INTERNATIONAL MONETARY FUND

IMF Country Report No. 16/341

REPUBLIC OF EQUATORIAL GUINEA

November 2016

2016 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF EQUATORIAL GUINEA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2016 Article IV consultation with the Republic of Equatorial Guinea, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its August 29, 2016 consideration of the staff report that concluded the Article IV consultation with the Republic of Equatorial Guinea.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on August 29, 2016, following discussions that ended on July 13, 2016, 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 August 12, 2016.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for the Republic of Equatorial Guinea.

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

Selected Issues

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

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September 8, 2016

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

IMF Executive Board Concludes 2016 Article IV Consultation with the Republic of Equatorial Guinea

On August 29, 2016, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the Republic of Equatorial Guinea.

Equatorial Guinea's overall real GDP growth has been weak in recent years averaging -0.5 percent from 2010-14, largely due to a trend decline of the dominant hydrocarbon sector. Economic performance deteriorated substantially in the wake of the 2014 oil-price shock. In 2015, the pace of the contraction intensified, and economic activity declined by 7.4 percent. Hydrocarbon activity fell 8.9 percent, as lower oil prices prompted producers to cut costs, resulting in lower production. Non-hydrocarbon activity slumped by 5.2 percent, as fiscal adjustment slowed public investment and private sector construction. Ongoing fiscal adjustment helped to reduce the overall deficit from 4.9 percent of GDP in 2014 to 3.2 percent in 2015. However, the fiscal position remains under pressure, with deficit financing needs requiring domestic borrowing in the form of central bank credit and further use of government deposits. The terms-of-trade deterioration resulted in a widening of the current account deficit to 16.8 percent of GDP. Inflation is very low at 0.6 percent during the second quarter of 2016, down from over 4 percent in 2014.

The near-term outlook is very challenging, given prospects for depressed energy prices and a continued decline in hydrocarbon production. Weak oil revenues and limited buffers will require further cuts to public investment, leading to a deep contraction of the large construction sector and public administration. As such, overall economic activity in 2016 is expected to decline further by nearly 10 percent. The overall economy is unlikely to grow in the medium term given the still large weight of the hydrocarbons and the impact of fiscal consolidation on non-hydrocarbon activities. However, the pace of the overall contraction should lessen over time as the national development strategy shifts focus to human resource development and facilitates the emergence of new drivers of non-hydrocarbon growth.

[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.

(continued…)

Executive Board Assessment[2]

Executive Directors noted that Equatorial Guinea is facing challenging circumstances, as declining hydrocarbon production and depressed oil prices have led to a deep economic contraction. Given limited buffers, Directors underscored that, in the face of the sharp drop in hydrocarbon income, sustained policy adjustment is needed to restore fiscal sustainability. They noted that achieving sustainable and inclusive growth will require significant efforts to diversify the economy toward non-resource sectors, as well as enhancing human capital development and improving the business climate.

Directors welcomed the fiscal adjustment already underway, which reflects the improving receptiveness to IMF policy advice, but encouraged the authorities to increase the pace of consolidation. They were encouraged by the authorities' efforts to contain current spending and freeze new public investment projects. However, Directors urged swift progress in defining other key elements of the adjustment strategy, including measures to mobilize non-resource revenues, rationalize tax exemptions, and increase investment efficiency. They emphasized the need to prioritize ongoing projects, while retaining investment in social development, particularly in health and education. The consolidation process would benefit from a comprehensive review of tax policy, and a strategy to develop debt management capacity, supported by IMF technical assistance as needed.

Directors highlighted the importance of decisive action to engender growth in the non-resource economy. In order to leverage the potential of Equatorial Guinea's considerable infrastructure, they recommended developing a comprehensive reform agenda to improve the business climate, strengthen governance, foster human capital development, and reduce factor costs, including through fiscal consolidation. Greater cooperation with the World Bank on business climate diagnostics could help establish the immediate structural reform priorities.

Directors cautioned that while the country's banks appear well capitalized, the high level of non-performing loans and declining profitability call for renewed vigilance. They noted that financial sector vulnerabilities stem from fiscal-financial linkages, as fiscal consolidation and government arrears to contractors affect firms' ability to service loans. Directors encouraged the authorities to adopt a repayment strategy for accumulated arrears, which threaten the credibility of the fiscal adjustment and financial stability. They also emphasized the importance of maintaining adequate capital buffers in the banking sector, strengthening bank supervision at the regional level, and promoting financial inclusion.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Directors commended Equatorial Guinea's recent steps to improve statistical production and dissemination, notably the adoption of legislation and a development strategy for the national statistical system, the rebasing of the national accounts, and the application to join the enhanced General Data Dissemination Standard (e-GDDS) of the IMF. Nonetheless, Directors urged continued efforts, with assistance from the IMF and other partners, to address remaining data gaps to support effective surveillance and policy formulation.

Equatorial Guinea: Selected Economic and Financial Indicators, 2013–21

	2013	2014	2015 Prel.	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.
(Annual percentage change, unless otherwise specified)									
Production, prices, and money									
Real GDP	-4.1	-0.5	-7.4	-9.9	-5.8	-2.7	-1.5	-1.2	0.1
Hydrocarbon sectors	-6.9	1.4	-8.9	-11.2	-7.8	-5.6	-4.3	-4.2	-2.7
Oil and gas primary production	-12.1	1.8	-8.1	-21.6	-11.5	-5.0	-3.0	-3.1	-1.8
Hydrocarbon secondary production[1]	5.4	0.6	-10.6	10.2	-2.4	-6.4	-6.1	-5.7	-4.0
Non-hydrocarbon sectors	0.1	-3.3	-5.2	-8.0	-3.0	1.2	2.0	2.4	3.2
Oil price (U.S. dollars a barrel)[2]	100.3	92.5	47.0	38.5	45.7	48.5	50.7	52.6	54.2
Consumer prices (end of period)	4.9	2.6	1.6	1.4	1.5	1.5	1.6	1.8	1.9
Broad money	7.3	-14.1	-10.9	-16.3	-0.4	17.8	19.3	17.8	16.9
Nominal effective exchange rate (- = depreciation)	2.6	-0.2	-9.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Real effective exchange rate (- = depreciation)	4.2	2.7	-8.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
(Percent of GDP, unless otherwise specified)									
Government finance									
Revenue	24.9	24.3	25.3	22.8	21.2	19.5	19.1	18.3	17.8
Of which: resource revenue	21.4	21.0	20.4	16.5	14.3	12.4	11.7	10.5	9.6
Expenditure	30.7	29.2	28.5	28.1	26.5	24.5	22.5	20.5	19.2
Overall fiscal balance after grants	-5.8	-4.9	-3.2	-5.3	-5.3	-5.0	-3.4	-2.2	-1.3
Non-resource primary balance (percent of non-hydrocarbon GDP)[3]	-66.1	-61.1	-44.2	-36.7	-33.1	-29.0	-24.6	-20.0	-16.9
Gross government deposits (billions of CFAF)	1,226	913	862	655	466	424	451	516	642
External sector									
Current account balance (including official transfers; - = deficit)	0.1	-5.6	-16.8	-11.8	-6.6	-5.9	-4.8	-4.1	-3.5
Outstanding medium- and long-term public debt	6.1	8.7	14.0	19.6	21.9	25.9	29.1	31.7	33.7
Debt service-to-exports ratio (percent)	2.5	2.2	7.6	11.9	14.3	18.3	21.6	24.2	26.5
External debt service/government revenue (percent)	7.3	6.4	5.9	11.2	11.7	9.9	12.8	16.2	17.7

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

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

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

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

INTERNATIONAL MONETARY FUND

REPUBLIC OF EQUATORIAL GUINEA

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION

August 12, 2016

KEY ISSUES

Economic Context. Equatorial Guinea is facing difficult circumstances, as the oil price shock severely complicates the effort to transform the economy. Although the authorities have embarked on fiscal adjustment, the decline of the non-resource primary balance has fallen short of what is needed to avoid a rapid deterioration in debt levels and fiscal buffers.

Outlook and risks. With the oil market expected to remain weak, further large cuts to public investment are unavoidable, likely contributing to further economic contraction. The key short- to medium-term downside risk is an insufficient fiscal adjustment, risking a rapid accumulation of arrears and public debt, or disorderly adjustment.

Policies. Macroeconomic policies should aim to accelerate an economic reset driven by the non-resource economy.

- Fiscal policies should aim to sustain the pace of fiscal adjustment to forestall total depletion of remaining buffers. To set the stage for a recovery, it is essential to rationalize and reorient public investment to focus on maximum returns, and accelerate reforms to mobilize more non-hydrocarbon revenues.

- The authorities need to take decisive measures to improve the competitiveness of the non-resource sector by better leveraging the existing strong infrastructure base, and by addressing the weak business climate and governance.

- Financial sector weakness stems from fiscal-financial linkages, as fiscal consolidation and government arrears to suppliers and contractors affect firms' ability to service loans. It is essential that the authorities adopt a repayment strategy for accumulated arrears, which are rapidly rising and threaten the credibility of the fiscal adjustment and financial sector stability, and ensure adequate capital and liquidity buffers in the banking sector, critical to mitigating exposures to weak economic activity. Implementing critical financial structural reforms will also boost resilience to shocks, while promoting poverty reduction.

- Building on progress made thus far, address the critical shortage of macroeconomic and socio-demographic data, which is essential for informed decision-making.

Approved By
Anne-Marie Gulde-Wolf and Sean Nolan

Discussions were held in Malabo, June 29–July 13, 2016. The staff team comprised Messrs. Mlachila (head), Nassar, Ndikumwenayo, Noumon, Orav, and Rodriguez (all AFR). The mission held discussions with H.E. Francisco Pascual Obama Asue, Prime Minister; H.E. Miguel Engonga Obiang Eyang, Minister of Finance and Budgets; H.E. Eucario Bakale Angüe Oyana, Minister of Economy, Planning, and Public Investment; H.E. Gabriel Mbega Obiang Lima, Minister for Mines and Hydrocarbons; Mr. Ivan Bacale Ebe Molina, National Director of the Central Bank for Central African States (BEAC); Ms. Milagrosa Obono Angüe, Secretary of State for Treasury, and other senior government officials. The mission also exchanged views with representatives of the private sector, civil society, and development partners.

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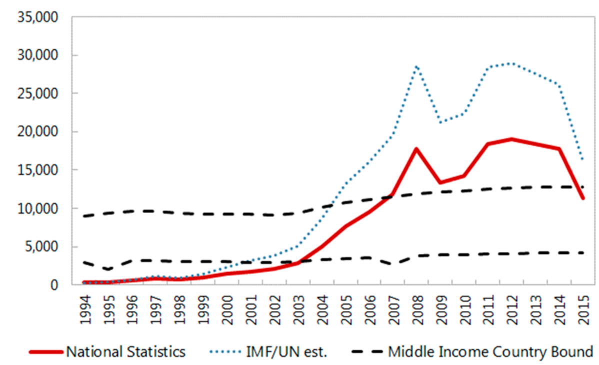
ANNEXES

CONTEXT: LONG BOOM, PROTRACTED DECLINE?

1. **Following a long hydrocarbon-fueled boom, Equatorial Guinea's economy is in the midst of a protracted decline.** From 2000 to 2008, average real growth exceeded 30 percent, as the country grew to become the third-largest hydrocarbon producer in Sub-Saharan Africa (SSA). Activity slowed with the onset of a secular decline in production in 2008, but the economy rebounded thanks to high commodities prices and massive infrastructure investment (averaging 25 percent of GDP per year) under the national development plan—*Horizonte 2020*. Since end-2012, with fiscal buffers under pressure, investment cuts and resource output have led to an overall contraction of GDP of some 30 percent. With bleak prospects for a recovery of resource revenues, the authorities' efforts to restore fiscal sustainability largely hinge on further cuts to investment, as well as extracting more value for money. However, changing course is a challenge with several long-term projects still mid-stream.

Text Figure 1. Equatorial Guinea: Gross National Income per Capita
(US Dollars)



2. **The boom lifted Equatorial Guinea to one of the highest average per capita incomes in SSA.** A recent rebasing of the national accounts to 2006 as base year better captures the changing structure of the economy in recent years. The new series also incorporates new and more robust methodologies. As a result, there has been an upward revision of the size of the economy by roughly 30 percent (Annex I: GDP Rebasing).[1] Nonetheless, high levels of public investment have yet to deliver significant economic diversification, and the economy remains heavily dependent on a resource sector in decline. Based on the recent census results, income per capita now lies below the World Bank threshold level for high-income countries (Text Figure 1); at the same time, poverty incidence is only marginally lower than the average for SSA countries.

Text Figure 2. Equatorial Guinea: Selected Social Indicators

	Latest Figure	Reference Year	SSA (latest
Population (millions)			
United Nations estimate	0.8	2013	937
National authorities' estimate	1.2	2015	...
GDP per capita (US$)			
UN population estimate	10,970	2015	
National authorities' estimate	7,584	2015	
Poverty incidence[1,2] (percent)	44	2011	48
Mortality rate, infant (per 1,000)[3]	68	2015	56
Mortality rate, under-5 (per 1,000)[3]	94	2015	83
Primary school enrollment ratio (percent, net)	57	2012	77
Life expectancy (years)	58	2014	59
Access to clean drinking water (percent of population)	48	2015	68
Human Development Indicator ranking	138	2013	...
Doing Business report overall ranking	180	2016	143

Sources: Equatoguinean authorities, UN (Millennium Development Goals Indicators, 2015); World Development Indicators 2015; and Doing Business Indicators 2016.
[1]Equatorial Guinea: National Household Survey (2006); percentage living below national poverty line of US$2 a day.
[2]Sub-Saharan Africa: UN MDG Report (2013); percentage living below US$1.25 a day in 2010.
[3]Equatorial Guinea: Health and Demographic survey (2011).

3. **Resource wealth has helped improve social indicators over the past 15 years, but progress has been uneven, with Equatorial Guinea falling below the SSA average in many areas** (Text Figure 2). The government has built schools, technical colleges and healthcare centers under the *Horizonte 2020* plan, helping to improve

[1] The size of the public administration sector is now roughly eight times larger in 2014, given better estimates on the consumption of fixed public capital. Similarly, informal activities are better captured in the measures of trade and commerce, which is now five times larger in 2014.

school enrollment and indicators of maternal and infant health. While development indicators that depend on infrastructure, e.g., access to water and electricity, have improved markedly, low overall spending on health and education delivery has led to vaccination and primary school completion rates that have fallen well short of the achievements of other SSA countries with much lower per capita incomes. In the face of significantly reduced oil revenues, the authorities need to shift limited resources to health and education sector, particularly to prevention and outreach programs, in order to promote more inclusive and equitable growth (Annex II: Progress on Social Indicators).

4. The traction of IMF policy recommendations is improving. In the past year, the authorities have acted on recommendations to better monitor investment spending, and shift the focus to human development. They have been implementing IMF technical assistance toward increasing tax revenue. Significant steps have been taken to address weak statistical data, including the adoption of a national statistical development strategy and the decision to subscribe to the IMF's enhanced General Data Dissemination System (e-GDDS). However, there has been little progress on recommended business climate reforms.

RECENT DEVELOPMENTS

5. The oil-price shock since 2014 is exacerbating Equatorial Guinea's economic contraction (Figure 1 and Tables 1–5). Overall GDP declined by 7½ percent during 2015. Hydrocarbon activity declined by 8.9 percent with both price and production playing a role. Lower oil prices prompted producers to adjust by cutting operating costs by an average of 40 percent, which partly mitigated the fall in value added in the sector, but also resulted in lower-than-expected production. Non-hydrocarbon activity slumped by 5.2 percent, as fiscal adjustment slowed public investment and private sector construction.

6. Fiscal adjustment in terms of the improvement in the non-resource primary balance has fallen short of what is needed, so debt levels are rising and fiscal buffers are deteriorating rapidly.

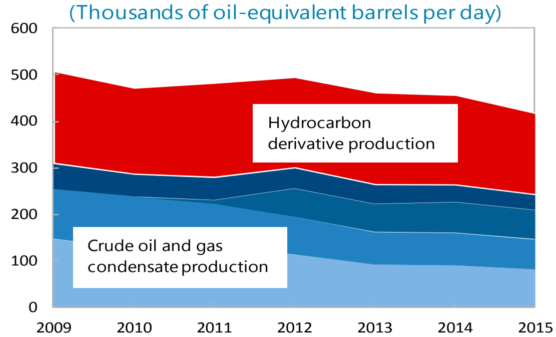
- Outturn data for 2015 show a further decline of the overall deficit (cash basis) to 3.2 percent of GDP, reducing the overall fiscal deficit by half. The authorities proactively sought to mitigate the resource revenue shock through a revised 2015 budget involving measures to mobilize non-resource revenues and a freeze on new capital projects. Nonetheless, investment spending exceeded the revised budget target by nearly 8 percent of GDP, so the decline in the deficit was mainly thanks to better-than-expected resource revenues.[2] The true deficit may be larger given delays in settling payments to suppliers.
- To finance the deficit, the government relied upon domestic borrowing and accumulated savings. Recourse to statutory advances from the BEAC equivalent (1.8 percent of GDP in 2015), contributed to a rapid rise in total public debt to 14 percent of GDP at end-2015. The government's deposit buffer declined by 1.9 percent of GDP in 2015. As a result, the trend decline in government deposits continued, which have fallen from 24 percent of GDP in 2011 to 10.6 percent in 2015.

[2] Higher-than-expected resource revenue stems from deep spending cuts by oil companies, which buttressed income tax revenue.

Figure 1. Equatorial Guinea: Economic Developments, 2009–15

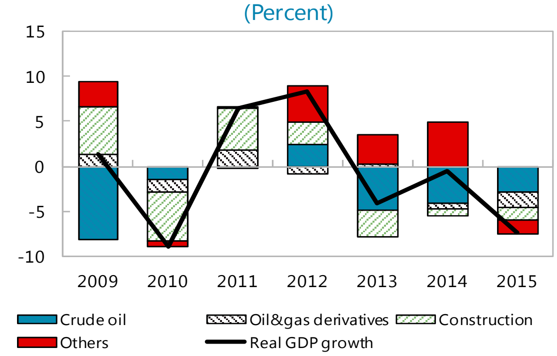
Hydrocarbon production has trended down since peaking in 2008…

Hydrocarbon Production
(Thousands of oil-equivalent barrels per day)



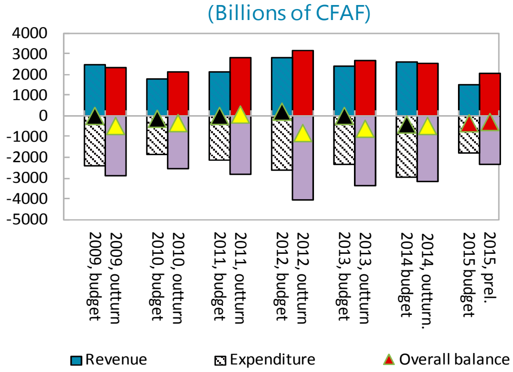
… which is driving the contraction, with spillovers to construction and other activities (commerce, hospitality, and public administration).

GDP Growth Contribution
(Percent)



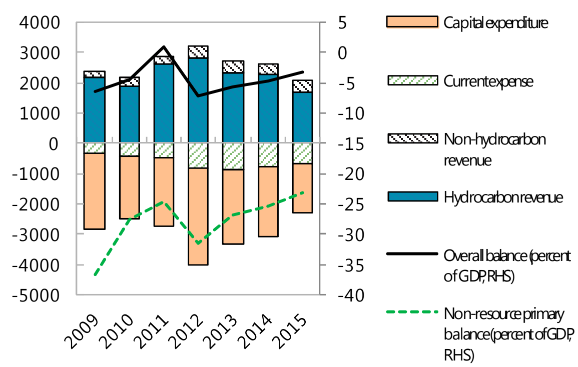
While budgets have sought to rein in expenditure, slippages remain a chronic issue…

Budget Law and Outturn
(Billions of CFAF)



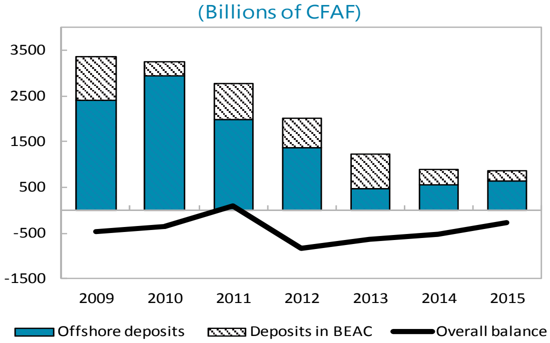
… so the non-resource deficit has remained stubbornly high…

Fiscal Situation
(Billions of CFAF, unless otherwise indicated)



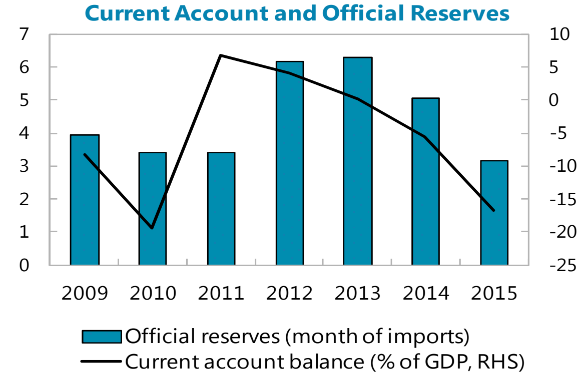
… leading to steady erosion of the government savings buffer…

Government Deposits
(Billions of CFAF)



… and contributing to a deterioration of the current account and official reserves.

Current Account and Official Reserves



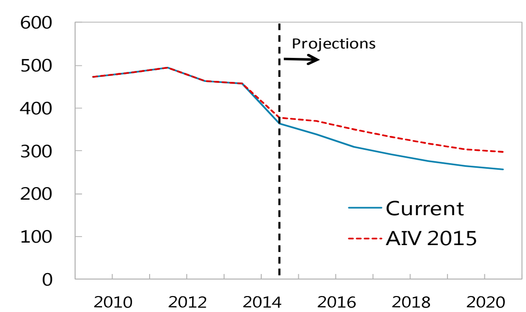
Sources: Equatorial Guinea authorities and IMF staff estimates.

7. The terms-of-trade deterioration resulted in a widening of the current account deficit to 16.8 percent of GDP. The drawdown of usable external reserves was faster-than-expected, declining by some 40 percent since end-2014. Including the government's offshore deposits, the useable external resources are equivalent to 6.4 months of projected imports, down from 6.9 months the previous year. Inflation is very low at 0.6 percent during the second quarter of 2016, down from over 4 percent in 2014. Despite weak economic activity and bank asset quality, private credit growth decelerated only slightly to 14 percent, indicating possible "evergreening" of loans to the badly-hit construction sector.

VERY CHALLENGING OUTLOOK AND RISING RISKS

8. The near-term outlook is very challenging (Figure 2). The baseline scenario assumes depressed energy prices and a deeper near-term decline in hydrocarbon production than previously projected, as oil companies continue to minimize operating expenditures (Text Figure 3). In 2016, weak oil revenues and limited buffers will require further cuts to public investment, leading to a deep contraction of the large construction sector and public administration. As such, overall economic activity is expected to decline by nearly 10 percent. Beyond the near-term, investment in current and new hydrocarbon facilities is expected to recover, suggesting a return to production declines of around 5 percent annually.[3] Ongoing fiscal adjustment is envisaged through 2021 (the "active scenario" discussed below) to contain the pace of debt accumulation. The overall economy is unlikely to grow much in the medium term given the still large weight of hydrocarbons. The reduced aggregate demand from lower hydrocarbon income combined with the impact of fiscal consolidation will have a negative impact on non-hydrocarbon activities. Credit growth is projected to decelerate as lending positions to the construction sector are unwound. Staff considers that non-hydrocarbon growth of over 3 percent could be achieved by 2021, if the national development strategy shifts toward pro-growth social development.

Text Figure 3. Equatorial Guinea: Hydrocarbon production
(Thousands of barrels per day)



Sources: Equatorial Guinea authorities and IMF staff estimates.

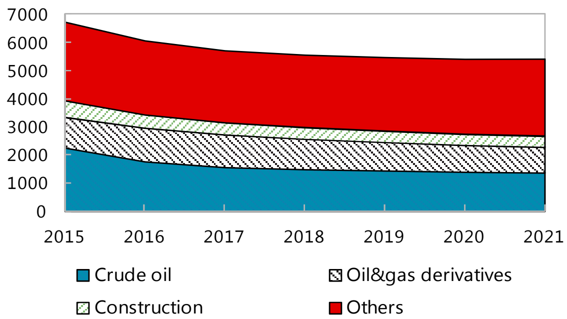
9. Substantial risks to the outlook highlight the need for proactive policy measures (Annex III: Risk Assessment Matrix). The key short- to medium-term downside risk is an insufficient fiscal adjustment to prolonged weakness in the oil market. This could lead to a faster depletion of available deposits, risking a rapid accumulation of arrears and public debt. Further domestic risks concern a faster-than-expected decline of oil production, uncertain prospects for a rebound in non-hydrocarbon growth, and a slow improvement in the reorientation of public investment.

[3] An upside risk for future hydrocarbon production concerns the Fortuna Floating Liquefied Natural Gas (FLNG) project, for which the final investment decision is expected by end 2016. The FLNG project could increase biogenic gas production by as much as half over from the end of the forecast period.

Figure 2. Equatorial Guinea: Baseline Projections, 2015–21

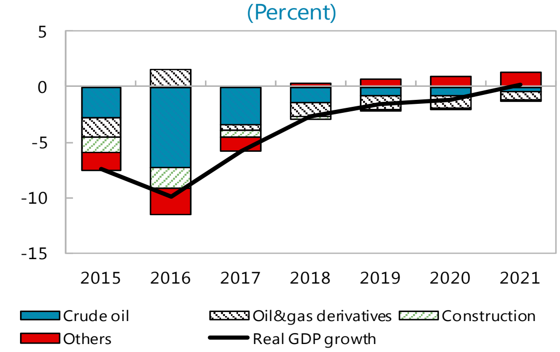
Real GDP is expected to trend down with slowing resource production and public investment...

GDP
(Constant price, billions of CFAF)



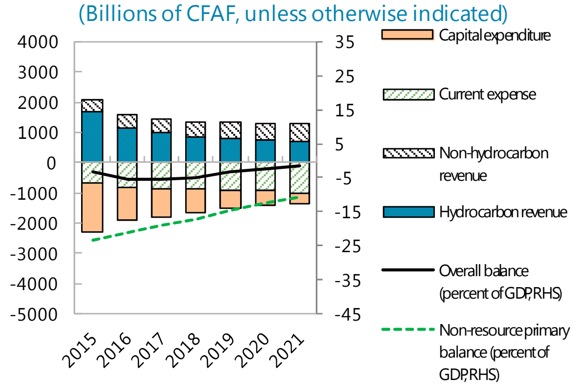
...and recover slowly as other sectors (services, utilities, agriculture) benefit from new infrastructure.

GDP Growth Contribution
(Percent)



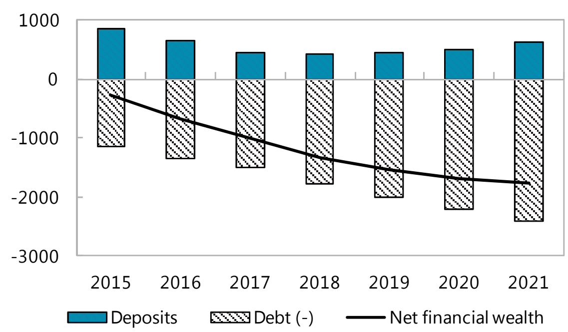
Frontloaded spending adjustment would reverse the deterioration of the overall balance from 2017...

Fiscal Situation
(Billions of CFAF, unless otherwise indicated)



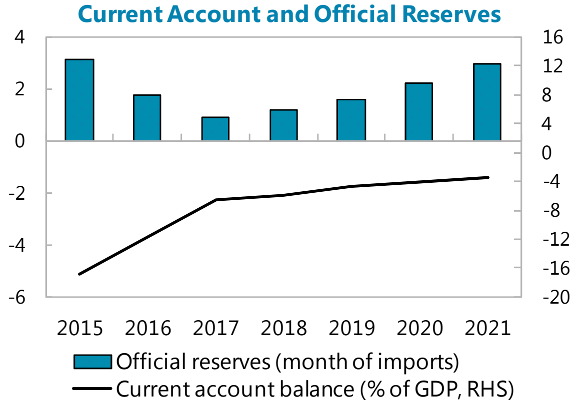
...but falling deposits and external borrowing will result in a further deterioration of the net asset position.

Government Net Financial Wealth
(Billions of CFAF)



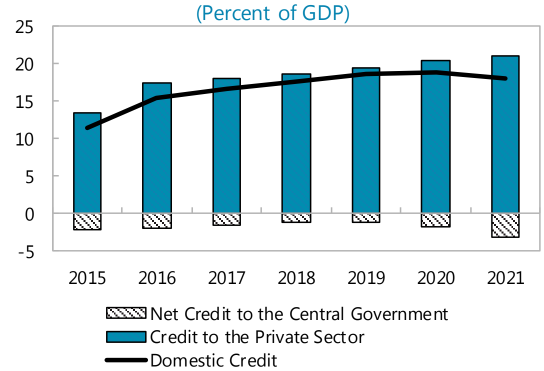
Falling import-heavy spending helps to rebuild reserves.

Current Account and Official Reserves



Banking activity is focused on construction, and private sector credit growth will slow alongside overall economic activity.

Credit Situation
(Percent of GDP)



Sources: Equatorial Guinea authorities and IMF staff estimates.

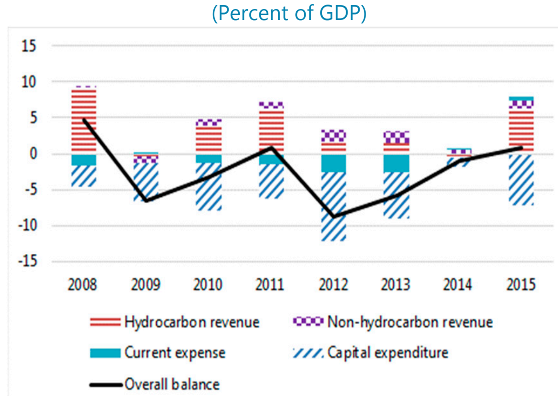
POLICY DISCUSSIONS: CHARTING AN ECONOMIC RESET AND A PATH TO RECOVERY

10. The over-arching theme of the consultation was to accelerate an economic reset driven by the non-resource economy. A slow consolidation invites a growing risk of a disorderly adjustment and macroeconomic instability. Fiscal retrenchment is also essential to support the CFA franc, which has served the country well as a pillar of economic stability. The effort should be bolstered by implementing highly visible structural reforms, containing macro-financial spillovers, and improving statistical capacity.

A. Sustaining the Path of Fiscal Adjustment

11. Fiscal performance in recent years has suffered from weaknesses in budget management. Issues identified by previous FAD TA include incomplete and poor quality data, *ad hoc* procedures, fragmented decision-making, and extra-budgetary spending. As a result, expenditure and revenue deviations relative to budget targets have been large, ranging from 5–10 percent of GDP on the large capital expenditure budget (Text Figure 4).

Text Figure 4. Equatorial Guinea: Deviation of Budget and Actual
(Percent of GDP)



Source: Equatorial Guinea authorities and IMF staff estimates.

12. Fiscal adjustment is under way, but progress is slow. The authorities are dealing with a serious shock to hydrocarbon revenues (accounting for 90 percent of total revenue through 2014). With the forecast of continued low oil prices and no scope for further central bank credit, remaining fiscal buffers are at risk without substantial additional consolidation. The broad lines of the authorities' adjustment strategy have been in place since mid-2015, and it was enhanced with the adoption of a presidential decree in November 2015, focusing on mobilizing non-hydrocarbon revenue and progressively reducing the public investment budget. However, key revenue measures remain in early stages of implementation, including the audit and rollback of *ad hoc* VAT and income tax exemptions, and customs modernization. On expenditure, the authorities have succeeded in containing current spending, and have imposed a freeze on new public investment projects, but action plans are still being developed to reform the public investment plan (PIP) and review ongoing projects.

13. To illustrate the risks posed by a slow unwinding and reform of the PIP, a passive scenario posits gradual expenditure consolidation and weaker growth due to a slow improvement of investment efficiency. Under this scenario, fiscal buffers are depleted and financing requirements would push indicative public debt to about 50 percent of GDP over the medium term (Text Table 2).

Text Table 2. Equatorial Guinea: Active vs. Passive Scenario, 2015–21

(Percent of GDP, unless otherwise specified)

	2015	2016		2017		2018		2019		2020		2021	
	Prel.	Active	Passive	Active	Passive	Active	Passive	Active	Passive	Active	Passive	Active	Passive
Real GDP	-7.4	-9.9	-10.0	-5.8	-6.2	-2.7	-3.6	-1.5	-2.0	-1.2	-1.6	0.1	-0.3
Hydrocarbon sectors	-8.9	-11.2	-11.2	-7.8	-7.8	-5.6	-5.6	-4.3	-4.3	-4.2	-4.2	-2.7	-2.7
Non-hydrocarbon sectors	-5.2	-8.0	-8.4	-3.0	-4.0	1.2	-1.0	2.0	1.0	2.4	1.6	3.2	2.4
Total revenue and grants	25.3	22.8	22.4	21.2	20.6	19.5	18.6	19.1	18.0	18.3	16.9	17.8	16.2
Resource revenue	20.4	16.5	16.5	14.3	14.3	12.4	12.4	11.7	11.7	10.5	10.5	9.6	9.6
Non-resource revenue	5.0	6.3	5.9	6.9	6.3	7.1	6.2	7.4	6.3	7.8	6.4	8.2	6.6
Total expenditure and net lending	28.5	28.1	28.9	26.5	28.3	24.5	27.3	22.5	26.2	20.5	25.2	19.2	24.7
Current expenditure	8.4	12.1	11.5	13.1	12.3	13.3	12.5	13.6	13.1	13.8	13.3	14.5	13.8
Capital expenditure	20.2	16.1	17.4	13.5	16.0	11.3	14.7	9.0	13.2	6.7	11.9	4.6	10.9
Overall balance	-3.2	-5.3	-6.5	-5.3	-7.7	-5.0	-8.6	-3.4	-8.2	-2.2	-8.3	-1.3	-8.5
Non-resource primary balance (% of non-hydrocarbon GDP)	-44.3	-36.7	-38.8	-33.1	-37.2	-29.0	-35.0	-24.6	-32.4	-20.0	-29.7	-16.9	-28.1
Current account balance	-16.8	-11.8	-11.8	-6.6	-9.0	-5.9	-9.0	-4.8	-8.5	-4.1	-8.6	-3.5	-9.1
Usable external resources (months of next year's imports)	6.4	4.5	3.8	2.7	1.4	2.8	0.9	3.3	1.0	3.9	1.0	4.4	1.1
Gross governemnt deposits	10.6	9.6	8.4	6.9	4.8	6.2	3.4	6.6	2.9	7.4	1.9	9.0	0.4
Total public debt	14.0	19.6	19.6	21.9	23.4	25.9	30.2	29.1	37.2	31.7	43.8	33.7	49.5

Source: Equatorial Guinea authorities and IMF staff estimates.

14. Staff recommended accelerating fiscal policy reforms with a view to forestalling the depletion of buffers. Fiscal policy should be anchored on a non-resource primary deficit of less than 20 percent of GDP over the medium term.[4] This target is consistent with a gradual increase in non-resource revenue and sustained spending adjustment around 2 percent of GDP per year over the medium term, and would safeguard a minimal level of government deposits (Tables 1–5).

15. Equatorial Guinea's debt would remain manageable if fiscal adjustment is continued over the medium term, but would grow rapidly in the absence of additional adjustment (DSA). This underscores the importance of accelerated fiscal policy reforms. The debt trajectory is vulnerable to unfavorable shocks from real GDP growth and the primary balance.

16. In line with this scenario, the mission made the following recommendations:

- ***Ensure continued fiscal consolidation with a revised 2016 budget.*** The 2016 budget as adopted applies an optimistic oil price assumption and makes no provision for arrears clearance. A new 2016 budget should be based on conservative oil price assumptions and revised expenditure projections with adequate allocations for maintenance and social development.
- ***Implement priority non-hydrocarbon revenue mobilization measures.*** Equatorial Guinea generates minimal tax revenue that is not directly linked to hydrocarbon activity. Despite a three-fold increase in imports since 2005, customs taxes generate revenue of 0.2 percent GDP, well below Gabon (4.2 percent) and the Republic of Congo (3.7 percent). This underperformance stems from evasion, *ad hoc* exemptions, and poor administrative practices. Immediate priorities for reform include: operationalization of the Large Taxpayer Unit, which will help focus collection efforts on

[4] The active scenario is based on the authorities' established policies, and policies likely to be implemented. The level of the fiscal anchor is now significantly higher than past estimates, due to the upward revision of GDP.

the biggest tax payers, introduction of a single taxpayer identification number; streamline tax filing procedures; and better tracking of exemptions. Exemptions should be vigorously eliminated when not established by law. The authorities should also advance the reorganization of the customs services, notably by finalizing customs clearance procedures for the installation of ASYCUDA World software.

- ***The authorities should embark on a comprehensive review of tax policy, including non-resource tax revenues***; reform efforts to date have focused on tax administration measures. A well-designed tax system would increase the non-resource tax base and avoid distortionary fees that partly explain the increase in non-resource revenues in 2015. The IMF stands ready to provide technical assistance.
- ***Accelerate public financial management (PFM) reforms focusing on the public investment program*** (***PIP) and domestic arrears.*** The targeted fiscal adjustment requires that the PIP be halved over three years. The authorities should develop action plans with the World Bank to strengthen public investment management, focusing on centralized project selection and monitoring, aligning it with priorities identified by the national development plan, and developing expenditure projections integrated with the medium-term fiscal framework. With regard to ongoing projects, the authorities should avoid inefficient across-the-board spending cuts, which could harm the poor disproportionately. Clear criteria should be developed to prioritize efficient investment projects based on expected economic and social impact, emphasizing state of completion, service delivery, and maintenance requirements.
- ***Support inclusive growth by increasing the share of spending on social programs and public service delivery.*** Expenditure composition is currently 2:1 in favor of capital spending, whereas it is the inverse in other CEMAC countries, contributing to low provisions for health and education service delivery. Budget allocations should be better aligned with the national development program's social priorities.
- ***Given widespread payment delays, the authorities should proceed quickly on an audit of the stock and preparation of a clearance strategy.*** To underpin confidence in the strategy, the annual budget should transparently provision for retiring these debts—which may require additional recourse to the regional debt market. PFM measures to avoid the emergence of new arrears should include more frequent National Payments Committee[5] meetings and an action plan to bring budget classification and reporting in line with CEMAC directives by end 2016.
- **Develop debt management capacity.** In 2015, Equatorial Guinea entered the regional T-bill market with a successful test issuance of CFAF 15 billion at an interest rate of around 1 percent. In order to further develop this potential source of financing, the authorities should strengthen capacity and develop a sound debt management strategy, as recommended by previous World Bank and IMF technical assistance.

[5] Although the National Payments Committee is scheduled to meet quarterly, the schedule of meetings is not always maintained due to capacity constraints.

- **Advocate for a tighter region wide policy stance.** Given its contribution to the regional reserves pool, the Equatorial Guinean authorities should seek to contain monetary financing of the budget, and work with regional bodies to rein in fiscal dominance and safeguard external reserves.

Authorities' Views

17. The authorities agreed that, given the unfavorable outlook for hydrocarbon revenue, ongoing fiscal adjustment would be needed to regain fiscal sustainability. They concurred that, absent active policy measures, debt levels would rapidly rise, as shown in the DSA. They underscored their commitment to fiscal consolidation by pointing to the wide-ranging measures in the presidential decree of November 2015, foremost being the elimination of *ad hoc* tax exemptions, and noted that sizeable fiscal adjustment had been achieved in 2015. The authorities were optimistic about the potential for tax administration measures to raise revenue in the short-term especially in customs. They also argued that the planned tax amnesty program would incentivize taxpayer registration. Nevertheless, they agreed that an IMF-supported comprehensive tax policy review could help identify potential reforms. On public investment, the authorities' stressed the recent success in reducing the PIP budget by 30 percent since 2014, and that substantial efforts have been made, with World Bank assistance, to construct an open platform to actively monitor and manage the PIP. Work is underway on prioritization criteria for ongoing projects, and the government is in discussion with contractors on the scope to delay or curtail elements. A strategy for rescheduling unpaid bills is also being discussed with service providers and commercial banks.

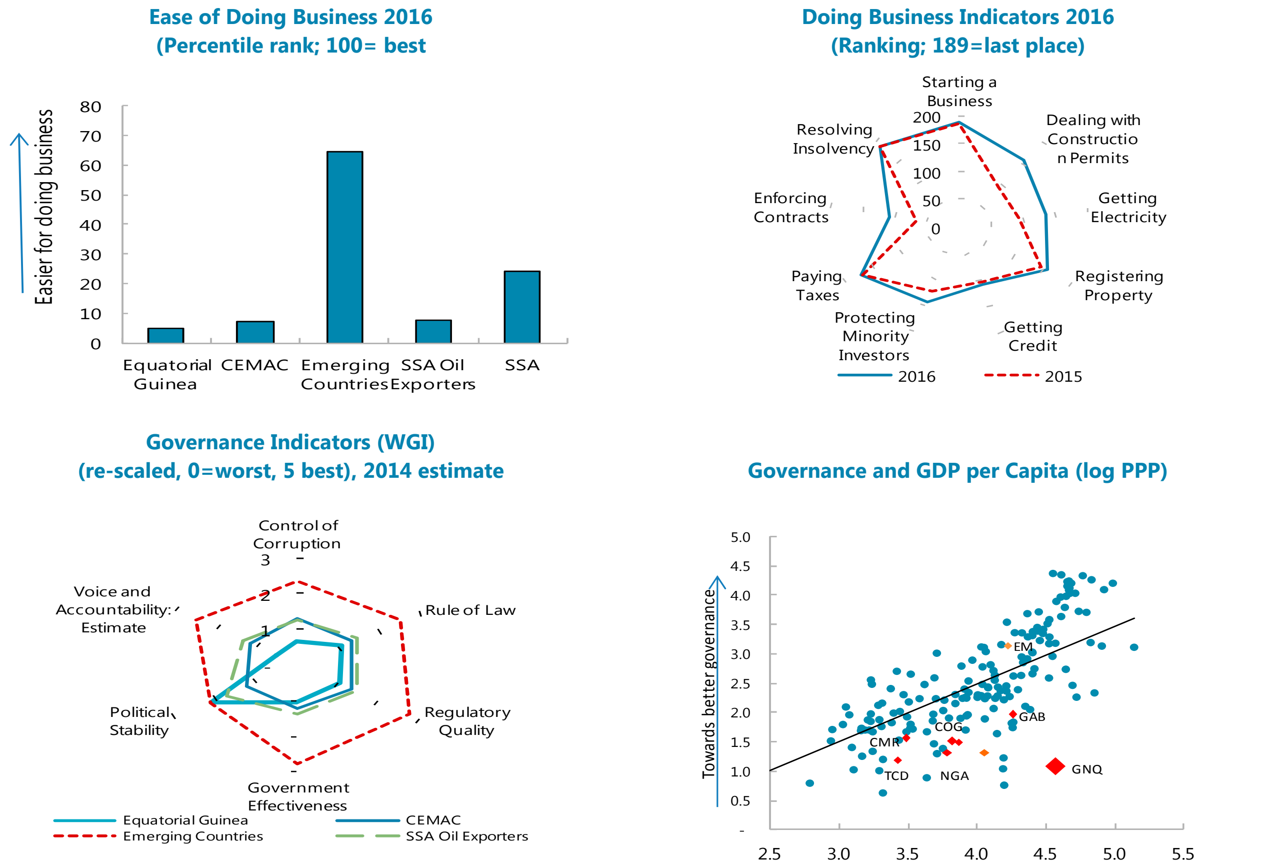
B. A Decisive Move to Promote Nonoil Growth

18. *Horizonte 2020* has enhanced infrastructure, but the impact on non-oil growth has been limited.[6] The first phase (2008–12) of the development plan focused on road networks, energy, water, and ports. The second phase of the plan, which was launched in 2014, emphasizes improving governance and fighting corruption, the business climate, and human capital formation. To date, there has been limited movement on structural reforms, and weak governance and corruption remain a serious impediment (Figure 3). However, large-scale prestige projects are still ongoing, including the new capital city at Oyala. As a result, non-oil activity and exports have remained stagnant.

19. The authorities' efforts are now focused on promoting agriculture, fisheries, tourism, and financial services. To foster private sector activity in strategic sectors, the authorities: (i) intend to establish a national committee composed of chambers of commerce, educational institutions, banks and several members of the government by end-2016 to spearhead reforms; (ii) are placing emphasis on education, including building eight vocational schools to train youth; and (iii) are developing a tourism sector policy to leverage recently constructed hotel facilities, building on the expertise of foreign professionals.

[6] For a detailed discussion of *Horizonte 2020*, see IMF Country Report No. 15/260.

Figure 3. Equatorial Guinea: Business Environment and Governance



Sources: Doing Business Report 2016; Worldwide Governance Indicators, 2014; EIU Democracy Index 2015; and IMF staff estimates.

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

20. Despite significant data limitations on the external sector, existing evidence suggest that the real exchange rate is significantly overvalued. The real effective exchange rate has appreciated in past years considerably more than in other CEMAC countries due to consistently higher CPI inflation (Annex IV: External Stability Analysis). The Araujo *et al.* (2013) and the Bems-Carvalho (2009) methodologies suggest an overvaluation of the real exchange rate of 8–33 percent. This underlines the urgent need to implement wide-ranging structural reforms that reduce factor costs, including through fiscal consolidation, as well as to foster human capital development and address significant weaknesses in the investment climate.

21. Discussions with the authorities focused on measures to improve the nonoil sector's competitiveness and facilitate export diversification:

- ***Address current real exchange rate overvaluation,*** a fundamental prerequisite to promote non-oil growth. Beyond fiscal consolidation, it requires reducing costs and productivity-boosting structural reforms. The government wage bill is relatively small and the ongoing retrenchment in the construction sector means that wages will remain depressed. Therefore, measures to reduce factor costs, such as external trade facilitation, easing barriers to FDI inflows and lowering telecommunication charges, should be a priority.
- ***Improve the business climate and efficiency of public services to foster private sector development.*** While staff welcomed the authorities' plan to establish a "one-stop shop" for investors, it underscored that in itself this was insufficient to address the weak business climate. As an initial step, they could finalize discussions on business climate diagnostics and reforms with the World Bank.
- ***Advocate further integration with CEMAC by lowering trade policy barriers through behind-the-border measures.*** Equatorial Guinea could tap into economies of scale by encouraging regional integration.
- ***Promote tourism by leveraging existing infrastructure.*** Hotel occupancy rates are very low. This is in part due to visa entry requirements to Equatorial Guinea that are onerous and unpredictable, and need to be streamlined.

Authorities' Views

22. The authorities broadly agreed with staff's recommendations. They concurred with the need for structural reforms, made more urgent in light of oil price and output declines. In addition to vocational training for construction workers, the authorities stressed the catalytic potential of a CFAF 100 billion Co-investment Fund to support small- and medium-enterprises in these sectors, although no suitable projects have been identified to date. They noted that external advisers had been contracted for the establishment of the "one-stop-shop" to facilitate investor entry, which could be operational by 2017. On tourist visa requirements, while acknowledging the problem, they noted that any streamlining would need to balance the need to ensure national security.

C. Containing the Macro-financial Spillovers from the Oil Shock

23. BEAC's accommodative monetary policy has temporarily eased the government and banks' difficulties, but there is little additional room given the CEMAC currency peg. The use of BEAC statutory advances at end-2015 reached CFAF 518 billion (over 6 percent of GDP), the maximum allowable. This puts a premium on fiscal adjustment.

24. While banks appear well capitalized and liquid, profitability is in decline. Capital and liquidity appear relatively unaffected by the oil price shock so far, and remain adequate (Text Figure 6). Stress tests of CEMAC countries' banks show Equatorial Guinea as relatively resilient to solvency and liquidity shocks[7] (SIP: Macro-financial Linkages). However, return on equity

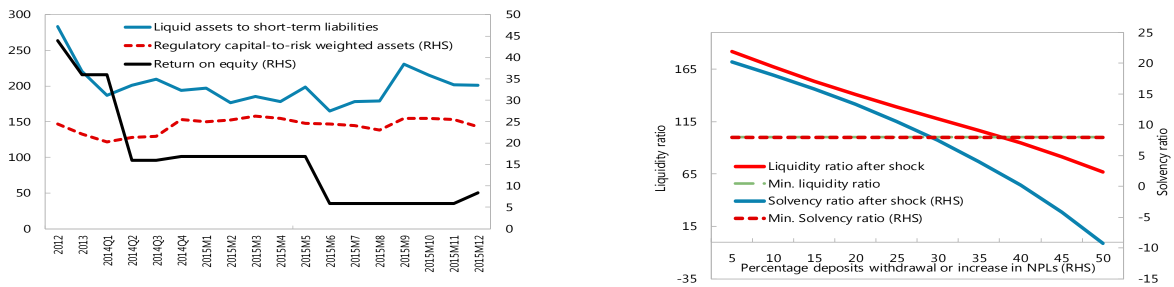
[7] Liquidity shocks consist of deposits withdrawal and solvency shocks of increase in nonperforming loans.

contracted to 8 percent in 2015, mainly related to falling non-oil economic activity, and banks appear vulnerable to asset quality shocks (Text Figure 5).

Text Figure 5. Equatorial Guinea: Banks' Financial Buffers and Stress Tests

Capital, Liquidity, and Profitability
(Percent)

Effect of Liquidity and Solvency Shocks
(Percent of the total)



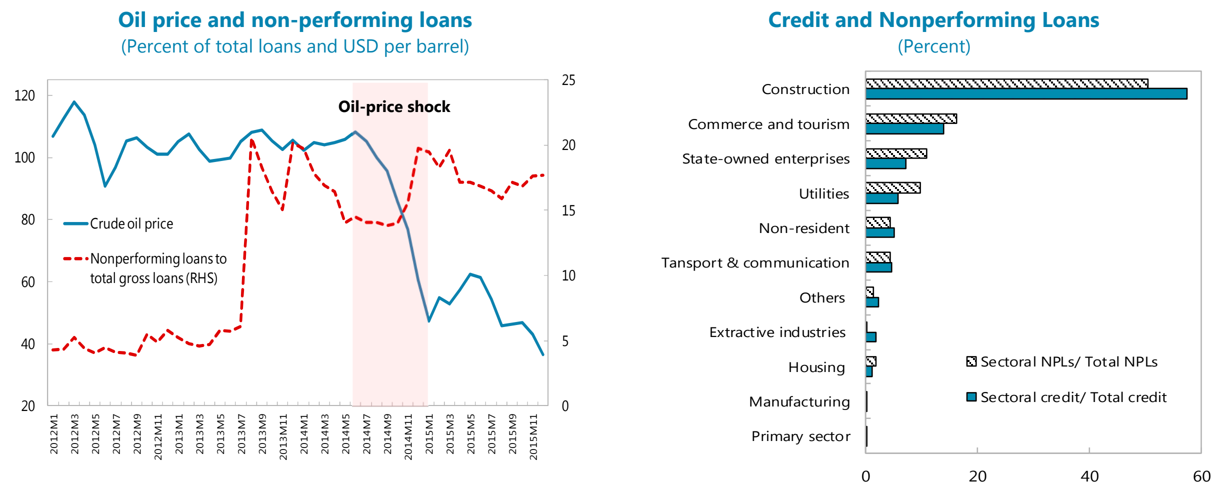
Sources: BEAC; country authorities; and IMF staff estimates.
Notes: The minimum liquidity ratio requirement is 100 percent, and the minimum solvency ratio is 8 percent.

25. The high level of nonperforming loans threatens financial sector stability. Amid disorderly adjustment of the PIP and slowing economic activity, nonperforming loans increased to 20 percent of total loans in 2013 (Text Figure 6). Nonetheless, credit growth has averaged more than 20 percent over the same period, suggesting potential distortions due to evergreening of loans—mostly in the form of overdrafts for some of the construction companies—that could undermine bank asset quality in the future. NPLs have remained high, sustained by the 2014 oil price shock. Financial sector weakness stems from fiscal-financial linkages, as fiscal consolidation and government arrears to suppliers and contractors affect firms' ability to service loans, as well as possibly lax loan classification. An additional concern is the potential for under provisioning; although the ratio of provisioning is stable around 50 percent of NPLs, it does not cover loans guaranteed by the government.[8] Amplifying the shock is highly concentrated bank lending, with around 80 percent of loans extended to large enterprises and construction firms depending on government contracts.[9]

[8] The latest regulation on provisioning and loans classification was effective from January 2015.

[9] Besides concentrated loans, the negative effects of oil-price shocks on financial stability in commodity-exporters tend to be more pronounced for countries with undiversified export base, weak governance, low fiscal buffers, shallow financial systems, and weak macro-prudential framework (Kinda, Mlachila and Ouedraogo, 2016; Gabon SIP, 2016).

Text Figure 6. Equatorial Guinea: Nonperforming Loans

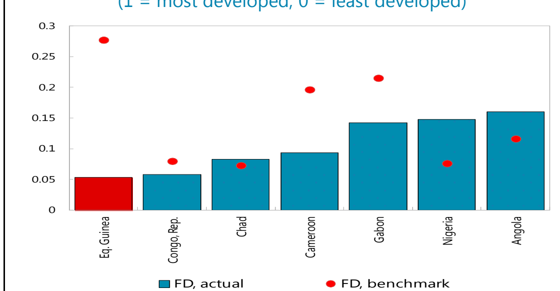


Sources: BEAC; country authorities; and IMF staff estimates.

26. The 2015 regional FSSA report notes a need to continue to strengthen the quality of supervision and enforcement.[10] The crisis resolution mechanism is improving, giving the supervisor (COBAC) the power to intervene, notably by appointing administrators without prior approval of the BEAC Board. Furthermore, BEAC's monetary policy committee has increased the frequency of its monitoring of liquidity developments to a quarterly basis, as has the frequency of on-site commercial bank inspections to prevent under provisioning. Even so, bank supervision is constrained by limited capacity, and complicated by banks exposed to spillovers from potentially distressed parents in the CEMAC region.[11]

27. The financial sector is shallow and characterized by limited inclusiveness (Figure 4). Equatorial Guinea's financial development gap is the highest among African oil-exporters, at one-fifth the level predicted by its income and other fundamentals (Text Figure 7).[12] Similarly, financial deepening, as measured by deposit- and loan-to-

Text Figure 7. Financial Development, Actual vs. Benchmark
(1 = most developed; 0 = least developed)



Source: Sahay and others (2015) and IMF staff estimates

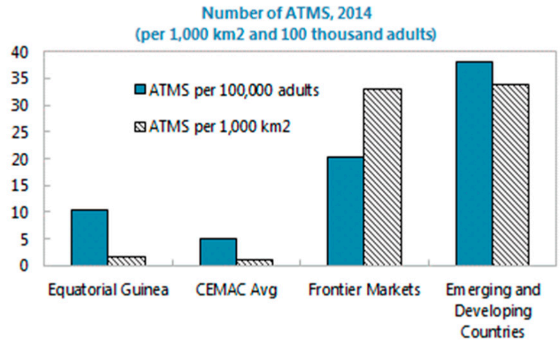
[10] IMF Country Report No. 15/222.

[11] Although the overall CEMAC banking sector is sound and resilient, stress tests suggest that banks with CEMAC-based parents appear relatively more vulnerable to liquidity and solvency shocks (See SIP on macrofinancial linkages).

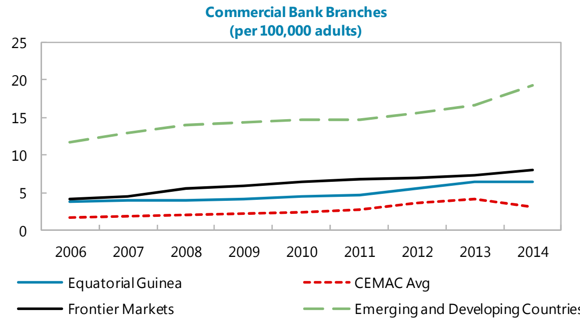
[12] See sub-Saharan Africa REO, April 2016 for details.

Figure 4. Equatorial Guinea: Financial Development and Inclusion

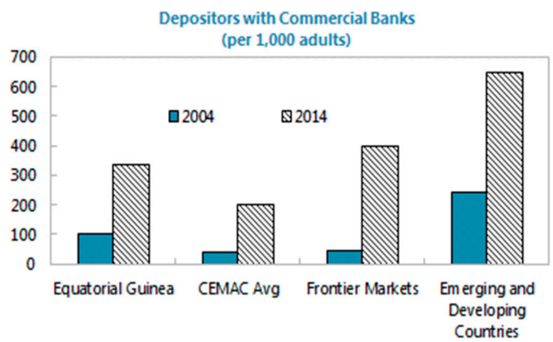
Physical outreach both in terms of ATMs per head and km²…



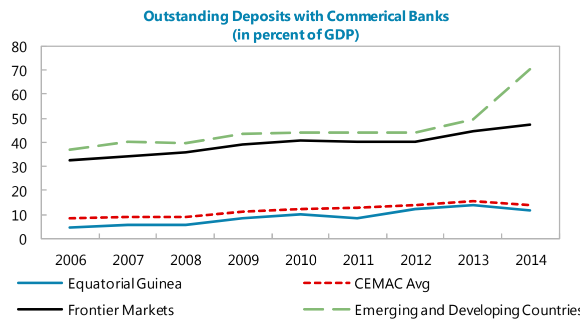
…and the number of bank branches per head is much weaker than in frontier markets and EMs.



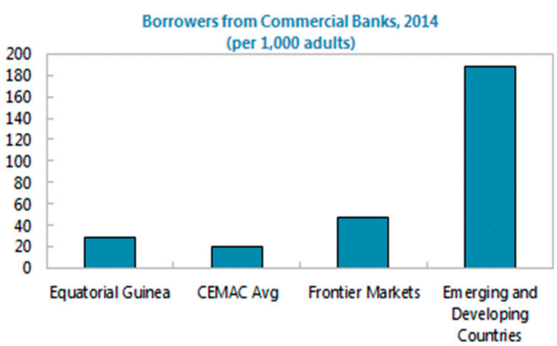
Financial inclusion measured by deposits has improved since 2004, but more progress is needed to reach the average of emerging and developing markets.



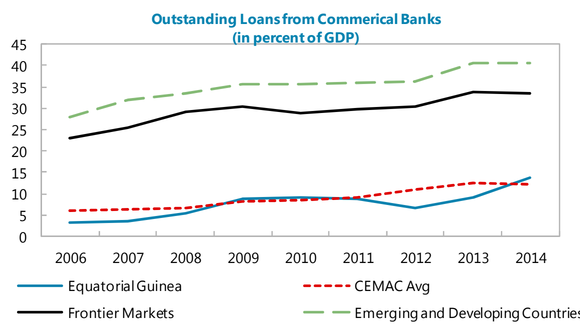
The deposit-to-GDP ratio in Equatorial Guinea is also well below the average for emerging and developing countries average.



Credit supply per 1000 adults by the banking sector is very low, similar to other CEMAC countries …



… and the ratio of loans to GDP is also low relative to peers.



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

GDP ratios, is less than a third of the EM average. Limited information on potential borrowers' credit history and high collateral requirements remain significant bottlenecks to financial development. In addition, high volatility of banks' deposits—mostly driven by large and irregular government payments to service providers—appears to constrain credit supply.[13] Financial inclusion remains limited by the small size of the microfinancial sector.

28. Equatorial Guinea is moving toward implementing CEMAC's AML/CFT framework. The national agency for financial investigations, ANIF, is not yet fully operational. Staff capacity building is underway. Internal regulations and reporting standard have been finalized. The ANIF has started processing suspicious transaction reports, and has referred files to the State Attorney General's office for possible prosecution. A regional peer review of Equatorial Guinea's AML/CFT legal framework against the 2003 Financial Action Task Force (FATF) standard is being conducted.

29. The mission made the following recommendations:

- ***Promptly tackle domestic arrears to avoid negative repercussions on financial stability through default by government contractors and suppliers on bank loans***.
- ***Maintain adequate financial buffers in the banking sector, critical to mitigating exposure to weak economic activity.*** Stress tests show that liquidity and solvency are highly sensitive to macroeconomic shocks. Given the protracted oil shock, Equatorial Guinea should encourage the regional supervisor to put in place action plans to ensure continued bank compliance with prudential norms and provisioning against accumulated NPLs, and cooperate with the COBAC on an asset quality review and in closely monitoring government-guaranteed loans.
- ***Advocate a coordinated regional approach for developing bank supervision on a consolidated basis.*** The COBAC and the BEAC should improve the quality and timeliness of financial stability indicators, and develop a regional strategy to better monitor and tackle macro-financial spillovers through parent-subsidiary linkages.
- ***Implement crosscutting financial sector structural reforms to close the financial development gap,*** which would allow banks to play a supportive role in economic growth. Given limited capacity, high priorities are establishing credit bureaus and upgrading collateral registries. Other recommended policies to boost financial inclusion include greater promotion of microfinance notably by increasing financial literacy and facilitating mobile banking.
- **Strengthen the AML/CFT regime in line with the 2012 FATF standard,** notably by implementing at the national level CEMAC's AML/CFT framework, providing the ANIF with adequate resources to carry its mandate autonomously and independently, and ensuring a risk-based implementation of AML/CFT measures by regulated institutions.

[13] The national payment committee meets infrequently, which leads to large payments when they occur.

Authorities' views

30. The authorities agreed with staff's analysis of macro-financial linkages. They noted that recent efforts by COBAC to increase staffing have increased its effectiveness and would underpin higher frequency monitoring. While acknowledging the vulnerability of the banks to cross-border spillovers, the authorities also noted that regulations adopted in 2015 on cross-border supervision would strengthen regional surveillance on a consolidated basis in line with Basel II protocols. Although the oil shock would likely hinder financial development, they stressed the importance underlying structural impediments, notably weak entrepreneurial skills and a lack of bankable projects.

D. Accelerating Statistical Data Reforms

31. To address the lack of data and weaknesses in the statistical system, the authorities have undertaken a number of measures, with the notable assistance of the World Bank and AFRITAC, including:

- Operationalization of the National Institute of Statistics (INEGE), aimed at significantly improving the statistical institutional infrastructure and data collection, compilation, and dissemination. A high quality National Statistical Development strategy has been developed.
- National accounts compiled using a new base year (2006) and improved methodology.
- Completion of a legislative package that defines the legal framework of the statistical system.
- Completion of a population census in 2015. The preliminary results have been published, and the size of the population is estimated at 1.2 million persons.

32. The authorities have also subscribed to the e-GDDS of the IMF. To assist the authorities, a mission from the IMF's Statistics Department recently visited the country to: (i) undertake a stocktaking exercise of current data production practices; (ii) identify categories of data currently being produced; (iii) prepare an action plan to align current statistics production and dissemination practices in line with best international practices; and (iv) initiate the preparation of metadata.

33. Nonetheless, continued shortcomings hamper effective surveillance and seriously impede policy formulation. In the current economic context, the cost of poorly informed decisions is quite high, requiring that efforts to strengthen the quality and availability of statistical data. Staff made the following recommendations:

- ***Accelerate the INEGE capacity-building program***, drawing on the findings of the June 2016 IMF Statistics Department mission.
- ***Address capacity weaknesses in the compilation and reporting of International Investment Position data.***

- ***Create metadata*** for each type of data currently being produced based on samples provided by the mission, and submit to the IMF Statistics Department existing data (e.g., national accounts, CPI, public debt, etc.) even before the completion of the e-GDDS process.
- ***Undertake economic and socio-demographic surveys*** aimed at assessing economic activity, giving priority to the planned integrated household survey.
- ***Develop statistical tools for systematically monitoring the national development strategy***, notably by establishing statistical units in each government ministry.
- ***Step up the deployment of SYDONIA World software*** for processing international trade transactions at customs.

Authorities' Views

34. The authorities concurred with staff's assessment and recommendations. They have committed to improving the quality and dissemination of data, including through the nomination of the national coordinator of the e-GDDS initiative at INEGE. They underscored the challenges of improving the timely production of data at source and increasing cooperation with producers of data. They also emphasized the continued need for Fund TA and training, which could take the form of custom-made courses in Spanish.

STAFF APPRAISAL

35. Equatorial Guinea's economy is in the midst of a protracted contraction, calling for a significant and sustained adjustment from the authorities. Abundant hydrocarbon resources and massive infrastructure investment propelled the country to one of the highest average per capita incomes in Sub-Saharan Africa, although the incidence of poverty remained a challenge and key social indicators continued to lag regional averages. However, the economy is undiversified, so the twin shocks of declining resource production from mature fields and depressed commodities prices are resulting in a deep and long economic contraction. Given limited buffers, sustained policy adjustment is needed to restore fiscal sustainability and promote new drivers of non-resource growth building on the existing stock of infrastructure. At the same time, the authorities will need to invest a lot more in human resources and service delivery to boost social indicators in areas where progress has been limited, both to support non-oil sector growth and ensure that future growth is inclusive.

36. Fiscal adjustment is underway, but progress has been slow. The authorities have taken significant steps to contain current spending and freeze new public investment projects. However, key planks of the adjustment strategy are still being developed, for example to mobilize non-resource revenues by eliminating *ad hoc* tax exemptions, or to rationalize ongoing investment projects and improve investment efficiency. The authorities should accelerate development of the requisite implementation plans to underpin medium-term fiscal adjustment. These efforts should be further buttressed by a comprehensive review of tax policy, and a strategy to develop debt management capacity, supported, as needed, by IMF technical assistance.

37. Decisive actions are also needed to engender growth in the non-resource economy. Equatorial Guinea has the opportunity to leverage its considerable investment in infrastructure, but launching new sectors that could drive non-resource growth will require a broad array of structural reforms that address significant weaknesses in the investment climate, foster human capital development, and reduce factor costs, including through fiscal consolidation. Decisive actions to tackle corruption and improve governance, in line with *Horizonte 2020*'s objectives, will be important to realize the country's full economic potential. A business climate diagnostic in cooperation with the World Bank would help establish a comprehensive agenda for pro-growth structural reforms. The evidence suggests that the real effective exchange rate is significantly overvalued, and underlines the urgent need to implement far-reaching structural reforms.

38. While Equatorial Guinea's banks appear well capitalized and liquid, NPLs are high, and profitability is in decline. Financial sector vulnerabilities stem from fiscal-financial linkages, as fiscal consolidation and government arrears to suppliers and contractors affect firms' ability to service loans. The authorities should adopt a repayment strategy for accumulated arrears, which threaten the credibility of the fiscal adjustment and financial sector stability. In the context of overall weak economic activity, it is critical to maintain adequate capital buffers in the banking sector, and work toward consolidated regional bank supervision to better monitor potential financial spillovers. Implementing critical financial sector structural reforms will also boost resilience to shocks, while promoting financial inclusion and supporting private sector development.

39. The government has undertaken laudable steps to improve statistical production and dissemination. Noteworthy achievements over the last year include the adoption of legislation and a development strategy for the national statistical system, the rebasing of the national accounts, a population census, and the application to join the enhanced General Data Dissemination System (e-GDDS) of the IMF. Nonetheless, continued efforts are required, as significant data gaps hamper effective surveillance and seriously impede policy formulation. Near-term priorities include capacity building and the preparation of metadata, with IMF support, as well as the integrated household survey and the deployment of ASYCUDA World software at customs.

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

Table 1. Equatorial Guinea: Selected Economic and Financial Indicators, 2013–21

	2013	2014	2015 Prel.	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.
(Annual percentage change, unless otherwise specified)									
Production, prices, and money									
Real GDP	-4.1	-0.5	-7.4	-9.9	-5.8	-2.7	-1.5	-1.2	0.1
Hydrocarbon sectors[1]	-6.9	1.4	-8.9	-11.2	-7.8	-5.6	-4.3	-4.2	-2.7
Non-hydrocarbon sectors	0.1	-3.3	-5.2	-8.0	-3.0	1.2	2.0	2.4	3.2
GDP deflator	-1.1	-1.4	-17.0	-6.8	4.7	3.1	2.6	2.6	2.9
Hydrocarbon sectors	-3.5	-4.8	-31.2	-16.9	7.8	3.4	2.1	1.5	2.6
Non-hydrocarbon sectors	3.1	3.7	2.1	1.3	1.1	1.1	1.3	1.7	1.8
Oil price (U.S. dollars a barrel)[2]	100.3	92.5	47.0	38.5	45.7	48.5	50.7	52.6	54.2
Consumer prices (annual average)	3.2	4.3	1.7	1.5	1.4	1.5	1.6	1.7	1.8
Consumer prices (end of period)	4.9	2.6	1.6	1.4	1.5	1.5	1.6	1.8	1.9
Broad money	7.3	-14.1	-10.9	-16.3	-0.4	17.8	19.3	17.8	16.9
Nominal effective exchange rate (- = depreciation)	2.6	-0.2	-9.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Real effective exchange rate (- = depreciation)	4.2	2.7	-8.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
External sector									
Exports, f.o.b.	-22.4	-6.5	-29.6	-25.8	1.0	0.1	-2.3	-1.6	0.2
Hydrocarbon exports	-23.6	-6.8	-33.9	-29.9	1.5	-0.7	-3.6	-2.8	-0.8
Non-hydrocarbon exports	-3.9	-3.1	20.9	0.3	-1.1	3.8	3.4	3.2	4.0
Imports, f.o.b.	-23.8	-2.4	-11.3	-32.5	-4.7	-4.9	-5.8	-6.0	-5.0
Terms of trade	-1.0	-7.6	-21.7	35.6	11.5	7.0	1.8	1.1	2.8
Government finance									
Revenue	-15.6	-4.1	-19.9	-24.4	-8.3	-7.8	-0.9	-3.0	0.5
Expenditure	-17.3	-6.8	-24.8	-17.3	-6.9	-7.2	-7.2	-7.6	-3.8
(Percent of GDP, unless otherwise specified)									
Investment and savings									
Gross investment	47.8	51.9	53.1	31.0	23.4	22.3	20.2	19.6	20.7
Public	24.6	19.3	18.3	13.4	8.2	5.0	4.2	2.7	2.8
Private	23.2	32.7	34.8	17.6	15.2	17.3	16.0	16.8	17.9
Gross national savings	47.9	46.3	36.3	19.3	16.8	16.3	15.4	15.5	17.2
Public	16.8	17.1	17.0	10.7	8.2	6.2	5.5	4.5	3.3
Private	31.1	29.1	19.3	8.5	8.6	10.1	9.8	11.0	13.9
Government finance									
Revenue	24.9	24.3	25.3	22.8	21.2	19.5	19.1	18.3	17.8
Of which : resource revenue	21.4	21.0	20.4	16.5	14.3	12.4	11.7	10.5	9.6
Expenditure	30.7	29.2	28.5	28.1	26.5	24.5	22.5	20.5	19.2
Overall fiscal balance after grants	-5.8	-4.9	-3.2	-5.3	-5.3	-5.0	-3.4	-2.2	-1.3
Non-resource primary balance (percent of non-hydrocarbon GDP)[3]	-66.1	-61.1	-44.3	-36.7	-33.1	-29.0	-24.6	-20.0	-16.9
Outstanding medium- and long-term public debt	6.1	8.7	14.0	19.6	21.9	25.9	29.1	31.7	33.7
External sector									
Current account balance (including official transfers; - = deficit)	0.1	-5.6	-16.8	-11.8	-6.6	-5.9	-4.8	-4.1	-3.5
Total external public debt	6.1	5.2	7.6	11.9	14.3	18.3	21.6	24.2	26.5
Debt service-to-exports ratio (percent)	2.5	2.2	2.3	4.5	4.3	3.3	4.4	5.5	6.0
External debt service/government revenue (percent)	7.3	6.4	5.9	11.2	11.7	9.9	12.8	16.2	17.7
(Millions of U.S. dollars, unless otherwise specified)									
External sector									
Current account balance (- = deficit)	20	-1,214	-2,322	-1,368	-763	-686	-565	-487	-429
Overall balance of payments	-40	-1,241	-1,785	-1,038	-302	77	126	196	406
Outstanding medium- and long-term public debt	1,400	1,706	1,894	2,272	2,516	3,002	3,434	3,796	4,149
Usable external resources	5,569	3,948	2,303	1,365	745	753	884	1,080	1,484
Reserve assets at the BEAC	4,567	2,907	1,204	593	292	371	501	698	1,101
Of which : government deposits at BEAC	1,575	649	330	337	338	340	392	507	721
Government bank deposits abroad	1,002	1,041	1,099	773	453	383	383	383	383
Usable external resources[4] (months of next year's imports)	7.5	6.9	6.4	4.5	2.7	2.8	3.3	3.9	4.4
Nominal GDP (billions of CFA francs)	10,841	10,632	8,169	6,859	6,765	6,789	6,857	6,953	7,165
Non-hydrocarbon GDP (billions of CFA francs)	4,406	4,419	4,278	3,987	3,910	4,002	4,133	4,304	4,520
Exchange rate (average; CFA francs/U.S. dollar)	494.0	494.4	591.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Equatorial Guinea authorities; BEAC; and IMF staff estimates and projections.

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

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

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

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

Table 2. Equatorial Guinea: Balance of Payments, 2013–21[1]

(Billions of CFA francs, unless otherwise specified)

	2013	2014	2015 Prel.	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.
Current account	10	-600	-1373	-806	-449	-403	-330	-282	-249
Trade balance	5054	4604	2723	2186	2306	2390	2389	2413	2494
Exports of goods, f.o.b.	7957	7436	5236	3882	3923	3927	3837	3775	3790
Hydrocarbon exports	7354	6852	4529	3174	3222	3200	3085	2998	2981
Crude oil	4947	4635	3088	1708	1744	1733	1697	1657	1672
Liquefied natural gas	1576	1519	1028	649	660	652	641	628	622
Liquefied petroleum gas	301	275	412	394	384	417	384	382	384
Methanol	529	423	1	424	434	398	363	330	304
Non-hydrocarbon exports	603	584	707	708	700	727	752	777	809
Imports of goods, f.o.b.	-2903	-2832	-2513	-1696	-1616	-1537	-1448	-1362	-1296
Petroleum sector	-187	-177	-133	-99	-100	-100	-96	-93	-93
Petroleum products	-625	-544	-589	-429	-493	-529	-561	-591	-630
Public sector equipment	-1810	-1834	-1446	-886	-737	-617	-496	-378	-268
Other[2]	-281	-277	-344	-282	-286	-291	-296	-299	-306
Services (net)	-1298	-1446	-1508	-972	-711	-766	-757	-781	-830
Income (net)[3]	-3588	-3603	-2396	-1887	-1909	-1889	-1823	-1771	-1766
Current transfers	-158	-156	-191	-134	-136	-138	-140	-143	-147
Capital and financial account	-110	163	268	430	272	449	404	395	485
Capital account	0	0	0	0	0	0	0	0	0
Financial account	-110	163	268	430	272	449	404	395	485
Direct investment	288	83	138	32	177	220	265	305	372
Portfolio investment (net)	1	1	1	1	0	0	0	0	0
Other investment (net)	-398	80	128	397	94	228	139	90	113
Medium- and long-term transactions	6	272	68	170	183	315	279	240	240
General government	-15	248	31	148	150	282	246	207	206
Of which : amortization	-183	-155	-135	-152	-150	-118	-154	-193	-214
Other sectors	21	23	37	23	33	33	33	33	33
Short-term transactions	-404	-192	61	226	-89	-87	-140	-150	-127
General government[4, 5]	-404	-192	61	-9	0	0	0	0	0
Banks	-134	174	-88	-1	-81	-79	-132	-142	-119
Other sectors	-270	-366	149	237	-8	-8	-8	-8	-8
Errors and omissions	80	-177	49	0	0	0	0	0	0
Overall balance	-20	-614	-1055	-376	-178	45	74	113	236
Financing	20	614	1055	376	178	-45	-74	-113	-236
Change in net international reserves[6] (- = increase)	20	614	1056	376	178	-45	-74	-113	-236
Memorandum items:									
Reserve assets at the BEAC (a)	2172	1571	726	350	172	217	291	405	640
Of which : government deposits at BEAC (b)	749	351	199	199	199	199	228	294	419
Government bank deposits outside BEAC (c)	477	563	663	456	267	224	222	222	222
Usable external resource (a + c)	2649	2133	1389	806	439	442	514	626	863
Gross government deposits (b + c)	1226	913	862	655	466	424	451	516	642
Usable external resource (months of next year's imports)	7.5	6.9	6.4	4.5	2.7	2.8	3.3	3.9	4.4
Current account balance (percent of GDP; - = deficit)	0.1	-5.6	-16.8	-11.8	-6.6	-5.9	-4.8	-4.1	-3.5
Overall balance (percent of GDP; - = deficit)	-0.2	-5.8	-12.9	-8.9	-2.6	0.7	1.1	1.6	3.3
Growth of hydrocarbon exports (percent)	-21.1	-6.9	-44.7	-29.7	1.6	-0.5	-3.0	-2.1	-0.8
Growth of non-hydrocarbon exports (percent)	-0.7	-3.2	1.1	0.6	-1.1	4.1	4.1	4.1	4.0

Sources: Equatorial Guinea authorities; BEAC; and IMF staff estimates and projections.

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

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

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

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

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

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

Table 3a. Equatorial Guinea: Summary of Central Government Financial Operations, 2013–21

(Billions of CFA francs, unless otherwise specified)

	2013	2014	2015	2016		2017	2018	2019	2020	2021
			Prel.	Budget	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	2,696	2,585	2,071	1,785	1,565	1,436	1,323	1,311	1,272	1,277
Resource revenue	2,315	2,235	1,666	1,390	1,131	970	841	806	728	690
Tax revenue	625	742	597	355	355	358	312	300	271	240
Other revenue	1,690	1,493	1,069	1,034	776	613	529	506	457	450
Royalties	1,187	1,022	680	653	494	356	315	297	269	266
Profit sharing	502	470	379	380	281	255	213	208	187	184
Bonuses and rents	2	1	10	1	1	1	1	1	1	1
Non-resource revenue	381	350	404	396	433	465	482	506	543	587
Tax revenue	283	247	285	225	251	279	295	313	343	376
Taxes on income, profits, and capital gains	130	137	171	120	137	137	145	155	167	181
Domestic taxes on goods and services[1]	57	63	79	67	73	76	84	94	106	119
Taxes on international trade and transactions	17	18	18	21	17	22	27	34	38	42
Other taxes	80	29	18	17	23	44	39	31	31	34
Other revenue	98	103	119	171	182	186	188	193	201	211
Grants	0	0	0	0	0	0	0	0	0	0
Expenditure	3,329	3,102	2,331	2,086	1,929	1,795	1,666	1,545	1,428	1,373
Expense	872	764	685	885	828	883	901	931	960	1,041
Compensation of employees	110	112	121	147	147	161	171	179	186	198
Purchase of goods and services	488	417	345	458	404	431	448	468	483	511
Interest	38	50	30	66	44	44	29	28	28	27
Domestic	1	1	0	2	20	25	15	15	15	15
Foreign	37	49	30	64	24	18	13	13	13	12
Subsidies[2]	235	181	184	210	222	235	240	242	249	287
Of which: petroleum products	87	34	22	38	10	5	3	0	0	0
Other expense	2	3	5	5	4	4	4	4	5	5
Net acquisition of non-financial assets	2,457	2,338	1,647	1,201	1,101	912	764	614	468	332
Gross operating balance	1,824	1,822	1,386	900	737	553	422	380	312	236
Net lending/borrowing (overall fiscal balance)	-633	-517	-261	-301	-364	-360	-343	-234	-156	-96
Net financial transactions	-633	-517	-261	-301	-364	-360	-343	-234	-156	-96
Net acquisition of financial assets	-771	-381	-318	-145	-217	-210	-61	12	50	111
Currency and deposits	-771	-381	-314	-145	-217	-210	-61	12	50	111
Change in government deposits abroad	-889	86	100	0	-193	-188	-41	0	0	0
Government deposits outside BEAC	-896	86	100	0	-193	-188	-41	0	0	0
Gepetrol/Sonagas deposits abroad	6	0	0	0	0	0	0	0	0	0
Monetary sector	118	-468	-414	-145	-24	-21	-19	12	50	111
Deposits at BEAC	102	-398	-152	-145	0	0	0	29	66	125
Deposits at domestic banks	16	300	-115	0	-24	-21	-19	-17	-16	-14
BEAC statutary advances	0	-370	-147	0	0	0	0	0	0	0
Nonmonetary sector	0	0	-5	0	-10	0	0	0	0	0
Net incurrence of liabilities	-16	-115	-45	156	148	150	282	246	207	206
Domestic	0	0	0	0	0	0	0	0	0	0
Foreign	-16	-115	-45	156	148	150	282	246	207	206
Loans	160	15	58	400	300	300	400	400	400	420
Amortization (-)	-176	-152	-111	-244	-152	-150	-118	-154	-193	-214
Exceptional financing	0	23	7	0	0	0	0	0	0	0
Errors and omissions	122	-250	12	0	0	0	0	0	0	0
Memorandum items:										
Overall fiscal balance	-633	-517	-261	-301	-364	-360	-343	-234	-156	-96
Percent of GDP [3,4]	-5.8	-4.9	-3.2	-4.4	-5.3	-5.3	-5.0	-3.4	-2.2	-1.3
Non-resource primary balance[5]	-2,911	-2,702	-1,897	-1,625	-1,463	-1,295	-1,161	-1,017	-862	-764
Percent of non-hydrocarbon GDP [3]	-66.1	-61.1	-44.3	-40.8	-36.7	-33.1	-29.0	-24.6	-20.0	-16.9
Gross government deposits	1,226	913	862	717	655	466	424	451	516	642
Stock of government deposits at BEAC	749	351	199	54	199	199	199	228	294	419
Stock of government deposits abroad	477	563	663	663	456	267	224	222	222	222
Outstanding medium- and long-term public debt	666	922	1,142	...	1,342	1,481	1,760	1,996	2,202	2,412
Nominal GDP[3]	10,841	10,632	8,169	6,859	6,859	6,765	6,789	6,857	6,953	7,165
Nominal non-hydrocarbon GDP[3]	4,406	4,419	4,278	3,987	3,987	3,910	4,002	4,133	4,304	4,520

Sources: Equatorial Guinea authorities; BEAC; and IMF staff estimates and projections.

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

[2] Includes social benefits.

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

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

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

Table 3b. Equatorial Guinea: Summary of Central Government Financial Operations, 2013–21

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

	2013	2014	2015	2016		2017	2018	2019	2020	2021
			Prel.	Budget	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	24.9	24.3	25.3	26.0	22.8	21.2	19.5	19.1	18.3	17.8
Resource revenue	21.4	21.0	20.4	20.3	16.5	14.3	12.4	11.7	10.5	9.6
Tax revenue	5.8	7.0	7.3	5.2	5.2	5.3	4.6	4.4	3.9	3.4
Other revenue	15.6	14.0	13.1	15.1	11.3	9.1	7.8	7.4	6.6	6.3
Royalties	10.9	9.6	8.3	9.5	7.2	5.3	4.6	4.3	3.9	3.7
Profit sharing	4.6	4.4	4.6	5.5	4.1	3.8	3.1	3.0	2.7	2.6
Bonuses and rents	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-resource revenue	3.5	3.3	5.0	5.8	6.3	6.9	7.1	7.4	7.8	8.2
Tax revenue	2.6	2.3	3.5	3.3	3.7	4.1	4.3	4.6	4.9	5.3
Taxes on income, profits, and capital gains	1.2	1.3	2.1	1.7	2.0	2.0	2.1	2.3	2.4	2.5
Domestic taxes on goods and services[1]	0.5	0.6	1.0	1.0	1.1	1.1	1.2	1.4	1.5	1.7
Taxes on international trade and transactions	0.2	0.2	0.2	0.3	0.2	0.3	0.4	0.5	0.5	0.6
Other taxes	0.7	0.3	0.2	0.2	0.3	0.7	0.6	0.4	0.4	0.5
Other revenue	0.9	1.0	1.5	2.5	2.7	2.8	2.8	2.8	2.9	2.9
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	30.7	29.2	28.5	30.4	28.1	26.5	24.5	22.5	20.5	19.2
Expense	8.0	7.2	8.4	12.9	12.1	13.1	13.3	13.6	13.8	14.5
Compensation of employees	1.0	1.1	1.5	2.1	2.1	2.4	2.5	2.6	2.7	2.8
Purchase of goods and services	4.5	3.9	4.2	6.7	5.9	6.4	6.6	6.8	6.9	7.1
Interest	0.3	0.5	0.4	1.0	0.6	0.6	0.4	0.4	0.4	0.4
Domestic	0.0	0.0	0.0	0.0	0.3	0.4	0.2	0.2	0.2	0.2
Foreign	0.3	0.5	0.4	0.9	0.3	0.3	0.2	0.2	0.2	0.2
Subsidies[2]	2.2	1.7	2.2	3.1	3.2	3.5	3.5	3.5	3.6	4.0
Of which: petroleum products	0.8	0.3	0.3	0.6	0.1	0.1	0.0	0.0	0.0	0.0
Other expense	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Net acquisition of non-financial assets	22.7	22.0	20.2	17.5	16.1	13.5	11.3	9.0	6.7	4.6
Gross operating balance	16.8	17.1	17.0	13.1	10.7	8.2	6.2	5.5	4.5	3.3
Net lending/borrowing (overall fiscal balance)	-5.8	-4.9	-3.2	-4.4	-5.3	-5.3	-5.0	-3.4	-2.2	-1.3
Net financial transactions	-5.8	-4.9	-3.2	-4.4	-5.3	-5.3	-5.0	-3.4	-2.2	-1.3
Net acquisition of financial assets	-7.1	-3.6	-3.9	-2.1	-3.2	-3.1	-0.9	0.2	0.7	1.5
Currency and deposits	-7.1	-3.6	-3.8	-2.1	-3.2	-3.1	-0.9	0.2	0.7	1.5
Change in government deposits abroad	-8.2	0.8	1.2	0.0	-2.8	-2.8	-0.6	0.0	0.0	0.0
Government deposits outside BEAC	-8.3	0.8	1.2	0.0	-2.8	-2.8	-0.6	0.0	0.0	0.0
Gepetrol/Sonagas deposits abroad	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Monetary sector	1.1	-4.4	-5.1	-2.1	-0.3	-0.3	-0.3	0.2	0.7	1.5
Deposits at BEAC	0.9	-3.7	-1.9	-2.1	0.0	0.0	0.0	0.4	1.0	1.7
Deposits at domestic banks	0.2	2.8	-1.4	0.0	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2
BEAC statutary advances	0.0	-3.5	-1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonmonetary sector	0.0	0.0	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	-0.1	-1.1	-0.6	2.3	2.2	2.2	4.2	3.6	3.0	2.9
Foreign	-0.1	-1.1	-0.6	2.3	2.2	2.2	4.2	3.6	3.0	2.9
Loans	1.5	0.1	0.7	5.8	4.4	4.4	5.9	5.8	5.8	5.9
Amortization (-)	-1.6	-1.4	-1.4	-3.6	-2.2	-2.2	-1.7	-2.3	-2.8	-3.0
Exceptional financing	0.0	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	1.1	-2.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Overall fiscal balance										
Percent of GDP [3,4]	-5.8	-4.9	-3.2	-4.4	-5.3	-5.3	-5.0	-3.4	-2.2	-1.3
Non-resource primary balance[5]										
Percent of non-hydrocarbon GDP [3]	-66.1	-61.1	-44.3	-40.8	-36.7	-33.1	-29.0	-24.6	-20.0	-16.9
Gross government deposits	11.3	8.6	10.6	10.5	9.6	6.9	6.2	6.6	7.4	9.0
Stock of government deposits at BEAC	6.9	3.3	2.4	0.8	2.9	2.9	2.9	3.3	4.2	5.9
Stock of government deposits abroad	4.4	5.3	8.1	9.7	6.7	3.9	3.3	3.2	3.2	3.1
Outstanding medium- and long-term public debt	6.1	8.7	14.0	...	19.6	21.9	25.9	29.1	31.7	33.7
Nominal GDP[3]	10,841	10,632	8,169	6,859	6,859	6,765	6,789	6,857	6,953	7,165
Nominal non-hydrocarbon GDP[3]	4,406	4,419	4,278	3,987	3,987	3,910	4,002	4,133	4,304	4,520

Sources: Equatorial Guinea authorities; BEAC; and IMF staff estimates and projections.

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

[2] Includes social benefits.

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

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

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

Table 3c. Equatorial Guinea: Summary of Central Government Financial Operations, 2013–21

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

	2013	2014	2015 Prel.	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.
Revenue	61.2	58.5	48.4	39.3	36.7	33.1	31.7	29.5	28.3
Resource revenue	52.6	50.6	39.0	28.4	24.8	21.0	19.5	16.9	15.3
Tax revenue	14.2	16.8	14.0	8.9	9.1	7.8	7.2	6.3	5.3
Other revenue	38.4	33.8	25.0	19.5	15.7	13.2	12.2	10.6	10.0
Royalties	26.9	23.1	15.9	12.4	9.1	7.9	7.2	6.3	5.9
Profit sharing	11.4	10.6	8.9	7.1	6.5	5.3	5.0	4.3	4.1
Bonuses and rents	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Non-resource revenue	8.6	7.9	9.5	10.9	11.9	12.1	12.2	12.6	13.0
Tax revenue	6.4	5.6	6.7	6.3	7.1	7.4	7.6	8.0	8.3
Taxes on income, profits, and capital gains	2.9	3.1	4.0	3.4	3.5	3.6	3.7	3.9	4.0
Domestic taxes on goods and services[1]	1.3	1.4	1.8	1.8	1.9	2.1	2.3	2.5	2.6
Taxes on international trade and transactions	0.4	0.4	0.4	0.4	0.6	0.7	0.8	0.9	0.9
Other taxes	1.8	0.7	0.4	0.6	1.1	1.0	0.7	0.7	0.7
Other revenue	2.2	2.3	2.8	4.6	4.8	4.7	4.7	4.7	4.7
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	75.6	70.2	54.5	48.4	45.9	41.6	37.4	33.2	30.4
Expense	19.8	17.3	16.0	20.8	22.6	22.5	22.5	22.3	23.0
Compensation of employees	2.5	2.5	2.8	3.7	4.1	4.3	4.3	4.3	4.4
Purchase of goods and services	11.1	9.4	8.1	10.1	11.0	11.2	11.3	11.2	11.3
Interest	0.9	1.1	0.7	1.1	1.1	0.7	0.7	0.6	0.6
Domestic	0.0	0.0	0.0	0.5	0.6	0.4	0.4	0.4	0.3
Foreign	0.8	1.1	0.7	0.6	0.5	0.3	0.3	0.3	0.3
Subsidies[2]	5.3	4.1	4.3	5.6	6.0	6.0	5.8	5.8	6.3
Of which: petroleum products	2.0	0.8	0.5	0.3	0.1	0.1	0.0	0.0	
Other expense	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Net acquisition of non-financial assets	55.8	52.9	38.5	27.6	23.3	19.1	14.9	10.9	7.3
Gross operating balance	41.4	41.2	32.4	18.5	14.1	10.5	9.2	7.2	5.2
Net lending/borrowing (overall fiscal balance)	-14.4	-11.7	-6.1	-9.1	-9.2	-8.6	-5.7	-3.6	-2.1
Net financial transactions	-14.4	-11.7	-6.1	-9.1	-9.2	-8.6	-5.7	-3.6	-2.1
Net acquisition of financial assets	-17.5	-8.6	-7.4	-5.4	-5.4	-1.5	0.3	1.2	2.5
Currency and deposits	-17.5	-8.6	-7.3	-5.4	-5.4	-1.5	0.3	1.2	2.5
Change in government deposits abroad	-20.2	2.0	2.3	-4.8	-4.8	-1.0	0.0	0.0	0.0
Government deposits outside BEAC	-20.3	1.9	2.3	-4.8	-4.8	-1.0	0.0	0.0	0.0
Gepetrol/Sonagas deposits abroad	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Monetary sector	2.7	-10.6	-9.7	-0.6	-0.5	-0.5	0.3	1.2	2.5
Deposits at BEAC	2.3	-9.0	-3.5	0.0	0.0	0.0	0.7	1.5	2.8
Deposits at domestic banks	0.4	6.8	-2.7	-0.6	-0.5	-0.5	-0.4	-0.4	-0.3
BEAC statutary advances	0.0	-8.4	-3.4	0.0	0.0	0.0	0.0	0.0	0.0
Nonmonetary sector	0.0	0.0	-0.1	-0.3	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	-0.4	-2.6	-1.1	3.7	3.8	7.0	5.9	4.8	4.6
Foreign	-0.4	-2.6	-1.1	3.7	3.8	7.0	5.9	4.8	4.6
Loans	3.6	0.3	1.4	7.5	7.7	10.0	9.7	9.3	9.3
Amortization (-)	-4.0	-3.4	-2.6	-3.8	-3.8	-2.9	-3.7	-4.5	-4.7
Exceptional financing	0.0	0.5	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	2.8	-5.7	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Overall fiscal balance									
Percent of non-hydrocarbon GDP[3,4]	-14.4	-11.7	-6.1	-9.1	-9.2	-8.6	-5.7	-3.6	-2.1
Non-resource primary balance[5]									
Percent of non-hydrocarbon GDP[3]	-66.1	-61.1	-44.3	-36.7	-33.1	-29.0	-24.6	-20.0	-16.9
Gross government deposits	28.7	21.4	20.2	15.4	10.9	9.9	10.6	12.1	15.0
Stock of government deposits at BEAC	17.6	8.2	4.7	4.7	4.7	4.7	5.3	6.9	9.8
Stock of government deposits abroad	11.2	13.2	15.5	10.7	6.2	5.3	5.2	5.2	5.2
Outstanding medium- and long-term public debt	15.1	20.9	26.7	33.7	37.9	44.0	48.3	51.2	60.3
Nominal GDP[3]	10,841	10,632	8,169	6,859	6,765	6,789	6,857	6,953	7,165
Nominal non-hydrocarbon GDP[3]	4,406	4,419	4,278	3,987	3,910	4,002	4,133	4,304	4,520

Sources: Equatorial Guinea authorities; BEAC; and IMF staff estimates and projections.

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

[2] Includes social benefits.

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

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

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

Table 4a. Equatorial Guinea: Depository Corporations Survey, 2013–21

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

	2013	2014	2015	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.
Depository corporations survey									
Net foreign assets	2,382	1,629	854	479	383	507	713	968	1,323
(Millions of U.S. dollars)	5,008	3,015	1,416	812	650	865	1,226	1,669	2,276
Net domestic assets	-568	-72	533	681	773	855	912	946	915
Domestic claims	-270	360	938	1,062	1,131	1,197	1,271	1,309	1,291
Claims on central government (net)	-1,104	-619	-176	-139	-105	-75	-77	-119	-222
Claims on other sectors	834	978	1,113	1,201	1,236	1,273	1,348	1,429	1,514
Other items (net)	-298	-432	-405	-381	-358	-343	-359	-364	-376
Broad money liabilities	1,812	1,557	1,387	1,161	1,156	1,362	1,625	1,914	2,238
Currency outside depository corporations	272	280	222	142	100	111	122	133	159
Deposits and other liabilities included in broad money	1,540	1,277	1,164	1,018	1,056	1,251	1,503	1,781	2,079
Memorandum items:									
CPI inflation (average annual)	3.2	4.3	1.7	1.5	1.4	1.5	1.6	1.7	1.8
Broad money (M2, annual percentage change)	7.3	-14.1	-10.9	-16.3	-0.4	17.8	19.3	17.8	16.9
Monetary base (MB, annual percentage change)	-12.6	16.1	-32.8	-38.4	-29.5	10.7	9.6	9.2	19.6
Credit to the private sector (annual percentage change)	34.3	18.4	14.1	8.0	3.0	3.0	6.0	6.0	6.0
Credit to the private sector (percent of non-hydrocarbon GDP)	18.5	21.9	25.8	29.9	31.4	31.5	32.4	33.0	33.3
Broad money (percent of overall GDP)	16.7	14.6	17.0	16.9	17.1	20.1	23.7	27.5	31.2
Velocity (Overall GDP/end-of-period M2)	6.0	6.8	5.9	5.9	5.9	5.0	4.2	3.6	3.2
Velocity (Non-hydrocarbon GDP/end-of-period M2)	2.4	2.8	3.1	3.4	3.4	2.9	2.5	2.2	2.0
Reserve money multiplier (M2/MB)	1.4	1.1	1.4	1.9	2.7	2.9	3.2	3.4	3.3
Currency/M2 ratio	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1

Sources: BEAC and IMF staff estimates and projections.

Table 4b. Equatorial Guinea: Central Bank and Other Depository Corporations Survey, 2013–21

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

	2013	2014	2015	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.	2021 Proj.
Central bank survey									
Net foreign assets	2133	1546	700	324	146	191	265	378	614
(Millions of U.S. dollars)	4484	2862	1161	548	248	326	456	652	1056
Net domestic assets	-878	-89	279	279	279	279	250	184	59
Claims on central government (net)	-885	-120	194	194	194	194	165	99	-26
Claims on other depository corporations	0	30	90	90	90	90	90	90	90
Claims on other sectors	2	3	3	3	3	3	3	3	3
Other items (net)	4	-2	-8	-8	-8	-8	-8	-8	-8
Monetary base	1254	1457	979	603	425	471	516	563	673
Currency in circulation	310	320	256	164	116	128	140	153	183
Liabilities to other depository corporations	979	1094	733	460	324	359	393	429	514
Currency	38	40	34	21	15	17	18	20	24
Deposits	941	1055	699	438	309	342	375	409	490
Liabilities to other sectors	1	1	1	0	0	0	0	0	0
Other depository corporations survey									
Net foreign assets	250	83	154	156	237	316	448	590	709
(Millions of U.S. dollars)	525	154	256	264	402	538	770	1016	1220
Net domestic assets	1289	1223	1099	951	883	985	1121	1262	1453
Claims on central bank	979	1094	733	460	324	359	393	429	514
Currency	38	40	34	21	15	17	18	20	24
Reserve deposits and securities other than shares	941	1055	699	438	309	342	375	409	490
Required reserves	0	0	0	104	73	81	89	97	116
Excess reserves	941	1055	699	335	236	261	286	312	374
Other claims	0	0	0	0	0	0	0	0	0
Domestic claims	612	477	741	865	934	1001	1103	1207	1314
Claims on government (net)	-219	-498	-370	-333	-299	-270	-243	-218	-196
Claims	6	10	29	26	24	22	20	19	17
Liabilities	-225	-508	-398	-359	-324	-292	-263	-237	-214
Claims on other sectors	831	976	1111	1198	1233	1270	1346	1426	1511
Public enterprises	13	9	8	7	7	6	6	6	6
Private sector	815	966	1102	1190	1226	1263	1338	1419	1504
Other items (net)	-302	-349	-375	-375	-375	-375	-375	-375	-375
Deposit liabilities to nonbank residents	1540	1277	1164	1018	1056	1251	1503	1781	2079

Sources: BEAC; and IMF staff estimates and projections.

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

(Percent)

	2010	2011	2012	2013	2014	2015			
						Q1	Q2	Q3	Q4
Capital									
Regulatory capital to risk-weighted assets[1, 2]	20.2	18.2	24.5	22.3	25.5	26.3	24.4	25.7	23.8
Tier 1 capital to risk-weighted assets[2]	20.1	18.2	24.5	22.5	26.2	27.0	25.0	26.4	24.4
Capital to assets	11.0	13.4	10.6	10.9	11.6	11.4	11.4	11.5	12.6
Asset quality									
Non-performing loans (gross) to total loans (gross)	4.7	4.4	5.8	20.1	19.7	19.6	16.8	17.1	17.7
Non-performing loans less provisions to total capital	-3.2	-4.8	-8.1	42.9	40.5	44.9	36.6	36.5	40.4
Earnings and profitability									
Return on assets[3]	0.3	0.9	0.8	0.6	0.7	n.a.	0.7	n.a.	1.1
Return on equity	10.2	24.3	22.5	14.1	16.9	n.a.	5.9	n.a.	8.4
Liquidity									
Liquid assets to total assets	45.5	37.6	59.2	48.7	43.8	42.2	40.4	42.4	34.9
Liquid assets to short-term liabilities	220.5	185.7	283.1	220.2	194.0	185.5	164.5	230.7	200.7
Loans to deposits	67.0	83.1	49.1	64.3	64.2	68.6	81.3	70.3	82.6

Source: Banking Commission of Central Africa (COBAC).

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

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

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

Table 6. Equatorial Guinea: Government Cash Flow Schedule, 2013–21

(Billions of CFA francs, unless otherwise specified)

	2013	2014	2015	2016	2017	2018	2019	2020	2021
Domestic government deposits, beginning of period	686	804	706	440	416	395	375	387	437
Gross cash inflows	3,371	2,870	1,876	1,646	1,467	1,288	1,211	1,134	1,116
Resource receipts	2,315	2,235	1,666	1,131	970	841	806	728	690
Non-resource primary surplus	0	0	0	0	0	0	0	0	0
Domestic debt placement	0	0	5	10	0	0	0	0	0
BEAC statutory advances	0	370	147	0	0	0	0	0	0
External debt placement	160	15	58	300	300	400	400	400	420
Offshore deposits	896	0	0	193	188	41	0	0	0
Interest on savings funds	0	0	0	12	9	6	5	5	6
Other	0	250	0	0	0	0	0	0	0
Gross cash outflows	3,253	2,968	2,143	1,660	1,488	1,307	1,199	1,083	1,005
Non-resource primary deficit	2,911	2,702	1,897	1,463	1,295	1,161	1,017	862	764
Interest	38	50	30	44	44	29	28	28	27
External amortization	176	130	103	152	150	118	154	193	214
Arrears payments	0	0	0	0	0	0	0	0	0
Offshore deposits	0	86	100	0	0	0	0	0	0
Other	129	0	12	0	0	0	0	0	0
Net cash flow	118	-98	-267	-14	-21	-19	12	50	111
Government domestic deposits, end of period	804	706	440	426	395	375	387	437	548
Memorandum items:									
GDP	10,841	10,632	8,169	6,859	6,765	6,789	6,857	6,953	7,165
Overall balance	-633	-517	-261	-364	-360	-343	-234	-156	-96
Debt	666	922	1,142	1,342	1,481	1,760	1,996	2,202	2,412
Domestic[1]	n.a.	370	522	527	517	517	517	517	517
External	666	552	620	815	964	1,243	1,479	1,685	1,895
				(Percent of GDP)					
Overall balance	-5.8	-4.9	-3.2	-5.3	-5.3	-5.0	-3.4	-2.2	-1.3
Debt	6.1	8.7	14.0	19.6	21.9	25.9	29.1	31.7	33.7
Domestic[1]	n.a.	3.5	6.4	7.7	7.6	7.6	7.5	7.4	7.2
External	6.1	5.2	7.6	11.9	14.3	18.3	21.6	24.2	26.5
Deposits in banking system, end of period	7.4	6.6	5.4	6.2	5.8	5.5	5.6	6.3	7.7

Sources: Equatorial Guinea authorities; BEAC; and IMF staff estimates and projections.

[1] Domestic debt consists principally of statutory advances from the BEAC.

[2] Government deposits in the regional central bank, at domestic money banks, and deposits held offshore.

Table 7. Equatorial Guinea: Preliminary Government Balance Sheet, 2013–21

(Billions of CFA francs, unless otherwise specified)

	2013	2014	2015	2016	2017	2018	2019	2020	2021
Assets	49,713	46,186	44,001	42,618	40,850	39,363	37,864	36,417	34,964
Domestic government deposits	804	706	440	426	395	375	387	437	548
Offshore deposits	477	563	663	456	267	224	222	222	222
Oil reserves[1]	26,150	23,396	22,180	21,647	21,018	20,349	19,640	18,907	18,130
Gas reserves[1]	18,151	16,569	15,379	14,311	13,309	12,364	11,476	10,640	9,814
Public capital stock[2]	3,971	4,937	5,281	5,479	5,562	5,651	5,739	5,810	5,829
Loans	160	15	58	300	300	400	400	400	420
Liabilities	666	922	1,142	1,342	1,481	1,760	1,996	2,202	2,412
Domestic debt	n.a.	370	522	527	517	517	517	517	517
External debt	666	552	620	815	964	1,243	1,479	1,685	1,895
Domestic arrears	0	0	0	0	0	0	0	0	0
Net worth	49,047	45,264	42,859	41,277	39,369	37,603	35,868	34,215	32,552
Net worth excl. resources	4,746	5,299	5,300	5,319	5,042	4,890	4,752	4,668	4,607
Wealth[1]	27,286	23,442	20,007	18,227	17,235	16,223	15,324	14,489	13,714
				(In percent of GDP)					
Assets	459	434	539	621	604	580	552	524	488
Public capital stock	37	46	65	80	82	83	84	84	81
Liabilities	6	9	14	20	22	26	29	32	34
Net worth	452	426	525	602	582	554	523	492	454
Net worth excluding oil reserves	44	50	65	78	75	72	69	67	64
Wealth	252	220	245	266	255	239	223	208	191
Memorandum items:									
				(Billions of CFA francs)					
GDP	10,841	10,632	8,169	6,859	6,765	6,789	6,857	6,953	7,165

Sources: Equatorial Guinea authorities; BEAC; and IMF staff estimates and projections.

[1] Wealth is defined as the sum of net financial assets and the present value of future resource receipts (discounted at an annual discount of 10 percent). In 2015, net financial assets correspond to the difference between government domestic and offshore deposits and external and domestic debt.

[2] Public capital stock estimate for 2013 based on IMF FAD estimate. Projections based on forecasted capital expenditure adjusted for depreciation and investment efficiency.

Table 8. Equatorial Guinea: Millennium Development Goals, 1990–2015

	1990	2000	2001-10	2011-15
Goal 1: Eradicate extreme poverty and hunger				
Employment to population ratio, 15+, total (%) (modeled ILO estimate)	..	81	81	81
Employment to population ratio, ages 15-24, total (%) (modeled ILO estimate)	82	69	81	80
Malnutrition prevalence, weight for age (% of children under 5)	..	16	19	6
Poverty headcount ratio at national poverty lines (% of population)	85	..	77	44
Goal 2: Achieve universal primary education				
Primary completion rate, total (% of relevant age group)	..	48	49	51
School enrollment, primary (% net)	..	68	56	62
Goal 3: Promote gender equality and empower women				
Proportion of seats held by women in national parliaments (%)	13	5	10	24
Ratio of female to male primary enrollment (%)	..	82	97	98
Goal 4: Reduce child mortality				
Immunization, measles (% of children ages 12-23 months)	88	51	36	42
Mortality rate, infant (per 1,000 live births)	124	99	79	68
Mortality rate, under-5 (per 1,000 live births)	184	142	111	94
Goal 5: Improve maternal health				
Adolescent fertility rate (births per 1,000 women ages 15-19)	134	131	118	110
Births attended by skilled health staff (% of total)	..	65	...	68
Contraceptive prevalence (% of women ages 15-49)	..	10	...	13
Maternal mortality ratio (modeled estimate, per 100,000 live births)	1,600	790	480	290
Pregnant women receiving prenatal care (%)	..	86	...	91
Goal 6: Combat HIV/AIDS, malaria, and other diseases				
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	49	...	...
Incidence of tuberculosis (per 100,000 people)	86	100	129	162
Prevalence of HIV, female (% ages 15-24)	..	..	4	3
Prevalence of HIV, male (% ages 15-24)	..	..	2	1
Prevalence of HIV, total (% of population ages 15-49)	..	..	6	6
Tuberculosis case detection rate (%, all forms)	80	..	87	88
Goal 7: Ensure environmental sustainability				
CO_2 emissions (metric tons per capita)	0	1	6	9
Forest area (% of land area)	66	62	58	56
Improved sanitation facilities (% of population with access)	..	89	76	75
Improved water source (% of population with access)	..	51	48	48
Marine protected areas (% of territorial waters)	..	3	...	3
Net ODA received per capita (current US$)	161	41	116	1
Goal 8: Develop a global partnership for development				
Internet users (per 100 people)	0	0	6	19
Mobile cellular subscriptions (per 100 people)	0	1	57	66
Telephone lines (per 100 people)	0	1	2	2
Fertility rate, total (births per woman)	6	6	5	5

Sources: Authorities and World Development Indicators.
Notes: The numbers given in the consolidated years represent the latest available data point in the range.

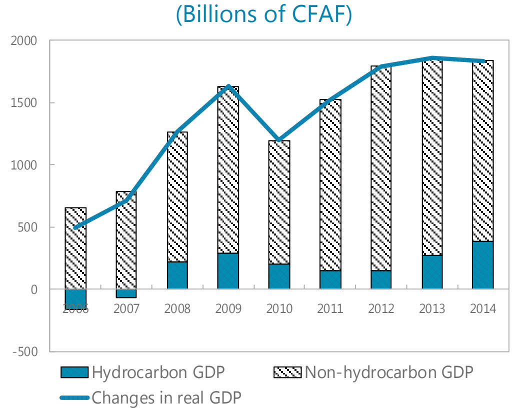
Annex I. National Accounts Rebasing[1]

On July 19, 2016, Equatorial Guinea officially adopted a new series of national accounts[2] based on: (i) a change in the base year from 1986 to 2006[3]; (ii) many features of the 1993 Systems of National Accounts (SNA93) compilation methodology; and (iii) a larger number of sources and surveys. These sources include the 2006 household survey and recent enterprise surveys. As a result, the new national accounts statistics better capture the structure of the economy, especially the production of public administration and the informal sector, leading to an increase of about 30 percent in the size of the economy.

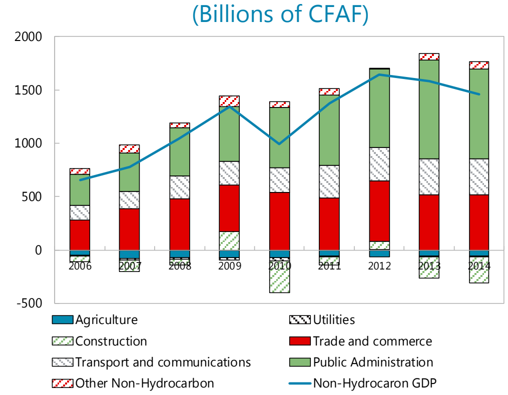
1. Real GDP's level increased by about 30 percent, as a result of improved methodology. This methodology takes into account many recommendations of the 1993 System of National Accounts (SNA93), and departs from the previous SNA68 methodology, by incorporating a better estimate of public administrations' output by including the associated costs of wages, goods and services, and the consumption of fixed capital. Estimates of public education, health and social work were also updated in line with the SNA93 recommendations. This methodology leads to a better measurement of non-hydrocarbon activity, which more than doubled over 2006–14, compared with previous estimates (Figure 1). In contrast, the estimate for the value of hydrocarbon production only increased by about 5 percent. As a result, in 2014, the contribution of hydrocarbon GDP to the overall GDP was revalued at 60 percent from 75 percent before the rebasing.

Figure 1. Equatorial Guinea: Increase in Sectoral Output Induced by NA Rebasing

Changes in the level Real GDP
(Billions of CFAF)



Changes in the Nonhydrocarbon output
(Billions of CFAF)



Source: IMF staff calculations.

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[1] This Annex was prepared by Neree Noumon and Ashan Rodriguez.

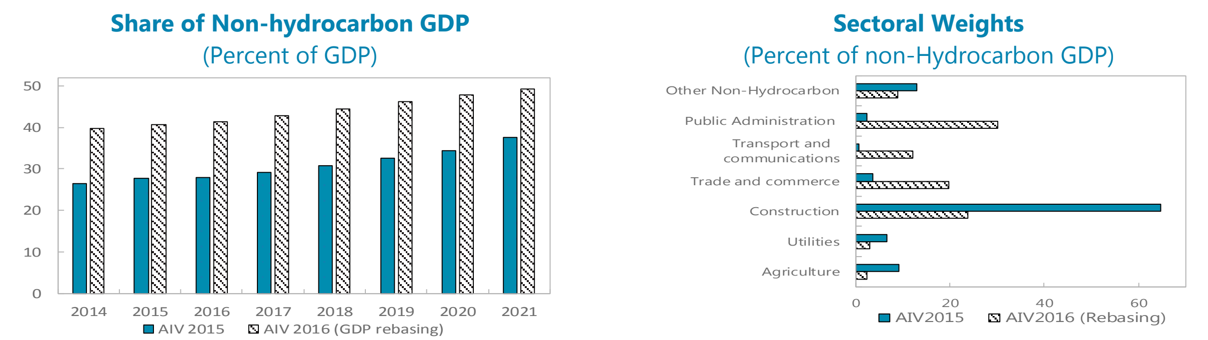
[2] The new series of National Accounts statistics were produced by INEGE, the National Statistical Institute, with the support the World Bank and AFRITAC Central.

[3] The year 2006 was used as the base year, due to the availability of household consumption data from the first household survey completed that year. The base year is also compatible with the practices of other CEMAC countries.

2. The larger number of sources than previously used helped improve the accuracy of the national accounts (NA) series. The data used in computations is collected from a variety of sources on sectors and industries including the regional central bank (BEAC) as well as various agencies, ministries, and the 2006 household survey.[4] Economic activity also relied on tax declaration[5] information, and on surveys of public and private companies operating in all sectors. As opposed to previous methodologies, most sectors' output also includes estimates of the activities of service companies, in addition to producing companies (e.g., oil sector), which leads to improved estimates. Nevertheless, information gaps remain, and the accuracy of the new series is expected to increase, with a better coverage of surveys, notably after the number of companies in Equatorial Guinea is established by a new enterprise census.[6]

3. Measurement improvements were more prominent in the tertiary sector, as informal activity is now better captured. Three sectors experienced a substantial increase in the measure of their shares of non-hydrocarbon activity (Figure 2). Indeed, in 2014, trade and commerce increased 6 fold to 19.7 percent of non-hydrocarbon activity; public administration's measure increased 13 times to 26.1 percent; and transport and communication increased 20 fold to 12 percent.

Figure 2. Equatorial Guinea: Shift in Sectoral Weights Induced by NA Rebasing



Source: IMF staff calculations.

4. While the new NA series does not substantially change per capita income, the result reinforces the need for greater efforts on non-resource revenue mobilization. The increased GDP did not translate into an upward revision of the country's per-capita income, since the recent census resulted in a similar increase in the estimate of the size of the overall population. The revision does suggest a more favorable view of the debt and non-resource primary deficit ratios, which were both revised downward by about 28 percent in 2014. Conversely, the non-resource revenue as a percentage of nominal GDP is now estimated at 3.3 percent in 2014. This weak indicator points to the urgency to accelerate the structural reforms needed to boost revenue mobilization in the non-hydrocarbon sector.

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[4] The sources were cross-checked for consistency, and the sensitivity to alternative sources were tested. For example, estimates in many sectors were developed to achieve a balance of supply and demand.

[5] Trade statistics estimates were based on BEAC bank survey data, given that customs data are likely to be highly inaccurate since they are not computerized.

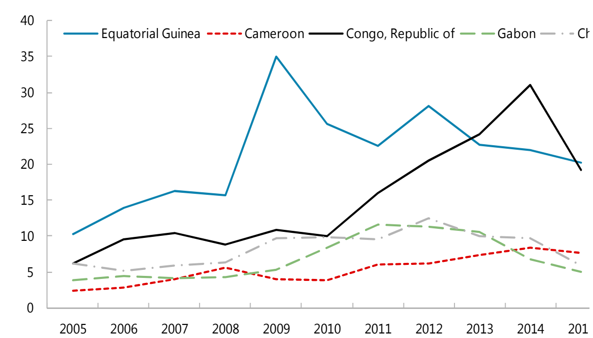
[6] The accuracy was also constrained by the limited relatively limited participation of known companies to surveys.

Annex II. Progress on Social Indicators[1]

Resource wealth has helped considerably improve social indicators over the past 15 years, but progress has been uneven. Social indicators, which depend on infrastructure such as access to water and electricity, have improved significantly. However, other indicators such as vaccination and primary school completion rates still remain low. The government has built schools, technical colleges, and healthcare centers under the Horizonte 2020 plan—drastically improving maternal and infant mortality rates and primary school enrollment—but health and education spending still remain relatively small components of annual public investment plan spending. In the face of significantly reduced oil revenues, the authorities need to shift limited resources to the health and education sectors, particularly towards prevention and outreach programs, in order to make progress towards their social development goals.

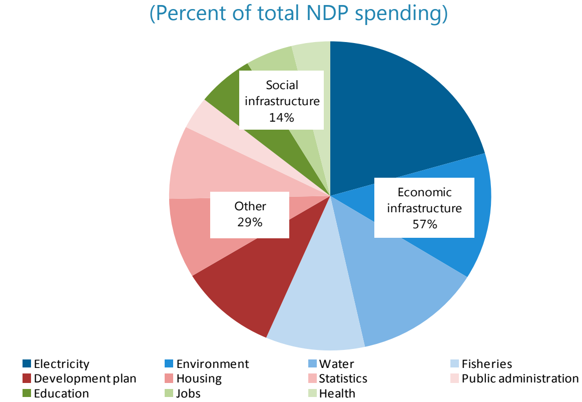
1. **Equatorial Guinea's national development plan—*Horizonte 2020* launched in 2007—focuses on two overarching objectives**. First, it aims to help the country transition from a predominantly hydrocarbon based economy to one with more diverse sources of growth. Second, it intends to reduce poverty and enhance social cohesion. The two-phased plan began with the 'Transformational Phase' from 2008–12, during which large-scale investments were made to boost the country's infrastructure, particularly compared to regional counterparts (Text Figure 1). Through this spending the government has achieved significantly better roadways, electricity, clean water access, and telecommunications when compared to the rest of sub-Saharan Africa. However, it also included a number of projects with limited economic benefits, such as the building of stadiums and the new administrative capital city in Oyala.

Text Figure 1. CEMAC: Capital Expenditure, 2000–15
(Percent of GDP)



2. **The second 'Emergence Phase' of *Horizonte 2020* is focused on generating employment, promoting economic diversification, and improving inclusive growth.** Significant results have been achieved in terms of social infrastructure, including the construction and rehabilitation of 40 health centers, 18 hospitals, 7 neo-natal clinics, and 62 primary schools since 2007. Nonetheless, the reprioritization of public investment spending has occurred slowly, and as of 2015, only

Text Figure 2. Horizonte 2020: Investment in Sectors, 2015
(Percent of total NDP spending)



Source: Equatorial Guinea authorities and IMF staff estimates.

[1] This Annex was prepared by Ashan Rodriguez and Azanaw Mengistu.

14 percent of investment was allocated to social sectors such as jobs, education and health (Text Figure 2).

3. **Equatorial Guinea has established various institutional mechanisms to track its social and economic progress.** A National Agency for Equatorial Guinea 2020 (ANGE 2020) has been established with a mandate to track progress on the National Plan 2020 for Economic and Social Development (NESDP), supported by the national statistical office (INEGE) and the National Institute for the Promotion of Agricultural Technology in Equatorial Guinea (INPAGE). It recently published a progress report on the Millennium Development Goals (MDGs), prepared in collaboration with the United Nations.[2] The publication is part of a broader effort to assess the social impact of *Horizonte 2020*.

4. **The country has made significant improvements in social indicators, one of the strategic goals of *Horizonte 2020*.** The number of people living in poverty has declined from 77 percent in 2006 to 44 percent in 2011 (Figure 1). The percentage of people living under extreme poverty also declined sharply from 33 percent in 2006 to 14 percent in 2011. Human capital development is also evident as Equatorial Guinea has one of the highest literacy rates in sub-Saharan Africa. In 2002, 89 percent of the population was literate, which increased to 97 percent in 2011 (Figure 1).[3] However, total net enrolment in primary education has only marginally improved from 56 percent in 2006 to 62 percent in 2012. Moreover, the drop-out/repeat rate among primary school students appears high based on a longitudinal sample that found only 53 percent of children enrolled in the first grade in the 2005/06 academic year reached the sixth grade in 2010/11.

5. **Equatorial Guinea has also made significant progress towards achieving the millennium development goal of reducing maternal mortality, but the child mortality rate, though in sharp decline, remains very high.** In 1990, maternal mortality rate was 1,600 deaths per 100,000 live births. This number had already declined sharply reaching 290 by 2013, well below the government's goal of 400 by 2015 (Figure 2). Similarly, child mortality rate declined in this time period from 182 per 1,000 births in 1990 to 113 in 2011. In 2015, the authorities estimate that child mortality was roughly 100 per 1,000, well short of the goal of 60.

6. **The country needs to significantly improve its immunization coverage and its fight against serious diseases, like tuberculosis and HIV/AIDS**. The country has one of the lowest rates of vaccination in the world. In 2014 only 42 percent of 1-year olds were vaccinated against measles, which is well below the government's 2015 goal of vaccinating 85 percent of children (Statistics Expanded Program on Immunization, WHO, 2014). In comparison, the 2013 global measles immunization coverage was 84 percent among children aged 12–23 months.[4] The incidence of tuberculosis has been increasing rapidly from 443 cases per 100,000 inhabitants in 2003 to 1,220 in 2014. The prevalence rate of HIV/AIDS has also been increasing, and is currently one of the highest rates in the region. Among 15–24 years old, the prevalence rate increased from 1.2 percent in 2004 to 3.1 percent in 2011. The prevalence rate is much higher for women, which is 5 percent in 2011 among 15–24 age group.

[2] Equatorial Guinea National Report about the Millennium Development Goals 2015 (Equatorial Guinea Government and United Nations).

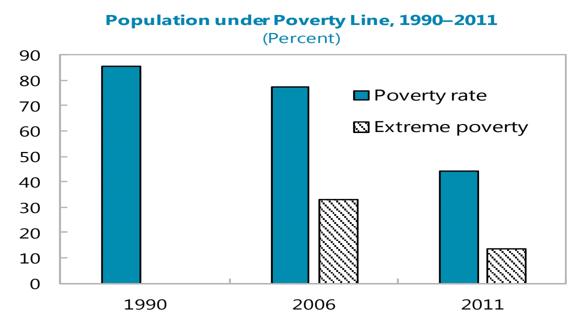
[3] The 2002 data is taken from the General Population and Housing Census 2002 and 2011 data is from the Demography and Health Survey in Equatorial Guinea (EDSGE, 2011).

[4] World Health Organization (WHO).

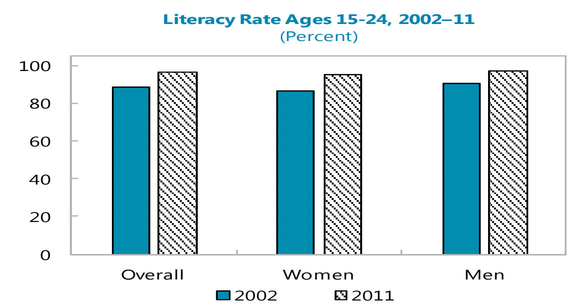
7. **The authorities expressed their commitment to improving development indicators, and improve their monitoring**. They noted very good performance for indicators where there is a heavy reliance on infrastructure, such as access to water and telecommunications. They agreed with staff that there is need to invest more in human resources and capacity development in areas where progress has been uneven, notably in the fields of education and health. The authorities also emphasized their commitment to improving statistical capacity to better capture social development indicators.

Figure 1. Equatorial Guinea: Progress on Social Indicators, 1990–2014.

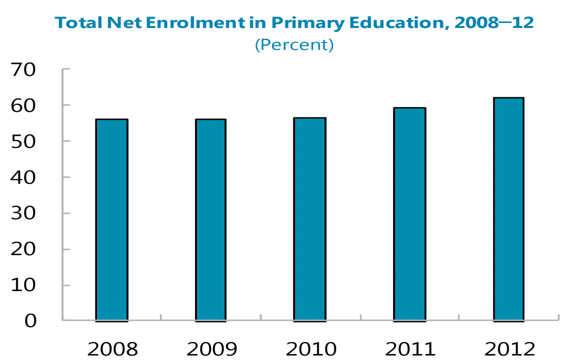
The population living in poverty has declined significantly…



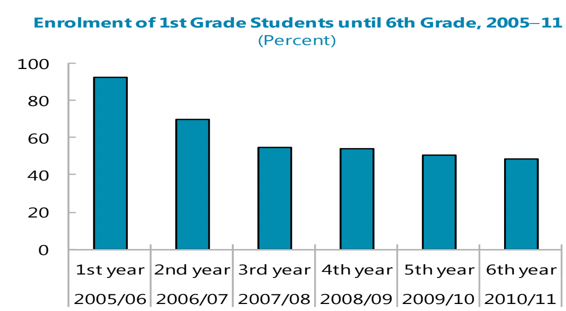
…and the country has one of the highest literacy rates in SSA.



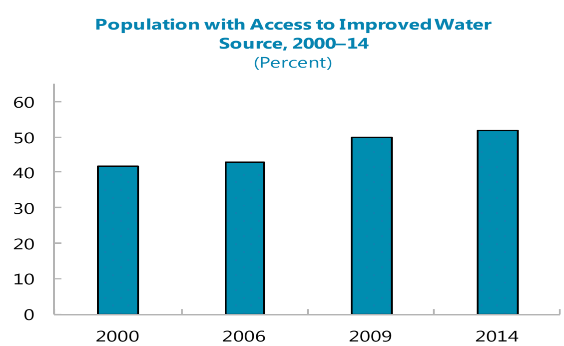
However, the net enrollment rate in primary education has improved only marginally…



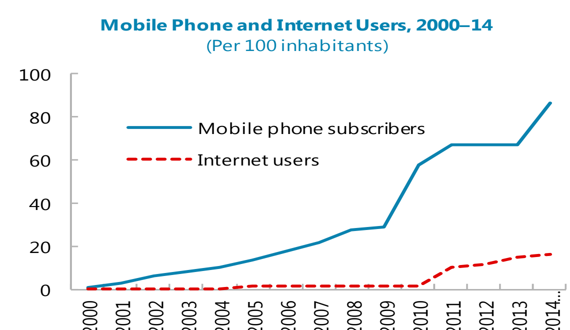
…and the dropout rate of primary school students remains very high.



Access to improved water sources has steadily improved…



…and access to telecommunication has increased from near zero to around 90 percent in 15 years.

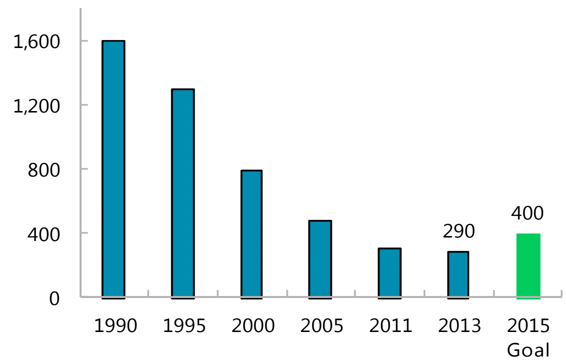


Source: Equatorial Guinea authorities and United Nations.

Figure 2. Equatorial Guinea: Health Indicators, 1990–2014.

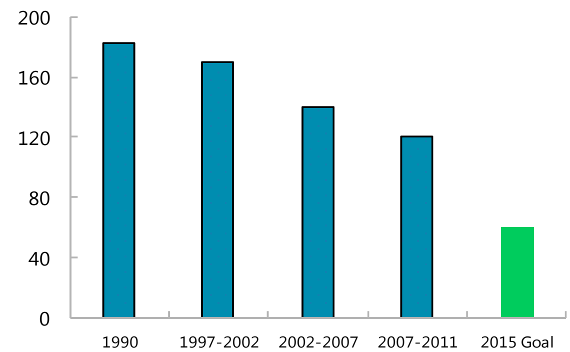
The reduction in maternal mortality has exceeded the set 2015 goal by 37 percent.

Maternal Mortality Rate, 1990–2013
(Per 100,000 live births)



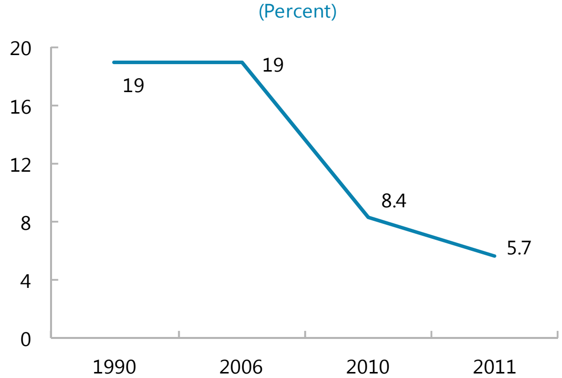
Despite progress been made, child mortality still lags from reaching its goal of 40 deaths per 1,000 newborns.

Child [1/] Mortality Rate, 1990–2011
(Per 1000 people)



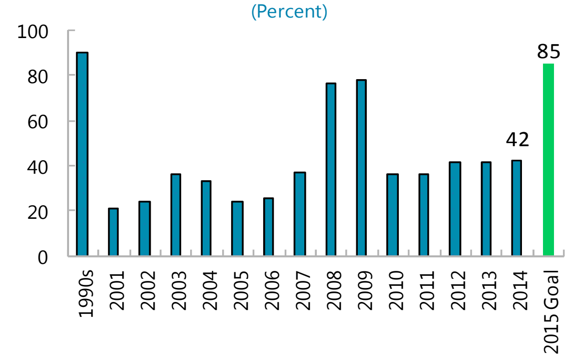
The share of underweight children has decreased steadily since 2006…

Share of Underweight Children [1/], 1990–2011
(Percent)



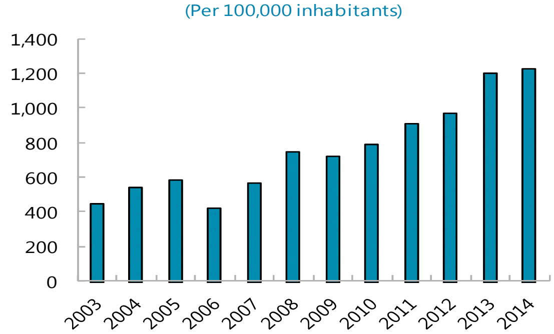
…but vaccination rates remain among the lowest in similar income countries.

Infants Vaccinated Against Measels, 1990-2014
(Percent)



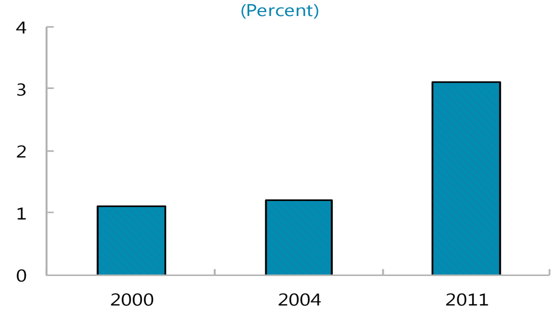
The incidence of tuberculosis has almost tripled since 2006.

Incidence of Tuberculosis, 2003–14
(Per 100,000 inhabitants)



So has the prevalence of HIV/AIDS, which remains one of the highest in the region.

Prevalence Rate of HIV/AIDS of 15-24 Age Group, 2000-14
(Percent)



Source: Equatorial Guinea authorities and United Nations.

[1] Children are defined as those under 5-years old.

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

Source of Risk	Relative Likelihood	Time Horizon	Potential impact	Recommended Policy Response
Global Risks **Sharper-than-expected global growth slowdown:** • **Significant China slowdown, triggered by corporate** distress that propagates through shadow banks, precipitating deleveraging, uncertainty and capital outflows. Weak domestic demand further suppresses commodity prices, roils global financial markets, and reduces global growth (Likelihood: low in short-term, medium thereafter).	**Low/ Medium**	**Short to Medium Term**	**Staff Assessment: High** Lower global demand (or in a key export destination for Equatorial Guinea's hydrocarbon production, such as China) will make diversification away from oil even more challenging. Given continued weakness in the oil market, government resources available for developing completing ongoing projects or developing new sectors would be constrained, reducing non-oil growth. Hydrocarbon growth would also be lower, given limited prospects for a recovery in oil and gas exploration and investment. As a result, risks of disorderly adjustment (including rapid arrears accumulation) become amplified, creating the potential for significant economic instability.	Rationalize capital spending and shift its focus to pro-growth social development; accelerate efforts to improve non-resource revenue collection; develop a strategy to coordinate regional financial sector regional and supervisory policies to contain spillovers, and improve debt management capacity
• **Significant slowdown in other large EMs/frontier economies.** Turning of the credit cycle and fallout from excess household and corporate leverage (incl. in FX) as investors withdraw from EM corporate debt, generating disorderly deleveraging, with potential spillbacks to advanced economies.	**Medium**	**Short Term**	Same as above	Same as above
• **Structurally weak growth in key advanced and emerging economies.** Weak demand and persistently low inflation from a failure to fully address crisis legacies and undertake structural reforms, leading to low medium-term growth and persisting financial imbalances in the Euro area and Japan (high likelihood). Easy global financial conditions coming to an end and insufficient reform progress undermine medium-term growth in emerging markets and suppress commodity prices (medium likelihood).	**High/ Medium**	**Medium Term**	Same as above	Same as above

Persistently lower oil prices triggered by supply factors reversing only gradually.	**High**	**Medium Term**	**Staff Assessment: High** Lower oil exports will sharply reduce government revenue and lead to increased public debt and/or arrears accumulation. Financing for infrastructure would be curtailed. Commercial bank balance sheets would deteriorate with arrears accumulation, undermining profitability and credit growth, as well as a possible negative impact on financial sector development and inclusion. Overall growth will decline. Further oil and gas exploration will slow down, government spending would be constrained, and credit to the non-hydrocarbon economy would decline.	Same as above
Country-Specific Risks				
Insufficient implementation of fiscal adjustment	**High**	**Short to Medium Term**	**Staff Assessment: High** Loose fiscal policy would lead to a sharp increase in payment arrears and public debt, thereby reducing competitiveness and growth. It could potentially weaken the external sector with negative spillover to the currency union.	Same as above
Delays in reforming the business environment	**Medium**	**Medium Term**	**Staff Assessment: High** Economic diversification and structural transformation would be delayed, thereby reducing nonoil growth and job creation considerably. Social inequalities could be exacerbated, thus potentially fueling social tensions	Undertake business climate diagnostic; advocated for deeper regional institutional reforms; shift the focus of the public investment program to social development; and mobilize the AML/CFT framework.
Social tensions arising from inequality, poor job opportunities, and corruption.	**Low**	**Medium Term**	**Staff Assessment: Medium** Continued social exclusion, particularly in a context of fiscal consolidation, could give rise to political instability. Risks could be mitigated by speeding up human capital development, and encouraging merit-based recruitment.	Same as previous.
[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize with 1 year and 3 years, respectively.				

Annex IV. External Stability Assessment[1]

Equatorial Guinea's external position in 2015 is assessed to be substantially weaker than the level consistent with medium-term fundamentals and desirable policy settings. Much of the deterioration is due to the large terms-of-trade shock from the decline in oil and gas prices. Assuming no change in current policies, the real exchange rate assessments indicate it is significantly overvalued. However, very serious data weaknesses affect the accuracy of the quantitative assessment of the real effective exchange rate in Equatorial Guinea.

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

2. The current account deficit is projected to decrease gradually over the medium term. The decline in oil prices and higher imports of capital and consumer goods sharply widened Equatorial Guinea's current account deficit from 6 percent of GDP in 2014 to 17 percent of GDP in 2015. Given the forecast for slow recovery in oil prices and REER appreciation, the current account would remain in a deficit position until 2021. In the medium term, the current account deficit will gradually continue to decline as public sector imports decline, offsetting the expected decline in oil exports.

Figure 1: CEMAC: Real Effective Exchange Rates (2000 = 100)

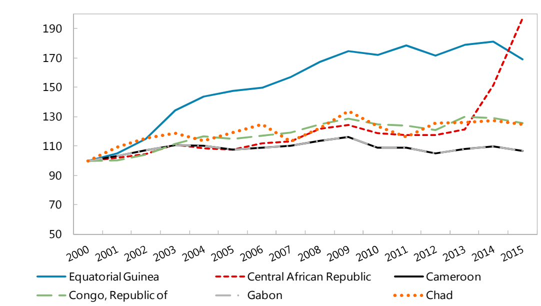
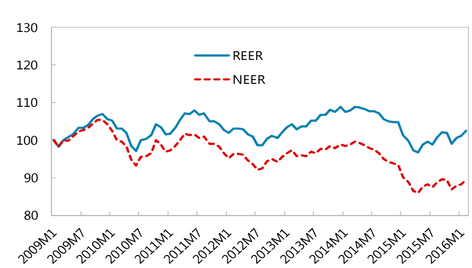


Figure 2. Equatorial Guinea: Nominal and Real Effective Excahnge Rates



3. Although very serious data weaknesses affect the accuracy of a quantitative assessment of the REER in Equatorial Guinea, there are some indications that the real exchange rate is significantly overvalued.[2,3] Both the Bems-Carvalho Filho (2009) and Araujo et al. (2013) methodologies suggest that the real exchange rate

[1] This Annex was prepared by Koffie Nassar and Ashan Rodriguez.

[2] It is worth noting that there have been significant changes in major balance of payments estimates that affect the composition of the current account and therefore, affect the current account projections used by exchange rate assessment methodologies. These changes incorporate statistics provided by the authorities, but given the still significant weaknesses in official balance of payments estimates (described in the Informational Annex), the conclusions in this exchange rate assessment should be taken with caution.

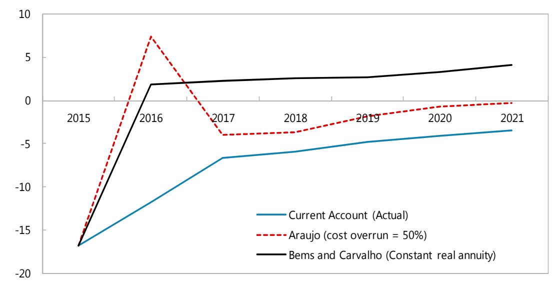
[3] The EBA-Lite methodology is not used for Equatorial Guinea due to lack of availability of adequate data.

is significantly overvalued (Table 1). The overvaluation would be greater in the absence of adjustment policies. (Table 2). This underscores the urgent need for far-reaching structural reforms that can substantially reduce factor costs and leverage the existing infrastructure base to boost nonoil growth.

4. The methodology of Bems and Carvalho Filho (2009) suggests a significant overvaluation of the REER.[4] The Bems and Carvalho Filho methodology derives a desired path for the current account based on specified inter-temporal allocation rules of oil and gas income flows (Figure 3).[5] Under the active scenario, using the current account in 2021 as the underlying current account, the estimated real exchange rate adjustment needed to bring the underlying current account to the norm would require a depreciation of 19 or 33 percent depending on the assumed elasticity of the current account to the real exchange rate (Table 1). Note that this methodology does not account for future returns of public investment on future productivity growth and hence produces current account norms that would be above Equatorial Guinea's medium-term current account path if public investment has a significant payoff. Given only moderate non-hydrocarbon GDP growth and almost negligible growth in non-hydrocarbon exports, it appears that the sizeable public investment in past years has not improved productivity growth significantly.

Figure 3. Current Account in Equatorial Guinea

(Percent of GDP)



Source: IMF staff estimates.

5. The methodology of Araujo et al. (2013) suggests that the real effective exchange rate is moderately overvalued.[6] This methodology takes into account absorptive capacity constraints in investment, since ambitious public and private investment programs in developing countries are often impacted by weak planning, coordination, and oversight contributing to large cost overruns.[7] Results from this methodology suggest a moderate overvaluation of 8 or 14 percent depending on the assumed elasticity of the current account to changes in the real exchange rate (Table 1).

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

[5] Note that the constant annuity CA norm used in the Bems and Carvalho Filho (2009) methodology is adjusted to take into account established country specific factors regarding net income flows and the import content of investment.

[6] Araujo et al., 2013, "Current Account Norms in National Resource Rich and Capital Scarce Economies," IMF Working Paper 13/80, IMF.

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

Table 1. Real Exchange Rate Assessment; Active Policy Scenario

	Year: 2021	Implied Exchange Rate Misalignment	
	Percent of GDP	Elasticity: -0.2	Elasticity: -0.4
Underlying current account	-3.5		
CA norm (Behms and Carvalho Filho, 2009: adjusted)	4.1	33.1	19.0
CA norm (Araujo and others, 2013)	-0.3	14.0	8.1

The line "Bems and Carvalho (adjusted)" refers to the current account norm after adjusting for income transfer (profit repatriation by hydrocarbon producing companies). The lines based on Araujo and others (2013) are preliminary. "Elasticity: -0.4" is from the CEMAC Staff Report (2013); no elasticity can be computed directly for Equatorial Guinea.

Annex V. Debt Sustainability Analysis

Public sector gross debt increased from 6 percent to 14 percent of GDP over the past two years, driven mainly by statutory advances from the central bank. Under staff's baseline projections and projected oil prices, Equatorial Guinea's central government debt is rising but remains manageable, provided that the recommended fiscal adjustment is in place. Gross financing needs are projected to decrease from 7.5 percent of GDP in 2016 to 5.2 percent in 2021. However, there are sizable downside risks, including delays in the scope and timing of fiscal adjustment, and recognition and servicing of contingent liabilities and stock of arrears. The baseline debt path remains vulnerable to unfavorable shocks to real GDP growth and the primary balance.

1. **Central Government debt has more than doubled in the last two years.** The debt-to-GDP ratio increased from 6 percent in 2013 to 14 percent in 2015. Figures 1 and 2 show that debt to external bilateral creditors constitute the largest share of total debt (51 percent), notably large disbursements under bilateral loan agreements with China to finance infrastructure projects linked to the national development plan. Most of the new debt drawings have been from domestic sources, mainly statutory advances from the central bank, which now constitutes the second largest component (46 percent, Text Figure 1).

2. **Staff's baseline scenario anticipates fiscal deficits widening in 2016–17 and declining thereafter** (Figure 1). They are expected to be financed by drawing on externally-held deposits and new external debt accumulation. The central government debt-to-GDP ratio is therefore projected to rise from 14 percent in 2015 to 34 percent in 2021. Debt dynamics are driven unfavorably by the primary deficits, the decline in economic activity and high real interest rates. These developments underscore the need for stronger fiscal adjustment, deeper efforts to improve the business environment and public resource allocation so as to raise economic growth.

Equatorial Guinea: Public Debt and Creditors

Figure 1. Creditors by Type
(Percent, end 2015)

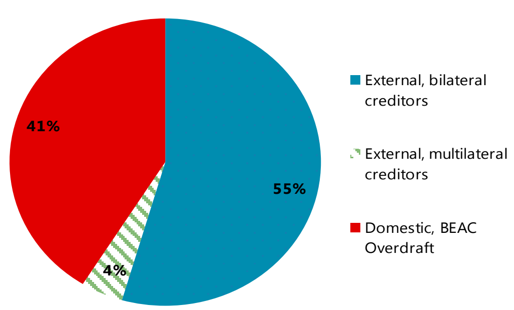
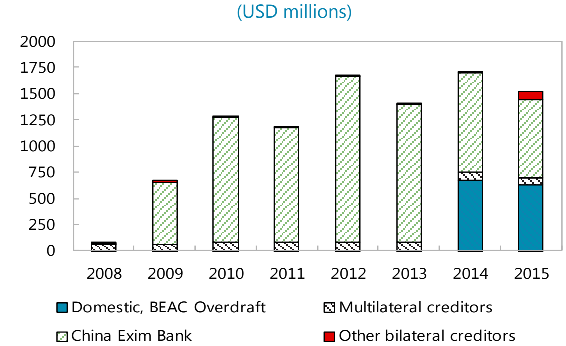


Figure 2. Gross Public Debt
(USD millions)



Sources: Equatorial Guinea authorities.

3. Gross financing needs would increase from 4 percent of GDP in 2015 to about 7.5 percent in 2016, before subsiding over time to5.2 percent of GDP in 2021. The estimated debt-stabilizing primary balance is 2.2 percent of GDP. Under the baseline scenario, the primary balance is expected to remain negative during 2014–21. An alternative scenario shows that the debt path and financing needs would be worse if the primary balance were to remain constant at its 2015 level (Figure 2). Significant risks remain, including the following: (i) possible delays in the scope and timing of fiscal adjustment; (ii) higher-than-expected increases in regional and domestic interest rates; and (iii) recognition and servicing of contingent liabilities and the stock of arrears, which are not well recorded and could be sizeable. Most importantly, the central bank has limited scope to finance the government given the fixed exchange rate regime and the low level of reserves.

4. The stress test scenarios confirm the high vulnerability of debt and financing needs to shocks to real GDP growth and the primary balance, with the greatest sensitivity to shocks coming from real GDP growth. With the exception of the real exchange rate shock, all other stress tests would push the debt-to-GDP ratio above 45 percent by 2021, with shocks to real GDP growth alone pushing it to about 55 percent by 2021, and shocks to the primary balance to 49 percent by 2021. Shocks to the exchange rate would worsen the debt path moderately. That the central government's debt is mostly held by non-residents increases the risks from external shocks, although this is partly mitigated by the CFA franc peg.

External Debt

5. Equatorial Guinea's external debt-to-GDP ratio has increased in recent years but is still low level. As a share of GDP, external debt was 7.6 percent at end-2015, up from a low of 4.8 percent at end 2014 (Figure 5 and Table 1). The main reason for the increase has been a rise in central government borrowing from China.

6. External debt is projected to increase in the medium term. Under the baseline scenario, external debt would continue to steadily rise to 26 percent of GDP by 2021 before stabilizing as government financing needs abate. External debt may increase above the current baseline if the government increases reliance on external financing (including multilateral loans) to help fund infrastructure projects.

7. External sustainability is robust to interest rate and GDP shocks, but is more sensitive to current account and exchange rate shocks (Figure 5). A 30 percent real depreciation in 2017 would almost double the external debt-to- GDP ratio to about 22 percent in 2017 and would reach 40 percent in 2021. A further deterioration in the current account balance from the current level would have the largest impact—a ¼ standard deviation shock would introduce debt dynamics such that the external debt-to-GDP ratio reaches 63 percent by 2021 and increases beyond the 5-year projection period. However, an adverse shock of this size would almost certainly require a significant (in U.S. dollar terms) drop in energy prices from their already current low levels.

Authorities' Views

8. The authorities broadly concurred that debt levels have been rising rapidly, and that there is need to undertake fiscal consolidation to avoid unsustainable debt dynamics While recognizing the magnitude of the external shock that they are facing, they pointed to their efforts to bring down the deficit during 2015 and the fiscal measures that they are undertaking to increase non-resource revenue and curb spending.

Figure 1. Equatorial Guinea: Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

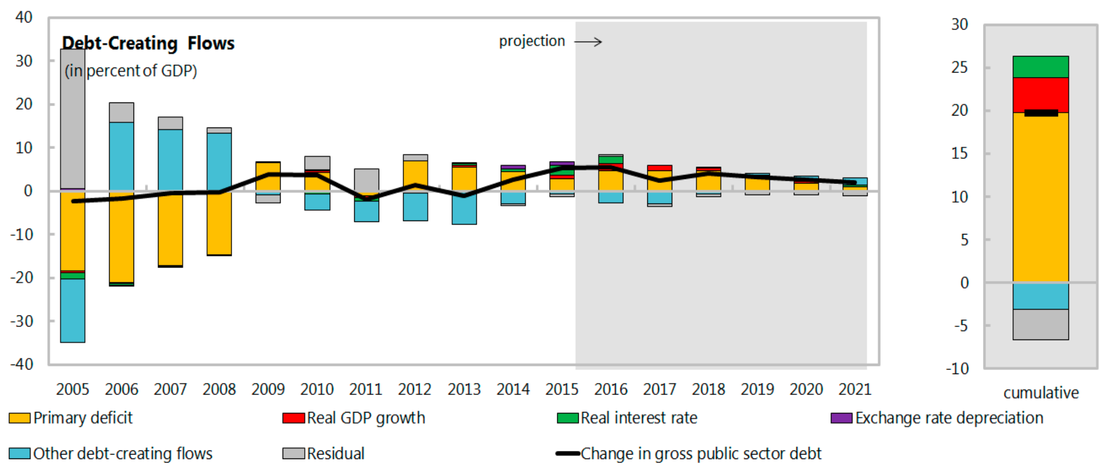
(Percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators [1]

	Actual			Projections						As of June 01, 2016		
	2005-2013 [2]	2014	2015	2016	2017	2018	2019	2020	2021	Sovereign Spreads		
Nominal gross public debt	4.1	8.7	14.0	19.6	21.9	25.9	29.1	31.7	33.7	EMBIG (bp)		n.a.
Public gross financing needs	-5.0	6.1	4.3	7.5	7.5	7.1	6.2	5.7	5.2	5Y CDS (bp)		n.a.
Real GDP growth (in percent)	5.7	-0.5	-7.4	-9.9	-5.8	-2.7	-1.5	-1.2	0.1	Ratings	Foreign	Local
Inflation (GDP deflator, in percent) [3]	11.9	-1.4	-17.0	-6.8	4.7	3.1	2.6	2.6	2.9	Moody's	n.a.	n.a.
Nominal GDP growth (in percent)	18.4	-1.9	-23.2	-16.0	-1.4	0.4	1.0	1.4	3.1	S&Ps	n.a.	n.a.
Effective interest rate (in percent) [4]	4.2	7.5	3.3	3.4	3.2	3.3	3.5	3.9	4.3	Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

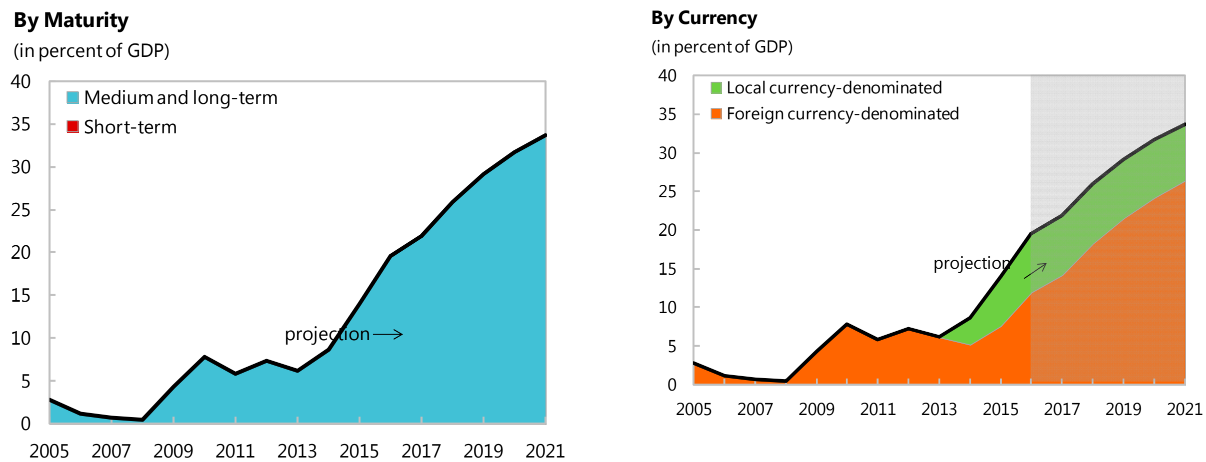
	Actual			Projections							
	2005-2013	2014	2015	2016	2017	2018	2019	2020	2021	cumulative	debt-stabilizing primary balance [9]
Change in gross public sector debt	0.1	2.5	5.3	5.6	2.3	4.0	3.2	2.6	2.0	19.7	
Identified debt-creating flows	-5.3	3.0	6.0	5.1	2.8	4.7	4.1	3.5	3.1	23.2	
Primary deficit	-5.5	4.4	2.8	4.7	4.7	4.6	3.0	1.8	1.0	19.8	2.1
Primary (noninterest) revenue and grants	31.5	24.3	25.3	22.8	21.2	19.5	19.1	18.3	17.8	118.8	
Primary (noninterest) expenditure	26.0	28.7	28.2	27.5	25.9	24.1	22.1	20.1	18.8	138.5	
Automatic debt dynamics [5]	-0.4	1.5	3.8	3.2	0.9	0.6	0.7	0.7	0.4	6.5	
Interest rate/growth differential [6]	-0.4	0.6	3.0	3.2	0.9	0.6	0.7	0.7	0.4	6.5	
Of which: real interest rate	-0.3	0.6	2.1	1.6	-0.2	0.1	0.3	0.4	0.4	2.5	
Of which: real GDP growth	-0.1	0.0	0.8	1.6	1.2	0.6	0.4	0.3	0.0	4.1	
Exchange rate depreciation [7]	0.0	0.9	0.8	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.6	-2.9	-0.6	-2.8	-2.8	-0.6	0.4	1.0	1.7	-3.1	
Treasury deposits abroad (-=increase) (use is neg	2.4	0.8	1.2	-2.8	-2.8	-0.6	0.0	0.0	0.0	-6.2	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Deposits at BEAC	-1.8	-3.7	-1.9	0.0	0.0	0.0	0.4	1.0	1.7	3.1	
Residual, including asset changes [8]	5.4	-0.4	-0.7	0.5	-0.5	-0.6	-0.9	-1.0	-1.1	-3.5	



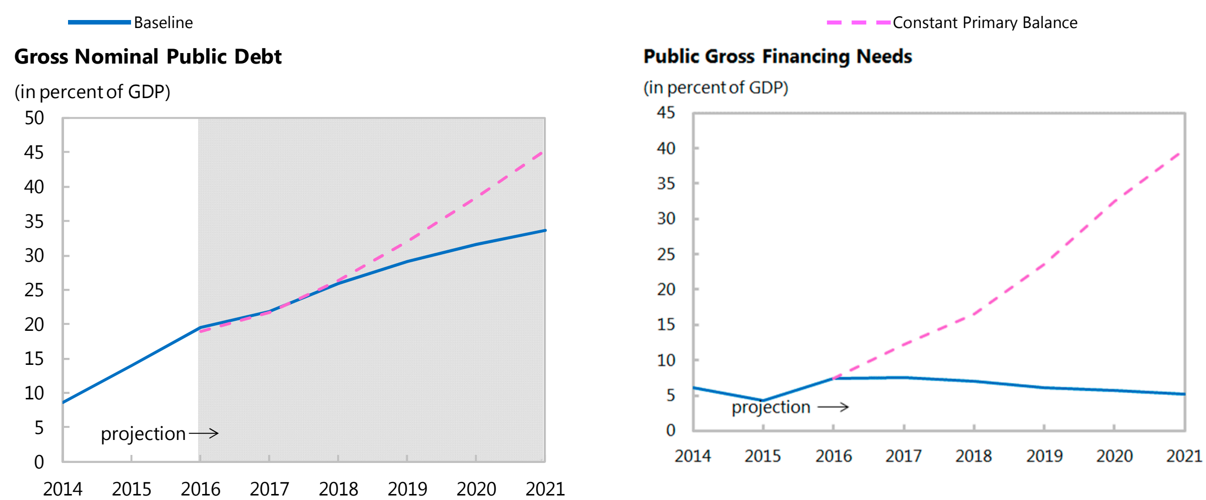
Source: IMF staff.
1/ Public sector is defined as central government
2/ Based on available data.
3/ The continuous decline of GDP deflator is driven by a decreasing trend of oil and gas prices.
4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.
5/ Derived as $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate;
a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi (1+g)$ and the real growth contribution as $-g$.
7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 2. Equatorial Guinea: Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt



Alternative Scenarios



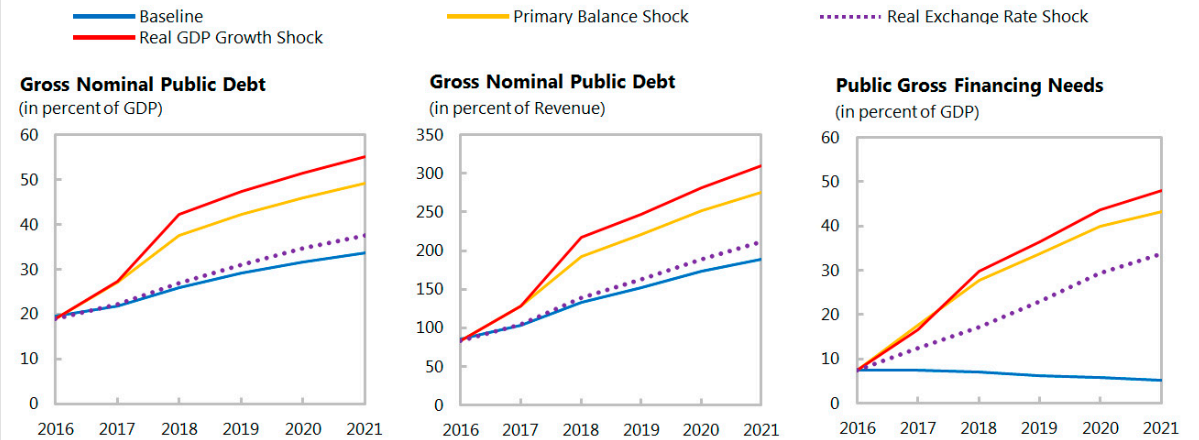
Underlying Assumptions
(in percent)

Baseline Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	-9.9	-5.8	-2.7	-1.5	-1.2	0.1
GDP Deflator	-6.8	4.7	3.1	2.6	2.6	2.9
Primary Balance	-4.7	-4.7	-4.6	-3.0	-1.8	-1.0
Effective interest rate	3.4	3.2	3.3	3.6	4.1	4.4
Constant Primary Balance Scenario						
Real GDP growth	-9.9	-5.8	-2.7	-1.5	-1.2	0.1
GDP Deflator	-6.8	4.7	3.1	2.6	2.6	2.9
Primary Balance	-4.7	-4.7	-4.7	-4.7	-4.7	-4.7
Effective interest rate	3.4	3.3	3.4	3.5	3.9	4.1

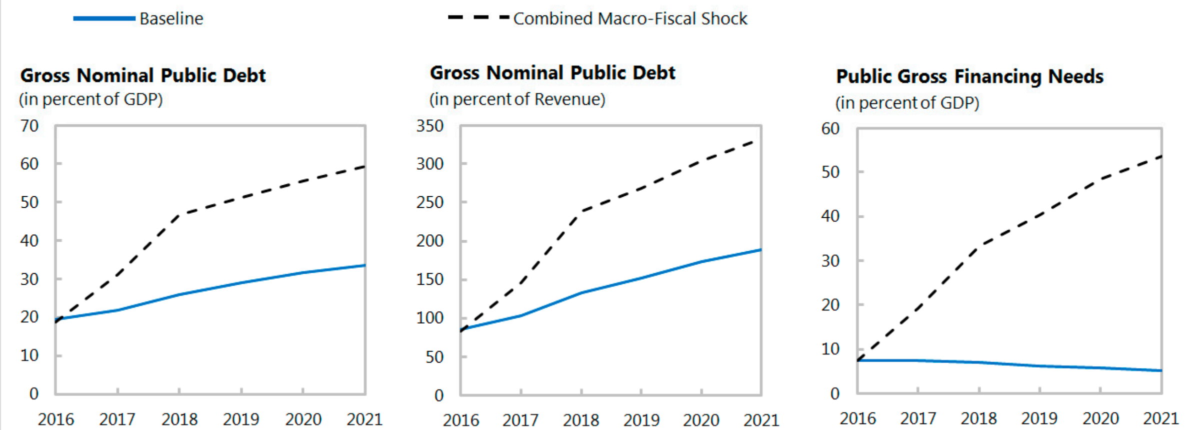
Historical Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	-9.9	3.5	3.5	3.5	3.5	3.5
GDP Deflator	-6.8	4.7	3.1	2.6	2.6	2.9
Primary Balance	-4.7	2.4	2.4	2.4	2.4	2.4
Effective interest rate	3.4	3.3	3.5	4.0	4.9	6.5

Source: IMF staff.

Figure 3. Equatorial Guinea: Public Debt Sustainability Analysis—Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

Primary Balance Shock	2016	2017	2018	2019	2020	2021
Real GDP growth	-9.9	-5.8	-2.7	-1.5	-1.2	0.1
Inflation	-6.8	4.7	3.1	2.6	2.6	2.9
Primary balance	-4.7	-10.1	-10.1	-3.0	-1.8	-1.0
Effective interest rate	3.4	3.3	4.1	4.4	3.8	4.0
Combined Shock						
Real GDP growth	-9.9	-14.9	-11.7	-1.5	-1.2	0.1
Inflation	-6.8	2.4	0.8	2.6	2.6	2.9
Primary balance	-4.7	-10.1	-11.3	-3.0	-1.8	-1.0
Effective interest rate	3.4	3.6	3.4	3.5	3.9	4.1

Real GDP Growth Shock	2016	2017	2018	2019	2020	2021
Real GDP growth	-9.9	-14.9	-11.7	-1.5	-1.2	0.1
Inflation	-6.8	2.4	0.8	2.6	2.6	2.9
Primary balance	-4.7	-8.1	-11.3	-3.0	-1.8	-1.0
Effective interest rate	3.4	3.3	3.8	4.6	3.8	4.1
Real Exchange Rate Shock						
Real GDP growth	-9.9	-5.8	-2.7	-1.5	-1.2	0.1
Inflation	-6.8	10.4	3.1	2.6	2.6	2.9
Primary balance	-4.7	-4.7	-4.6	-3.0	-1.8	-1.0
Effective interest rate	3.4	3.6	3.4	3.6	4.0	4.3

Source: IMF staff.

Table 1. Equatorial Guinea: External Debt Sustainability Framework, 2011–21

(Percent of GDP unless otherwise indicated)

	Actual							Projections					
	2011	2012	2013	2014	2015			2016	2017	2018	2019	2020	2021
Baseline: External debt	5.5	7.5	6.4	4.8	7.4			**11.9**	**14.3**	**18.4**	**21.7**	**24.2**	**26.4**
Change in external debt	-2.5	2.0	-1.1	-1.6	2.7			4.4	2.4	4.1	3.3	2.5	2.2
Identified external debt-creating flows (4+8+9)	-6.3	0.4	2.7	6.6	21.1			13.1	9.9	9.6	9.0	8.8	8.7
Current account deficit, excluding interest payments	-6.7	-4.2	-0.3	5.5	16.6			11.4	6.4	5.7	4.6	3.9	3.3
Deficit in balance of goods and services	-42.9	-41.7	-34.6	-29.7	-14.9			-17.7	-23.6	-23.9	-23.8	-23.5	-23.2
Exports	82.1	90.1	73.8	70.4	64.8			57.4	58.8	58.7	56.8	55.1	53.7
Imports	39.3	48.4	39.2	40.7	49.9			39.7	35.2	34.8	33.0	31.6	30.5
Net non-debt creating capital inflows (negative)	2.2	4.8	2.7	0.8	1.7			0.5	2.6	3.2	3.9	4.5	5.3
Automatic debt dynamics 1/	-1.9	-0.1	0.4	0.3	2.8			1.2	1.0	0.6	0.5	0.4	0.1
Contribution from nominal interest rate	0.0	0.1	0.2	0.1	0.2			0.3	0.3	0.2	0.2	0.2	0.2
Contribution from real GDP growth	-0.4	-0.4	0.3	0.0	0.5			0.9	0.7	0.4	0.3	0.2	0.0
Contribution from price and exchange rate changes 2/	-1.5	0.2	-0.2	0.1	2.1			...	...	...	...	...	...
Residual, incl. change in gross foreign assets (2-3) 3/	3.8	1.6	-3.8	-8.2	-18.4			-8.7	-7.5	-5.5	-5.7	-6.2	-6.5
External debt-to-exports ratio (in percent)	6.6	8.3	8.6	6.8	11.5			20.7	24.3	31.3	38.2	43.9	49.2
Gross external financing need (in billions of US dollars) 4/	-0.3	0.8	1.4	2.2	3.4			2.7	2.4	2.8	3.1	3.4	3.7
in percent of GDP	-1.2	3.4	6.3	10.4	24.2	10-Year	10-Year	23.6	20.9	24.3	26.5	28.3	29.9
Scenario with key variables at their historical averages 5/								**11.9**	**2.0**	**-5.2**	**-11.8**	**-18.1**	**-24.1**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation						
Real GDP growth (in percent)	6.5	8.3	-4.1	-0.5	-7.4	3.5	9.1	-9.9	-5.8	-2.7	-1.5	-1.2	0.1
GDP deflator in US dollars (change in percent)	22.9	-3.1	2.2	-1.5	-30.6	4.0	19.7	-6.6	4.8	3.4	3.2	3.4	2.7
Nominal external interest rate (in percent)	0.3	2.2	2.7	2.0	2.6	1.4	0.9	3.9	2.2	1.4	1.1	0.9	0.7
Growth of exports (US dollar terms, in percent)	24.9	15.2	-19.7	-6.6	-40.9	5.6	26.5	-25.3	1.1	0.4	-1.6	-0.8	0.2
Growth of imports (US dollar terms, in percent)	-16.0	29.4	-20.7	1.7	-21.1	16.2	33.2	-33.0	-12.4	-0.8	-3.6	-2.0	-0.9
Current account balance, excluding interest payments	6.7	4.2	0.3	-5.5	-16.6	3.3	16.4	-11.4	-6.4	-5.7	-4.6	-3.9	-3.3
Net non-debt creating capital inflows	-2.2	-4.8	-2.7	-0.8	-1.7	-0.5	5.0	-0.5	-2.6	-3.2	-3.9	-4.5	-5.3

Source: IMF staff.

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

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

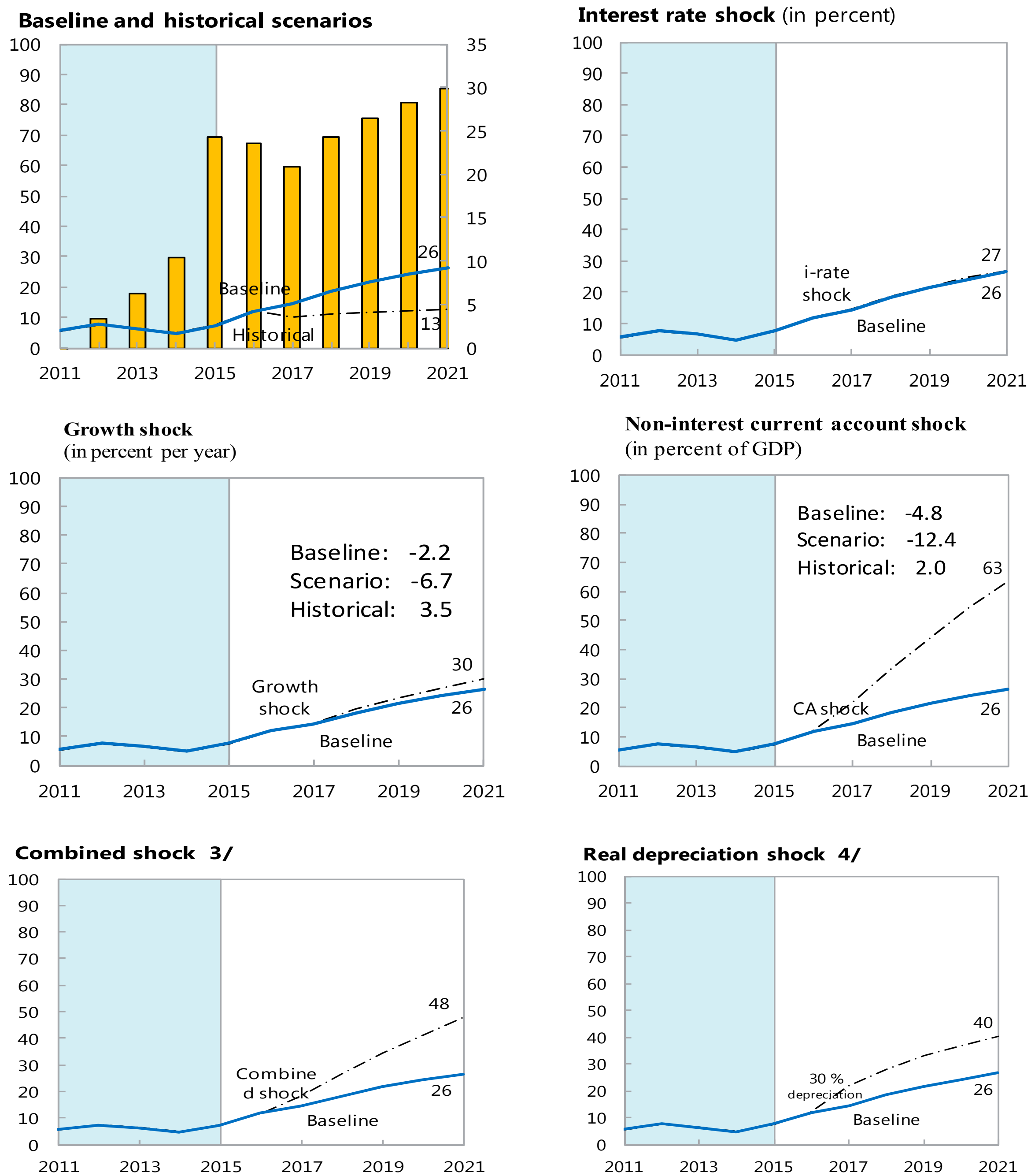
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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.

Figure 4. Equatorial Guinea: External Debt Sustainability: Bound Tests[1/, 2/]

(External debt in percent of GDP)



Source: IMF staff.

Sources: IMF 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/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2017.

INTERNATIONAL MONETARY FUND

REPUBLIC OF EQUATORIAL GUINEA

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

August 12, 2016

Prepared By

The African Department (in consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND

(As of June 30, 2016)

Membership Status: Joined December 22, 1969 Article VIII

Latest Financial Arrangements:

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

[1/] Formerly PRGF.

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

	Forthcoming				
	2016	2017	2018	2019	2020
Principal					
Charges/Interest	0.00	0.01	0.01	0.01	0.01
Total	0.00	0.01	0.01	0.01	0.01

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

General Resources Account:	**SDR million**	**%Quota**
Quota	157.50	100.00
Fund holdings of currency (Exchange Rate)	152.58	96.88
Reserve Tranche Position	4.93	3.13

SDR Department:	**SDR million**	**%Allocation**
Net cumulative allocation	31.29	100.00
Holdings	21.5	67.59

Outstanding Purchases and Loans: None

Implementation of HIPC Initiative: Not Applicable

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

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

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

Safeguard Assessments: The Bank of the Central African States (BEAC) is the regional central bank of the Central African Economic and Monetary Community (CEMAC). For the BEAC, governance challenges and control failures, which emerged in 2009, led to close engagement subsequently through annual IMF monitoring of safeguards "rolling measures." A safeguards staff visit to the BEAC conducted in April 2016 found that although the BEAC's own Reform and Modernization Plan was nearing completion, the IMF's two priority recommendations on governance-focused law reform and the transition to an internationally recognized financial reporting framework (IFRS) were outstanding. However, following the April 2016 visit, the BEAC's Board of Directors mandated that the institution take steps to initiate work on the priority recommendations. Staff has now revised the road map for implementation with an envisaged conclusion of the law reform in early 2017 and adoption of IFRS beginning with the financial statements for 2018. Staff will maintain close engagement with the BEAC to monitor the implementation of the remaining safeguards measures going forward, and progress on the latter will remain a condition for new program requests and reviews for CEMAC member countries.

Exchange System: The regional currency is the CFA franc, which has been pegged to the euro at the rate of CFAF 655.957 per euro, since the euro was introduced in 1999.

Equatorial Guinea has accepted the obligations of Article VIII, Sections 2,3 and 4 and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

Article IV Consultations: Equatorial Guinea is on the standard 12-month Article IV consultation cycle. The last Article IV consultation with Equatorial Guinea was concluded by the Executive Board on July 20, 2015.

Equatorial Guinea: Technical Assistance Missions since 2007

Provider	Theme	Timing
AFRITAC Central	National accounts and consumer price statistics	October 2007
	Price statistics	March 2008 and June 2008
	Trade statistics	July 2008
	Public financial management statistics	February 2008, February 2009, July 2010, May 2011, and March 2012
	Budget accounting system and practices	September 2012
	Debt management	September 2013
	National accounts statistics	June to July 2008; January, May, December 2011; October to November 2013; March, October 2014; and February 2015.
	LTU administration	November 2014 and June 2016
	Customs administration	September 2015 and March 2016
Fiscal Affairs Department (FAD)	Public finance management	February 2013
	Revenue administration	March-April 2014
Statistics Department (STA)	Real sector statistics	March 2007
	Balance of payments statistics	February 2013
	e-GDDS participation	June 2016
Resident advisors	Macro-fiscal advisor backstopped by AFR; paid for by the government through a reimbursement agreement with the Fund.	June 2006 to early May 2007
	Public financial management advisor backstopped by FAD; paid for by the government through a reimbursement agreement with the Fund.	June 2006 to early May 2007
	Two macro-fiscal advisors backstopped by AFR; paid for by the government through a reimbursement agreement with the Fund.	Redeployed in April 2008 for a one-year period. Their contracts were extended in 2009 and 2010, and expired on December 31, 2011.

RELATIONS WITH THE WORLD BANK GROUP

As of July 26, 2016			
Title	**Products**	**Provisional timing of missions**	**Expected delivery date**
A. Mutual information on relevant work programs			
The World Bank work program in the next 12 months	**1. Statistics Support:** A technical assistance project is in place to support the government along three priority pillars: 1. production of data (mainly national accounts, business census and household survey), 2. legal and institutional development of the National Statistics System (including operationalization of the National Statistics Institute), 3. promoting the use of data for decision making. Two resident advisors are currently based in Malabo, including the TTL. **2. Public Investment Management and Monitoring of National Development Plan:** A technical assistance project is in place to support the government with strengthening public investment management and the monitoring of the NDP. Two resident advisors are currently based in Malabo. **3. Investment Climate Reform:** A third technical assistance agreement to promote investment climate reform and support the set-up of an Investment Promotion Agency is pending signature	The next supervisory mission will take place in July – August 2016 To be confirmed – project currently under discussion	Expected completion in December 2017 Legal agreement ends in December 2016 but an extension through 2017 is expected to be signed in the short term
B. Requests for work program inputs			
Fund request to Bank		Data sharing, in particular the outcome of technical assistance to the statistical office	
Bank request to Fund	Regular updates on macroeconomic framework. Data sharing, in particular with respect to fiscal information, external sector, and hydrocarbon production.		

STATISTICAL ISSUES

EQUATORIAL GUINEA—STATISTICAL ISSUES (As of July 26, 2016)
I. Assessment of Data Adequacy for Surveillance (continued)
General: Data provision has serious shortcomings that significantly hamper surveillance. National accounts, government finance statistics, and balance of payments data are all deficient in quality, timing, and coverage. Poor centralization of information between the island and continental regions is also an issue.
National Accounts: On July 21, 2016 the National Statistics Institute (INEGE) released a new series of national accounts for the period 2006–13. The new series was prepared with the assistance of the World Bank, AFRISTAT, and AFRITAC Central, using the System of National Accounts, 1993 (1993 SNA) methodology. Data sources still need to be improved for more reliable and comprehensive GDP estimates. A housing and population census coupled with an agricultural census, and an enterprise census were conducted in 2015. Household survey and employment survey are also planned.
Price statistics: Compilation of the official CPI resumed in January 2009, with data collected in five major cities. However, a number of deficiencies remain, including outdated weights and composition of the basket of goods and services, and gaps in the time series corresponding to the period for which data was not collected (2008). Imputations for missing data do not always reflect underlying trends.
Government finance statistics: The authorities provide budget execution data to the Fund, but these are limited in detail (with, for example, a poor delineation between capital and current spending and no functional classification) and are not fully reconciled with the monetary accounts. The fiscal data are not subject to any internal process of verification because weak audit capability. The authorities have yet to appoint additional residential advisors for public finance, budgeting, and accounting following advice from the Fiscal Affairs Department. Gains in transparency were made temporarily through the Extractive Industries Transparency Initiative process, with a reconciliation report posted on the World Bank website in March 2010 that included hydrocarbon revenue data and information on state owned oil companies, but no subsequent information has been published.
Monetary statistics: Monetary statistics for the central bank and other depository corporations are reported to the Fund by the *Banque des États de l'Afrique Centrale* (BEAC) on a monthly basis in the format of the standardized report forms (SRFs). The depository corporation survey does not include data from deposit-taking microfinance institutions. It is hoped to include data in the future on interest rates offered by the financial institutions sector to non-financial entities on deposits and loans.
Financial sector surveillance: In March 2016, Equatorial Guinea began reporting financial soundness indicators for deposit taking institutions.

Balance of payments: The National Directorate of the Bank of Central African States is responsible for the compilation of the balance of payments statistics of Equatorial Guinea. The BEAC produces balance of payments data for its monetary programming exercise, but these largely rely on estimations. Trade transactions processing and data compilation are complicated by the fact that customs authorities do not use a computerized system. For example, no data on merchandise imports are made available. The balance of payments statistics mission of March 2013 noted the severe capacity constraints at the National Directorate and the need for staff training as well as the improvement of institutional arrangements in the country to support the production of external sector statistics.

II. Data Standards and Quality	
An STA mission visited Equatorial Guinea in June 2016 to assist the country's preparation to participate in the e-GDDS.	Equatorial Guinea has not yet received a mission to produce the data module of the *Report on the Observance of Standards and Codes* (data ROSC).

III. Reporting to STA (Optional)
Real sector statistics are reported to STA for publication in the *International Financial Statistics (IFS)* with a long lag and are limited to GDP (without breakdown by sector or expenditure category), and exports, and imports. The authorities agreed to submit CPI data for the *IFS* publication and STA is communicating with the authorities regarding the procedure. The BEAC reports monetary, interest rates, and exchange rate statistics for publication in the *IFS,* but delays are persistent (currently the lag is about three months). Due to capacity constraints, balance of payments data are not submitted to STA for publication in the *IFS* or the *Balance of Payments Statistics Yearbook*. The latest year for which balance of payments data are available is 1996. Equatorial Guinea does not report fiscal data to STA for publication in the *IFS* or the *Government Finance Statistics Yearbook*.

Equatorial Guinea: Table of Common Indicators Required for Surveillance

(As of July 26, 2016)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	7/13/2016	7/13/2016	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Dec. 2014	5/12/2015	M	M	I
Reserve/Base Money	May 2016	7/13/16	M	M	M
Broad Money	May 2016	7/13/16	M	M	M
Central Bank Balance Sheet	May 2016	7/13/16	M	M	M
Consolidated Balance Sheet of the Banking System	May 2016	7/13/16	M	M	M
Interest Rates[2]	Jul. 2016	7/13/16	M	M	I
Consumer Price Index	Apr. 2016	7/13/16	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	Dec. 2015	7/13/16	M	Q	I
Stocks of Central Government and Central Government-Guaranteed Debt[5,6]	2015	7/13/16	A	A	I
External Current Account Balance	2015	7/13/16	A	A	I
Exports and Imports of Goods and Services	2015	7/13/16	A	A	I
GDP/GNP	2015	7/13/16	A	A	I
Gross External Debt	2015	7/13/16	A	A	I
International Investment Position[7]			NA	NA	NA

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

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

[3]Foreign and domestic bank, nonbank financing.

[4]The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Includes currency and maturity composition.

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

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

Statement by Mr. Yambaye, Executive Director for the Republic of Equatorial Guinea
August 29, 2016

Our Equatorial Guinean authorities would like to thank staff for the productive discussions during the 2016 Article IV consultation in Malabo. The authorities highly appreciate the advice, and the valuable technical assistance provided by the Fund and they have taken steps to implement a number of IMF policy recommendations, as indicated in the staff report.

Equatorial Guinea has made significant progress in fostering economic development and improving social indicators over the past decade under the National Development Plan - Horizonte 2020. As a result, the country is among those that enjoy the highest average per capita incomes in Sub-Saharan Africa. Major inroads have been made toward the Millennium Development Goals, notably those related to the rate of literacy, infant mortality, and maternal deaths. In this light, the incidence of poverty has declined substantially from 77 percent in 2006 to an estimated level of less than 50 percent in 2011. Moreover, improved and scaled up infrastructure all over the country has also enhanced the long term prospects of the economy.

However, the sharp decline in oil prices and production coupled with weak global economic growth have complicated achievement of the authorities' ambitious development and structural transformation objectives by putting the medium-term prospects at risk. To address the country's high dependence on hydrocarbon revenues and falling fiscal buffers, the authorities have adjusted their development program and have taken several policy actions to ensure fiscal sustainability and increase non-hydrocarbon revenues. They broadly concur with staff's analysis and the main policy recommendations to address the challenges facing the economy and bring it back on the path of recovery.

I. RECENT ECONOMIC DEVELOPMENTS

Real GDP in 2015 is estimated to have declined by 7.4 percent, mainly due to decline in oil revenues, owing both to drop in prices and production. Inflation is estimated to have declined to 0.6 per cent in the second quarter of 2016 compared to 4 percent in 2014. Activity in the non-hydrocarbon sector was also weak as public investment and activity in the construction sector declined. Given the continued decline in the hydrocarbon sector and lower public investment since the beginning of this year, real GDP is projected to contract by about 10 percent in 2016, and would remain negative over the medium term. However, the authorities expect to reverse the pace of contraction through the implementation of the second phase of the National Development Program, which focuses on the non-hydrocarbon sector and the development of the private sector and human resources.

The overall fiscal deficit was reduced to 3.2 percent of GDP in 2015 reflecting the fiscal adjustment efforts made by the authorities notably through measures aimed at mobilizing non-resource revenues and freezing new capital spending. Public sector debt rose slightly at the end-2015, while the deposit buffer was reduced by 1.9 percent of GDP due to the government needs to finance the deficit.

The external current account deficit increased to about 17 percent of GDP in 2015 driven by the decline in the hydrocarbon sector and higher imports related to the public investment program, with reserves covering 6.4 months of prospective imports. It is expected that the current account deficit will be reduced to 11.8 percent of GDP in 2016 with further improvements over the medium term.

II. OUTLOOK AND POLICIES

The Equatorial Guinean authorities are cognizant of the challenges that lie ahead and the need to address the continued decline in oil prices. In this regard, they are taking further steps to sustain the fiscal adjustment efforts while preserving pro social development, and speed up reforms aimed at developing the non-hydro carbon sector and improving the business climate and strengthening human capital.

A. Fiscal Policy

The authorities remain committed to fiscal consolidation and have stepped up efforts to tackle the adverse impact of the oil price shock. In this regard, a wide range of measures are being implemented.

On the revenue side, the authorities are taking necessary steps to accelerate the implementation of key measures to boost non-oil revenue collection, including the operationalization of the Large Taxpayer Unit, introduction of a single taxpayer identification number, streamlining tax filing procedures and exemptions, and boosting customs collection. They are finalizing customs clearance procedures for the installation of ASYCUDA World software. They are also considering a comprehensive tax policy review as recommended by staff, and for which IMF technical assistance will be useful.

On the expenditure front, further measures to sustain spending adjustment of around 2 percent of GDP per year will be taken. The authorities agree with staff that reforms should focus on the Public Investment Program (PIP) with the aim of curbing the PIP by half over three years. Already, since 2014, the PIP budget has been reduced by 30 percent and the authorities are working closely with the World Bank to actively monitor and manage the PIP.

In spite of the shocks to the economy, and the recent increase in public debt, Equatorial Guinea's debt remains manageable. The fiscal consolidation measures being undertaken will help to contain further the debt ratio. Moreover, the ongoing efforts to restructure the economy away from hydrocarbons will also serve the same purpose by bringing in additional revenue over the medium term. The authorities are also addressing the issue of arrears, and are currently discussing a plan with suppliers and commercial banks to address them. Going forward the authorities stand ready to take necessary measures to preserve debt sustainability.

B. Monetary and Financial Sector

Equatorial Guinea forms part of the Central African Monetary Union and monetary policy is implemented at the regional level through the BEAC, the regional central bank. The currency union exchange rate, which is pegged to the Euro, continues to serve Equatorial Guinea well, and has been an important source of macroeconomic stability. Moreover, the accommodative monetary policy of the regional bank has also been very helpful to the Equatorial Guinean economy as it has contributed to the authorities' efforts to adjust to the hydrocarbon revenues' shock.

Despite the oil price shock, Equatorial Guinea's financial sector remains well-capitalized, liquid and resilient to solvency and liquidity shocks. However, given the slowing economic activity, nonperforming loans remain high and profit has declined.
The Equatorial Guinean authorities are working on a plan to make the country a regional financial hub. In this regard, they are undertaking key structural reforms in the financial sector that will boost the sector's resilience to shocks, while promoting financial inclusion and supporting private sector development. Measures already implemented, include, staff capacity building, finalization of internal regulations and reporting standards. In addition, a regional peer review of Equatorial Guinea's AML/CFT legal framework against the 2003 Financial Action Task Force (FATF) standard is being conducted, and the authorities are working towards full implementation of CEMAC's AML/CFT framework.

Going forward, the authorities will continue to pursue efforts to maintain adequate capital buffers and deepen the banking sector at the same time, they will continue to collaborate closely with regional authorities to strengthen bank supervision and closely monitor potential adverse spillovers.

C. Structural and Data Reforms

The authorities will continue their efforts to diversify the economy and make it less dependent on the hydrocarbon sector. In this regard, they are focusing their efforts on promoting agriculture, fisheries, and the financial sectors. The authorities are implementing measures aimed at improving the nonoil sector's competitiveness and fostering private sector activity. In this regard, the authorities: (i) intend to establish a national committee composed of representatives of the chambers of commerce, educational institutions, banks and several members of the government by end-2016 to spearhead reforms, (ii) build eight vocational schools to train youth and foster technical education, and (iii) develop a tourism sector policy to leverage recently constructed hotel facilities, building on the expertise of foreign professionals.

To improve the business climate, the authorities are working closely with the World Bank to conclude discussions on business climate diagnostics and reforms. They also plan to launch a "one-stop-shop" by 2017 to facilitate investor entry. in addition, the authorities plan to establish a CFAF 100 billion Co-investment Fund to support small and medium enterprises in non-oil sectors.

The authorities have also made significant efforts to establish and strengthen the capacity of the National Statistical Institute, which is starting to bear fruits. A high quality National Statistical Development strategy has been developed. With the assistance of the World Bank and AFRITAC, the authorities have compiled national accounts using a new base year (2006) and improved the methodology. This will go a long way toward addressing staff's call for improving statistical data. They have also completed a legislative package that defines the legal framework of the statistical system, and completed a population census in 2015. Furthermore, Equatorial Guinea has subscribed to the enhanced General Data Dissemination System (e-GDDS) of the IMF.

The authorities value the TA support from its partners, specifically or especially the IMF and will continue efforts to address remaining data issues, notably, the acceleration of INEGE capacity building program, compilation and reporting of International Investment Position data, creation of metadata, and development of SYDONIA World software.

III. CONCLUSION

The decline in oil prices has added to the challenges facing Equatorial Guinea, and the authorities are implementing wide-ranging measures to address them. In particular, they are strengthening the fiscal adjustment efforts and are putting in place a strategy to diversify the economy away from hydrocarbons, and strengthening the private sector. In this endeavor, they will continue to rely on the advice and assistance of the Fund and development partners.