalization of their strategy, the authorities should limit capital expenditures until they assessed the needs and absorptive capacity constraints of the priority sectors. Once they have elaborated their strategy, there should be greater scope for adjusting both the level and composition of spending. In the long run, the authorities should limit expenditure in line with the country's permanent income.

30. **The mission urged the authorities to adopt the primary non-oil fiscal balance as the key policy target.** At present, the authorities follow fiscal policy rules that limit recurrent expenditure to the amount of non-oil revenues and finance capital expenditure solely from oil revenues. They maintained that these rules were meant to ensure that the country's oil wealth was being directed into productive investment. The mission noted that the existing rules neither constrained capital spending nor took into consideration the level of recurrent expenditure needed to sustain the capital stock.

31. **The staff broadly supported the 2005 budget proposal.** It urged the authorities to remain within the budget parameters which aimed at a non-oil primary deficit of 11 percent of GDP (78 percent of non-oil GDP), allowing savings equivalent to 13 percent of GDP. The authorities reassured the mission of their intention to keep spending within budget, but the lack of a formal mechanism to enforce budget limits makes this uncertain. In this regard, the staff supported the ROSC recommendation that the authorities set a specific expenditure target in the supplemental budget law, with any increases in aggregate spending during the year requiring prior approval by parliament.

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[14] Since the time of the discussions, the staff have revised the WEO price assumptions for crude oil upward to US$47 per barrel in 2005 (from US$37 per barrel), US$44 per barrel in 2006 (US$36 per barrel), and US$39 per barrel for 2007-2010 (US$34 per barrel). As oil revenues already significantly exceed public expenditure, it is expected that the authorities will save the resulting oil price windfalls in the form of higher official reserves. Its impact on the domestic economy would therefore be limited over the short and medium term. Over the long term, however, these higher oil revenues would increase the level of permanent real per capita expenditure that could be sustained.

32. **The staff welcomed the new tax law for 2005.** It expressed concern, however, about the short-term revenue impact and the authorities' ability to implement the new measures given institutional capacity constraints. The authorities explained that they had intended to phase in the measures over 6-12 months while the administrative capacity for VAT tax collection was being strengthened with assistance from the French government, but that the effective date of the new measures was set by the Tax Law. They concurred that there would likely be a reduction in tax receipts during the transition period, but believed that this would be offset over time by a broadening of the tax base. The staff agreed with the authorities' assessment, but urged them to take steps to ensure a smooth implementation of the new law.

Monetary and financial sector policies

33. **The staff expressed concern that the liquidity overhang could jeopardize macroeconomic stability and financial sector soundness**. It noted that the build up in liquidity arose from balances of government contractors involved in large capital projects and of households who are willing to hold deposits, even at zero rates of interest, due to limited alternative investment opportunities. In turn, the excess liquidity occurred on account of the lack of viable lending opportunities on the part of the commercial banks and, under the fixed exchange rate regime, capital account restrictions which prevented private agents from transferring these balances overseas. The authorities indicated that they were not in a position to address the problem since monetary policy is set at the regional level. They noted that the instruments available to the regional central bank to mop up this excess liquidity were ineffective. Given that this excess liquidity remained within the commercial banking system and was not being injected into the domestic economy, the authorities did not see any urgent need to mop up it up. The staff cautioned that the banks could inject this liquidity into the economy at any time and urged fiscal prudence to avoid larger build-ups of liquidity.

34. **The staff expressed concerns about the increasing level of non-performing loans and noted the difficulties that some of the commercial banks were having in observing the capital adequacy requirements.** It urged the authorities to take the necessary actions to ensure that banks complied with the prudential regulations. The authorities did not believe that the increase in the non-performing loans posed a threat to financial sector soundness because these loans were fully provisioned. They agreed, however, that the problem should be addressed through more forceful supervision and enforcement, and indicated that the noncomplying banks would be sanctioned accordingly.

35. **The staff encouraged the authorities to support the implementation of the anti-money-laundering/combating the financing of terrorism (AML/CFT) framework by setting up a national financial intelligence unit in Malabo**. The authorities noted that the

regional body, GABAC,[15] was coordinating the establishment of such a unit, which was expected to be in place later in the year.

External policies

36. **The staff urged the authorities to place priority on establishing an appropriate policy for the management of the country's rapidly growing accumulated budget surpluses, consistent with its obligations as a member of the BEAC.** Since early 2004, all government oil receipts have been deposited in the regional central bank.[16] The authorities expressed concern about the lack of remuneration on the majority of deposits held at the BEAC. They sought staff assistance in finding a suitable solution. The mission took the view that a lasting solution would need to be agreed at the regional level, and welcomed the discussions that had been initiated between the authorities and the BEAC. The staff subsequently raised this matter at the February 2005 Council of Ministers Meeting of the CEMAC and in the recent regional surveillance discussions with the BEAC. The regional authorities have taken note of Equatorial Guinea's concerns. They propose to remunerate Equatorial Guinea's reserves along the lines contained in a draft arrangement with another oil-exporting member of the zone, which is currently being finalized. In the context of the negotiations of this arrangement, a revision of the central bank's reserve management guidelines would be required. A proposal under consideration by the BEAC would separate a part of oil-related funds from monetary reserves in the form of a fund for future generations. This fund could be remunerated based on the returns of longer-term investments in appropriate assets.

37. **The staff urged the authorities to remove the remaining export tariffs, which were not needed as a source of government revenue and only served to weaken competitiveness and/or support inefficient production.** The authorities noted that the export taxes on cocoa and coffee had a long tradition of financing certain domestic initiatives, but agreed to revisit the issue. Their strategy of maintaining an export tax on logs but not on processed wood products was intended to provide an incentive for higher value-added activities. The mission maintained that the tariff should be phased out over time, with a view to reducing the incentive for inefficient domestic production. Regarding the implementation of the CET, the authorities noted that experience throughout the region had been mixed, but reaffirmed their commitment to comply with the regional directives.

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[15] Groupe Anti-blanchiment en Afrique Centrale.

[16] In the past, the authorities placed the country's oil savings in dollar-denominated accounts overseas at market rates of interest, with the exception of the Fund for Future Generations (0.5 percent of total oil revenue) which earns a nominal rate of interest of 1.7 percent at the BEAC.

C. Medium-Term Outlook, Growth and Diversification Policies

38. **The authorities concurred with the staff's medium-term outlook.** They agreed that the oil sector would continue to dominate growth over the medium term, but were initially less optimistic about the rate of non-oil growth, which they projected at 8 percent a year versus the staff's 10 percent. The staff suggested that the non-oil economy should be able to sustain higher levels of growth given its low base, the projected high levels of government capital spending, and the proposed measures for improving the investment climate (see below). The authorities accepted these arguments.

39. **Given that oil is a nonrenewable resource and has a limited impact on domestic employment, the development of the non-oil economy will be essential for sustainable employment and poverty reduction.** The authorities agreed with the staff's assessment, and noted that their diversification policy had been based on three main programs that failed to meet their objectives on account of financial and institutional capacity constraints.[17] The authorities indicated that in the period ahead they would take steps to ensure sufficient financing for these programs and put in place the necessary capacity to monitor implementation.

40. **The mission stressed that the development of an environment conducive to private sector investment was key to sustainable, broad-based growth.** Measures designed to improve contract enforcement, reduce the time required to obtain new business licenses, and minimize the clearance period for foreign exchange transactions would be particularly useful in improving the investment climate. In this regard, the mission expressed concern about the authorities' recent decision to require foreign investors to obtain local (silent) partners as a condition for receiving investment approval. The authorities underscored the urgent need to foster and nurture local entrepreneurship which, in their view, could best be achieved by requiring foreign investors to obtain local partners. They also noted that they had recently adopted the regional investment and commercial law (OHADA) and had revised the tax code with a view to improving transparency.

41. **The decline in competitiveness on account of the appreciation of the real exchange rate threatened the development of the non-oil economy.** While the present exchange rate regime helped the country maintain price stability, the staff believed that fiscal prudence and flexible labor markets were essential to mitigate the effects of Dutch Disease, and to expand the non-oil tradable sector. The authorities acknowledged the impact that high levels of inflation had on competitiveness and concurred that public spending was the key

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[17] These three main programs are: (i) the Special Program of Food Security (PESA); (ii) the Institute for Agricultural Promotion (INPAGE); and (iii) National Institute for Business Promotion and Development (INPYDE).

determinant. The challenge was to find the appropriate balance between higher inflation and higher poverty-reducing spending.

D. Transparency

42. **The most important obstacles to increased transparency are weaknesses in administrative capacity and poorly defined responsibilities and oversight mechanisms.** While improvements related to oil sector transparency are particularly important, broader reforms are essential for successful and sustainable progress in fiscal management. Also, enhancements in the transparency of project planning and implementation are key to a successful poverty reduction strategy. The establishment of a strong, independent judiciary is also important. The authorities recognized the lack of institutional capacity in critical areas of economic decision-making and project implementation. They agreed to implement the recommendations of fiscal transparency ROSC and intend to participate in the EITI with assistance from the World Bank.

E. Statistics and Capacity Building

43. **The lack of technical and institutional capacity hinders the authorities' ability to formulate and implement macroeconomic policy.** The staff urged the authorities to identify priority areas for institutional capacity building within the context of a comprehensive technical assistance plan and to seek the support of development partners.[18] If financial support for such assistance is limited because of budgetary constraints on the part of key development partners (including from the Fund), the authorities should finance these activities directly. For the immediate period ahead, the authorities should place priority on building capacity in the areas identified by the fiscal transparency ROSC.

44. **The mission highlighted the urgent need for better PEM given the large overruns in capital expenditure and the existence of significant extrabudgetary spending.** They urged the authorities to routinely reconcile the fiscal and monetary data and other key oil revenue data, and to identify and include all expenditures outside the published budget in the presentation of the executed budget. The authorities acknowledged the severe deficiencies in PEM and said they were considering acquiring a computerized expenditure control system with the assistance of the French government to strengthen expenditure monitoring. They also agreed that all government expenditure should be captured in the fiscal accounts and requested the Fund's assistance in putting such capacity in place.

45. **The staff envisages providing assistance in areas within the Fund's core competency**. It intends to assist the authorities in identifying appropriate macro-fiscal and tax administration experts and foresees carrying out a multi-sector statistics assessment

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[18] At present, technical support is provided by the African Development Bank and the World Bank in the area of national accounts and the government of France in the fiscal area.

mission. In collaboration with the World Bank, the staff will also hold a regional seminar on sources of growth.

VI. Staff Appraisal

46. **With its substantial hydrocarbon wealth, Equatorial Guinea should be able to make rapid progress toward achieving the MDGs.** However, there has yet to be measurable improvements in living conditions. To do so, the authorities will need to develop a comprehensive poverty reduction strategy, strengthen institutional capacity, improve transparency and accountability, and diversify the economy.

47. **The 2004 budget outturn would have been considerably better (in terms of the non-oil balance) had it not been for substantial overruns in capital expenditure.** This is symptomatic of a lack of expenditure control and poor budget planning that continues to plague the government. The staff urges the authorities to keep within its budget targets and to seek assistance in improving PEM.

48. **Given that oil is a nonrenewable resource and has a limited impact on employment, the staff urges the authorities to take actions to develop the non-oil economy.** The authorities should develop an environment conducive to private sector investment and reverse the decline in the economy's competitiveness by setting fiscal expenditure in line with absorptive capacity constraints, thereby keeping inflation in check. More flexible labor markets would also support these objectives.

49. **The liquidity overhang poses potential risks to macroeconomic stability and financial sector soundness.** The regional monetary authorities lack the instruments to mop up liquidity. The staff urges the authorities to contribute to a reduction in the excess liquidity in the system by maintaining a prudent fiscal policy.

50. **The staff broadly supports the 2005 budget.** It urges the authorities to keep spending in line with the budget in order to return to an expenditure path consistent with the long-term strategy outlined in this report.

51. **The medium-term outlook is expected to be dominated by developments in the hydrocarbon sector.** National savings generated from this sector are expected to remain high. Although beginning from a low base, the non-oil sector is expected to grow rapidly, driven by high levels of government capital spending on infrastructure and social sector projects.

52. **The staff welcomes the authorities' intention to develop a poverty reduction strategy.** It urges them to draw on lessons learned from the previous National Development Plan which failed to achieve its objectives. As an initial step, the authorities should develop an interim document.

53. **In developing their strategy, the authorities will need to balance their desire to improve social outcomes today, with their concerns for macroeconomic stability and**

intergenerational equity. In determining the appropriate level of public savings, the staff recommends that the authorities consider the non-oil deficit as the key policy variable and be mindful of the economy's absorptive capacity constraints when targeting real per capita expenditure over the long run.

54. **The staff urges the authorities to establish an appropriate policy to manage the country's oil wealth.** It welcomes the authorities' decision to deposit all government oil receipts in the BEAC and encourages them to seek a lasting solution at the regional level for the remuneration of government deposits.

55. **The authorities need to improve transparency and accountability, particularly in managing oil revenues and public finance.** They have indicated their commitment to these principles at the highest level, but need to move ahead with concrete actions. The staff welcomes the authorities' intention to participate in the EITI and to implement the recommendations of the fiscal transparency ROSC. It urges the authorities to regularly reconcile and publish oil revenue data, the government's foreign asset holdings, and GEPetrols' audited accounts.

56. **Equatorial Guinea continues to pursue a relatively open trade policy.** As a member of the CEMAC, it has adopted the CET and has made significant progress toward eliminating tariff and nontariff protection on goods produced within the sub region. However, the staff urges the authorities to eliminate the remaining export taxes as soon as possible.

57. **The lack of timely, accurate, and comprehensive economic and social data hampers policy formulation, and monitoring.** The authorities are aware of these problems, which are principally due to severe institutional constraints. The staff urges the authorities to develop a comprehensive framework for strengthening the country's statistical capacity, with support from the World Bank. The authorities should also regularly provide the staff with the basic data it needs to carry out its surveillance responsibilities.

58. **Institutional capacity constraints continue to hinder the authorities ability to conduct economic policy and to implement their development program**. The authorities should identify priority areas for institutional capacity building within the context of a comprehensive technical assistance plan and seek out assistance from the country's development partners, including the Fund. The staff believes that priority should be placed on building capacity in the areas identified in the fiscal transparency ROSC and the World Bank EITI mission, as well as on developing a poverty profile and carrying out a PER.

59. **The staff recommends that the next Article IV consultation with Equatorial Guinea be held on the standard 12-month cycle.**

Table 1. Equatorial Guinea: Selected Economic and Financial Indicators, 2000-05

	2000	2001	2002	2003 Prelim.	2004 Est.	2005 Proj.
	(Annual percentage change, unless otherwise specified)					
Production, prices, and money						
Real GDP	19.3	40.7	9.7	18.7	34.2	4.8
Of which: non-oil GDP	10.5	7.1	10.3	9.9	12.9	9.8
Nominal GDP (in billions of CFA francs)	855.5	1,179.8	1,269.5	1,513.9	2,368.2	2,251.1
Of which: non-oil GDP	148.8	169.3	192.1	221.5	264.9	310.5
GDP deflator (average)	70.0	-2.0	-1.9	0.5	16.6	-9.3
Non-oil GDP deflator (average)	7.3	6.2	2.9	4.9	6.0	6.8
Oil production (thousands of barrels per day) 1/	119.7	210.1	250.6	282.2	383.3	397.3
Oil price (U.S. dollars per barrel)	26.2	22.3	23.0	26.9	33.7	32.0
Consumer prices (annual average)	4.8	8.8	7.6	7.3	5.9	7.0
Broad money	36.2	33.4	53.7	57.1	44.8	36.5
External sector						
Exports, f.o.b.	79.9	37.2	23.6	36.2	68.7	-1.6
Imports, c.i.f.	19.6	57.7	55.8	-10.7	103.4	7.0
Export volume	14.2	76.6	19.1	13.7	35.8	3.6
Import volume	12.6	27.1	20.2	-2.9	32.9	1.2
Real effective exchange rate (depreciation -) 2/	-0.9	6.6	7.4	9.9	4.7	...
Government finance						
Revenue	65.6	142.9	19.1	13.7	84.6	-22.0
Total expenditure and net lending	63.7	56.8	-11.8	94.7	47.3	-31.6
	(In percent of GDP, unless otherwise specified)					
Investment and savings						
Gross investment	57.8	70.3	73.0	50.8	44.7	54.9
Public	5.3	8.0	10.0	11.2	15.2	9.0
Private	52.5	62.3	63.0	39.6	29.5	45.9
Gross national savings	27.9	16.0	3.7	21.3	29.8	38.5
Public	10.2	24.7	25.0	25.5	32.8	25.3
Private	17.7	-8.7	-21.3	-4.2	-3.0	13.2
Government finance						
Revenue	16.7	29.5	32.6	31.1	36.7	30.1
Total expenditure and net lending	16.0	18.2	14.9	24.3	22.9	16.5
Primary non-oil balance 3/	-12.2	-14.0	-10.5	-20.2	-17.1	-10.8
Overall balance (including oil revenue)	-0.5	10.4	17.6	6.7	12.8	13.0
Overall non-oil balance 3/	-12.6	-14.4	-10.8	-20.3	-17.1	-10.9
Overall non-oil balance, percent of non-oil GDP	-73.9	-100.6	-71.4	-138.5	-153.2	-78.7
External sector						
Current account balance (including official transfers; deficit -)	-24.6	-48.4	-65.1	-27.2	-13.7	-16.0
Of which: non-oil current account balance (deficit -)	-16.5	-15.2	-17.0	-16.7	-16.8	-12.4
Outstanding medium- and long-term public debt	20.5	14.9	14.2	5.5	2.6	2.2
Debt service-to-exports ratio	0.8	0.7	0.7	0.3	0.2	0.3
External debt service/government revenue (in percent; before debt relief)	3.9	2.6	2.4	1.0	0.2	0.4
	(In millions of U.S. dollars, unless otherwise specified)					
External sector						
Exports, f.o.b.	1,205	1,653	2,043	2,783	4,695	4,620
of which: oil exports	1,128	1,587	1,977	2,703	4,618	4,541
Imports, c.i.f.	-612	-966	-1,504	-1,343	-2,732	-2,922
Current account balance (deficit -) 4/	-297	-779	-1,191	-710	-616	-725
Overall balance of payments (deficit -)	182	296	297	324	713	741
Outstanding medium- and long-term public debt	248	240	260	145	115	99
Gross official reserves	22	72	86	232	945	1,666
(equivalent months of imports of goods and services, c.i.f.)	0.2	0.5	0.5	1.4	3.0	5.1
(equivalent months of non-oil sector imports of goods, c.i.f.)	2	4.8	4.1	7.5	17.8	43.2
Nominal GNP (in billions of CFA francs)	517	568	442	625	1,550	1,580
Nominal GDP	1,206	1,612	1,830	2,612	4,484	4,528
Exchange rate (average; CFA francs/U.S. dollar)	709	732	694	580	528	...

Sources: Equatoguinean authorities; and IMF staff estimates and projections.

1/ Including oil equivalent of methanol and liquefied gas.

2/ Period average.

3/ Excluding oil revenues, oil-related expenditure, and interest on oil savings.

4/ Including grants.

Table 2. Equatorial Guinea: Central Government Financial Operations, 2000-05

	2000	2001	2002	2003	2004		2005	
					Original Budget	Est.	Budget	Proj.
				(In billions of CFA francs)				
Total revenue and grants	143.3	348.0	414.5	471.2	602.8	870.5	618.3	679.2
Revenue	143.3	348.0	414.5	471.2	602.8	869.8	618.3	678.3
Oil revenue	114.2	303.8	362.5	409.7	539.7	799.2	541.2	611.0
Corporate income tax	4.8	65.5	136.6	122.5	...	148.5	178.2	103.5
Royalties	108.2	197.2	172.2	240.1	...	447.0	242.5	290.4
Bonuses	0.5	0.0	0.0	0.3	...	2.7	0.5	0.5
Rent	0.6	1.2	0.0	0.6	...	1.7	1.1	1.3
Profit sharing	0.0	34.7	40.7	38.6	...	99.2	84.0	116.3
Sales tax on oil companies' subcontractors	0.0	5.2	13.0	7.6	...	35.2	35.0	37.8
Interest income on Oil Reserve Fund		0.0	0.0	0.0	0.0	0.0	0.0	3.2
Nonbudgetary revenue 1/			0.0	0.0		65.0	0.0	58.1
Non-oil revenue	29.1	44.2	52.0	61.5	63.0	70.6	77.0	67.4
Tax revenue	23.7	31.3	39.3	45.4	49.1	57.1	58.1	51.6
Taxes on income and profits	3.7	8.5	14.7	12.8	19.6	15.3	20.8	17.9
Taxes on goods and services	7.8	12.3	14.2	19.7	16.5	24.1	23.5	21.2
Taxes on international trade	8.9	9.3	9.3	11.3	11.5	7.8	9.3	7.8
Other taxes	3.2	1.2	1.1	1.6	1.4	10.0	4.5	4.7
Nontax revenue	5.4	12.9	12.7	16.0	14.0	13.5	18.9	15.8
Total expenditure and net lending	136.8	214.5	189.1	368.2	257.1	542.2	311.6	370.7
Current expenditure	59.2	61.7	100.6	85.5	97.3	95.1	110.8	111.1
Wages and salaries	12.9	17.4	26.0	27.5	30.1	28.3	30.4	32.3
Goods and services	30.9	24.0	50.9	37.5	32.9	38.7	39.4	45.3
Subsidies and transfers	12.2	15.3	19.8	20.1	31.5	26.4	31.9	31.9
Interest	3.2	4.9	3.9	0.4	2.7	1.8	9.2	1.5
Capital expenditure	45.6	94.0	126.6	169.7	159.8	358.9	200.8	201.6
Other	32.0	58.8	-38.1	112.9	0.0	88.2	0.0	58.1
Net lending 1/	0.0	0.0	0.0	0.0	0.0	65.0	0.0	58.1
Unreconciled expenditure 2/	32.0	58.8	-38.1	112.9	0.0	23.3	0.0	0.0
Non-oil overall balance 3/	-107.7	-170.2	-137.1	-306.7	-194.0	-405.9	-234.6	-244.4
Non-oil primary balance	-104.5	-165.3	-133.2	-306.3	-191.3	-404.1	-225.4	-242.9
Net change in arrears (repayment -)	-11.0	-10.3	-2.1	-1.8	0.0	-24.1	-17.0	-17.0
Domestic	-11.2	-8.1	-2.1	-1.0	0.0	-22.9	-12.0	-12.0
External (interest only)	0.2	-2.1	0.0	-0.8	0.0	-1.2	-5.0	-5.0
Overall balance after grants (cash basis)	-4.5	123.3	223.2	101.1	345.7	304.2	289.7	291.5
Financing	4.5	-123.3	-223.2	-101.1	-345.7	-304.2	-289.7	-291.5
External	4.5	-93.7	-205.5	-118.7	-7.3	-4.2	-10.2	-9.9
Disbursements	8.9	0.0	0.0	0.0	0.0	0.0	7.8	0.8
Scheduled amortization	-2.9	-5.7	-6.8	-7.5	-7.3	-5.5	-8.5	-6.5
Net change in arrears (principal only)	-1.5	-4.0	0.0	-6.5	0.0	-11.0	-9.5	-4.1
Debt relief	0.0	1.3	0.0	0.0	0.0	0.0	0.0	0.0
Change in deposits abroad (incl. exchange valuation)	0.0	-85.3	-198.7	-104.7	0.0	12.3	0.0	0.0
Domestic	0.0	-29.6	-17.7	17.6	-338.4	-300.0	-279.5	-281.6
Net bank credit 4/	-3.7	-29.6	-17.7	18.4	0.0	-313.0	-279.5	-281.6
Special Reserve Fund (net; increase -) 4/	0.0	0.0	0.0	0.0	-338.4	0.0	0.0	0.0
Float, bank balances	0.0	0.0	0.0	0.0	0.0	13.0	0.0	0.0
Other nonbank financing	3.7	0.0	0.0	-0.9	0.0	0.0	0.0	0.0
Unexplained excess financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
				(In percent of non-oil GDP, unless otherwise specified)				
Non-oil revenue	20.0	26.1	27.1	27.7	23.8	26.6	24.8	21.7
Oil revenue excluding interest	78.4	179.5	188.7	185.0	203.7	301.7	174.3	195.7
Total expenditure	87.8	126.7	98.5	166.3	97.0	204.4	97.8	118.8
Current primary expenditure	38.4	33.5	50.3	38.4	35.7	35.2	32.7	35.3
Domestically financed capital expenditure	25.2	55.5	65.9	76.6	60.3	135.2	62.2	64.4
Primary balance before grants	12.8	81.8	119.4	46.7	131.5	124.6	104.2	99.1
Overall balance after grants (commitment basis)	4.4	78.9	117.3	46.5	130.5	123.9	98.8	99.4
Overall balance, excluding oil	-73.9	-100.6	-71.4	-138.5	-73.2	-153.2	-75.5	-78.7
Non-oil GDP (in billions of CFA francs)	146	169	192	221	265	265	311	311

Sources: Equatoguinean authorities; and IMF staff estimates and projections.

1/ Government investment in LNG project is outside the budget.
2/ Based on the discrepancy with monetary survey.
3/ Excluding oil revenues and oil-related expenditures.
4/ Fiscal oil savings held at the central bank.

Table 3. Equatorial Guinea: Central Government Financial Operations, 2000-05

(In percent of GDP unless otherwise indicated)

	2000	2001	2002	2003	2004		2005	
					Budget	Proj.	Budget	Proj.
Total revenue and grants	16.7	29.5	32.6	31.1	25.5	36.8	27.5	30.2
Revenue	16.7	29.5	32.6	31.1	25.5	36.7	27.5	30.1
Oil revenue	13.3	25.7	28.6	27.1	22.8	33.7	24.0	27.1
Corporate income tax	0.6	5.6	10.8	8.1	...	6.3	7.9	4.6
Royalties	12.7	16.7	13.6	15.9	...	18.9	10.8	12.9
Bonuses	0.1	0.0	0.0	0.0	...	0.1	0.0	0.0
Rent	0.1	0.1	0.0	0.0	...	0.1	0.0	0.1
Profit sharing	0.0	2.9	3.2	2.6	...	4.2	3.7	5.2
Sales tax on oil companies' subcontractors	0.0	0.4	1.0	0.5	...	1.5	1.6	1.7
Interest income on Oil Reserve Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Nonbudgetary revenue 1/	0.0	0.0	0.0	0.0	0.0	2.7	0.0	2.6
Non-oil revenue	3.4	3.7	4.1	4.1	2.7	3.0	3.4	3.0
Tax revenue	2.8	2.7	3.1	3.0	2.1	2.4	2.6	2.3
Taxes on income and profits	0.4	0.7	1.2	0.8	0.8	0.6	0.9	0.8
Taxes on goods and services	0.9	1.0	1.1	1.3	0.7	1.0	1.0	0.9
Taxes on international trade	1.0	0.8	0.7	0.7	0.5	0.3	0.4	0.3
Other taxes	0.4	0.1	0.1	0.1	0.1	0.4	0.2	0.2
Nontax revenue	0.6	1.1	1.0	1.1	0.6	0.6	0.8	0.7
Total expenditure and net lending	16.0	18.2	14.9	24.3	10.9	22.9	13.8	16.5
Current expenditure	6.9	5.2	7.9	5.6	4.1	4.0	4.9	4.9
Wages and salaries	1.5	1.5	2.1	1.8	1.3	1.2	1.3	1.4
Goods and services	3.6	2.0	4.0	2.5	1.4	1.6	1.7	2.0
Subsidies and transfers	1.4	1.3	1.6	1.3	1.3	1.1	1.4	1.4
Interest	0.4	0.4	0.3	0.0	0.1	0.1	0.4	0.1
Capital expenditure	5.3	8.0	10.0	11.2	6.7	15.2	8.9	9.0
Other	3.7	5.0	-3.0	7.5	0.0	3.7	0.0	2.6
Net lending 1/	0.0	0.0	0.0	0.0	0.0	2.7	0.0	2.6
Unreconciled expenditure 2/	3.7	5.0	-3.0	7.5	0.0	1.0	0.0	0.0
Non-oil overall balance 3/	-12.6	-14.4	-10.8	-20.3	-8.2	-17.1	-10.4	-10.9
Nonoil primary balance	-12.2	-14.0	-10.5	-20.2	-8.1	-17.1	-10.0	-10.8
Net change in arrears (repayment -)	-1.3	-0.9	-0.2	-0.1	0.0	-1.0	-0.8	-0.8
Domestic	-1.3	-0.7	-0.2	-0.1	0.0	-1.0	-0.5	-0.5
External (interest only)	0.0	-0.2	0.0	-0.1	0.0	-0.1	-0.2	-0.2
Overall balance after grants (cash basis)	-0.5	10.4	17.6	6.7	14.6	12.8	12.9	13.0
Financing	0.5	-10.4	-17.6	-6.7	-14.6	-12.8	-12.9	-13.0
External	0.5	-7.9	-16.2	-7.8	-0.3	-0.2	-0.5	-0.4
Disbursements	1.0	0.0	0.0	0.0	0.0	0.0	0.3	0.0
Scheduled amortization	-0.3	-0.5	-0.5	-0.5	-0.3	-0.2	-0.4	-0.3
Net change in arrears (principal only)	-0.2	-0.3	0.0	-0.4	0.0	-0.5	-0.4	-0.2
Debt relief	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Change in deposits abroad	0.0	-7.2	-15.7	-6.9	0.0	0.5	0.0	0.0
Domestic	0.0	-2.5	-1.4	1.2	-14.3	-12.7	-12.4	-12.5
Net bank credit	-0.4	-2.5	-1.4	1.2	0.0	-13.2	-12.4	-12.5
Special Reserve Fund (net; increase -) 4/	0.0	0.0	0.0	0.0	-14.3	0.0	0.0	0.0
Float on petroleum receipts	0.0	0.0	0.0	0.0	0.0	0.5	0.0	0.0
Other nonbank financing	0.4	0.0	0.0	-0.1	0.0	0.0	0.0	0.0
Unexplained excess financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Capital expenditure and net lending	5.3	8.0	10.0	11.2	6.7	17.9	8.9	11.5
Gross domestic product (CFAF bn.)	855.5	1179.8	1269.5	1513.9	2368.2	2368.2	2251.1	2251.1

Sources: Equatoguinean authorities; and IMF staff estimates and projections.

1/ Government investment in LNG project is outside the budget.

2/ Based on the discrepancy with monetary survey.

3/ Excluding oil revenues and oil-related expenditures.

4/ Fiscal oil savings held at the central bank.

Table 4. Equatorial Guinea: Monetary Survey, 2000-05

	2000 Dec.	2001 Dec.	2002 Dec.	2003 Dec.	2004 Dec. Est.	2005 Dec. Proj.
	(In billions of CFA francs; end of period)					
Net foreign assets	21.7	65.8	108.9	157.8	525.9	884.5
Bank of Central African States (BEAC)	12.2	50.8	54.2	122.2	487.8	846.3
Commercial banks	9.5	15.0	54.8	35.6	38.1	38.1
Net domestic assets	26.8	-1.6	-10.5	-3.3	-302.3	-579.4
Net domestic credit	34.8	8.8	3.4	17.3	-283.5	-558.6
Credit to the public sector (net)	7.7	-28.0	-50.8	-34.3	-342.7	-625.5
Credit to government (net)	11.1	-18.5	-36.2	-17.8	-330.8	-612.4
BEAC	8.6	-5.2	-4.8	-2.7	0.0	0.0
Use of IMF credit	3.7	1.6	0.7	0.1	0.0	0.0
Commercial banks	-1.2	-15.0	-32.1	-15.2	0.0	0.0
Credit to public institutions (net)	-3.4	-9.5	-14.6	-16.6	-11.9	-13.1
Credit to the economy	27.1	36.9	54.2	51.6	59.2	66.9
Other items (net)	-8.0	-10.4	-13.9	-20.6	-18.9	-20.7
Money and quasi money	47.9	63.9	98.3	154.4	223.6	305.1
Currency in circulation	15.2	17.6	26.0	35.1	42.8	58.5
Deposits at commercial banks	32.7	46.3	72.3	119.3	180.8	246.7
Demand deposits	23.1	29.9	46.5	78.5	144.2	196.8
Time and savings deposits	9.6	16.4	25.8	40.8	36.5	49.8
Medium- and long-term foreign liabilities	0.5	0.3	0.1	0.0	0.0	0.0
	(Changes from the beginning of the year; in billions of CFA francs)					
Net foreign assets	11.5	44.1	43.2	48.8	368.2	358.5
Net domestic assets	1.8	-28.4	-9.0	7.2	-299.0	-275.1
Net domestic credit	4.1	-25.9	-5.4	13.9	-300.7	-275.1
Credit to the public sector (net)	-1.7	-35.8	-22.8	16.5	-308.3	-282.8
Of which: credit to the government (net)	-3.7	-29.6	-17.7	18.4	-313.0	-281.6
Credit to the economy	5.7	9.8	17.3	-2.6	7.6	7.6
Other items (net)	-2.3	-2.4	-3.5	-6.7	1.8	-1.9
Money and quasi money	12.7	16.0	34.4	56.2	69.2	81.5
Currency in circulation	3.1	2.4	8.3	9.2	7.7	15.6
Demand deposits	9.6	13.6	26.0	47.0	61.4	52.6
Time and savings deposits	2.9	6.7	16.6	32.0	65.7	13.3
Medium- and long-term foreign liabilities	0.5	-0.2	-0.2	-0.1	0.0	0.0
	(Change in percent of beginning-of-period broad money stock)					
Net foreign assets	32.8	92.1	67.5	49.7	238.4	160.3
Net domestic assets	5.0	-59.2	-14.0	7.3	-193.6	-123.0
Net domestic credit	11.5	-54.2	-8.5	14.1	-194.7	-123.0
Credit to the public sector (net)	-4.8	-74.7	-35.6	16.8	-199.7	-126.5
Credit to the economy	16.3	20.5	27.1	-2.7	4.9	3.4
Other items (net)	-6.5	-5.0	-5.5	-6.8	1.1	-0.8
Money and quasi money	36.2	33.4	53.7	57.1	44.8	36.5

Sources: Equatoguinean authorities; and IMF staff estimates and projections.

Table 5. Equatorial Guinea: Balance of Payments, 2000-05

(In millions of U.S. dollars, unless otherwise specified)

	2000	2001	2002	2003 Prelim.	2004 Proj.	2005 Proj.
Trade balance	592.4	687.0	538.8	1,440.4	1,962.5	1,697.9
Exports, f.o.b.	1,204.6	1,652.8	2,043.1	2,783.4	4,694.8	4,620.1
Petroleum (including gas)	1,128.0	1,586.8	1,976.9	2,703.2	4,618.1	4,541.5
Timber	53.8	53.0	48.0	57.6	54.1	55.6
Cocoa	2.8	1.6	2.3	2.6	3.1	2.8
Reexports	5.3	1.3	1.4	1.5	1.7	1.9
Other	14.8	10.1	14.5	18.5	17.7	18.5
Imports, c.i.f.	-612.2	-965.8	-1,504.4	-1,343.0	-2,732.3	-2,922.3
Public sector	-66.7	-111.3	-150.8	-242.2	-475.0	-289.9
Petroleum sector investment	-435.1	-785.7	-1,251.9	-970.9	-2,096.9	-2,459.5
Petroleum products	-33.3	-36.8	-39.6	-55.6	-73.2	-73.0
Other	-77.2	-31.9	-62.1	-74.3	-87.2	-100.0
Services and income (net)	-890.1	-1,464.5	-1,718.2	-2,124.1	-2,532.8	-2,371.6
Services (net)	-480.6	-635.2	-530.0	-594.8	-1,025.1	-1,027.2
Credits	4.1	4.2	6.4	8.6	8.8	9.1
Debits	-484.7	-639.4	-536.4	-603.4	-1,034.0	-1,036.3
Of which : petroleum sector	-448.2	-591.4	-484.2	-529.0	-915.5	-923.0
Income	-409.5	-829.3	-1,188.2	-1,529.3	-1,507.6	-1,344.4
Of which: Petroleum sector investment	-343.1	-746.0	-1,122.4	-1,479.6	-1,468.5	-1,323.5
Private transfers (net)	0.0	-16.5	-26.4	-44.5	-65.9	-71.1
Current account, excluding official transfers (deficit -)	-297.7	-794.0	-1,205.9	-728.2	-636.2	-744.8
Official transfers (net)	1.0	14.5	15.3	18.3	20.1	20.1
Current account, including official transfers (deficit -)	-296.7	-779.5	-1,190.6	-710.0	-616.1	-724.8
Medium- and long-term capital (net)	488.6	827.9	1,773.1	1,252.8	1,106.8	1,496.0
Public (net)	8.4	-7.8	-9.8	-13.0	-10.3	-11.6
Disbursements	12.5	0.0	0.0	0.0	0.0	1.5
Amortization	-4.1	-7.8	-9.8	-13.0	-10.3	-13.1
Foreign direct investment	480.2	835.7	1,782.9	1,265.7	1,117.1	1,507.6
Petroleum sector	487.2	836.1	1,783.2	1,277.5	1,128.9	1,519.3
Short-term capital (net)	-4.6	11.2	-177.5	-46.9	221.8	-29.8
Errors and omissions	-5.8	236.0	-108.1	-171.6	0.0	0.0
Overall balance	181.5	295.7	296.9	324.3	712.5	741.4
Financing	-181.5	-295.7	-296.9	-324.3	-712.5	-741.4
Net change in reserves (increase -) 1/	-102.4	-170.8	-8.7	-133.6	-713.2	-721.2
Treasury offshore accounts (increase -) 1/	0.0	0.0	-288.2	-178.1	23.8	-1.8
Change in arrears (net; decrease -)	-1.8	-8.4	0.0	-12.6	-23.1	-18.4
Debt relief	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap (overfinanced -)	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:						
Official reserves (in millions of U.S. dollars) 1/	22.3	71.6	85.5	231.6	944.7	1,666.0
In months of imports of goods and services	0.2	0.5	0.5	1.4	3.0	5.1
In months of non-oil imports of goods and services	1.3	3.8	3.4	6.3	15.2	35.3
Treasury overseas deposit (stock, US$ millions) 1/	0.0	193.8	482.0	660.0	636.3	638.1
Current account balance (in percent of GDP; deficit -)	-24.6	-48.4	-65.1	-48.1	-13.7	-16.0
Growth of petroleum exports (in U.S. dollar terms)	95.5	40.7	24.6	36.7	70.8	-1.7
Growth of non-oil exports (in U.S. dollar terms)	-17.2	-13.9	0.3	21.0	-4.4	2.7

Sources: Equatoguinean authorities; and IMF staff estimates and projections.

1/ Official reserves are held at the BEAC. Exchange rate valuation may affect end-of-period stock.

Table 6. Equatorial Guinea: Medium-Term Selected Economic and Financial Indicators, 2003-10

	2003	2004	2005	2006	2007	2008	2009	2010
			Projections					
	(Annual percentage change, unless otherwise specified)							
Production and prices								
Real GDP	18.7	34.2	4.8	4.6	7.1	14.5	-1.2	-0.4
Of which: non-oil GDP	9.9	12.9	9.8	9.8	11.1	11.0	11.1	11.2
Nominal GDP (in billions of CFA francs)	1,514	2,368	2,251	2,301	2,417	2,796	2,771	2,782
Of which: non-oil GDP	221	265	311	365	437	522	625	749
Oil production (thousands of barrels per day) 1/	282	383	397	409	442	505	481	456
Oil price (U.S. dollars per barrel)	26.9	33.7	32.0	31.0	30.0	29.8	29.8	29.8
Consumer prices (annual average)	7.3	5.9	7.0	8.0	8.0	8.0	8.0	8.0
Terms of trade	1.7	15.8	-7.4	-3.8	-4.0	-1.7	0.7	-0.7
External sector								
Exports, f.o.b.	36.2	68.7	-1.6	-0.2	3.1	13.6	-5.6	-5.3
Imports, c.i.f.	-10.7	103.4	7.0	2.7	-16.2	-7.8	-11.1	-2.9
Export volume	13.7	35.8	3.6	3.0	7.9	14.2	-5.6	-5.2
Import volume	-2.9	32.9	1.2	0.2	-4.4	-2.5	-2.3	-0.6
Government finance								
Revenue	13.7	84.6	-22.0	4.7	21.6	5.9	6.3	1.1
Total expenditure and net lending	94.7	47.3	-31.6	11.7	2.5	9.6	13.0	11.6
	(In percent of GDP, unless otherwise specified)							
Government finance								
Revenue 2/	31.1	36.7	30.1	30.9	35.7	32.7	35.1	35.3
Of which: oil revenue	27.1	33.7	27.1	27.2	31.3	28.1	29.6	28.9
Total expenditure and net lending	24.3	22.9	16.4	17.9	17.5	16.6	18.9	21.0
Primary non-oil balance 3/	-20.2	-17.1	-10.8	-11.8	-12.4	-12.0	-13.4	-14.6
Overall balance (including oil revenue; deficit -)	6.8	13.8	13.7	12.9	18.2	16.1	16.1	14.3
Overall non-noil balance, before grants 3/	-20.3	-17.2	-10.9	-11.8	-12.5	-12.0	-13.5	-14.7
Overall non-oil balance (before grants), percent of non-oil GDP	-138.5	-153.5	-79.0	-74.7	-69.2	-64.5	-59.8	-54.6
External sector								
Current account balance (deficit -)	-27.2	-13.7	-16.0	-6.8	13.1	16.4	20.3	16.8
Of which: non-oil current account balance (deficit -)	-16.7	-16.8	-12.4	-13.1	-15.0	-14.6	-16.7	-18.6
Outstanding medium- and long-term public debt	5.5	2.6	2.2	2.0	1.8	1.5	1.4	1.4
Debt service-to-exports ratio	0.3	0.2	0.3	0.3	0.2	0.1	0.1	0.1
External debt service/government revenue (in percent; before debt relief)	1.0	0.2	0.4	0.3	0.2	0.1	0.1	0.1
	(In millions of U.S. dollars, unless otherwise specified)							
External sector								
Exports, f.o.b.	2,783	4,695	4,620	4,610	4,755	5,400	5,098	4,828
Of which: oil exports	2,703	4,618	4,541	4,530	4,674	5,317	5,013	4,742
Imports, c.i.f.	-1,343	-2,732	-2,922	-3,002	-2,517	-2,321	-2,064	-2,004
Current account balance (deficit -) 4/	-710	-616	-725	-313	637	926	1,133	920
Overall balance of payments	324	713	741	803	1,244	1,402	1,361	1,167
Gross official assets 5/	892	1,581	2,304	3,108	4,353	5,756	7,117	8,284
(equivalent months of imports of goods and services, c.i.f.)	5.5	5.0	7.0	9.1	13.9	19.8	26.9	32.6
GDP	2,612	4,484	4,528	4,628	4,865	5,630	5,583	5,607
Non-oil GDP	382	502	625	734	879	1,052	1,259	1,509
Exchange rate: CFA francs/U.S. dollar (average)	580	528	...	...	...	...	...	...

Sources: Equatoguinean authorities; and staff estimates and projections.

1/ Including oil equivalent of methanol and liquefied gas.
2/ Starting in 2005, includes interest income on deposits abroad.
3/ Excluding oil revenues, oil-related expenditure, and interest on oil savings.
4/ Including grants.
5/ Includes official reserves at the BEAC plus offshore government oil deposits.

Table 7. Equatorial Guinea: Balance of Payments, 2003-10

(In millions of U.S. dollars, unless otherwise specified)

	2003	2004	2005	2006	2007	2008	2009	2010
	Est.		Proj.					
Trade balance	1,440.4	1,962.5	1,697.9	1,608.4	2,237.7	3,078.7	3,033.2	2,824.7
Exports, f.o.b.	2,783.4	4,694.8	4,620.1	4,610.5	4,754.5	5,399.9	5,097.6	4,828.3
Of which : petroleum (including gas)	2,703.2	4,618.1	4,541.5	4,530.3	4,673.8	5,317.5	5,013.4	4,742.0
Imports, c.i.f.	-1,343.0	-2,732.3	-2,922.3	-3,002.1	-2,516.8	-2,321.2	-2,064.4	-2,003.6
Services and income (net)	-2,124.1	-2,532.8	-2,371.6	-1,864.5	-1,538.4	-2,084.5	-1,825.1	-1,803.1
Services (net)	-594.8	-1,025.1	-1,027.2	-1,096.0	-1,232.5	-1,174.3	-1,107.0	-1,047.0
Of which : petroleum sector	-529.0	-915.5	-923.0	-973.6	-1,087.2	-1,003.0	-905.3	
Income	-1,478.2	-1,467.1	-1,322.2	-781.8	-294.5	-902.3	-713.6	-752.1
Of which: petroleum sector investment	-1,479.6	-1,468.5	-1,323.5	-783.1	-295.8	-903.6	-715.0	-753.4
public sector interest	-0.2	-2.3	-3.0	-1.8	-1.7	-1.3	-1.0	-0.7
Private transfers (net)	-44.5	-65.9	-71.1	-76.6	-82.4	-88.5	-94.9	-101.6
Current account, excluding official transfers (deficit -)	-728.2	-636.2	-744.8	-332.8	616.9	905.7	1,113.2	920.0
Official transfers (net)	18.3	20.1	20.1	20.1	20.1	20.1	20.1	20.1
Current account, including official transfers (deficit -)	-710.0	-616.1	-724.8	-312.8	637.0	925.8	1,133.3	940.1
Medium- and long-term capital (net)	1,252.8	1,106.8	1,496.0	1,172.2	607.4	476.3	227.7	227.2
Public (net)	-13.0	-10.3	-11.6	-8.3	-5.9	-4.0	-2.6	-3.1
Disbursements	0.0	0.0	1.5	1.5	1.5	1.5	1.5	0.0
Amortization 1/	-13.0	-10.3	-13.1	-9.8	-7.4	-5.5	-4.2	-3.1
Foreign direct investment	1,265.7	1,117.1	1,507.6	1,180.5	613.3	480.3	230.3	230.3
Short-term capital and errors and omissions (net)	-218.6	221.8	-29.8	-56.4	0.0	0.0	0.0	0.0
Overall balance	324.3	712.5	741.4	803.1	1,244.4	1,402.1	1,360.9	1,167.3
Financing	-324.3	-712.5	-741.4	-803.1	-1,244.4	-1,402.1	-1,360.9	-1,167.3
Net change in official reserves (increase = -)	-133.6	-713.2	-721.2	-797.2	-1,228.6	-1,385.9	-1,343.7	-1,149.6
Special Reserve Fund (increase in deposits = -) 1/	-178.1	23.8	-1.8	-6.5	-16.5	-16.8	-17.3	-17.7
Change in arrears (net; decrease = -)	-12.6	-23.1	-18.4	0.6	0.6	0.6	0.0	0.0
Debt relief	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Gross official assets 2/	891.6	1,581.0	2,304.0	3,107.8	4,352.9	5,755.6	7,116.6	8,283.8
Official reserves	231.6	944.7	1,666.0	2,463.2	3,691.8	5,077.8	6,421.5	7,571.0
Treasury overseas deposit	660.0	636.3	638.1	644.6	661.0	677.8	695.1	712.8
Current account balance (in percent of GDP; deficit -)	-27.9	-13.7	-16.0	-6.8	13.1	16.4	20.3	16.8
Growth of petroleum exports (in U.S. dollar terms) 3/	36.7	70.8	-1.7	-0.2	3.2	13.8	-5.7	-5.4
Growth of non-oil exports (in U.S. dollar terms) 3/	21.0	-4.4	2.7	1.9	0.7	2.0	2.2	2.5

Sources: Equatoguinean authorities; and IMF staff estimates and projections.

1/ Comprises reported government bank deposits abroad.
2/ Includes official reserves at the BEAC plus offshore government oil deposits.
3/ Annual percentage changes.

Equatorial Guinea - Relations with the Fund

(As of February 28, 2005)

Membership Status: Joined 12/22/69; Article VIII

General Resources Account:	**SDR Million**	**Percent Quota**
Quota	32.60	100.00
Fund holdings of currency	32.61	100.02

SDR Department:	**SDR Million**	**Percent Allocation**
Net cumulative allocation	5.81	100.00
Holdings	0.44	7.58

Outstanding Purchases and Loans:	**SDR Million**	**Percent Quota**
ESAF Arrangements	0.00	0.00

Financial Arrangements:

Type	**Approval Date (SDR Million)**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn**
ESAF	2/03/93	2/02/96	12.88	4.60
SAF	12/07/88	12/06/91	12.88	9.20
Stand-by	6/28/85	6/27/86	9.20	5.40

Projected Obligations to the Fund (SDR million; based on existing use of resources and present holdings of SDRs):

			Forthcoming		
	2005	**2006**	**2007**	**2008**	**2009**
Principal	0.00	0.00	0.00	0.00	0.00
Charges/Interest	0.10	0.13	0.13	0.13	0.13
Total	0.10	0.13	0.13	0.13	0.13

Exchange Rate Arrangement

The Bank of the Central African States (BEAC) is the regional central bank of the Central African States, of which Equatorial Guinea is a member. A safeguards assessment of the BEAC completed on August 30, 2004 found that the BEAC has implemented a number of measures to strengthen its safeguards framework since an earlier 2001 safeguards assessment, but further progress needs to be made in key areas. The main recommendations of the 2004 assessment were reported in IMF Country Report No. 05/3.

Equatorial Guinea's currency, the CFA franc, is pegged to the euro at the fixed exchange rate of CFAF 656.34 per euro.

Local currency equivalent: SDR 1 = CFAF 764.42 as of March 31, 2005.

Equatorial Guinea maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

Article IV Consultations

Equatorial Guinea is on the standard 12-month Article IV consultation cycle.
The last Article IV consultation with Equatorial Guinea was concluded by the Executive Board on November 12, 2003 (IMF Country Report No. 03/385).

Technical Assistance

FAD provided an 18-month technical assistance during 1992-94 to reorganize the tax department and personnel training.

FAD conducted a review of PEM and tax administration systems in 1997.

FAD conducted a diagnostic mission on key deficiencies and training needs in public finance in May 2003.

STA evaluated the collection of monetary statistics and proposed steps to adopt the methodology of the 2000 Manual of *Monetary and Financial Statistics* in December 2002.

Resident Representative

None.

Equatorial Guinea: Relations with the World Bank Group

The World Bank Group has not approved any new lending operations for Equatorial Guinea since mid-1992. The discovery of large oil reserves caused Equatorial Guinea to graduate to IBRD status (based on a GNP per capita of $1,170 in 1999), which has meant that concessional IDA assistance is no longer available. In 1998, the World Bank prepared a strategy paper on the development of petroleum resources in Equatorial Guinea, which it discussed with the authorities. The World Bank's assistance to Equatorial Guinea has focused since then on initiating a dialogue on the analysis and recommendations outlined in this report. At the request of the authorities, a World Bank mission to examine Equatorial Guinea's participation in the Extractive Industries Transparency Initiative (EITI) coincided with a Fund fiscal ROSC mission in January, 2005.

IMF—World Bank collaboration

Overall, the IMF and World Bank staffs have maintained a close collaborative relationship in coordinating their operational activities and policy advice to the authorities. In view of the reengagement of the international financial institutions with the government after years of absence, the success of the country's growth path will depend on the proper management of oil revenues and the strength of public expenditure policies.

World Bank activities

In order to build the country's informational base, the World Bank is supervising a statistical capacity-building grant that is designed to provide financial assistance in the drafting and implementation of a long-term development program of the national statistical system. The Bank-executed portion was completed in February, 2005. The second phase of the project, which is counterpart-executed, was initiated in January, 2005 and scheduled for completion in September, 2005. Meanwhile, the Bank is in discussion with the authorities about conducting a light household survey of the Core Welfare Indicators Questionnaire (CWIQ) type to construct the poverty profile.

Following a request by the Ministry of Planning and Economic Development, a mission from FIAS visited Equatorial Guinea in April 2001 in order to survey the investment climate in the country. The FIAS (a joint facility of the World Bank and International Finance Corporation) is providing advisory services to help improve the investment climate in Equatorial Guinea. This technical assistance identifies constraints to private investment, particularly foreign direct investment, and provide inputs to a governmental program of reforms aimed at alleviating impediments to private sector development. The mission had the following recommendations: (i) prepare transparent and explicit rules for the management of oil revenues; (ii) reinforce the capacity of the Ministry of Mines to manage projects; and (iii) involve the private sector in local development activities.

The Bank provides technical assistance in the petroleum and energy sectors. To this end, a technical assistance project is being discussed with the Government that includes: (a) a study of the institutional set up to define the role and responsibilities of the Ministry of Mines, Industry and Energy and the state oil company, GEPetrol; (b) a review of existing petroleum sector laws and regulations, including environmental law and regulation; (c) sector capacity building and design and implementation of training programs; (d) the development of an Oil Revenue Diagnostic Model that integrates upstream and midstream activities by generating forecasts of future sector revenues under different assumptions regarding costs, prices and the pace of development; (e) the formulation of the national hydrocarbon and energy policy the optimizes the links between the two sectors and (f) the formulation of resource revenue management policy, including relevant institutional arrangements.

Finally the Bank is providing assistance in the design and implementation of the reporting framework and institutional arrangements necessary to implement the Extractive Industry Transparency Initiative and related governance and anti-corruption policies.

Table 1. Bank/Fund Collaboration

Area of Structural Reform	**Lead Institution**
1. **Fiscal area**	
Expenditure monitoring and control	IMF
Public expenditure review	World Bank
Tax administration	IMF
Fiscal ROSC	IMF
2. **Governance**	
Anticorruption law implementation	IMF
Extractive Industries Transparency Initiative (EITI)	World Bank/IMF
3. **Private sector development**	
FIAS study of the business climate	World Bank/IFC
4. **Other**	
Petroleum Sector Management and Capacity Building	World Bank
PRSP	World Bank/IMF
External trade	IMF
Education	World Bank
Statistical capacity building	World Bank

Past Portfolio

Previous portfolios comprised projects in primary education, agriculture and health sectors, which were all closed by 1999. In particular, the last project funded by IDA was the Health Improvement Project (PROMESSA) that closed in August 1999.

Future Areas in which the World Bank analysis could serve as input for the IMF

Starting in 2005 the Bank is in discussion with the authorities on the possibility of conducting a public expenditure review to analyze the public financial management system in the country and assess expenditure effectiveness, particularly in the social sectors. The work could provide a basic analysis of budget preparation and budget execution in the country and help assess the relationship between voted allocations and PRSP objectives. This could complement IMF work on macroeconomic monitoring and fiscal policy analysis.

Equatorial Guinea: Selected Social and Demographic Indicators, 1998-2002

	1998	1999	2000	2001	2002	2003	2002	2002	2002
					Est.	Est.	Least developed	Low income	Sub-Saharan Africa
Human development index	0.555	0.610	0.679	0.664	0.703	...	0.446	0.557	0.465
Human development index rank	131	110	111	116	109	...			
The number of countries ranked	174	162	173	175	177	...			
Population characteristics									
Population, total (thousands)	435.0	446.0	458.0	470.0	482.0	494.0	688,221.8	2,269,705.0	688,387.5
Population growth (percent)	2.8	2.5	2.7	2.6	2.5	2.5	2.2	1.9	2.3
Population ages 0-14 (percent of total)	43.2	43.3	43.4	43.2	43.4	43.5	42.3	37.2	43.8
Population ages 15-64 (percent of total)	52.4	52.4	52.4	52.3	52.7	52.6	54.6	58.7	53.3
Population ages 65 and above (percent of total)	3.9	3.8	3.7	3.6	3.5	3.8	3.1	4.1	3.0
Population density (people per sq km)	15.5	15.9	16.3	16.8	17.2	17.6	34.1	74.5	29.2
Urban population (percent of total)	43.1	44.1	45.2	46.1	47.1	48.1	26.2	30.0	35.5
Health									
Fertility rate, total (births per woman)	..	..	5.7	..	5.5	..	4.8	3.7	5.1
Immunization, DPT (percent of children ages 12-23 months)	81.0	33.0	33.0	33.0	33.0	..	62.4	63.8	53.7
Immunization, measles (percent of children ages 12-23 months)	82.0	51.0	51.0	51.0	51.0	..	62.2	63.8	57.6
Health expenditure per capita (current US$)	44.0	42.0	56.0	76.0	..	..	..	..	..
Mortality rate, under-5 (per 1,000)	..	..	156.0	..	152.0	..	158.7	125.9	173.9
Mortality rate, infant (per 1,000 live births)	..	..	103.0	..	101.0	..	100.2	81.6	103.1
Life expectancy at birth, total (years)	..	..	51.0	..	51.7	..	50.7	58.1	45.8
Income									
Aid per capita (current US$)	50.7	45.2	46.5	26.7	42.0	..	25.4	12.2	28.2
GNI per capita, Atlas method (current US$)	1,060	820	700	930	..	..	290	400	450
Education									
School enrollment, primary (percent of gross enrollment)	131.3	124.8	129.9	126.2	..	..	..	..	..
School enrollment, secondary (percent of gross enrollment)	31.0	30.9	28.7	29.7	..	..	..	..	..
School enrollment, tertiary (percent of gross enrollment)	..	2.6	..	..	..	..	..	..	..
Literacy rate, youth total (percent of people ages 15-24)							65.6	..	80.2
Literacy rate, adult total (percent of people ages 15 and above)							53.8	..	64.9
Technology									
Personal computers (per 1,000 people)	2.3	2.3	4.4	5.3	6.9	..	4.2	6.9	11.9
Roads, total network (km)	2,880	2,880	..	..	..	..	..	..	..
Roads, paved (percent of total roads)							..	..	..
Telephone average cost of local call (US$ per three minutes)	0.1	..	..	..	..	..	0.1	0.1	0.1
Telephone mainlines (per 1,000 people)	12.9	13.1	13.5	14.7	17.4	..	7.1	26.4	15.0
Improved water source (percent of population with access)	..	..	44.0	..	..	..	..	..	..

Sources: World Bank, World Development Indicators 2004; UNDP, Human Development Reports, various issues.

Equatorial Guinea: Country Profile—Millennium Development Goals, 1990–2002

	1990	1995	2001	2002
1 Eradicate extreme poverty and hunger	*2015 target = halve 1990 US$1 a day poverty and malnutrition rates*			
Population below US$1 a day (percent)	..	..	..	..
Poverty gap at US$1 a day (percent)	..	..	..	..
Share of income or consumption held by poorest 20 percent	..	..	..	..
Prevalence of child malnutrition (percent of children under 5)	..	..	..	..
Share of population below minimum level of dietary energy consumption	..	..	..	..
2 Achieve universal primary education	*2015 target = net enrollment to 100*			
Net primary enrollment ratio (percent of relevant age group)	..	..	84.6	..
Percentage of cohort reaching grade 5	..	..	32.6	..
Youth literacy rate (ages 15-24)	..	..	..	..
3 Promote gender equality	*2005 target = education ratio to 100*			
Ratio of girls to boys in primary and secondary education	81.8	86.3	82.5	..
Ratio of young literate females to males (ages 15-24)	91.9	95	97.1	97.3
Share of women employed in the nonagricultural sector	13.3	..	..	..
Proportion of seats held by women in national parliament	..	8	..	..
4 Reduce child mortality	*2015 target = reduce 1990 under 5 mortality by two-thirds*			
Under 5 mortality rate (per 1,000)	206	175	156	152
Infant mortality rate (per 1,000 live births)	122	113	103	101
Immunization, measles (percent of children under 12 months)	88	81	51	51
5 Improve maternal health	*2015 target = reduce 1990 maternal mortality by three-fourths*			
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	880	..
Births attended by skilled health staff (percent of total)	..	5	64.6	..
6 Combat HIV/AIDS, malaria and other diseases	*2015 target = halt, and begin to reverse, AIDS, etc.*			
Prevalence of HIV, female (ages 15-24)	..	..	2.8	..
Contraceptive prevalence rate (of women ages 15-49)	..	..	..	..
Number of children orphaned by HIV/AIDS	..	..	860	..
Incidence of tuberculosis (per 100,000 people)	..	..	194	190.5
Tuberculosis cases detected (percent)	..	59	..	..
7 Ensure environmental sustainability	*2015 target = various 1/*			
Forest area (percent of total land area)	66.2	..	62.5	..
Nationally protected areas (percent of total land area)	..	0	0	..
GDP per unit of energy use 2/	..	..	..	..
CO2 emissions (metric tons per capita)	0.3	0.3	0.4	..
Access to an improved water source (percent of population)	..	..	44	..
Access to improved sanitation (percent of population)	..	..	53	..
8 Develop a Global Partnership for Development	*2015 target = various 3/*			
Youth unemployment rate (percent of total labor force ages 15-24)	..	..	..	..
Fixed line and mobile telephones (per 1,000 people)	3.7	6.3	46.6	80.8
Personal computers (per 1,000 people)	..	..	5.3	6.9
General indicators				
Population (in thousands)	352	401	470	482
Gross national income (millions of U.S. dollars)	123.7	157.2	436.9	..
GNI per capita (U.S. dollars)	350	390	930	..
Adult literacy rate (percent of people ages 15 and over)	..	..	..	..
Total fertility rate (births per woman)	5.9	5.9	5.7	5.5
Life expectancy at birth (years)	47.2	49.2	51	51.7

Source: World Development Indicators database, April 2004

1/ Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. Halve, by 2015, the proportion of people without sustainable access to safe drinking water. By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers.

2/ In dollars at purchasing power parity per kilogram of oil equivalent

3/ Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Address the Special Needs of the Least Developed Countries. In cooperation with developing countries, develop and implement strategies for decent and productive work for youth. In cooperation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries. In cooperation with the private sector, make available the benefits of new technologies, especially information and communications.

Equatorial Guinea: Statistical Issues

Equatorial Guinea's economic and financial statistics remain very weak. The deficiencies in quality, timing, and coverage of most macroeconomic data are related to the extremely poor administrative and technical capacity of the government. Technical assistance efforts have resulted in some progress, although consolidation of these gains continues to elude the authorities. Urgent attention needs to be given to making lasting improvements in the quality and availability of statistics. The Bank of Central African States (BEAC) regularly reports monetary, interest rates, and exchange rate statistics for publication in the *International Finance Statistics* (IFS), but their timeliness needs to be improved.

Real sector and prices

Real sector and price data suffer from significant weaknesses that are compounded by poor centralization of information from the island and continental regions. National accounts statistics are supplied at current and constant prices, but often contain significant inconsistencies. Sectoral deflators and GDP by category of expenditure must be estimated by missions. The compilation of the official consumer price index (CPI) has benefited from French technical assistance, but both the weights and composition of the basket of goods and services are outdated. Lags in its production in large part arise because of delays in receiving data from the mainland, but these lags are shortening. A detailed breakdown of CPI data is not available in a timely fashion.

Real sector statistics reported to STA (*IFS*) are limited to GDP (without breakdown by sector or expenditure category), and exports and imports. The January 2005 issue of *IFS* includes data for GDP through 2003 and exports and imports through 2000. Export and import data are available to AFR through 2000.

Government finance

The assistance of French technicians has resulted in some improvement in fiscal accounting, such as the availability of monthly data, but data continue to be provided on a cash basis only. Improvements still need to be made, particularly in procuring timely and accurate data from the Debt-Service Unit (Caja Autónoma de la Deuda Pública). Regarding budget coverage and implementation, the authorities need to (i) eliminate extra budgetary accounts, such as oil-related revenue held abroad and the operations of the state oil company, GEPETROL; (ii) incorporate all revenue and expenditure within a single budget; and (iii) record foreign-financed capital outlays.

Equatorial Guinea does not report fiscal data to STA. However, the authorities have made available to AFR budget execution data through August-2004.

Monetary accounts

Although the coverage of monetary statistics for Equatorial Guinea is adequate, delays in production at the BEAC's National Directorate in Malabo still occur occasionally. The February March 2005 issue of *IFS* includes data for the central bank and other depository corporations through November 2004.

Equatorial Guinea's monetary statistics are reported directly to STA by BEAC headquarters for publication in *International Financial Statistics (IFS)*. A monetary and financial statistics mission visited Malabo in December 2002. This mission (1) reviewed the structure of the financial system and the procedures used for compiling monetary and financial statistics; (2) provided technical assistance to the staff of the BEAC National Directorate (DND) in addressing data collection, compilation, and dissemination problems, and in improving the analytical usefulness of the monetary statistics; and (3) briefed the authorities on the methodology in the *Monetary and Financial Statistics Manual (MFSM)* and initiated first step to facilitate the *MFSMF* implementation. An action plan has been designed for the implementation of the recommendations formulated by the mission. A questionnaire "*Progress Report on Technical Assistance*" sent in November 2003 to the BEAC-DND in Malabo has been returned to STA the Fund's Statistics Department in December 2004, after a reminder was sent in October 2004 to both BEAC-DND in Malabo and Research Department at BEAC headquarters. The responses cover the status of implementation of recommendations falling under the responsibility of the BEAC-DN, but not those under the responsibility of BEAC headquarters. One important achievement is the completion in 2003 of the proper sectorization of monetary data, along the lines of the *MFSM* methodology, and their monthly updating by the BEAC-DN in cooperation with commercial banks. Application of sound sectorization should increase the accuracy of reporting by the central bank and commercial banks, and subsequently improve the reliability of monetary statistics.

Measurement of currency in circulation in Equatorial Guinea is largely impaired by cross-border movements of banknotes amongst member countries in the Central African Economic and Monetary Community (CEMAC). While 47 percent of banknotes issued in Equatorial Guinea remains in the country, 39 percent circulates in Cameroon, and 7 percent in Gabon. About 80 percent of the currency circulating in Equatorial Guinea is issued nationally, almost 12 percent is issued by Gabon, and about 7 percent by Cameroon.

External debt

Data on the outstanding stock of external debt and projections of debt-service payments are hampered by serious inconsistencies. The debt service paid, reported by the Debt-Service Unit, is often significantly different from that reported by the budget and the Paris Club, as the unit usually lacks precise information on payments made. Also, details regarding scheduled debt-service obligations are not incorporated into the budget in a systematic and timely manner. Debt-service projections beyond the following year are only provided in a highly aggregated form. Finally, some debt service takes place outside the Debt-Service Unit.

The authorities have started a major inventory of their debt and are beginning to address the capacity constraints in the Debt-Service Unit through training and new staffing.

Balance of payments

Customs data have improved since the implementation of the Central African Customs and Economic Union (UDEAC) reform and the deployment of customs brigades. However, data analysis is still hampered by the lack of computerization. Although the BEAC produces balance of payments data for Equatorial Guinea, delays are long and the data suffer from significant inconsistencies with other sources. While some progress was made in compiling current and financial account items, the lack of availability of source data is a key concern. Equatorial Guinea's balance of payments data are published in the *International Financial Statistics Yearbook* through 1996 only.

Equatorial Guinea: Table of Common Indicators Required for Surveillance

As of March 7, 2005

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]
Exchange Rates	Jan. 2005	Feb. 2005	M	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Nov. 2004	Jan. 2005	M	M	M
Reserve/Base Money	Nov. 2004	Jan. 2005	M	M	M
Broad Money	Nov. 2004	Jan. 2005	M	M	M
Central Bank Balance Sheet	Nov. 2004	Jan. 2005	M	M	M
Consolidated Balance Sheet of the Banking System	Nov. 2004	Jan. 2005	M	M	M
Interest Rates[2]	Nov. 2004	Feb. 2005	M	M	I
Consumer Price Index	Sept. 2004	Jan. 2005	M	I	I
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]					
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	Nov. 2004	Jan. 2005	M	I	I
Stocks of Central Government and Central Government-Guaranteed Debt[5]					
External Current Account Balance	Dec. 2004	Jan. 2005	A	I	I
Exports and Imports of Goods and Services	Dec. 2004	Jan. 2005	A	I	I
GDP/GNP	Dec. 2004	Jan. 2005	A	I	I
Gross External Debt	Dec. 2003	Nov. 2004	A	I	A

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

Summary of Upstream and Downstream Hydrocarbon Production

Upstream oil and gas production

The **Zafiro** oil field, operated by Exxon-Mobil, is located northwest of Bioko Island and south of Nigeria. Discovered in 1995, it is the largest oil producing field in the country with processing capability of 10,000 barrels a day and storage capacity of about two million barrels. Its production level has already peaked and is projected to decline gradually and be depleted by 2025.

Ceiba, the second-largest oil field, is located offshore of Rio Muni and operated by Amerada Hess. Discovered in 1999 and with an estimated 500 million barrels in proven reserves, Ceiba's production is expected to reach 100,000 bpd in 2007.

Alba, located offshore of Bioko Island, is a large natural gas field, with reserves of 6.9 trillion cubic feet (1.2 billion boe) operated by Marathon Oil. About 195 million cubic feet of gas is produced each year, about one-fifth of which is reinvested into the reservoir, with the remainder being fed into the production of downstream products. Condensates are also derived as a byproduct.

Downstream operations and byproducts

Methanol, an input into the production of various chemicals, is derived from natural gas. The methanol plant, a joint venture with Marathon Oil, Samedan, and the government of Equatorial Guinea, became operational in 2001 and produced 25,600 boe/day in 2004 (3-4 percent of the world market). Its capacity is expected to reach 27,000 boe/day in 2007.

Liquid petroleum gas (LPG) principally butane and propane, is derived from liquefied gas. Built in the second half of the 1990s, the LPG facility's production capacity was recently expanded to 20,000 boe/day. Production capacity is expected to be double in 2008.

Liquefied natural gas (LNG) is natural gas that is condensed at very low temperatures for shipment to major distribution centers. An initial facility with the capacity of 80,000 boe/day is being put in place through a joint venture between Marathon Oil and the national oil company (GEPetrol). Plans are under discussion to build a second LNG facility to pipe natural gas currently being flared throughout the region to Bioko Island for processing into LNG and then exported.

Condensates are a heavy oil sludge that is a byproduct of natural gas production. It is collected as a residue both offshore where the natural gas is lifted, and onshore, where it is piped for use in downstream operations.

Statement by Damian Ondo Mañe, Executive Director
for the Republic of Equatorial Guinea
April 25, 2005

Introduction

First of all, I would like to thank staff for the comprehensive and well-written set of papers on the recent macro economic developments in Equatorial Guinea. My authorities welcome these papers which give a thorough analysis of the country' economic and financial situation as well as the challenges facing Equatorial Guinea. My authorities are also appreciative of the staff's and management's commitment to assist them in meeting those challenges especially in the development of policies to diversify the economy, the management of the national resources and the building of capacity in order to reduce poverty and meet the MDGs. Indeed, the oil wealth provides Equatorial Guinea a great opportunity to lay down solid foundations for broad–based economic growth and poverty alleviation.

My authorities' commitment to implement policies towards the achievement of these objectives were confirmed to Mr. Carstens, Deputy Managing Director, during his visit to Malabo at the end of last January. At the same time, the authorities expressed their wish to have a seminar in collaboration with the Fund on the alternative sources of growth in the CEMAC region.

The lack of capacity has been the key constraint to the authorities' efforts to build a strong foundation for long term economic prosperity. Taking into account this situation, my authorities would like to benefit from capacity building assistance from the international community and the Bretton Woods Institutions, in particular. Meanwhile, as part of addressing capacity constraint, the authorities have undertaken programs to train Equato Guineans at institutions of higher education abroad. However, this can be a medium term response. To meet the immediate needs of the country, the authorities are relying on the international community for capacity building assistance in the different key sectors.

Based on the Board's recommendations made in 2003 on the need to improve fiscal management, the authorities have continued to make specific efforts in those areas through, inter alias strengthening the budgetary process and consolidating tax legislation as well as improving transparency and accountability.

Transparency and accountability

In their efforts to introduce further transparency and accountability in the management of petroleum sector revenues and public expenditure, Equatorial Guinea is voluntarily participating in the Extractive Industries' Transparency Initiative (EITI) with assistance from the World Bank. The authorities have requested and received a fiscal report on Observance of Standards and Codes (ROSC). In this regard, all necessary information were made available to the Bank and Fund staff during their visits, in November 2004 and January 2005, with a view to facilitating data compilation and reconciliation as well as helping to design recommendations and plan of actions. In the same vein, it is worth noting that Equatorial

Guinea, in collaboration with the Bank and the Fund, hosted in January 2005 a regional seminar for CEMAC parliamentarians on the management and accountability of oil resources. My authorities are fully committed to implement the recommendations made by the World Bank, EITI and Fiscal transparency ROSC missions. Already, committees comprising of representatives of all stakeholders namely government, oil companies and the civil society have been set up and they have started implementing their respective plans of actions. An interministerial committee was been established in 2004 in order to monitor macroeconomic developments and coordinate policies. Moreover, my authorities have requested technical assistance from the World Bank in order to review ways to strengthen the operational performance of GEPetrol, and the Ministry of Mines, Hydrocarbon and Energy.

In addition it is important to note that in early 2004 all government accounts with Riggs Bank were closed and the balances transferred to the *Banque des Etats de l'Afrique Centrale,* (BEAC), the regional central bank. The accounts held with Riggs Bank were only transitory accounts meant to deal with local constraints and speed up the payments of oil foreign companies to the Treasury of Equatorial Guinea.

Economic and Financial Performance in 2004

Equatorial Guinea's economy is dominated by the oil and gas sector which in 2004 accounted for about 90 percent of GDP, 98 percent of exports and 86 percent of government revenues. Due mainly to the expansion in hydrocarbon production, real GDP grew by 34 percent while the non-oil GDP increased by 13 percent boosted by strong performance in the construction, infrastructure and services sectors. At 4,2 percent, inflation decreased from 7,3 percent in 2003 but still remains above the CEMAC's convergence criterion of 3 percent. The real effective exchange rate appreciated by about 5 percent compared to 15 percent in 2003 and the current account deficit was reduced significantly compared to 2003. The official international reserves increased fourfold to cover 18 months of imports of the non-oil sector.

In the fiscal sector, due to higher world oil prices and the surge in production, total revenue estimated at 37 percent of GDP increased by 44 percent, higher than budgeted though it was offset by substantial public expenditure. In addition to the oil receipts, the non-oil revenue rose by 12 percent owing to economic growth and improvements in tax administration. Capital expenditure grew more than budgeted on account of higher capital spending in the infrastructure sector, while the current outlays remained within budget. As a result the fiscal surplus stood at 14 percent of GDP while non-oil fiscal deficit was 17 percent of GDP. In their efforts to strengthen the fiscal area, my authorities put in place in January 2005 a new tax code replacing the domestic turnover with a value added tax (VAT) and the tax authority was reorganized. Moreover the law regarding the 2004 Budget execution (*la ley de la Ejecucion del Presupuesto General del Estado para el Ejercicio Economico 2004)* has been presented to the National Assembly as stipulated in the Constitution.

Regarding monetary developments, broad money grew significantly on account of the large inflow of oil revenue and transfers from international oil companies. However, the resulting excess liquidity has not been translated into credit increase to the private sector, due to lack of bankable projects. Overall, the banking system remains sound and compliance with respect to banking supervision norms is respected. In an effort to broaden the banking sector, a new bank whose license was approved in 2004 is expected to operate shortly.

As a member of *the Communauté Economique et Monétaire de l'Afrique Centrale (CEMAC) and Banque des Etats de l'Afrique Centrale (BEAC)*, Equatorial Guinea has deposited the oil revenues in the BEAC . However, in view of the low rate of return and to maximize the value of the oil wealth for future generations, the authorities have started discussions with BEAC in order to find the best scheme and modalities for an appropriate remuneration of funds deposited with the Regional Central Bank. In this respect, the authorities are seeking advice from the Fund given the limited capacities of the country in this very specific and sensitive matter.

On the CEMAC Convergence criteria, Equatorial Guinea has observed three of the four convergence criteria. Only the criterion on inflation was missed due to the large investments in infrastructure notably for the construction of schools, hospitals, buildings and roads. The CEMAC common external tariff (CET) has also been adopted with significant progress in eliminating import tariffs on goods produced within CEMAC zone.

Macroeconomic policies and Medium Term objectives.

The economy of Equatorial Guinea is expected to grow by 5 percent a year between 2005 and 2010 in the context of an increase in hydrocarbon production.. The non-oil sector will also grow rapidly over the medium term given the ongoing investment, including in infrastructure. The fiscal surpluses should average 15 percent of GDP and external current account will be in surplus due to the decline in oil sector imports of capital and good services. The macroeconomic framework needed to achieve these objective was agreed with staff and my authorities are aware that there is a need to move towards further fiscal sustainability, reduce pressures on prices, develop the non-oil sector and strengthen transparency and accountability in the management of natural resources as well as public finance.

In the fiscal area, the authorities will keep spending within budget in order to further reduce inflationary pressures and they agree to adopt the primary non–oil balance as the key policy target. In this regard, the ROSC recommendations will be implemented in addition to the new tax law with a view to strengthen the expenditure tracking and control process. The three stage approach to fiscal policy recommended by staff is appropriate and measures needed for its execution will be put in place notably in improving the public expenditure management through an adequate technical assistance and the development of the National Poverty Reduction Strategy.

For the monetary sector, the containment of inflationary pressures remains an important objective of policies conducted by the regional central bank. The authorities are cognizant that there is a need for the regional central bank to strengthen its instruments meant to mop up the excess of liquidity in order to sustain the macroeconomic stability and financial sector soundness. The authorities will continue to contribute to the reduction in the excess of liquidity by maintaining a prudent fiscal policy as outline above. The banking system remains sound and the authorities will continue to enhance the banking supervision while taking necessary actions to ensure that banks comply with prudential regulations. My authorities, in collaboration, with the regional body namely *Groupe Anti-blanchiment en Afrique Centrale* are committed to implement an anti-money-laundering/combating the financing of terrorism (AML/CFT). In that regard, a coordinating unit will be established by year-end. In addition, my authorities place a high priority on establishing an adequate framework for the management of the country's growing budget surpluses consistent with its obligations as a member of the BEAC.

The authorities reaffirmed their commitment to comply with the regional directives in enhancing the intra regional trade and implementing the common external tariff. They also intend to phase out over time the remaining export tariffs on cocoa, coffee and logs though their objective is to provide an incentive for higher value-added activities. They fully share the view of eliminating these taxes in order to enhance the profitability and competitiveness of the cocoa, coffee and logs considered as traditional sectors.

Poverty reduction

My authorities recognize the need to scale up their efforts to improve the social indicators and meet the MDGs. To this end they intend to draw on lessons learned from the National Development Plan and develop a full document on poverty reduction strategy (PRSP), for which they are requesting assistance from the World Bank. They agree that the PRSP will provide a framework for adjusting both level and composition of public expenditure with the objective of meeting the social needs of the population. Moreover the poverty reduction strategy will enable the authorities to balance their objective to improve social outcomes with the need for macroeconomic stability and intergenerational equity. The second national conference scheduled for the end of 2005 will discuss the interim document of poverty reduction strategy. In the meantime, the authorities have initiated with the assistance of the U.S. Government, a project to assess social needs in Equatorial Guinea, and develop a mechanism to improve and speed up the execution of social outlays. Social projects were identified at the National Conference on the Assessment of the National Development Strategy held in January 2004.

Capacity building and statistical issues

It is worth stressing that severe institutional capacity constraints have hindered the authorities' ability to conduct economic policy and to implement their development program over the past years. Therefore, they are mindful of the need to identify priority areas for capacity building and seek external assistance from the international community including from the Fund. Macro statistics, public expenditure management and macro fiscal policy advice front under the implementation of the fiscal transparency ROSC and World Bank EITI recommendations are the priority areas identified. My Equato Guinean authorities are determined to work with the Fund to develop the scheme and financial modalities for this crucial capacity building assistance. In this regard, a formal request has been already submitted to the management. Furthermore, my authorities in collaboration with AFRSTAT and other development partners, will undertake all necessary actions to ensure successful implementation of the national strategy for the development of statistics (NSDS) and to initiate the reforms of the statistical system.

Conclusion

I would like to reiterate the determination of my authorities to closely work with the Fund and other development partners in implementing needed reforms aimed at enhancing transparency and accountability in oil resources management, diversifying the economy and enhancing institutional capacities. They have reiterated their commitment to the EITI Initiative at the last meeting in London, and intend to participate as a pilot in a G-8 Transparency and Accountability Compact. My authorities are also determined to continue their efforts to improve the economic performance of the country, especially through the development of the non-oil sector, structural reforms, including the development of a strong private sector, which they view as critical to ensure sustainable growth of the economy over the medium to long term. My authorities fully recognize the important challenges, notably on capacity building and the need to enhance social indicators. The biggest challenge facing Equatorial Guinea is to overcome the capacity constraint in order to be able to use the fast growing oil revenue to meet the development objectives of the present and future generations. In this regard, my authorities are hopeful that their development partners will provide them with the needed technical assistance.

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EXTERNAL RELATIONS DEPARTMENT

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IMF Executive Board Concludes Article IV Consultation with Equatorial Guinea

On April 25, 2005, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Equatorial Guinea.[1]

Background

Hydrocarbons dominate economic developments in Equatorial Guinea and will continue to be the engine of growth in the foreseeable future. Since oil production began in 1995, hydrocarbon production has increased from 6,000 barrels of oil equivalent per day (boe/day) to 282,000 boe/day in 2003, supporting an average annual growth of 31 percent. In 2004, real GDP grew by 34 percent, reflecting a sharp increase in oil production. Non-oil GDP increased by 13 percent fueled by growth in the infrastructure and construction sectors, driven by increasing government capital expenditure. However, the primary sector remained sluggish as labor migration from rural to urban areas continued in search of higher earnings and the enforcement of sustainable logging program was maintained. Although inflation has decelerated to 5 percent in 2004, the inflation differential between Equatorial Guinea and its trading partners and the appreciation of the euro have led to the appreciation of the real effective exchange rate by 5 percent in 2004, for an accumulated real appreciation of 32 percent since 2000, further undermining external competitiveness.

Monetary development continues to be dominated by fiscal policy. Broad money increased by 45 percent owing to large foreign exchange inflows of government oil revenue and transfers from oil companies that contributed to the buildup of net foreign assets.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

Government spending failed to sterilize these inflows. Excess liquidity in the banking system rose without any significant impact on domestic prices because of limited lending opportunities that kept credit to the economy in check.

Fiscal outcome was marked by an increase in the fiscal surplus in 2004 compared to 2003 on account of a stronger-than-expected revenue performance due to higher oil prices and increased in hydrocarbon production that was partly offset by a substantial increase in capital expenditure. The persistent overruns in capital expenditures over the past years underscore weak budgetary discipline and a need for a better public expenditure management.

The overall balance of payments surplus has more than doubled compared to 2003, driven by oil exports and large inflows of foreign direct investment (FDI) in the hydrocarbon sector. Official international reserves increased to about 18 months of imports of goods and services not financed by FDI. The overall terms of trade has improved significantly owing to the increase in the price of oil.

Important progress has been made with regard to transparency and accountability of oil-related revenues and public finance. At the request of the authorities, the World Bank has been providing assistance regarding their participation in the Extractive Industries Transparency Initiative (EITI). A fiscal transparency Report on the Observance of Standards and Codes (ROSC) was completed in early 2005. Moreover, the Article IV mission was able to reconcile the fiscal surplus with movements in government account at the Bank of Central African States (BEAC) and government oil production share, exports and revenue. The authorities at the highest level indicated their commitment to implement the recommendations of the fiscal transparency ROSC and to participate in the EITI. A key structural fiscal reform has been implemented with the adoption of a new tax code that consolidates dispersed legislation in one document, thereby enhancing transparency.

Unfortunately, the country’s oil and gas wealth has not yet let to a measurable improvement in living conditions for the majority of the population. Against that background, the authorities have assessed their National Development Plan for 1997-2001 and have recognized that the objectives poverty reduction has not been achieved. They therefore intends to prepare an Interim poverty reduction strategy paper (PRSP) that could serve as a roadmap for the provision of donor’s technical support.

Executive Board Assessment

Executive Directors welcomed the strong economic performance achieved in 2004, with continued rapid economic growth, a deceleration in the rate of inflation, better-than-expected revenue performance, a doubling in the overall balance of payments surplus, and a further increase in official international reserves. Directors underscored, however, that with the hydrocarbon sector continuing to dominate macroeconomic developments, the ensurance of a prudent and transparent use of the oil wealth, and the implementation of sound macroeconomic policies along with the implementation of structural measures would be crucial to create an environment conducive to ensuring continued broad-based growth and reducing poverty by strengthening the climate for private sector investment and diversifying the economy.

Directors noted with concern the substantial increase in public spending had more than offset improved revenue performance in 2004, particularly in the absence of a comprehensive guiding framework. They observed that the high level of public spending could place upward pressure on prices and the real effective exchange rate, thereby undermining the competitiveness of the economy. Against this background, they urged the authorities to strengthen public expenditure management and control, and welcomed the intentions of the authorities to move forward in this area, including an undertaking to review public expenditure with assistance from the World Bank.

In light of the need for fiscal consolidation, Directors were encouraged by the fiscal stance set out in the 2005 budget. Noting the absence of a formal mechanism for enforcing budget limits, they urged the authorities to remain within the budget parameters and recommended that a specific expenditure target be set in the supplemental budget law, with any increases in aggregate spending during the year requiring prior approval by parliament.

Directors welcomed the adoption of a new tax code that increased the corporate income tax rate and replaced the domestic turnover tax with a value added tax (VAT) as well as the recent reorganization of the tax authority and further strengthening of the tax administration, which will help broaden the tax base and pave the way for increased non-oil revenues. Directors recommended that export taxes be phased out at an early date, in support of economic diversification.

Directors expressed concerns over the liquidity overhang, which they observed could jeopardize price stability and financial sector soundness. Given the limitations of monetary policy instruments and absorptive capacity constraints, they urged that these factors be taken into account in setting fiscal policy.

Directors noted that the economic expansion over the past decade had not led to a measurable improvement in living conditions and that poverty remains widespread in Equatorial Guinea. They observed, however, that rapid progress toward the achievement of the Millennium Development Goals (MDGs) should be possible, given hydrocarbon resources and the outlook for oil prices. Directors emphasized that a comprehensive development strategy would help in guiding the country's vast oil wealth into priority sectors, strengthening capacity building, and tackling widespread poverty, in particular by strengthening the focus on health and education, while safeguarding macroeconomic stability, with supporting technical assistance. In this regard, Directors encouraged the authorities to prepare an interim poverty reduction strategy paper that could serve as a roadmap and facilitate support from the country's development partners.

Directors commended the authorities' commitment to regional integration and the progress toward meeting the Central African Monetary and Economic Union (CEMAC) macroeconomic convergence criteria. They considered that the regional currency union has served Equatorial Guinea well in helping to control inflation and foster macroeconomic stability. Directors called on the authorities to monitor competitiveness closely, noting that the deliberate implementation of reform initiatives would contribute to improving overall economic efficiency. They encouraged the authorities to support more actively regional initiatives in the areas of trade, customs liberalization, and banking supervision. Directors also urged Equatorial Guinea to actively participate in setting up the regional institution for anti-money laundering.

Directors commended the authorities for recent progress in the area of transparency and accountability in resource management and public finance, noting that the initial steps need to be backed up with resolute action. They welcomed the authorities' decision to deposit all government oil receipts with the regional monetary authority and supported the authorities' claim for appropriate remuneration of government deposits by the BEAC.

Directors welcomed the completion of a fiscal transparency ROSC and the decision to publish the report and advised the authorities to implement the recommendations. They also welcomed the prospective participation in the EITI and as a pilot case for the G-8 corruption and transparency compact and recommended that they take the necessary actions to participate in the EITI and the G-8 compact as soon as possible. They saw these as important steps in the direction of increased transparency and accountability and as a break from past practices. Directors recognized that sustained progress in each of these areas would require improvements in institutional capacity and urged the country's development partners to help build such capacity in areas within their core competencies. In this context, there were concerns about the recent decision to require foreign investors to obtain local partners.

Directors urged the authorities to increase the quality of macroeconomic data as this would improve Fund surveillance and lead to better informed policy discussions. They welcomed the staff's plans to help build capacity in this area and the authorities' plans for a more frequent sharing of information and policy dialogue with the staff.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case. The Staff Report for the 2004 Article IV Consultation with Equitorial Guinea is also available.

Equatorial Guinea: Selected Economic and Financial Indicators

	2000	2001	2002	2003	2004 Est.	2005 Proj.
	(Annual percentage change, unless otherwise specified)					
Domestic economy						
Real GDP	19.3	40.7	9.7	18.7	34.2	4.8
Of which: non-oil GDP	10.5	7.1	10.3	9.9	12.9	9.8
Oil production (thousands of barrels per day) 1/	119.7	210.1	250.6	282.2	383.3	397.3
Consumer prices (annual average)	4.8	8.8	7.6	7.3	5.9	7.0
External economy						
Exports, f.o.b.	79.9	37.2	23.6	36.2	68.7	-1.6
Imports, c.i.f.	19.6	57.7	55.8	-10.7	103.4	7.0
Exchange rate (CFA Francs/U.S. dollar)	709	732	694	580	528	...
Real effective exchange rate (depreciation -) 2/	-0.9	6.6	7.4	9.9	4.7	...
Financial variables						
Government revenue	65.6	142.9	19.1	13.7	84.6	-22.0
Government expenditure and net lending	63.7	56.8	-11.8	94.7	47.3	-31.6
	(In percent of GDP, unless otherwise specified)					
External economy						
Current account balance (including official transfers; deficit -)	-24.6	-48.4	-65.1	-27.2	-13.7	-16.0
Outstanding medium- and long-term public debt	20.5	14.9	14.2	5.5	2.6	2.2
Debt service-to-export ratio	0.8	0.7	0.7	0.3	0.2	0.3
Financial variables						
Gross investment	57.8	70.3	73.0	50.8	44.6	54.7
Gross national savings	27.0	15.6	3.5	21.0	29.6	38.4
Government revenue 3/	16.7	29.5	32.6	31.1	36.7	30.1
Of which : oil revenue	13.3	25.7	28.6	27.1	33.7	27.1
Government expenditure and net lending	16.0	18.2	14.9	24.3	22.9	16.4
Overall government balance (including oil revenue; deficit -)	-0.5	10.4	17.6	6.7	12.8	13.0
	(In millions of U.S. dollars, unless otherwise specified)					
External economy						
Exports, f.o.b.	1,205	1,653	2,043	2,783	4,695	4,620
Imports, c.i.f.	-612	-966	-1,504	-1,343	-2,732	-2,922
Current account balance (deficit -) 4/	-297	-779	-1,191	-710	-616	-725
Overall balance of payments (deficit -)	182	296	297	324	713	741
Financial variables						
Gross international reserves (excl. oil reserve fund) 5/	22	72	86	232	945	1,666
(equivalent months of imports, c.i.f.)	0.2	0.5	0.5	1.4	3.0	5.1
(equivalent months of non-oil sector imports, c.i.f.)	2	4.8	4.1	7.5	17.8	43.2

Sources: Equatorial Guinean authorities; and IMF staff estimates and projections.

1/ Including oil equivalent of methanol and liquefied gas during 2001-04.
2/ Period average changes; for 2004, the average of the first half of 2004 over the first half of 2003.
3/ Excluding foreign-financed public investment.
4/ Including grants.
5/ Excludes offshore government oil savings accounts.