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Republic of Equatorial Guinea: 2006 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for the Republic of Equatorial Guinea

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2006 Article IV consultation with the Republic of Equatorial Guinea, the following documents have been released and are included in this package:

- the staff report for the 2006 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on January 31, 2006, 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 April 7, 2006. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its May 10, 2006 discussion of the staff report that concluded the Article IV consultation.

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

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

Selected Issues Paper

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INTERNATIONAL MONETARY FUND

REPUBLIC OF EQUATORIAL GUINEA

Staff Report 2006 Article IV Consultation

Prepared by the Staff Representatives for the 2006 Article IV Consultation
with the Republic of Equatorial Guinea

Approved by Siddharth Tiwari and Scott Brown

April 7, 2006

- A mission visited Malabo and Bata during January 18–31, 2006 to conduct the Article IV consultation discussions with Equatorial Guinea. The mission met with Minister of Finance and Budget Owonu Edu, Planning Secretary of State Ela Oyana, and the Banque des Etats de l'Afrique Centrale (BEAC) National Director Bindang Obiang. The Equatoguinean economic team was led by Lucas Abaga, Inspector General of the Ministry of Economy. Also, the mission met with other senior government officials, representatives of the private sector, and donors.
- The mission comprised of Messrs. Itam, Franken, Klueh, York and Ms. Loukoianova (all AFR). Mr. Bah, Senior Advisor (OED), participated in the discussions, and Ms. Tordo and Mr. Tsouck Ibounde (World Bank) joined the mission. Mr. Bio-Tchané (AFR) co-chaired the concluding session of the mission with the Minister of Finance and Budget.
- Equatorial Guinea is a member of BEAC, and has accepted the obligations under Article VIII of the Fund's Articles of Agreement. The regional currency—the CFA franc—is pegged to the euro (CFA F 656 per euro). The BEAC maintains an exchange rate regime that is free of restrictions on the making of payments and transfers for current international transactions. Equatorial Guinea's relations with the Fund are summarized in Appendix I.
- Equatorial Guinea is not IDA-eligible because of its high per capita income. However, ongoing capacity building initiatives are being supported by the World Bank (as well as other donors). IMF-Bank collaboration and Equatorial Guinea's financial relations with the World Bank Group are summarized in Appendix II.

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EXECUTIVE SUMMARY

- **Macroeconomic developments in recent years were broadly satisfactory**. A slowdown in hydrocarbon production caused the overall real GDP growth to decelerate sharply but was strong at 6.5 percent in 2005. The non-oil sector remained buoyant, recording an expansion of 10.7 percent in real terms. Inflation, while still above the CEMAC regional convergence criterion of 3 percent, declined further to 4.8 percent at year end, In the context of significant improvements in the terms of trade due to high world oil prices, the external position strengthened further with the current account deficit narrowing by nearly one half to 13.3 percent of GDP and international reserves rising to US$2.9 billion (equivalent to about 15 months of projected non-oil sector imports).

- **In addition to the favorable external conditions underpinning macroeconomic developments in 2005, financial performance followed the pattern of recent years**. Larger-than-budgeted revenues led to increased spending—mainly on physical infrastructure—and saving. The overall fiscal surplus was about thrice the amount projected in the budget. However, the non-oil fiscal deficit was as large as in the previous year at 200 percent of non-oil GDP, and capital outlays were more than double the budget provision. As would be expected, monetary developments were dominated by the evolution in budgetary operations, with the increase in government savings from oil revenues leading to further substantial increase in government deposits with the regional central bank and commercial banks. The real effective exchange rate of the CFA franc—calculated for Equatorial Guinea—continued to appreciate, reflecting the appreciation of the euro vis-à-vis the U.S. dollar and a large inflation differential with major trading partners.

- **The economic prospects for 2006 are slightly less favorable than in the preceding year**. Real GDP growth is projected to contract sharply, reflecting a flattening out of oil production, while non-oil GDP growth would remain robust. Inflation is projected to decline to less than 4 percent at year end, and the external position will strengthen with the continued improvement in the terms of trade.

- **Based on current policies and the projected favorable external environment, the medium-term prospects are positive**. Overall growth would oscillate with hydrocarbon production, but should average about 5 percent annually during 2007–10. Although inflation is projected to decline only gradually with improved domestic supplies of foodstuffs, it is likely to reach the CEMAC target of 3 percent by 2008. The external position is projected to generate surpluses that would raise the level of international reserves to about US$11 billion by end-2010 (61 months of non-oil sector imports).

- **The Equatoguinean economy is now 20 times larger than what it was in the mid-1990s.** Overall economic growth has led to the rapid rise in measured per capita income to that of middle-income countries, but the standard of living of the population at large has not improved commensurately. Equatorial Guinea now has adequate resources to make rapid progress toward alleviating poverty and achieving the Millennium Development Goals. However, to channel resources to priority areas efficiently, there is a need for a well-designed development strategy and strengthened institutional capacity.

- **Accordingly, the staff welcomes the authorities intention to prepare a Poverty Reduction Strategy that would guide government policies and provide a sufficiently robust framework for public expenditure.** In conjunction with developing such a robust framework, the Fund will be providing shortly two resident advisors on public finance management and macro-fiscal issues. In the meantime, the budget process needs to be modified to provide more realistic estimates and a "contingency element" to meet unanticipated needs.

- **As more resources become available to the government, the greater will be the need for transparency in the division of the oil receipts between the oil companies and the government.** In this regard, the staff urges the authorities to move rapidly with the next steps for full participation in the Extractive Industry Transparency Initiative (EITI), including adopting the associated decree, finalizing the government's disclosure policy, and appointing an aggregator.

- **The lack of timely, accurate, and comprehensive macro- and socio-economic data hampers the maintaining of developments**. The staff would urge the allocation of the required resources to enhance the statistical apparatus.

I. Introduction

1. **The Equatoguinean economy is now 20 times larger than what it was in the mid-1990s.** During the first half of the 1990s, average oil production in Equatorial Guinea was less than 5,000 barrels per day. About a decade later, hydrocarbon (oil and gas) production had increased to 380,000 barrels of oil equivalent per day (boed). Over that period, the economy grew at an average rate of 37 percent per year. The hydrocarbon sector dominated the expansion and was more than 80 percent of GDP in 2005. The non-oil sector was also dynamic, with average annual growth in double digits during the last decade, propelled by expansions in the service and construction sectors. Hence, Equatorial Guinea's nominal GDP in 2005 was US$6.8 billion, with an officially estimated population of 1.14 million.

2. **The overall economic growth since the mid-1990s has led to a rapid rise in per capita income to that of middle-income countries, but the standard of living for the population at large has not improved commensurately.** While comprehensive data on poverty are not yet available, tentative estimates suggest that a significant proportion of the population is living below the poverty line[1] and that social services remain underdeveloped. The significant improvements in the Human Development Index (HDI) that Equatorial Guinea experienced in the last decade were driven entirely by the high growth in GDP per-capita.[2] Life expectancy remains at about the average for sub-Saharan African (SSA) countries, school enrolment and literacy has not changed noticeably, and access to safe water is still among the lowest in the world.

3. **Equatorial Guinea now has adequate resources to make rapid progress toward alleviating poverty and achieving the Millennium Development Goals (MDGs).** It is the third largest oil producer in sub-Saharan Africa, and, since 2004, high levels of production and soaring oil prices have boosted hydrocarbon-related fiscal revenues. On current projections, the exploitation of hydrocarbon should generate an estimated US$3.8 billion (44 percent of GDP) per annum in government revenue over the next five years. However, to channel resources to priority areas efficiently, there is a need for a well designed development strategy and strengthened institutional capacity.

4. **Equatorial Guinea has generally been receptive to the Fund's policy advice within the context of surveillance.** In particular, efforts have been made to improve the transparency in the accounting for resources from the hydrocarbon sector, the budget process is now generally including all undertakings by the government, and revenue administration has been improved in line with FAD advice. However, Fund's advice has not always been implemented quickly. Efforts at improving statistics are still lagging, and the development of

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[1] The standard threshold of a minimum consumption or income level of US$1 per day (measured in purchasing power parity terms).

[2] The HDI combines measures of income, life expectancy, school enrolment, and literacy. However, the general perception is that income distribution is particularly skewed in favor of the upper-middle and upper classes.

a comprehensive medium-term fiscal framework remains outstanding. Improvements in the institutional capacity with technical assistance from the Fund, inter alia, should enhance the framework for considering Fund policy advice.

II. Recent Developments and Short-Term Prospects

5. **Macroeconomic developments in 2005 were broadly satisfactory.** Although there was a slowdown in hydrocarbon production that caused overall real GDP growth to decelerate sharply, non-oil GDP growth remained buoyant (Table 1). Large public infrastructure investment and private housing construction continued to be the main factors for growth in the non-oil sector. However, the non-oil primary sector continued to be weak—with a persistent decline in cash crop agriculture—but performance in the tertiary sector—mainly banking services and retail trade—remained relatively strong (Table 2). Inflation declined slightly to 4.8 percent at end-2005 from about 5.1 percent at end- 2004, but the annual average rose by about 2 percentage points in 2005 mainly because of higher domestic prices for petroleum products and supply bottlenecks in the fast growing non-oil sector. Nonetheless, public investment in infrastructure—particularly the road network in rural areas—helped ease the constraints on the supply of domestic foodstuffs and thereby limiting inflationary pressures.

6. **Equatorial Guinea complies with three out of the four policy convergence criteria for the CEMAC countries**—basic fiscal balance that is non negative, level of public debt that is less than 70 percent of GDP, and net change in government arrears being non-positive. The convergence criterion for inflation of 3 percent or less is yet to be achieved.

7. **In the context of significant improvements in the external terms of trade due to high world oil prices, the external position strengthened further in 2005** (Table 3). The current account deficit narrowed to 13.3 percent of GDP in 2005 from 24.2 percent of GDP in 2004 with the improvement in the trade balance. With a sharp increase in foreign equity participation in hydrocarbon sector, a relatively large overall balance of payments surplus was realized, raising international reserves to about US$2.9 billion at end-2005 (equivalent to about 15 months of projected non-oil sector imports of goods and services).

8. **Fiscal performance in 2005 followed the pattern of recent years, with larger-than-expected revenues leading to increased spending and savings.** Preliminary estimates indicate an overall fiscal surplus of 23 percent of GDP or some 320 percent of non-oil GDP—compared to the budgeted 8.4 percent of GDP (Table 4). The non-oil fiscal deficit was about 200 percent of non-oil GDP in 2005, similar to the outcome in recent years but substantially larger than the 90 percent budgeted. Revenues from the oil sector—which account for 95 percent of total revenues—rose sharply with the rise in world oil prices.[3] Non-

[3] The government's take from total receipts from hydrocarbon production rose from about 30 percent in 2004 to 40 percent in 2005, in line with the escalation clause in the various production sharing contracts.

oil tax revenue performed better than expected because of the continued buoyancy in non-oil activities and further efforts to improve tax administration. These efforts—in line with FAD's advice on revenue administration—included the implementation of the new tax code, the creation of a large tax payers unit, and the introduction of a value–added tax.

9. **Faced with much larger total revenue than had been budgeted, outlays on goods and services and public investment were raised to meet some urgent social needs and to accelerate investment in key infrastructures**. Total expenditure declined by 5 percentage points of GDP to 19.6 percent in 2005. However, current expenditure was about 40 percent higher than budgeted mainly because of overruns in goods and services, and capital expenditure was more than double the budget provisions because of unanticipated new public investment projects.

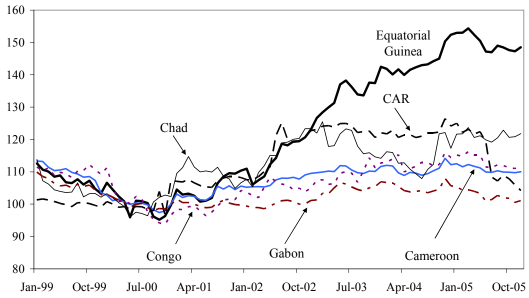
10. **Monetary developments in 2005 continued to be dominated by the evolution in budgetary operations.** The increase in government savings from oil revenues led to a further substantial increase in government deposits with both BEAC and the commercial banks, and the growth of broad money remained high. (Table 7). The buoyancy in the non-oil sector was the main factor for the continued expansion in bank credit to the private sector, particularly for services and construction activities.

11. **A range of indicators suggest that the financial sector has remained relatively sound.** Banks were generally complying with the region's prudential regulations (Table 9). Both deposit and lending rates declined slightly, but the latter remained relatively high, reflecting the high risk associated with domestic borrowers. Banks' limited loan portfolios were almost entirely concentrated in the construction sector, and with only a small number of borrowers.

12. **The real effective exchange rate of the CFA franc—calculated for Equatorial Guinea—continued to appreciate during 2005** (Figure 1)**.** This pattern largely reflected the appreciation vis-à-vis the U.S. dollar and the persistent large inflation differential with the major trading partner countries (Figure 2). Overall, movements in the real effective exchange rate appeared to be dominated by the response to favorable terms of trade developments—particularly world oil prices—and other fundamentals, such as the strong overall fiscal position. The appreciation of the real effective exchange rate for Equatorial Guinea was the largest in the CEMAC region in the recent period, reflecting the country's position as the largest oil exporter and recipient of foreign direct investment relative to GDP, recent developments in the terms of trade, and the relative large weight of the U.S. as the major trading partner, with nominal depreciation vis-à-vis the CFA franc and substantially lower inflation (Box 1).

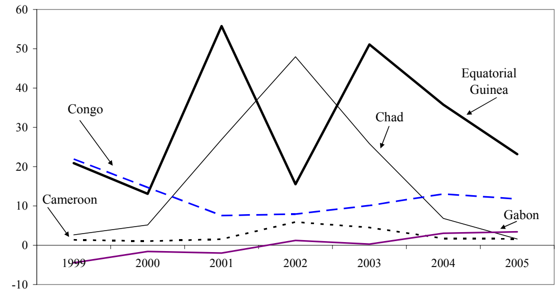
Box 1. External Competitiveness in Oil-Producing CEMAC Countries

CEMAC Countries: Real Effective Exchange Rate (2000=100)



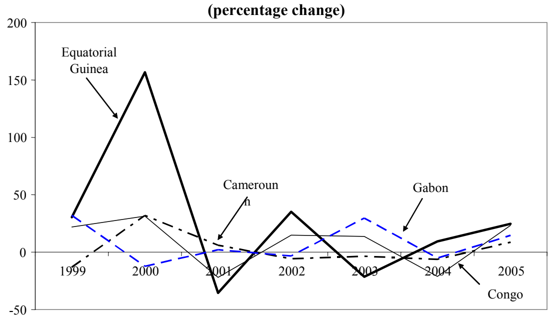
Sources: IMF, Information Notice System (INS); and staff estimates.

CEMAC Countries: Foreign Direct Investment (Percent of GDP)



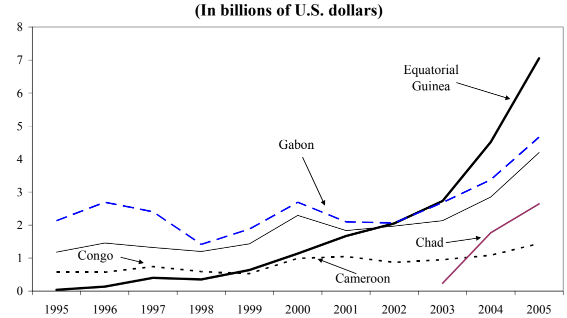
Sources: IMF, World Economic Outlook; and staff

CEMAC Countries: Terms of Trade (percentage change)



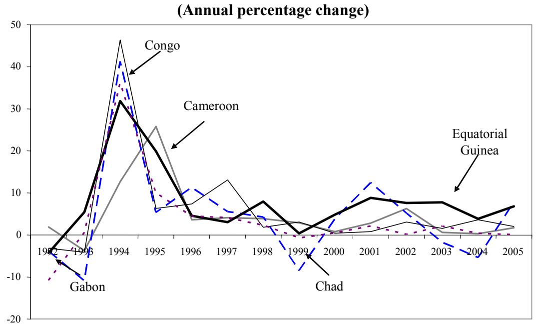
Sources: IMF, World Economic Outlook; and staff estimates.

CEMAC Countries: Value of Oil Exports (In billions of U.S. dollars)



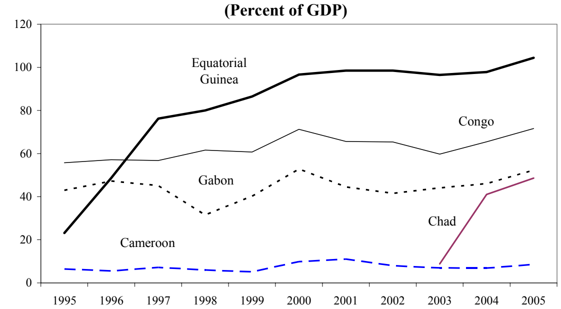
Sources: IMF, World Economic Outlook; and staff estimates.

CEMAC: Consumer Prices (Annual percentage change)



Source: IMF, International Financial Statistics; and staff estimates.

CEMAC Countries: Value of Oil Exports (Percent of GDP)



Sources: IMF, World Economic Outlook; and staff

Nonoil exports have remained relatively small in Equatorial Guinea. Thus, in line with higher oil output and increasing oil prices, recent external sector developments were favorable for the five oil-producing CEMAC countries. This is particularly noticeable for Equatorial Guinea, where the value of oil exports both in US dollar terms and in percent of GDP was the highest in the region since 2003, overtaking Gabon. Reflecting differing inflation performance and relative weights of trading partners, real effective exchange rate (REER) appreciation was most pronounced in Equatorial Guinea – REERs for most of the other member countries stayed largely constant or appreciated only slightly. The US is the largest trading partner for Equatorial Guinea, unlike for all the other CEMAC countries for which the EU is the major trading partner.

CEMAC: Weights of Major Trading Partners

	USA	EU
Cameroon	12.9	54.4
CAR	11.5	67.0
Chad	31.2	52.0
Congo	14.4	42.8
Equatorial Guinea	48.7	29.8
Gabon	16.2	68.5

Source: IMF, Information Notice System.

Equatorial Guinea's oil exports rose most rapidly, and the country received the largest foreign direct investment (FDI) as a share of GDP among the oil-producing CEMAC countries in 1999-2005. The only exceptional year was 2002, when Chad received higher FDI in percent of GDP, which was related to the investment in Chad's oil pipeline. The terms of trade appear volatile for all the oil-producing CEMAC countries during 1999-2005, reflecting fluctuations in oil prices. However, terms of trade improvement was the largest in Equatorial Guinea in this period.

13. **Traditional exports (particularly coffee and cocoa) stagnated in the last few years**. This is partly because producers' profits were adversely affected by the nominal appreciation of the CFA franc vis-à-vis the U.S. dollar.[4] However, another crucial underlying factor for the stagnation in traditional exports was the loss of immigrant farm labor, which was exacerbated by the abandonment of the farms in search of more lucrative employment in the oil (and related) sectors and the "ageing" of the plantations.

14. **The economic prospects for 2006 are less favorable than in the preceding year**. Real GDP is projected to contract by 0.4 percent, reflecting an overall flattening out of oil production. Non-oil GDP growth would remain robust at about 10 percent as the implementation of the public investment program (PIP) continues, which would have a direct positive impact on construction activity and important spillover effects on the tertiary sector. Inflation is projected to decline further to less than 4 percent at year-end, supported by the ongoing public sector wage restraint, expansion in feeder roads to improve conditions for domestic supply of foodstuffs, and greater vigilance in the execution of the budget. With favorable terms of trade developments, a marked increase in the trade surplus is expected, leading to a further narrowing of the current account deficit to 6 percent of GDP. Gross international reserves are projected to rise sharply to around US$4 billion (21 months of projected non-oil imports).

III. Report on the Discussions

15. **Despite the broadly satisfactory macroeconomic performance, the authorities face some major challenges.** First, they are keenly aware of the need to tackle poverty both in the short term by directing resources to priority social programs, and in the long term by establishing a satisfactory growth trajectory that generates employment opportunities within a stable macroeconomic framework. Second, progress with economic reform has been hindered by capacity constraints in the country. This is particularly so in the area of policy formulation and implementation, and in monitoring and assessing the impact of policies vis-à-vis the original intent. The government, therefore, would like to develop institutional capacity with help from development partners, including the Fund and World Bank. Finally, the government is concerned about managing the vast resources from the oil sector in a manner that is efficient, transparent, and cognizant of the need to establish a solid foundation for future generations.[5]

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[4] Nearly all traditional exports are priced and invoiced in U.S. dollars.

[5] The background selected issues paper will include a chapter that provides a preliminary assessment of the implications of developments in the hydrocarbon sector for overall economic growth, with some cross-country experiences.

16. It is with the above background that the mission conducted the discussions for the 2006 Article IV consultation.

A. Tackling Poverty

17. **The emergence of the hydrocarbon sector has led to a drastic change in the structure of the economy, and traditional activities in the non-oil sector may have become non-viable.** Yet the bulk of the population earn their income from activities not directly related to the oil sector. Hence, developing a dynamic non-oil sector is essential for tackling poverty and achieving the MDGs. Of particular concern is why recent rapid growth and high oil revenues have not translated into a perceptible rise in living standards and a decline in poverty. In this regard, the mission welcomed the authorities' intention of preparing a National Poverty Reduction Strategy (NPRS) to guide government policies over the medium term. The authorities explained that the NPRS will be prepared in consultation with civil society, non-governmental organizations and donors.

18. **Although specific policies and measures will need to be informed by the forthcoming poverty assessment, the authorities identified a number of key elements to the strategy with which the mission agreed**:

- Institutional capacity building to support the design, implementation and monitoring of growth-enhancing and poverty-reducing policies;

- Public investment in physical (roads, utilities, etc.) and social (health, education, etc.) infrastructure—according to the priorities identified in the PIP and the Social Fund—to foster the accumulation of physical and human capital;

- Removal of impediments to financial intermediation—uncertainties over the legal rights and obligations of borrowers and creditors, including information about borrowers' credit worthiness, particularly for small- and medium-enterprises; and

- A combination of temporary targeted support for specific economic activities (such as subsidies for inputs in cocoa and coffee production) with the creation of an appropriate business environment and a level playing field for all private sector agents[6]. This would involve establishing a clear legal and stable regulatory framework, a predictable tax regime, and transparency in policy design and implementation.

[6] The Index of Economic Freedom's business climate indicators show that respect for the rule of law, corruption, price controls, informal barriers to foreign investment, tax enforcement of existing laws, and weak property rights have retarded the development of open commercial activities and impeded the conduct of normal business relations.

19. **In the meantime, the authorities, with assistance from a Canadian based consultant firm—Business for Social Responsibility—and supported by the U.S. government, have established a mechanism to fast-track priority social spending as a temporary response to glaring poverty in certain parts of the country.**[7] The mission encouraged the authorities to proceed with the planned national conference on poverty to inform the NPRS that would provide the framework for such social spending. In this regard, the World Bank will assist the authorities to establish a poverty profile, assess sectoral policies to encourage private sector-led economic diversification, and restructure the energy sector (including petroleum).

B. Capacity Constraints

20. **The failure to channel oil wealth to priority social areas has been partly due to severe weaknesses in the institutional environment and crippling capacity constraints.** To address this challenge, the authorities are seeking assistance from the Fund, World Bank, UNDP, and other donors. The Fund is to assist in (i) the reform of the public finance management system, (ii) the development of an analytical and operational fiscal framework for the medium term, and (iii) the improvement of economic statistics—including national accounts, prices, and government finance. The first two areas will involve resident advisors, while the third area will be covered through peripatetic advisors (Box 2). Technical assistance from the Fund will complement that to be provided by other donors, particularly the World Bank.

C. Resource Management

21. **The main concerns of the authorities regarding resource management are related to the efficient use of oil revenues and the remuneration on the country's foreign reserves.** With respect to usage, the mission supported the adoption of the NPRS approach outlined earlier, which would provide a robust framework for public expenditure, with the monitoring mechanisms to ensure transparency.

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[7] The Social Fund, which became operational in 2006, accounts for almost half of the total provision for capital expenditure.

Box 2. Status of Technical Assistance

Background

During July 2005, diagnostic missions were undertaken by the Fiscal Affairs (FAD) and Statistics (STA) Departments, and the World Bank. Both FAD and STA prepared a set of recommendations and action plans to strengthen capacity. These recommendations and action plans were discussed further during the Annual Meetings in September 2005, and subsequently accepted by the Equatoguinean authorities. Also, a seminar on "Sources of Growth" in the Central African Economic and Monetary Community (CEMAC) was held mid-March 2006.

- *Fiscal Issues.* Two resident advisors have been identified to carry out the program of work in the fiscal area. An advisor on public financial management (PFM) will assist in reforming the legislative framework on PFM matters, improving the budget formulation and execution processes, and enhancing information reporting and oversight controls. An advisor on macro fiscal policy will focus on establishing an appropriate medium-term framework for managing Equatorial Guinea's vast oil wealth. Both of these advisors will be financed through a reimbursement agreement with the Fund.

- *Statistics Department.* STA has contracted a peripatetic advisor to assist in the compilation of national accounts and price statistics. The advisor will visit the country four times during the next 18 months, with the first mission coinciding with the 2006 Article IV consultation discussions. Also, an STA expert conducted a diagnostic mission on government finance statistics in January 2006.

- *World Bank*. The World Bank will complement Fund technical assistance in the area of national accounts (together with AFRISTAT), social statistics (poverty assessment), a public expenditure review, and support in developing the National Poverty Reduction Strategy.

- *The reimbursement agreement* with the Fund for the provision of the associated technical assistance was finalized during the mission and signed during the Managing Director's visit on March 13, 2006.

Next steps

Both STA and the World Bank work programs are proceeding. With regard to fiscal issues, the staff has identified experts, and it is envisaged that the work of the advisors could start in the second quarter of 2006. Technical assistance from the World Bank is awaiting the signing of a separate service agreement with the authorities.

22. **In addition, the mission discussed with the authorities the pros and cons of a separate oil fund**. The mission was informed that the government considers the usefulness of oil funds (such as the Fund for Future Generation, and the Special Reserve Fund) in deciding how the budget savings are distributed. While such funds can provide a useful buffer in uncertain times, the authorities pointed out the challenges in balancing urgent current needs to fight poverty (and lay a strong foundation) against inter-generational concerns over the use of the country's oil wealth. The mission stressed that in these endeavors, careful consideration should be given to the macroeconomic implications of front-loading public expenditures, as efforts to alleviate poverty might easily be eroded by

instability emanating from pressures on the current limited capacity—especially high inflation that would impose a disproportionate burden on the poor and distort resource allocation.

23. **With respect to foreign asset remuneration, the government's stated objective is to at least maintain the real value over the medium to long term.** Currently, most of Equatorial Guinea's foreign assets are held with the BEAC, and the issue of the appropriate level of remuneration has not yet been resolved. In the meantime, the BEAC has remunerated (retroactive to 2004) these assets at the ongoing interest rate of 1.6 percent. Both the authorities and the BEAC have made proposals regarding various rates of remuneration, and the structure of deposits. Tripartite discussions were held in January 2006 between the authorities, the BEAC, and the French Treasury, and further discussions on the issues were held by the BEAC Council of Ministers in February 2006. The mission reconfirmed the Fund's readiness to assist in evaluating these proposals and, if necessary, with further discussions involving the BEAC, the French authorities, and the Fund on the principles of reserve management and related topics.

D. Fiscal Policy

24. **The authorities listed their objectives with respect to fiscal policy as: enhancing the implementation of the 2005 tax law; optimizing non-oil revenue collection; maintaining fiscal discipline to restrain inflation and strengthen the external position; and adhering to a "fiscal rule" that limits recurrent expenditure to non-oil revenue and finances capital expenditure from oil revenue**. In recent years, fiscal performance has been characterized by large unplanned expenditures, particularly in capital outlays. Four key contributing factors have been identified: ad hoc augmentations to existing projects, expenses for urgent needs, underestimation of project costs, and re-phasing of projects. While recognizing the exogenous nature of some of these factors, the mission suggested that the budget should make realistic initial estimates—particularly for expenditures—and adequate contingency provision for unanticipated urgent expenses. This would facilitate budget execution within clear parameters to enhance commitment control, transparency, and predictability of the fiscal stance.

25. **In this regard, the mission urged the authorities to develop a robust fiscal framework that will guide policy.** Currently, the government's "fiscal rule" has not worked well, and has led to expenditure creep. Since hydrocarbon wealth is front loaded and generates an uncertain and exhaustible income stream, general fiscal policy guidelines often suggest saving a significant proportion of the related revenues.[8] With substantial oil revenues and a relatively low level of debt, there is room for increasing spending in the social sectors and on the physical infrastructure.

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[8] Consistent with recent policy advice from the Fund and the World Bank to other oil producing countries.

26. **However, as indicated earlier, the main building blocks to establish a medium-term fiscal framework to guide the allocation of oil revenues between expenditure and savings are still being developed**.[9] The mission emphasized that meanwhile the authorities take into consideration the capacity to use additional resources effectively in order to avoid waste, contain inflationary pressures, and maintain international competitiveness. Therefore, the mission urged the authorities to save all resources that cannot be utilized efficiently within a stable macroeconomic framework.

27. **The vast hydrocarbon receipts could contribute significantly to the financing of projects associated with social and economic development.** It is essential, therefore, for the division of oil receipts between the oil companies and the government to be transparent and timely in order to ascertain the available resources for such projects. The mission welcomed Equatorial Guinea's intention to participate in the Extractive Industries Transparency Initiative (EITI) and the progress made so far in establishing the necessary infrastructure. However, it appears that the momentum supporting the initiative has waned somewhat, and the mission encouraged the authorities to reinvigorate the process. In this regard, the next steps should include: adopting the EITI decree and related implementing regulations that legitimizes and protects the participation of civil society and the industry; holding a second stakeholders meeting to discuss government disclosure policy; appointing an aggregator to compile, reconcile and oversee the quality and reliability of the data; and finalizing the agreed action plans. In the meantime, as was the case in the recent past, the mission reconciled the 2005 data regarding government oil production shares, oil export receipts, and revenues accruing to the government (including royalties).

28. **The authorities were in general agreement with the above recommendations on fiscal policy.** The envisaged technical assistance in the areas of macro fiscal policy and public finance management would help to address a number of the concerns. Furthermore, the authorities indicated that Parliament has heightened its oversight of budget execution, which would further strengthen fiscal discipline.

E. Monetary and External Policies

29. **Monetary policy discussions centered on the need for domestic liquidity to be monitored in case measures are required to temper inflationary pressures.** Given that monetary policy is carried out at a regional level, fiscal policy has to assume the main role in liquidity management. Also, extension of credit to unduly risky borrowers may undermine the soundness of the financial sector. In the recent period, no action was taken explicitly by

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[9] For further discussions with the authorities in their effort to firmly establish such a framework, the background selected issues paper will provide a preliminary assessment of long-term fiscal sustainability, and a review of practices and challenges of managing oil revenue.

BEAC to sterilize liquidity in the system, as there appeared to be some reluctance to utilize them (because of the associated cost).

30. **The authorities agreed that the BEAC has adequate instruments to mop up excess liquidity—through adjustments to the primary reserve requirement and undertaking demand deposit auctions**. The BEAC regional authorities acknowledged that they face challenges in implementing monetary policy but noted their overall success in liquidity management. The use of differentiated reserve requirements—a pragmatic approach, given the very limited integration of money markets—had been effective in sterilizing liquidity where the problem was acute, although this may have hindered the emergence of a regional money market.[10]

31. **The authorities expressed satisfaction with the soundness of the banking system and the regulatory environment**. They viewed the conditions as sufficiently robust to ensure stability. However, two prudential requirements were not observed in October 2005 by some of the commercial banks—maximum individual risk and capital adequacy. Even though these deviations were viewed as temporary and had been reversed by early 2006, when combined with the growth in non-performing loans, they raise some concern about the health of the banking system.

32. **The mission shared the authorities' concern with the relatively low level of financial intermediation**. Total loans amounted to only 41 percent of total deposits at end-2005. Indeed, the relatively high levels of unrequired reserves of the commercial banks may signal a lack of "effective" private lending opportunities in the economy because of structural rigidities—including limited capacity to assess risks, uncertainties in the judicial system concerning rights and obligations of both borrowers and creditors, high cost of enforcing contracts and collecting collateral, the lack of a "banking culture" that emphasizes repayment of loans, and the absence of micro-credit institutions outside the urban areas.

33. **The pegged exchange rate regime has provided an anchor to hold down inflation and is perceived as an element that has had a positive impact on investors' confidence.** As indicated earlier, the recent appreciation of the real effective exchange rate reflected mainly changes in fundamentals. However, the effect on competitiveness, as well as the absence of nominal exchange rate adjustments to buffer shocks, points to a need for careful focus on the macroeconomic and structural policy options for improving the resilience and productivity of the economy. In this regard, the authorities noted recent efforts to encourage diversification into fishery, tourism, and regional financial services that would broaden the economic base. Furthermore, focus is on (i) functional education and health in order to improve labor productivity, and (ii) the adoption of appropriate technology to enhance

[10] IMF Country Report No. 05/403, CEMAC—Recent Developments and Regional Policy Issues.

agriculture productivity. These are in tandem with measures to improve the business climate—particularly governance— for both foreign and domestic investors.[11]

34. **Another source of concern is the potential adverse impact of hydrocarbon-related inflows on competitiveness, given the limited capacity.** "Dutch disease" is viewed less as an imminent threat, since the economy lacks a sizable non-oil tradable goods sector, than as an important concern for the long-term development of the economy. In this regard, the authorities have already taken some steps by liberalizing trade and reforming the tax system in accordance with CEMAC standards, and could improve development prospects further by elimination, other charges/surcharges as quickly as possible.[12] They agreed with the mission that a remaining challenge in trade liberalization is to work with the other CEMAC partners to gradually reduce the current common external tariff.[13] Also, in connection with improving international competitiveness, the mission explored with the authorities the scope for further trade liberalization through the elimination of nontariff barriers and taxes on exports.

F. Statistical Issues

35. **Equatorial Guinea's statistical apparatus remains weak.[14]** The lack of timely, accurate, and comprehensive macroeconomic and social data hampers the monitoring of economic and financial developments and the provision of a sound basis for policy formulation. While data provided by the authorities are broadly adequate for surveillance, there is a need to improve the frequency and the scope of data reporting. These problems stem principally from severe institutional capacity constraints. The mission urged the authorities to allocate the required resources to enhance this capacity as a priority. The authorities' intention of establishing a National Statistical Institute is an important step

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[11] Equatorial Guinea ranks low among oil producing countries in terms of governance indicators. According to a recent study, government effectiveness is among the lowest, with room for improving the quality of the regulatory framework (Kaufmann, Kraag, and Mastruzz, 2005, "Governance Matters: Governance Indicators for 1996–2004", the World Bank).

[12] Equatorial Guinea has adopted the common external tariff of CEMAC. The tariffs are 10 percent for capital goods and inputs, 20 percent for intermediate goods and 30 percent for consumer goods. Import surcharges of 30 percent were imposed on imports of goods previously subject to quantitative restrictions. These surcharges are to be eliminated in 3–6 years, with the longer period applying to certain agricultural and textile products.

[13] This would limit the scope for harmful trade diversion that may result (under a prospective EU Economic Partnership Agreement (EPA)) from the provision of tariff preferences to goods imported from the EU.

[14] See Appendix III.

forward, and the Fund—in collaboration with the World Bank and other donors—stands ready to provide capacity building assistance. In a few areas, action plans and recommendations have already been made, but progress with implementation has been rather slow and disappointing. The mission sought the cooperation of the authorities for a set of data and information to be transmitted to the staff on a regular basis.

IV. Medium-Term Outlook

36. **The authorities reiterated their medium-term objective of maintaining a high rate of growth, consistent with achieving the MDGs.** Based on current policies and a continued favorable external environment, the medium-term prospects are positive. Overall growth is projected to oscillate with production in the hydrocarbon sector, but should average about 5 percent annually during 2007–10 (Table 10). In particular, the hydrocarbon sector will be boosted by the production of liquefied natural gas and the development of the Okume oil field in 2007. Growth in the non-oil sector is projected to remain fairly robust at above 9 percent a year, reflecting ongoing large infrastructure investment as well as the benefits from structural reform. Together with an annual population growth rate of about 3 percent, real non-oil GDP per capita would increase by about 6 percent a year, compared with 9 percent during 2000–05. Although inflation is projected to decline only gradually with improved domestic supplies of foodstuffs, it is likely to reach the CEMAC target of 3 percent by 2008.

37. **Given the favorable outlook for world oil prices and prospective increases in hydrocarbon production, the external position would strengthen further over the medium term.** The current account would move into surplus in 2008—and remain in surplus thereafter—mainly from large increases in the trade surplus (Table 11). Against this background, and despite a slowdown in oil-sector investment, the overall balance of payments surpluses should lead to a further buildup in gross official international reserves to about US$11 billion by end-2010 (61 months of non-oil sector imports).

38. **The immediate risks to this outlook are related to world oil prices and the level of hydrocarbon production.** If prices were to decline sharply for any reason, Equatorial Guinea would face a significant reduction in oil revenues and in the accumulation of gross international reserves. However, given the current strength of the fiscal position, and with international reserves at very comfortable levels, the country would be able to withstand such a shock in the short term, while adjustment policies are being designed and implemented over the medium term. On the other hand, to the extent that recent discoveries lead to commercially viable deposits, this would provide a further boost to economic growth and hydrocarbon revenues.[15]

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[15] Recent hydrocarbon discoveries could extend the production horizon well beyond the earlier projected 2020 for oil and 2030 for gas. This would make Equatorial Guinea a regional hub for liquefied natural gas (LNG) trade in the Atlantic Basin.

39. **Equatorial Guinea's external debt is sustainable.** A debt sustainability analysis—using the middle income country template—demonstrates that the country's government external debt is robust to most temporary shocks (Figure 3 and Table 12).[16] Total government external debt, which declined sharply from 36 percent of GDP in 2000 to about 6 percent at end-2004, is projected to continue the trend and reach less than 2½ percent of GDP by 2010 (Table 13).[17] This decline reflects the marked increase in GDP during the period combined with no new loan disbursements. The net present value of medium- and long-term public debt is projected at about 1 percent of GDP (and of exports) by 2010, with the debt service-to-exports and the debt service-to-government revenue at 0.1 percent and 0.2 percent, respectively.

40. **With the above medium-term outlook, the authorities held the view that the general assessment made in 2005 with respect to achieving the MDGs remains valid** (Table 14). Achieving the objectives of reducing extreme poverty and hunger are assessed as very likely and likely, respectively. Similarly, the promotion of gender equality and ensuring environmental sustainability (including access to improved water and sanitation) are regarded as very likely. However, a more reliable assessment can be made only after the various social and economic surveys are completed in the next year or so.

V. Staff Appraisal

41. **Equatorial Guinea's macroeconomic performance in the recent period has been broadly satisfactory**. Real GDP growth, even after excluding the hydrocarbon sector, has been strong, raising the per capita income to that of middle-income countries. Inflation is on a downward trend toward the target for CEMAC countries of 3 percent—helped by wage restraint in the public sector and investment in infrastructure that has eased supply constraints for domestic foodstuffs. Thanks to the significant improvement in the terms of trade and the policies of the government in spending oil revenues over the last few years, both the fiscal and external positions have strengthened substantially, with government savings and gross official international reserves at comfortable levels.

42. **Moreover, the medium-term macroeconomic prospects are favorable**. Given the outlook for world oil prices and prospective increases in hydrocarbon production, both government revenues and the country's official international reserves are projected to soar.

43. **Despite the macroeconomic environment, however, progress in alleviating poverty and meeting the MDGs has been slow**. Of particular concern, the recent rapid

[16] Information on private external debt and government guaranteed debt to public enterprises is not available.

[17] The government is now up to date with its external debt service. The recent disputes on repayments of debt to Italy and Spain have been resolved, including through some rescheduling.

economic growth and large oil revenues have not translated into a perceptible rise in living standards and a decline in poverty. Equatorial Guinea now has adequate resources to make substantial progress within a reasonable timeframe. The staff agrees with the authorities that a major challenge relates to managing the vast resources in a manner that is efficient, transparent, and cognizant of the need to establish a solid foundation for future generations.

44. **Accordingly, the staff welcomes the authorities' intention to prepare a National Poverty Reduction Strategy**. This would guide government policies and provide a sufficiently robust framework for public expenditure, with the necessary monitoring mechanism to ensure transparency. Also, such an approach would assist the authorities in balancing urgent current needs to fight poverty against intergenerational and stability concerns over the use of the country's oil wealth.

45. **In the meantime, the budget process needs to be modified**. The "fiscal rule" of limiting current expenditure to non-oil revenue and financing capital outlays from oil revenue has not been implemented. The persistent large excess of current expenditure over non-oil revenue and severe overruns on capital outlays relative to the budget raise doubts about the ability of the current budget process to elaborate and carry out fiscal policy. The staff recommends more realistic budget estimates and the inclusion of a "contingency provision" to meet urgent needs that were not explicitly anticipated in the budget. This would facilitate budget execution within clear parameters to enhance commitment control, transparency, and predictability of the fiscal stance.

46. **As more resources become available to the government, the greater will be the need for transparency in the division of oil receipts between the oil companies and the government.** Last year, the staff welcomed the authorities' earlier decision to participate in the EITI and the steps toward establishing the necessary infrastructure. The pace of implementation has since waned. The staff urges the authorities to move rapidly with the next steps, including adopting the associated decree, finalizing the government's disclosure policy, and appointing an aggregator.

47. **While the financial system is generally sound, based on available indicators, the staff shares the authorities' concern regarding the relatively low level of financial intermediation**. To address this, the authorities should take appropriate measures to alleviate structural impediments, including uncertainties in the judicial system as to the rights and obligations of borrowers and creditors, and to enhance the capacity to assess risks.

48. **The pegged exchange rate regime has served Equatorial Guinea well, providing an anchor to hold down inflation and a positive influence on investors' confidence**. However, in the absence of exchange rate adjustments to buffer shocks, measures should be taken to improve the resilience and productivity of the economy. These measures should concentrate on the physical infrastructure, human capital, and governance for the business climate. To improve international competitiveness, the staff recommends that Equatorial Guinea works with the other members of CEMAC to gradually reduce the current common external tariff, and that nontariff barriers and taxes on exports be eliminated.

49. **While the data provided by Equatorial Guinea are broadly adequate for surveillance, the statistical apparatus remains weak**. The lack of timely, accurate, and comprehensive macro- and socio-economic data hampers the monitoring of developments. The authorities' intention to establish a National Statistical Institute is an important step forward. However, the staff would urge the authorities to allocate the required resources to enhance the statistical apparatus as a priority.

50. It is recommended that the next Article IV consultation be held on the standard 12-month cycle.

Figure 1. Equatorial Guinea: Real and Nominal Effective Exchange Rate Indices and the Crude Oil Price

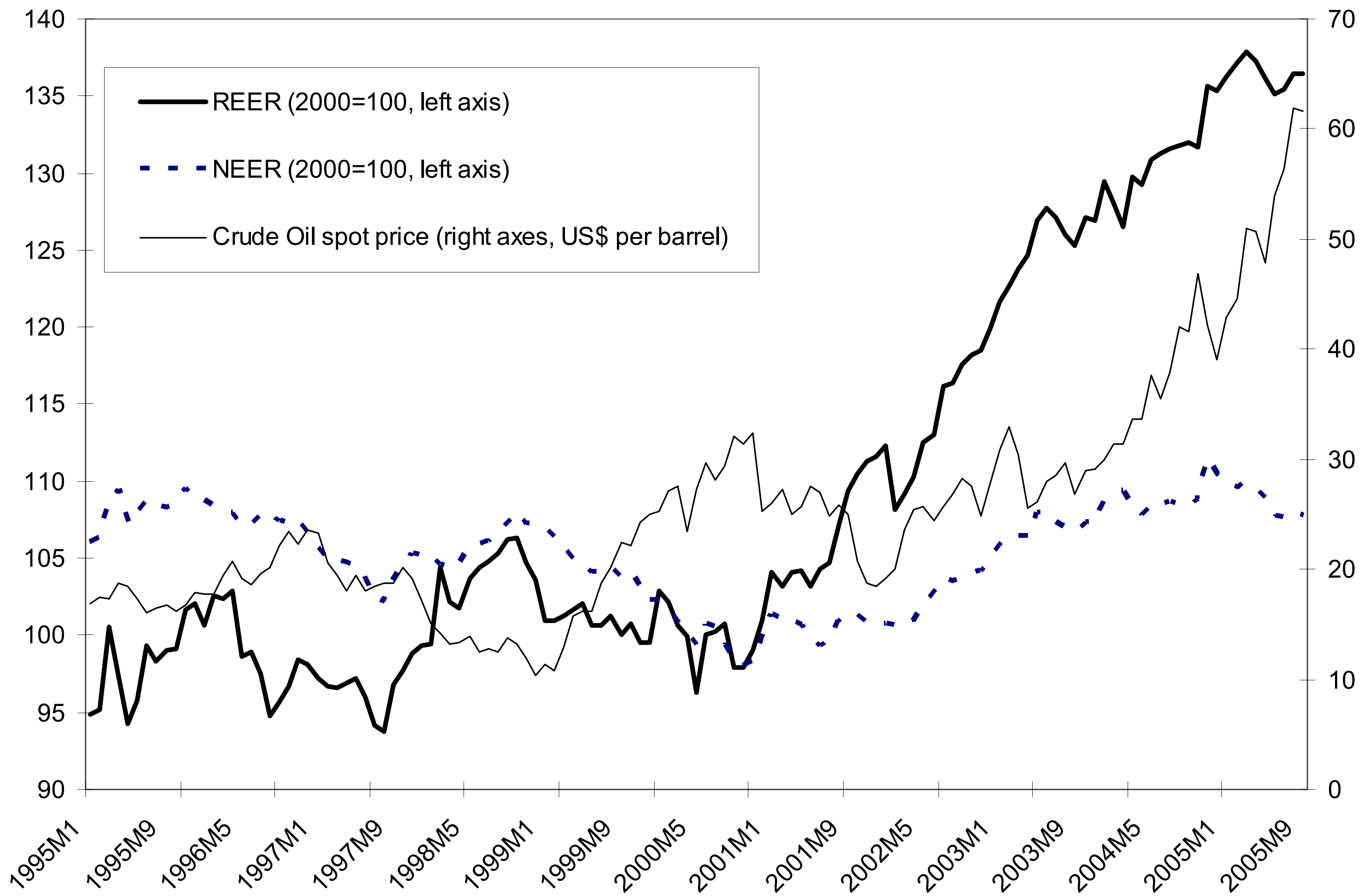
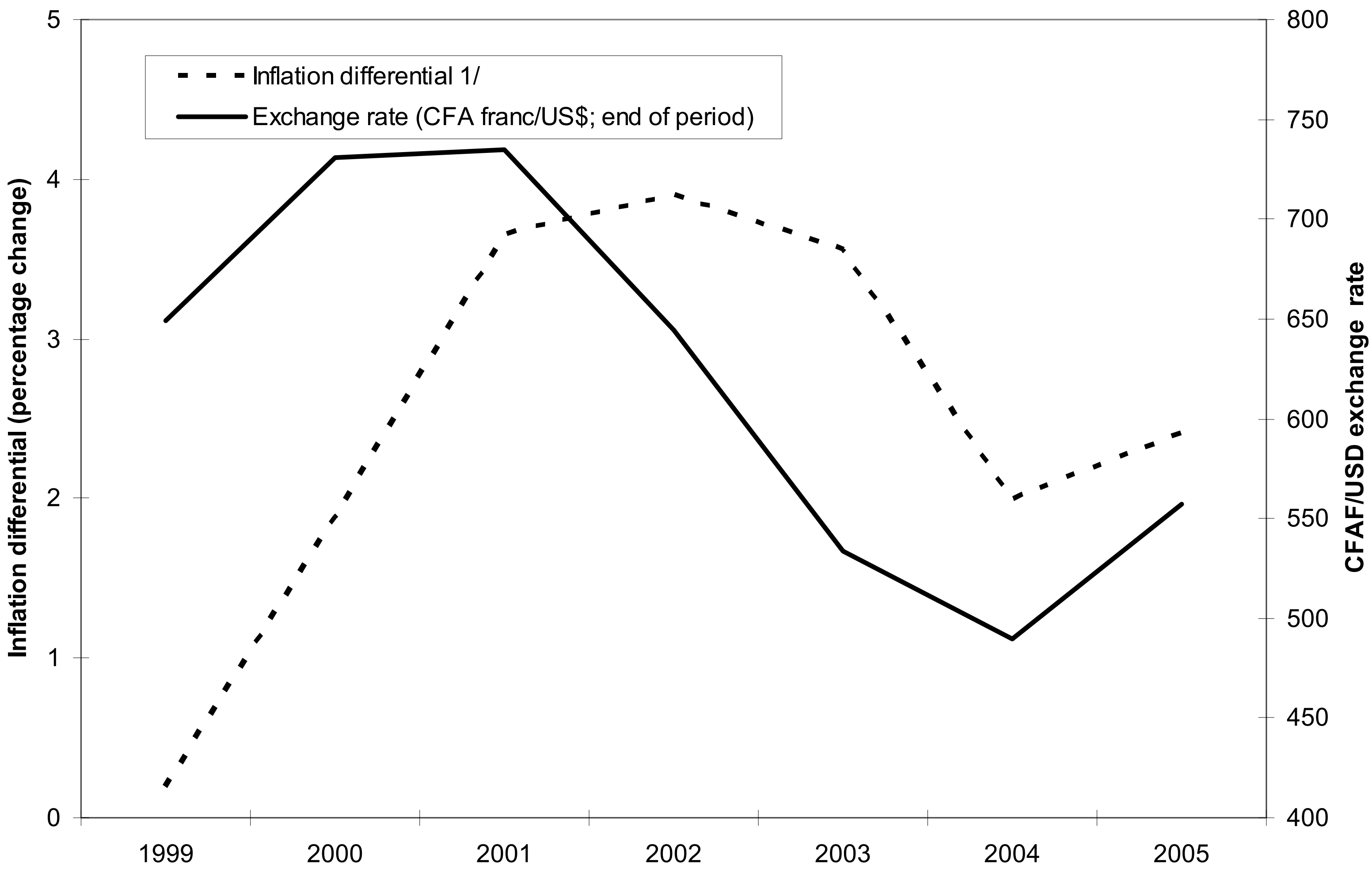
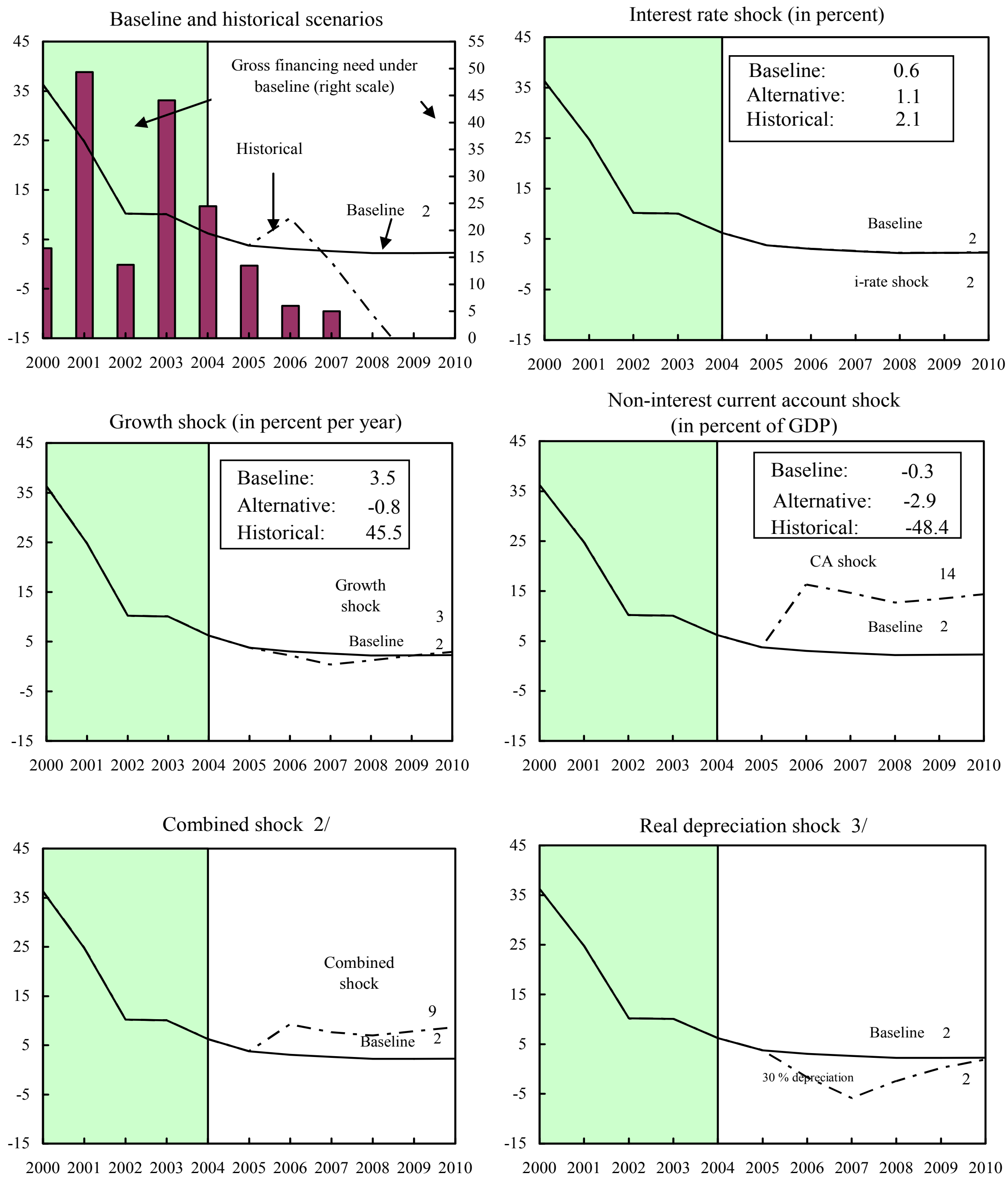


Figure 2. Equatorial Guinea: Developments in Exchange Rate



1/ Inflation differential is calculated as a ratio between percentage change of avergae inflation in Equatorial Guinea and percentage change of average inflation of advanced economy trading partners (import-weighted).

Figure 3. Equatorial Guinea: External Debt Sustainability: Bound Tests 1/
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
3/ One-time real depreciation of 30 percent occurs in 2006.

Table 1. Equatorial Guinea: Selected Economic and Financial Indicators, 2002-06

	2002	2003	2004	2005 Est.	2006 Proj.
	(Annual percentage change, unless otherwise specified)				
Production, prices, and money					
Real GDP	20.1	13.6	30.0	6.5	-0.4
Of which: non-oil GDP	10.4	11.3	11.3	10.7	10.2
Non-oil GDP deflator (average)	2.2	3.7	3.2	5.6	4.8
Oil production (thousands of barrels per day) 1/	250.6	283.9	382.8	403.6	397.8
Oil price (U.S. dollars per barrel) 2/	23.8	27.7	34.2	48.4	55.0
GDP deflator (average)	-2.7	-0.5	14.3	37.0	18.1
Consumer prices (annual average)	7.6	7.9	4.3	6.2	4.8
Consumer prices (end of period)	6.2	5.9	5.1	4.8	3.7
Broad money	67.4	26.1	28.3	48.9	38.5
Government deposits (net)	50.8	34.3	332.0	1,158.4	2,319.3
External sector					
Exports, f.o.b.	22.0	32.3	64.1	55.0	17.0
Of which: oil 1/	23.0	32.8	65.6	56.1	17.2
Imports, f.o.b.	-37.3	154.1	18.7	24.6	-1.6
Of which : non-oil	39.6	78.6	73.5	29.8	2.3
Export volume	17.8	13.1	34.6	5.6	-2.3
Of which: oil 1/	18.6	13.3	35.0	5.8	-2.2
Import volume	-7.85	37.74	5.91	4.82	0.03
Of which : non-oil	3.86	7.50	9.29	2.80	0.37
Terms of trade	1.7	6.8	13.3	36.0	13.0
Nominal effective exchange rate (depreciation -)	1.9	4.4	1.8	0.5	...
Real effective exchange rate (depreciation -)	7.4	10.0	4.3	4.4	...
Government finance					
Revenue and grants	19.1	13.7	78.2	81.9	28.8
Total expenditure and net lending	27.5	102.5	19.7	16.6	16.6
	(In percent of GDP, unless otherwise specified)				
Investment and savings					
Gross investment	31.8	60.9	45.9	33.4	23.4
Public	8.7	10.3	14.9	12.5	12.7
Private	23.1	50.6	31.0	20.9	10.7
Of which: oil sector	19.4	46.8	27.6	18.2	8.2
Gross national savings	18.3	17.1	21.6	20.1	17.6
Government finance					
Revenue and grants	28.5	28.7	34.4	42.9	47.0
Of which : oil revenue	25.0	25.0	31.4	40.5	44.5
Expenditure and net lending	17.0	30.5	24.5	19.6	19.4
Primary non-oil balance 3/	-13.2	-26.6	-18.7	-14.5	-14.0
Overall balance (including oil revenue)	11.4	-1.8	9.9	23.3	27.7
Overall non-oil balance 3/	-13.6	-26.7	-18.9	-14.6	-14.1
Primary non-oil balance, percent of non-oil GDP	-107.1	-211.9	-201.5	-199.3	-190.0
External sector					
Current account balance (including official transfers; deficit -)	-13.5	-43.8	-24.2	-13.3	-5.8
Outstanding medium- and long-term public debt	10.2	10.1	6.2	2.7	2.1
Net present value (NPV) of medium- and long-term public debt	7.1	5.1	3.0	1.9	1.6
NPV of medium- and long-term public debt/exports (percent)	7.0	5.1	3.0	1.8	1.5
Debt service-to-exports ratio	0.3	0.4	0.2	0.2	0.2
External debt service/government revenue (percent)	1.1	1.5	0.7	0.5	0.4
	(In millions of U.S. dollars, unless otherwise specified)				
External sector					
Exports, f.o.b.	2,117	2,801	4,596	7,125	8,332
Of which: oil	2,053	2,726	4,515	7,049	8,259
Imports, f.o.b.	-507	-1,288	-1,529	-1,906	-1,875
Of which: non-oil	-201	-359	-623	-809	-827
Current account balance (deficit -) 4/	-281	-1,238	-1,120	-898	-437
Overall balance of payments	5	122	652	1,400	1,300
Outstanding medium- and long-term public debt	212	284	288	253	229
Gross official reserves	567.0	890.5	1,566.3	2,935.8	4,240.8
Imputed reserves with BEAC	85.9	231.2	929.9	2,217.6	3,503.1
Government offshore deposits	481.1	659.3	636.4	718.2	737.8
In months of imports	3.0	3.9	5.5	10.4	15.2
In months of non-oil sector imports	4.9	5.7	8.1	15.1	21.2
External debt to GDP ratio	10.2	10.1	6.2	3.8	3.0
Nominal GDP (in billions of CFA francs)	1,452	1,642	2,440	3,558	4,188
Of which: non-oil GDP	178	206	226	258	309
Exchange rate (average; CFA francs/U.S. dollar)	697	581	528	527	...

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

1/ Including oil equivalent of methanol and liquefied gas.

2/ The projected oil price is the average of three spot prices: Dated Brent, West Texas Intermediate, and Dubai Fateh, with a discount for quality. For 2006, the discount assumed is about 6 percent higher than the implicit discount in 2005.

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

4/ Including grants.

Table 2. Equatorial Guinea: Summary of Real Sector and Price Developments, 2002-06

	2002	2003	2004	2005 Est.	2006 Proj.
	GDP by Sector of Origin (In billions of CFA francs at 1985 prices)				
GDP at market prices	492	559	726	773	770
Non-oil GDP	97	108	120	133	147
Primary sector	425	482	637	672	656
Non-oil	30	31	32	32	33
Oil	395	450	606	640	623
Secondary sector	24	27	36	45	54
Tertiary sector	35	40	44	48	52
	(Annual percentage change in constant prices)				
GDP at market prices	20.1	13.6	30.0	6.5	-0.4
Non-oil GDP	10.4	11.3	11.3	10.7	10.2
Primary sector	19.7	13.4	32.3	5.4	-2.3
Non-oil	-10.1	3.2	1.7	0.6	1.9
Oil	22.8	14.1	34.5	5.6	-2.6
Secondary sector	33.1	13.5	35.3	22.8	20.2
Tertiary sector	16.5	15.4	8.6	9.2	8.7
	(In percent of GDP)				
Non-oil GDP	19.8	19.4	16.6	17.3	19.1
Primary sector	86.4	86.2	87.8	86.9	85.1
Non-oil	6.1	5.6	4.4	4.1	4.2
Oil	80.2	80.6	83.4	82.7	80.9
Secondary sector	4.8	4.8	5.0	5.8	7.0
Tertiary sector	7.1	7.2	6.0	6.2	6.7
	GDP by Use of Resources (In billions of CFA francs at current prices)				
GDP at market prices	1452	1642	2440	3558	4188
Net factor income from abroad	-899	-1013	-1557	-2426	-2993
Gross national product	554	630	882	1132	1195
Unrequited transfers	-8	-15	-24	-35	-48
Gross disposable income	546	614	858	1097	1147
Consumption	280	302	330	382	410
National savings	266	281	527	715	737
Gross fixed capital formation	462	1000	1119	1188	980
	(In percent of GDP)				
Net factor income from abroad	-61.9	-61.7	-63.8	-68.2	-71.5
Gross national product	38.1	38.3	36.2	31.8	28.5
Gross disposable income	37.6	37.4	35.2	30.8	27.4
Consumption	19.3	18.4	13.5	10.7	9.8
National savings	18.3	17.1	21.6	20.1	17.6
Gross fixed capital formation	31.8	60.9	45.9	33.4	23.4
CPI Inflation, annual average	7.6	7.9	4.3	6.2	4.8
CPI Inflation, end of period	6.2	5.9	5.1	4.8	3.7

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

Table 3. Equatorial Guinea: Balance of Payments, 2002-06

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

	2002	2003	2004	2005 Prel.	2006 Proj.
Trade balance	1610	1513	3067	5219	6457
Export, f.o.b.	2117	2801	4596	7125	8332
Of which: Petroleum (oil and gas)	1930	2564	4236	6510	7474
Methanol	123	162	279	540	785
Import, f.o.b.	-507	-1288	-1529	-1906	-1875
Of which: Petroleum sector	-306	-929	-906	-1097	-1049
Public sector equipment	-127	-204	-481	-571	-573
Services (net)	-590	-983	-1193	-1447	-1433
Income (net)	-1289	-1742	-2948	-4603	-5375
Of which: Investment income (net)	-1236	-1670	-2830	-4456	-5212
Current transfers	-11	-26	-46	-67	-87
Public	15	18	20	20	19
Private	-26	-44	-66	-87	-106
Current account	-281	-1238	-1120	-898	-437
Capital and Financial account	195	1318	1780	2225	1793
Capital account	0	0	0	0	0
Financial account	195	1318	1780	2225	1793
Direct investment	323	1444	1652	1565	1505
Other ivestment	-128	-126	128	661	288
Medium- and long-term capital transactions	-8	-19	-16	-24	-41
Public	-8	-7	-9	-13	-31
Disbursements	0	0	1	13	13
Amortization 2/	-8	-7	-10	-26	-44
Private	0	-12	-7	-11	-10
Non-capital investment	6	8	12	13	14
Amortization	-6	-20	-19	-24	-23
Short-term capital transactions	-120	-107	144	684	329
Other short-term investment	-59	-139	170	689	352
Commercial banks (net)	-61	33	-26	-5	-23
Errors and omissions	91	42	-9	72	-56
Overall balance	5	122	652	1400	1300
Financing	-5	-122	-652	-1400	-1300
Net change in reserves (increase -)	-6	-127	-679	-1306	-1285
Of which : use of Fund credit (net)	-1	-1	0	0	0
Operational account (net)	-4	-118	-627	-1381	-1285
Treasury offshore accounts (increase -)	0	2	-1	-2	1
Memorandum items:					
Current account balance (in percent of GDP; deficit -)	-13.5	-43.8	-24.2	-13.3	-5.8
Gross Official reserves (in millions of U.S. dollars) 1/	567	890	1566	2936	4241
Imputed reserves with BEAC	86	231	930	2218	3503
Government offshore deposits	481	659	636	718	738
In months of total imports	3.0	3.9	5.5	10.4	15.2
In months of non-oil imports	4.9	5.7	8.1	15.1	21.2

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

1/ Official reserves consist of reserves held at the BEAC and Treasury offshore deposits.
2/ Including rescheduled debt repayment.

Table 4. Equatorial Guinea: Summary of Central Government Financial Operations, 2002-06

	2002	2003	2004	2005 Budget	2005 Prel.	2006 Budget 1/	2006 Proj. 2/
			(In billions of CFA francs)				
Total revenue and grants	414	472	840	626	1529	1008	1975
Revenue	414	471	839	618	1527	1001	1968
Oil revenue	362	410	766	541	1441	924	1862
Tax revenue	150	130	170	213	311	183	452
Nontax revenue	213	280	596	328	1130	741	1411
Non-oil revenue	52	61	73	77	88	77	105
Tax revenue	39	45	56	58	58	60	70
Nontax revenue	13	16	17	19	30	17	36
Grants	0	1	1	8	1	7	7
Total expenditure and net lending	247	500	598	317	698	647	814
Current expenditure	101	99	122	116	159	160	171
Wages and salaries	26	28	31	30	37	39	44
Goods and services	51	50	50	39	81	68	85
Subsidies and transfers	20	20	38	32	39	47	41
Interest	4	1	3	15	2	6	1
Capital expenditure	127	170	363	201	446	427	530
Net lending 3/	20	232	113	0	93	60	112
Reimbursement to Depositors 4/	-2	-1	-1	-12	-3	-8	0
Overall balance after grants (cash basis)	165	-29	240	297	828	353	1161
Non-oil overall balance 5/	-195	-438	-459	-232	-517	-503	-589
Financing	-165	29	-240	-297	-942	-353	-1161
External	-143	-49	44	-10	-115	-30	0
Disbursements	0	0	1	8	1	7	7
Scheduled amortization 6/	-6	-8	-14	-18	-27	-37	-7
Net change in arrears (principal only)	0	0	0	0	0	0	0
Change in deposits abroad	-168	-42	41	0	-89	0	0
Domestic bank credit	-23	16	-298	-287	-826	-323	-1161
Discrepancy 7/	0	0	0	0	113	0	0
			(In percent of GDP, unless otherwise specified)				
Total revenue and grants	28.5	28.7	34.4	17.6	43.0	24.1	47.1
Revenue	28.5	28.7	34.4	17.4	42.9	23.9	47.0
Oil revenue	25.0	25.0	31.4	15.2	40.5	22.1	44.5
Non-oil revenue	3.6	3.7	3.0	2.2	2.5	1.8	2.5
Grants	0.0	0.0	0.0	0.2	0.0	0.2	0.2
Total expenditure and net lending and other	17.0	30.5	24.5	8.9	19.6	15.4	19.4
Current expenditure	6.9	6.0	5.0	3.3	4.5	3.8	4.1
Capital expenditure	8.7	10.3	14.9	5.6	12.5	10.2	12.7
Net lending 3/	1.4	14.1	4.6	0.0	2.6	1.4	2.7
Overall balance after grants (cash basis)	11.4	-1.8	9.9	8.4	23.3	8.4	27.7
Non-oil overall fiscal deficit (percent of non-oil GDP) 5/	109.3	212.6	202.6	89.7	200.2	162.6	190.5

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

1/ Based on an oil price of US$35 per barrel.
2/ Based on the latest WEO oil price assumption; a government take of 40 percent of oil exports; the preliminary budget outturn in 2005; and the level of nominal GDP and non oil GDP.
3/ Government investment in LNG project is outside the budget. However, it is included in the execution data for 2004 and 2005 and staff projections for 2006 under oil revenue and net lending (as it represents equity in the project). Also interest on off-shore deposits is included in staff projections. This item also includes the discrepancy with monetary survey for the period 2002-04.
4/ Related to the crash of the banking system during the early eighties.
5/ Excluding oil revenues and oil-related expenditures.
6/ Including re-scheduled debt payments.
7/ The discrepancy in 2005 could be attributed to larger oil revenue that has been recorded by BEAC but not yet captured in the preliminary outturn for 2005.

Table 5. Equatorial Guinea: Central Government Revenue, 2002-06

	2002	2003	2004	2005 Budget	2005 Prel.	2006 Budget 1/	2006 Proj. 2/
	(In billions of CFA francs)						
Total revenue and grants	414	472	840	626	1529	1008	1975
Revenue	414	471	839	618	1527	1001	1968
Oil revenue	362	410	766	541	1441	924	1862
Corporate and oil companies employees income tax	137	122	138	178	252	148	338
Royalties	172	240	382	243	473	319	875
Bonuses	0	0	2	1	2	0	32
Rent	0	1	2	1	51	3	32
Profit sharing	41	39	144	84	490	358	338
Sales tax on oil companies' subcontractors	13	8	32	35	59	35	113
Interest income on Oil Reserve Fund 3/	0	0	0	0	20	2	21
Nonbudgetary revenue 3/	0	0	66	0	93	60	112
Non-oil revenue	52	61	73	77	88	77	105
Tax revenue	39	45	56	58	58	60	70
Taxes on income and profits	15	13	20	21	26	21	31
Taxes on goods and services	14	20	23	24	21	24	26
Taxes on international trade	9	11	8	9	8	10	10
Import taxes	5	5	4	6	4	6	8
Export taxes	4	6	4	4	4	4	2
Other taxes	1	2	6	5	3	5	3
Nontax revenue	13	16	17	19	30	17	36
Grants	0	1	1	8	1	7	7
	(In percent of GDP)						
Total revenue and grants	28.5	28.7	34.4	17.6	43.0	24.1	47.1
Revenue	28.5	28.7	34.4	17.4	42.9	23.9	47.0
Oil revenue	25.0	25.0	31.4	15.2	40.5	22.1	44.5
Corporate and oil companies employees income tax	9.4	7.5	5.7	5.0	7.1	3.5	8.1
Royalties	11.9	14.6	15.6	6.8	13.3	7.6	20.9
Bonuses	0.0	0.0	0.1	0.0	0.1	0.0	0.8
Rent	0.0	0.0	0.1	0.0	1.4	0.1	0.8
Profit sharing	2.8	2.4	5.9	2.4	13.8	8.5	8.1
Sales tax on oil companies' subcontractors	0.9	0.5	1.3	1.0	1.7	0.8	2.7
Interest income on Oil Reserve Fund 3/	0.0	0.0	0.0	0.0	0.6	0.0	0.5
Nonbudgetary revenue 3/	0.0	0.0	2.7	0.0	2.6	1.4	2.7
Non-oil revenue	3.6	3.7	3.0	2.2	2.5	1.8	2.5
Tax revenue	2.7	2.8	2.3	1.6	1.6	1.4	1.7
Taxes on income and profits	1.0	0.8	0.8	0.6	0.7	0.5	0.7
Taxes on goods and services	1.0	1.2	0.9	0.7	0.6	0.6	0.6
Taxes on international trade	0.6	0.7	0.3	0.3	0.2	0.2	0.2
Import taxes	0.3	0.3	0.2	0.2	0.1	0.1	0.2
Export taxes	0.3	0.4	0.2	0.1	0.1	0.1	0.0
Other taxes	0.1	0.1	0.2	0.1	0.1	0.1	0.1
Nontax revenue	0.9	1.0	0.7	0.5	0.8	0.4	0.9
Grants	0.0	0.0	0.0	0.2	0.0	0.2	0.2
Memorandum items:							
Non-oil revenue (percent of non-oil GDP)	29.2	29.8	32.3	29.8	34.0	24.8	34.1

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

1/ Based on an oil price of US$35 per barrel.

2/ Based on the latest WEO oil price assumption; a government take of 40 percent of oil exports in 2006; the preliminary budget outturn in 2005; and the growth rate of nominal non-oil GDP.

3/ Government investment in LNG project is outside the budget. However, it is included in the execution data for 2004 and 2005 and staff projections for 2006, under oil revenue. Also interest on off-shore deposits is included in staff projections.

Table 6. Equatorial Guinea: Central Government Expenditure, 2002-06

	2002	2003	2004	2005 Budget	2005 Prel.	2006 Budget	2006 Proj. 1/
				(In billions of CFA francs)			
Total expenditure and net lending	247	500	598	317	698	647	814
Current expenditure	101	99	122	116	159	160	171
Wages and salaries	26	28	31	30	37	39	44
Goods and services	51	50	50	39	81	68	85
Subsidies and transfers	20	20	38	32	39	47	41
Interest	4	1	3	15	2	6	1
Domestic					0		1
External					2		1
Capital expenditure	127	170	363	201	446	427	530
Of which: domestically financed	127	169	362	193	445	420	523
Net lending 2/	20	232	113	0	93	60	112
Reimbursement to Depositors 3/	-2	-1	-1	-12	-3	-8	0
Overall balance after grants (cash basis)	165	-29	240	297	828	353	1161
Non-oil overall balance 4/	-195	-438	-459	-232	-517	-503	-589
				(In percent of GDP)			
Total expenditure and net lending	17.0	30.5	24.5	8.9	19.6	15.4	19.4
Current expenditure	6.9	6.0	5.0	3.3	4.5	3.8	4.1
Wages and salaries	1.8	1.7	1.3	0.9	1.0	0.9	1.0
Goods and services	3.5	3.0	2.1	1.1	2.3	1.6	2.0
Subsidies and transfers	1.4	1.2	1.6	0.9	1.1	1.1	1.0
Interest	0.3	0.1	0.1	0.4	0.1	0.1	0.0
Domestic	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	8.7	10.3	14.9	5.6	12.5	10.2	12.7
Of which: domestically financed	8.7	10.3	14.8	5.4	12.5	10.0	12.5
Net lending 2/	1.4	14.1	4.6	0.0	2.6	1.4	2.7
Reimbursement to Depositors 3/	-0.1	-0.1	-0.1	-0.3	-0.1	-0.2	0.0
Overall balance after grants (cash basis)	11.4	-1.8	9.9	8.4	23.3	8.4	27.7
Non-oil overall fiscal deficit (as percentage of non-oil GDP) 4/	109.3	212.6	202.6	89.7	200.2	162.6	190.5
Memorandum items:							
Wages and salaries (percent of non-oil GDP)	14.6	13.4	13.6	11.8	14.2	12.6	14.2

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

1/ Based on the preliminary budget outturn in 2005; and the level of nominal GDP and non oil GDP.
2/ Government investment in LNG project is outside the budget. However, it is included in the execution data for 2004 and 2005 and staff projections for 2006 under net lending (as it represents equity in the project).
3/ Related to the crash of the banking system during the early 1980s.
4/ Excluding oil revenues and oil-related expenditures.

Table 7. Equatorial Guiena: Monetary Survey, 2001-06

	2001	2002	2003	2004	2005				2006
	Dec.	Dec.	Dec.	Dec.	Mar.	June	Sep.	Dec. Est.	Dec. Proj.
Monetary survey	(In billions of CFA francs, unless otherwise specified; end of period)								
Net foreign assets	60.6	104.6	153.6	499.6	554.9	814.7	975.2	1300.2	2025.3
Net domestic assets	29.0	45.3	35.5	-257.0	-338.9	-511.4	-645.0	-938.9	-1524.9
Domestic credit	2.6	-2.5	11.7	-274.5	-361.9	-547.4	-741.4	-1080.9	-2214.3
Claims on government, net	-28.0	-50.8	-34.3	-332.0	-419.0	-610.2	-834.7	-1158.4	-2319.3
Claims on non-government	30.7	48.3	46.1	57.5	57.2	62.9	93.3	77.5	104.9
Other items, net	15.0	13.0	11.3	11.6	19.0	-21.0	-20.1	-228.7	689.4
Broad money (M2)	89.5	149.9	189.1	242.6	215.9	303.3	330.2	361.3	500.4
Currency	17.6	26.0	35.1	45.7	43.4	45.8	46.9	112.5	155.9
Deposits	71.9	124.0	154.0	196.9	172.6	257.5	283.3	248.8	344.5
Memorandum items:	(Annual percentage change, unless otherwise specified)								
Broad money (M2)	64.6	67.4	26.1	28.3	-1.5	49.1	53.5	48.9	38.5
Reserve money (RM)	85.6	4.6	142.5	25.1	-22.5	105.3	39.3	108.3	62.9
Credit to the private sector	34.8	44.6	-3.8	22.3	11.8	5.5	77.6	25.3	35.3
Velocity (GDP/end-of-period M2)	13.9	9.7	8.7	10.1	0.0	0.0	0.0	9.8	8.4
Reserve money multiplier (M2/RM)	1.9	3.0	1.6	1.6	2.0	1.5	1.8	1.2	1.0
Bank reserves-to-deposits ratio	0.4	0.2	0.6	0.5	0.4	0.6	0.5	1.0	1.2
Currency-to-deposits ratio	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.3	0.3
Currency/M2 ratio	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.2	0.2
Lending rate	18.0	18.0	18.0	18.0	18.0	18.0	17.0	17.0	...
Deposit rate	5.0	5.0	5.0	5.0	5.0	5.0	4.75	4.75	...

Sources: Table 8; data provided by Equatoguinean authorities; and staff estimates and projections.

Table 8. Equatorial Guinea: Central Bank and Commercial Banks, 2001-06

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

	2001	2002	2003	2004	2005				2006
	Dec.	Dec.	Dec.	Dec.	Mar.	June	Sep.	Dec. Est.	Dec. Proj.
Central Bank									
Net foreign assets	45.9	50.0	118.0	450.3	489.5	762.8	908.5	1241.4	1954.0
Net domestic assets	1.5	-0.4	2.3	-299.7	-380.4	-553.9	-721.7	-927.9	-1443.1
Claims on government, net	-3.5	-4.1	-2.6	-302.4	-386.1	-558.0	-724.0	-806.1	-1613.9
Claims on commercial banks, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Claims on rest of the economy	-6.2	-5.9	-5.6	-5.3	-5.3	-5.5	-5.5	-1.1	-1.1
Other items, net	11.3	9.7	10.4	8.0	11.0	9.0	7.3	-120.7	171.9
Reserve money	47.4	49.6	120.3	150.5	109.0	208.8	186.8	313.6	510.9
Currency outside banks	17.6	26.0	35.1	45.7	43.4	45.8	46.9	64.7	105.5
Bank reserves	29.0	22.9	84.4	104.7	64.8	162.2	139.0	248.8	405.4
Cash	3.9	6.5	5.1	7.3	7.7	7.2	8.3	15.3	24.9
Deposits	25.1	16.4	79.3	97.4	57.1	155.0	130.8	202.9	330.5
Nonbank deposits	0.8	0.8	0.8	0.1	0.9	0.9	0.9	0.2	0.3
Commercial banks									
Net foreign assets	14.6	54.6	35.6	49.3	65.4	51.9	66.7	58.7	71.4
Reserves	29.0	22.9	84.4	104.7	64.8	162.2	139.0	248.8	405.4
Cash	3.9	6.5	5.1	7.3	7.7	7.2	8.3	15.3	24.9
Deposits with Central Bank	25.1	16.4	79.3	97.4	57.1	155.0	130.8	202.9	330.5
Required reserves	1.0	3.8	8.4	11.8	9.6	14.8	12.2	12.1	19.8
Excess reserves	24.1	12.6	70.9	85.6	47.5	140.2	118.6	190.7	310.8
Net claims on Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic credit	37.2	58.4	53.7	68.6	66.5	72.5	104.0	83.8	106.0
Claims on government, net	-24.5	-46.7	-31.8	-29.6	-32.9	-52.3	-110.6	-352.3	-705.3
Claims	0.3	4.1	2.1	5.8	4.0	4.2	5.2	5.2	5.2
Deposits	-24.8	-50.8	-33.8	-35.4	-37.0	-56.4	-115.9	-357.5	-710.5
Claims on non-government	36.9	54.2	51.6	62.8	62.4	68.3	98.8	78.5	106.0
Public enterprises	0.4	1.5	0.9	0.8	0.6	0.9	0.5	0.8	0.8
Private sector	36.5	52.8	50.8	62.1	61.9	67.4	97.8	77.8	105.2
Other items, net	3.7	3.4	0.9	3.6	8.0	-30.0	-27.4	-108.0	-203.7
Capital	13.4	16.0	21.4	29.5	33.0	30.9	33.2	34.5	34.5
Total deposits	71.1	123.2	153.2	196.8	171.7	256.6	282.4	248.8	344.5

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

Table 9. Equatorial Guinea: Financial Soundness Indicators for the Banking Sector, 2001-05
(In percent at year's end, unless otherwise indicated)

	2001	2002	2003	2004	2005
Capital Adequacy					
Regulatory capital to risk-weighted assets	...	3.9	13.1	15.2	11.6
Percentage of banks greater or equal to 10 percent	100.0	100.0	100.0	100.0	100.0
Percentage of banks below 10 and above 6 percent minimum	...	...	...	...	...
Percentage of banks below 6 percent minimum	...	...	...	...	...
Capital (net worth) to assets	9.3	7.6	9.8	10.6	5.2
Asset quality					
Foreign exchange loans to total loans	...	...	...	...	...
Past-due loans to gross loans	0.6	1.7	1.5	1.6	
Nonperforming loans to gross loans	9.8	8.7	16.6	11.8	14.9
Watch-listed loans	0.0	1.2	0.0	0.0	
Provision as percent of non-performing loans	...	73.7	...	...	60.5
Earnings and profitability					
Net profit (before tax)/net income	15.6	22.2	...	...	...
Return on assets	1.2	2.1	2.0	...	1.3
Return on equity	11.6	29.0	20.1	...	25.7
Expense/income	48.2	47.5	...	...	...
Interest rate spread (deposit money banks)					
Lending rates minus demand deposit rates	15.7	13.0	13.0	13.0	12.8
Liquidity					
Liquid assets/total assets	50.9	14.8	63.7	56.5	46.7
Liquid assets/short term liabilities 1/	100.4	100.7	87.1	70.3	
Loan/deposits	55.3	49.7	39.7	47.9	44.9
Liquid assets/total deposits	75.0	18.1	73.7	64.6	54.3
Foreign exchange liabilities/total liabilities	...	...	...	...	...
Sensitivity to market risk					
Net foreign exchange assets (liabilities) to shareholders' funds	...	...	...	...	...

Sources: Data provided by the Equatoguinean authorities; Central African Banking Commission; and staff estimates.
1/ Short term liabilities include only sight deposits.

Table 10. Equatorial Guinea: Medium-Term Selected Economic and Financial Indicators, 2005-10

	2005 Est.	2006 Proj.	2007 Proj.	2008 Proj.	2009 Proj.	2010 Proj.
	(Annual percentage change, unless otherwise specified)					
Production, and prices						
Real GDP	6.5	-0.4	9.2	17.4	-2.3	-3.7
Of which: non-oil GDP	10.7	10.2	7.9	12.9	8.0	7.5
Oil production (thousands of barrels per day) 1/	403.6	397.8	430.5	507.6	482.4	453.3
Oil price (U.S. dollars per barrel) 2/	48.4	55.0	55.8	54.3	53.8	53.5
Consumer prices (annual average)	6.2	4.8	4.1	3.7	3.5	3.0
Consumer prices (end of period)	4.8	3.7	3.1	2.8	2.8	2.7
External sector						
Exports, f.o.b.	55.0	17.0	5.4	15.1	-5.4	-6.8
Of which: oil 1/	56.1	17.2	5.6	15.2	-5.4	-6.9
Imports, f.o.b.	24.6	-1.6	1.4	3.8	-5.3	-3.5
Of which : non-oil	29.8	2.3	15.7	19.8	1.6	0.4
Export volume	5.6	-2.3	9.0	19.0	-4.8	-6.8
Of which: oil 1/	5.8	-2.2	9.0	19.1	-4.8	-6.8
Import volume	4.82	0.03	1.16	0.62	-1.31	-1.00
Of which : non-oil	2.80	0.37	1.83	1.08	-0.35	-0.32
Terms of trade 3/	36.0	13.0	-0.1	-4.1	-2.4	-2.0
Government finance						
Revenue and grants	81.9	28.8	7.4	16.3	-3.0	-4.2
Expenditure and net lending	16.6	16.6	-2.1	6.9	-0.5	-3.8
	(In percent of GDP, unless otherwise specified)					
Investment and savings						
Gross investment	33.4	23.4	23.4	20.1	18.7	19.4
Public	12.5	12.7	12.6	12.6	12.6	12.6
Private	20.9	10.7	10.8	7.5	6.1	6.8
Of which: oil sector	18.2	8.2	7.4	3.9	2.0	2.1
Gross national savings	20.1	17.6	18.6	23.4	22.3	21.7
Government finance						
Revenue and grants	42.9	47.0	45.8	46.2	47.0	47.6
Of which : oil revenue	40.5	44.5	43.3	43.7	44.1	44.3
Expenditure and net lending	19.6	19.4	17.3	16.0	16.7	17.0
Primary non-oil balance 3/	-14.5	-14.0	-14.0	-13.4	-13.7	-13.5
Overall balance (including oil revenue)	23.3	27.7	28.7	30.3	30.4	30.8
Overall non-oil balance 3/	-14.6	-14.1	-14.0	-13.4	-13.7	-13.6
Primary non-oil balance, percent of non-oil GDP	-199.3	-190.0	-187.2	-178.8	-160.1	-135.7
External sector						
Current account balance (including official transfers; deficit -)	-13.3	-5.8	-4.8	3.3	3.6	2.3
Outstanding medium- and long-term public debt	2.7	2.1	1.8	1.5	1.5	1.5
Net present value (NPV) of medium- and long-term public debt	1.9	1.6	1.4	1.1	1.1	1.2
NPV of medium- and long-term public debt/exports (percent)	1.8	1.5	1.3	1.1	1.1	1.1
Debt service-to-exports ratio	0.2	0.2	0.2	0.1	0.1	0.1
External debt service/government revenue (percent)	0.5	0.4	0.4	0.3	0.2	0.2
	(In millions of U.S. dollars, unless otherwise specified)					
External sector						
Exports, f.o.b.	7,125	8,332	8,786	10,113	9,570	8,917
Of which: oil	7,049	8,259	8,719	10,044	9,500	8,845
Imports, f.o.b.	-1,906	-1,875	-1,902	-1,975	-1,871	-1,806
Of which: non-oil	-809	-827	-956	-1,146	-1,164	-1,168
Current account balance (deficit -) 4/	-898	-437	-402	321	326	196
Overall balance of payments	1,400	1,300	1,193	1,849	1,787	1,588
Outstanding medium- and long-term public debt	253	229	217	213	206	199
Gross official reserves	2,935.8	4,240.8	5,475.0	7,366.4	9,195.4	10,825.8
Imputed resreves with BEAC	2,217.6	3,503.1	4,716.9	6,587.1	8,395.2	10,004.4
Government offshore deposits	718.2	737.8	758.1	779.3	800.2	821.4
In months of imports of GNFS, f.o.b.	10.4	15.2	19.5	28.3	37.2	47.6
In months of non-oil sector imports of GNFS	15.1	21.2	25.9	36.6	47.4	61.4
Nominal GDP (in billions of CFA francs)	3,558	4,188	4,614	5,313	5,073	4,792
Of which: non-oil GDP	258	309	344	397	434	478

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

1/ Including oil equivalent of methanol and liquefied gas.

2/ For the projection period, the price of oil is a simple average of three spot prices: Dated Brent, West Texas Intermediate, and the Dubai Fateh; less an assumed premium (AP) to account for quality discount on Equatoguinean oil (which gradually decreases from US$5 to US$3.5 between 2005-10). The implicit prenium on the estimated value of exports in 2005 was US$0.3 lower than the AP.

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

4/ Including grants.

Table 11. Equatorial Guinea: Balance of Payments, 2005-10

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

	2005 Prel.	2006 Proj.	2007 Proj.	2008 Proj.	2009 Proj.	2010 Proj.
Trade balance	5219	6457	6883	8137	7699	7111
Export, f.o.b.	7125	8332	8786	10113	9570	8917
Of which: Petroleum (oil and gas)	7049	8259	8719	10044	9500	8845
Methanol	540	785	513	531	526	523
Import, f.o.b.	-1906	-1875	-1903	-1976	-1871	-1806
Of which: Petroleum sector	-1097	-1049	-945	-829	-707	-637
Public sector equipment	-571	-573	-685	-846	-864	-869
Services (net)	-1447	-1433	-1350	-1293	-1151	-1061
Income (net)	-4603	-5375	-5819	-6393	-6076	-5693
Of which: Investment income (net)	-4456	-5212	-5640	-6196	-5860	-5455
Current transfers	-67	-87	-118	-131	-145	-161
Public	20	19	-1	-1	-1	-1
Private	-87	-106	-117	-130	-145	-160
Current account	-898	-437	-404	320	326	196
Capital and Financial account	2225	1793	1596	1528	1461	1392
Capital account	0	0	0	0	0	0
Financial account	2225	1793	1596	1528	1461	1392
Direct investment	1565	1505	1436	1371	1309	1249
Other ivestment	661	288	160	157	152	143
Medium- and long-term capital transactions	-24	-41	-27	-29	-34	-43
Public	-13	-31	-13	-10	-8	-8
Disbursements	13	13	0	0	0	0
Amortization 2/	-26	-44	-13	-10	-8	-8
Other	0	0	0	0	0	0
Private	-11	-10	-14	-19	-26	-35
Non-capital investment	13	14	15	17	20	23
Amortization	-24	-23	-29	-36	-46	-57
Short-term capital transactions	684	329	186	186	186	186
Other short-term investment	689	352	203	203	203	203
Commercial banks (net)	-5	-23	-16	-16	-16	-16
Errors and omissions	72	-56	0	0	0	0
Overall balance	1400	1300	1192	1848	1787	1588
Financing	-1400	-1300	-1192	-1848	-1787	-1588
Net change in reserves (increase -)	-1306	-1285	-1212	-1869	-1807	-1609
Of which : use of Fund credit (net)	0	0	0	0	0	0
Operational account (net)	-1381	-1285	0	0	0	0
Treasury offshore accounts (increase -)	-2	1	20	21	21	21
Memorandum items:						
Current account balance (in percent of GDP; deficit -)	-13.3	-5.8	-4.9	3.3	3.5	2.3
Gross Official reserves (in millions of U.S. dollars) 1/	2936	4241	5473	7364	9192	10823
Imputed reserves with BEAC	2218	3503	4715	6585	8392	10001
Government offshore deposits	718	738	758	779	800	821
In months of total imports	10.4	15.2	19.5	28.3	37.2	47.7
In months of non-oil imports	15.1	21.2	25.8	36.6	47.4	61.4

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

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

2/ Including rescheduled debt payment.

Table 12. Equatorial Guinea: External Debt Sustainability Framework, 2000-2010
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Debt-stabilizing non-interest current account 6/
Baseline: External debt	36.2	24.8	10.2	10.1	6.2	**3.8**	**3.0**	**2.6**	**2.2**	**2.2**	**2.3**	**-14.2**
Change in external debt	-29.5	-11.5	-14.6	-0.1	-3.8	-2.5	-0.7	-0.4	-0.4	0.0	0.0	
Identified external debt-creating flows (4+8+9)	-29.2	-19.8	-6.3	-8.0	-14.9	-10.1	-14.2	-12.7	-18.0	-17.7	-16.5	
Current account deficit, excluding interest payments	15.9	48.6	13.3	43.7	24.2	13.3	5.8	4.8	-3.4	-3.6	-2.3	
Deficit in balance of goods and services	-14.3	-9.3	-48.9	-18.8	-40.6	-55.9	-66.8	-66.7	-71.4	-71.4	-69.7	
Exports	104.9	103.5	102.8	100.3	100.6	106.6	111.9	106.9	106.5	105.4	103.8	
Imports	90.6	94.3	53.9	81.6	60.0	50.7	45.1	40.3	35.1	34.0	34.1	
Net non-debt creating capital inflows (negative)	-13.1	-55.5	-15.5	-51.1	-35.8	-23.2	-20.0	-17.3	-14.3	-14.3	-14.4	
Automatic debt dynamics 1/	-31.9	-12.9	-4.1	-0.5	-3.3	-0.2	0.1	-0.2	-0.4	0.1	0.1	
Contribution from nominal interest rate	0.5	0.3	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contribution from real GDP growth	-7.7	-18.6	-4.3	-1.1	-2.0	-0.3	0.0	-0.3	-0.4	0.1	0.1	
Contribution from price and exchange rate changes 2/	-24.7	5.4	0.0	0.4	-1.4	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-0.3	8.3	-8.3	7.8	11.1	7.7	13.4	12.3	17.6	17.8	16.6	
External debt-to-exports ratio (in percent)	34.6	23.9	9.9	10.0	6.2	3.5	2.7	2.4	2.1	2.1	2.2	
Gross external financing need (in billions of US dollars) 4/	0.2	0.8	0.3	1.2	1.1	0.9	0.5	0.4	-0.3	-0.3	-0.19	
in percent of GDP	16.7	49.4	13.6	44.1	24.4	13.6	6.1	5.1	-3.3	-3.5	-2.2	
Scenario with key variables at their historical averages 5/						**3.8**	**9.3**	**0.3**	**-10.3**	**-20.3**	**-27.6**	**-5.3**
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (in percent)	20.3	78.3	21.3	14.1	32.4	6.0	-1.1	9.4	17.8	-3.6	-5.1	
GDP deflator in US dollars (change in percent)	43.0	-14.4	2.2	19.4	25.7	37.3	11.8	1.1	-1.6	-2.1	-1.8	
Nominal external interest rate (in percent)	1.3	1.2	0.7	1.8	0.6	0.8	0.7	0.8	0.4	0.6	0.5	
Growth of exports (US dollar terms, in percent)	81.6	41.8	22.0	32.4	63.9	54.9	16.9	5.5	15.1	-5.3	-6.8	
Growth of imports (US dollar terms, in percent)	-8.8	49.5	-29.8	105.3	20.3	23.5	-1.0	-1.4	0.9	-7.4	-5.1	
Current account balance, excluding interest payments	-15.9	-48.6	-13.3	-43.7	-24.2	-13.3	-5.8	-4.8	3.4	3.6	2.3	
Net non-debt creating capital inflows	13.1	55.5	15.5	51.1	35.8	23.2	20.0	17.3	14.3	14.3	14.4	

1/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, ε = nominal appreciation (increase in dollar value of domestic currency), and α = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as $[-\rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock. ρ increases with an appreciating domestic currency ($\varepsilon > 0$) and rising inflation (based on GDP deflat

3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Table13. Equatorial Guinea: Government External Debt Position by Creditor, 2006- 10
(In millions of U.S. dollars)

	2005	2006	2007	2008	2009	2010
	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Nominal stock of debt	**254.76**	**229.55**	**217.92**	**213.25**	**206.36**	**198.83**
Multilateral creditors	103.03	93.84	90.69	91.74	88.44	84.87
IDA/World Bank	50.93	47.04	45.68	44.22	42.89	41.35
African Development Bank	39.65	36.81	36.05	35.28	34.46	33.61
BADEA	0.96	0.56	0.24	4.33	4.04	3.73
BEI	2.15	1.65	1.25	0.84	0.43	0.00
BEAC	0.51	0.00	0.00	0.00	0.00	0.00
FIDA	7.54	6.87	6.63	6.41	6.17	5.93
Kuwait Fund	1.29	0.90	0.84	0.65	0.45	0.25
Bilateral creditors	151.73	135.71	127.23	121.51	117.92	113.95
Paris Club	116.70	105.14	100.06	97.71	97.55	97.28
France	0.80	0.74	0.72	0.70	0.66	0.62
Italy	84.45	79.90	80.06	80.33	80.50	80.62
Russia	0.69	0.63	0.61	0.59	0.56	0.53
Spain	30.75	23.86	18.66	16.10	15.83	15.50
Non-Paris Club	35.03	30.57	27.17	23.80	20.37	16.68
Angola	0.002	0.00	0.00	0.00	0.00	0.00
China 1/	33.75	29.60	26.44	23.30	20.12	16.67
Nigeria	1.28	0.97	0.73	0.49	0.25	0.01
Amortization	**13.09**	**12.94**	**12.82**	**10.23**	**8.03**	**8.26**
Multilateral creditors	3.79	3.89	3.61	3.60	3.71	3.60
IDA/World Bank	0.85	1.48	1.55	1.61	1.62	1.67
African Development Bank	0.64	0.70	0.83	0.89	0.90	0.90
BADEA	0.39	0.39	0.40	0.25	0.34	0.18
BEI	0.41	0.39	0.40	0.41	0.42	0.43
BEAC	1.01	0.48	0.00	0.00	0.00	0.00
FIDA	0.29	0.27	0.25	0.25	0.25	0.25
Kuwait Fund	0.20	0.19	0.19	0.19	0.19	0.19
Bilateral creditors	9.30	9.05	9.21	6.63	4.32	4.65
Paris Club	5.57	5.28	5.29	2.69	0.37	0.42
France	0.01	0.02	0.02	0.03	0.03	0.04
Russia	0.03	0.03	0.03	0.03	0.03	0.03
Spain	5.53	5.23	5.24	2.63	0.30	0.35
Non-Paris Club	3.74	3.77	3.92	3.95	3.95	4.23
Angola	0.005	0.002	0.00	0.00	0.00	0.00
China	3.73	3.53	3.68	3.70	3.71	3.99
Nigeria	0.00	0.24	0.24	0.24	0.24	0.24
Interest payments	**2.40**	**1.67**	**1.87**	**0.97**	**1.17**	**1.11**
Multilateral creditors	1.29	1.01	1.47	0.83	0.81	0.77
IDA/World Bank	0.43	0.43	0.37	0.36	0.35	0.34
African Development Bank	0.36	0.32	0.31	0.31	0.30	0.30
BADEA	0.15	0.11	0.08	0.06	0.07	0.06
BEI	0.06	0.04	0.03	0.03	0.02	0.01
BEAC	0.02	0.01	0.00	0.00	0.00	0.00
FIDA	0.08	0.07	0.66	0.06	0.06	0.06
Kuwait Fund	0.04	0.02	0.01	0.01	0.01	0.01
Bilateral creditors	1.11	0.66	0.40	0.13	0.36	0.34
Paris Club	1.11	0.66	0.40	0.13	0.36	0.34
France	0.07	0.06	0.06	0.06	0.06	0.06
Russia	0.01	0.01	0.01	0.01	0.01	0.01
Spain	1.04	0.59	0.33	0.07	0.30	0.28
Non-Paris Club	0.00	0.00	0.00	0.00	0.00	0.00
Memorandum item:						
Debt to total GDP ratio	3.8	3.1	2.6	2.2	2.2	2.3

Sources: Data provided by the Equatoguinean authorities; and staff estimates and projections.
1/ Loans with China have zero interest.

Table 14. Equatorial Guinea: Millennium Development Goals

	1990	1995	2000	2004	Authorities Assessment 1/
1 Eradicate extreme poverty and hunger	*2015 target = halve 1990 US$1 a day poverty and malnutrition rates*				Very Likely a/; Likely b/
Population below US$1 a day (percent)	..	..	..	..	60 (2000; PNUD)
Poverty gap at US$1 a day (percent)	..	..	..	..	
Share of income or consumption held by poorest 20 percent	..	..	..	..	
Prevalence of child malnutrition (percent of children under 5)	..	..	..	..	21 (2000 MICS Survey)
Share of population below minimum level of dietary energy consumption	..	..	..	..	80 (1992-93 UNICEF/OCEAC)
2 Achieve universal primary education	*2015 target = net enrollment to 100*				Likely to plausible
Net primary enrollment ratio (percent of relevant age group)	90.5	..	87.1	..	51 (2000-01 Ministry of Economy)
Percentage of cohort reaching grade 5	..	..	32.6	..	
Youth literacy rate (ages 15-24)	..	..	93.8	..	
3 Promote gender equality	*2005 target = education ratio to 100*				Very Likely
Ratio of girls to boys in primary and secondary education	..	83.6	82.5	..	91.2 (2001 Census)
Ratio of young literate females to males (ages 15-24)	..	..	99.8	..	
Share of women employed in the nonagricultural sector	10.5	..	..	..	
Proportion of seats held by women in national parliament	13.0	9.0	5.0	5.0	
4 Reduce child mortality	*2015 target = reduce 1990 under 5 mortality by two-thirds*				Likely
Under 5 mortality rate (per 1,000)	206	175	156	146	50 (2001 Census)
Infant mortality rate (per 1,000 live births)	122	113	103	97	
Immunization, measles (percent of children under 12 months)	88	80	51	51	
5 Improve maternal health	*2015 target = reduce 1990 maternal mortality by three-fourths*				Likely to plausible
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	880	..	352 (1994 Census)
Births attended by skilled health staff (percent of total)	..	5	64.6	..	65.1 (2000 MICS Survey)
6 Combat HIV/AIDS, malaria and other diseases	*2015 target = halt, and begin to reverse, AIDS, etc.*				Likely to plausible c/ ; Very Likely d/
Prevalence of HIV, female (ages 15-24)	..	..	..	..	
Contraceptive prevalence rate (of women ages 15-49)	..	..	..	..	
Number of children orphaned by HIV/AIDS	..	..	..	..	
Incidence of tuberculosis (per 100,000 people)	157.8	175.9	184.3	193.2	
Tuberculosis cases detected (percent)	..	75.1	71.4	..	
7 Ensure environmental sustainability	*2015 target = various 2/*				Very Likely e/; Likely f/
Forest area (percent of total land area)	66.2	..	62.5	..	
Nationally protected areas (percent of total land area)	..	..	..	..	
GDP per unit of energy use 3/	..	..	..	..	
CO_2 emissions (metric tons per capita)	0.3	0.3	0.4	..	
Access to an improved water source (percent of population)	..	..	44	..	47.4 (2000 MICS Survey)
Access to improved sanitation (percent of population)	..	..	53	..	
8 Develop a Global Partnership for Development	*2015 target = various 4/*				Unlikely
Youth unemployment rate (percent of total labor force ages 15-24)	..	..	..	..	
Fixed line and mobile telephones (per 1,000 people)	3.7	6.5	24.5	94.1	
Personal computers (per 1,000 people)	..	..	4.4	6.9	
General indicators					
Population (in thousands)	362	398	449	492	1,015 (2001 Census)
Gross national income (millions of U.S. dollars) 5/	133	166	807	1,670	
GNI per capita (U.S. dollars)	368	418	1,798	3,391	
Adult literacy rate (percent of people ages 15 and over)	..	..	84.2	..	
Total fertility rate (births per woman)	5.9	5.9	..	5.4	5.5 (2001 Census)
Life expectancy at birth (years)	47.2	..	50.0	52.2	59.3 (2001 Census)

Source: Data provided by the Equatoguinean authorities; and the World Development Indicators database, April 2005.

1/ This corresponds to the authorities assessment on the likelihood to meet the MDGs by 2015. The information is taken from Annex 1 of the Equatoguinean authorities' report on MDGs issued in 2005 in collaboration with the U.N. agency in Malabo.

2/ Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. Halve, by 2015, the proportion of people without sustainable access to safe drinking water. By 2020, to have achieve

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

4/ Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Address the Special Needs of the Least Developed Countries. In cooperation with developing countries, develop and implement strategies for decent and pro

5/ Gross National Income is taken from Equatoguinean Authorities and IMF staff estimates.

a/ Poverty objective

b/ Hunger objective

c/ HIV/Aids objective

d/ Paludismo and other serious diseases objective

e/ Sustainable development objective

f/ Access to improved water and sanitation objectives

Equatorial Guinea: Relations with the Fund

(As of February 28, 2006)

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

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

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

IV. Outstanding Purchases and Loans: None

V. Latest Financial Arrangements:

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

VI. Projected Obligations to the Fund

(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming			
	2006	2007	2008	2009
Principal	0.00	0.00	0.00	0.00
Charges/Interest	0.16	0.16	0.16	0.16
Total	0.16	0.16	0.16	0.16

Exchange Rate Arrangement and Safeguard Assessments

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

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

Local currency equivalent: SDR 1 = CFAF 787.51 as of December 12, 2005.

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

Article IV Consultations

Equatorial Guinea is on the standard 12-month Article IV consultation cycle.
The last Article IV consultation with Equatorial Guinea was concluded by the Executive Board on April 25, 2005 (IMF Country Report No. 05/150).

Technical Assistance

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

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

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

FAD conducted a diagnostic mission on modernization of public expenditure management processes and steps for reforming the system in July 2005.

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

STA conducted a diagnostic mission on real sector statistics in July 2005.

STA provided initial assistance with the compilation of national accounts and price indexes in January 2006.

STA conducted a diagnostic mission on government finance statistics in January 2006.

Resident Representative: None.

Equatorial Guinea: Relations with the World Bank Group

(As of February 28, 2006)

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

IMF—World Bank collaboration

2. Overall, the IMF and World Bank staffs have maintained a close collaborative relationship in coordinating their operational activities and policy advice to the authorities. After years of absence, the government has reengaged the international financial institutions to provide crucial technical assistance in various areas.

World Bank activities

3. The Bank is supporting the PRS preparation and the collection of household data of the CWIQ type for the construction of a poverty profile. A Bank mission took place in July 2005 to assist the Government in developing a road-map for the preparation of an I-PRSP and to evaluate the feasibility of a Core Welfare Indicators Questionnaire (CWIQ) survey to construct the poverty profile.

4. The Bank has financed a statistical capacity-building project designed to provide financial assistance in the drafting and implementation of a long-term development program of the national statistical system. The grant (US$397,000) was signed in February 2002 and will close in December 2005. The first phase of the project (US$108,000; Bank-executed) succeeded in preparing the NSDS (National Statistical Development Strategy). The second phase of the project ($289,000; recipient-executed) provides technical assistance to improve the national accounts, including procurement of hardware and software to support the system.

5. At the request of the authorities, a mission from FIAS—a joint facility of the World Bank and International Finance Corporation—visited Equatorial Guinea in April 2001 in order to survey the investment climate in the country. The FIAS report identified a series of obstacles to private investment both in the oil and non-oil sector (particularly foreign direct

investment). In view of these obstacles, the report recommended various actions aimed at improving/simplifying the legal framework (laws and institutions) to create an investment-friendly environment.

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

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

Table 1. Bank/Fund Collaboration

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

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

8. The Bank is willing to conduct a public expenditure review to assess expenditure effectiveness, particularly in the social sectors. Thus, the work could provide a basic analysis of budget preparation and budget execution in the country, and help in the assessment of the relationship between budgetary allocations and PRSP objectives. This is an area where there are synergies with the Fund technical assistance on public financial management and macrofiscal analysis.

Equatorial Guinea: Statistical Issues

1. **Equatorial Guinea's economic and financial statistics remain very weak.** Although broadly adequate for surveillance, shortcomings in timeliness, accuracy and comprehensiveness hamper the monitoring of developments. The deficiencies in timeliness, and coverage of most macroeconomic data are related to the poor administrative and technical capacity of the government. Technical assistance efforts have resulted in some progress, although consolidation of these gains continues to elude the authorities. The Bank of Central African States (BEAC) regularly reports monetary, interest rates, and exchange rate statistics for publication in the *International Financial Statistics* (IFS), but their timeliness needs to be improved.

Real sector and prices

2. **Real sector and price data suffer from significant weaknesses that are compounded by poor centralization of information from the island and continental regions.** National accounts statistics are supplied at current and constant prices, but often contain significant inconsistencies. The compilation of the official consumer price index (CPI) has benefited from French technical assistance, but both the weights and composition of the basket of goods and services are outdated, and the geographical coverage is not comprehensive. The timely availability of data needs to be improved.

3. **An STA mission visited Malabo in July 2005.** The mission reviewed the methods and data sources used to compile both the national accounts and the consumer price index (CPI), and assessed the adequacy of the statistical legislation governing the compilation of statistics. It also assessed the resources devoted to the statistical function, and made recommendations for improvement. The statistical legislation is quite recent (2001) and is, in general, adequate to regulate the statistical system. However, the decree to create the National Institute of Statistics has not been passed. In addition, the resources devoted to the statistical function are insufficient as only one person is assigned to the national accounts unit and three to the CPI unit. GDP estimates are prepared by the BEAC, rather than by the General Directorate of Statistics and National Accounts (GDSNA). In this respect, the GDSNA should implement the *System of National Accounts, 1993*, update the reference period of the national accounts (1985), and update the CPI's basket and weights (1986) without delay.

4. An STA follow-up mission on national accounts and prices visited Malabo in January 2006.

5. **Real sector statistics reported to STA (*IFS*) are limited to GDP (without breakdown by sector or expenditure category), and exports and imports.** The December 2005 issue of *IFS* includes data for GDP through 2004 and exports and imports through 2000. Export and import data are provided to AFR.

Government finance

6. **Following technical assistance from France, there have been some improvements in fiscal accounting.** Further improvements are needed, particularly in procuring timely and accurate data from the Debt-Service Unit (Caja Autónoma de la Deuda Pública). Regarding budget coverage and implementation, the authorities need to gradually incorporate some of the autonomous entities into the budget. Equatorial Guinea does not report fiscal data to STA. However, the authorities provide budget execution data to AFR. An STA mission in early 2006 reviewed Government Finance Statistics.

7. **An STA mission in early 2006 reviewed Government Finance Statistics** and found weaknesses in the current legislation that support the compilation of GFS. The mission also found that the institutional coverage of the consolidated central government is incomplete and recommended including the operations of the National Social Security Institute (INSESO). The GFS are compiled quarterly on a cash basis and their coverage includes only budgetary central government. The mission recommended training for the technicians directly involved in GFS compilation and the provision of relevant technical assistance to improve the GFS in accordance with international recommendations.

Monetary accounts

8. **Although the coverage of monetary statistics for Equatorial Guinea is adequate for program monitoring, the statistics are not disseminated on a timely basis.** STA has supported the implementation of the recommendations of the December 2002 mission, including for migrating to the *Monetary and Financial Statistics Manual*. This has been done partly through participation in regional BEAC monetary statistics workshops and in the regional training seminars in monetary and financial statistics conducted biannually at the Joint Africa Institute.

External debt

9. **Data on the outstanding stock of external debt and projections of debt-service payments are hampered by serious inconsistencies.** The debt service paid—reported by the Debt-Service Unit—is often significantly different from that reported by the budget and the Paris Club, as the unit usually lacks precise information on payments made. Also, details regarding scheduled debt-service obligations are not incorporated into the budget in a systematic and timely manner. Debt-service projections beyond the following year are only provided in a highly aggregated form and some debt service takes place outside the Debt-Service Unit. The authorities have started a major inventory of their debt and are beginning to address the capacity constraints in the Debt-Service Unit through training and new staffing.

Balance of payments

10. **Customs data have improved since the implementation of the Central African Customs and Economic Union reform and the deployment of customs brigades.**

However, data analysis is still hampered by the lack of computerization. Although the BEAC produces balance of payments data for Equatorial Guinea, delays are long and the data suffer from significant inconsistencies with other datasets. While some progress was made in compiling current and financial account items, the lack of availability of source data is a key concern. Equatorial Guinea's balance of payments data are published in the *International Financial Statistics Yearbook* through 1996 only.

Equatorial Guinea: Table of Common Indicators Required for Surveillance
As of February 24, 2006

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

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

INTERNATIONAL MONETARY FUND
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June, 14, 2006

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes Article IV Consultation with Equatorial Guinea

On May 10, 2006 the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Equatorial Guinea.[1]

Background

The economic growth of Equatorial Guinea since the discovery of oil has been unprecedented, averaging 37 percent per year during the last decade. This has led to a rapid rise in per capita income to that of middle-income countries, but the standard of living for the population at large has not improved commensurately.

In 2005, a slowdown in hydrocarbon production caused overall real GDP growth to decelerate sharply, but non-oil GDP growth remained buoyant. End-of-year inflation declined from 5.1 percent in 2004 to 4.8 percent in 2005, despite an increase in fuel prices at the beginning of the year.

Soaring oil prices boosted fiscal revenues in 2005, enabling the government to raise outlays on goods and services and public investment to meet some urgent social needs and to accelerate improvements in key infrastructure. Nevertheless, Equatorial Guinea also achieved a larger-than-budgeted fiscal surplus (23 percent of GDP). With the much larger revenues, outlays on goods and services and public investment were raised to meet some urgent social needs and to accelerate improvement in key infrastructures. The increase in government savings from oil revenues led to a further substantial increase in government deposits with both BEAC and the commercial banks, leaving the growth of broad money high.

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

The oil windfall also contributed to a strengthening of the external position. The current account deficit narrowed to 13 percent of GDP in 2005 from 24 percent of GDP in 2004, and the balance of payments recorded an overall surplus that raised the level of international reserves to the equivalent of about 15 months of projected imports of goods and services. Overall, movements in the real effective exchange rate appear to have responded to favorable terms of trade developments—particularly world oil prices.

The relatively solid macroeconomic situation and the availability of adequate resources create a unique opportunity for the country to make rapid progress toward alleviating poverty and achieving the Millennium Development Goals (MDGs). However, to channel resources to priority areas efficiently, there is a need for a well designed development strategy and strengthened institutional capacity.

Executive Board Assessment

Directors welcomed that macroeconomic developments in Equatorial Guinea in 2005 continued to be broadly satisfactory, benefiting from a significant improvement in the terms of trade. The external position strengthened further, and international reserves rose significantly. However, Directors observed that while inflation has declined, it remains above the level of the Central African Economic and Monetary Union (CEMAC) regional convergence criterion. Directors supported the authorities' medium-term goals of diversifying the economy into the fisheries, tourism, and regional financial services areas, and of creating an environment conducive for developing the domestic private sector in order to secure continued strong growth as energy resources diminish.

Directors called on the authorities to take steps to regularize fiscal and budget policy and make it a more effective planning and allocative tool. They cautioned that better-than-expected revenue performance in Equatorial Guinea has tended to go hand-in-hand with expenditure overruns, even though most of the overspending was occurring in the area of physical infrastructure, which, they recognized, greatly needs investment. Directors urged the authorities to make realistic budget estimates and adequate contingency provision for unanticipated urgent expenses to facilitate budget execution within clear parameters, and enhance commitment control, transparency, and the predictability of the fiscal stance.

Given the large oil export revenues, a low debt level, and favorable medium-term economic prospects, Directors noted that Equatorial Guinea can make rapid progress toward alleviating poverty and achieving the Millennium Development Goals (MDGs). However, they observed that so far the improvement in the standard of living of the population at large was not commensurate with the rapid increase in per capita income, and poverty remains the big challenge. Directors welcomed the authorities' intention of preparing a National Poverty Reduction Strategy (NPRS) to guide government policies in fighting poverty while maintaining macroeconomic stability. They commended the authorities for establishing a Social Needs Fund to operate until the NPRS is finalized.

Directors agreed that there is room for increasing spending in the social sectors and on the physical infrastructure. However, as the medium-term fiscal framework is not yet fully developed, attention needs to be given to using resources effectively and avoiding wasteful spending, which will also help contain inflation and preserve the international competitiveness of the country's non-oil economy. Directors welcomed the assignment of two Fund-provided resident advisors for capacity building in public finance management and macro-fiscal issues.

Directors emphasized the importance of improving governance, transparency, and accountability as more resources become available to the government. They encouraged the authorities to take the necessary steps towards full participation in the Extractive Industries Transparency Initiative, including adopting the EITI decree, convening a discussion with stakeholders on the government's disclosure policy, appointing an aggregator to compile, reconcile and oversee the quality of data, and finalizing the agreed action plans.

Directors recommended that domestic liquidity be monitored in case measures are required to temper inflationary pressures. Given that monetary policy is carried out at a regional level, fiscal policy has to assume the main role in liquidity management. They considered that the pegged exchange rate regime has provided an anchor to hold down inflation and has had a positive impact on investors' confidence. However, in the absence of nominal exchange rate adjustments to buffer shocks, Directors stressed the need for careful focus on the macroeconomic and structural policy options for improving the resilience and productivity of the economy.

Directors supported the authorities' resolve to continue enhancing banking supervision, while ensuring that banks comply with prudential regulations, in order to further strengthen the banking system. At the same time, they shared the authorities' concern about the relatively low level of financial intermediation, and encouraged them to address structural rigidities— including in the judicial system to clarify rights and obligations of both borrowers and creditors. Directors encouraged Equatorial Guinea to work with the other members of CEMAC to gradually reduce the current common external tariff. They observed that the elimination of nontariff barriers and taxes on exports would be instrumental for improving international competitiveness.

Directors urged the authorities to allocate with priority the required resources to enhance the statistical capacity, as the lack of timely, accurate, and comprehensive macroeconomic data hampers the monitoring of economic and financial developments and the formulation of policy.

Equatorial Guinea: Selected Economic and Financial Indicators

	2002	2003	2004	2005 Est.	2006 Proj.
	(Annual percentage change, unless otherwise specified)				
Domestic economy					
Real GDP	20.1	13.6	30.0	6.5	-0.4
Of which: non-oil GDP	10.4	11.3	11.3	10.7	10.2
Oil production (thousands of barrels per day) 1/	250.6	283.9	382.8	403.6	397.8
Consumer prices (end of period)	6.2	5.9	5.1	4.8	3.7
External economy					
Exports, f.o.b.	22.0	32.3	64.1	55.0	17.0
Imports, c.i.f.	-37.3	154.1	18.7	24.6	-1.6
Exchange rate (CFA Francs/U.S. dollar)	697.0	581.2	528.3	526.9	...
Real effective exchange rate (depreciation -) 2/	7.4	10.0	4.3	4.4	...
Financial variables					
Government revenue 3/	19.1	13.7	78.2	81.9	28.8
Government expenditure and net lending	27.5	102.5	19.7	16.6	16.6
	(In percent of GDP, unless otherwise specified)				
External economy					
Current account balance (including official transfers; deficit -)	-13.5	-43.8	-24.2	-13.3	-5.8
Outstanding medium- and long-term public debt	10.2	10.1	6.2	2.7	2.1
Debt service-to-export ratio	0.3	0.4	0.2	0.2	0.2
Financial variables					
Gross investment	31.8	60.9	45.9	33.4	23.4
Gross national savings	18.3	17.1	21.6	20.1	17.6
Government revenue 3/	28.5	28.7	34.4	42.9	47.0
Of which : oil revenue	25.0	25.0	31.4	40.5	44.5
Government expenditure and net lending	17.0	30.5	24.5	19.6	19.4
Overall government balance (including oil revenue; deficit -)	11.4	-1.8	9.9	23.3	27.7
	(In millions of U.S. dollars, unless otherwise specified)				
External economy					
Exports, f.o.b.	2,117	2,801	4,596	7,125	8,332
Imports, c.i.f.	-507	-1,288	-1,529	-1,906	-1,875
Current account balance (deficit -) 3/	-281	-1,238	-1,120	-898	-437
Overall balance of payments (deficit -)	5	122	652	1,400	1,300
Financial variables					
Gross official reserves 4/	567	890	1,566	2,936	4,241
(equivalent months of imports, c.i.f.)	3.0	3.9	5.5	10.4	15.2
(equivalent months of non-oil sector imports, c.i.f.)	4.9	5.7	8.1	15.1	21.2

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

1/ Including oil equivalent of methanol and liquefied gas.

2/ Period average changes.

3/ Including grants.

4/ Imputed reserves with BEAC and government offshore deposits.

Statement by Damian Ondo Mañe, Executive Director for the Republic of Equatorial Guinea May 10, 2006

Introduction

On behalf of my Equatoguinean authorities, I would like to thank staff for the well-balanced set of papers on the recent economic developments in Equatorial Guinea in particular the selected issues paper on key issues and alternative scenarios on how Equatorial Guinea can take advantage of oil windfall and better manage the surpluses in the long term. My authorities commend the reviews of the various models and experiences of other countries and look forward to deepening analysis and dialogue on the issues.

In addition, my Equatoguinean authorities highly value the positive discussions they have had with Board members and the Managing Director who visited recently the country. Indeed, the group of the Executive Directors had helpful meetings not only with the high authorities but also with the representatives of Parliamentarian groups and donors' community. In the same breath, they welcome the policy advice delivered by the MD during the launching of the seminar on "sources of growth in Africa" organized in Bata last March in the context of the CEMAC summit. It is worth noting that during his visit the MD signed with the authorities the reimbursement agreement for the provision of technical assistance in the areas of public finance management and macro fiscal policy.

As is well-known, Equatorial Guinea is a middle-income country with all the characteristics associated with the group of low-income countries, in terms of poverty and institutional and capacity constraints, and low output. Thanks to the revenue derived from oil production, the country has solved its financial problems, and is now accumulating reserves at a fast pace. The major challenge facing the authorities is to implement a sound and sustainable development plan. In the short time period that oil production has started, important infrastructure projects have started, namely road construction, improving the sea and airports, schools and hospital constructions. However, much more needs to be done, but the country faces a severe shortage of capacity, and the authorities are addressing this issue.

My authorities would like to reiterate their commitment to continue implementing sound policies, designed to lay down solid foundations for broad-based sustainable economic growth and poverty alleviation. To this end, they are cognizant of the challenges facing the country, notably in the areas of economic diversification, social indicators' improvement, financial resources management and capacity building. In their efforts to strengthen in-country capacity, the authorities will benefit from the Fund's technical assistance in public finance sector. The Fund technical assistance will be complemented by the assistance from the United States Agency for International Development (USAID) in social service delivery, as well as the World Bank with regard to the national accounts, social statistics and public expenditure review.

The Social Needs Fund

While the country is accumulating large reserves, poverty remains a major problem. The authorities have done much already to alleviate poverty, but the problem is that there is little linkage between the oil sector and the rest of the economy. The oil production started and grew faster in a context of narrow production and export base as well as lack of infrastructure and institutional capacity. In fact, the size of the reserves grew so rapidly, while the capacity to manage this wealth did not follow.

Fighting against poverty, diversifying the economy, developing the infrastructure and enhancing capacity remain at the top of my authorities' agenda. To address these issues, they are working closely with their development partners. In this regard and until the finalization of the National Poverty Reduction Strategy (NPRS), the authorities have established by Presidential decree N° 120/05 on July 4, 2005 a Social Needs Fund. This fund has been set up with the technical assistance of Business for Social Responsibility (BSR) and the key stakeholders in Equatorial Guinea. In order to implement the program assigned to this fund, the authorities and the US government through USAID have signed an agreement to guarantee the quality, accountability and delivery of social service.

The Social Needs Fund, as a temporary mechanism and not a substitute for line ministries mandate, is a mutual effort to improve social service delivery by enhancing the administrative and technical capacity of selected ministries to support the financial disbursement mechanism established by Presidential decree. The Social Needs Fund has been adopted as the mechanism for soliciting, reviewing, adopting, funding, implementing and monitoring projects in the areas of health, education, women' issues and sanitation. Technical assistance provided through this mechanism will help build capacity and foster transparency and accountability in the design, implementation and evaluation of social needs projects.

For the medium-term, the authorities with other stakeholders are in the process of preparing a NPRS which would provide the framework for social spending and guide government policies.

Implementation of EITI Initiative

The authorities have enhanced their participation in the Extractive Industries Transparency Initiative (EITI) through carrying out of all the necessary arrangements including the adoption of the EITI decree, the creation of EITI National Commission with the participation of the Parliament, the industry and civil society as well as the allocation of the needed financial resources for the functioning of the Commission. The authorities, in collaboration with the World Bank, remain committed to accelerate the implementation of the action plan including the appointment of the aggregator in charge of data compilation and reconciliation as well as quality control. They also will strengthen the civil society participation in the EITI

National Commission, make a presentation of the legal and institutional framework for the implementation of EITI and launch the government information campaign.

In addition, it is important to note that last April, the Head of State met with the acting President of the World Bank and underlined the authorities' commitment to transparency and good governance. In reviewing progress made in implementing EITI principles, it was agreed that capacity constraints are the main cause of implementation delays. In order to help overcome these constraints, my authorities requested an increased level of technical assistance from the World Bank that would be included in the agreement of services under negotiation. The medium-term reforms identified under this agreement covered transparency, public expenditure review, public revenue reform, and accountability and corruption reform.

Moreover, I am pleased to inform the Board that transparency and good governance are now of the public domain in Equatorial Guinea. For instance, these were broadly supported during the CEMAC parliamentarian seminar in January 2005 and during on "Sources of Growth in Africa" in March 2006.

Macroeconomic Developments in 2005

In 2005, macroeconomic developments were broadly satisfactory. Real GDP grew by 6.5 percent and it is worth noting that the non-oil sector recorded a 10.7 percent growth rate due to the large public infrastructure investment and private housing construction. Inflation declined to 4.8 percent at end-2005 due mainly to the decline in cash crop agriculture and increase in domestic prices for petroleum products in addition to supply bottlenecks in the growing non-oil sector. Despite its slowdown in 2005, the hydrocarbon sector continues to dominate the economy in contributing to more than 90 percent of the GDP and government revenues.

On the fiscal front, revenues as shown in the table below have rapidly increased due to the combined effect of the improvement of oil production capacity and high international oil prices. The non-oil sector also performed better than expected owing to the buoyancy in non-oil activities and sustained efforts to improve tax administration, including the new tax code, in line with FAD's advice, and which led to the creation of a large tax payers' unit and the introduction of a value-added tax. In addition, the audit of oil companies has resulted in the collection of large revenue due to the government.

Equatorial Guinea: Central Government Revenue (in CFA Francs billions), 1990 - 2005

	1990	**1995**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Total Revenue	7.6	13.4	162.3	348.0	414.5	471.2	839.5	1527.4

On the expenditure side, the government increased capital outlays to meet the urgent social needs, and accelerated investment in key infrastructure, in the framework of the fight against poverty. Public investment in infrastructure has translated in opening new roads, schools and health centers as well as sanitation improvement and rehabilitation of offices for Ministries. Furthermore, investment in infrastructure within rural areas has eased supply constraints for domestic foodstuffs. In the same vein outlays on goods and services also were increased.

In the monetary sector, the rise in oil exports has led to a substantial buildup of international reserves to about US$ 2.9 billion at end-2005 equivalent to 15 months of non-oil sector imports. The efficient use of oil revenues and the adequate remuneration of the country's foreign reserves remain the main concerns of my Equatoguinean authorities. Credit to the economy continued to increase mainly in favor of services and construction activities. As regards the exchange rate, the appreciation of the real effective exchange rate for Equatorial Guinea reflects the country's position as the largest oil exporter in the region and recipient of foreign direct investment relative to GDP, recent developments in the terms of trade, and the relative large weight of the U.S. as the major trading partner.

Policies for 2006 and Objectives for the Medium-Term

My Equatoguinean authorities reiterate their medium-term objective of maintaining a high rate of growth in order to improve substantially the standard of living of the population as the country has adequate resources. To this end, overall growth is projected to about 5 percent annually during 2007-10 thanks mainly to the hydrocarbon sector which will be boosted by the production of liquefied natural gas and the oil production from the new oil field. Furthermore, it is worth noting that following the implementation of structural reforms and the large investment in the infrastructures, growth in the non-oil sector is expected to remain robust at around 10 percent a year. Inflation will decline to reach the CEMAC target of 3 percent by 2008, and the overall balance of payments surpluses will allow for further increases in gross official international reserves covering 61 months of non-oil sector imports, by end-2010. In addition the authorities will continue their efforts to strengthen transparency and accountability in the management of natural resources, as well as public finance.

In the fiscal area, the budget process will be enhanced further. Thanks to the Fund technical assistance, budget formulation and execution processes as well as information reporting and oversight controls will be improved. This should also help to avoid exceeding budgetary expenditures which have been due to underestimation of projects cost or changes in the projects, as well as new additions or the need to meet pressing social needs. My authorities are determined to meet the pressing needs of the country in the social sector and the infrastructures. In 2006 public investment program, they have allocated to these two sectors more than 92 percent of capital spending. Furthermore, the authorities are committed to a more realistic budget estimates and the inclusion of a contingency provision to meet urgent needs with a view to enhancing control, transparency and ability to implement sound fiscal policy. The authorities will also pursue their efforts to implement their fiscal rule which limits recurrent expenditure to non-oil revenue and finances capital expenditure from oil revenue.

As regards the monetary sector, policies to contain the inflationary pressures and further promote the financial intermediation will be strengthened. The authorities are cognizant that fiscal policy has to assume the main role in liquidity management as the monetary policy is implemented by the regional central bank. The establishment of an appropriate medium-term framework for managing the country's vast oil wealth will be helpful in the reduction of the excess liquidity through implementing a prudent fiscal policy.

Regarding the issue on the foreign assets' remuneration, the authorities' objective is to maintain the real value over the medium-term. It is important to note that this issue is very crucial for the authorities owing to its impact on the macroeconomic developments over the years to come. My Equatoguinean authorities are very appreciative of the staff analysis in the selected issues paper and call for further analysis and alternatives. They will pursue the discussions with BEAC and other stakeholders and welcome the Fund's readiness to assist in evaluating proposals on the reserve management and related issues.

The banking system remains sound, and the authorities are determined to ensure that all banks comply with all prudential ratios. They will strengthen the financial intermediation with a view to further finance the private sector through actions designed to enhance capacity to assess risks, enforce contracts and collect collateral as well as to encourage the establishment of micro-credit institutions notably in the rural areas.

With regard to the competitiveness, the authorities intend to focus on the macroeconomic and structural policies to improve the resilience and productivity of the economy, but this will take time. The authorities view their ongoing efforts in the areas of education, health, infrastructure, and measures to improve the business climate as contributing to economic diversification, increasing labor productivity and making the economy more competitive.

My authorities have reiterated their commitment to regional integration. Following the trade liberalization and tax reforms in accordance with CEMAC standards, my authorities are willing to pursue their efforts with the other CEMAC partners to gradually reduce the remaining challenges in trade liberalization and improve development prospects for the regional market.

Technical assistance, capacity building and statistical issues

The authorities' ability to implement policies has been impeded, over the past years, by the severe capacity constraints and weaknesses in the institutional environment. In order to overcome these constraints, technical assistance is being sought from development partners. In capacity building financed through national resources, it is worth noting that more than 100 students graduated from overseas universities over the last two years and this number will increase in the year to come. In the areas of the public finance management system, development of an operational fiscal framework for the medium-term and economic statistics, two resident advisors will be provided by the Fund under the technical assistance contract signed last March in Bata. All necessary arrangements have been put in place with a view to launch this assistance as of next July. Regarding the preparation of the poverty reduction strategy and related data collection and treatment, the authorities and the World Bank are finalizing the services' agreement which is expected to be signed next June. In collaboration with other partners, the authorities will implement all necessary measures to allocate adequate resources to enhance capacity building and the establishment of the National Statistical Institute to improve the frequency and scope of data reporting.

Poverty reduction strategy

Poverty reduction and the achievement of the MDGs remain the main objective of my Equatoguinean authorities. My authorities are also aware of developing a National Poverty Reduction Strategy (NPRS) conceived as a framework for adjusting both level and composition of public expenditure with the objective of improving the social indicators. Towards the preparation of the NPRS, the authorities intend to organize, before the end of 2006, a national conference on poverty with the participation of the civil society, the NGOs and donors. Four key elements to the NPRS have been identified namely (i) institutional capacity building; (ii) public investment in physical infrastructure; (iii) removal of impediments to financial intermediation; and (iv) creation of an appropriate business environment. The technical assistance expected from the World Bank will be helpful in the preparation of the authorities' NPRS including the establishment of a poverty profile, restructuring the energy sector and assessing sectoral policies to encourage economic diversification.

Conclusion

My Equatoguinean authorities are fully determined to pursue their policy dialogue with the Fund and other development partners in order to strengthen their efforts in enhancing institutional capacities and take opportunity of oil resources to diversify the economy. Under the EITI Initiative, they are implementing measures to enhance transparency and accountability in the management of the country's hydrocarbon resources. In addition, my authorities fully recognize that the challenge facing the country is to tackle the capacity constraints in order to implement sound and appropriate policies enabling the fight against poverty and achieving the MDGs. Lack of capacity is not an excuse. It is a real challenge and risk facing the economy of Equatorial Guinea which expects from now to 2020 revenues estimated at more than US$ 30 billions. Therefore, the issues of institutional and capacity building are of the highest priority. My authorities are aware that the technical assistance benefited from the Fund, the World Bank and the USAID is only temporary, but they are determined to seize this opportunity to improve the quality and the delivery of sound macroeconomic management. The authorities are thankful to development partners, both bilateral and multilateral, for their assistance in helping them to achieve their development objective and are hopeful that the international community, in particular the Fund, will continue providing them with such assistance.