INTERNATIONAL MONETARY FUND

IMF Country Report No. 15/260

REPUBLIC OF EQUATORIAL GUINEA

September 2015

2015 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; 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 2015 Article IV consultation with Republic of Equatorial Guinea the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its July 20, 2015 consideration of the staff report that concluded the Article IV consultation with the Republic of Equatorial Guinea.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 20, 2015, following discussions that ended on May 12, 2015, 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 June 26, 2015.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF.
- A **Statement by the Executive Director** for Equatorial Guinea.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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July 23, 2015

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IMF Executive Board Concludes 2015 Article IV Consultation with the Republic of Equatorial Guinea

On July 20, 2015, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Equatorial Guinea.

Equatorial Guinea's recent economic performance has been weak, notwithstanding the high quality infrastructure that has been built. Overall real GDP growth has averaged about -½ percent from 2010–14, mainly driven by the trend decline in hydrocarbon production. Until recently, growth in the non-resource sector, led by the large infrastructure spending program, largely compensated for the declining hydrocarbon sector. The fiscal position has come under strain, as overruns on capital investment translated into larger-than-expected overall deficits financed through a drawdown of accumulated government savings. The current account deficit has progressively increased to around 10 percent of GDP by 2014 as a result of lower exports from maturing hydrocarbon fields combined with high import levels associated with the public infrastructure program, although there is considerable uncertainty about this figure given very weak external sector statistics. Consumer price inflation (CPI) has averaged about 4 percent in recent years, above the 3 percent regional convergence ceiling set by the Economic Community of Central African States (CEMAC).

The growth outlook poses very significant challenges with prospects dominated by falling production volumes and very weak oil prices, as hydrocarbons account for around 80 percent of the economy. With limited fiscal buffers to cushion the drop in government revenues, fiscal retrenchment is unavoidable, and will contribute to an economic contraction of 9½ percent in 2015, and growth is expected to remain in low negative figures through the medium term. The gradual decline in oil output will likely continue in coming years, but may potentially be somewhat mitigated by the introduction of new extraction technologies and ongoing exploration.

[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.

The main near-term risk to the economic outlook is a slower-than-expected fiscal adjustment that could result in the depletion of fiscal buffers and accumulation of public debt. Moreover, an insufficient effort to address a weak business climate and attract foreign investment would impede diversification and potential non-hydrocarbon growth.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the government's significant efforts to implement an ambitious program of development and structural transformation under its National Development Plan, Horizonte 2020, which has upgraded basic infrastructure all over the country. Nevertheless, the program has yet to achieve its potential in terms of economic diversification and job creation, and Directors observed that the economy is facing serious challenges from a trend decline in hydrocarbon production and the recent fall in oil prices. Given the country's large dependence on hydrocarbon revenues and declining fiscal buffers, Directors emphasized the need to restore fiscal space, strengthen financial management, foster economic diversification, and improve social welfare to support inclusive growth.

Directors underscored the need for fiscal adjustment and welcomed the government's planned response to the oil shock. The fiscal measures introduced in 2014 and the revised 2015 budget appropriately focus on strengthening spending controls and frontloading reductions of the disproportionately large capital investment, while shifting resources toward the social sector. Directors advised the authorities to focus on enhancing non-hydrocarbon revenue mobilization, notably by reducing tax exemptions and modernizing customs administration. Directors also recommended reforms to strengthen public financial management, including more frequent meetings of the National Payments Committee and reinforced mechanisms for selecting, executing, and monitoring capital projects.

Directors noted that while Equatorial Guinea had largely eliminated the constraints to growth from poor infrastructure, there was a need for structural reforms to boost competitiveness and support external stability. They considered it a priority to accelerate reforms targeting the weak business climate and human capital development.

Directors underscored the importance of preserving financial stability and deepening financial intermediation. Given the weakening fiscal position and the elevated level of non-performing loans, macro-financial linkages need to be closely monitored and the government's payment arrears promptly cleared. Directors also saw scope for updating the banking infrastructure by improving the operation of credit and collateral registries, and strengthening creditor rights enforcement.

[2] 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. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Directors emphasized the need to improve Equatorial Guinea's very weak socio-economic statistics. They noted that data provided to the IMF has serious shortcomings that significantly hamper surveillance. At the same time, the lack of published data could impede prospective foreign investors. In this context, they welcomed the efforts to make operational the National Statistics Institute (INEGE), and encouraged the authorities to invest in capacity building and subscribe to the IMF's General Data Dissemination Standards (GDDS).

It is expected that the next Article IV consultation with the Republic of Equatorial Guinea will be held on the standard 12-month cycle.

Table 1. Equatorial Guinea: Selected Economic and Financial Indicators, 2012–20

	2012	2013	2014	2015	2016	2017	2018	2019	2020
			Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(Annual percentage change, unless otherwise specified)									
Production, prices, and money									
Real GDP	5.8	-6.5	-0.3	-9.4	-0.3	-3.3	-2.6	-2.3	-1.9
Hydrocarbon sectors	6.1	-9.9	-1.1	-11.1	-0.4	-5.2	-4.8	-4.8	-4.4
Oil and gas primary production	10.5	-14.3	-0.1	-18.4	0.0	-4.8	-4.4	-4.6	-4.2
Hydrocarbon secondary production[1]	-4.0	1.5	-3.2	5.8	-1.1	-5.8	-5.5	-5.2	-4.9
Non-hydrocarbon sectors	4.6	4.9	1.9	-4.7	0.0	1.5	2.6	3.2	3.4
Oil price (U.S. dollars a barrel)[2]	101.3	100.3	92.5	55.1	60.5	63.4	66.2	67.3	67.7
Consumer prices (end of period)	2.6	4.9	4.3	3.5	2.9	2.8	2.8	2.8	2.8
Broad money	57.8	7.3	-14.1	-27.5	-0.1	3.2	1.0	4.5	4.8
Nominal effective exchange rate (- = depreciation)	-1.3	3.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Real effective exchange rate (- = depreciation)	3.0	8.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
(Percent of GDP, unless otherwise specified)									
Government finance									
Revenue	34.7	31.8	33.6	29.7	28.3	28.2	27.8	27.0	26.3
Of which: resource revenue	30.4	27.3	29.1	23.8	21.9	21.5	20.8	19.6	18.4
Expenditure	43.8	39.3	40.4	34.4	31.1	30.0	29.1	27.8	26.9
Overall fiscal balance after grants	-9.0	-7.5	-6.8	-4.7	-2.8	-1.8	-1.3	-0.8	-0.6
Non-resource primary balance (percent of non-hydrocarbon GDP)[3]	-190.8	-142.4	-125.5	-81.1	-71.8	-63.9	-58.0	-50.1	-43.5
Gross government deposits (billions of CFAF)	2,020	1,226	913	689	533	458	458	475	484
External sector									
Current account balance (including official transfers; - = deficit)	-2.2	-4.0	-10.0	-7.0	-2.4	-1.4	1.1	0.3	0.3
Outstanding medium- and long-term public debt	9.1	7.9	12.0	15.3	14.6	14.7	15.6	16.2	16.6
Debt service-to-exports ratio (percent)	0.7	2.5	2.3	2.3	2.9	2.6	1.7	2.1	2.4
External debt service/government revenue (percent)	1.9	7.3	6.4	7.5	9.9	8.7	5.7	6.7	7.8

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

[1] Including LNG, LPG, butane, propane, and methanol.

[2] The price of oil is the average of three spot prices: dated Brent, West Texas Intermediate, and Dubai Fateh; and includes a discount for quality.

[3] Excluding oil revenues, oil-related expenditures, and interest earned and paid.

INTERNATIONAL MONETARY FUND

REPUBLIC OF EQUATORIAL GUINEA

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION

June 26, 2015

KEY ISSUES

Economic Context. A decade–long hydrocarbon boom has led to a fast rise of average incomes and spurred a large scaling up of investment spending on infrastructure, although progress on social indicators has been slow. With hydrocarbon extraction shifting into a trend decline in the context of weak oil prices outlook and still high capital spending, the fiscal position has weakened and fiscal buffers diminished.

Outlook and risks. Prospects are dominated by the weakening hydrocarbon sector. The confluence of lower international oil prices, high dependence on oil revenues, and rapidly declining buffers requires upfront and substantial fiscal consolidation, particularly focused on investment. Real GDP is expected to contract by about 9½ percent of GDP in 2015, and further by about 2 percent per year during 2016–20 due to fiscal consolidation and falling hydrocarbon production. The associated decline in investment on import-intensive infrastructure improves fiscal and external balances over the medium term and stabilizes fiscal buffers. The key risks are insufficient fiscal adjustment and lackluster structural reform, reducing the authorities' ability to counter further shocks and weakening potential growth.

Policies. Macroeconomic policies should seek to better leverage the stock of infrastructure to foster diversification and structural transformation in an environment of much-reduced government revenue.

- Ensure fiscal sustainability through front-loaded fiscal adjustment targeting capital spending, followed by a continued gradual reduction of the non-oil primary balance over the medium term. Immediate cuts should be based on a comprehensive review of ongoing and planned projects seeking to maximize value and social impact, supported by measures to strengthen monitoring and control of spending. Consolidation should be underpinned by reallocation of expenditures to critical social sectors.

- Pursue an ambitious structural reform agenda to energize the non-hydrocarbon sector, particularly focused on accelerating business climate reforms, strengthening banking infrastructure, prioritizing human development, and catalyzing investment through international financial institutions.

- Address emerging banking sector weaknesses by promptly clearing payment arrears by the government and strengthening its cash management.

- Address a critical shortage of macroeconomic and socio-demographic data, which is essential for informed decision-making.

Approved By
Anne-Marie Gulde-Wolf and Masato Miyazaki

Discussions were held in Malabo, April 26–May 12, 2015. The staff team comprised Messrs. Mlachila (head), Noumon, Orav, and Salinas (all AFR). Mr. Puthod (African Development Bank) also participated in the policy meetings. The mission held discussions with Mr. Miguel Engonga Obiang Eyang, Minister of Finance and Budgets; Mr. Eucario Bakale Angue Oyana, Minister of Economy and Public Investment; Mr. Alfredo Mitogo Mitogo Adá, Minister of Commerce and Business Promotion; Mr. Ivan Bacale Ebe Molina, BEAC National Director; Mme. Milagrosa Obono Angue, Secretary of State for the Treasury; and other senior officials. The mission also met representatives of the private sector, civil society, and development partners.

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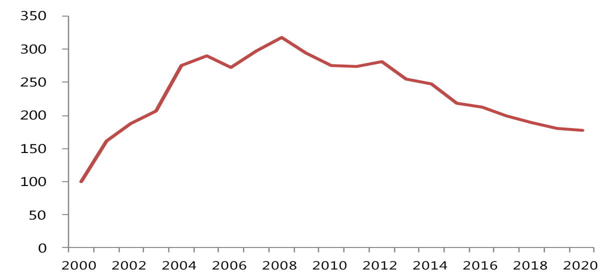
CONTEXT: LAUDABLE ACHIEVEMENTS IN INFRASTRUCTURE, BUT MORE REQUIRED TO FOSTER SUSTAINABLE GROWTH

1. **Equatorial Guinea has focused its efforts on creating impressive infrastructure.** Hydrocarbon revenues have allowed the country to massively invest in wide-ranging infrastructure under the first phase (2008–12) of the national development plan—*Horizonte 2020*. High quality roads now cover much of the country, international ports and airports have been constructed, and access to electricity and potable water has risen rapidly.

2. **The hydrocarbon boom also dramatically boosted average per capita incomes, but progress on social indicators has been slow according to available data.** Over the past few years income levels have declined with falling hydrocarbon production (Text Figure 1). Furthermore, Equatorial Guinea's social indicators are similar to those of low income countries, and in some cases worse (Text Table 1). Part of this paradox can be linked to very weak data collection, which limits the ability to draw meaningful comparisons. At the same time, the infrastructure investment program has also included projects with a weak impact on social indicators, including sports facilities and a new administrative capital city at Oyala.

Text Figure 1. Equatorial Guinea: Real GDP per capita in CFAF

(Index: 2000=100)



Source: Equatoguinean Authorities.

Text Table 1. Equatorial Guinea: Selected Social Indicators

	Latest Figure	Reference Year	SSA (latest)
Population (millions)			
United Nations estimate	0.8	2013	937
National authorities' estimate	1.6	2012	...
Poverty incidence[1,2] (percent)	76.8	2006	49
Mortality rate, infant (per 1,000)[3]	69.3	2013	56
Mortality rate, under-5 (per 1,000)[3]	95.8	2013	83
Fertility rate, birth per woman[3] (percent)	4.9	2012	4.7
Primary school enrollment ratio (percent, net)	62.2	2012	79
Ratio: female to male in primary enrolment (%)	99.4	2012	93
Life expectancy (years)	53.1	2013	58
Access to clean drinking water (percent of population)	51.0	2011	71
Human Development Indicator ranking	144.0	2013	155
Doing Business overall ranking	165.0	2015	142

Sources: UN (Millennium Development Goals Indicators, 2014); World Development Indicators 2015; Human Development Indicators 2013; and Doing Business Indicators 2015.

[1]Equatorial Guinea: National Household Survey (2006); percentage living below national poverty line of US$2 a day.

[2]Sub-Saharan Africa: UN MDG Report (2013); percentage living below US$1.25 a day in 2010.

[3]Equatorial Guinea: Health and Demographic survey (2011).

3. **The era of buoyant hydrocarbon-fuelled growth is receding, now complicated by a severe shock to oil prices.** Even before the recent sharp decline in oil prices, hydrocarbon production was in moderating decline, which entailed negative overall real growth rates over the medium term.[1] Now, like other oil exporting economies, nominal GDP, exports and especially government revenue, will take an additional hit, and per capita GDP will continue on its downward trend. While new extraction technologies and ongoing exploration could alter the outlook somewhat, the strong likelihood is that the hydrocarbon sector will be a drag on activity for the foreseeable future.

[1] Oil production peaked about six years ago, and in the absence of new discoveries, existing wells are on a natural downward path.

4. **The fiscal position is facing severe strains.** In recent years, capital spending has been sustained around 30 percent of GDP, despite stagnating resource revenues, boosting fiscal deficits to almost 8 percent of GDP over the past three years. Deficit financing has increasingly relied on previously accumulated savings, which have declined by around two-thirds since end 2011.

5. **Given limited buffers, the oil price shock will need to be countered with front-loaded fiscal adjustment and by better leveraging infrastructure to support growth.** The authorities agree on the need to curtail and reprioritize the public investment program to restore fiscal sustainability. They also agree on the need for structural reform to support economic diversification and social development. Nevertheless, with several public investment projects starting and others far from complete, including Oyala, the transition process will prove challenging.

6. **The authorities are increasingly implementing policy recommendations made during past Article IV consultation over the past year.** In 2014 the authorities adopted a series of fiscal measures to curb the fiscal deficit, including phasing out fuel subsidies to commercial users. The revised 2015 budget signals an intention to reduce public investment and reorient spending toward human capital development, and the authorities' have recently requested IMF technical assistance to develop a medium-term fiscal rule. The establishment of a National Institute of Statistics (INEGE) also offers prospects for improving economic and social data. However, there has been limited progress on recommended business climate reforms.

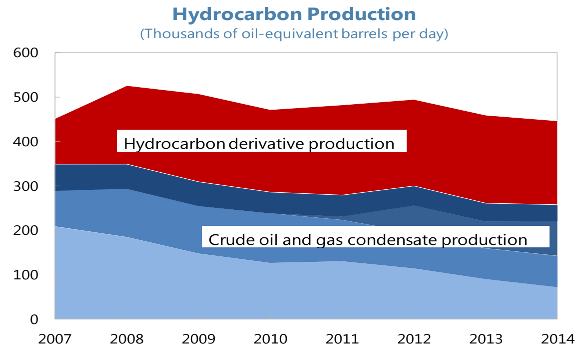
RECENT DEVELOPMENTS

7. **Preliminary estimates indicate that GDP declined by 0.3 percent in 2014** (Figure 1). The oil price shock appears to have had a limited impact as it materialized late in the year. Overall GDP growth in 2014 was driven by the continued decline in hydrocarbon production[2] (accounting for about 70 percent of GDP), which moderated slightly thanks to higher-than-expected yields in mature fields. Growth in the non-hydrocarbon sector is estimated to have slowed to 1.9 percent. The key recent driver of non-hydrocarbon growth, construction, fell 2.3 percent (y-o-y) as public investment under *Horizonte 2020* shifted away from infrastructure. Utilities growth remained strong with continued modernization and extension of the electricity network. Other sources of growth included transportation, trade, and hospitality sectors, partly benefiting from several large conferences and preparations for the African Cup of Nations tournament in early 2015.

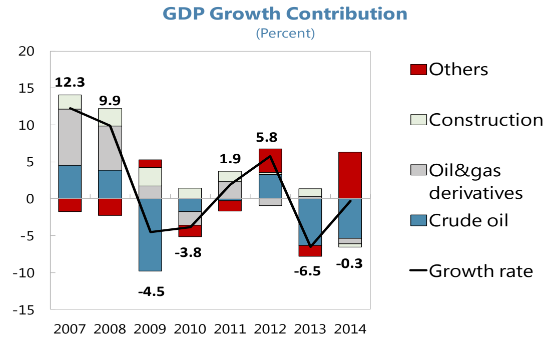
[2] Hydrocarbon production includes both crude oil and gas condensate production (classified as primary sector output) and oil and gas derivatives, such as liquefied natural gas (secondary sector output).

Figure 1. Equatorial Guinea: Economic Developments, 2007–14

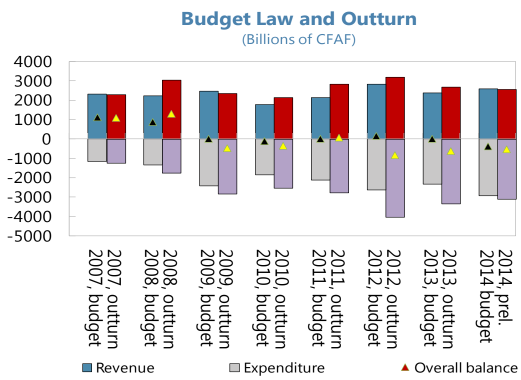
Hydrocarbon production has averaged 480 thousand barrels per day in recent years…



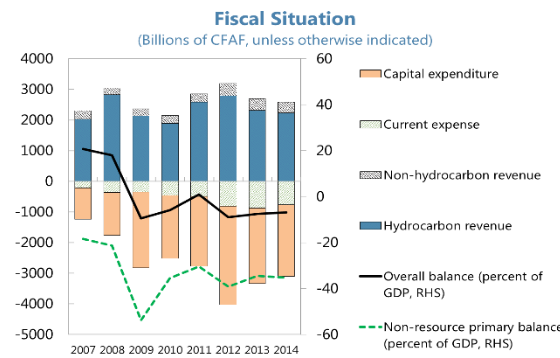
… and has been the main growth driver, supported by government-related construction.



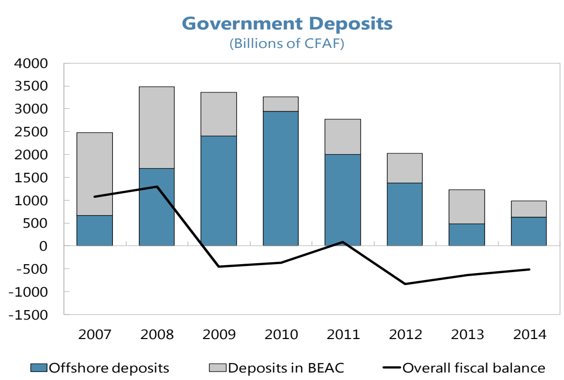
Fiscal performance has suffered as the investment program gathered pace…



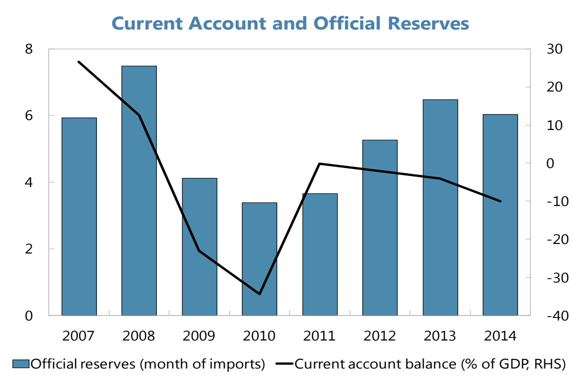
… taking the overall balance from surplus into deficit…



… and leading to steady erosion of the government savings buffer.



Reserves remained healthy thanks to FDI and withdrawals of offshore deposits.



Sources: Equatoguinean authorities and IMF staff estimates.

8. The fiscal deficit target was somewhat reduced in 2014, but remained high at 6.8 percent of GDP. The budget target for revenue was met. However, spending slippages recurred, despite phasing out fuel subsidies to commercial buyers. The overrun was due to public investment, although controls introduced in mid 2014 appear to have helped reduce the overrun to 1.8 percent of GDP, against overruns averaging 10 percent of GDP in 2012–13. Furthermore, the overall deficit does not capture challenges to cash flow management which led to unbudgeted spending equivalent to 3.3 percent of GDP to clear unpaid bills on capital investment undertaken in 2013. This required central bank financing to avoid withdrawals from the Fund for Future Generations and offshore fixed term accounts. Public sector debt was about 12 percent of GDP at end-2014, increasing from 8 percent at end 2013 due to the recourse to the Bank of Central African States (BEAC) overdraft facility.

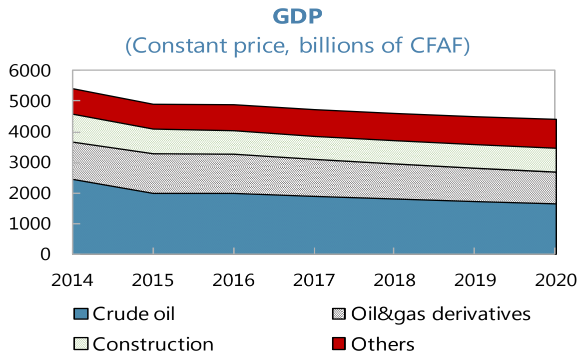
9. The current account deficit grew to 10 percent of GDP, reflecting the trend decline in hydrocarbon exports. The level of reserves remained high at 8 months of prospective imports. Inflation stood at 4.3 percent in December 2014, above the regional Economic Community of Central African States (CEMAC) convergence ceiling of 3 percent, due to food price pressures early in 2014. A weakening of the euro (against which the regional currency, the CFA franc, is pegged), partly offset by a relatively higher inflation rate than its trading partners, resulted in a negligible 0.3 percent depreciation of the real effective exchange rate.

OUTLOOK AND RISKS

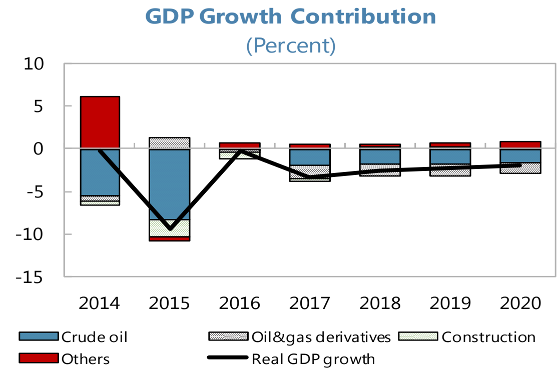
10. Prospects are dominated by the weakening hydrocarbon sector (Figure 2). With hydrocarbon revenues accounting for roughly 90 percent of all revenue, the currently projected WEO oil price would reduce hydrocarbon revenue by around 6 percent of GDP in 2015, or roughly a third of 2014 hydrocarbon revenue. Under staff's projections, real GDP is expected to contract by 9 percent of GDP in 2015, reflecting declining hydrocarbon sector activity and large-scale fiscal consolidation, particularly focused on investment activity. Over the medium term, overall growth rates remain negative with hydrocarbon production declining over time, but non-hydrocarbon growth rebounds with the implementation of the second phase of the development plan, focused on diversification and social development. Declining investment on import-intensive infrastructure facilitates a reduction of the current account deficit.

Figure 2. Equatorial Guinea: Baseline Projections, 2014–20

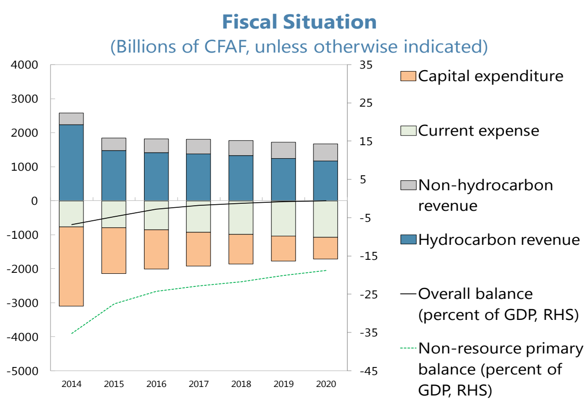
GDP is expected to decline as public investment slows and hydrocarbon production falls one-fifth by 2020…



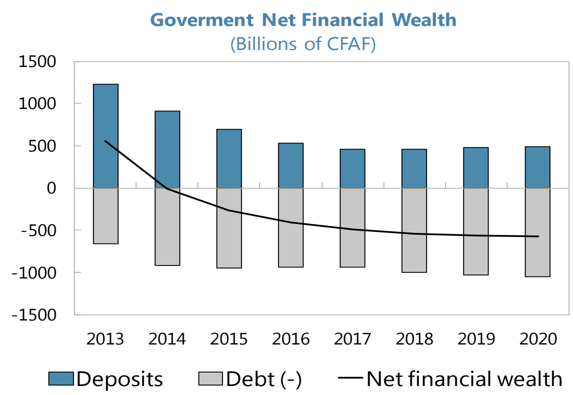
…with modest growth in other sectors (services, utilities, agriculture) benefiting from new infrastructure.



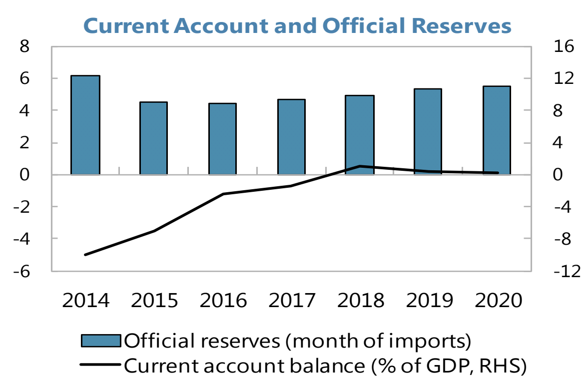
Spending is expected to decline faster than hydrocarbon revenue, shrinking overall deficits.



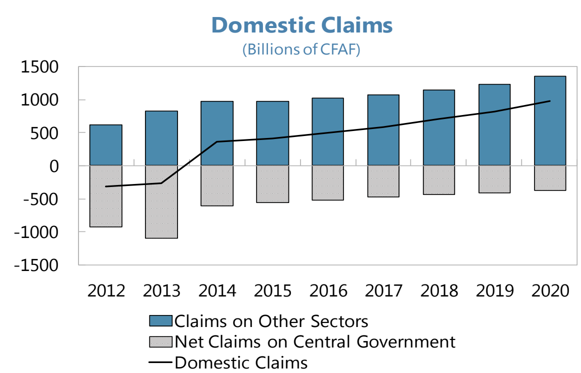
Falling deposits and external borrowing turn the net asset position negative in 2015.



Reserves stabilize as current account deficits decline.



Credit to the private sector is expected to stabilize after an unsustainable spike in 2014.



Sources: Equatoguinean authorities and IMF staff estimates.

11. The key short-to medium-term downside risk is an insufficient fiscal adjustment (Annex I). This could lead to further depletion of fiscal buffers, and accumulation of arrears and public debt, thereby reducing the ability of the authorities to counter further shocks. Furthermore, if an insufficiently 'big push' to address the weak business climate is made, there will be little non-hydrocarbon FDI, impeding economic diversification and lowering potential non-hydrocarbon growth. Lower non-hydrocarbon growth could lead to less job creation, potentially generating social tensions. Fiscal adjustment combined with structural reforms will play a key role in improving external competitiveness, a key ingredient for non-hydrocarbon growth. In the event that key global risks to the outlook materialize, including risks to energy prices and protracted slower global growth, further fiscal tightening and faster structural reform would be required.

POLICY DISCUSSIONS: LEVERAGING EXISTING INFRASTRUCTURE TO RAISE POTENTIAL GROWTH IN A LOW HYDROCARBON REVENUE ENVIRONMENT

12. The discussions were framed around the authorities' strategic objective of better leveraging their stock of infrastructure to foster diversification and structural transformation in an environment of much-reduced government revenue. A dialogue also occurred on how Equatorial Guinea might champion CEMAC regional integration, including by promoting regional transportation and electricity interconnections, and enhancing regional institutions such the BEAC and the CEMAC Commission, especially now that the country occupies the CEMAC presidency.

A. Adjusting Fiscal Policy to the Oil Price Shock

13. The revised 2015 budget outlines the government's response to the hydrocarbon revenue drop (Tables 3a–3c). The budget conservatively assumes an oil price of US$40 per barrel, and caps investment spending based on projected hydrocarbon revenues, resulting in the authorities' targeted reduction of domestically-financed investment of 57 percent. The authorities' strategy also includes measures to contain current spending and increase non-hydrocarbon revenues, notably by curbing tax evasion, eliminating widespread exemptions on customs duties, and exceptional revenue through the sale of state assets, mainly housing (Box 1). The medium-term fiscal framework targets a large further reduction in spending starting from 2018, as the infrastructure phase of their development plan concludes.

Box 1. Equatorial Guinea: Medium-Term Fiscal Strategy

The government has prepared a draft of a medium-term fiscal framework. It aims to assess risks to fiscal sustainability and provide an eventual basis for medium-term budgeting anchored on a non-oil primary balance. Recognizing the need to strengthen fiscal management, the framework incorporates several fiscal measures adopted by decree in May 2014 and further enhanced under the revised 2015 budget. The mission's baseline scenario applies broad elements of this strategy, but its assumptions vary on the profiles for revenue mobilization and expenditure consolidation.

The revenue effort focuses on strengthening tax administration. A planned revision to the tax code is expected to include measures to: (i) reduce evasion of personal and corporate income taxes, particularly by large taxpayers[3]; (ii) tightening administration of ad-hoc customs duty exemptions, supported by African Development Bank program to computerize customs administration; and (iii) a pending tax amnesty law to resolve outstanding tax obligations and enhance compliance. Other measures include a review of subsidies to government agencies, audit and restructuring of loss-making public enterprises, introduction of rentals and other charges on public property, and sales of state assets.

Equatorial Guinea: Medium-term fiscal assumptions (2015-20)
(percent of GDP, period average)

	2015-17	2018-20
Authorities' revenue baseline	**5.4**	**6.5**
incl. new measures	**7.4**	**9.6**
Total additional revenue	2.1	3.1
Strengthening income tax collection	1.1	1.5
Ad hoc duty exemptions	0.5	1.0
Amnesty law	0.3	0.4
Other (incl. export duties, rental income, asset sales)	0.2	0.3
Authorities' expenditure baseline	**35.0**	**71.0**
incl. new measures	**35.1**	**40.1**
Total change in spending (- = reduction)	0.1	-31.0
Personnel	-0.5	-0.7
Goods and services	-0.3	-5.9
Maintenance	0.7	0.7
Subsidies and transfers excl. fuel	0.6	0.0
Fuel subsidies	-0.2	-0.7
Investment expenditure	-0.3	-24.4

Sources: Equatorial Guinea authorities and IMF staff estimates

The authorities' spending baseline includes sharply lower budgeted capital expenditure in 2015. Other near-term measures seek to curb current spending through lower personnel costs by reducing non-salary benefits and downsizing (ministerial posts were cut by half in early 2015), scaling back operating costs (reducing procurement, travel, and fuel allocations and introducing electrical metering in public buildings), and removing fuel subsidies to commercial users. However, current spending cuts are offset by a rising maintenance bill and higher social outlays under the second phase of the national development plan. From 2018, about 70 percent of savings are realized through cuts to capital spending, following a comprehensive review of the current Public Investment Program.

[3] The authorities' consider that coverage of the tax base is weak. An ongoing enterprise census has registered over 1,900 businesses, as compared to 393 corporate tax filings in 2013.

14. While the government is appropriately focusing its fiscal adjustment on reducing overly capital spending, the underlying strategy is subject to considerable risks. The envisaged adjustment in the 2015 revised budget is unlikely to be fully realized given the history of spending slippages due to weaknesses in public financial management (PFM), the late adoption of the revised budget, and the practicability of delaying politically-sensitive projects mid-stream. These risks are amplified under the authorities' medium-term fiscal framework, which backloads a second round of cuts to investment spending, while relying heavily on tax efficiency gains and a tax amnesty program. For the latter, empirical evidence shows that while there may be short-run revenue gains, this type of measure often leads to weakening tax compliance.[4] To highlight the risks posed by slow reform and delayed adjustment, a downside scenario shows higher spending moderately lifting growth in the short run, but lower medium-term growth due to weak prioritization. The slow fiscal adjustment contributes to a higher current account deficit and rapid depletion of buffers, as well as public debt rising to over 30 percent of GDP by 2020 (Text Table 2). This scenario is contingent on the availability of external financing, absent which there would be a buildup of arrears or need for an abrupt adjustment.

Text Table 2. Equatorial Guinea: Baseline (Upfront Adjustment) vs. Downside Scenario, 2014–20

(Percent of GDP, unless otherwise specified)

	2014	2015		2016		2017		2018		2019		2020	
	Prel.	Baseline	Downside	Baseline	Downside	Baseline	Downside	Baseline	Downside	Baseline	Downside	Baseline	Downside
Real GDP	-0.3	-9.4	-8.3	-0.3	-0.1	-3.3	-3.4	-2.6	-3.0	-2.3	-2.8	-1.9	-2.4
Hydrocarbon sectors1	-1.1	-11.1	-11.1	-0.4	-0.4	-5.2	-5.2	-4.8	-4.8	-4.8	-4.8	-4.4	-4.4
Non-hydrocarbon sectors	1.9	-4.7	-0.5	0.0	0.5	1.5	0.9	2.6	1.1	3.2	1.5	3.4	1.7
Total revenue and grants	33.6	29.7	27.6	28.3	26.4	28.2	26.4	27.8	25.7	27.0	24.9	26.3	24.4
Resource revenue	29.1	23.8	22.1	21.9	20.7	21.5	20.7	20.8	19.9	19.6	18.9	18.4	18.2
Non-resource revenue	4.5	6.0	5.6	6.4	5.6	6.7	5.7	7.0	5.8	7.4	6.0	7.8	6.2
Total expenditure and net lending	40.4	34.4	37.4	31.1	34.5	30.0	31.5	29.1	29.8	27.8	28.2	26.9	27.0
Current expenditure	9.9	12.8	11.9	13.3	13.2	14.4	14.0	15.5	15.0	16.3	15.8	16.8	16.8
Capital expenditure	30.5	21.7	25.5	17.8	21.2	15.5	17.5	13.5	14.8	11.5	12.4	10.1	10.1
Overall balance	-6.8	-4.7	-9.7	-2.8	-8.1	-1.8	-5.1	-1.3	-4.1	-0.8	-3.2	-0.6	-2.6
Current account balance	-10.0	-7.0	-12.1	-2.4	-6.8	-1.4	-4.1	1.1	-1.1	0.3	-1.3	0.3	-0.2
Gross governemnt deposits	11.9	11.1	6.5	8.3	1.5	7.1	1.2	7.2	1.1	7.5	0.8	7.6	0.8
Total public debt	12.0	15.3	15.7	14.6	18.1	14.7	22.7	15.6	26.1	16.2	28.7	16.6	31.2

Source: IMF staff projections.

15. Staff recommended a consolidation strategy that aims to progressively reduce the non-resource primary balance to under 50 percent of GDP in the medium term.[5] Staff's baseline adjustment strategy applies current WEO oil price assumptions, and reflects relatively front-loaded cuts to public investment and stabilizing the government deposit buffer at about 7–8 percent of GDP, would involve a moderate increase in debt levels to around 17 percent of GDP in 2020 (Tables 1–5, Annex II). In line with this strategy, the mission made the following recommendations:

[4] Katherine Baer and Eric Le Borgne, 2008, "Tax Amnesties: Theory, Trends, and Some Alternatives," IMF Occasional Paper, (Washington: International Monetary Fund).

[5] The non-resource fiscal balance and non-hydrocarbon GDP remove the impact of all hydrocarbon revenues and production (oil, condensates, and gas derivatives) from the economy-wide totals.

- ***Avoid across-the-board cuts to the PIP***. The baseline framework assumes that front-loaded cuts should allow for the finalizing near-complete projects, scaling back ongoing projects, and reevaluating nascent projects based on fiscal sustainability and social impact. Urgent steps are needed to mitigate overspending risks, as staff analysis indicates that 2015 PIP aims to compress project execution from an average 40 percent per annum over 2008–13 to 7 percent in 2015, while bringing new projects on stream at nominal amounts (Text Table 3).

Text Table 3. Public Investment Program
(Billions of CFAF, unless otherwise specified)

	PIP			o/w Oyala		
	Plan	Thru mid-2014	2015	Plan	Thru mid 2014	2015
Total	22,308	8,285	1,003	4,923	763	235
Public administration	2,525	411	102	754	18	10
Education, health, and sanitation	1,561	514	100	208	49	9
Productive sectors[2]	3,973	977	299	315	0	31
o/w energy	2,161	695	34	0	0	0
Infrastructure	13,953	6,326	485	3,528	671	179
o/w roads	2,961	1,079	81	546	290	9
o/w urban development	5,995	3,890	59	1,455	264	29
o/w social housing	1,492	394	113	775	45	51
Other sectors	295	56	17	118	25	5
Memoradum items:						
Percent complete[1]		37	42		16	20
Project execution rate (annual, percent)		39	7		38	6
Number of projects		477	844		34	83

Source: Equatoguinean authorities
1/ Excludes projects starting since mid-2014, for which no spending data is available.
2/ Comprises non-infrastructure investment in mining, energy, hydrocarbons, agriculture, fisheries, and aviation.

- ***Address fundamental PFM weakness.*** To better monitor and control capital spending, action plans were needed to bring budget classification and reporting on execution in line with CEMAC norms, and the National Payments Committee (NPC) should meet more frequently, preferably on monthly basis. Accelerating PFM reform is also a prerequisite for the move toward a formal fiscal rule that could anchor fiscal sustainability over the medium term.

- ***Shift the emphasis of spending away from infrastructure toward public services and social projects.*** Current spending remains low at 25 percent of total expenditure, compared to 70 percent in sub-Saharan Africa and 60 percent in the CEMAC region, with relatively low provisions for education and health. In line with World Bank recommendations, budget allocations need to be overhauled better respond to national development program priorities (notably in education and health) that are key to higher productivity and raise the return on infrastructure.[6]

- ***Phase out remaining fuel subsidies to retail consumers*** and elaborate well-targeted programs to address the needs of vulnerable groups.

Launch a multipronged effort to raise non-hydrocarbon revenues. The importance of non-hydrocarbon is highlighted by the fact that Equatorial Guinea is among the oil exporting countries in SSA with the lowest government revenue per barrel (Text Table 4). This may reflect an aim to attract investment through a competitive resource taxation regime. However, a deeper assessment is required

Text Table 4. Government Hydrocarbon Revenue
(As Percent of Hydrocarbon Exports)

	2010	2011	2012	2013	2014	5-year Average
Angola	55.1	62.0	61.6	56.2	52.6	57.5
Cameroon	45.8	45.7	45.9	45.7	39.8	44.6
Chad	42.2	55.1	53.5	47.0	38.1	47.2
Congo, Republic of	43.2	46.1	47.5	56.8	51.7	49.1
Equatorial Guinea	35.3	37.1	33.8	32.1	33.2	34.3
Gabon	30.6	31.5	32.2	32.0	27.2	30.7
Nigeria	43.1	62.4	52.7	41.1	38.3	47.5
Country Average	42.2	48.5	46.8	44.4	40.1	44.4

Sources: Country authorities; and IMF staff estimates.

[6] World Bank, *Equatorial Guinea Public Expenditure Review*, January 2010 and June 2013.

to have a more definitive conclusion.[7] In addition to planned measures to broaden the tax base, the authorities could consider a comprehensive review of tax policy and, in the context of the undergoing review of subsidies to public enterprises, consider wider introduction of user fees for government services (Text Table 5).

Text Table 5. Equatorial Guinea: Financial Performance of Public Sector Entities 2013-14 (average)

	Public Enterprises				Public agencies	
	Total	o/w Sonagas	o/w GEPetrol	o/w CEIBA	Total	o/w Soc. Security
	(CFAF Billion)					
Total Revenue	2,014	287	1,531	28	89	64
o/w subsidies and transfers	21	6	7	7	14	0
Total Expenditure	306	8	187	30	57	36
Overall Balance	1,708	279	1,343	-1	32	32
	(Percent of 2014 GDP)					
Total Revenue	26.2	3.7	19.9	0.4	1.2	0.8
o/w subsidies and transfers	0.3	0.1	0.1	0.1	0.2	0.0
Total Expenditure	4.0	0.1	2.4	0.4	0.7	0.5
Overall Balance	22.3	3.6	17.5	-0.02	0.4	0.4

Source: Equatorial Guinea authorities

Authorities' Views

16. The authorities reiterated their determination to achieve the targets under the revised budget. While acknowledging weaknesses in public financial management, they were confident that a strengthened NPC would impose discipline through strict cash management in line with the budget. Furthermore, although late adoption of the budget posed a risk, the authorities noted that key measures already began in 2014, further cushioned by the use of conservative hydrocarbon revenue assumptions. Over the medium term, the comprehensive review of the PIP would reduce investment possibly more quickly than programmed, freeing up resources for economic diversification, social development, and rebuilding of buffers. This process could be further anchored on a formal fiscal rule, toward which they would request IMF technical assistance. The authorities agreed that currently low oil prices offered a useful opportunity to progressively phase out fuel subsidies to consumers. However, they did not see merit in an urgent review of tax policy, noting that tax rates are near minimum thresholds set by CEMAC, and higher rates could undermine the push for diversification.

B. Leveraging Infrastructure Toward Structural Transformation

17. *Horizonte 2020* has considerably enhanced transportation infrastructure and public utilities (Annex IV)[8]. Although some of the largest projects have limited economic payoff (e.g., stadiums), the installed infrastructure "hardware" constitutes a considerable advantage relative to other sub-Saharan African countries. Nonetheless, economic diversification has remained elusive so far, and hydrocarbons have remained at more than 90 percent of total exports.

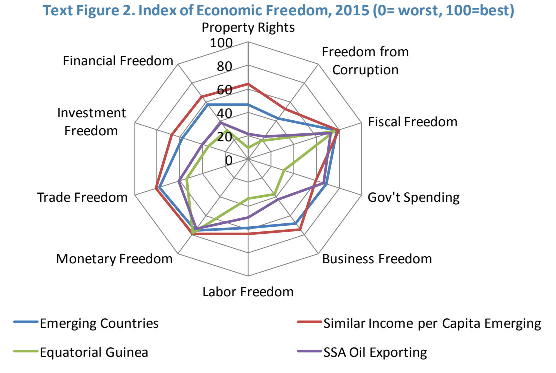
18. Substantial challenges remain if *Horizonte 2020* is to spur diversification. To leverage the hardware, the "software" needs significant strengthening. Potential investors continue to be deterred by a weaker investment climate and lower human capital than in comparator countries:

[7] Other factors that could affect the tax yield include the cost structure and the stage of production.

[8] *Horizonte 2020* highlights two objectives: (i) transition from an oil dominated to a diversified economy; and (ii) the reduction of poverty and enhancement of social cohesion.

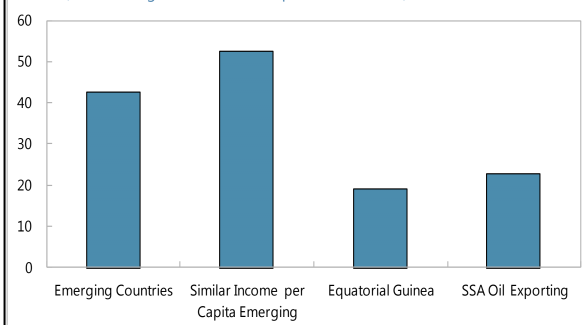
- Equatorial Guinea lags on most business climate indicators, placing 165th out of 186 countries in the World Bank's *Doing Business* ranking (Text Figures 2, 3 and Figure 3)[9]. The country ranks low on property rights, bureaucratic procedures, regulatory quality, corruption, and rule of law. In addition, economic and social data is scarce, impairing investors' ability to assess opportunities.[10]

Text Figure 2. Index of Economic Freedom, 2015 (0= worst, 100=best)



Sources: The Heritage Foundation and IMF Staff calculations.

Text Figure 3: Corruption Perceptions Index, 2013
(Index: 0=highest level of corruption, 100=lowest)



Sources: Transparency International and IMF Staff calculations.

- On human capital, primary completion rates, teacher training, and repeat rates underperform countries of similar income, as well as the average in sub-Saharan Africa. In this context, new ventures are required to have a minimum of 90 percent of local employment.

19. Furthermore, the recent decline in oil prices could lead to an overvalued real exchange rate unless there is an appropriate fiscal adjustment (Annex II). In recent years, the real effective exchange rate (REER) has appreciated relative to other CEMAC countries due to consistently higher inflation. Although analysis based on methodologies developed in Behms and Carvalho Filho (2009) and Araujo and others (2013) show no significant overvaluation, both are built on macroeconomic projections that assume a strong fiscal adjustment without which the current account would remain largely negative. More importantly, these assessments are based on very weak balance of payments statistics and hydrocarbon production projections in a highly uncertain international oil market.

20. The authorities acknowledge these challenges and are taking action on several areas. Phase II of *Horizonte 2020* (2013–20) aims at improving governance, the business climate, and human capital formation. To that end, the authorities are:

- Negotiating with the World Bank a Reimbursable Advisory Services (RAS) agreement to improve the business climate as well as to establish electronic business registries and an investment promotion agency.

- Restructuring and computerizing public administration, and have taken steps to increase accountability and transparency by establishing a court of audit, ombudsman office, and an anti-corruption attorney's office.

[9] *Doing Business* indicators should be interpreted with caution due to a limited number of respondents, limited geographical coverage, and standardized assumptions on business constraints and information availability.

[10] Equatorial Guinea is not included in the Global Competitiveness Index Ranking, a major international assessment of the investment climate.

- Fostering human capital formation by funding scholarships for foreign studies, developing school and technical training infrastructure, and hiring foreign teachers on an interim basis.

- Establishing a co-investment fund for projects in strategic sectors and new special economic zones.[11]

21. Given the limited success in growing new export sectors, the mission recommended a big push of comprehensive reforms aimed at the country's "software". Investor interest could be generated through an ambitious agenda encompassing actions to:

- ***Accelerate business climate reforms under the RAS agreement***, and address investment bottlenecks by reevaluating local content rules and easing labor market rigidities.[12]

- ***Support human capital development*** by prioritizing the equipping and staffing of new education infrastructure, as well as strengthening its links to the labor market.

- ***Advocate for reducing trade barriers intra-CEMAC and from CEMAC to other countries.*** An Economic Partnership Agreement (EPA) with the European Union could also catalyze investment. Immigration policies should be flexible enough so as to ensure adequate supply of human capital to investors.

- ***Catalyze investment*** through an IFC investment in the non-hydrocarbon sector and working with rating agencies on an assessment of the economy.

- ***Fiscal adjustment to avoid real exchange rate overvaluation***. To maximize efficiency, spending should prioritize human development and the rising maintenance bill[13] over tax expenditure, new infrastructure, a new administrative capital, or a co-investment fund. To the extent possible, public infrastructure investment should incorporate private sector design and management.

Authorities' Views

22. The authorities broadly agreed with staff's recommendations. However, the authorities expressed their concern about reducing the local employment content and ownership, as well as of signing of the EPA. They argued that these actions could reduce employment, technological transfer, and diversification. They also considered the Co-Investment Fund essential for attracting private sector partners. With regard to more flexibility on immigration rules, they argued that there is need to be cognizant of security issues. They indicated that the eventual adoption of biometric identification by CEMAC countries could facilitate immigration of qualified workers.

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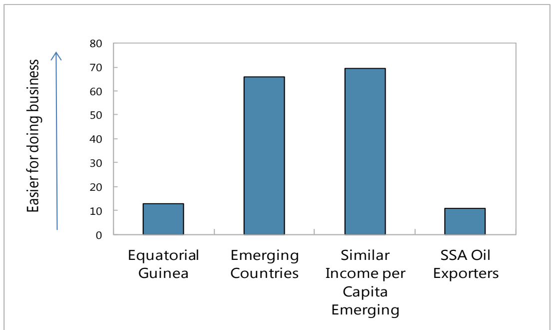
[11] The Special Economic Zones planned include industrial complexes in Mbini, Sampaka, and Luba.

[12] Local content rules stipulate 90 percent local employment, and 35 percent local ownership on new ventures. Furthermore, the World Bank's *Doing Business* report find high redundancy costs minimum wages relative to value added in Equatorial Guinea.

[13] World Bank analysis broadly estimated that annual maintenance costs may rise by 2016 to between CFAF 300–500 billion.

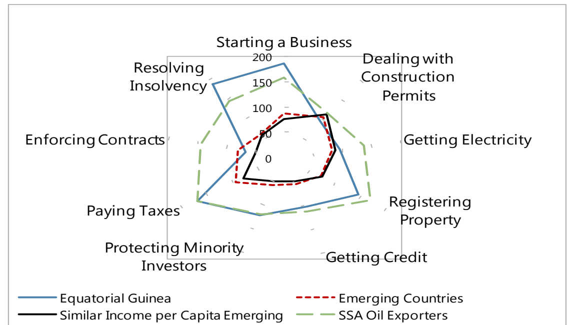
Figure 3. Equatorial Guinea: Business Environment and Governance

Ease of Doing Business 2015
(Percentile rank; 100= best)



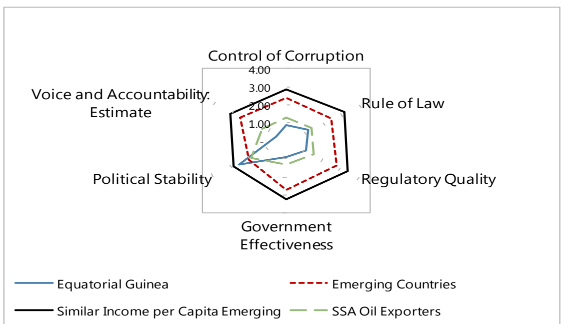
Source: Doing Business, 2015 and IMF Staff calculations.

Doing Business Indicators 2015
(Ranking; 189=last place)



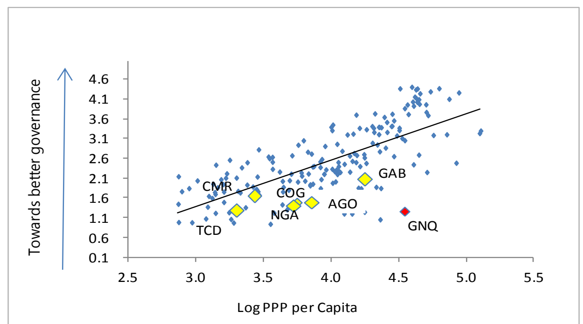
Source: Doing Business, 2015 and IMF Staff calculations.

Governance Indicators (WGI)
(re-scaled, 0=worst, 5 best), 2013 estimate



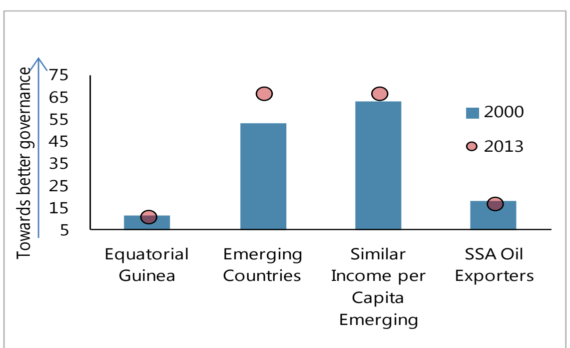
Source: Worldwide Governance Indicators (WGI), 2013.

Governance and GDP per Capita (log PPP)



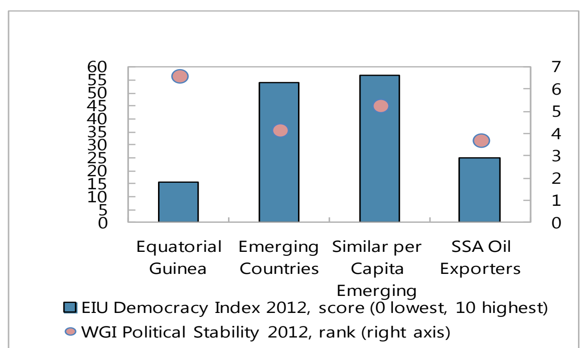
Source: Worldwide Governance Indicators (WGI), 2013 2/

Change in Governance Indicator
(Percentile Rank of score average, 100= best)



Source: Worldwide Governance Indicators (WGI), 2013.* 2/

Political and Democracy Stability Score



Source: WGI, 2013 and Economist Intelligence Unit (EIU). 2/

1/ SSA oil exporters = Angola, Cameroon, Chad, Equatorial Guinea, Gabon, Nigeria, Republic of Congo.
2/ WGI overall governance indicator is calculated as the simple average of control of corruption, government effectiveness, rule of law, regulatory quality, political stability and voice and accountability.

C. Addressing Emerging Banking Sector Weakness and Fostering Financial Deepening

23 While the overall financial sector is well-capitalized, liquid, and resilient to macroeconomic shocks, high credit growth and weak asset quality pose significant vulnerabilities. A recent FSAP review (Annex V) determined that the overall financial system remains resilient against shocks to credit quality, liquidity, interest rates, and the exchange rate. However, NPLs rose from 5.8 percent of gross loans (December 2012) to 21 percent (February 2015), with increases occurring at four of five banks. The deterioration in asset quality reflects a slowing construction sector, which in turn is experiencing delays in payments from the government. The payment delays also fueled high levels of credit growth in 2013–14 (averaging 26 percent), as companies sought bank financing to maintain operations.

24. The financial sector is shallow, highly concentrated, and characterized by limited inclusiveness (Figure 4). Physical outreach is limited, with one-third the numbers of bank branches and ATMs per head relative to comparators. Financial deepening, as measured by deposit- and loan-to-GDP ratios, is also less than a third of peers. Limited information on potential borrowers' credit history limits the supply of credit. The banking sector is supervised by the regional agency, Central African Banking Commission (COBAC), which has limited capacity to properly conduct its mandate.

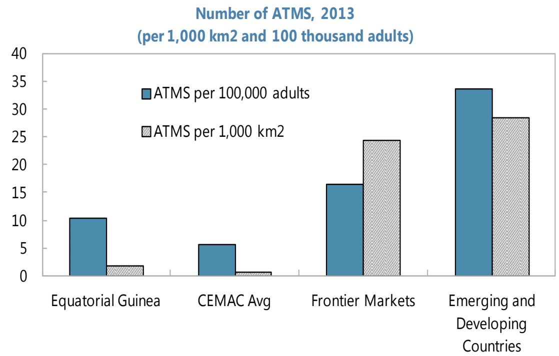
25. Equatorial Guinea is moving toward implementation of CEMAC's AML/CFT framework. The national agency for financial investigations, ANIF, is not yet fully operational. Staff capacity building is underway. A regional peer review of Equatorial Guinea AML/CFT legal framework is scheduled for 2016 to align it with key recommendations of the Financial Action Task Force (FATF).

26. The mission made the following recommendations:

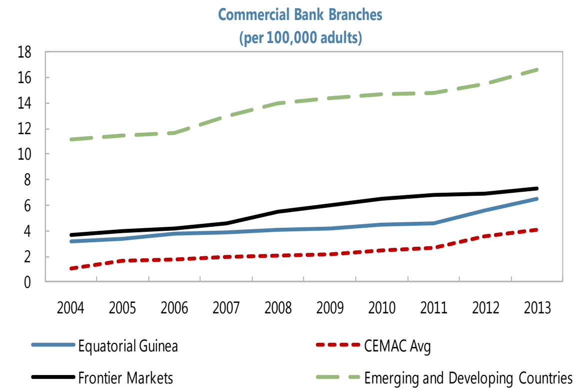
- ***Launch a detailed assessment of the deteriorating asset quality.*** The potential weaknesses are exacerbated by strong macro-financial linkages stemming from recurrent delays in government payment to the construction sector, which is heavily reliant on the government for contracts. The weaker government and oil companies' balance sheets could also weaken the deposit base for banks. Fiscal consolidation efforts should accommodate the necessity to promptly clear domestic arrears and strengthen cash management to avoid undermining economic activity and heightening risks to financial stability. A bank restructuring program may well be necessary to address any identified weaknesses and limit the fiscal impact.

Figure 4. Equatorial Guinea: Financial Development and Inclusion

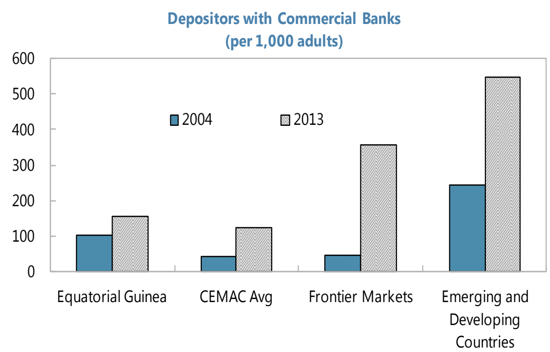
Physical outreach both in terms of ATMs per head and km²…



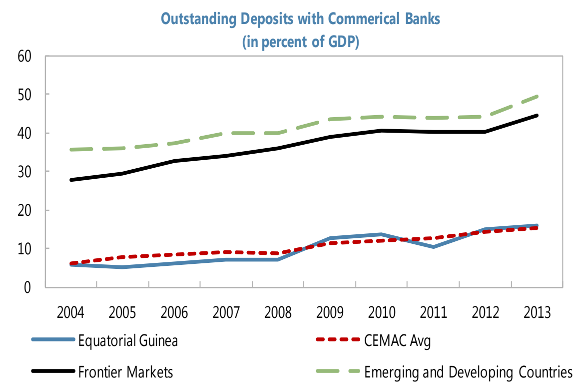
…and the number of bank branches per head is much weaker than in frontier markets and EMs.



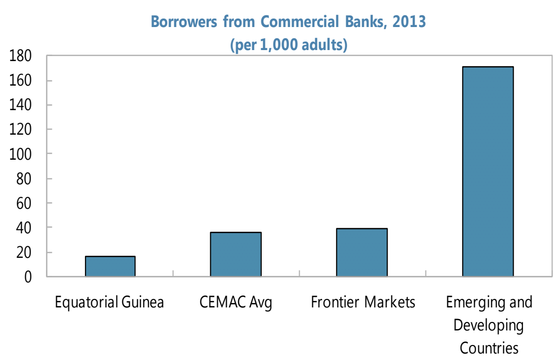
Financial inclusion measured by deposits is weak and relatively little progress has been made since 2004.



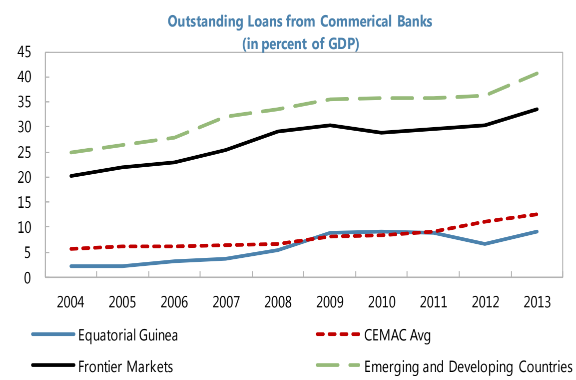
Deposit-to-GDP ratio in Equatorial Guinea is about the third of the EM average.



Credit supply per 1000 adults by the banking sector is very low.



The ratio of loans to GDP has remained low relative to peers.



Sources: Financial Access Survey, IMF and IMF staff calculations.

- ***To deepen financial intermediation and inclusion, the focus should be on modernizing banking infrastructure by upgrading of credit and collateral registries***; undertaking reforms to strengthen contract enforcement; and encouraging the development of microfinance and mobile banking. For the latter, a greater promotion of electronic money by banks and the endorsement of more flexible regional regulations by the government—similar to those adopted in East Africa—could spur innovation and increased access. Credit reporting system should be developed and access to registries by SMEs should be enhanced to reduce asymmetric information. In this context, the recommendations of the International Committee for Credit Reporting (ICCR) on facilitating SME financing through improved credit reporting could serve as a guideline.[14]

- ***Strengthen the AML/CFT regime in line with the 2012 FATF standard,*** notably by implementing at the national level CEMAC's AML/CFT framework, operationalizing ANIF and ensuring on a risk-basis compliance with AML/CFT measures by regulated institutions.

Authorities' views

27. The authorities do not see immediate systemic financial sector risks related to the rise in NPLs. They noted the comfortable capitalization, liquidity and profitability of the banking system and attributed the general deterioration in asset quality to the weakening economic conditions and the infrequent meetings of the NPC. While NPL levels were being closely monitored, they would largely be resolved with the progressive clearing of government obligations.

28. The authorities agreed with the recommendation to support financial intermediation. In line with their objectives to become a regional financial hub, the authorities indicated their priority to develop the overall banking system, with a lesser focus on the micro financial institutions. Initiatives are underway to create a center to monitor payments incidents to centralize information relating to customer solvency, and the newly introduced (at the CEMAC level) e-Business collateral registries would have a positive impact on financial intermediation.

D. Addressing Acute Statistical Data Weaknesses

29. Equatorial Guinea suffers from a critical shortage of macroeconomic and socio-demographic data. What data is available is not widely published, especially in international databases. Apart from Eritrea, Equatorial Guinea is the only other country in sub-Saharan Africa that does not subscribe to the IMF's General Data Dissemination Standards (GDDS). Due to capacity constraints, there are very serious deficiencies in external sector and national accounts data, and fiscal data—which often have insufficient coverage of investment spending—are reported to staff infrequently with very long lags. Moreover, there are considerable uncertainties regarding demographic data—and in turn social indicators. These shortcomings hamper effective surveillance and seriously impede policy formulation.

[14] International Committee for Credit Reporting, 2014, "Facilitating SME Financing through Improved Credit Reporting", World Bank.

30. Staff welcomed the work undertaken to modernize national accounts[15] and statistics institutional development. With the assistance of the World Bank and AFRITAC, considerable progress has been made in the establishment of a new base year for national accounts (2006), using SNA93 methodology (currently the authorities are using SNA68). A report has been prepared providing details on the usage of the new methodology, the collection and presentation of data, and a detailed analysis of the results for 2006. New estimates for the period 2007–12 have been finalized (but not yet approved), and preliminary estimates for 2013–14 are being finalized. Progress has also been made toward making the National Institute of Statistics (INEGE) operational, including (i) adoption of internal operating procedures, regulations, and a short-term action plan; (ii) recruitment and training of priority personnel; and (iii) the installation of the institute in its own well-equipped offices.

31. Staff recommended greater emphasis on the use of good data for informed decision-making. This involves a cultural shift throughout government, especially in an environment of much-reduced revenue where the opportunity cost of ill-informed decisions is particularly high. Moreover, the lack of published data is likely a deterrent for potential investors. Specifically, the mission recommends:

- ***Strengthening the operations of INEGE*** through the development of a capacity-building program and the creation of a national databank to consolidate data that is collected but not disseminated by other government entities. Over the medium term, a national statistical strategy will need to be adopted.
- ***The formal adoption of revised national accounts for 2006 (base year) and the series for 2007–12*** following a national workshop. The new accounts use more robust methodology and have better sectoral coverage.
- ***Undertaking economic and socio-demographic surveys*** aimed at assessing economic activity, employment, household incomes, poverty, and health. A population census is urgently needed to establish a good estimate of the country's total population. Preparations for a successful census are now complete. A new socio-economic survey would also provide the basis for a new base year for national accounts.
- ***Developing statistical tools for systematically monitoring the national development plan.*** So far very little has been published on the many notable achievements attained. Once the appropriate metadata have been prepared, the data could be eventually be published by such databases as the World Bank's *World Development Indicators*. This could be facilitated by the planned preparation of the annual Statistics Bulletin.
- ***Joining the IMF's General Data Dissemination Standards (GDDS).*** Subscribing to the GDDS would be an important first step of the country's commitment to sound statistics and

[15] National account series of the current framework were revised to incorporate some elements of the World Bank and AFRITAC GDP rebasing exercise. This led to an increase in the non-hydrocarbon GDP, as result of better measurement of service and construction sectors.

transparency. Staff explained to the authorities the steps to allow them to join the GDDS and to start reporting data to the IMF systematically.

- ***Deploying software for processing international trade transactions such as SYDONIA World at customs.*** Equatorial Guinea is one of the very few countries in SSA that does not have a computerized system for processing trade transactions and compiling data. This is not only a statistical issue, but likely leads to very weak customs revenue collection.

Authorities' Views

32. The authorities concurred with staff's assessment and recommendations. They indicated that improving statistics is one of their key short-run policy priorities. They noted that due to lack of up-to-date data on social indicators, for instance, their considerable investment in social infrastructure was not being fully reflected. As a result, they are determined to improve both the compilation and dissemination of statistics. They are committed to participating in the GDDS, and would welcome additional technical assistance to INEGE, which has relatively few experienced staff.

STAFF APPRAISAL

33. The Equatoguinean economy is facing serious challenges, due to the trend decline in hydrocarbon production compounded by recent sharp decline in oil prices. While commendable progress has been made in the context of *Horizonte 2020* to build its infrastructure "hardware", the government now needs to upgrade the underlying "software" in terms of supporting reforms that can help the country leverage the "hardware" to foster economic diversification. However, it must do so in a context of declining revenues and limited fiscal buffers. High economic growth, especially outside of the enclave sectors, is necessary to create much-needed jobs, especially for the youth.

34. The government has rightly decided to undertake fiscal adjustment. The fiscal measures undertaken in 2014 and within the revised 2015 budget are steps in the right direction. In particular, cutting the disproportionately large capital budget should go a long way in creating the necessary fiscal space to shift more resources towards the social sectors. This is necessary for creating more inclusive growth, and improving social welfare of large segments of the population. Fiscal adjustment is needed to help sustain the monetary union.

35. There is need to further boost non-hydrocarbon revenues and improve public financial management. Determined efforts will be needed to deliver the authorities medium-term fiscal adjustment. Previous staff recommendations remain relevant. In particular, there is need to boost non-hydrocarbon revenue, notably by effectively phasing out generous tax exemptions and reinforcing tax administration especially at customs, including by computerizing its operations. To avoid recurrence of arrears, cash-flow management should be enhanced, for example by having more regular meetings of the National Payments Committee. There is also need to reinforce mechanisms for selecting, executing and monitoring of projects, especially in an environment of reduced financial resources.

36. The government has appropriately aimed at diversifying the economy away from hydrocarbons, and the oil price shock has underscored the need to foster diversification. While the binding constraints to growth from poor infrastructure have been largely eliminated, unlike in most African countries, there is need for a big push focusing more on "horizontal" policies aimed at improving the weak business climate and the educational system to provide better trained labor. These policies would help lower factor costs, by boosting Equatorial Guinea's competitiveness and supporting external stability. The exchange rate is broadly in line with fundamentals, although the assessment is based on very weak data, and there are serious structural weaknesses that undermine non price competitiveness.

37. There is need to improve financial depth and inclusion, pay greater attention to macro-financial linkages, and address emerging banking sector portfolio weaknesses. Staff recommends improving the operations of land and commercial registries, streamlining procedures for recording and enforcing guarantees, and strengthening creditor rights enforcement by enhancing governance of the relevant courts. Greater usage of mobile banking can enhance financial access, and the authorities should push for greater regulatory flexibility at the regional level to promote innovation. There is need to pay greater attention to macro-financial linkages between weaknesses of the government's fiscal position and increasing nonperforming loans in the financial sector. Prompt clearance of government domestic arrears will facilitate the reduction in NPLs.

38. A quantum leap is required to improve Equatorial Guinea's very weak socio-economic statistics. The data provided to the IMF are inadequate for surveillance, especially for the external sector and national accounts. At the same time, lack of published data is undoubtedly an impediment for potential foreign investors who need to make well-informed decisions. While there have been considerable efforts to improve national accounts, these need to be formally approved and start being utilized. Staff welcomes efforts to make operational the National Statistics Institute, and encourages the authorities to invest more in training. Publication of existing statistics can be facilitated if the authorities join the IMF's GDDS. Finally, there is need to undertake socio-economic surveys, which are indispensable to measure progress in the authorities' strategic goals under *Horizonte 2020.*

39. Staff recommends that the next Article IV consultation take place on the standard 12-month cycle.

Table 1. Equatorial Guinea: Selected Economic and Financial Indicators, 2012–20

	2012	2013	2014 Prel.	2015 Proj.	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.
(Annual percentage change, unless otherwise specified)									
Production, prices, and money									
Real GDP	5.8	-6.5	-0.3	-9.4	-0.3	-3.3	-2.6	-2.3	-1.9
Hydrocarbon sectors[1]	6.1	-9.9	-1.1	-11.1	-0.4	-5.2	-4.8	-4.8	-4.4
Non-hydrocarbon sectors	4.6	4.9	1.9	-4.7	0.0	1.5	2.6	3.2	3.4
GDP deflator	6.9	-1.5	-9.0	-10.8	4.1	3.1	2.3	2.0	1.9
Hydrocarbon sectors	9.7	-2.5	-13.0	-16.6	4.6	1.9	1.8	0.3	-0.7
Non-hydrocarbon sectors	-2.6	3.6	3.4	2.8	3.2	3.9	1.8	3.2	4.1
Oil price (U.S. dollars a barrel)[2]	101.3	100.3	92.5	55.1	60.5	63.4	66.2	67.3	67.7
Oil price (CFA per barrel)[2]	51.7	49.6	45.7	32.4	35.4	36.6	37.8	38.0	37.7
Consumer prices (annual average)	3.4	3.2	4.3	3.5	2.9	2.8	2.8	2.8	2.8
Consumer prices (end of period)	2.6	4.9	4.3	3.5	2.9	2.8	2.8	2.8	2.8
Broad money	57.8	7.3	-14.1	-27.5	-0.1	3.2	1.0	4.5	4.8
Nominal effective exchange rate (- = depreciation)	-1.3	3.7	-5.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Real effective exchange rate (- = depreciation)	3.0	8.6	-0.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
External sector									
Exports, f.o.b.	17.3	-12.0	-6.4	-17.9	2.8	-3.2	-2.2	-4.0	-4.0
Hydrocarbon exports	18.6	-12.8	-6.6	-21.8	2.8	-4.0	-3.0	-5.0	-5.0
Non-hydrocarbon exports	1.1	-0.7	-3.5	28.6	3.1	2.7	2.8	2.7	2.3
Imports, f.o.b.	30.3	-18.9	-5.3	-20.7	-6.0	-7.0	-6.2	-7.8	-6.1
Terms of trade	2.9	-0.9	-8.2	-15.8	2.1	1.7	1.4	-0.9	-2.2
Government finance									
Revenue	12.1	-15.7	-4.1	-28.6	-1.1	-0.7	-2.0	-3.1	-2.8
Expenditure	45.4	-17.3	-6.8	-31.2	-6.2	-3.9	-3.5	-4.7	-3.3
(Percent of GDP, unless otherwise specified)									
Investment and savings									
Gross investment	50.4	54.7	54.3	58.4	50.3	46.5	42.7	41.2	42.4
Public	28.8	31.5	26.7	25.9	18.0	15.6	13.5	11.7	10.8
Private	21.6	23.1	27.7	32.5	32.2	30.9	29.2	29.5	31.6
Gross national savings	36.3	29.4	25.3	24.6	24.9	25.2	24.8	25.2	25.7
Public	25.9	21.5	23.7	17.0	15.0	13.8	12.3	10.7	9.4
Private	10.5	7.9	1.6	7.6	9.9	11.4	12.6	14.5	16.2
Government finance									
Revenue	34.7	31.8	33.6	29.7	28.3	28.2	27.8	27.0	26.3
Of which : resource revenue	30.4	27.3	29.1	23.8	21.9	21.5	20.8	19.6	18.4
Expenditure	43.8	39.3	40.4	34.4	31.1	30.0	29.1	27.8	26.9
Overall fiscal balance after grants	-9.0	-7.5	-6.8	-4.7	-2.8	-1.8	-1.3	-0.8	-0.6
Non-resource primary balance (percent of non-hydrocarbon GDP)[3]	-190.8	-142.4	-125.5	-81.1	-71.8	-63.9	-58.0	-50.1	-43.5
External sector									
Current account balance (including official transfers; - = deficit)	-2.2	-4.0	-10.0	-7.0	-2.4	-1.4	1.1	0.3	0.3
Outstanding medium- and long-term public debt	9.1	7.9	12.0	15.3	14.6	14.7	15.6	16.2	16.6
Debt service-to-exports ratio (percent)	0.7	2.5	2.3	2.3	2.9	2.6	1.7	2.1	2.4
External debt service/government revenue (percent)	1.9	7.3	6.4	7.5	9.9	8.7	5.7	6.7	7.8
(Millions of U.S. dollars, unless otherwise specified)									
External sector									
Current account balance (- = deficit)	-387	-688	-1,551	-735	-264	-152	122	38	33
Overall balance of payments	1,231	-40	-1,186	-655	-113	-49	82	102	85
Outstanding medium- and long-term public debt	1,677	1,400	1,705	1,616	1,612	1,642	1,754	1,843	1,911
Usable external resources[4]	7,157	5,569	3,948	2,592	2,233	2,080	2,188	2,388	2,549
Reserve assets at the BEAC	4,397	4,567	2,907	2,016	1,921	1,895	1,999	2,167	2,309
Of which : government deposits at BEAC	1,302	1,575	649	598	603	610	617	625	635
Government bank deposits abroad	2,760	1,002	1,041	576	312	186	189	221	240
Usable external resources[4] (months of next year's imports)	10.1	7.8	8.4	5.9	5.3	5.2	5.5	6.1	6.4
Nominal GDP (billions of CFA francs)	9,195	8,466	7,678	6,205	6,443	6,421	6,395	6,372	6,370
Non-hydrocarbon GDP (billions of CFA francs)	1,883	2,046	2,155	2,109	2,178	2,299	2,401	2,557	2,752
Exchange rate (average; CFA francs/U.S. dollar)	510.5	494.0	494.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

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

[1] Including LNG, LPG, butane, propane, and methanol.

[2] The price of oil is the average of three spot prices: dated Brent, West Texas Intermediate, and Dubai Fateh; and includes a discount for quality.

[3] Excluding oil revenues, oil-related expenditures, and interest earned and paid.

[4] Usable external resources include official reserves in the BEAC and government offshore deposits.

Table 2. Equatorial Guinea: Balance of Payments, 2012–20[1]

(Billions of CFA francs, unless otherwise specified)

	2012	2013	2014 Prel.	2015 Proj.	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.
Current account	-198	-340	-767	-432	-155	-88	69	21	18
Trade balance	5332	4936	4590	3842	4141	4084	4069	3974	3851
Exports of goods, f.o.b.	8857	7794	7298	5988	6158	5961	5828	5596	5374
Hydrocarbon exports	8276	7217	6741	5273	5420	5203	5050	4797	4556
Crude oil	5664	4728	4425	2778	2955	2869	2794	2666	2524
Liquefied natural gas	1670	1576	1519	1471	1456	1422	1389	1355	1316
Methanol	373	356	316	366	393	356	323	292	264
Non-hydrocarbon exports	581	577	556	716	737	757	779	800	818
Imports of goods, f.o.b.	-3525	-2858	-2707	-2146	-2017	-1876	-1759	-1622	-1523
Petroleum sector	-757	-672	-588	-685	-704	-675	-656	-623	-591
Petroleum products	-210	-187	-176	-118	-129	-136	-144	-150	-154
Public sector equipment	-2271	-1730	-1698	-1085	-925	-806	-700	-590	-518
Other[2]	-287	-269	-245	-258	-259	-259	-260	-260	-259
Services (net)	-1551	-1329	-1438	-1167	-1086	-1084	-1003	-1093	-1104
Income (net)[3]	-3852	-3795	-3775	-2939	-3035	-2913	-2819	-2677	-2542
Current transfers	-127	-152	-144	-168	-175	-176	-179	-183	-187
Capital and financial account	1509	912	-221	47	89	60	-23	36	29
Capital account	0	0	0	0	0	0	0	0	0
Financial account	1509	912	-221	47	89	60	-23	36	29
Direct investment	503	361	158	187	186	182	179	179	177
Portfolio investment (net)	1	1	1	1	1	1	1	1	1
Other investment (net)	1005	550	-379	-141	-99	-123	-203	-144	-149
Medium- and long-term transactions	-28	6	-117	15	27	47	95	83	70
General government	-48	-14	-137	-17	-7	11	58	44	30
Of which : amortization	-48	-174	-152	-117	-157	-139	-92	-106	-120
Other sectors	20	20	20	32	34	35	37	39	40
Short-term transactions	1033	544	-262	-156	-126	-170	-298	-227	-220
General government[4, 5]	639	930	-79	273	153	73	-2	-18	-11
Banks	-57	-128	167	-134	24	51	-9	67	56
Other sectors	450	-258	-350	-295	-303	-294	-287	-276	-265
Errors and omissions	-683	-591	401	0	0	0	0	0	0
Overall balance	628	-20	-587	-385	-66	-28	47	58	47
Financing	-628	20	587	385	66	28	-47	-58	-47
Change in net international reserves[6] (- = increase)	-628	20	587	385	66	28	-47	-58	-47
Memorandum items:									
Reserve assets at the BEAC (a)	2186	2172	1571	1185	1120	1091	1138	1196	1243
Of which : government deposits at BEAC (b)	647	749	351	351	351	351	351	351	351
Government bank deposits outside BEAC (c)	1372	477	563	338	182	107	108	124	133
Usable external resource (a + c)	3558	2649	2133	1524	1301	1198	1246	1320	1376
Gross government deposits (b + c)	2020	1226	913	689	533	458	458	475	484
Usable external resource (months of next year's imports)	10.1	7.8	8.4	5.9	5.3	5.2	5.5	6.1	6.4
Current account balance (percent of GDP; - = deficit)	-2.2	-4.0	-10.0	-7.0	-2.4	-1.4	1.1	0.3	0.3
Overall balance (percent of GDP; - = deficit)	6.8	-0.2	-7.6	-6.2	-1.0	-0.4	0.7	0.9	0.7
Growth of hydrocarbon exports (percent)	9.6	-9.9	-6.7	-34.2	3.3	-2.8	-1.8	-4.0	-3.6
Growth of non-hydrocarbon exports (percent)	-6.5	2.6	-3.6	8.1	3.6	3.9	4.0	3.9	3.8

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

1 The BOP data in this table are not compiled in accordance with the IMF's Balance of Payments Manual, fifth edition. The historic data have not been derived from customs' and bank records' data, but from estimates of the BEAC. IMF staff has made ad hoc adjustments to the data.

2 Including private sector consumption and non-hydrocarbon sector investment imports.

3 Including investment income of oil companies, which includes reinvested earnings (with an offsetting entry in foreign direct investment).

4 Includes purchase of Devon's share of oil fields in 2008 by Equatorial Guinea.

5 Since 2000, entries represent changes in government deposits in commercial banks abroad.

6 Consists only of items on the balance sheet of the BEAC (i.e., excluding government bank deposits abroad).

Table 3a. Equatorial Guinea: Summary of Central Government Financial Operations, 2012–20

(Billions of CFA francs, unless otherwise specified)

	2012	2013	2014		2015		2016	2017	2018	2019	2020
			Budget	Prel.	Budget	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	3,195	2,694	2,569	2,583	1,373	1,844	1,825	1,811	1,776	1,721	1,672
Resource revenue	2,796	2,315	2,220	2,235	987	1,474	1,413	1,380	1,327	1,250	1,175
Tax revenue	730	625	604	742	253	394	389	382	359	330	308
Other revenue	2,066	1,690	1,616	1,493	734	1,080	1,024	998	968	921	867
Royalties	1,457	1,187	1,160	1,022	487	682	693	669	658	631	599
Profit sharing	606	502	454	470	245	395	330	328	309	288	267
Bonuses and rents	3	2	2	1	2	3	1	1	1	1	1
Non-resource revenue	399	379	349	347	385	370	411	432	449	471	497
Tax revenue	275	281	228	245	220	227	250	265	271	277	288
Taxes on income, profits, and capital gains	131	130	127	137	118	125	128	137	143	155	163
Domestic taxes on goods and services[1]	57	55	64	60	64	57	64	64	67	69	70
Taxes on international trade and transactions	15	17	20	18	20	14	13	13	13	12	12
Other taxes	72	80	17	29	17	31	46	51	47	41	43
Other revenue	124	98	121	103	166	143	161	167	178	194	209
Grants	0	0	0	0	0	0	0	0	0	0	0
Expenditure	4,023	3,329	2,957	3,102	1,773	2,135	2,003	1,924	1,858	1,771	1,713
Expense	815	872	756	764	770	791	857	927	991	1,040	1,071
Compensation of employees	100	110	113	112	127	127	138	148	161	175	186
Purchase of goods and services	433	488	399	417	373	391	420	448	475	486	495
Interest	32	38	32	50	57	68	36	31	22	22	22
Domestic	0	1	2	1	2	13	13	13	13	13	13
Foreign	31	37	30	49	55	55	24	18	10	10	10
Subsidies[2]	249	235	207	181	213	202	259	296	329	352	363
Of which: petroleum products	111	87	75	34	40	40	31	16	4	1	1
Other expense	2	2	4	3	0	3	3	4	4	4	4
Net acquisition of non-financial assets	3,208	2,457	2,202	2,338	1,003	1,344	1,146	998	866	730	642
Gross operating balance	2,379	1,823	1,813	1,819	603	1,053	967	885	784	681	601
Net lending/borrowing (overall fiscal balance)	-829	-635	-389	-519	-400	-291	-179	-113	-82	-49	-41
Net financial transactions	-829	-635	-389	-519	-400	-291	-179	-113	-82	-49	-41
Net acquisition of financial assets	-703	-771	-420	-381	-159	-308	-185	-102	-24	-5	-10
Currency and deposits	-703	-771	-420	-381	-159	-308	-185	-102	-24	-5	-10
Change in government deposits abroad	-616	-889	0	86	0	-273	-153	-73	2	18	11
Government deposits outside BEAC	-623	-896	0	86	0	-273	-153	-73	2	18	11
Gepetrol/Sonagas deposits abroad	7	6	0	0	0	0	0	0	0	0	0
Monetary sector	-87	118	-420	-467	-159	-35	-32	-29	-26	-23	-21
Deposits at BEAC	-99	102	-420	-398	-159	0	0	0	0	0	0
Deposits at domestic banks	11	16	0	300	0	-35	-32	-29	-26	-23	-21
BEAC statutary advances	0	0	0	-369	0	0	0	0	0	0	0
Net incurrence of liabilities	-50	-16	-31	-115	240	-17	-7	11	58	44	30
Foreign	-50	-16	-31	-115	240	-17	-7	11	58	44	30
Loans	0	160	150	15	358	100	150	150	150	150	150
Amortization (-)	-50	-176	-181	-152	-117	-117	-157	-139	-92	-106	-120
Exceptional financing	0	0	0	23	0	0	0	0	0	0	0
Errors and omissions	-176	120	0	-253	0	0	0	0	0	0	0
Memorandum items:											
Overall fiscal balance	-829	-635	-389	-519	-400	-291	-179	-113	-82	-49	-41
Percent of GDP[3,4]	-9.0	-7.5	-5.1	-6.8	-6.4	-4.7	-2.8	-1.8	-1.3	-0.8	-0.6
Non-resource primary balance[5]	-3,593	-2,912	-2,577	-2,705	-1,330	-1,710	-1,564	-1,468	-1,392	-1,282	-1,198
Percent of non-hydrocarbon GDP[3]	-190.8	-142.4	-119.6	-125.5	-63.1	-81.1	-71.8	-63.9	-58.0	-50.1	-43.5
Gross government deposits	2,020	1,226	806	913	754	689	533	458	458	475	484
Stock of government deposits at BEAC	647	749	329	351	191	351	351	351	351	351	351
Stock of government deposits abroad	1,372	477	477	563	563	338	182	107	108	124	133
Outstanding medium- and long-term public debt	834	666	…	921	…	949	938	944	997	1,035	1,056
Nominal GDP[3]	9,195	8,466	7,678	7,678	6,205	6,205	6,443	6,421	6,395	6,372	6,370
Nominal non-hydrocarbon GDP[3]	1,883	2,046	2,155	2,155	2,109	2,109	2,178	2,299	2,401	2,557	2,752

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

[1] The VAT was legislated in early 2005; previously this was a sales tax.

[2] Includes social benefits.

[3] IMF staff estimates of GDP and non-hydrocarbon GDP are used for all data in the table, including "Budget" columns.

[4] Excludes errors and omissions. In unbudgeted expenditure is included, the overall fiscal balance for 2014 is equal to 10.1 percent of GDP.

[5] Equal to the overall balance excluding grants minus hydrocarbons sector corporate income tax and other revenue plus hydrocarbons revenue generated in the secondary LNG, LPG, and methanol production and purchase of share in hydrocarbons projects, minus interest on savings funds plus interest expenditure.

Table 3b. Equatorial Guinea: Summary of Central Government Financial Operations, 2012–20

(Percent of GDP[3], unless otherwise specified)

	2012	2013	2014		2015		2016	2017	2018	2019	2020
			Budget	Prel.	Budget	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	34.7	31.8	33.5	33.6	22.1	29.7	28.3	28.2	27.8	27.0	26.3
Resource revenue	30.4	27.3	28.9	29.1	15.9	23.8	21.9	21.5	20.8	19.6	18.4
Tax revenue	7.9	7.4	7.9	9.7	4.1	6.4	6.0	5.9	5.6	5.2	4.8
Other revenue	22.5	20.0	21.0	19.5	11.8	17.4	15.9	15.5	15.1	14.4	13.6
Royalties	15.8	14.0	15.1	13.3	7.9	11.0	10.8	10.4	10.3	9.9	9.4
Profit sharing	6.6	5.9	5.9	6.1	3.9	6.4	5.1	5.1	4.8	4.5	4.2
Bonuses and rents	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Non-resource revenue	4.3	4.5	4.5	4.5	6.2	6.0	6.4	6.7	7.0	7.4	7.8
Tax revenue	3.0	3.3	3.0	3.2	3.5	3.7	3.9	4.1	4.2	4.3	4.5
Taxes on income, profits, and capital gains	1.4	1.5	1.7	1.8	1.9	2.0	2.0	2.1	2.2	2.4	2.6
Domestic taxes on goods and services[1]	0.6	0.7	0.8	0.8	1.0	0.9	1.0	1.0	1.1	1.1	1.1
Taxes on international trade and transactions	0.2	0.2	0.3	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Other taxes	0.8	0.9	0.2	0.4	0.3	0.5	0.7	0.8	0.7	0.6	0.7
Other revenue	1.3	1.2	1.6	1.3	2.7	2.3	2.5	2.6	2.8	3.0	3.3
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	43.8	39.3	38.5	40.4	28.6	34.4	31.1	30.0	29.1	27.8	26.9
Expense	8.9	10.3	9.8	9.9	12.4	12.8	13.3	14.4	15.5	16.3	16.8
Compensation of employees	1.1	1.3	1.5	1.5	2.1	2.1	2.1	2.3	2.5	2.8	2.9
Purchase of goods and services	4.7	5.8	5.2	5.4	6.0	6.3	6.5	7.0	7.4	7.6	7.8
Interest	0.3	0.4	0.4	0.7	0.9	1.1	0.6	0.5	0.4	0.4	0.4
Domestic	0.0	0.0	0.0	0.0	0.0	0.2	0.2	0.2	0.2	0.2	0.2
Foreign	0.3	0.4	0.4	0.6	0.9	0.9	0.4	0.3	0.2	0.2	0.2
Subsidies[2]	2.7	2.8	2.7	2.4	3.4	3.3	4.0	4.6	5.2	5.5	5.7
Of which: petroleum products	1.2	1.0	1.0	0.4	0.6	0.6	0.5	0.2	0.1	0.0	0.0
Other expense	0.0	0.0	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Net acquisition of non-financial assets	34.9	29.0	28.7	30.5	16.2	21.7	17.8	15.5	13.5	11.5	10.1
Gross operating balance	25.9	21.5	23.6	23.7	9.7	17.0	15.0	13.8	12.3	10.7	9.4
Net lending/borrowing (overall fiscal balance)	-9.0	-7.5	-5.1	-6.8	-6.4	-4.7	-2.8	-1.8	-1.3	-0.8	-0.6
Net financial transactions	-9.0	-7.5	-5.1	-6.8	-6.4	-4.7	-2.8	-1.8	-1.3	-0.8	-0.6
Net acquisition of financial assets	-7.6	-9.1	-5.5	-5.0	-2.6	-5.0	-2.9	-1.6	-0.4	-0.1	-0.2
Currency and deposits	-7.6	-9.1	-5.5	-5.0	-2.6	-5.0	-2.9	-1.6	-0.4	-0.1	-0.2
Change in government deposits abroad	-6.7	-10.5	0.0	1.1	0.0	-4.4	-2.4	-1.1	0.0	0.3	0.2
Government deposits outside BEAC	-6.8	-10.6	0.0	1.1	0.0	-4.4	-2.4	-1.1	0.0	0.3	0.2
Gepetrol/Sonagas deposits abroad	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Monetary sector	-1.0	1.4	-5.5	-6.1	-2.6	-0.6	-0.5	-0.4	-0.4	-0.4	-0.3
Deposits at BEAC	-1.1	1.2	-5.5	-5.2	-2.6	0.0	0.0	0.0	0.0	0.0	0.0
Deposits at domestic banks	0.1	0.2	0.0	3.9	0.0	-0.6	-0.5	-0.4	-0.4	-0.4	-0.3
BEAC statutary advances	0.0	0.0	0.0	-4.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	-0.5	-0.2	-0.4	-1.5	3.9	-0.3	-0.1	0.2	0.9	0.7	0.5
Foreign	-0.5	-0.2	-0.4	-1.5	3.9	-0.3	-0.1	0.2	0.9	0.7	0.5
Loans	0.0	1.9	2.0	0.2	5.8	1.6	2.3	2.3	2.3	2.4	2.4
Amortization (-)	-0.5	-2.1	-2.4	-2.0	-1.9	-1.9	-2.4	-2.2	-1.4	-1.7	-1.9
Exceptional financing	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	-1.9	1.4	0.0	-3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Overall fiscal balance	-829	-635	-389	-519	-400	-291	-179	-113	-82	-49	-41
Percent of GDP [3,4]	-9.0	-7.5	-5.1	-6.8	-6.4	-4.7	-2.8	-1.8	-1.3	-0.8	-0.6
Non-resource primary balance[5]	-3,593	-2,912	-2,577	-2,705	-1,330	-1,710	-1,564	-1,468	-1,392	-1,282	-1,198
Percent of non-hydrocarbon GDP [3]	-190.8	-142.4	-119.6	-125.5	-63.1	-81.1	-71.8	-63.9	-58.0	-50.1	-43.5
Gross government deposits	22.0	14.5	10.5	11.9	12.1	11.1	8.3	7.1	7.2	7.5	7.6
Stock of government deposits at BEAC	7.0	8.8	4.3	4.6	3.1	5.7	5.4	5.5	5.5	5.5	5.5
Stock of government deposits abroad	14.9	5.6	6.2	7.3	9.1	5.5	2.8	1.7	1.7	1.9	2.1
Outstanding medium- and long-term public debt	9.1	7.9	…	12.0	…	15.3	14.6	14.7	15.6	16.2	16.6
Nominal GDP[3]	9,195	8,466	7,678	7,678	6,205	6,205	6,443	6,421	6,395	6,372	6,370
Nominal non-hydrocarbon GDP[3]	1,883	2,046	2,155	2,155	2,109	2,109	2,178	2,299	2,401	2,557	2,752

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

[1] The VAT was legislated in early 2005; previously this was a sales tax.

[2] Includes social benefits.

[3] IMF staff estimates of GDP and non-hydrocarbon GDP are used for all data in the table, including "Budget" columns.

[4] Excludes errors and omissions. In unbudgeted expenditure is included, the overall fiscal balance for 2014 is equal to 10.1 percent of GDP.

[5] Equal to the overall balance excluding grants minus hydrocarbons sector corporate income tax and other revenue plus hydrocarbons revenue generated in the secondary LNG, LPG, and methanol production and purchase of share in hydrocarbons projects, minus interest on savings funds plus interest expenditure.

Table 3c. Equatorial Guinea: Summary of Central Government Financial Operations, 2012–20

(Percent of non-hydrocarbon GDP[3], unless otherwise specified)

	2012	2013	2014		2015		2016	2017	2018	2019	2020
			Budget	Prel.	Budget	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	169.7	131.7	119.2	119.9	65.1	87.5	83.8	78.8	74.0	67.3	60.8
Resource revenue	148.5	113.2	103.0	103.8	46.8	69.9	64.9	60.0	55.3	48.9	42.7
Tax revenue	38.8	30.6	28.0	34.4	12.0	18.7	17.9	16.6	14.9	12.9	11.2
Other revenue	109.7	82.6	75.0	69.3	34.8	51.2	47.0	43.4	40.3	36.0	31.5
Royalties	77.4	58.0	53.8	47.4	23.1	32.3	31.8	29.1	27.4	24.7	21.8
Profit sharing	32.2	24.5	21.1	21.8	11.6	18.7	15.2	14.3	12.9	11.3	9.7
Bonuses and rents	0.2	0.1	0.1	0.0	0.1	0.2	0.0	0.0	0.0	0.0	0.0
Non-resource revenue	21.2	18.5	16.2	16.1	18.3	17.5	18.9	18.8	18.7	18.4	18.1
Tax revenue	14.6	13.7	10.6	11.4	10.4	10.8	11.5	11.5	11.3	10.8	10.5
Taxes on income, profits, and capital gains	7.0	6.3	5.9	6.4	5.6	5.9	5.9	5.9	6.0	6.0	5.9
Domestic taxes on goods and services[1]	3.0	2.7	3.0	2.8	3.0	2.7	2.9	2.8	2.8	2.7	2.5
Taxes on international trade and transactions	0.8	0.8	0.9	0.8	0.9	0.6	0.6	0.6	0.5	0.5	0.4
Other taxes	3.8	3.9	0.8	1.3	0.8	1.5	2.1	2.2	2.0	1.6	1.6
Other revenue	6.6	4.8	5.6	4.8	7.9	6.8	7.4	7.3	7.4	7.6	7.6
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	213.7	162.7	137.3	144.0	84.0	101.2	92.0	83.7	77.4	69.2	62.2
Expense	43.3	42.6	35.1	35.5	36.5	37.5	39.4	40.3	41.3	40.7	38.9
Compensation of employees	5.3	5.4	5.3	5.2	6.0	6.0	6.4	6.4	6.7	6.9	6.8
Purchase of goods and services	23.0	23.8	18.5	19.4	17.7	18.5	19.3	19.5	19.8	19.0	18.0
Interest	1.7	1.8	1.5	2.3	2.7	3.2	1.7	1.3	0.9	0.9	0.8
Domestic	0.0	0.0	0.1	0.0	0.1	0.6	0.6	0.5	0.5	0.5	0.5
Foreign	1.7	1.8	1.4	2.3	2.6	2.6	1.1	0.8	0.4	0.4	0.4
Subsidies[2]	13.2	11.5	9.6	8.4	10.1	9.6	11.9	12.9	13.7	13.8	13.2
Of which: petroleum products	5.9	4.2	3.5	1.6	1.9	1.9	1.4	0.7	0.2	0.0	0.0
Other expense	0.1	0.1	0.2	0.2	0.0	0.2	0.2	0.2	0.2	0.2	0.2
Net acquisition of non-financial assets	170.4	120.1	102.2	108.5	47.5	63.7	52.6	43.4	36.1	28.6	23.3
Gross operating balance	126.4	89.1	84.1	84.4	28.6	49.9	44.4	38.5	32.7	26.6	21.9
Net lending/borrowing (overall fiscal balance)	-44.0	-31.0	-18.0	-24.1	-18.9	-13.8	-8.2	-4.9	-3.4	-1.9	-1.5
Net financial transactions	-44.0	-31.0	-18.0	-24.1	-18.9	-13.8	-8.2	-4.9	-3.4	-1.9	-1.5
Net acquisition of financial assets	-37.3	-37.7	-19.5	-17.7	-7.6	-14.6	-8.5	-4.4	-1.0	-0.2	-0.4
Currency and deposits	-37.3	-37.7	-19.5	-17.7	-7.6	-14.6	-8.5	-4.4	-1.0	-0.2	-0.4
Change in government deposits abroad	-32.7	-43.5	0.0	4.0	0.0	-12.9	-7.0	-3.2	0.1	0.7	0.4
Government deposits outside BEAC	-33.1	-43.8	0.0	4.0	0.0	-12.9	-7.0	-3.2	0.1	0.7	0.4
Gepetrol/Sonagas deposits abroad	0.4	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Monetary sector	-4.6	5.8	-19.5	-21.7	-7.6	-1.7	-1.5	-1.2	-1.1	-0.9	-0.8
Deposits at BEAC	-5.2	5.0	-19.5	-18.5	-7.6	0.0	0.0	0.0	0.0	0.0	0.0
Deposits at domestic banks	0.6	0.8	0.0	13.9	0.0	-1.7	-1.5	-1.2	-1.1	-0.9	-0.8
BEAC statutary advances	0.0	0.0	0.0	-17.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	-2.7	-0.8	-1.4	-5.3	11.4	-0.8	-0.3	0.5	2.4	1.7	1.1
Foreign	-2.7	-0.8	-1.4	-5.3	11.4	-0.8	-0.3	0.5	2.4	1.7	1.1
Loans	0.0	7.8	7.0	0.7	17.0	4.7	6.9	6.5	6.2	5.9	5.5
Amortization (-)	-2.7	-8.6	-8.4	-7.1	-5.6	-5.6	-7.2	-6.0	-3.8	-4.1	-4.4
Exceptional financing	0.0	0.0	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	-9.3	5.9	0.0	-11.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Overall fiscal balance	-829	-635	-389	-519	-400	-291	-179	-113	-82	-49	-41
Percent of non-hydrocarbon GDP[3,4]	-44.0	-31.0	-18.0	-24.1	-18.9	-13.8	-8.2	-4.9	-3.4	-1.9	-1.5
Non-resource primary balance[5]	-3,593	-2,912	-2,577	-2,705	-1,330	-1,710	-1,564	-1,468	-1,392	-1,282	-1,198
Percent of non-hydrocarbon GDP[3]	-190.8	-142.4	-119.6	-125.5	-63.1	-81.1	-71.8	-63.9	-58.0	-50.1	-43.5
Gross government deposits	107.3	65.1	42.8	48.5	40.0	36.6	28.3	24.3	24.3	25.2	25.7
Stock of government deposits at BEAC	34.4	39.8	17.5	18.6	10.2	18.6	18.6	18.6	18.6	18.6	18.6
Stock of government deposits abroad	72.9	25.3	25.3	29.9	29.9	18.0	9.7	5.7	5.7	6.6	7.1
Outstanding medium- and long-term public debt	44.3	32.6	…	42.8	…	45.0	43.1	41.1	41.5	40.5	38.4
Nominal GDP[3]	9,195	8,466	7,678	7,678	6,205	6,205	6,443	6,421	6,395	6,372	6,370
Nominal non-hydrocarbon GDP[3]	1,883	2,046	2,155	2,155	2,109	2,109	2,178	2,299	2,401	2,557	2,752

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

[1] The VAT was legislated in early 2005; previously this was a sales tax.

[2] Includes social benefits.

[3] IMF staff estimates of GDP and non-hydrocarbon GDP are used for all data in the table, including "Budget" columns.

[4] Excludes errors and omissions. In unbudgeted expenditure is included, the overall fiscal balance for 2014 is equal to 35.9 percent of non-hydrocarbon GDP.

[5] Equal to the overall balance excluding grants minus hydrocarbons sector corporate income tax and other revenue plus hydrocarbons revenue generated in the secondary LNG, LPG, and methanol production and purchase of share in hydrocarbons projects, minus interest on savings funds plus interest expenditure.

Table 4a. Equatorial Guinea: Depository Corporations Survey, 2012–20

(Billions of CFA francs, unless otherwise specified; end of period)

	2012 Dec.	2013 Dec.	2014 Dec. Prel.	2015 Dec. Proj.	2016 Dec. Proj.	2017 Dec. Proj.	2018 Dec. Proj.	2019 Dec. Proj.	2020 Dec. Proj.
Depository corporations survey									
Net foreign assets	2,274	2,382	1,629	1,376	1,286	1,207	1,263	1,265	1,237
(Millions of U.S. dollars)	4,575	5,008	3,015	2,344	2,210	2,100	2,221	2,254	2,239
Net domestic assets	-588	-568	-72	-248	-159	-43	-87	-37	50
Domestic claims	-312	-270	360	408	500	590	706	824	977
Claims on central government (net)	-935	-1,104	-619	-569	-524	-483	-447	-414	-385
Claims on other sectors	622	834	978	976	1,024	1,074	1,153	1,239	1,362
Other items (net)	-276	-298	-432	-655	-659	-633	-794	-862	-927
Broad money liabilities	1,689	1,812	1,557	1,128	1,127	1,164	1,175	1,228	1,287
Currency outside depository corporations	251	272	280	294	297	312	302	319	333
Deposits and other liabilities included in broad money	1,438	1,540	1,277	834	830	852	873	908	954
Memorandum items:									
CPI inflation (average annual)	3.4	3.2	4.3	3.5	2.9	2.8	2.8	2.8	2.8
Broad money (M2, annual percentage change)	57.8	7.3	-14.1	-27.5	-0.1	3.2	1.0	4.5	4.8
Monetary base (MB, annual percentage change)	106.5	-12.6	16.1	-26.4	-6.2	5.2	-3.1	5.6	4.4
Credit to the private sector (annual percentage change)	-13.7	34.3	18.4	0.0	5.0	5.0	7.5	7.5	10.0
Credit to the private sector (percent of non-hydrocarbon GDP)	32.3	39.9	44.8	45.8	46.6	46.3	47.7	48.1	49.2
Broad money (percent of overall GDP)	18.4	21.4	20.3	18.2	17.5	18.1	18.4	19.3	20.2
Velocity (Overall GDP/end-of-period M2)	5.4	4.7	4.9	5.5	5.7	5.5	5.4	5.2	4.9
Velocity (Non-hydrocarbon GDP/end-of-period M2)	1.1	1.1	1.4	1.9	1.9	2.0	2.0	2.1	2.1
Reserve money multiplier (M2/MB)	1.2	1.4	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Currency/M2 ratio	0.1	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3

Sources: BEAC and IMF staff estimates and projections.

Table 4b. Equatorial Guinea: Central Bank and Other Depository Corporations Survey, 2012–20

(Billions of CFA francs, unless otherwise specified; end of period)

	2012 Dec.	2013 Dec.	2014 Dec. Prel.	2015 Dec. Proj.	2016 Dec. Proj.	2017 Dec. Proj.	2018 Dec. Proj.	2019 Dec. Proj.	2020 Dec. Proj.
Central bank survey									
Net foreign assets	2152	2133	1546	1161	1095	1067	1114	1172	1219
(Millions of U.S. dollars)	4329	4484	2862	1978	1882	1856	1959	2087	2205
Net domestic assets	-716	-878	-89	-89	-89	-89	-89	-89	-89
Claims on central government (net)	-710	-885	-120	-120	-120	-120	-120	-120	-120
Claims on other depository corporations	0	0	30	30	30	30	30	30	30
Claims on other sectors	2	2	3	3	3	3	3	3	3
Other items (net)	-8	4	-2	-2	-2	-2	-2	-2	-2
Monetary base	1436	1254	1457	1072	1006	1058	1025	1083	1130
Currency in circulation	279	310	320	343	342	359	348	368	384
Liabilities to other depository corporations	1182	979	1094	777	708	745	722	762	796
Currency	28	38	40	48	45	47	46	48	51
Deposits	1154	941	1055	728	663	698	676	714	745
Liabilities to other sectors	6	1	1	0	0	0	0	0	0
Other depository corporations survey									
Net foreign assets	122	250	83	215	191	140	149	93	19
(Millions of U.S. dollars)	246	525	154	366	328	244	262	166	34
Net domestic assets	1310	1289	1223	953	977	1104	1196	1355	1541
Claims on central bank	1182	979	1094	777	708	745	722	762	796
Currency	28	38	40	48	45	47	46	48	51
Reserve deposits and securities other than shares	1154	941	1055	728	663	698	676	714	745
Required reserves	0	0	0	121	135	142	138	146	152
Excess reserves	1154	941	1055	607	528	555	538	568	593
Other claims	0	0	0	0	0	0	0	0	0
Domestic claims	396	612	477	525	617	708	823	942	1094
Claims on government (net)	-225	-219	-498	-449	-404	-363	-327	-294	-265
Claims	5	6	10	10	9	8	7	7	6
Liabilities	230	225	508	458	413	371	334	301	271
Claims on other sectors	621	831	976	974	1021	1071	1150	1236	1359
Public enterprises	10	13	9	7	5	5	4	4	4
Private sector	607	815	966	966	1014	1065	1145	1230	1353
Other items (net)	-268	-302	-349	-349	-349	-349	-349	-349	-349
Deposit liabilities to nonbank residents	1438	1540	1277	834	830	852	873	908	954

Sources: BEAC; and IMF staff estimates and projections.

Table 5. Equatorial Guinea: Financial Soundness Indicators for the Banking Sector, 2010–15

(Percent)

	2010	2011	2012	2013	2014				2015
					Q1	Q2	Q3	Q4	M2
Capital									
Regulatory capital to risk-weighted assets[1, 2]	20.2	18.2	24.5	22.3	20.2	21.4	21.6	25.5	25.4
Tier 1 capital to risk-weighted assets[2]	20.1	18.2	24.5	22.5	20.4	22.0	22.2	26.2	26.1
Capital to assets	3.4	3.8	4.0	4.0	4.0	4.1	4.1	4.1	4.1
Asset quality									
Non-performing loans (gross) to total loans (gross)	4.7	4.4	5.8	20.1	16.9	14.5	13.9	19.7	18.3
Non-performing loans less provisions to total capital	-3.2	-4.8	-8.1	42.9	38.9	31.5	28.6	40.5	40.6
Earnings and profitability									
Return on assets[3]	0.3	0.9	0.8	0.6	--	0.6	--	0.7	--
Return on equity	10.2	24.3	22.5	14.1	--	16.0	--	16.9	--
Liquidity									
Liquid assets to total assets	14.2	10.7	22.1	17.7	13.2	15.4	16.7	15.6	13.8
Ratio of liquid assets to short-term liabilities	220.5	185.7	283.1	220.2	186.8	201.1	209.6	194.0	176.8
Total deposits to total (noninterbank) loans	136.4	133.4	248.9	202.8	152.3	163.5	172.7	177.7	155.5

Source: Banking Commission of Central Africa (COBAC).

[1] Current year profits are excluded from the definition of regulatory capital, following the Basel I capital accord guidelines. General provisions are included in Tier 2 capital up to an amount equal to 1.25% of risk-weighted assets.

[2] The risk-weighted assets are estimated using the following risk weights: 0% - cash reserves in domestic and foreign currency and claims on the central bank; 100% - all other assets.

[3] Current year profits are excluded from the definition of capital (i.e., shareholders' funds).

Table 6. Equatorial Guinea: Millennium Development Goals, 1990–2013

	1990	1995	2000	2005	2009	2011	2012	2013
Goal 1: Eradicate extreme poverty and hunger								
Employment to population ratio, 15+, total (%) (modeled ILO estimate)	..	82	81	81	81	81	81	80
Employment to population ratio, ages 15-24, total (%) (modeled ILO estimate)	..	70	69	68	68	68	68	66
Malnutrition prevalence, weight for age (% of children under 5)	..	..	16	..	..	..	..	..
Poverty gap at $1.25 a day (PPP) (%)	..	..	..	..	..	..	..	..
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	..	..	..	..	..	..	..	..
Vulnerable employment, total (% of total employment)	..	..	..	..	..	..	..	..
Goal 2: Achieve universal primary education								
Primary completion rate, total (% of relevant age group)	..	..	48	47	49	52	55	..
School enrollment, primary (% net)	..	..	68	..	56	58	61	..
Goal 3: Promote gender equality and empower women								
Proportion of seats held by women in national parliaments (%)	13	..	5	18	10	10	10	12
Ratio of female to male primary enrollment (%)	..	..	82	95	96	98	98	..
Ratio of female to male secondary enrollment (%)	..	..	44	72	..	90	89	..
Ratio of female to male tertiary enrollment (%)	..	..	45	..	..	..	..	..
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	11	..	..	..	..	..	..	..
Goal 4: Reduce child mortality								
Immunization, measles (% of children ages 12-23 months)	88	81	51	51	51	51	35	42
Mortality rate, infant (per 1,000 live births)	124	111	99	87	78	73	71	69
Mortality rate, under-5 (per 1,000 live births)	184	163	142	123	109	102	99	96
Goal 5: Improve maternal health								
Adolescent fertility rate (births per 1,000 women ages 15-19)	134	134	131	125	119	115	113	..
Births attended by skilled health staff (% of total)	..	..	65	..	..	..	..	..
Contraceptive prevalence (% of women ages 15-49)	..	..	10	..	..	..	..	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	1,600	1,300	790	480	..	..	..	290
Pregnant women receiving prenatal care (%)	..	..	86	..	..	..	..	..
Unmet need for contraception (% of married women ages 15-49)	..	..	..	..	..	..	..	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases								
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	..	49	..	..	..	..	..
Condom use, population ages 15-24, female (% of females ages 15-24)	..	..	..	..	..	..	..	..
Condom use, population ages 15-24, male (% of males ages 15-24)	..	..	..	..	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	86	85	100	110	129	138	141	144
Prevalence of HIV, female (% ages 15-24)	..	..	..	..	..	..	..	..
Prevalence of HIV, male (% ages 15-24)	..	..	..	..	..	..	..	..
Prevalence of HIV, total (% of population ages 15-49)	..	..	..	..	..	..	..	..
Tuberculosis case detection rate (%, all forms)	80	81	..	..	81	90	..	..
Goal 7: Ensure environmental sustainability								
CO2 emissions (kg per PPP $ of GDP)	0	0	0	0	0	..	..	..
CO2 emissions (metric tons per capita)	0	0	1	8	7	..	..	..
Forest area (% of land area)	66	64	62	60	58	58	57	..
Improved sanitation facilities (% of population with access)	..	89	89	89	..	..	..	..
Improved water source (% of population with access)	..	51	51	51	..	..	..	..
Marine protected areas (% of territorial waters)	..	0	3	3	3	..	3	..
Net ODA received per capita (current US$)	161	76	41	63	47	34	19	..
Goal 8: Develop a global partnership for development								
Internet users (per 100 people)	0	..	0	1	2	12	14	16
Mobile cellular subscriptions (per 100 people)	0	0	1	16	30	67	68	68
Telephone lines (per 100 people)	0	1	1	2	1	2	2	2
Fertility rate, total (births per woman)	6	6	6	6	5	5	5	..

Sources: The Equatoguinean authorities and World Development Indicators.

Annex I. Equatorial Guinea: Risk Assessment Matrix[1]

Source of Risk	Relative Likelihood	Potential impact	Mitigation Measures
Global Risks			
Protracted period of slower growth in key advanced and emerging economies: **Euro area and Japan:** Weak demand and persistently low inflation from a failure to fully address crisis legacies and appropriately calibrate macro policies, leading to "new mediocre" rate of growth. **Emerging markets:** Maturing of the cycle, misallocation of investment, and incomplete structural reforms leading to prolonged slower growth.	High Medium	**Staff Assessment: High** Lower global demand will make diversification away from oil even more challenging, making it difficult to reverse the downward trend decline in overall growth. Overall growth will decline. Further oil and gas exploration will slow down and the reduced demand from lower government demand will reduce non-hydrocarbon growth.	Further fiscal policy tightening would be needed in a world of lower oil prices. Structural reforms would need to be accelerated to increase external competitiveness.
Risks to energy prices: **Increased volatility** due to uncertainty about the persistence of the oil supply shock and the underlying drivers of the price decline. **Persistently low prices** triggered by supply factors reversing only gradually, and weaker demand.	High Medium	**Staff Assessment: High** Lower oil exports will sharply reduce government revenue and lead to increased public debt levels. Financing for infrastructure would be curtailed. Overall growth will decline. Further oil and gas exploration will slow down and the reduced aggregate demand from lower government spending will reduce non-hydrocarbon growth.	Fiscal policy would need to be adjusted even more to a world of lower oil prices. To smoothen the adjustment some increase in the level of debt would be inevitable to ensure that there are adequate buffers to cushion oil price volatility. Structural reforms would need to be accelerated to increase external competitiveness.

[1] The RAM shows events that could materially alter the baseline path (the scenario most likely to materialize in staff's View). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent; "medium" a probability between 10 and 30 percent; and "high" a probability of 30 percent or more). The RAM reflects staff's views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Annex I. Equatorial Guinea: Risk Assessment Matrix *(concluded)*

Source of Risk	Relative Likelihood	Potential impact	Mitigation Measures
Country-specific Risks			
Insufficient implementation of fiscal adjustment	**High**	**Staff Assessment: High** Loose fiscal policy would lead to a sharp increase in payment arrears and public debt, thereby reducing competitiveness and growth. It could weaken the external sector with a negative spillover to the currency union, and the financial sector through increasing NPLs.	Loose fiscal policy would need to be reversed in order to create space to pay off arrears, supported by strengthened cash management. Greater attention would need to be paid to the health of the banking system, and capital infusions or complete restructuring may be needed.
Delays in reforming the business environment	**High**	**Staff Assessment: High** Economic diversification and structural transformation would be delayed, thereby reducing non-hydrocarbon growth and job creation considerably. Social inequalities could be exacerbated, thus potentially fueling social tensions.	There would be need to create a social safety net to mitigate the impact on the most affected.
Social tensions arising from inequality, poor job opportunities, and limited political outlets	**Low**	**Staff Assessment: Medium** Continued social exclusion, particularly due to fiscal consolidation, could give rise to political instability.	Risks could be mitigated by speeding up human capital development, encouraging merit-based recruitment, and promoting an open political environment.

Annex II. External Stability Analysis[1]

The planned reduction in capital spending will lead to a significant decline in the very large current account deficit. And assuming a major fiscal adjustment in the medium run, as proposed in the baseline macroeconomic framework, the real exchange rate assessments indicate it is aligned with its fundamentals. However, very serious data weaknesses affect the accuracy of the quantitative assessment of the real effective exchange rate in Equatorial Guinea.

1. The real effective exchange rate (REER) has appreciated rapidly since 2000 considerably more than in other CEMAC countries (Figure 1). REER appreciation has reflected relatively high CPI inflation. However, there has been a significant reversal in both the REER since mid-2014 mainly as a result of the depreciation of the euro, to which the CFA franc is pegged (Figure 2).

Figure 1: Real Effective Exchange Rates in CEMAC

(2000 = 100)

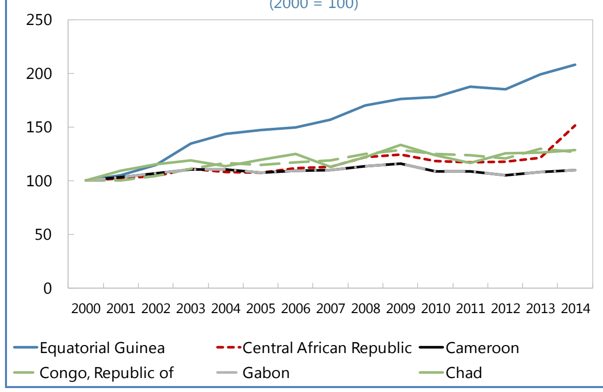
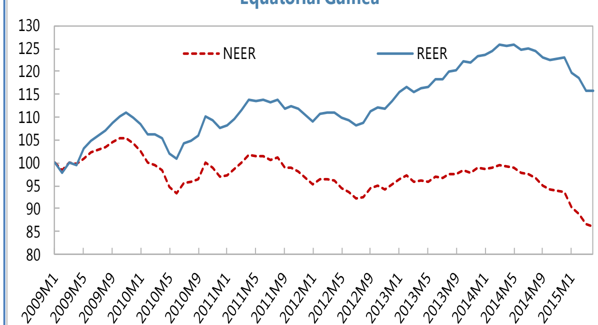


Figure 2 - Nominal and Real Effective Exchange Rates in Equatorial Guinea



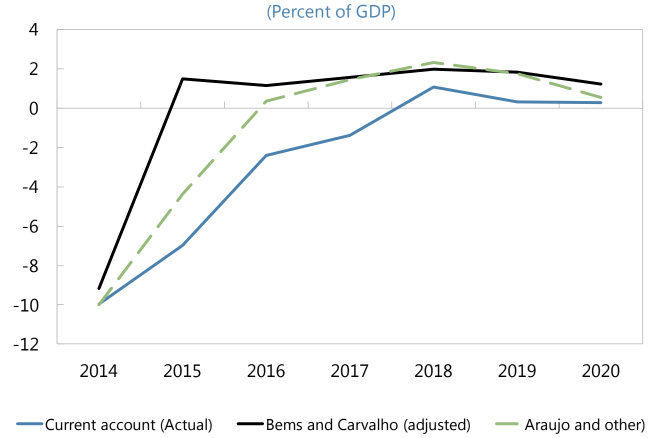
2. The current account deficit is projected to decrease significantly in 2015 as a result of the planned reduction in public investment. Although the projected 30 percent decline in oil prices (in CFA franc terms) between 2014 and 2015 will deteriorate the current account by an equivalent of 4.4 percent of 2014 GDP, the planned reduction in public sector imports should increase the current account balance by an equivalent of 8 percent of 2014 GDP. In the medium run, the current account deficit will gradually continue to decline as public sector imports decline by half during 2015–20, offsetting the expected decline in oil exports during that period.

[1] This Annex was prepared by Pranav Gupta and Gonzalo Salinas.

3. Although very serious data weaknesses affect the accuracy of a quantitative assessment of the real effective exchange rate in Equatorial Guinea, there are some indications that the real exchange rate would be in equilibrium under the assumed macroeconomic framework[2]. Both the Bems-Carvalho Filho (2009) and the Araujo et al. (2013) methodology suggests the real exchange rate is broadly aligned with its fundamentals. Note that both methodologies are implemented based on a macroeconomic framework that assumes a major fiscal adjustment that contributes to bring the current account to balance by 2020.

4. The methodology of Bems and Carvalho Filho (2009) suggests a minor overvaluation of the real effective exchange rate, around 2 percent.[3] The Bems and Carvalho Filho methodology derives a desired path for the current account based on specified inter-temporal allocation rules of oil income flows (Figure 3). Under the baseline macroeconomic framework, using the current account in 2020 as the underlying current account, the estimated real exchange rate adjustment needed to bring the underlying current account to the norm would require a depreciation of 1.6 or 2.3 percent depending on the assumed elasticity of the current account to the real exchange rate (Table 1). Note that this methodology does not account for future returns of public investment on future productivity growth and hence produces current account norms that would be above Equatorial Guinea's medium term current account path if public investment has a significant payoff. Given only moderate non-hydrocarbon GDP growth and almost negligible growth in non-hydrocarbon exports, it appears that the sizable public investment in past years has not improved productivity growth significantly.

Figure 3: Current Account in Equatorial Guinea
(Percent of GDP)



[2] It is worth noting that there have been significant changes to major balance of payments estimates that affect the composition of the current account and therefore, affect the current account projections used by exchange rate assessment methodologies. These changes incorporate statistics provided by the authorities, but given the still significant weaknesses in official balance of payments estimates (described in the Informational Annex), the conclusions in this exchange rate assessment should be taken with caution. Moreover, current account projections partly incorporate recent upward revisions to oil production made by the authorities that are highly uncertain considering the volatile international oil markets.

[3] Bems and Carvalho Filho 2009, "Exchange Rate Assessments: Methodologies for Oil Exporting Countries", IMF Working Paper 09/281.

5. The methodology of Araujo et al. (2013) suggests that the effective real exchange rate is overvalued by less than 1 percent.[4] This methodology takes into account absorptive capacity constraints in investment, since ambitious public and private investment programs in developing countries are often impacted by weak planning, coordination, and oversight contributing to large cost overruns.[5] Results from this methodology suggest only a very mild overvaluation of 0.4 or 0.6 percent depending on the assumed elasticity of the current account to changes in the real exchange rate (Table 1).

Table 1: Real Exchange Rate Assessment

	Year: 2020	Implied Exchange Rate Misalignment	
	Percent of GDP	Elasticity: -0.4	Elasticity: -0.6
Underlying current account	0.3		
CA norm (Behms and Carvalho Filho, 2009): adjusted)	1.2	2.3	1.6
CA norm (Araujo and others, 2013)	0.5	0.6	0.4

The current account norms are calculated following Bems and Carvalho Filho (2009) and Araujo et al (2013). The line "Bems and Carvalho (adjusted)" refers to the current account norm after adjusting for income transfer (profit repatriation by hydrocarbon producing companies). The lines based on Araujo et al (2013) are preliminary. "Elasticity: -0.4" from CEMAC Staff Report (2013), and "Elasticity: -0.6" from non-OECD high income countries in Tokarick (2010). No elasticity can be computed directly for Equatorial Guinea.

[4] Araujo et al., 2013, "Current Account Norms in Natural Resource Rich and Capital Scarce Economies", IMF Working Paper 13/80, IMF. The exchange rate assessment based on Araujo et al. (2013) was prepared by Bin Li and Juliana Araujo

[5] Comparing investment flows to the physical measure variations of the public capital stock in Columbia and Mexico over the period 1981–95, Arestoff and Hurlin (2006) estimates that one peso of public investments created around 0.40 pesos of public capital. Pritchett (1996) reports that in a typical developing country in earlier decades, less than 50 cents of capital were created for each public dollar invested.

Annex III. *Horizonte 2020* Track Record

The main outcome of Horizonte 2020 to date is first-class infrastructure, which constitutes a major comparative advantage relative to other SSA countries. The government has also built universities, schools, technical colleges, and health centers, but the level of social spending is still relatively low and its overall social impact is not yet evident, in part due to poor statistical collection. Further public investments will be limited by contracting hydrocarbon revenues. Thus, the authorities should protect priority areas (health and education among others), and secure funds for the maintenance of existing infrastructure.

1. Taking advantage of its large hydrocarbon revenues, Equatorial Guinea aims to attain sustainable development through its National Development Plan (NDP), *Horizonte 2020*. Launched in 2007, *Horizonte 2020* highlights two objectives: (a) make a transition from hydrocarbon-dominated to a diversified economy, and (b) reduce poverty and enhance social cohesion. The plan is two-phased. During the first, Transformation phase of the NDP (2008–12), the government targeted the development of physical and human capital, as well as the improvement of institutions and the quality of governance. The ongoing, Emergence phase (2013–20) focuses on fostering non-traditional activities to attain a robust, diversified, employment-generating, and inclusive growth path. The authorities also plan to meet all the Millennium Development Goals by 2020.

2. The main outcome of the first phase of the NPD is first-class infrastructure. Whereas sub-Saharan Africa's economic potential growth is severely constrained by poor infrastructure, mainly insufficient and low quality transport links and electricity supply, Equatorial Guinea now excels in this area:

- 2,500 km of paved roads cover the relatively small area of the country and efficiently connect the main population centers in both the insular and continental regions.
- While most African cities have intermittent and insufficient electricity coverage, Equatorial Guinean cities benefit from reliable electricity supply that has tripled from 305 GWh in 2009 to 887 GWh in 2014.
- Nine ports (including deep-water ports) and five airports (including three international airports) provide a strong multimodal shipping capacity.
- Telecommunications are supported by a nationwide fiber optic network.

3. The NDP has also made significant infrastructure investments to more directly foster economic diversification. Targeted non-hydrocarbon sectors include tourism (luxury hotels and resorts managed by foreign multinationals), as well as in agriculture, fisheries, cattle ranching, and forestry. It also has set up a co-investment fund in 2014 to support any private investments in the country, although no investors have applied to the fund to date.

4. Significant infrastructure investments have also been made to support social development, but the level of social spending is still relatively low and its overall social impact is not yet evident part due lack of reliable and up-to-date socio-demographic surveys. While improved roads and electricity have a clear social impact, the government has further sought to enhance social welfare by building universities, schools, technical colleges, health centers, and waste treatment facilities. Properly staffing and equipping education and health facilities is a challenge, to which the government is partly responding by hiring Cuban academics. Beyond infrastructure, social development initiatives have included funding scholarships for education in domestic and overseas study, vaccination programs, and programs to eradicate malaria. However, the level of social spending remains relatively low and gauging value for money on spending is frustrated by weaknesses in the functional classification on budgetary spending and more generally on statistical collection. Furthermore, some declared social spending such as social housing (constructing apartments), is not well-targeted as most of it is inaccessible to the poorest segments of the population.

5. **Some measures have also been taken toward much-needed strengthening of institutions and of the quality of the government, but cross-country indicators do not show yet any significant impact of these reforms.** The 2011 constitutional reform has led to reforms within the state apparatus, which the authorities consider will strengthen public administration through better accountability and transparency. These include the creation of a bicameral parliament, an ombudsman office, an accounts tribunal, and an economic and social council. Among the more noticeable anti-corruption reforms are the creation of an agency for financial investigation, an audit secretary within the President's office, and the establishment of an anti-corruption attorney's office. The outcome of these measures is not yet evident in cross-country indicators of governance and transparency.

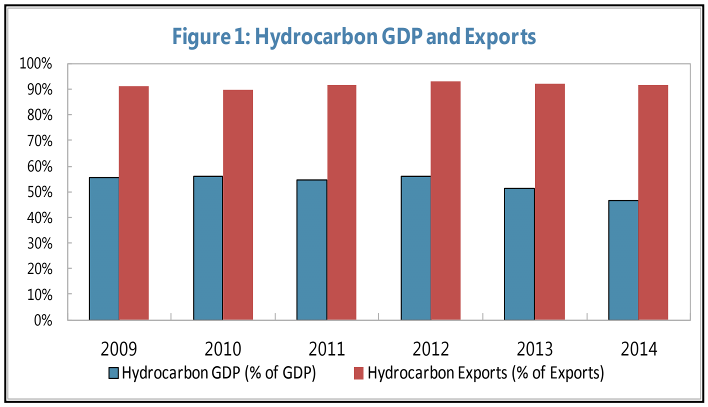
6. **The authorities envision continued substantial public investments under the NPD, but contracting hydrocarbon revenues will limit their implementation.** As of mid 2014, only 55 percent of the full cost of the Public Investment Program (PIP) had been implemented. Sectors with lagging completion rates are public administration, education, health, and sanitation and roads. Given the priority of these areas, the authorities should ensure the orderly completion of ongoing projects while down-scaling their plans on less productive areas such as the construction of a new capital and poorly targeted social housing.

7. **Besides securing the implementation of the most urgent pending investments under the PIP, sufficient funds also need to be allocated for upkeep.** The perpetual inventory method is a useful guide, and assuming a yearly depreciation rate of 3 percent and an efficiency rate of 40 percent for public investment, staff estimates that public capital stock roughly tripled in size over 2008–14 to about CFAF 7,200 billion. Applying World Bank estimates of capital maintenance spending (or an 'r' ratio of 3.5 percent), public capital maintenance costs would average around could increase by about 1.5 percentage points of GDP by 2017. While the authorities' medium-term projects a doubling of current spending to around 50 percent of total expenditure, it remains below the SSA average of 70 percent and the projected maintenance bill is about 30 percent lower than that anticipated by the perpetual inventory method.

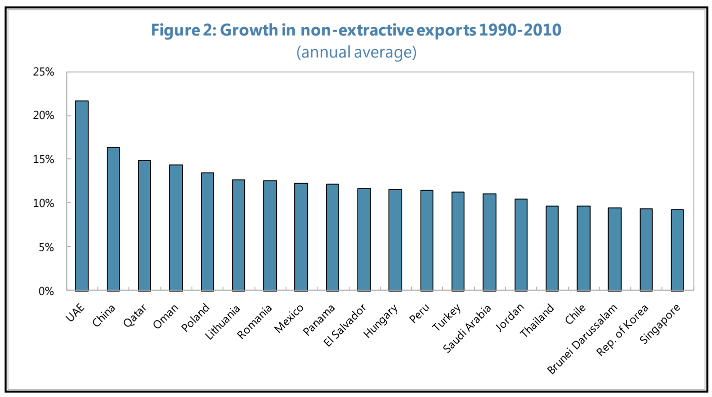
Annex IV. Promoting Investment in non-Hydrocarbon Exports [1]

Despite investments in infrastructure and government efforts to attract FDI to non-hydrocarbon exports, non-hydrocarbon export growth has been negligible in Equatorial Guinea. Taking into account the empirical literature on the determinants of FDI, the country needs to increase economies of scale through trade integration, improve its productivity-to-cost ratio by strengthening its business climate and human capital, strengthen governance, and preserve macroeconomic stability.

1. **Despite significant investments in infrastructure, non-hydrocarbon exports have not taken off in Equatorial Guinea.** Aiming to increase value-added and local content, the second phase of *Horizonte 2020* focuses on fostering non-hydrocarbon growth. Toward this objective the government is actively marketing its comparative advantages (including infrastructure), most prominently through an investment promotion international symposium in January 2014. However, there has been no concrete outcome from these efforts and the economy remains largely reliant on hydrocarbon wealth (Figure 1).



2. **International experience indeed suggests that successful development of non-hydrocarbon exports requires attracting FDI to these sectors.** Focusing in the countries that have experienced the highest growth in non-hydrocarbon and non-mining exports in 1990–2010 (Figure 2), it is well known that FDI flows have been significant in each of them.[2] Interestingly, this group of high performing countries does include many countries with abundant hydrocarbon and other mineral resources across all regions that managed to foster in parallel the development in other exports.



3. **Although infrastructure development is a key advantage, the empirical literature identifies several other factors that are key to promote foreign direct investment.** Recent cross

[1] This Annex was prepared by Gonzalo Salinas.

[2] Some of these countries, such as UAE, Qatar, Oman, and Saudi Arabia, which by 2014 produced US$115 billion, US$10.5 billion, US$17.8 billion, and US$57.5 billion of non-hydrocarbon exports, respectively, partly did so by exporting hydrocarbon-related petrochemicals and fertilizer, as well as steel, fisheries, textiles, and other manufactured products. They notably benefited from cheap and abundant energy sources.

country studies, such as Blonigen and Piger (2011) and Walsh and Yu (2010), determine the factors that attract overall FDI[3], while the latter paper further identifies those that attract investment by economic sector (primary, secondary, or tertiary). The factors identified in these papers have been present in the high performing countries that experienced rapid growth in non-extractive industry exports: market size (notably China); proximity to large markets (notably the countries near the United States or the European Union); high productivity-to-cost ratio (notably East Asia, and Eastern Europe); macroeconomic stability (all countries); cultural affinity (Mauritius and India); and relative political stability (no high performing country experienced external/internal war during its high performing period). Furthermore, cross-country evidence shows that to attract labor-intensive industries that do not require direct government assistance, priority should be given to "horizontal" reforms.[4]

4. **Equatorial Guinea has clear deficiencies and needs to take action in many of the areas that are important to attract non-hydrocarbon FDI.** The country has a small population size, is relatively far from the main global economic powerhouses, and trade integration in SSA is limited. It can tap into economies of scale by advocating further integration within CEMAC and between CEMAC and the rest of the world by lowering trade policy barriers and through behind the border measures. It is also evident that the country has a low productivity-to-cost ratio, as implied by weak business climate and human capital indicators. The implementation of a RAS agreement with the WB and further work to improve education and technical training are crucial. Fiscal adjustment is important to preserve macroeconomic stability in view of the collapse in oil prices. Although the country remains politically stable, the needed political and economic institutions to deliver the needed improvements in governance and policy-making are weak, and the government needs to redouble its efforts in these areas. All these measures and reforms can allow the country to leverage its first-class infrastructure.

[3] Blonigen, Burce and Jeremy Piger, 2010, "Determinants of Foreign Direct Investment," NBER Working Paper No. 16704. Walsh, James P and Jiangyan Yu, 2010 "Determinants of Foreign Direct Investment: A Sectoral and Institutional Approach," IMF Working Paper 10/187.

[4] IMF, 2014, "Sustaining Long-Run Growth and Macroeconomic Stability in Low-Income Countries—the Roles of Structural Transformation and Diversification".

Annex V. CEMAC Financial Sector Assessment Program Review—Lessons for Equatorial Guinea[1]

The FSAP review concludes that the CEMAC financial sector is relatively shallow and undeveloped. This is particularly the case in Equatorial Guinea. Although stress test analysis shows Equatorial Guinea's financial system is relatively resilient within the CEMAC context, greater attention should be given to the rise in nonperforming loans. The country needs to take decisive actions on financial diversification to support its economic development efforts, and fully implement an AML/CFT framework.

Structure and reach of the financial sector

1. The CEMAC's financial sector is undiversified and dominated by commercial banks, and foreign banks. The banking sector is heterogeneous, segmented, and strongly concentrated. Overall, the banking sector is profitable, with profitability of banks varying widely depending on the country and the size of the institutions (Figure 3 of the FSAP). Loans to connected parties, the main cause of past failures, remain the fundamental threat weighing on locally owned banks. Electronic banking services are beginning to be offered but are still embryonic, and the cost of electronic funds transfers is much higher than that noted, for example, in East Africa. The microfinance sector is relatively well developed in three countries (Cameroon, Congo, and Chad) and offers financial services to households and SMEs not using the banking system.

2. Banking intermediation remains weak and access to banking services is lower than in comparable SSA countries. Despite a substantial increase in credit to the private sector, and the number of banks and bank branches over the past 10 years, the banking sector is still not as deep as the average for the SSA countries or emerging countries. Large enterprises continue to receive the bulk of bank loans (about 80 percent). Less than 15 percent of adults are bank account holders and barely 3 percent have their wages deposited directly to a bank account. Similarly, the share of adults with savings at banks is, on average, only about 7.5 percent in the CEMAC. Despite the progress achieved in recent years, financial intermediation and access to credit remain hampered by a number of structural constraints. The barriers include, in particular, inadequate functioning of the judicial system, the absence of appropriate guarantee instruments, and the lack of credit reporting.

Results of the stress tests

3. The 2015 FSAP stress tests revealed that CEMAC's financial system is resilient to exogenous shocks, with Equatorial Guinea's financial system performing relatively better than that of its peers. In terms of resilience to credit quality, liquidity, interest rate and exchange rate shocks, the financial system is generally sound. The stress tests show that credit risk is the main source of vulnerability in all the CEMAC countries, although banks and micro-finance institutions with local capital have shown a greater vulnerability to the shocks. Due to their generally long positions in euro and the limited sensitivity of the valuation of assets and liabilities to interest rates, all countries display limited vulnerabilities of their banking system to interest rate shock and exchange rate shocks.

[1] This Annex was prepared by Nérée Noumon.

The resulting lower government revenue triggered by the sharp drop in hydrocarbon price would have a sizeable impact on the solvency and liquidity of the banking sector. This will mainly be driven by an increase in government arrears and a decline in outstanding deposits that will tend to destabilize more liquidity ratios for commercial banks with capital from the CEMAC.

4. Equatorial Guinea performs relatively better than the CEMAC as a whole in terms of both resilience to credit and liquidity shocks. A credit quality shock to Equatorial Guinea's banking system leads the percentage of banks satisfying the solvency ratio requirements unchanged at 80 percent, as opposed to CEMAC region for which the same shock reduces the number of banks respecting the solvency prudential standard to only 61 percent from an initial 82 percent of banks. In the same vein, after a 25 percent withdrawal in deposits, only 60 percent of banks still satisfy liquidity requirements, from the original 100 percent. Equatorial Guinea's performance remains, however, better than that of the CEMAC region, for which the percentage of banks meeting the liquidity requirements drops to 27 percent from the 82 percent prior to the shock.

Combating Money Laundering and Terrorist Financing

5. The Task Force against Money Laundering in Central Africa (GABAC)[2] has made efforts to be in a position to carry out its core functions. However, the process to become a Financial Action Task Force (FATF)-style regional body (FSRB), is currently frozen because of delays in the GABAC's adoption of procedures for transparent financial management. All CEMAC countries face major money laundering and terrorism financing risks, but the implementation of effective AML/CFT policies remains a challenge as authorities face structural and sectoral challenges that are conducive to money laundering operations.[3]

6. Progress in the implementation of all CEMAC's AML/CFT arrangements has varied across the CEMAC and has not been accompanied by an effective use of its tools. The FSAP determined that Equatorial Guinea is one of the two countries with national financial intelligence units (NFIUs) not in operation. The expressed commitments of authorities in the sub-region to strengthening of governance have not translated into an efficient use of AML/CFT tools. In addition, as regards terrorism financing, the arrangements for freezing terrorist assets, envisaged by the CEMAC regulations, are not implemented, and are not included in the states' strategies against terrorism.

7. The implementation of AML/CFT measures is weak at all the regulated institutions in the financial and nonfinancial sectors, and their supervision by the COBAC is limited. This lack of implementation is due to limited incentives provided by regional and national authorities, as well as restrained dissemination of information on the standards and the nature and scope of the obligations for vigilance. The supervision of compliance with AML/CFT measures by the COBAC

[2] The GABAC was created by Supplementary Bill 9/00/CEMAC-086/CCE 02 of December 14, 2000.

[3] A predominance of informality and the use of cash in the economy, unreliability of identification documents and lack of register computerization, highly porous borders, and recycling of dirty money in the real estate, banking, funds transfers, manual foreign exchange operations, microfinance, and tontine sectors.

remains inappropriate at both the regional and national levels. Audits undertaken by the COBAC are limited in terms of number, frequency, and depth due to limited human resources. Besides, these audits do not involve any penalties. On a national scale, various authorities have powers shared with the regional supervisors in the procedures of licensing and appointing executives that is not always clearly spelled out or understood. In the nonfinancial sector, the authorities are generally unaware of the entire legal framework and of their pertinent tasks. Therefore, no supervisory action has been taken.

Policy lessons from the FSAP

8. Equatorial Guinea should strive to have a more diversified financial sector and improve access to financial services. A number of reforms should be implemented. These include those aimed at removing the constraints mentioned by potential users, e.g., the relatively high minimum deposit requirements compared with income, the cost of services, and the distance from the nearest bank branch. In particular, the development of the MFI sector could make the financial sector more suited economic development needs. Equatorial Guinea's authorities should take advantage of its relatively high mobile telephone penetration (68 percent) to promote and develop the use of mobile banking.

9. The results of the stress test imply the necessity for a greater attention to the rise in NPLs in the Equatorial Guinea's banking sector. Given that credit risk has been identified as the most important risk in the CEMAC, a degradation of convergence criteria as a result of the sharp drop in oil price could have serious impact on the solvency of banks, through various potential channels both domestic (e.g., construction sector) and regional (e.g., spillover from parent company of the banks).[4]

10. On the implementation of AML/CFT issues, urgent action should be taken to accelerate progress to bring Equatorial Guinea's NFIU into operation. The efforts should be accompanied by an increase in the appropriate financial, technical, and human resources and the capacities of national supervisors of the financial and nonfinancial sectors, for gradual implementation of all aspects of disciplinary power, targeting the riskiest activities (e.g., funds transfers, foreign exchange operations, real estate transactions, etc.).

11. Deeper understanding of AML/CFT regulations by both authorities and the sectors concerned should be fostered through a clearly spelled out of AML/CFT policies at the national level. The FSAP recommends the drafting of a national AML/CFT policy and an AML/CFT prosecution policy documents by an appointed inter ministerial committee. While the former document will analyze the principal risks faced by each regulated institution and each activity, the latter will explain AML/CFT prosecution policy on the principal predicate offenses.

[4] Two of the banks are headquartered in Cameroon and Gabon.

Table 1. CEMAC: Aggregated Stress Test Results: Macroeconomic Shocks

		Prior to Shock		After Macroeconomic Shock 2/	
Banking groups 3/	No. of banks 1/	% of banks observing the solvency ratio	% of banks observing the liquidity ratio	% of banks observing the solvency ratio	% of banks observing the liquidity ratio
CEMAC	12	42	67	25	33
SSA	17	94	82	65	24
Other	20	95	90	80	25
Total	**49**	**82**	**82**	**61**	**27**
Eq. Guinea	5	80	100	80	60
Total	**49**	**82**	**82**	**61**	**27**

Source: 2015 IMF's FSAP.
1/ The data for one domestic Equatorial Guinea bank were not fully available.
2/ A 30 percent increase in doubtful loans in the sectors of extractive industries, construction and public works, transport and telecommunications, government departments, and households. A decline of 25 percent in deposits for non-financial enterprises, 50 percent for the public sector, and 10 percent for financial institutions and other sectors. A 30 percent increase in accounts receivable in the sectors of extractive industries, construction and public works, transport and telecommunications, government departments, and households. Two levels of deterioration as regards meeting the convergence criteria.
3/ CEMAC: banks with capital originating in CEMAC countries; SSA: banks with capital originating in SSA countries outside the CEMAC.

INTERNATIONAL MONETARY FUND

REPUBLIC OF EQUATORIAL GUINEA

June 26, 2015

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

The African Department
(in consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND

(As of May 31, 2015)

Membership Status: Joined December 22, 1969 Article VIII

General Resources Account:	**SDR Million**	**%Quota**
Quota	52.30	100.00
Fund holdings of currency (Exchange Rate)	47.38	40.59
Reserve Tranche Position	4.93	9.42

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	31.29	100.00
Holdings	21.5	67.60

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF [1/]	Feb 03, 1993	Feb 02, 1996	12.88	4.60
SAF	Dec 07, 1988	Dec 06, 1991	12.88	9.20
Stand-By	Jun 28, 1985	Jun 27, 1986	9.20	5.40

[1/] Formerly PRGF.

Projected Payments to Fund [2/]
(SDR Million, based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2015	2016	2017	2018	2019
Principal					
Charges/Interest	0.00	0.01	0.01	0.01	0.01
Total	0.00	0.01	0.01	0.01	0.01

[2/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative: Not Applicable

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR) Trust.

Safeguard Assessments: The Bank of the Central African States (BEAC) is the regional central bank of the Central African Economic and Monetary Community (CEMAC). As with other regional central banks, the BEAC is subject to a safeguards assessment every four years. The quadrennial assessment in 2013 occurred against the backdrop of significant changes at the BEAC to address governance challenges and control failures that emerged in 2009 and led to close engagement in the period after through IMF monitoring of safeguards "rolling measures." The BEAC also embarked on a reform and modernization plan (RMP) to strengthen controls. The 2013 assessment concluded that, despite some progress made by the BEAC in reinforcing its safeguards framework, further actions were needed to restore sound governance and control fully, including through amendments to the BEAC charter and commitment to achieve the RMP. The assessment also recommended maintaining the annual monitoring visits to the BEAC to follow up on progress on implementing the safeguards rolling measures and advancing work on the BEAC's own reform plan in the context of new program requests and reviews of CEMAC countries. Consistent with this engagement, a safeguards staff visit to the BEAC was conducted in April 2015. Staff concluded that although the BEAC continues to maintain a strong commitment to complete its reform plan, slippages have occurred and the timeframe of the RMP has been revised. Progress on implementing the safeguards rolling measures has been mixed, and priority recommendations on amendments to the BEAC charter and adoption of an internationally recognized financial reporting framework (IFRS) have been delayed. The BEAC has indicated a need for IMF technical assistance to advance the above recommendations, and steps on prompt delivery of this input have been initiated. Strong actions and close coordination with member states to gain consensus will be needed in the period ahead for the BEAC to conclude its reforms and the outstanding safeguards recommendations. Progress on implementation of the latter will remain subject to annual monitoring by the IMF, as a condition to continuing new program requests and reviews of CEMAC member countries.

Exchange System: The regional currency is the CFA franc, which has been pegged to the euro at the rate of CFAF 655.957 per euro, since the euro was introduced in 1999. Equatorial Guinea has accepted the obligations of Article VIII, Sections 2, 3 and 4 and 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 April 30, 2014, on lapse-of-time basis.

Equatorial Guinea: Technical Assistance Missions since 2007

Provider	Theme	Timing
AFRITAC Central	National accounts and consumer price statistics	October 2007
	Price statistics	March 2008 and June 2008
	Trade statistics	July 2008
	Public financial management statistics	February 2008, February 2009, July 2010, May 2011, and March 2012
	Budget accounting system and practices	September 2012
	Debt management	September 2013
	National accounts statistics	June to July 2008; January, May, December 2011; October to November 2013; March, October 2014; and February 2015.
	LTO administration	November 2014 and June 2015
	Customs administration	September 2015 (Planned)
Fiscal Affairs Department (FAD)	Public finance management	February 2013
	Revenue administration	March-April 2014
Statistics Department(STA)	Real sector statistics	March 2007
	Balance of payments statistics	February 2013
Resident advisors	Macro-fiscal advisor backstopped by AFR; paid for by the government through a reimbursement agreement with the Fund.	June 2006 to early May 2007
	Public financial management advisor backstopped by FAD; paid for by the government through a reimbursement agreement with the Fund.	June 2006 to early May 2007
	Two macro-fiscal advisors backstopped by AFR; paid for by the government through a reimbursement agreement with the Fund.	Redeployed in April 2008 for a one-year period. Their contracts were extended in 2009 and 2010, and expired on December 31, 2011.

RELATIONS WITH THE WORLD BANK GROUP

(As of end-May, 2015)			
Title	**Products**	**Provisional timing of missions**	**Expected delivery date**
A. Mutual information on relevant work programs			
The World Bank work program in the next 12 months	**1. Statistics Support:** A technical assistance project is in place to support the government along three priority pillars: 1. production of data (namely national accounts), 2. institutional development of the National Statistics Institute, 3. promoting the use of data for decision making. Two resident advisors are currently based in Malabo.	The next supervisory mission will take place in June 2015.	Expected completion in December 2016.
	2. Public Investment Management and Monitoring of National Development Plan: A technical assistance project is in place to support the government with strengthening public investment management and the monitoring of the NDP. Two resident advisors are currently based in Malabo.	The next supervisory mission will take place in June 2015	Expected completion in December 2016.
	3. Investment Climate Reform: A third technical assistance agreement to promote investment climate reform and support the set-up of an Investment Promotion Agency is pending signature	Signature expected in June 2015	
B. Requests for work program inputs			
Fund request to Bank		Data sharing, in particular the outcome of technical assistance to the statistical office	
Bank request to Fund	Regular updates on macroeconomic framework Data sharing, in particular with respect to fiscal information.		

STATISTICAL ISSUES

EQUATORIAL GUINEA—STATISTICAL ISSUES (As of June 10, 2015)
I. Assessment of Data Adequacy for Surveillance (continued)
General: Data provision has serious shortcomings that significantly hamper surveillance. National accounts, government finance statistics, and balance of payments data are all deficient in quality, timing, and coverage. The newly established National Institute of Statistics (INEGE) is not fully operational, although noteworthy progress has been made since its creation last year. Poor centralization of information between the island and continental regions is also an issue.
National Accounts: National accounts are constructed by the Bank of Central African States (BEAC) as part of their regular Monetary Programming exercise. They are based largely on estimates, with only limited survey information except for the hydrocarbon sector and other primary sector exporters. The current base year is 1985 and the methodology used is the *System of National Accounts, 1968* (SNA68). Progress has been made by the National Statistics Institute (INEGE) toward the establishment of a new base year for national accounts (2006), with the assistance of the World Bank, AFRISTAT, and AFRITAC Central (AFC), using the SNA93 methodology. New estimates for the period 2007–12 have been prepared (but not yet validated), and preliminary estimates for 2013–14 are being finalized. Data sources need to be improved for more reliable and comprehensive GDP estimates. The population census, a household survey, an employment survey, and an agricultural survey, initially planned for 2011, are now scheduled for 2016. An enterprise census is underway.
Price statistics: Compilation of the official CPI resumed in January 2009, with data collected in five major cities. However, a number of deficiencies remain, including outdated weights and composition of the basket of goods and services, and gaps in the time series corresponding to the period for which data was not collected (2008). Imputations for missing data do not always reflect underlying trends.
Government finance statistics: The authorities provide budget execution data to the Fund, but these are limited in detail (with, for example, a poor delineation between capital and current spending and no functional classification) and are not fully reconciled with the monetary accounts. The fiscal data are not subject to any internal process of verification because weak audit capability. The authorities have yet to appoint additional residential advisors for public finance, budgeting, and accounting following advice from the Fiscal Affairs Department. Gains in transparency were made temporarily through the Extractive Industries Transparency Initiative process, with a reconciliation report posted on the World Bank website in March 2010 that included hydrocarbon revenue data and information on state owned oil companies, but no subsequent information has been published.
Monetary statistics: Monetary statistics are reported to the Fund by the Banque des États de l'Afrique Centrale (BEAC) on a monthly basis in the format of the standardized report forms (SRFs). The depository corporation survey does not include data from deposit-taking microfinance institutions. It is hoped to include data in the future on interest rates offered by the financial institutions sector to non-financial entities on deposits and loans.

Balance of payments: The National Directorate of the Bank of Central African States is responsible for the compilation of the balance of payments statistics of Equatorial Guinea. The BEAC produces balance of payments data for its monetary programming exercise, but these largely rely on estimations. Trade transactions processing and data compilation are complicated by the fact that customs authorities do not use a computerized system. For example, no data on merchandise imports are made available. The balance of payments statistics mission of March 2013 noted the severe capacity constraints at the National Directorate and the need for staff training as well as the improvement of institutional arrangements in the country to support the production of external sector statistics.	
II. Data Standards and Quality	
Equatorial Guinea does not participate in the GDDS.	Equatorial Guinea has not yet received a mission to produce the data module of the Report on the Observance of Standards and Codes (data ROSC).
III. Reporting to STA (Optional)	
Real sector statistics are reported to STA for publication in the *International Financial Statistics (IFS)* with a long lag and are limited to GDP (without breakdown by sector or expenditure category), and exports, and imports. The authorities agreed to submit CPI data for the *IFS* publication and STA is communicating with the authorities regarding the procedure. The BEAC reports monetary, interest rates, and exchange rate statistics for publication in the *IFS,* but delays are persistent (currently the lag is about three months). Due to capacity constraints, balance of payments data are not submitted to STA for publication in the *IFS* or the *Balance of Payments Statistics Yearbook*. The latest year for which balance of payments data are available is 1996. Equatorial Guinea does not report fiscal data to STA for publication in the *IFS* or the *Government Finance Statistics Yearbook*.	

Equatorial Guinea: Table of Common Indicators Required for Surveillance

(As of June 10, 2015)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	5/29/2015	5/29/2015	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Dec. 2014	5/12/2015	M	M	I
Reserve/Base Money	Mar. 2015	5/29/15	M	M	M
Broad Money	Mar. 2015	5/29/15	M	M	M
Central Bank Balance Sheet	Mar. 2015	5/29/15	M	M	M
Consolidated Balance Sheet of the Banking System	Mar. 2015	5/29/15	M	M	M
Interest Rates[2]	Mar. 2015	5/29/15	M	M	I
Consumer Price Index	Dec. 2014	4/27/2015	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	Mar. 2015	5/29/15	M	Q	I
Stocks of Central Government and Central Government-Guaranteed Debt[5,6]	2014	5/12/2015	A	A	I
External Current Account Balance	2013	2/24/2014	A	A	I
Exports and Imports of Goods and Services	2013	2/24/2014	A	A	I
GDP/GNP	2014	4/27/2015	A	A	I
Gross External Debt	2014	5/12/2015	A	A	I
International Investment Position[7]			NA	NA	NA

[1]Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2]Both market-based and officially-determined, including discount rates, money market rates, and rates on treasury bills, notes and bonds.

[3]Foreign and domestic bank, 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] Includes currency and maturity composition.

[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

[7] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

INTERNATIONAL MONETARY FUND

REPUBLIC OF EQUATORIAL GUINEA

June 26, 2015

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITYANALYSIS

Approved By
Anne-Marie Gulde-Wolf and Masato Miyazaki

Prepared by the International Monetary Fund—African Department

Equatorial Guinea's public sector debt rose from 8 percent of GDP in 2013 to 12 percent in 2014, as fiscal needs required the use of central bank financing for the first time in recent history. The remainder of public debt is external, largely comprised of drawing upon a credit line with the Exim Bank of China. Based on staff's projections, fiscal adjustment and the use of fiscal buffers underpin a sustainable increase in public debt over the medium term to around 17 percent of GDP in 2020. Under an adverse scenario where the primary balance is held constant after 2015, public debt would reach 35 percent of GDP.

1. Equatorial Guinea's public sector debt is low. At end-2014, gross public sector debt amounted to US$1.7 billion (12 percent of GDP), up from US$1.4 billion (7.9 percent of GDP) at end 2013. The rise in debt level is due to an increase in domestic-currency denominated debt through drawing of statutory advances from the regional central bank, the BEAC for deficit financing. The use of the BEAC overdraft amounted to CFAF 369 billion, or approximately 4.8 percent of 2014 GDP.[1] The bulk of Equatorial Guinea's public sector debt remains external, all of which with medium- to long-term maturities. External debt declined in 2014 to US$1.0 billion due to repayment of existing debt. Nearly all of this external debt is comprised of Equatorial Guinea's US$2 billion credit line contracted with the Exim Bank of China, used to finance infrastructure projects linked to the national development plan.

2. Public debt is expected to remain sustainable over the medium term. Staff's baseline projections anticipate fiscal deficits falling over time, financed by drawing on externally-held deposits and limited new external debt accumulation based on pending credit lines averaging 2.2 percent of GDP per year. Under these assumptions, the public debt-to-GDP ratio is projected to increase to 16.6 percent of GDP. Under the standard shock scenario applying based on a constant primary balance at the projected 2015 level (-3.7 percent of GDP), higher gross financing would drive public debt to 35 percent of GDP. Sensitivity analysis also shows higher risk of gross financing under as the financing needs reach 15.9 percent of GDP in 2020 under the baseline scenario (moderately exceeding the benchmark level of 15 percent of GDP), largely driven by higher debt service. In addition, gross financing vulnerabilities are high under the primary balance shock and real growth shock scenarios, further highlighting the importance minimizing debt vulnerabilities through sustained fiscal consolidation.

Figure 1. Equatorial Guinea: Creditors by Type
(end 2014)

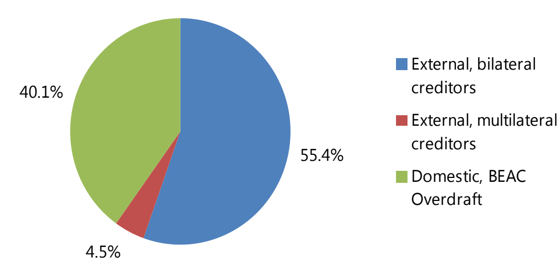
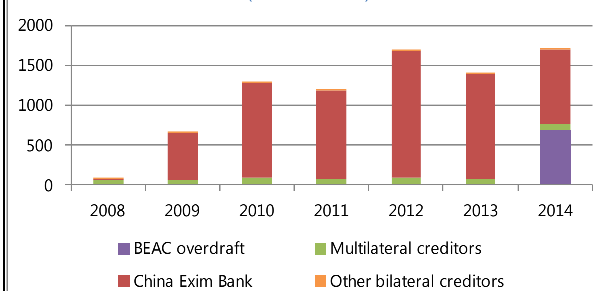


Figure 2. Equatorial Guinea: Gross Public Debt
(USD millions)



[1] BEAC caps statutory advances at [20] percent of revenues of the preceding fiscal year. The annual rate of interest on central bank financing is equivalent to the policy rate, or 2.95 percent (as at end May 2015).

Equatorial Guinea: Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(Percent of GDP unless otherwise indicated, continued)

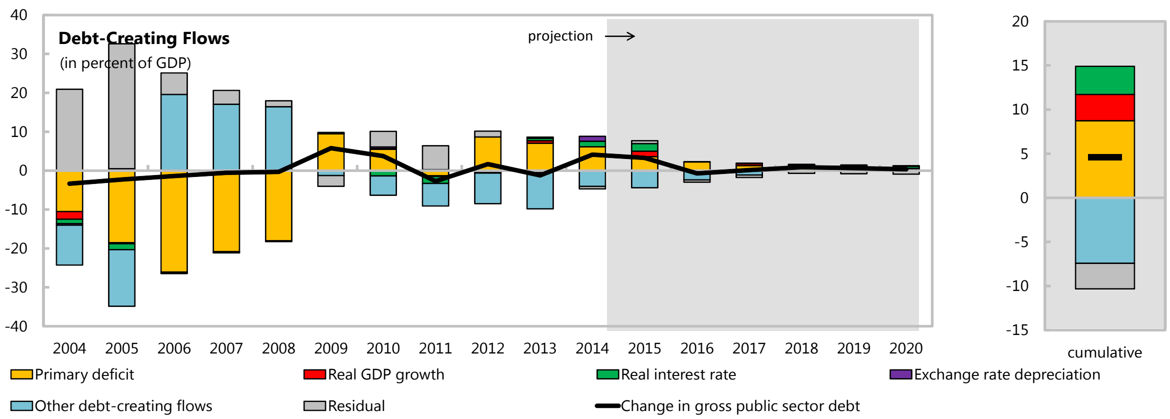
Debt, Economic and Market Indicators [1]

	Actual			Projections					
	2004-2012 [2]	2013	2014	2015	2016	2017	2018	2019	2020
Nominal gross public debt	4.9	7.9	12.0	15.3	14.6	14.7	15.6	16.2	16.6
Public gross financing needs	-7.6	9.3	8.5	6.0	6.7	8.4	10.2	13.0	15.9
Real GDP growth (in percent)	7.1	-6.5	-0.3	-9.4	-0.3	-3.3	-2.6	-2.3	-1.9
Inflation (GDP deflator, in percent) [3]	15.3	-1.5	-9.0	-10.8	4.1	3.1	2.3	2.0	1.9
Nominal GDP growth (in percent)	24.0	-7.9	-9.3	-19.2	3.8	-0.3	-0.4	-0.4	0.0
Effective interest rate (in percent) [4]	3.9	4.5	7.5	3.4	3.9	4.1	3.8	4.4	4.9

As of June 05, 2015		
Sovereign Spreads		
EMBIG (bp)		n.a.
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	n.a.	n.a.
S&Ps	n.a.	n.a.
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2004-2012	2013	2014	2015	2016	2017	2018	2019	2020	cumulative	debt-stabilizing primary balance [9]
Change in gross public sector debt	0.1	-1.2	4.1	3.3	-0.7	0.1	0.9	0.6	0.3	4.6	
Identified debt-creating flows	-8.0	-1.5	4.8	2.5	-0.2	0.8	1.6	1.4	1.2	7.5	
Primary deficit	-8.0	7.1	6.1	3.6	2.2	1.3	0.9	0.4	0.3	8.7	1.0
Primary (noninterest) revenue and grants	38.7	31.8	33.6	29.7	28.3	28.2	27.8	27.0	26.3	167.3	
Primary (noninterest) expenditure	30.7	38.9	39.8	33.3	30.5	29.5	28.7	27.4	26.5	176.0	
Automatic debt dynamics [5]	-0.9	0.8	2.7	3.3	0.0	0.6	0.6	0.7	0.8	6.2	
Interest rate/growth differential [6]	-1.0	1.2	1.5	3.3	0.0	0.6	0.6	0.7	0.8	6.2	
Of which: real interest rate	-0.7	0.6	1.4	2.0	0.0	0.2	0.2	0.4	0.5	3.2	
Of which: real GDP growth	-0.3	0.6	0.0	1.4	0.0	0.5	0.4	0.4	0.3	3.0	
Exchange rate depreciation [7]	0.0	-0.4	1.3	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.9	-9.4	-4.1	-4.4	-2.4	-1.1	0.0	0.3	0.2	-7.4	
Treasury deposits abroad (-=increase) (negative)	4.4	-10.6	1.1	-4.4	-2.4	-1.1	0.0	0.3	0.2	-7.4	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Deposits at BEAC	-3.4	1.2	-5.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8]	8.1	0.3	-0.6	0.7	-0.6	-0.6	-0.7	-0.8	-0.9	-2.9	



Source: IMF staff.

1/ Public sector is defined as central government

2/ Based on available data.

3/ The continuous decline of GDP deflator is driven by a decreasing trend of oil and gas prices.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate;
a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi (1+g)$ and the real growth contribution as $-g$.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

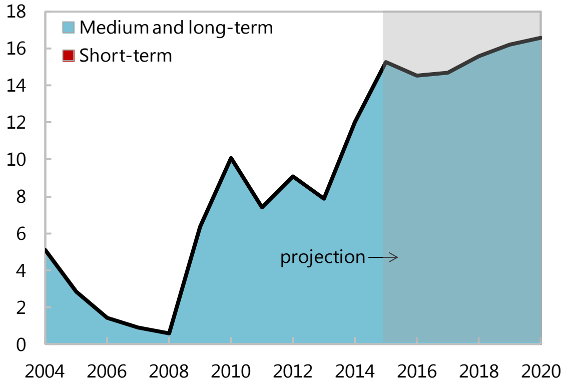
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Equatorial Guinea: Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

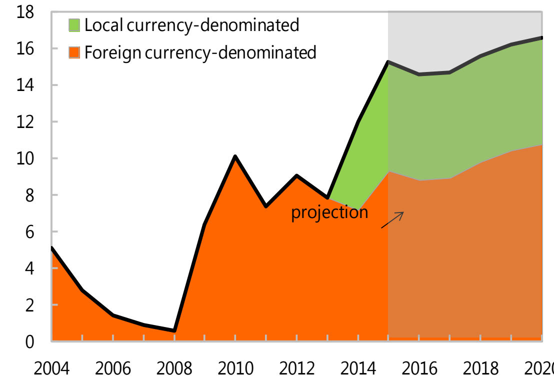
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

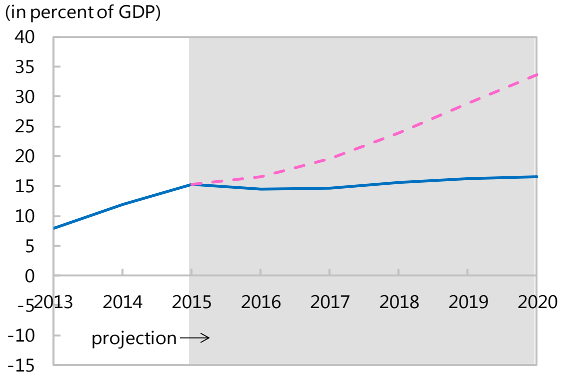


Alternative Scenarios

Baseline — Constant Primary Balance

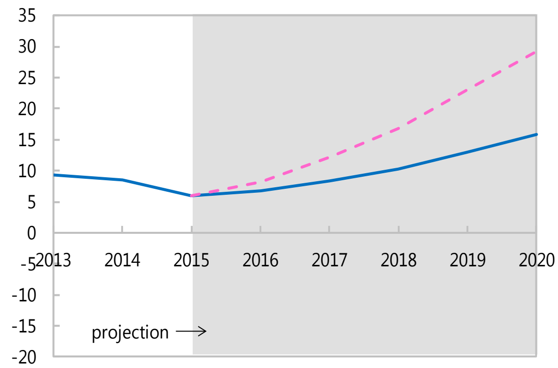
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario	2015	2016	2017	2018	2019	2020
Real GDP growth	-9.4	-0.3	-3.3	-2.6	-2.3	-1.9
GDP Deflator	-10.8	4.1	3.1	2.3	2.0	1.9
Primary Balance	-3.6	-2.2	-1.3	-0.9	-0.4	-0.3
Effective interest rate	3.4	3.9	4.1	3.8	4.4	4.9
Constant Primary Balance Scenario						
Real GDP growth	-9.4	-0.3	-3.3	-2.6	-2.3	-1.9
GDP Deflator	-10.8	4.1	3.1	2.3	2.0	1.9
Primary Balance	-3.6	-3.6	-3.6	-3.6	-3.6	-3.6
Effective interest rate	3.4	3.9	3.9	3.5	3.8	4.0

Historical Scenario	2015	2016	2017	2018	2019	2020
Real GDP growth	-9.4	2.0	2.0	2.0	2.0	2.0
GDP Deflator	-10.8	4.1	3.1	2.3	2.0	1.9
Primary Balance	-3.6	4.8	4.8	4.8	4.8	4.8
Effective interest rate	3.4	3.9	6.4	21.9	-18.5	-7.6

Source: IMF staff.

Equatorial Guinea: Public Debt Sustainability Analysis Risk Assessment

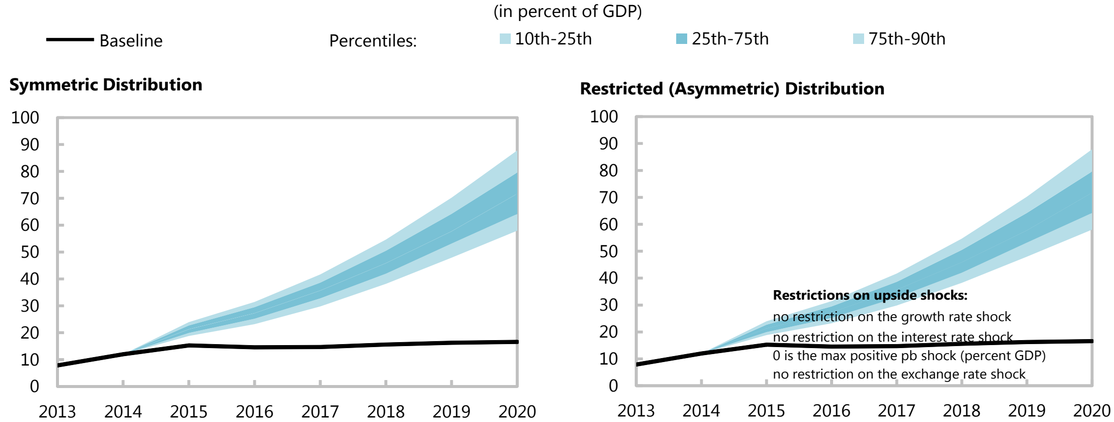
(Percent of GDP unless otherwise indicated, continued)

Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

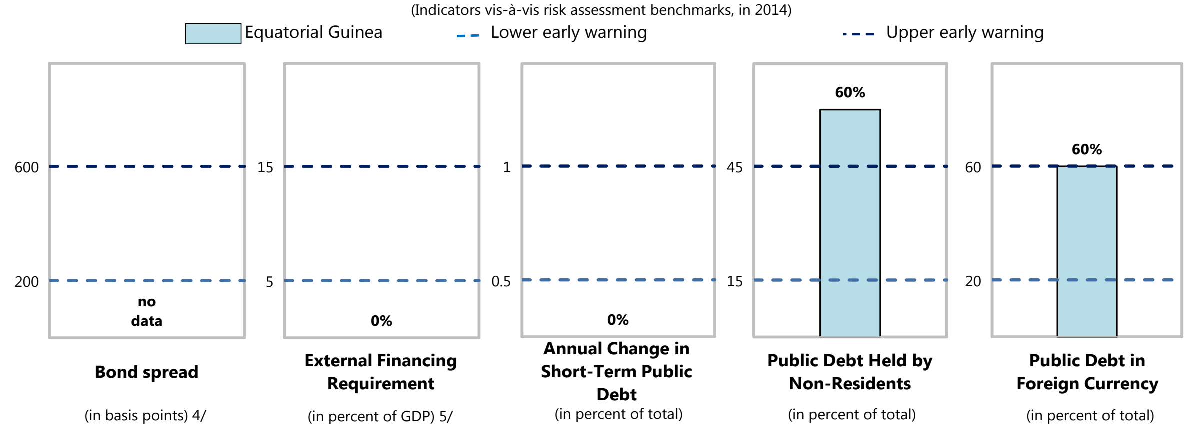
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2014)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ An average over the last 3 months, 07-Mar-15 through 05-Jun-15.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Statement by Mr. Yambaye, Executive Director for the Republic of Equatorial Guinea
July 20, 2015

On behalf of my Equatorial Guinean authorities, I would like to thank staff for the fruitful dialogue during the 2015 Article IV consultation discussions in Malabo. I also thank management for the continued support to the authorities' development efforts.

Over the past decade, Equatorial Guinea has taken advantage of high oil prices and considerable hydrocarbon production, to undertake an ambitious program of development and structural transformation, under its National Development Plan

(NDP), *Horizonte 2020*. In particular, they developed basic infrastructure all over the country, including housing, roads, airports, ports and the modernization and extension of electricity and water facilities. The latter, especially, has greatly facilitated access by the inhabitants to potable water and electricity, and helped to improve the quality of life of the population.

However, the recent large fall in oil prices has caused a sharp decline in revenues, and adversely affected the pace of implementation of the development program as well as the economy overall. As a result, the authorities have adjusted their development program, and made it less ambitious. They have also revised the 2015 Budget to reduce current and capital spending, and increase non-hydrocarbon revenues. The medium-term fiscal framework targets further reduction in spending, as the first phase of the development program comes to an end. My authorities agree with staff that the new environment has brought new challenges that require attention in order to ensure that Equatorial Guinea maintains a sustainable growth.

Recent Economic Developments

Real GDP in 2014 is estimated to have declined by 0.3 percent, mainly due to decline in hydrocarbon production. Growth in the non-hydrocarbon sector was weak as activity in the construction sector declined. For 2015, with the full impact of the fall

in oil prices, the continued decline in the hydrocarbon sector and a lower public investment, real GDP is projected to contract by about 9 percent, and would remain negative over the medium term. However, the authorities expect that the implementation of the second phase of the development program with emphasis on the non-hydrocarbon sector and an expanding private sector in the areas of transportation, trade and tourism will help to sustain growth in these sectors, and contain the fall in total output. Inflation was 4.3 percent in 2014 due to higher food prices, but is expected to come down to 3.5 percent in 2015.

The fiscal deficit was reduced to 6.8 percent of GDP in 2014, and is expected to be reduced further to less than 5 percent of GDP in 2015, reflecting the fiscal adjustment efforts of the authorities. However, as noted by staff there remains some cash flow management challenges which are being addressed by the authorities. Public sector debt remains low at 12 percent of GDP.

The external current account deficit increased to 10 percent of GDP in 2014 mainly due to developments in the hydrocarbon sector and imports related to the public investment program. For 2015, the authorities expect the current account deficit to be brought down to 7 percent of GDP with further improvements over the medium term. The level of international reserves remains comfortable at about 8 months of imports.

Outlook and Policies

The Equatorial authorities recognize that the economy is facing major challenges going forward due to the sharp decline in oil prices as well as the decline in production. They expect that the large infrastructure investments that they have undertaken in the past years will attract investments both domestic and foreign investors. They are also taking steps to improve the business climate and increase human capital. They expect that these measures will contribute to maintain growth over the medium- to long-term.

Fiscal Policy

The 2015 Budget has been prepared with the conservative assumption of an oil price of US $40 per barrel. The investment budget has also been reduced by about 57 percent and caps spending based on projected hydrocarbon revenues. The authorities recognize that there are weaknesses in public finance management. However, they are taking steps to strengthen the National Payments Committee (NPC) and expect improvements in this area through the imposition of strict cash management in line with the budget. For the medium term, the authorities will take steps to reduce investment spending further and to build financial buffers. They are also giving thoughts to a fiscal rule as recommended by staff, and will request Fund technical Assistance in its design. On oil subsidies, the authorities agree with staff that the currently low oil prices provide an opportunity to phase out fuel subsidies to consumers.

For the medium term, and recognizing the need to strengthen fiscal management, the authorities have prepared a fiscal framework which is aimed at assessing fiscal sustainability risks and providing an eventual basis for medium-term budgeting anchored on a non-oil primary balance. The framework also incorporates several fiscal measures adopted earlier by decree. The authorities are also taking steps to strengthen tax administration, tighten the administrations of ad-hoc customs duty exemptions, reduce tax evasion and enhance tax compliance. Measures also include a revision of subsidies to government agencies as well as the introduction of rentals and charges on government property. There will also be an effort to curb current spending through lower personnel costs by reducing non-salary benefits and downsizing. It is expected that the measures envisaged will help to bring the fiscal deficit to below 3 percent of GDP by 2016 and much lower over the medium term.

Financial Sector

Equatorial Guinea’s financial sector is well-capitalized, liquid and resilient to macroeconomic shocks. Lately, with the slowing down of economic activity, there has been an increase in credit growth and a weakening of asset quality. However, the authorities do not view this as posing a risk to the financial sector, as it is well capitalized and profitable. Moreover, the authorities view the increase in NPLs as temporary and will be resolved with the clearing of government obligations. Going forward, they will continue efforts to deepen the sector, and to make Equatorial Guinea a regional financial hub.

Structural and Business Enhancing Reforms

The authorities will continue their efforts to diversify the economy and make it less dependent on the hydrocarbon sector. In this regard, they are taking steps to improve the business climate and remove structural bottlenecks. The large infrastructure investments go in this direction, in particular, the construction of roads, harbors and airports. Improvements made in electricity and water supply should also help. The authorities are now taking steps to create a conducive environment for the development of the private sector and a better labor force. In this regard, they are negotiating with the World Bank a Reimbursable Advisory Services (RAS) agreement to improve the business climate and to develop an investment promotion agency. They have also taken steps to increase transparency and accountability by establishing a court of audit and an investment promotion agency. As regards human capital, the authorities are funding scholarships for foreign studies, and developing schools and technical training, among others. They expect that these measures will help Equatorial Guinea to return to a strong and more sustainable growth path over the medium- to long-term.

The authorities have also taken note of staff's recommendations regarding weaknesses in statistical data and are committed to take necessary measures to improve the compilation as well as the dissemination of statistics. In this regard, they would welcome additional technical assistance from the Fund, in particular, in developing the capacity to participate in the GDDS.

Conclusion

Equatorial Guinea has made important progress in the development of the country. The decline of the hydrocarbon sector has brought in new challenges which the authorities are determined to address. In this regard, they look forward to continued technical assistance and advice from the Fund whose assistance has always been invaluable.