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Republic of Equatorial Guinea: 2003 Article IV Consultation—Staff Report; Staff Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for the Republic of Equatorial Guinea

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2003 Article IV consultation with the Republic of Equatorial Guinea, the following documents have been released and are included in this package:

- the staff report for the 2003 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **August 12, 2003,** 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 October 28, 2003.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a staff statement of **November 12, 2003** updating information on recent developments.

- a Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during its November 12, 2003 discussion** of the staff report that concluded the Article IV consultation.

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

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

Selected Issues Paper and Statistical Appendix

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

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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INTERNATIONAL MONETARY FUND

EQUATORIAL GUINEA

Staff Report for the 2003 Article IV Consultation

Prepared by the Staff Representatives for the
2003 Consultation with Equatorial Guinea

Approved by Donal Donovan and Martin Fetherston

October 28, 2003

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Executive Summary

- **Equatorial Guinea is faced with significant policy challenges stemming from the surge in oil revenue in recent years.** A broad medium-term strategy is needed to ensure sustainable management of the oil wealth and poverty reduction; sufficiently tight fiscal policies are essential for macroeconomic stability; transparent rules need to guide oil-related transactions; and structural reforms are vital to bolster non-oil activity.

- **Until recently, the authorities' response to these challenges was inadequate.** Furthermore, insufficient provision of economic information has been an obstacle to effective surveillance. **The authorities have now begun to address a number of these issues.**

- **Recent economic developments and prospects are dominated by the ongoing expansion of oil output,** with associated improvements in the country's external position. Non-oil growth is being driven by growth in services to the oil sector and construction activity, while agriculture is sluggish. Domestic price pressures have led to a loss of competitiveness.

- **First steps have been taken to resolve transparency issues.** For the first time, the fiscal surplus in 2002 was reconciled with the net increase in government bank accounts, including a large treasury account held abroad. This initial progress could form the basis for a more meaningful policy dialogue and help the conduct of surveillance, but further work to resolve discrepancies between budget and bank account transactions in earlier years is needed. The authorities have also signaled their wish to participate in the Extractive Industries' Transparency Initiative (EITI) as a pilot once practical issues, such as institutional roles in collecting information on oil transactions, have been resolved.

- **The authorities wish to save the bulk of oil wealth in an oil reserve fund.** The staff has recommended observance of international best practices in setting up and managing the fund, including a clear legal framework; selection of reputable managers; and transparent supervision.

- **There has also been progress in moving the fiscal position to sustainable levels.** Following large spending overruns in 2002, the authorities took initial steps toward fiscal consolidation in the first half of 2003, and committed to further spending restraint in the remainder of 2003 and in 2004. Efforts to restore fiscal discipline are supported by key reforms, including preparation of a new public finance law. These reforms should also help to create greater transparency of public spending.

- **The authorities are interested in a closer surveillance relationship with the Fund.** Such relationship is possible if progress in fiscal consolidation and transparency is sustained. Current modalities for surveillance should also be fully used, including publication of the Article IV consultation papers.

I. Introduction

1. **The discussions for the 2003 Article IV consultation with Equatorial Guinea were conducted in Malabo and Bata during July 29-August 12, 2003.**[1] The mission held discussions with the President, the Prime Minister, the Minister of the Economy, the Minister of Finance, the Minister of Mines and Energy, the Secretary of State for the Treasury, the National Director for the Bank of Central African States (BEAC), and other senior government officials. The mission also met with representatives of the petroleum industry, the banks, and the international community. **The discussions for the current Article IV consultation were postponed owing to presidential elections at end-2002, which were followed by the restructuring of key ministries.**

2. **Equatorial Guinea does not require financial support from the Fund or other multilateral institutions, owing to abundant oil export revenues.** However, the authorities are interested in obtaining technical assistance from international sources, including the Fund, to improve the country's capacity in economic management and in data collection and analysis.[2] Equatorial Guinea is a member of the Central African Economic and Monetary Community (CEMAC) and the CFA franc zone. The country has accepted the obligations under the Fund's Article VIII (as a member of the BEAC) and maintains an exchange system which is free of restrictions on international transactions, and of multiple or discriminatory currency practices.

3. **The most recent Article IV consultation was completed on August 31, 2001.** On that occasion, Directors expressed concern about the continued weakness in economic policy performance, macroeconomic management, and governance. They stressed the need to introduce greater transparency in oil operations, improve public accounting procedures, refrain from borrowing against future oil revenue, contain nonpriority expenditures, and target spending on education, health, and infrastructure. Directors also underscored the need

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[1] The mission comprised Mr. Schwidrowski (Head), Ms. Louppe, Mr. Thomas, Mr. Weisfeld, and Mr. Ponce Brito (Research Assistant) (all AFR). Mr. Ondo Mañe, Executive Director for Equatorial Guinea, and Mr. Kudiwu (Advisor to the Executive Director) participated in some of the discussions. Staff representatives from the World Bank also attended the meetings.

[2] On August 31, 2003, Equatorial Guinea's outstanding use of Fund resources amounted to SDR 0.37 million, or 1.13 percent of quota. Following the existence of some payments arrears through May 2001, Equatorial Guinea has become current on its payments obligations to the Fund. Summaries of Equatorial Guinea's relations with the Fund and the World Bank Group are contained in Appendices I and II. Statistical issues are discussed in Appendix III, and social and demographic indicators are presented in Appendix IV.

to press ahead with structural reforms to establish the foundations for broad-based growth and poverty reduction.

4. **For a long period, the authorities' response to persistently poor economic management and performance and serious governance issues was inadequate, and insufficient provision of economic information has seriously impaired the staff's ability to perform effective surveillance.** Opportunities to implement the staff's policy advice were largely missed, and no meaningful policy dialogue was conducted with other external partners. As a consequence, Equatorial Guinea was largely unable to access international sources of technical assistance to improve its weak economic management capacity.

II. BACKGROUND AND RECENT DEVELOPMENTS

5. **The onset of the oil boom a few years ago has confronted the authorities with a number of daunting challenges in economic management.** A comprehensive medium-term strategy for managing the country's rapidly rising oil wealth is required to safeguard macroeconomic stability, avoid an excessive loss of external competitiveness, and ensure that the large oil endowment (relative to the size of the population) is being translated into tangible benefits for the poor. Appropriately tight fiscal policies are warranted to ensure a stable macroeconomic environment; specifically, public spending needs to be kept at sustainable levels to avoid placing excessive pressures on the country's small non-oil economy. To promote good governance in the management of the country's oil wealth, the authorities should adhere to clear standards of accountability and transparency for the rapidly rising oil revenue and the resulting accumulation of sizable foreign assets. In addition, structural reforms are required to foster the sustainable development of the non-oil economy, and to counteract the recent loss of competitiveness. **Motivated by concerns over potentially serious social disruptions stemming from the decline in the country's traditional non-oil sector and mounting price pressures, the authorities have now begun to address a number of these challenges.**

6. **Recent economic developments have been dominated by a further strong expansion of the oil sector**. Production more than doubled between 2000 and 2002 to about 250,000 barrels per day (bpd) (Table 1). Reflecting this development, real GDP growth averaged 24 percent during that period, while non-oil activity expanded by an annual average of about 8 percent on account of strong growth in services to the oil sector and construction activity.[3] By contrast, growth in agriculture and logging was sluggish, reflecting a loss of competitiveness and the enforcement of sustainable logging levels. Domestic price pressures and the appreciation of the euro vis-à-vis the U.S. dollar led to an appreciation of the real effective exchange rate of 15 percent between end-2001 and mid-2003 (Figures 1 and 2); the

[3] Oil activity accounted for 86 percent of total GDP during 2000–02.

annual rate of consumer price inflation stood at 10 percent in mid-2003, well in excess of CEMAC's regional target of 3 percent.[4]

7. **External sector trends reflected growing petroleum exports and high oil-related investment.** The deficit in the external current account narrowed significantly over 2000–02 and is projected to reach near balance in 2003. The non-oil current account deficit widened as non-oil imports surged, reflecting strong demand from the oil sector and expanding public investment (Table 2). The overall terms of trade have improved by about 40 percent, mainly owing to higher oil prices. Rising oil receipts have led to an increasing accumulation of foreign assets, in part in government bank accounts held abroad.

8. **Budgetary revenue and spending have also grown rapidly, giving rise to significant overall surpluses but also putting considerable pressure on the country's small non-oil economy.** The overall fiscal surplus increased from about 8 percent of GDP in 2000 to 12½ percent of GDP in 2002 as strong growth in oil revenue was only partly offset by higher government outlays. However, reflecting persistently weak budgetary discipline and unsustainable spending plans, both public sector outlays and the non-oil deficit expanded significantly during that period in relation to non-oil GDP (Table 3).

9. **Monetary developments mirrored overall economic and fiscal trends.** Rising oil export revenues were reflected in a buildup of net foreign assets of the banking system as the government accumulated deposits at the BEAC and in domestic commercial banks, in addition to rising balances held in bank accounts abroad (Tables 4, 5, 6). Credit to the economy grew strongly between 2000 and 2002, largely in the form of bridge financing to construction companies engaged in public works. Broad money also expanded; although this expansion was in part due to a monetization of the economy, it also led to strong price pressures.

10. **Following significant public spending overruns in 2002 that were in part related to the elections, the authorities drew up a more conservative budget for 2003. Budget execution data through June demonstrate the restoration of fiscal discipline in the first half of 2003.** Compared with the 2002 budget outturn, the 2003 budget envisages a significant decline in nominal spending, which would lead to a contraction of the non-oil deficit of 30 percentage points of non-oil GDP, to about half of non-oil GDP. During the first six months of 2003, overall spending was kept within budgeted limits, as higher-than-planned capital outlays were offset by lower-than-budgeted current spending.

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[4] The authorities indicated that their CPI basket was outdated, and that a basket reflecting current consumption patterns more adequately would probably show an even higher inflation rate.

III. Report on the Discussions

11. **The discussions took place against the backdrop of the authorities' first actions to consolidate the fiscal position, prepare fiscal reforms, and enhance the transparency of oil-related transactions. They also reflected the authorities' growing awareness that key challenges in managing the country's oil wealth and in developing a sustainable non-oil sector need to be addressed soon.** The key policy issues that were discussed include (i) the setup and regulation of a fund to save the bulk of oil revenue; (ii) further fiscal consolidation to reduce pressures on the domestic economy and move the fiscal position to a sustainable level; and (iii) the implementation of structural reforms to increase the competitiveness of the non-oil economy in the short and medium term.

A. Medium-Term Outlook and Policies

12. **The authorities agreed that Equatorial Guinea's medium-term economic outlook was favorable, provided that sound economic management was put in place and maintained.** A sustained expansion of oil production, particularly the coming onstream of large new oil fields in 2005, is projected to generate an average growth rate of GDP of about 13 percent in 2004–08 (Table 7). As a consequence, rising surpluses in the external and fiscal accounts could lead to the accumulation of net foreign assets of about US$9 billion by 2008.[5] The non-oil economy could grow by an average of 8 percent in real terms during 2004–08, provided that measures to bolster its productivity are put into place.

13. **The maintenance of prudent fiscal policies in coming years would enable the country to accumulate sizable assets in an oil reserve fund that, if properly invested, could provide funding for priority outlays well beyond the current oil horizon.[6]** The authorities indicated their wish to save the bulk of oil revenue. The staff calculations, as discussed with the authorities, show that fiscal spending of about US$110 per capita could be achieved permanently (Box 1).[7] **These calculations imply that a non-oil deficit of about 40 percent of non-oil GDP could be sustained over the medium term.**

14. **Against this backdrop, the authorities agreed with the staff's proposal for a macroeconomic framework for the remainder of 2003 and for 2004 that aimed at reducing pressures on prices and the exchange rate by aligning the fiscal position gradually with sustainable levels.** The framework is based on a further expansion of oil

[5] Including the balances in the proposed oil reserve fund.

[6] Oil price volatility is not expected to significantly affect the medium-term fiscal outlook. The oil price would need to drop below US$6 per barrel to create a fiscal deficit.

[7] The main assumptions are an end of oil production by 2022, annual population growth of 2 percent, and a real rate of return on investment of 2¾ percent.

production from about 250,000 bpd in 2002 to 315,000 bpd in 2004, which would result in real GDP growth of 15 percent and 10 percent in 2003 and 2004, respectively. Suitably restrictive fiscal policies should lower inflation and alleviate pressures on the real effective exchange rate (see para. 17).

15. **With respect to the management of oil resources, the staff suggested that the authorities should follow international best practices in setting up and managing the envisaged oil reserve fund**, including (i) a clear legal framework for the fund's objectives and operations; (ii) the selection of reputable professional investment managers; (iii) the establishment of effective oversight mechanisms; and (iv) full disclosure of the fund's operations.[8] More specifically, the reserve fund should not be guided by rigid rules for the deposit and withdrawal of funds. Instead, the authorities should determine a budgetary position in line with the country's absorptive capacity and subsequently transfer resulting fiscal surpluses to the reserve fund.[9] The authorities should seek advice on the establishment and management of such a fund in line with best practices from other commodity-exporting countries.

16. **In taking note of these recommendations, the authorities expressed concern that CEMAC's current rules on investing member countries' foreign assets yielded only low rates of return.** At present, these rules require CEMAC member countries to deposit their entire foreign assets at the BEAC. The bank is instructed to invest these assets exclusively in low-risk and near-liquid assets, with correspondingly unattractive yields. Mindful of the strong impact that the rate of return on investment has on overall oil wealth and the sustainable level of government spending, the authorities have initiated discussions with their CEMAC partners and the BEAC on these issues.

17. **The authorities agreed that macroeconomic stability needed to be complemented by a number of structural reforms to foster non-oil growth.** Short- and medium-term measures to enhance the productivity of human and physical capital will be key to offset the recent loss of competitiveness (Box 2). Such measures should focus on removing administrative obstacles to entrepreneurial activity and foreign direct investment, and on providing assistance in identifying new export opportunities. Specifically, full implementation of the legislation associated with the Treaty on the Harmonization of Business Law in Africa (OHADA) will help to alleviate legal uncertainties for private investment. The staff also suggested streamlining tax administration procedures and reducing tax rates, to the extent that this was feasible in the context of regional agreements. Public investment projects that are targeted to strengthen physical or human capital should

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[8] Part of these discussions took place in a workshop for senior government officials on options to transform the country's oil wealth into sustainable development.

[9] Such a flexible rule is followed, for example, by the Norwegian oil fund.

complement these reforms. However, these projects will need to respect the limits of the economy's absorptive capacity and the constraints of implementation skills.

B. Fiscal Policies and Reforms

18. **The authorities agreed with the staff's recommendation to maintain overall spending within budget limits in 2003 and to contain overall spending in 2004 at its 2003 level, in line with the objective of moving to a sustainable fiscal stance.** Constraining spending, along with keeping non-oil revenue growing broadly in line with non-oil GDP, would reduce the non-oil fiscal deficit to 50 percent of non-oil GDP in 2003 and to 43 percent of non-oil GDP in 2004. The staff also recommended that the authorities carefully analyze the recurrent cost implications of recently finished basic and social infrastructures. Any upward revision of current outlays in the remainder of 2003 or in 2004 in order to accommodate higher operations and maintenance spending should be offset through additional adjustments in capital outlays.

19. **A new public finance law and regulation for public accounting are being prepared, with a view to strengthening the budgetary process, particularly expenditure tracking and controls.**[10] The staff stressed the need to quickly implement an adequate expenditure-tracking system as the current mechanisms do not allow an assessment of whether public outlays are being channeled to their intended uses, thus raising concerns about the effectiveness and transparency of budgetary spending.[11] The authorities agreed with the need to move forcefully in this area.

20. The authorities have also prepared a new draft tax code that incorporates formerly dispersed legislation into one document. While this measure is a welcome step to enhance the transparency of the country's tax legislation, the staff recommended that the authorities carefully consider the new code's implications for tax administration. Also, in line with FAD's comments on the document, the authorities should limit the scope of exemptions.

21. **External arrears are being regularized.** Following a debt-rescheduling agreement reached with Russia in 2002, the authorities have recently concluded discussions on an agreement with Spain (their largest creditor) and have initiated contacts with Italy.[12] The staff

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[10] The Fund's Fiscal Affairs Department (FAD) has provided comments on the drafts that stress the need for strengthening key aspects. In particular, FAD stressed that the draft needed to be broadened to include all stages of the budgetary process.

[11] At present, different budget classifiers are used for budget planning and tracking, thereby effectively impeding the comparison of planned and executed spending by sectors and programs.

[12] Total external arrears stood at US$65 million in mid-2003, with arrears to Spain and Italy accounting for US$54 million and US$6 million, respectively.

welcomed the progress made in this area to date and encouraged the authorities to work toward full elimination of the remaining arrears, as intended, in the course of 2004.

22. **The staff suggested that the authorities request a fiscal Report on the Observance of Standards and Codes (ROSC) from the Fund to complement ongoing reforms.** The fiscal ROSC could provide a comprehensive assessment of the strengths and weaknesses of Equatorial Guinea's fiscal institutions and arrangements, so as to contribute to the strengthening of the transparency of oil-related transactions (see paras. 23–25). The assessment could also help to direct any external assistance to priority areas. The ROSC could also assist the authorities in reviewing the technical and practical implications of participation in the EITI, and in analyzing transparency issues associated with GEPETROL (see para. 27). The authorities indicated that they would analyze this option further.

C. Governance Issues

23. **Progress has been made in enhancing the transparency of oil-related transactions. On the basis of detailed information on government bank accounts, the staff was for the first time able to reconcile the recorded fiscal surplus in 2002 with related financing flows.** For that year, the accumulation of government deposits in banks (including abroad) closely matched the recorded fiscal surplus (12½ percent of GDP). However, difficulties remain in reconciling data for earlier years. In 2000, the accumulation of government deposits exceeded the recorded fiscal deficit by 4 percent of GDP. In 2001, the increase of government deposits fell short of the recorded fiscal surplus by 10 percent of GDP. Overall, by end-2001, the accumulated recorded fiscal surpluses in 2000–01 exceeded the increase in government bank balances by US$170 million.

24. **Also, the authorities have indicated their willingness to participate, in principle, in the Extractive Industries Transparency Initiative (EITI).**[13] The authorities are reviewing the technical and practical implications of the initiative.

25. **The authorities expressed their commitment to establish full transparency of oil-related transactions, following the provision of more detailed information to the staff than in the past.** The staff noted the progress made in reconciling recorded budgetary transactions in 2002 with related financing flows and encouraged the authorities to conduct such reconciliation exercises regularly in the future. They should also attempt to reconcile transactions in earlier years, where large statistical discrepancies between recorded fiscal

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[13] This initiative, led by the U.K. government, aims at increasing the transparency of revenue flows from nonrenewable resources, by reconciling company data on their payments with government receipts. Adherence to this initiative is expected to increase the accountability of governments for these resources, and to improve the business climate.

surpluses and government financing transactions remain. In the same vein, the staff welcomed the authorities' interest in participating as a pilot case in the EITI.

26. **The recently established government-owned oil company (GEPETROL) has initiated some operations.** The company was founded to improve the government's overall oil receipts through the negotiation of contracts, commercialization of royalties that are received in kind, and participation in production activities. As the firm's capacity is limited so far, it has conducted the negotiation of some contracts, while the sale of some royalties received in kind has been tendered to commercial traders.[14] The Ministry of Mines and Energy regulates and supervises GEPETROL, and the enterprise is instructed to use only government accounts for the deposit of revenue from its activities.

27. **An expansion of GEPETROL's activities should proceed cautiously, with due attention paid to related transparency and governance issues.** The authorities agreed with the staff's recommendation to concentrate the company's limited resources on activities that could significantly improve the government's oil revenue, such as a more effective negotiation of new contracts. The staff also recommended that a more detailed framework for the firm's supervision should be established, including proper internal and external controls, corporate governance, and reporting procedures. The authorities indicated that a first audit was planned for 2004. In light of the possible expansion of GEPETROL's activities in the future, the staff stressed the need to integrate the firm's financial activities fully into the government budget, and to strictly maintain the policy of depositing any proceeds from the enterprise's activities into government accounts.

28. **The government has also stepped up the audits of oil companies' financial statements and improved other aspects of managing oil-related transactions.** Based on the audits that cover selected oil companies' activities during 1996–2001, the companies have recognized their obligation to pay an additional US$88 million (3 percent of GDP) to the government. By end-March 2003, US$16 million had effectively been paid. In addition, the authorities indicated that the use of advance payments on oil revenue had been discontinued.

D. Monetary and Credit Prospects

29. **The BEAC representatives recognized that the current instruments for liquidity management, which were standardized at the regional level, had been unable to counteract the increase in, and large swings of, liquidity caused by government deposits in domestic commercial banks.** Reflecting efforts to create a unified regional financial market, the BEAC does not envisage a differentiation of minimum reserve requirements beyond the current two country groups, so as to attend more effectively to country

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[14] Other royalties received in kind (as crude oil) are sold by the foreign oil companies.

circumstances, or an adjustment of its nominal interest rates on indirect instruments of liquidity control in line with local price pressures.[15] The BEAC acknowledged that prudent policies by commercial banks—that tended to invest excess liquidity in international capital markets or hold it as free reserves at the BEAC—had so far helped to avoid larger swings in liquidity and an uncontrolled expansion of credit to the economy.

30. **Part of the expansion of government deposits in domestic commercial banks is based on the government's desire to gain a higher rate of return than is provided by the BEAC.** The staff recommended reducing the level of such deposits to achieve at least a partial contraction of loanable funds to the economy.[16] Balances held in local bank accounts should be limited to the funds needed for an orderly budget execution.

31. **The monetary authorities agreed with the staff that, in these circumstances, fiscal consolidation and a permanent reduction of government deposits in domestic commercial banks would be effective in controlling monetary expansion and reducing the scope for excessive credit to the economy.** A transfer of government deposits from commercial banks into a proper oil reserve fund would also support these objectives.[17] Under the macroeconomic framework for 2003–04, fiscal tightening should be conducive to a gradual deceleration of inflation to around 6 percent by end-2004. Credit to the economy would grow at a modest rate, reflecting the current difficulties in extending loans to local entrepreneurs caused by their lack of familiarity with basic business practices.

32. **Equatorial Guinea's banking system is generally sound.** The three commercial banks generally meet the key requirements of the regional banking supervision agency (COBAC) on minimum capital, capital adequacy, liquidity, maturity structure, requirement for fixed assets coverage, and asset diversification. At end March 2003, one bank missed the fixed assets coverage and asset diversification requirements. All other demands were met by all three banks, and COBAC accorded all three banks the overall rating of "good," a

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[15] BEAC's minimum reserve requirements are currently 7.75 percent for one group of member countries (including Equatorial Guinea) and 5 percent for another. Minimum reserve requirements are currently suspended for the Central African Republic. The BEAC's nominal interest rate on treasury paper stands currently at about 6 percent per year, well below Equatorial Guinea's inflation rate.

[16] Smaller government deposits may also reduce commercial banks' investment abroad and the level of free reserves held at the BEAC.

[17] Government deposits are constituted with counterpart funds to foreign exchange sold to commercial banks.

favorable outcome compared with the CEMAC average.[18] Against the background of a sustained strong growth of loans, the share of nonperforming loans remained broadly stable at about 11 percent between end-2001 and March 2003. While the quality of Equatoguinean banks' loan portfolio exceeds that of the CEMAC average, care should be taken that banks maintain high standards when making credit decisions.

E. Poverty Reduction and Human Resource Development

33. **Available human development indicators show mixed results over the past few years.** While Equatorial Guinea's human development index (HDI) has shown some improvement over the past few years, the country's HDI ranking has actually deteriorated during the same period, indicating that other nations were more effective in improving the living conditions of their citizens while often dedicating fewer budgetary resources to this task (Appendix IV). Life expectancy increased by about 2 years, to 51 years, between 1995 and 2001, largely driven by a decrease of infant mortality rates. Indicators for education show marked gains, including a significant drop in the pupil-teacher ratio and adult illiteracy rates, while immunization coverage of infants has dropped markedly.

34. **The authorities have recognized past deficiencies in addressing poverty and are now taking first steps toward developing a new and more effective poverty-reduction strategy.** They have completed a review of their economic and social plan for 1997–2001 that has identified a weak budget process and lack of coordination between government agencies as the main reasons for failing to implement spending plans for priority areas as envisaged. Also, in cooperation with some external partners, they have embarked on the construction of poverty profiles that will be a key input in designing the new strategy.

35. **The staff noted that proper management of the country's oil wealth and measures to support the non-oil sector were key for an effective poverty reduction strategy**. These issues should be subject to a broad-based debate within government and with civil society. The authorities referred to their recent positive experience in involving civil society in the preparation of a plan to strengthen agriculture (see para. 37). However, they cautioned that the low degree of organization of civil society in Equatorial Guinea may become an obstacle when discussions on the poverty reduction strategy were initiated.

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[18] In the context of Financial Sector Assessment Programs (FSAPs) for Cameroon and Gabon, the regional banking regulator COBAC was found to be in compliance with most of the Core Principles for Effective Banking Supervision. To enhance the transparency of the banks' standing and foster the integration of the regional financial system, COBAC has decided to make information on compliance with prudential and solvency ratios available to other financial institutions in the CEMAC region, beginning in 2004.

36. **Recognizing the importance of human capital for overcoming poverty, the authorities have developed a broad-based education plan.** Building on a relatively high level of primary education, the plan envisages a further strengthening of Equatorial Guinea's human resources through a focus on secondary, tertiary, and professional training (Box 3). Measures to train local entrepreneurs in basic business skills are also being put into place. The staff concurred with the fundamental importance of a plan in this area.

F. Structural Policies

37. **A strategy for agriculture is being implemented to revive the sector.** The program aims at increasing the sector's productivity through the strengthening of basic infrastructure, with a view to regaining a higher degree of self-sufficiency in basic food production. The plan also aims at stopping the recent migration from rural areas to urban centers. Targeted subsidies (for example, for fertilizers) are being provided while infrastructure is being put in place.

38. **The staff questioned the rationale for, and potentially high economic cost of, trying to achieve a high degree of agricultural self-sufficiency.** While understanding the authorities' wish to cushion the socioeconomic impact of the economic changes brought about by the oil boom, the staff raised concerns whether the strategy was compatible with regional integration efforts and warned against the fiscal cost of protracted subsidy payments to farmers. The authorities assured the staff that subsidies would be phased out as soon as improved infrastructure increased the sector's productivity. They also stressed that their strategy was in line with regional policies to achieve a higher degree of food security.

G. External Debt

39. **The surge of oil exports has led to a significant improvement in Equatorial Guinea's external debt indicators.** The external debt service has decreased from US$14.5 million in 1999 to US$7.8 million in 2003, equivalent to a drop from 2 percent of exports to less than 1 percent. As a share of government revenue, debt service has declined from 13 percent to less than 1 percent during the same period. Debt sustainability is not expected to become an issue in coming years, taking into account Equatorial Guinea's abundant oil receipts, and assuming that the authorities will strictly adhere to their policy to abstain from borrowing against future oil revenue (Table 7).

H. Exchange Rate and Trade Regime, and Competitiveness

40. **The authorities consider that the current exchange arrangement (membership in the CFA franc zone) has generally served them well as an anchor for financial stability.** However, Equatorial Guinea has lost most of its non-oil sector's competitiveness gain that resulted from the January 1994 devaluation of the CFA franc, because of the appreciation of

the euro vis-à-vis the U.S. dollar, combined with domestic price pressures (Figure 2).[19] To counter this trend, the staff recommended implementing structural reforms that could enhance the non-oil sector's productivity.

41. **As an effective short-term measure to reverse at least part of the recent loss in competitiveness, the staff urged the authorities to eliminate all taxes on non-oil exports.** The authorities offered to conduct a study on the impact of such a measure, while noting that the taxes on timber exports were also put in place to control overall logging. The staff responded that other mechanisms—such as the limitation of logging licenses—would be more effective in achieving sustainable logging levels.

42. **Equatorial Guinea has a relatively open trade regime, with a rating of 4 on the Fund's overall 10-point trade restrictiveness index (with 10 being the most restrictive), and no significant nontariff barriers to trade.** However, a number of taxes on exports of timber, cocoa, and coffee are in effect. Little progress has been made in the implementation of CEMAC's regional common external tariff (CET), including the reduction in exemptions and surcharges. The staff observed that Equatorial Guinea's potential economic growth rate could be enhanced if further tariff reforms, in the context of regional integration efforts, were implemented faster. To this end, the staff urged the authorities to eliminate the remaining surcharges and continue their support within CEMAC for a further simplification of the CET.

I. Statistical Issues

43. **Despite the recent improvement in the accuracy and timeliness of budget execution data, remaining significant weaknesses in the quality and timely production of key statistics continue to hamper the staff's capacity to conduct effective surveillance (Appendix III).** While monthly budget execution data have recently become available, monetary data show at times large variations and revisions and are provided only with certain time lags. Important discrepancies exist between the recorded fiscal balance and its financing for earlier years. Balance of payments data, while available, are based on largely outdated information. While the coverage and timeliness of external debt data have improved, serious inconsistencies with other sources remain. Detailed data on the real sector are dispersed among several ministries and agencies. The basket of goods and services used for the consumer price index reportedly underestimates inflation and needs to be updated. The authorities are taking steps to strengthen capacity in this area; specifically, they are implementing a strategy to improve the country's statistical system in 2003–08, with support from the World Bank.

[19] Equatorial Guinea's currency, the CFA franc, is pegged to the euro at the fixed rate of CFAF 655.97 = €1.

44. The staff noted that the overall accuracy and usefulness of statistical information would be enhanced through closer cooperation between the national branch of the BEAC and government institutions. Such collaboration would allow the BEAC to conduct a coherent financial programming exercise using the more timely and accurate data that are available in government institutions. This approach would also facilitate the provision of statistical information to the Fund on a regular basis and help establish proper surveillance.

IV. Staff Appraisal

45. **Oil-related resource inflows pose considerable challenges to macroeconomic management in the short run and have created the need to quickly develop a medium-term strategy on how best to use the oil revenue for the country's sustained development.** The key challenges are (i) the development of a transparent framework to save the bulk of the country's oil wealth and translate it into poverty reduction; (ii) the attainment of a sustainable fiscal position; and (iii) the implementation of structural reforms to bolster the non-oil sector.

46. **Recent economic developments have been dominated by a surge in oil-related revenue that, together with unsustainable levels of public spending, has generated significant pressures on prices and the real exchange rate.** The consequent loss of competitiveness is a threat to non-oil activities, with potentially serious economic and social consequences.

47. **In the past, the authorities' response to advice on strengthening economic management and addressing governance issues was inadequate.** Insufficient cooperation on economic information hampered the staff's ability to conduct effective surveillance.

48. **In a departure from the past, the authorities have now taken first steps toward fiscal consolidation and initiated legislative reforms to strengthen the budgetary process and to consolidate tax legislation.** The authorities should move quickly to improve the tracking of budgetary spending, in order to ensure that public outlays are being channeled to their intended uses. They should also consider the use of a fiscal ROSC to systematically identify and direct external technical assistance to weak areas in their fiscal system; functioning fiscal institutions and checks and balances are needed to underpin the intended efforts in fiscal consolidation and transparent management of oil-related flows.

49. **A steadfast adherence to the 2003 budget and the containment of public spending in 2004 at the current year's level will be key to reducing price pressures and avoiding a further loss of competitiveness.** The envisaged fiscal consolidation will also move the fiscal position toward a level that is sustainable over the medium term. Prudent fiscal policies are the more important as monetary policy in the CEMAC framework is largely unable to counteract the liquidity implications of oil-related revenue flows.

50. **On governance, the recent actions to increase the transparency of oil-related transactions are helpful in paving the way for increased cooperation with the Fund.** They are also fundamental for effective surveillance. Oil-related information should from now on be reconciled on a regular basis, and discrepancies for earlier years should be cleared up without delay. In this context, the staff also encourages the authorities to adhere to the EITI, as envisaged. On other governance issues, they should be aware that operations of state-owned oil companies have often led to transparency and control problems. Therefore, GEPETROL's activities need a firm supervisory framework, and its finances should be fully integrated into the budget process.

51. **Structural reforms are needed to reduce the cost of doing business in Equatorial Guinea and thus to foster the development of the non-oil economy.** The authorities are taking steps to support the development of human capital, but their strategy will only bear fruits in the medium term. Therefore, they should adopt a number of short-term measures to recover at least part of the competitiveness that has been lost over the past few years. These include the effective implementation of OHADA legislation, and a broadening of training programs for local entrepreneurs in basic business skills. In addition, the authorities should keep tax rates at the lowest levels permitted within the context of CEMAC agreements and seek to further simplify tax administration.

52. **The staff urges the authorities to eliminate all taxes on non-oil exports so as to quickly reverse some of the recently lost competitiveness.** The revenue loss from this measure is not significant, and other instruments are more effective to ensure sustainable logging levels.

53. **The authorities need to translate their intention to save the bulk of the country's oil wealth into an operational framework**. The rules for such a fund should be guided by best practices, such as full disclosure of the fund's activities, and the separation of supervisory and executive functions, as well as the recruitment of internationally reputable managers. Amounts to be deposited should be determined flexibly, based on macroeconomic considerations. The authorities are encouraged to seek expert help from oil-exporting countries in setting up the reserve fund.

54. **The staff supports the authorities' desire for a closer relationship with the Fund so as to provide advice, as needed, on policies to deal with the forthcoming surge in oil-related resource inflows**. Such a closer cooperation would be based on further progress in enhancing the transparency of oil-related transactions and fiscal consolidation in 2003 and 2004. The authorities should also seek early involvement from other external partners to assist in developing human and institutional capacity.

55. **The authorities should redouble their efforts to provide the staff with key economic data on a more regular and timely basis,** in order to be able to discharge the Fund's surveillance duties more effectively and to conduct better-informed policy discussions.

56. **The authorities should press ahead with their plans to develop a poverty reduction strategy.** A broad-based discussion on how to make the best use of the country's oil wealth and how to foster non-oil growth should be a key building block for that strategy. The authorities should also quickly elaborate poverty profiles so as to target the strategy's actions effectively.

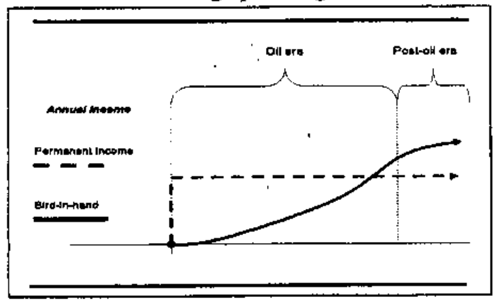
57. **The mission recommends that the next Article IV consultation with Equatorial Guinea be held on the standard 12-month cycle.**

Box 1. Equatorial Guinea: Estimating Sustainable Fiscal Spending and Balances

An important issue in conducting fiscal policy in oil-rich countries is how much to save out of current and expected fiscal revenues. This intertemporal decision depends both on the expected oil reserves of the country and on intergenerational equity considerations.

According to the permanent income hypothesis (PIH), the government should smooth consumption over time. Since the government's intergenerational discount rate is difficult to gauge, it is usually assumed that it equals the real interest rate prevailing on international capital markets. Under this benchmark, PIH implies that optimal real per capita consumption should remain constant over time.

A frequently cited alternative is the more cautious "bird-in-hand" rule, which calls for limiting spending out of oil wealth to the interest income on assets acquired with oil revenues. The spending paths prescribed by PIH and the bird-in-hand rule are presented qualitatively in the accompanying figure. The figure shows that the PIH allows for considerably higher spending in the early years of oil production than the bird-in-hand rule. On a methodological level, the main difference between the two approaches is that the PIH is derived from first principles, while the bird-in-hand rule is not. The PIH therefore has much stronger theoretic underpinnings. This has prompted the staff to propose a fiscal policy in line with the PIH.



On this basis, the staff calculated the level of constant real fiscal per capita spending that could be permanently sustained and the resulting sustainable fiscal balances.[1] The baseline assumptions are as follows:

- a depletion of oil reserves by 2021;
- following a gradual buildup of the financial asset until 2008, the holding constant of real fiscal oil revenues during the oil period at the 2008 level; and
- a real risk-free rate of return of 2.75 percent on financial assets invested abroad.

These assumptions yield sustainable constant real per capita spending of US$148 (at the expected 2003 CFA franc per U.S. dollar exchange rate), and an average non-oil fiscal deficit of about 40 percent of non-oil GDP during the oil period. The table below presents a sensitivity analysis that varies both the real interest rate, the size of oil reserves, and the oil price.

Equatorial Guinea: Sustainable Fiscal Spending and Balances

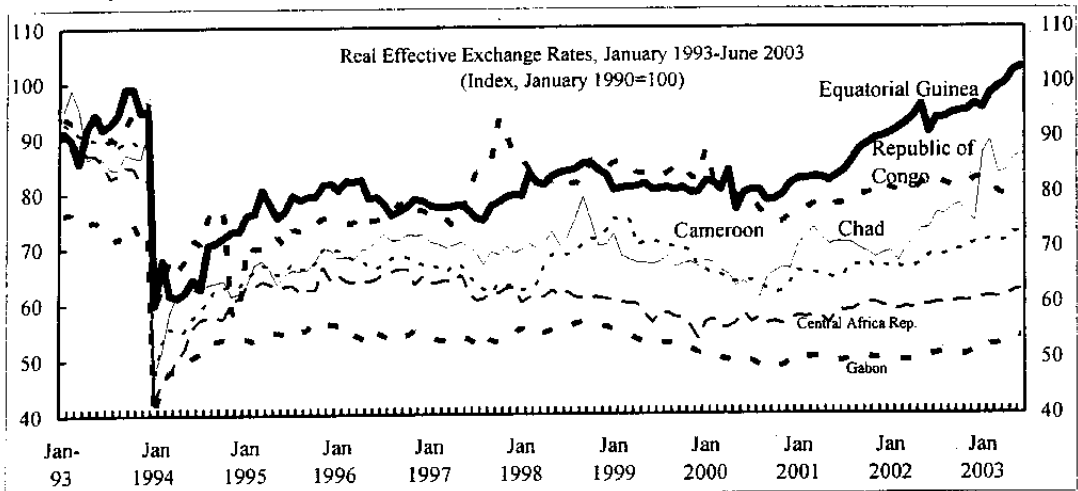
	Real Interest Rate	Sustainable Annual Spending Per Capita (In U.S. dollars, at expected 2003 exchange rate)	Sustainable Primary Non-Oil Fiscal Balance During the Oil Period (In percent of non-oil GDP)
		Base case	
	3.00	138	-54.3
	2.75	107	-40.2
	2.50	74	-25.3
		Variation of oil reserves	
High case (oil production 5 years longer)	3.00	164	-66.3
	2.75	127	-49.6
	2.50	88	-31.8
Low case (oil production 5 years shorter)	3.00	107	-40.4
	2.75	83	-29.5
	2.50	58	-18.0
		Variation of oil price	
High case (oil price 5 dollars per barrel higher)	3.00	160	-72.2
	2.75	121	-54.7
	2.50	82	-36.9
Low case (oil price 5 dollars per barrel lower)	3.00	118	-37.4
	2.75	93	-26.4
	2.50	67	-14.3

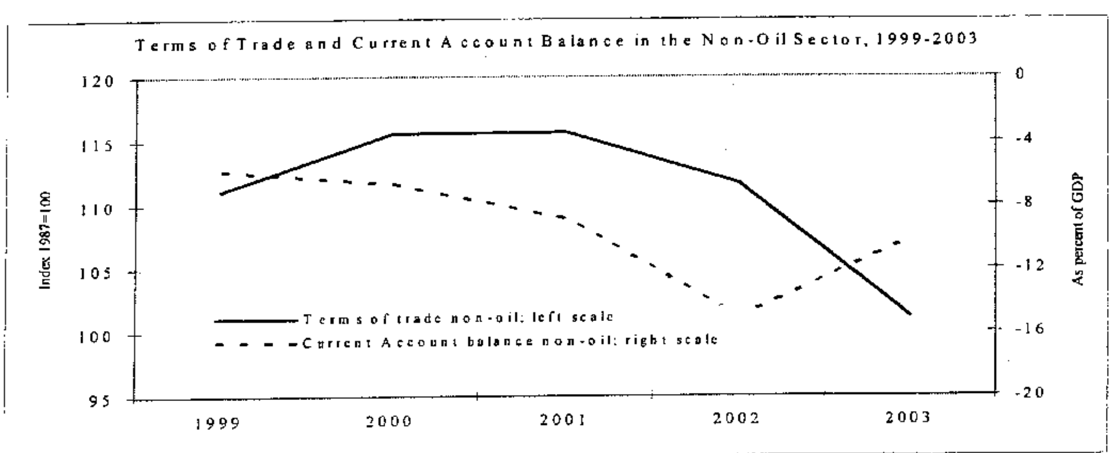
[1] This approach to determining sustainable and intergenerationally equitable fiscal spending follows the approach used for Brunei Darussalam (SM/03/114).

Box 2. Equatorial Guinea: Competitiveness and the Non-Oil Sector

Equatorial Guinea's transformation into an oil-rich economy has brought a series of challenges to the economy in general and to the non-oil sector in particular. The rapid increase in income from oil-related activities has resulted in an appreciation of the real effective exchange rate, as higher domestic demand pressures have pushed up domestic prices of nontradables. The demand pressures have arisen on two fronts: from the growing oil industry (on labor, food items, and housing), and from the growing public spending fueled by the rising oil revenue. The economy has shown signs of "Dutch disease" over the past three years, wherein the real exchange rate appreciation has weakened the competitiveness of the country's exports and, hence, caused its traditional export sector to shrink. Agricultural and logging activities have slowed to an annual growth of about 1.5 percent per annum. At the same time, resources (capital and labor) have shifted into the production of domestic nontraded goods to meet the increase in domestic demand, as well as into the booming oil sector. These transfers have had the combined effect of reducing production in the traditional export sector, or the "**resource movement effect.**"

The real effective exchange rate (consumer price index-based) appreciated by 15 percent between end-2001 and mid-2003, compared with its trading partners, mainly due to rising inflation. This real appreciation has eroded the competitiveness of the non-oil sector, especially in agriculture and forestry. However, real exchange rate appreciation by itself does not necessarily entail losses of external competitiveness if the high domestic inflation is outweighed by improvements in factor productivity or by lower unit labor costs. Therefore, structural reforms are needed to reduce the costs of doing business in Equatorial Guinea. The government has embarked on a few medium-term measures to foster human capital development. However, the government could also undertake a number of short-term measures, such as the elimination of export taxes, a reduction in the number of taxes and regulations, the development of human capital skills, to regain some of the non-oil sector's competitiveness. The loss in competitiveness is also reflected in the worsening in the terms of trade of the non-oil sector and the non-oil current account deficit, as non-oil exports have declined by 30 percent, while the non-oil imports have increased by 189 percent, mainly owing to increased public investments.





Box 3. Equatorial Guinea: Human Capital Strategy

Equatorial Guinea's indicators of basic educational achievement are better than those of other sub-Saharan countries, in part reflecting the long-term involvement of religious orders in primary education. In 2001, the adult illiteracy rate was 16 percent, compared with 38 percent for sub-Saharan Africa, while illiteracy among the young (15 to 24 years of age) stood at less than 3 percent, compared with 22 percent for sub-Saharan Africa.[1]

As the country needs to develop its capacity to manage the increasing oil wealth and to establish a competitive non-oil private sector, the government has designed a broad-based strategy for the development of human capital to face these challenges. A reorientation of curricula to job requirements is also needed to counteract the current trend among the young to favor a job related to the oil industry to secondary or tertiary education.

The government's plan **Education for All** (2001) focuses on secondary, tertiary, and professional education. Education is one of the priority sectors for government spending, and the public investment plans envisages maintaining the share of spending for the sector above 25 percent of total spending for priority sectors.

Secondary education is one of the plan's main focal areas in light of high dropout rates, especially among girls, seeking jobs in activities that cater to the oil sector. The plan envisages replacing the current curriculum (which dates from 1957) with a new one that would be brought more in line with requirements from the present job market.

In the area of tertiary education, the **National University of Equatorial Guinea** (UNGE) was established in 1995 and seeks to offer curricula that have a direct impact on the country's more immediate needs, such as engineering, medical, and business skills. The government is also investing heavily in scholarships abroad. The UNGE has exchange arrangements with a number of U.S. and other foreign universities.

To foster a competitive domestic private sector, the government has established the **Institute for Small and Medium-Sized Enterprises** (INPYDE). INPYDE provides courses and hands-on instruction to local entrepreneurs in basic business techniques, such as accounting, and assists them in transforming their business ideas into viable projects. The institute does require some co-payment for its courses; it does not provide financial assistance.

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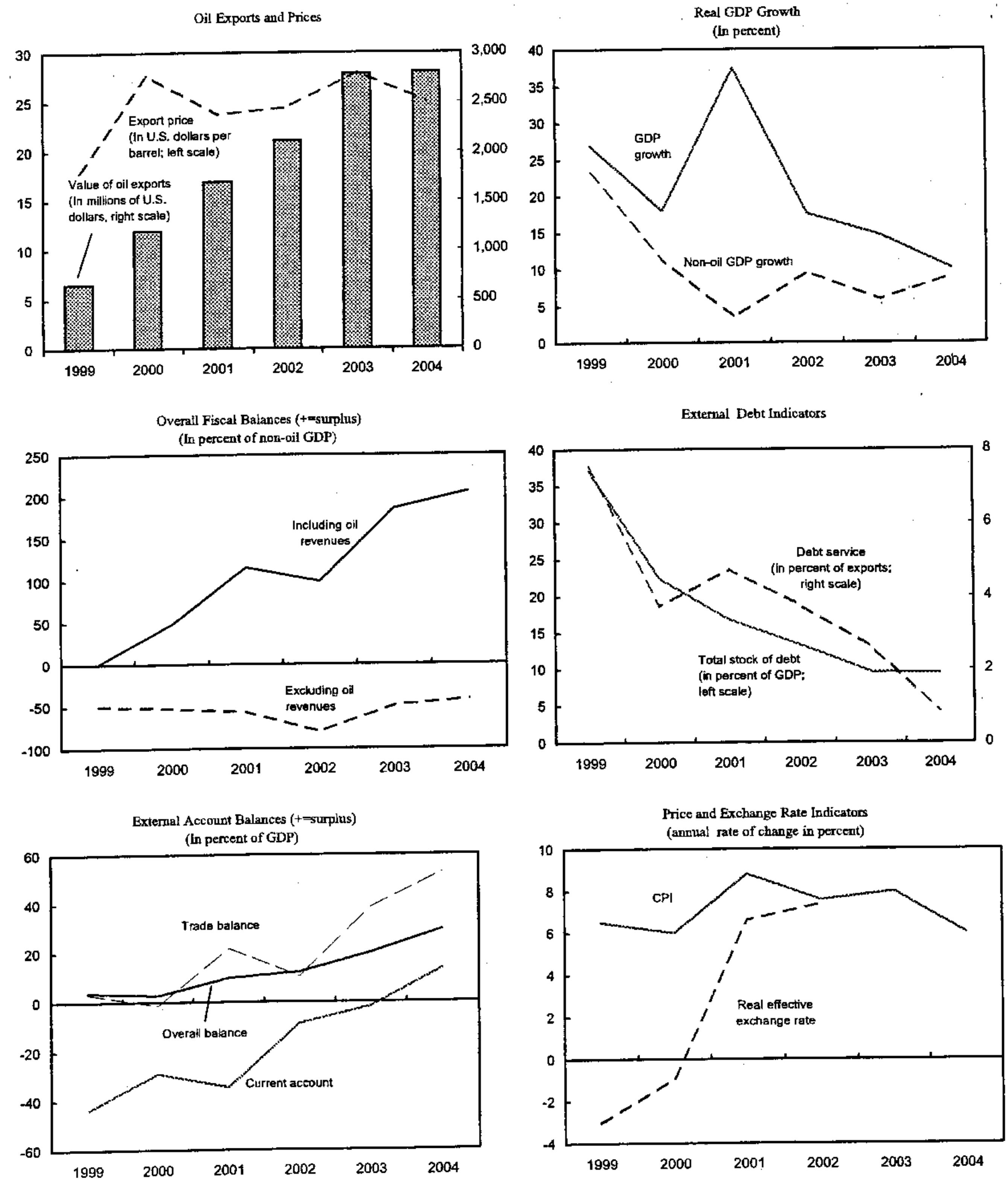
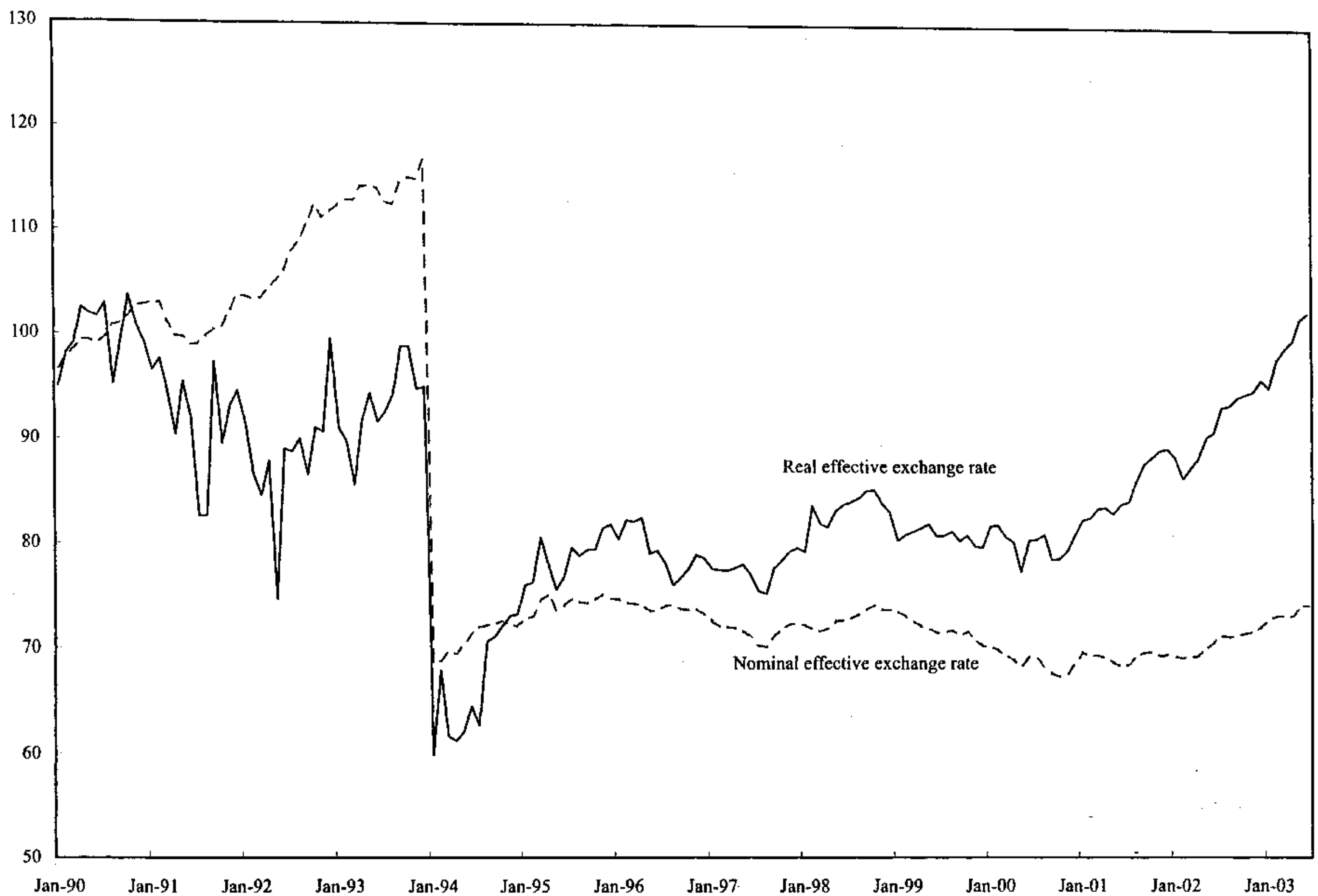
[1] Source: World Bank, *World Development Indicators*.

Figure 1. Equatorial Guinea: Selected Economic Indicators, 1999-2004



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

Figure 2. Equatorial Guinea: Real and Nominal Effective Exchange Rates, January 1990- June 2003
(Index, 1990=100)



Source: IMF, Information Notice System.

Table 1. Equatorial Guinea: Selected Economic and Financial Indicators, 1999-2004

	1999	2000	2001	2002	2003 Proj.	2004 Proj.
	(Annual percentage change, unless otherwise specified)					
Production and prices						
Real GDP	38.8	18.0	37.5	17.6	14.7	10.2
Of which: non-oil GDP	22.3	11.7	3.6	9.8	5.6	8.8
Nominal GDP (in billions of CFA francs)	466.2	899.3	1,255.6	1,480.8	1,694.1	1,709.6
Of which: non-oil GDP	123.4	145.7	165.7	189.2	212.1	242.5
Average GDP deflator	28.9	63.2	1.5	0.3	-0.3	-8.4
Oil production (thousands of barrels per day) 1/	103.1	117.9	205.1	247.0	279.4	315.3
Oil price (U.S. dollars per barrel)	18.0	27.7	23.8	24.5	28.0	25.0
Oil price (CFA francs per barrel)	11,057	19,701	17,415	16,993	16,421	14,681
Consumer prices (annual average)	6.5	6.0	8.8	7.6	8.0	6.0
External sector						
Exports, f.o.b.	77.4	64.4	35.7	22.4	30.4	0.8
Of which: oil sector	61.7	82.9	42.1	24.7	31.9	0.5
Imports, c.i.f.	91.7	16.3	65.0	-30.7	23.3	-29.3
Export volume	17.5	27.1	73.4	19.0	12.8	13.0
Import volume	89.1	13.9	61.1	-33.3	21.0	-31.3
Real effective exchange rate (depreciation -) 2/	-3.0	-0.9	6.6	7.4	12.2	...
Government finance						
Revenue	22.2	108.6	97.3	19.1	38.6	18.1
Total expenditure and net lending	13.8	24.6	46.8	46.0	-20.2	-1.1
	(In percent of GDP, unless otherwise specified)					
Investment and savings						
Gross investment	62.0	43.9	57.0	29.4	26.8	20.1
Public	5.5	3.5	5.4	6.3	4.5	4.3
Private	56.5	40.4	51.5	23.1	22.3	15.8
Of which: oil sector	51.8	37.1	48.8	20.6	20.3	13.5
Gross national savings	18.4	14.9	22.6	20.8	25.1	34.4
Public	8.3	12.9	22.8	21.2	29.2	35.0
Private	10.0	2.0	-0.2	-0.4	-4.1	-0.6
Of which : oil sector	20.6	19.4	25.7	31.6	32.9	38.4
Government finance						
Revenue 3/	18.1	19.6	27.7	28.0	33.9	39.7
Of which : oil revenue	13.4	16.4	22.8	22.8	28.9	34.1
Total expenditure and net lending	18.2	11.8	12.4	15.3	10.6	10.5
Primary balance 3/	5.4	9.3	15.7	12.9	23.4	29.3
Overall balance (including oil revenue; - deficit)	-0.1	7.8	15.3	12.6	23.2	29.2
Overall balance (excluding oil revenue; - deficit)	-13.5	-8.6	-7.5	-10.2	-6.2	-6.0
External sector						
Current account balance (including official transfers; - deficit)	-43.6	-29.0	-34.4	-8.6	-1.7	13.6
Of which: non-oil current account balance (- deficit)	-5.9	-6.7	-8.9	-15.1	-10.1	-6.1
Outstanding medium- and long-term public debt	60.4	31.5	22.9	19.1	16.4	16.0
Debt service-to-exports ratio	2.1	1.2	0.7	0.5	0.3	0.3
	(In millions of U.S. dollars, unless otherwise specified)					
External sector						
Exports, f.o.b.	816	1,341	1,819	2,226	2,903	2,926
of which: oil exports	652	1,193	1,695	2,113	2,786	2,801
Imports, c.i.f.	-832	-968	-1,597	-1,107	-1,365	-965
Current account balance (- deficit)	-331	-367	-589	-183	-49	396
Overall balance of payments (- deficit)	30	36	168	258	553	805
Stock of outstanding external arrears (end of period)	63	98	85	72	64	0
Gross international reserves (excl. oil reserve fund)	3.4	23.0	70.8	70.2	105.1	112.9
(equivalent months of imports, c.i.f.)	0.0	0.3	0.5	0.8	0.9	1.4
(equivalent months of non-oil sector imports, c.i.f.)	0.5	2.6	4.1	4.7	9.8	12.7
Nominal GDP	758	1,266	1,714	2,131	2,889	2,911
Nominal GDP (in billions of CFA francs)	466	899	1,256	1,481	1,694	1,710
Exchange rate (CFA francs/U.S. dollar)	615	710	732	695	...	...

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

1/ Including oil equivalent of methanol and liquefied gas during 2001-03.

2/ Period average changes; for 2003, the average of the first half of 2003 over the first half of 2002.

3/ Excluding foreign-financed public investment.

Table 2. Equatorial Guinea: Balance of Payments, 1999-2004

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

	1999	2000	2001	2002	2003 Proj.	2004 Proj.
Trade balance	-17	373	222	1,120	1,538	1,960
Exports, f.o.b.	816	1,341	1,819	2,226	2,903	2,926
Of which: petroleum (including gas)	652	1,193	1,695	2,113	2,786	2,801
Imports, c.i.f.	-832	-968	-1,597	-1,107	-1,365	-965
Of which: petroleum sector investment	-746	-855	-1,455	-786	-1,060	-747
Services (net)	-294	-388	-558	-508	-583	-568
Of which: petroleum sector	-249	-336	-506	-455	-519	-495
Income	-21	-353	-254	-797	-966	-986
Of which: petroleum sector investment	58	-283	-168	-732	-964	-985
Current account, excluding official transfers (- deficit)	-331	-367	-589	-183	-50	395
Official transfers (net)	1	1	1	1	1	1
Current account, including official transfers (- deficit)	-331	-367	-589	-183	-49	396
Private sector current account balance	-234	-261	-464	27	114	561
Public sector current account balance	-97	-106	-125	-211	-163	-143
Medium- and long-term capital (net)	394	466	838	441	602	408
Project related	28	12	0	0	0	0
Direct foreign investment	386	480	846	450	605	417
Of which: petroleum sector	393	487	836	440	585	392
Amortization 1/	-22	-27	-8	-8	-4	-9
Short-term capital (net) 2/	37	23	0	0	0	0
Errors and omissions 3/	-70	-85	-81	0	0	0
Overall balance	30	36	168	258	553	805
Financing	-30	-36	-168	-258	-553	-805
Net change in reserves (increase -)	-3	-25	-54	1	-35	-8
Oil reserve fund (increase in deposits -)	-37	-10	-106	-259	-475	-724
Change in arrears (net; decrease -)	10	-2	-17	0	-44	-73
Debt relief	0	0	8	0	0	0
Memorandum items:						
Oil reserve fund (stock)	0.0	0.0	0.0	259	733	1,458
Current account balance (in percent of GDP; - deficit)	-43.6	-29.0	-34.4	-8.6	-1.7	13.6
Growth of petroleum exports (in U.S. dollar terms) 4/	61.7	82.9	42.1	24.7	31.9	0.5
Growth of non-oil exports (in U.S. dollar terms) 4/	189.4	-9.4	-15.8	-8.8	2.5	6.6

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

1/ Includes repayment of advances from oil companies.

2/ In 2001, includes reported bank deposits abroad.

3/ Includes the statistical discrepancy shown in central government financial operations.

4/ Annual percentage changes.

Table 3. Equatorial Guinea: Central Government Financial Operations, 1999-2004

	1999	2000	2001	2002		2003			2004	
				Revised Budget	Actual	Initial Budget	Staff Projection	Execution 30-Jun	Draft Budget	Staff Proposal
						(In billions of CFA francs)				
Total revenue and grants	86.4	176.4	348.0	368.9	414.5	473.8	574.4	288.0	602.5	678.2
Revenue	84.5	176.4	348.0	368.9	414.5	471.8	574.4	288.0	602.5	678.2
Oil revenue	62.5	147.4	286.1	303.6	338.3	390.3	489.0	243.2	539.7	583.5
Corporate income tax	0.0	0.0	47.9	128.0	112.4	120.4	147.8	96.2	...	227.3
Royalties	53.6	114.6	197.2	145.3	172.2	181.9	208.8	126.4	...	206.0
Bonuses	0.0	0.5	0.0	26.1	0.0	0.0	0.0	0.0	...	0.0
Rent	0.6	0.6	1.2	0.0	0.0	1.0	0.8	0.0	...	0.8
Profit sharing	6.9	14.6	34.7	0.0	40.7	63.7	118.9	16.4	...	126.7
Sales tax on oil companies' subcontractors	1.4	16.9	5.2	4.2	13.0	23.3	3.6	4.2	...	4.3
Interest income on oil reserve fund			0.0	0.0	0.0	0.0	9.0	0.0	0.0	18.5
Non-oil revenue	22.0	29.0	61.9	65.3	76.2	81.5	85.4	44.8	62.8	94.7
Tax revenue	19.4	23.7	48.9	55.5	63.5	69.8	71.2	32.2	49.1	78.4
Taxes on income and profits	3.0	3.7	26.1	30.4	38.9	43.1	43.6	14.6	19.6	49.8
Taxes on goods and services	7.2	7.8	12.3	13.6	14.2	14.5	16.0	12.5	16.5	18.2
Taxes on international trade	8.0	8.9	9.3	9.0	9.3	10.8	10.4	4.5	11.5	8.9
Import taxes	2.1	2.8	3.6	0.0	0.0	5.0	6.0	1.9	...	5.8
Export taxes	5.9	6.2	5.7	0.0	0.0	5.8	4.0	2.6	...	3.1
Other taxes	1.3	3.2	1.2	2.6	1.1	1.4	1.3	0.5	1.4	1.5
Nontax revenue	2.6	5.4	12.9	9.7	12.7	11.7	14.2	12.7	13.7	16.3
Grants	1.9	0.0	0.0	0.0	0.0	2.0	0.0	0.0	0.0	0.0
Total expenditure and net lending	85.1	106.0	155.6	175.6	227.2	181.4	181.4	91.3	257.1	179.4
Current expenditure	47.7	60.5	61.7	75.6	100.6	80.0	80.0	30.2	97.3	80.0
Wages and salaries	15.1	12.9	17.4	27.3	26.0	29.0	29.0	9.9	30.1	29.0
Goods and services	20.5	30.9	24.0	24.1	50.9	26.3	26.3	11.0	32.9	26.3
Subsidies and transfers	5.7	12.2	15.3	20.3	19.8	22.6	22.6	9.0	31.5	22.6
Interest	6.4	4.5	4.9	3.9	3.9	2.1	2.1	0.4	2.7	2.1
Capital expenditure	37.4	45.6	94.0	100.0	126.6	101.4	101.4	61.1	159.8	99.4
Domestically financed capital expenditure	18.2	36.7	94.0	100.0	126.6	99.4	99.4	61.1	159.8	99.4
Foreign-financed capital expenditure	19.2	8.9	0.0	0.0	0.0	2.0	2.0	0.0	0.0	0.0
Overall balance before grants (commitment basis)	-0.5	70.4	192.3	193.3	187.2	290.4	392.9	196.7	345.4	498.8
Overall balance (commitment basis)	1.4	70.4	192.3	193.3	187.2	290.4	392.9	196.7	345.4	498.8
Overall balance, excluding oil revenue 1/	-61.1	-77.0	-93.8	-110.3	-151.0	-97.9	-105.0	-46.5	-194.3	-103.2
Net change in arrears (- = repayment)	28.4	-11.0	-10.3	-2.1	-2.1	-20.4	-66.6	-1.6	0.0	-20.4
Domestic	25.5	-11.2	-8.1	0.0	-2.1	-3.4	-66.6	-0.8	0.0	-3.4
External (interest only)	2.9	0.2	-2.1	-2.1	0.0	-17.0	0.0	-0.8	0.0	-17.0
Overall balance after grants (cash basis)	29.8	59.4	182.1	191.1	185.1	272.0	326.3	195.1	345.4	478.4
Financing	11.4	-11.3	-125.0	-193.3	-185.1	-271.9	-326.3	-195.1	-345.4	-478.4
External	14.7	1.4	-3.6	-55.4	-5.8	-31.0	-28.0	-5.2	0.0	-31.0
Disbursements	17.3	8.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Scheduled amortization	-5.8	-6.0	-5.7	-5.3	-5.8	-5.2	-2.3	-2.0	0.0	-5.2
Net change in arrears (principal only)	3.2	-1.5	-4.0	-50.2	0.0	-25.8	-25.8	-3.2	0.0	-25.8
Debt relief	0.0	0.0	6.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-3.4	-12.7	-121.4	-137.9	-179.3	-240.9	-298.3	-189.9	-345.4	-447.4
Net bank credit	4.3	-3.7	-29.6	-1.0	0.4	0.0	-20.0	0.0	0.0	-22.0
Of which: IMF (net)	-1.9	-2.1	-1.5	-0.9	0.0	0.0	-0.5	0.0	0.0	-0.2
Oil Reserve Fund (net; - = increase)	0.0	0.0	-91.8	-136.9	-179.7	-240.9	-278.3	-189.9	-345.4	-425.4
Advances on petroleum receipts	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization of advances on petroleum receipts	-7.5	-13.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other nonbank financing	-1.4	4.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unexplained excess financing	-41.1	-48.1	-57.1	2.2	0.0	-0.1	0.0	0.0	0.0	0.0
Memorandum items:										
						(In percent of GDP, unless otherwise indicated)				
Revenue	18.1	19.6	27.7	24.9	28.0	27.9	33.9	17.0	35.2	39.7
of which: oil revenue	13.4	16.4	22.8	20.5	22.8	23.0	28.9	14.4	31.6	34.1
Expenditure	18.2	11.8	12.4	11.9	15.3	10.7	10.7	5.4	15.0	10.5
Overall balance (commitment basis)	-0.1	7.8	15.3	13.1	12.6	17.1	23.2	11.6	20.2	29.2
Overall balance, excluding oil revenue 1/	-13.5	-8.6	-7.5	-7.5	-10.2	-5.9	-6.2	-2.7	-11.4	-6.0
GDP (in billions of CFA francs)	466	899	1,256	1,481	1,481	1,694	1,694	1,694	1,710	1,710
						(In percent of non-oil GDP)				
Non-oil revenue	17.9	19.9	37.3	34.5	40.3	38.4	40.3	21.1	25.9	39.0
Oil reserve fund interest income	...	...	0.0	0.0	0.0	0.0	4.3	0.0	0.0	7.6
Total expenditure	53.4	66.7	93.9	92.8	120.1	84.6	84.6	43.1	106.0	74.0
Current primary expenditure	33.4	38.4	34.2	37.9	51.1	36.8	36.8	14.1	39.0	32.1
Of which: wages and salaries	12.2	8.9	10.5	14.4	13.8	13.7	13.7	4.6	12.4	12.0
Domestically financed capital expenditure	14.7	25.2	56.7	52.8	66.9	46.9	46.9	28.8	65.9	41.0
Overall balance after grants (commitment basis)	1.1	48.3	116.1	102.1	99.0	137.9	185.3	92.8	142.4	205.7
Overall balance, excluding oil revenue 1/	-49.5	-52.8	-56.6	-58.3	-79.8	-46.2	-49.5	-21.9	-80.1	-42.6
Non-oil GDP (in billions of CFA francs)	123	146	166	189	189	212	212	212	243	243

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

1/ Also excluding income on oil reserve fund.

Table 4. Equatorial Guinea: Monetary Survey, 1999-2004

	1999	2000	2001	2002 Jun.	2002 Dec.	2003 Jun.	2003 Proj.	2004 Proj.
	(In billions of CFA francs; end of period)							
Net foreign assets	10.1	21.7	65.8	116.7	108.9	116.2	130.4	151.5
Bank of Central African States (BEAC)	-3.0	12.2	50.8	50.6	54.2	83.4	101.3	117.7
Commercial banks	13.2	9.5	15.0	66.1	54.8	32.8	29.1	33.8
Net domestic assets	29.2	35.4	24.1	-4.0	12.2	51.0	12.3	12.2
Net domestic credit	30.7	34.8	8.8	-10.8	3.4	14.8	-4.4	0.2
Credit to the public sector (net)	9.4	7.7	-28.0	-52.9	-50.8	-34.0	-50.8	-50.8
Credit to government (net)	14.8	11.1	-18.5	-47.6	-36.2	-21.1	-36.2	-36.2
BEAC	14.5	8.6	-5.2	-2.8	-4.8	-7.4	-4.8	-4.8
Use of IMF credit	5.2	3.7	1.6	1.1	0.7	0.3	0.7	0.7
Commercial banks	-4.9	-1.2	-15.0	-45.9	-32.1	-14.0	-32.1	-32.1
Credit to public institutions (net)	-5.4	-3.4	-9.5	-5.3	-14.6	-12.9	-14.6	-14.6
Credit to the economy	21.3	27.1	36.9	42.1	54.2	48.8	46.4	51.0
Other items (net)	-1.5	0.6	15.2	6.8	8.8	36.2	16.8	12.0
Money and quasi money	39.3	57.0	89.9	112.7	121.1	167.2	142.7	163.8
Currency in circulation	12.1	15.2	17.6	19.5	26.0	27.5	27.3	31.3
Deposits at commercial banks	23.1	32.7	46.3	69.1	72.3	91.7	83.2	95.4
Deposits at the BEAC	5.1	10.4	29.8	24.2	22.9	48.0	32.2	37.1
Medium- and long-term foreign liabilities	0.0	0.5	0.3	0.3	0.1	0.1	0.2	0.2
	(Changes from the beginning of the year; in billions of CFA francs)							
Net foreign assets	8.5	11.5	44.1	50.9	43.2	7.2	21.4	21.1
Net domestic assets	9.9	6.2	-11.3	-28.0	-11.9	38.8	0.2	-0.1
Net domestic credit	8.1	4.1	-25.9	-19.6	-5.4	11.4	-7.8	4.6
Credit to the public sector (net)	1.6	-1.7	-35.8	-24.8	-22.8	16.8	0.0	0.0
Credit to the economy	6.4	5.7	9.8	5.2	17.3	-5.4	-7.8	4.6
Other items (net)	1.9	2.1	14.6	-8.4	-6.4	27.4	8.0	-4.8
Money and quasi money	18.5	17.7	32.8	22.9	31.3	46.1	21.6	21.0
	(12-month percentage change)							
Net foreign assets	538.5	113.9	203.9	77.3	65.6	6.2	19.7	16.2
Net domestic assets	51.5	21.2	-32.0	-116.5	-49.3	-980.4	1.3	-1.0
Net domestic credit								
Credit to the public sector (net)	20.9	-18.0	-463.6	88.4	81.2	-31.8	0.0	0.0
Credit to the economy	43.3	26.9	36.3	14.1	47.0	12.9	-14.4	10.0
Money and quasi money	88.5	45.1	57.6	25.4	34.8	40.9	17.8	14.7
	(Change in percent of beginning-of-period broad money stock)							
Net foreign assets	40.9	29.3	77.4	77.3	65.6	6.6	19.7	16.2
Net domestic assets	47.6	15.7	-19.8	-116.5	-49.3	318.4	1.3	-1.0
Net domestic credit	38.7	10.3	-45.5	-221.8	-61.4	333.4	-229.7	-104.9
Credit to the public sector (net)	7.8	-4.3	-62.7	88.4	81.2	-33.1	0.0	0.0
Credit to the economy	30.9	14.6	17.2	14.1	47.0	-10.0	-14.4	10.0
Other items (net)	8.9	5.4	25.7	-55.3	-42.3	312.6	91.0	-28.4
Money and quasi money	88.5	45.1	57.6	25.4	34.8	38.0	17.8	14.7

Sources: Equatoguinean authorities and Fund staff estimates and projections.

Table 5. Equatorial Guinea: Central Bank Summary Accounts, 1999-2004

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

	1999	2000	2001	2002		2003		2004
				Jun.	Dec.	June	Dec. Proj.	Dec. Proj.
Net foreign assets	-3.0	12.2	50.8	50.6	54.2	83.4	101.3	117.7
Foreign assets	2.2	16.2	52.7	47.0	55.0	84.8	102.1	118.5
Franc zone currency	0.1	0.3	0.1	0.0	0.2	0.2	0.4	0.4
SDRs	0.0	0.1	0.7	0.0	0.0	0.0	0.1	0.1
Operations account (credit balance)	2.1	15.9	51.8	47.0	54.8	84.6	90.9	118.0
Foreign liabilities	-5.2	-4.1	-1.8	3.5	-0.8	-1.4	-0.8	-0.8
Current accounts of foreign institutions	-4.9	-5.3	-5.2	-0.1	-4.7	-5.0	-4.6	-4.6
Use of Fund credit (net)	-5.2	-3.7	-1.6	-1.1	-0.7	-0.3	-0.7	-0.7
Net domestic assets	20.2	13.4	-3.4	-6.9	-5.4	-7.9	-41.7	-49.4
Net credit to government	19.7	12.3	-3.5	-1.7	-4.1	-7.1	-24.1	-46.1
Credit to government	20.9	14.2	3.9	3.2	2.5	3.8	2.5	2.5
Current account advances	12.3	8.0	0.0	0.0	0.0	2.0	0.0	0.0
Consolidated loan	3.4	2.5	2.3	2.0	1.8	1.5	1.8	1.8
Use of Fund credit (net)	5.2	3.7	1.6	1.1	0.7	0.3	0.7	0.7
Government deposits	-1.2	-1.9	-7.4	-4.8	-6.6	-10.9	-26.6	-48.6
Other items (net)	0.5	1.1	0.1	-5.2	-1.3	-0.8	-17.6	-3.3
Monetary base	17.2	25.6	47.4	43.6	48.8	75.5	59.6	68.3
Currency in circulation	12.1	15.2	17.6	19.5	26.0	27.5	27.3	31.3
Reserves	5.1	10.4	29.8	24.2	22.9	48.0	32.2	37.1
Of which Banks' deposits with the BEAC	4.1	9.1	25.9	21.1	16.4	42.8	23.1	30.4
Bank's minimum reserves	0.3	0.4	1.8	0.0	7.4	0.0	10.4	13.7
Free reserves from banks	3.8	8.7	24.2	21.1	9.0	42.8	12.7	16.7
Memorandum item:								
Money multiplier	2.3	2.2	1.9	2.6	2.3	2.2	2.5	2.5

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

Table 6. Equatorial Guinea: Consolidated Balance Sheet of Commercial Banks, 1999-2004

(In billions of CFA francs; end of period)

	1999	2000	2001	2002		2003		2004
				Jun.	Dec.	June	Dec. Proj.	Dec. Proj.
Net foreign assets	13.2	9.5	15.0	66.1	54.8	32.8	29.1	33.8
Foreign assets	25.8	19.4	30.9	70.7	66.3	44.8	31.8	36.5
Foreign liabilities	-12.6	-9.9	-16.0	-4.6	-11.6	-12.1	-2.7	-2.7
Net domestic assets	10.0	23.2	31.3	3.0	17.6	58.9	54.1	61.6
Reserves	5.1	10.4	29.0	23.4	22.9	47.2	32.2	37.1
Net domestic credit	11.0	22.5	12.4	-9.1	7.5	21.9	19.7	46.3
Net credit to government	-10.3	-4.6	-24.5	-51.2	-46.7	-26.9	-26.7	-4.7
Net credit to central government	-4.9	-1.2	-15.0	-45.9	-32.1	-14.0	-12.1	9.9
Credit to government	0.2	1.5	1.0	1.0	3.4	7.4	3.4	3.4
Government deposits	-5.2	-2.8	-15.9	-46.9	-35.5	-21.4	-15.5	6.5
Net credit to other public institutions	-5.4	-3.4	-9.5	-5.3	-14.6	-12.9	-14.6	-14.6
Credit to other public	0.2	0.4	-0.6	0.3	0.8	0.8	0.8	0.8
Deposits from other public institutions	-5.6	-3.7	-8.9	-5.6	-15.4	-13.8	-15.4	-15.4
Credit to the economy	21.3	27.1	36.9	42.1	54.2	48.8	46.4	51.0
Short term	17.9	22.0	31.4	33.7	41.3	38.8	36.9	40.5
Medium and long term	3.5	5.1	5.5	8.3	12.9	10.0	9.5	10.5
Other items (net)	-1.1	0.8	19.0	12.1	10.1	37.0	34.4	15.3
Other assets	3.9	5.3	11.6	7.7	6.6	13.7	22.1	-0.9
Other liabilities	-3.4	-6.6	-7.9	-3.7	-3.3	-5.2	-0.4	-0.4
Capital	-6.7	-7.7	-13.4	-14.9	-16.0	-18.7	-19.5	-20.5
Reserves	5.1	10.4	29.0	23.4	22.9	47.2	32.2	37.1
	0.0	-0.5	-0.3	-0.3	-0.1	-0.1	0.0	0.0
Money	23.1	32.7	46.3	69.1	72.3	91.7	83.2	95.4
Demand deposits	16.4	23.1	29.9	48.2	46.5	61.5	53.7	64.0
Time and savings deposits	6.7	9.6	16.4	20.9	25.8	30.2	29.5	31.4
Medium- and long-term foreign liabilities	0.0	0.5	0.3	0.0	0.1	0.1	0.2	0.2

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

Table 7. Equatorial Guinea: Medium-Term Selected Economic and Financial Indicators, 2001-08

	2001	2002	2003	2004	2005	2006	2007	2008
			Projections					
	(Annual percentage change, unless otherwise specified)							
Production and prices								
Real GDP	37.5	17.6	14.7	10.2	45.1	4.9	4.1	3.0
of which: non-oil GDP	3.6	9.8	5.6	8.8	8.2	8.5	8.8	8.4
Nominal GDP (in billions of CFA francs)	1,256	1,481	1,694	1,710	2,306	2,427	2,534	2,621
of which: non-oil GDP	166	189	212	243	277	318	366	421
Oil production (thousands of barrels per day) 1/	205	247	279	315	508	531	548	556
Oil price (U.S. dollars per barrel) 2/	23.8	24.5	28.0	25.0	21.0	21.0	21.0	21.0
Consumer prices (annual average)	8.8	7.6	8.0	6.0	6.0	6.0	6.0	6.0
External sector								
Exports, f.o.b.	35.7	22.4	30.4	0.8	34.8	4.4	3.1	1.6
of which: oil sector	42.1	24.7	31.9	0.5	36.0	4.3	3.1	1.5
Imports, c.i.f.	65.0	-30.7	23.3	-29.3	-0.6	-2.6	14.2	-6.6
Export volume	73.4	19.0	12.8	13.0	62.0	4.5	3.3	1.5
Import volume	61.1	-33.3	21.0	-31.3	-2.5	-4.6	11.9	-8.5
Government finance								
Revenue	97.3	19.1	38.6	18.1	54.4	18.7	26.1	7.0
Total expenditure and net lending	46.8	46.0	-20.2	-1.1	7.7	5.8	6.0	6.1
	(In percent of GDP, unless otherwise specified)							
Government finance								
Revenue 3/	27.7	28.0	33.9	39.7	45.4	51.3	61.9	64.0
of which oil revenue	22.8	22.8	28.9	34.1	40.8	46.3	56.4	58.0
Total expenditure and net lending	12.4	15.3	10.6	10.5	8.4	8.4	8.6	8.8
Primary balance 4/	15.7	12.9	23.4	29.3	37.3	43.0	53.6	55.5
Overall balance (including oil revenue)	15.3	12.6	23.2	29.2	37.0	42.8	53.4	55.3
Overall balance (excluding oil revenue)	-7.5	-10.2	-6.2	-6.0	-5.1	-5.6	-6.3	-7.2
External sector								
Current account balance (- deficit)	-34.4	-8.6	-1.7	13.6	27.2	34.2	38.8	40.1
of which: non-oil current account balance (- deficit)	-8.9	-15.1	-10.1	-6.1	-2.1	-0.9	-3.1	-3.2
Outstanding medium- and long-term public debt	22.9	19.1	16.4	16.0	11.7	10.9	10.3	9.7
Debt service-to-exports ratio	0.7	0.5	0.3	0.3	0.2	0.2	0.0	0.0
	(In millions of U.S. dollars, unless otherwise specified)							
External sector								
Exports, f.o.b.	1,819	2,226	2,903	2,926	3,944	4,116	4,244	4,310
of which: oil exports	1,695	2,113	2,786	2,801	3,811	3,974	4,096	4,157
Imports, c.i.f.	-1,597	-1,107	-1,365	-965	-959	-934	-1,067	-996
Current account balance (- deficit)	-589	-183	-49	396	1,035	1,369	1,621	1,733
Overall balance of payments	168	258	553	805	1,451	1,760	2,127	2,205
Gross international reserves	70.8	70.2	105.1	112.9	149.1	186.3	223.5	260.6
(equivalent months of imports, c.i.f.)	0.5	0.8	0.9	1.4	1.9	2.4	2.5	3.1
(equivalent months of non-oil sector imports, c.i.f.)	4.1	4.7	9.8	12.7	15.7	11.9	13.4	14.7
Oil reserve fund	0.0	259	733	1,458	2,826	4,499	6,688	9,037
GDP	1,714	2,131	2,889	2,911	3,800	4,000	4,176	4,320
Non-oil GDP	226	272	362	413	457	524	603	694
Memorandum item:								
Exchange rate: CFA Francs / U.S. dollar (average)	732.4	694.8	...	...	...	...	...	...

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

1/ Including oil equivalent of methanol and liquefied gas during 2001-04.

2/ Based on World Economic Outlook.

3/ Starting in 2003, includes interest income on oil reserve fund.

4/ Excluding foreign-financed public investment.

Equatorial Guinea: Relations with the Fund
(As of August 31, 2003)

Membership Status

Joined 12/22/69; Article VIII

General Resources Account:	SDR million	% Quota
Quota	32.60	100.00
Fund holdings of currency	32.61	100.03

SDR Department:	SDR million	% Allocation
Net cumulative allocation	5.81	100.00
Holdings	0.14	2.41

Outstanding Purchases and Loans:	SDR million	% Quota
Enhanced Structural Adjustment Facility (ESAF) arrangements	0.37	1.13

Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
ESAF	2/03/93	2/02/96	9.93	1.65
Structural Adjustment Facility (SAF)	2/03/93	2/02/96	2.95	2.95
SAF	12/7/1988	12/6/91	12.88	9.20

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

	Forthcoming				
	2003	2004	2005	2006	2007
Principal	0.18	0.18	0.00	0.00	0.00
Charges/interest	0.02	0.09	0.09	0.09	0.09
Total	0.21	0.27	0.09	0.09	0.09

Exchange Rate Arrangement

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

Local currency equivalent: SDR 1 = CFAF 806 as of October 28, 2003.

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

Article IV Consultations

Equatorial Guinea is on the standard 12-month Article IV consultation cycle.
The last Article IV consultation with Equatorial Guinea was concluded by the Executive Board on August 31, 2001 (SM01/248).

Technical Assistance

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

FAD conducted a review of public expenditure management and tax administration systems in 1997.

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

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

Resident Representative

None.

Equatorial Guinea: Relations with the World Bank Group

Bank-Fund Partnership

1. The Bank and Fund have had a limited role in Equatorial Guinea for several years. More recently, the Government seems interested in improving relations with the Bretton Woods institutions, however the nature of the re-engagement is still unclear. At present, the Fund does not envisage a program in Equatorial Guinea and plans to rely on the Article IV to monitor and assess developments.

The Bank Group Strategy

2. The Bank has had limited involvement in Equatorial Guinea since 1998. The last project funded by IDA in Equatorial Guinea, the (PROMESSA) Health Improvement project, closed in 1999 and there has been no new Bank lending program for Equatorial Guinea since. Given the discovery of massive oil reserves, the national income has increased significantly and as a result Equatorial Guinea graduated to IBRD status in FY2000.

3. In 1999, the Bank prepared an economic strategy note on natural resources management to help strengthen policy dialogue and to address the myriad of challenges ahead. At the request of the government, a mission from the Foreign Investment Advisory Service (FIAS) visited Equatorial Guinea in October 2001 and made detailed recommendations on ways to improve the country's investment climate and strengthen its overall business regime. The Government has yet to act on the recommendations. In 2002, the Bank provided assistance for a statistical capacity-building program using an institutional grant from the Bank, with the Equatorial Guinea government providing additional funding. This program has produced two reports, the first one providing the diagnostics of the statistical systems and the second one focusing on the statistical development project.

4. In 2003, the Government requested technical assistance from the Bank for the management of the petroleum sector, public investment planning and management, and for the elaboration of a poverty reduction strategy. In response, the Bank recently fielded a number of missions to Equatorial Guinea to discuss these issues as well as broader areas of Bank involvement. In this context, the Bank identified the need for policy dialogue with the Government on petroleum sector, public finance and governance, poverty reduction and the diversification of the economy. Possible areas of future assistance could include technical assistance in petroleum sector management, the preparation of a poverty reduction strategy, and public expenditure management including public financial accountability and procurement management. The Bank could also continue to support, in the context of the government's poverty reduction strategy, strengthening the statistical capacity and undertaking key statistical surveys.

Bank-Fund Collaboration

5. The Bank participated in the Article IV consultation between the IMF and the Government of Equatorial Guinea in August 2003. The Bank and the Fund will maintain close collaboration in monitoring social and economic developments in Equatorial Guinea and in providing policy advice and technical assistance to strengthen economic management and improve governance.

Equatorial Guinea: Statistical Issues

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

Real sector and prices

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

Real sector statistics reported to STA (*IFS*) are limited to GDP (without breakdown by sector or expenditure category), and exports and imports. The August issue of *IFS* includes data for GDP and exports and imports through 2002. Export and import data are available to AFR through 2002.

Government finance

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

Equatorial Guinea does not report fiscal data to STA. However, the authorities have made available to AFR budget execution data through June-2003.

Monetary accounts

Although the coverage of monetary statistics for Equatorial Guinea is adequate, delays in production at the BEAC's National Directorate in Malabo still occur occasionally. The

August 2003 issue of *IFS* includes data for the central bank and other depository corporations through April 2003. The mission was provided with monetary statistics up to June 2003.

External debt

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

Balance of payments

Customs data have improved since the implementation of the Central African Customs and Economic Union (UDEAC) reform and the deployment of customs brigades. However, data analysis is still hampered by the lack of computerization. Although the BEAC produces balance of payments data for Equatorial Guinea, delays are long and the data suffer from significant inconsistencies with other sources. While some progress was made in compiling current and financial account items, the lack of availability of source data is a key concern. No staff is assigned to compiling statistics on a regular and consistent basis, or to cross-check information between sectors. Equatorial Guinea's balance of payments data are published in *IFS* through 1996 only.

Equatorial Guinea: Core Statistical Indicators
(As of September 15, 2003)

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Govern-ment Balance	GDP/ GNP	External Debt
Date of latest observation	July 2003	June 2003	June 2003	June 2003	June 2003	June 2003	Dec. 2002	Dec. 2002	June 2003	Dec. 2003	June 2003
Date received	Oct. 2003	Aug. 2003	Aug. 2003	Aug. 2003	Aug. 2003	Aug. 2003	Mar. 2002	Mar. 2002	Aug. 2003	Aug. 2003	Aug. 2003
Frequency of data 1/	M	M	M	M	M	M	M	M	M	A	A
Frequency of reporting 1/	M	M	M	M	M	V	V	V	V	V	V
Source of data	Central bank	Central bank	Central bank	Central bank	Central bank	Central bank	Customs/ central bank	Central bank	Min. of Finance	Min. of Planning/ central bank	Min. of Finance
Mode of reporting 2/	E	E	E	E	V	V	C/V	C/V	C/V	C/V	V
Confidentiality 3/	C	C	C	C	C	C	C	C	C	C	C
Frequency of publication 1/	M	M	M	M	V	V	V	V	V	V	V

1/ D=daily ; M=monthly ; Q=quarterly ; A=annually ; V=irregularly.
2/ C=cable or facsimile ; T=telephone ; E=e-mail ; M=mail ; V=staff visits.
3/ C= for unrestricted use.

Equatorial Guinea: Social and Demographic Indicators
(2001, unless otherwise specified)

Population, Area, and GDP Per Capita	2001
Population	1,014,999
Men	501,387
Women	513,612
Urban population (in percent of total population)	49.2
Of which: Bata	24.1
Malabo	20.8
Age distribution (in percent of total population)	
0-14	43.5
15-64	52.6
65 and over	3.7
Population growth (annual percentage change)	2.6
Area (square kilometers)	28,051
Population density per square kilometer	36
GDP per capita (2002; in U.S. dollars)	2,101.6
Of which: non-oil	275.2

Human Development Index (HDI)[1]	**1985**	**1990**	**1995**	**1999**	**2001**
HDI[2]	0.49	0.51	0.53	0.61	0.66
Equatorial Guinea's ranking[3]	94	105	104	110	116
Health and education indicators		**1995**	**1997**	**1999**	**2001**
Life expectancy at birth (years)		49.2	50.0	...	51.3
Infant mortality rate (per thousand)		113	109	...	101
Under 5 years' infant mortality rate (per thousand)		175	...	...	153
Immunization rate (in percent of children under 1 year)					
DPT		79	81	40	32
Measles		81	82	24	19
Adult illiteracy rate (in percent of population aged 15 and over		22.2	20.0	17.9	15.8
Primary school pupil-teacher ratio (in percent)		...	...	56.7[4]	41.5[5]

Sources: Equatoguinean authorities; World Bank, *World Development Indicators*, 2003; and Fund staff estimates.

[1] Source: UNDP.

[2] A higher value indicates an improved HDI.

[3] A higher value indicates a lower position vis-à-vis all other countries.

[4] 1998.

[5] 2000.

Statement by the IMF Staff Representative
November 12, 2003

1. This supplement provides additional information that has become available since the issuance of the staff report for the 2003 Article IV consultation with Equatorial Guinea on October 29, 2003. This information does not alter the thrust of the staff appraisal.

2. **Budget execution data through end-September 2003 show a strong pick-up in spending in the third quarter, compared with previously available information through June.** Overall spending through end-September reached 85 percent of outlays budgeted for the year as a whole, mainly on account of a substantial increase in capital outlays while the pace of recurrent spending continued to be moderate. The staff urges the authorities to reduce spending in the remainder of the year, in line with budget objectives.

3. **The authorities have recently requested technical assistance from the World Bank to strengthen management capacity in the petroleum sector.** The World Bank intends to provide training to officials of the Ministry of Mines and Energy and the state-owned oil company GEPetrol. Advice will also be given on the proper definition of these two agencies' roles and responsibilities so as to avoid duplication of functions and conflicts of interest

INTERNATIONAL MONETARY FUND
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December 9, 2003

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

IMF Concludes 2003 Article IV Consultation with Equatorial Guinea

On November 12, 2003, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Equatorial Guinea.[1]

Background

Recent economic developments have been dominated by a further strong expansion of the oil sector. Production more than doubled between 2000 and 2002 to about 250,000 barrels per day. Reflecting this development, real GDP growth averaged 24 percent during that period while non-oil activity expanded by an annual average of about 5 percent on account of strong growth in services to the oil sector and construction activity. By contrast, growth in agriculture and logging was sluggish, owing to a loss of competitiveness and the enforcement of sustainable logging levels. Domestic price pressures and the appreciation of the euro vis-à-vis the U.S. dollar led to an appreciation of the real effective exchange rate by 15 percent between end-2001 and mid-2003, thereby erasing the gain in competitiveness stemming from the devaluation of the CFA franc in 1994. The annual rate of consumer price inflation stood at 10 percent in mid-2003.

External sector trends reflected growing petroleum exports and high oil-related investment. The deficit in the external current account narrowed significantly over 2000–02 and is projected to be close to balance in 2003. The non-oil current account deficit widened as non-oil imports surged, owing to strong demand from the oil sector and expanding public investment.

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

The overall terms of trade have improved by about 40 percent, mainly due to higher oil prices. Rising oil receipts have led to an increasing accumulation of foreign assets.

Budgetary revenue and spending have also grown rapidly, giving rise to significant overall surpluses but also putting considerable pressure on the country's small non-oil economy. The overall fiscal surplus increased from about 8 percent of GDP in 2000 to 12½ percent of GDP in 2002 as strong growth in oil revenue was only partly offset by higher government outlays. However, owing to persistently weak budgetary discipline and unsustainable spending plans, both public sector outlays and the non-oil deficit expanded significantly during that period in relation to non-oil GDP.

Monetary developments mirrored overall economic and fiscal trends. Rising oil export revenues were reflected in a buildup of net foreign assets of the banking system as the government accumulated deposits at the regional central bank (BEAC) and in domestic commercial banks; in addition, the revenues were reflected in rising balances held in bank accounts abroad. Credit to the economy grew strongly between 2000 and 2002, largely in the form of bridge financing to construction companies engaged in public works. As a result, broad money expanded, leading to strong price pressures in spite of some monetization of the economy.

Following significant public spending overruns in 2002 that were in part related to the elections, the authorities drew up a more conservative budget for 2003. Compared with the 2002 budget outturn, the 2003 budget envisages a significant decline in nominal spending, which would lead to a contraction of the non-oil deficit of 30 percentage points of non-oil GDP, to about half of non-oil GDP. During the first six months of 2003, overall spending was kept within budgeted limits, as higher-than-planned capital outlays were offset by lower-than-budgeted current spending.

The authorities have initiated some fiscal structural reforms and are eliminating external arrears. A public finance law and regulations for public accounting are being prepared to strengthen the budget process. A draft tax code has been elaborated to incorporate formerly dispersed legislation into one document. The authorities have reduced external arrears, and they recently concluded discussions on an agreement with Spain (their largest creditor).

Progress has been made in enhancing the transparency of oil-related transactions, and other aspects of managing the oil sector are being improved. The recorded budgetary surplus in 2002 was reconciled with movements in the government's bank accounts. However, discrepancies in earlier years still need to be clarified. The government has stepped up audits of oil companies, and the use of advance payments on oil revenue has been discontinued.

Against the background of the uneven progress in improving key human development indicators, the authorities have taken first steps toward developing a new and more effective poverty reduction strategy. They have finalized a broad-based education plan and a strategy to improve productivity in agriculture that may also help reduce poverty.

Executive Board assessment

Executive Directors noted that oil-related inflows pose considerable challenges to Equatorial Guinea's macroeconomic management, including unsustainable levels of public spending, and significant upward pressure on prices and the real exchange rate. The consequent loss of competitiveness is a threat to non-oil activities, with potentially serious economic and social consequences. Directors were encouraged by the authorities' strong commitment to address these challenges, and welcomed the steps already taken in this regard. However, Directors underscored the urgency of developing a medium-term strategy aimed at transforming Equatorial Guinea's oil wealth into sustained development. This should include further improvements in governance and transparency; the attainment of a sustainable fiscal position; the implementation of structural reforms to bolster the non-oil sector; the development of a transparent framework for saving and managing part of the country's oil wealth; and a comprehensive effort to reduce poverty more effectively.

Directors urged the authorities to strengthen fiscal policy in the face of the challenges posed by large revenue inflows. While welcoming their renewed commitment to fiscal consolidation, Directors emphasized that steadfast adherence to the 2003 budget and the containment of public spending in 2004 at the current year's level will be essential to reduce price pressures and slow the loss of competitiveness. Going forward, the fiscal consolidation effort will need to be sustained to move the budgetary position toward a sustainable level.

Directors welcomed the legislative reforms to strengthen the budgetary process and consolidate tax legislation. They encouraged the authorities to move expeditiously toward improving the tracking of budgetary spending to ensure that public outlays are channeled to their intended uses. In addition, Directors recognized that, although debt sustainability is not likely to be a problem in the medium term, it will be important to refrain from borrowing against oil revenues. They welcomed the authorities' intention to request a fiscal Report on the Observance of Standards and Codes, which will help identify weak areas in their fiscal system and direct external technical assistance to them.

Directors viewed Equatorial Guinea's participation in the Central African Economic and Monetary Community (CEMAC) as appropriate. However, they noted the resulting constraints on monetary policy, and expressed concern about the liquidity implications of oil-related revenue flows, including above-target inflation rates. In the absence of an independent monetary policy, Directors suggested prudent fiscal policy and the permanent reduction of government deposits in domestic commercial banks to help control the money supply. Directors viewed the banking system as generally sound, although continued vigilance will be required to ensure the high quality of bank loans going forward.

Directors urged the authorities to continue to make strong progress in addressing governance issues, and, in particular, to build further on their recent efforts to increase the transparency of oil-related transactions. Oil-related information should from now on be reconciled on a regular basis, and remaining discrepancies between data on budget balances and changes in financial assets should be clarified without delay. Directors also highlighted the importance of ensuring that the state-owned oil company's activities are subject to a firm supervisory and control framework, and that its finances are fully integrated into the budget process.

Directors welcomed the authorities' plan to save part of the oil revenue in an oil reserve fund, but stressed the need for an operational framework with rules guided by international best practices. This should include full disclosure of the fund's activities, separation of supervisory and executive functions, and recruitment of internationally-reputable managers. It will also be important to ensure that amounts to be deposited are determined flexibly, based on macroeconomic considerations. Directors encouraged the authorities to seek help from oil-exporting countries in setting up the reserve fund. They encouraged the authorities to follow through on their intentions to become a pilot case under the Extractive Industries Transparency Initiative, and to cooperate with the World Bank and the Fund in this area.

Directors underscored the importance of structural reforms to reduce the cost of doing business in Equatorial Guinea and foster the development of the non-oil economy. They welcomed the authorities' steps to support the development of human capital over the medium term, and looked forward to additional measures that will help offset recent losses in competitiveness. These should include the effective implementation of legislation aimed at removing uncertainties for private investment (OHADA), and a broadening of training programs for local entrepreneurs in basic business skills. Competitiveness would be further enhanced by keeping tax rates at the lowest levels permitted by the CEMAC agreements, simplifying tax administration, and eliminating taxes on non-oil exports.

Directors encouraged the authorities to press ahead with their plans to develop a poverty reduction strategy. A broad-based discussion on how to make the best use of the country's oil wealth and foster non-oil growth should be a central building block for that strategy. The construction of poverty profiles should help target the strategy's actions effectively.

To allow effective surveillance and informed policy discussions, Directors urged the authorities to intensify their efforts to provide the Fund with key economic data on a regular and timely basis. Directors welcomed the authorities' interest in closer surveillance and technical assistance relationship with the Fund, while noting that, to be effective, this would need to be based on steady progress in enhancing the transparency of oil-related transactions and in implementing sound economic policies, including fiscal consolidation. They recommended that the authorities also seek early involvement from other partners to assist in developing human and institutional capacity.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. The Staff Report for the 2003 Article IV Consultation with Equatorial Guinea is also available.

Equatorial Guinea: Selected Economic and Financial Indicators

	2000	2001	2002	2003 Proj.	2004 Proj.
	(Annual percentage change, unless otherwise specified)				
Domestic economy					
Real GDP	18.0	37.5	17.6	14.7	10.2
Of which: non-oil GDP	11.7	3.6	9.8	5.6	8.8
Oil production (thousands of barrels per day) 1/	117.9	205.1	247.0	279.4	315.3
Consumer prices (annual average)	6.0	8.8	7.6	8.0	6.0
External economy					
Exports, f.o.b.	64.4	35.7	22.4	30.4	0.8
Imports, c.i.f.	16.3	65.0	-30.7	23.3	-29.3
Exchange rate (CFA francs per U.S. dollar)	710	732	695	586	...
Real effective exchange rate (depreciation -) 2/	-0.9	6.6	7.4	12.2	...
Financial variables					
Government revenue	108.6	97.3	19.1	38.6	18.1
Government expenditure and net lending	24.6	46.8	46.0	-20.2	-1.1
	(In percent of GDP, unless otherwise specified)				
External economy					
Current account balance (including official transfers; - deficit)	-29.0	-34.4	-8.6	-1.7	13.6
Outstanding medium- and long-term public debt	31.5	22.9	19.1	16.4	16.0
Debt service-to-export ratio	1.2	0.7	0.5	0.3	0.3
Financial variables					
Gross investment	43.9	57.0	29.4	26.8	20.1
Gross national savings	14.9	22.6	20.8	25.1	34.4
Government revenue	19.6	27.7	28.0	33.9	39.7
Of which : oil revenue	16.4	22.8	22.8	28.9	34.1
Government expenditure and net lending	11.8	12.4	15.3	10.6	10.5
Overall government balance (including oil revenue; - deficit)	7.8	15.3	12.6	23.2	29.2
	(In millions of U.S. dollars, unless otherwise specified)				
External economy					
Exports, f.o.b.	1,341	1,819	2,226	2,903	2,926
Imports, c.i.f.	-968	-1,597	-1,107	-1,365	-965
Current account balance	-367	-589	-183	-49	396
Overall balance of payments	36	168	258	553	805
Financial variables					
Gross international reserves (excl. oil reserve fund)	23.0	70.8	70.2	105.1	112.9
(equivalent months of imports, c.i.f.)	0.3	0.5	0.8	0.9	1.4
(equivalent months of non-oil sector imports, c.i.f.)	2.6	4.1	4.7	9.8	12.7

Sources: Equatoguinean authorities; and IMF estimates and projections.

1/ Including oil equivalent of methanol and liquefied gas beginning in 2001.

2/ Period average changes; for 2003, the average of the first half of 2003 over the first half of 2002.

Statement by Damian Ondo Mañe, Executive Director for Republic of Equatorial Guinea November 12, 2003

Introduction

I would like to thank staff for a good report on the economy of Equatorial Guinea. The discussions that form the basis of this report have been helpful to my authorities in the design of their macroeconomic policies. My authorities welcome this report, which is being discussed ahead of the next National Economic Conference to be held early next year to evaluate how the government has fulfilled the recommendations of the first Economic Conference held in 1997. That conference which was attended by representatives of all political parties and social organizations took stock of Equatorial Guinea's economic and social situation, and designed an economic strategy for the medium term (1997-2001) to ensure a productive use of the country's natural resources, as well as the country's development. In this context, it set up objectives and priorities for the government in the areas of macroeconomic policies, governance, privatization, private sector development, civil service reforms, among others. It also set social and sectoral objectives. In particular, it made recommendations as regards education, health, environment and women's conditions. The Conference also set priorities in the agricultural, fishing and mining sectors. The next Conference will evaluate the progress achieved in these areas, and will decide on the next strategy to follow.

The surge of oil production in Equatorial Guinea since the mid-1990s has led to rapid growth in GDP and generated large increases in fiscal revenues, which have in turn contributed to considerable fiscal surpluses. It also allowed for a significant improvement in the external current account, and a quick accumulation of foreign reserves. Moreover, external debt indicators have improved and some structural reforms have been implemented, particularly in the forestry area, regional trade, and commercial law.

My authorities recognize that the country's oil wealth provides them with a unique opportunity to establish the foundations for broad-based economic growth and poverty reduction. However, they agree with staff that the oil boom has confronted them with a number of new challenges in economic management. These challenges include the need to ensure that the large oil endowment is translated into tangible benefits for the population, the attainment of a sustainable fiscal position; and the implementation of structural reforms to enhance the development of the non-oil sector and diversify the economy.
In this regard, my authorities have provided all necessary information to facilitate the reconciliation of the discrepancies between the budgetary surplus in 2002 and bank account transactions.

Moreover, there is now an improvement in management of key ministries involved in oil activity. Taking advantage of the improvements in government revenue, the authorities have restructured the Ministry of Mines, the Ministries of Economy and Finance, and the Treasury. These ministries have been also equipped with more qualified personnel and better equipments. At the same time, a system of audit of oil companies, service companies, and contractors has been put in place. The authorities have also indicated their intention to participate in the Extractive Industries' Transparency Initiative (EITI). All these actions go in the direction of improving tracking of government revenue and better governance.

In the fiscal sector, it is important to stress that following large spending overruns in 2002, steps have been taken towards fiscal consolidation in the first half of 2003, and all revenues are now centralized within the Treasury. My Equatorial Guinea authorities are committed to further spending restraint for the remainder of 2003 and for 2004. The recent adoption of a new finance law should help strengthen fiscal discipline. My authorities also share staff's concerns on the possible effect of "Dutch disease" on the competitiveness of Equatorial Guinea's economy. Taking into account the depletive nature of oil resources, my authorities are determined to implement good macroeconomic management and appropriate structural reforms, in order to turn the country's oil wealth into sustainable development of non-oil sector. However, given the limits of the economy's absorptive capacity and the constraints on implementation skills, Equatorial Guinea will need technical assistance from the international community, in order to fill the gaps in project management capabilities, and to strengthen the management of surplus oil resources for future generations.

Being a member of the CEMAC and the CFA franc zone, Equatorial Guinea has met all the convergence criteria, with the exception of the one related to inflation. My authorities are aware of this problem, and they have set up an Interministerial Committee to deal with the issue, which they attribute to their policy based on large investments in basic and essential social infrastructures, which had not been undertaken in the past due to lack of resources. These investments were for the construction of schools, hospitals, and roads.

Economic and financial performance in 2002 and during the first half of 2003

Equatorial Guinea's economy has continued to perform well since the last Article IV consultation in August 2001. Reflecting a further strong expansion of the oil sector, real GDP grew by 18 percent in 2002, and non-oil GDP rose by almost 10%, owing to strong performance in services to oil sector and construction activity. At 8 percent in 2002, the annual consumer price inflation exceeded the CEMAC's regional target of 3 percent. The sound monetary policy of the regional central bank, *Banque des Etats de l'Afrique Centrale* (BEAC) has helped to keep inflation within single digits. On the external front, although the real effective exchange rate appreciated by 15 percent between end-2001 and mid-2003, the external current account deficit narrowed significantly and is expected to reach near balance in 2003. My authorities are in agreement with staff's suggestions concerning intergenerational equity considerations, and the development of Equatorial Guinea's non-oil sector over the coming years.

In the **fiscal area**, the oil boom has led to rapid budgetary revenue and spending growth, leading to an accumulation in overall surpluses, which averaged 12 percent of GDP between 2002 and mid-2003. However, following public spending overruns in 2002 partly related to investments on social sectors and on infrastructures as noted above, my authorities have, since the first half of 2003, embarked on a process of fiscal consolidation, and overall spending has been brought within budgeted limits.

In the **monetary sector**, reflecting the rise in oil exports, there was a buildup of net foreign assets of the banking system, as the government accumulated deposits with the BEAC and with domestic commercial banks, in addition to growing balances kept in bank accounts abroad. Credit to the economy increased significantly between 2000 and 2002, mainly in the form of bridge financing to construction companies engaged in public works.

Macroeconomic policies and objectives for the medium-term

The macroeconomic objectives for the medium-term aim at generating an average growth rate of GDP of about 13 percent in 2004-08, with oil production expected to reach 556,000 barrels per day by 2008. Surpluses in the external and fiscal accounts are projected to lead to an accumulation of net foreign assets of around US$9 billion by 2008. The non-oil economy is expected to increase by an average of 8 percent in real terms during 2004-08. My authorities consider the macroeconomic framework proposed by staff as appropriate for the remainder of 2003 and for 2004. This framework aims at reducing pressures on prices and the exchange rate, through a gradual move towards fiscal sustainability.

In the **fiscal area**, there is an agreement between my authorities and staff to maintain overall spending within limits in 2003 and to contain overall spending in 2004 at its 2003 level, in line with the need to move to a sustainable fiscal stance. In order to strengthen the budgetary process, particularly through expenditure tracking and control, a new public finance law was adopted and regulations for public accounting are under preparation. A new draft tax code was prepared, incorporating formerly dispersed legislation into one document. Efforts are being made to regularize external arrears. Following a debt-rescheduling agreement with Russia in 2002, an agreement with Spain has been signed and contacts were initiated with other creditors.

Monetary policy, which is conducted by the BEAC, will continue to be prudent and consistent with the net foreign assets target. The BEAC recognizes that the current instruments for liquidity management were unable to help counteract the increase and large swings in liquidity caused by government deposits with domestic commercial banks. Under these circumstances, my authorities share the view that fiscal consolidation and a permanent reduction in government deposits with domestic commercial banks would help control monetary expansion and reduce the scope for excessive credit to the economy. Under the macroeconomic framework for 2003-04, credit to the economy would increase at a moderate rate, also reflecting the current problems in extending loans to local enterprises.
It is also important to stress that Equatorial Guinea's banking system remains sound, as reflected by the stability of the share of nonperforming loans in overall loans between end-2001 and March 2003. My authorities will continue to monitor closely the banking system.

My authorities remain determined to pursue efforts to establish full transparency of oil-related transactions. With regard to the public oil company (GEPETROL), its objective is to support the government management of oil resources. It is also important to indicate that use of advance payments on oil revenue has been discontinued.

Poverty Reduction and Human Resource Development

One of the biggest challenges of the authorities is to improve capacity and institutional building in Equatorial Guinea. They recognize that more needs to be done to improve social indicators. They are now taking steps to develop a new and more effective poverty-reduction strategy. Already, my authorities have completed a review of their economic and social plan for 1997-2001. Moreover, they have embarked on the construction of poverty profiles that will be a key input in designing the new strategy. Another important action undertaken is related to the development of a broad-based education plan, which is detailed in Box 3 of the staff report. My authorities are giving a major importance to the training of nationals in foreign universities. A comprehensive training plan has been put in place, and it is already bearing fruits as some of these students start returning to Equatorial Guinea. This should go in the direction of capacity building. In this regard, it is to be noted that the National University of Equatorial Guinea (UNGE) has exchange arrangements with US and other foreign universities.

On the **other structural reforms,** my authorities are implementing a strategy to revive the agricultural sector, which will contribute to poverty reduction and the improvement of rural life. The plan also aims at stopping the recent migration from rural areas to urban centers, and to increase the sector's productivity through the strengthening of basic infrastructure, with emphasis on the need to regain a higher degree of self-sufficiency in basic food production. This strategy is in line with regional policies to achieve a higher degree of food security.

Regarding **statistical issues and technical assistance**, despite recent improvements in the accuracy and timeliness of budget execution, my authorities recognize the weaknesses prevailing in the quality and timely production of key statistics. They are taking steps to strengthen capacity in this area. In particular, they are implementing a strategy to improve the country's statistical system in 2003-08, with support from the World Bank. My authorities have requested technical assistance from the World Bank on gas and oil resources management and intend to request shortly a fiscal ROSC from the IMF.

In conclusion, my authorities have taken steps to improve the country's resource management and maintain a stable macroeconomic environment. They are also giving full consideration to the medium- and long- term impact of excess liquidity and fiscal surpluses, as recommended by the staff. Strengthening of capacity and institution buildings is ongoing and is helping to improve economic management.
At the same time, progress is being made in the areas of infrastructure, education and health. Steps are also being taken to develop the non-oil sector, by actions aimed at improving the business climate, promote competition, and create adequate infrastructure, by improving road and telecommunications networks, thus laying the foundations for private sector led growth. However, it should be noted that Equatorial Guinea has been a very poor country, with weak technical and institutional capacities. The authorities are now giving priority to these issues, and in their efforts, they hope that the international community will provide them with much needed technical assistance.