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REPUBLIC OF EQUATORIAL GUINEA

August 2022

2022 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR 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 2022 Article IV consultation with Equatorial Guinea, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its July 25, 2022, consideration of the staff report that concluded the Article IV consultation with Equatorial Guinea.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 25, 2022, following discussions that ended on May 19, 2022, with the officials of Equatorial Guinea on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 8, 2022.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Equatorial Guinea.

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

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PRESS RELEASE

PR[22/280]

IMF Executive Board Concludes 2022 Article IV Consultation with Equatorial Guinea

FOR IMMEDIATE RELEASE

On July 25, 2022, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Equatorial Guinea.

Equatorial Guinea's oil-dependent economy is slowly emerging from the ravages of the COVID-19 pandemic and Bata explosions, but substantial challenges remain. The relaxation of pandemic containment measures and higher international oil prices are helping boost economic activity, government revenues, and export earnings. However, surging food prices and banking sector vulnerabilities cloud the short term, while real GDP and living standards are expected to decline over the medium term.

Following a contraction of 3.2 percent in 2021, real GDP is projected to grow by 5.8 percent in 2022 supported by hydrocarbon production and Bata reconstruction. Starting in 2023, the economy is projected to contract through the medium term, reflecting a reduction in hydrocarbon output together with a stalled structural reform agenda. Inflation is projected to rise to 6 percent by end-2022, driven by the pass-through from higher international oil and food prices—owing to global recovery from the pandemic and supply shocks—and to moderate over the medium term as these factors dissipate.

The balance of risks to the outlook is titled to the downside. On the upside, continued increase in hydrocarbon prices would further boost export earnings, improve fiscal balances, and external reserves; while stronger reform efforts would help reverse the medium-term decline in real GDP. On the downside, a further sustained surge in international food prices, a resurgence of the pandemic, lower oil prices, a spike in marine piracy incidents, further delays in addressing governance and corruption vulnerabilities, and worsening of banking sector stability indicators could further depress real GDP.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They noted that Equatorial Guinea's economy is slowly emerging from the ravages of the COVID-19 pandemic and Bata explosions, buoyed by higher oil prices, but severe challenges remain

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.

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

and significant risks to the outlook are tilted to the downside. In the near term, surging food prices have increased the risk of food insecurity for a substantial proportion of the population, while the ongoing secular decline in hydrocarbon output will drive a fall in output and living standards over the medium term. Against this background, Directors emphasized that the authorities must significantly strengthen their commitment to reinvigorate the stalled structural reform agenda, particularly to address serious governance vulnerabilities, to support sustainable, inclusive growth. The Fund stands ready to continue to support the authorities' efforts, including through capacity development.

Directors supported the authorities' near-term focus on measures to sustain external and fiscal sustainability while providing targeted support to the most vulnerable. They urged the authorities to use part of the windfall revenues from higher hydrocarbon prices to rebuild macroeconomic buffers, including via the accumulation of foreign reserves, as well as addressing social needs, especially food insecurity. Directors urged efforts to improve the efficiency of public spending and non-hydrocarbon revenue, while promoting inclusive growth and economic diversification over the medium term.

Directors emphasized the importance of tackling vulnerabilities in the banking sector. They welcomed measures to address high non-performing loans, undercapitalization, and low liquidity at some banks. Accelerating plans to settle domestic arrears would also help address banking sector stability concerns. Directors also endorsed efforts to strengthen the management of state-owned banks, as well as to develop mobile payments to improve financial access and inclusion.

Directors regretted the lack of progress in implementing macro-critical reforms to meet EFF and RFI commitments. They urged the authorities to substantially increase efforts to improve governance, enhance transparency, and fight corruption, which are essential to secure national development gains. Directors welcomed efforts to put in place the asset declaration regime for senior public officials, including the publication of the declarations. They also called for completion and publication of audits, including for state-owned hydrocarbon firms, regular publication of beneficial ownership information on emergency-related public spending, and publication of periodic implementation progress reports of the 2019 Good Governance and Anti-Corruption Action Plan. Directors also underscored the need to strengthen the effectiveness of the AML/CFT framework and improve the timely publication of economic data.

Directors welcomed the authorities' commitment to economic diversification and sustainable inclusive growth. They highlighted the need to boost investment in basic healthcare, education, and sanitation to strengthen human capital and social outcomes. Directors urged the authorities to step up efforts to leverage existing public infrastructure to stimulate new economic activities and welcomed the authorities' commitment to build a climate resilient economy.

It is expected that the next Article IV consultation with the Republic of Equatorial Guinea will be held in accordance with the Executive Board decision on consultation cycles for members with Fund arrangements.

Equatorial Guinea: Selected Economic and Financial Indicators, 2019–27

		Est.	Est.	Projections					
	2019	2020	2021	2022	2023	2024	2025	2026	2027
				(Annual percentage change, unless otherwise specified)					
Production, prices, and money									
Real GDP	-5.5	-4.2	-3.2	5.8	-3.1	-12.3	-2.6	-4.7	-1.1
Hydrocarbon sectors[1]	-8.8	-3.4	-7.3	9.0	-8.3	-25.3	-10.0	-16.2	-9.0
Non-hydrocarbon sectors	-1.4	-5.2	1.6	2.4	2.7	0.7	3.0	2.7	3.1
GDP deflator	-3.2	-8.8	20.9	36.4	-6.0	-0.7	2.1	3.8	3.5
Hydrocarbon sectors	-11.7	-25.5	76.2	55.8	-15.9	-11.9	-6.7	-5.5	-3.4
Non-hydrocarbon sectors	2.7	3.5	2.8	5.4	6.0	5.5	5.0	4.5	3.8
Consumer prices (annual average)	1.2	4.8	-0.1	5.1	5.7	5.2	4.7	4.2	3.5
Consumer prices (end of period)	4.1	-0.5	2.9	6.0	5.5	5.0	4.5	4.0	3.0
Monetary and exchange rate									
Broad money	-6.3	-7.0	0.4	1.8	-8.9	-12.9	-0.5	-1.1	2.3
Nominal effective exchange rate (- = depreciation)	-1.1	2.7	1.4	…	…	…	…	…	…
Real effective exchange rate (- = depreciation)	-2.2	5.9	-4.6	…	…	…	…	…	…
External sector									
Exports, f.o.b.	-16.5	-38.5	57.6	64.5	-21.2	-30.3	-12.4	-17.3	-10.0
Hydrocarbon exports	-15.7	-38.7	63.8	69.0	-22.3	-32.2	-13.8	-19.5	-11.9
Non-hydrocarbon exports	-23.2	-36.0	2.6	0.5	2.4	2.6	2.8	3.0	3.3
Imports, f.o.b.	-22.0	-31.2	22.3	46.7	-21.5	-11.2	0.4	-4.1	-1.8
Terms of trade	12.5	-13.7	24.9	54.1	-15.4	-10.9	-0.3	-9.1	-6.5
Government finance									
Revenue	-14.3	-33.9	27.0	49.0	-8.0	-20.7	-9.6	-8.1	-2.9
Expenditure	-20.6	-17.7	-6.4	38.1	-11.2	-10.7	-1.3	-1.4	-0.7
				(Percent of GDP, unless otherwise specified)					
Investment and savings									
Gross investment	10.9	4.6	4.8	9.5	9.8	9.8	10.9	11.0	11.1
Gross national savings	10.0	0.4	1.3	7.9	7.7	4.6	4.5	4.0	4.1
Government finance									
Revenue	18.6	14.1	15.3	15.8	16.0	14.5	13.2	12.3	11.6
Of which: hydrocarbon revenue	14.8	10.5	12.3	13.3	12.9	10.8	9.1	7.6	6.7
non-hydrocarbon revenue	3.8	3.6	3.0	2.5	3.0	3.7	4.1	4.7	5.0
Expenditure	16.8	15.8	12.7	12.1	11.8	12.1	12.0	12.0	11.6
Overall fiscal balance (Commitment basis)	1.8	-1.7	2.6	3.7	4.1	2.4	1.2	0.3	0.0
Overall fiscal balance (Cash basis)[2]	-0.5	-3.2	1.0	-2.7	4.1	2.4	1.2	0.3	0.0
Non-hydrocarbon primary balance[3]	-12.2	-11.1	-8.7	-8.5	-7.7	-7.3	-6.9	-6.4	-5.8
Outstanding public debt[4]	43.2	48.4	42.8	27.1	26.5	28.5	26.2	24.1	21.1
Change in domestic arrears	-2.3	-1.4	-1.6	-6.4	0.0	0.0	0.0	0.0	0.0
External sector									
Current account balance (including official transfers; - = deficit)	-0.9	-4.2	-3.4	-1.6	-2.1	-5.3	-6.4	-7.1	-7.0
Total external public debt	14.0	15.1	12.9	8.4	9.0	10.3	10.0	9.8	9.2
External debt service-to-exports ratio (percent)	5.2	6.7	4.1	3.2	3.9	5.2	6.9	8.4	9.9
External debt service/government revenue (percent)	11.9	14.4	10.8	9.4	9.7	11.2	14.1	15.5	16.8
Memorandum items									
CEMAC Foreign Reserves									
(US$ billions, end-of-period)[5]	7.4	7.8	8.1	10.5	12.8	n.a	n.a.	n.a.	n.a.
(in months of extrazone imports)	3.6	3.2	2.7	3.5	4.2	4.6	5.0	n.a	n.a
Oil price (U.S. dollars a barrel)[6]	54.5	39.1	67.3	107.7	92.9	84.1	78.2	74.4	71.8
Nominal GDP (billions of CFA francs)	6,658	5,813	6,804	9,819	8,946	7,794	7,755	7,667	7,846
Nominal GDP (millions of US dollars)	11,364	10,099	12,269	…	…	…	…	…	…
Non-hydrocarbon GDP (billions of CFA francs)	3,905	3,832	4,003	4,323	4,707	5,002	5,410	5,810	6,214
Oil volume (crude + condensado, millions of barrels)	53	52	43	43	38	30	29	25	22
Exchange rate (average; CFA francs/U.S. dollar)	585.9	575.6	554.5	…	…	…	…	…	…

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

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

[2] Includes a one-time clearance of outstanding arrears through securitization in 2022.

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

[4] Outstanding public debt includes domestic arrears, which amounted to 9.2 percent of GDP in 2021.

[5] The SDR allocation is not included in this figure.

[6] The local price of crude oil is the Brent and includes a quality discount.

REPUBLIC OF EQUATORIAL GUINEA

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION

July 8, 2022

KEY ISSUES

Context. The COVID-19 pandemic in 2020-21, and Bata explosions in 2021, struck oil-exporter Equatorial Guinea at a time when its economic vulnerabilities had already been aggravated by a prolonged period of depressed hydrocarbon prices, and seven consecutive years of decline in real GDP. The economy is slowly emerging from the ravages of the 2020-21 shocks, buoyed by higher international oil prices. However, substantial challenges remain: (i) surging food prices and banking sector vulnerabilities cloud the short term, while (ii) declining hydrocarbon production—and the implied decline in external reserves—loom over the medium term, especially in light of lagging governance and diversification reform implementation.

Outlook and Risks. The outlook points to some growth recovery in 2022, followed by falling output and living standards. The economy is projected to contract in 2023 and through the medium term, reflecting a reduction in hydrocarbon output together with a stalled structural reform agenda, weak governance and significant corruption vulnerabilities, subdued business confidence, and a weak banking sector. Risks are tilted to the downside, including from a further sustained surge in international food prices, a resurgence of pandemic variants, a spike in marine piracy incidents, lower oil prices, further delays in addressing governance and corruption vulnerabilities, and a worsening of banking sector stability indicators.

Policy Advice. Near-term priorities are (i) to protect food security for the most vulnerable households, while (ii) rebuilding macroeconomic buffers, including accumulating foreign reserves, with windfall oil revenues, and (iii) addressing banking sector stability concerns. Over the medium term, to maintain fiscal sustainability and promote inclusive growth and economic diversification, fiscal policy should be recalibrated to improve non-hydrocarbon revenues and the efficiency of public spending, while credibly implementing the development plan and the action plan to improve governance, enhance transparency, and fight corruption. There is a crucial need to invest in basic healthcare, education, and sanitation to strengthen human capital and improve social outcomes.

Approved By
Vitaliy Kramarenko (AFR) and Andrea Schaechter (SPR)

Discussions took place in Malabo, Bata, Ciudad de la Paz, and Mongomo between May 12 and May 19, 2022. The team comprised Ms. Colacelli (head), Mr. Amui, Mr. Nicholls (all AFR), Mr. Elfayoumi (SPR), Mr. Evans (FAD), Mr. Portier (MCM), and Mr. Miko Nzang (local economist). Ms. Luca (LEG) joined virtually. Mr. Ondo Bile (OED) also joined the meetings. The mission met with the Prime Minister Francisco Pascual Obama Asue, Minister of Finance, Economy and Planning Valentín Ela Maye Mba, Minister of Justice Salvador Ondo Nkumu, State Secretary of Treasury Milagrosa Obono Angue, BEAC Second Deputy National Director Jaime Edu Andomo Obono, Vice Minister of Health Mitoha Ondo'o Ayekaba, senior officials from the Ministry of Mines and Hydrocarbon, other senior officials, representatives from the banking sector, oil companies, civil society, and academics. Ms. Adjahouinou, Ms. Akor, and Ms. Joseph (all AFR) assisted in the preparation of this report.

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CONTEXT

1. Equatorial Guinea's oil-dependent economy is slowly emerging from the ravages of the COVID-19 pandemic and Bata explosions, buoyed by higher oil prices, but substantial challenges remain:

- The pandemic has been brought under control by an aggressive containment effort and an early and still-ongoing national vaccination program.[1] Domestic fiscal measures, along with regional measures, contained the economic fallout.[2] The recent relaxation of containment measures is helping boost economic activity and non-oil revenues, and higher international oil prices are boosting government revenues and export earnings.[3]
- Despite this respite, the hydrocarbon sector is in decline (Text Figure 1) and substantial macroeconomic challenges remain—in fact, fiscal and external sustainability are presently predicated on the high oil prices (rather than the acceleration of reforms) creating significant vulnerabilities in the face of a continued decline in real GDP, weakening of the reserve position, and falling living standards.

2. Implementation of the three-year Fund-supported program, approved by the Board in December 2019, has fallen below expectations. No reviews have been completed yet as not enough progress has been made in implementing structural measures. That said, the authorities have continued to implement some key macro-critical governance reforms with mixed results. There has also been some progress on implementing policy advice provided at the time of the 2016 Article IV Consultation (Annex I).

3. Presidential elections are scheduled to take place in 2023, when Mr. Obiang could stand as a candidate one last time.[4] Parliamentary and municipal elections are scheduled to take place in 2022. An electoral quota—of at least 35 percent of female candidates—was introduced by the governing party for the first time.

RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

4. Despite the recent surge in oil prices, real GDP continued to decline through 2021, and a sharp rise in food prices has compounded an already challenging macroeconomic and social situation.

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[1] Thus far 23 percent of the adult population has received two vaccine doses (with a total of 476,752 doses administered).

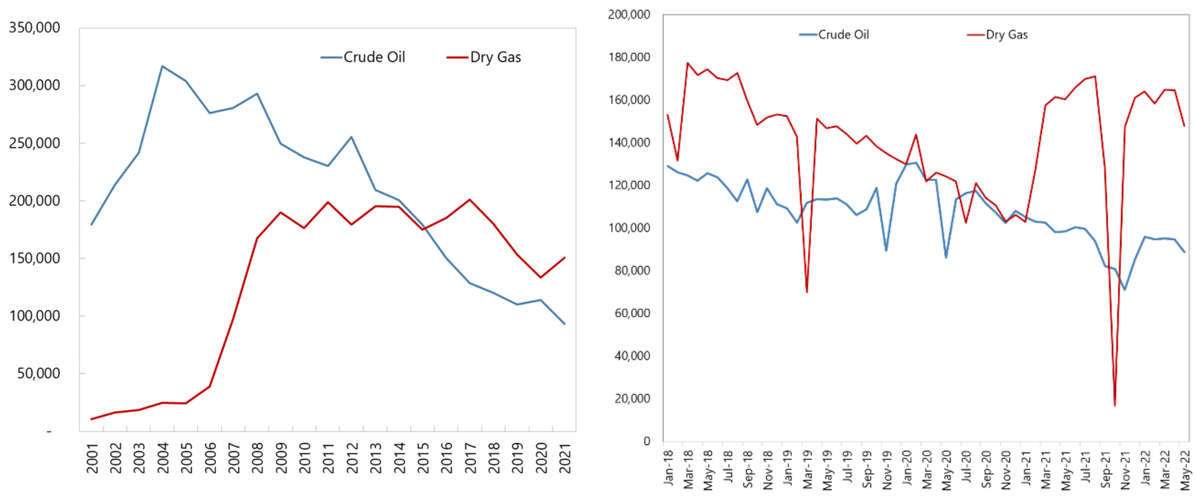
[2] Regional measures are being phased out, and have included monetary easing by BEAC, bank forbearance on loan classification and provisioning, and absorption of pandemic-related losses by capital buffers.

[3] Macroeconomic forecasts are based on an oil price assumption of $108 per barrel for 2022, compared with $54 in the EFF-supported program. During 2022–27, the projected average oil price is $85, compared with $54 under the program.

[4] Mr. Obiang has led Equatorial Guinea since 1979, and he was last reelected in 2016 with 94 percent of the vote.

- GDP is estimated to have declined by 3.2 percent in 2021—the seventh consecutive year of decline—reflecting mainly a continued decline in hydrocarbon output.

Text Figure 1. Hydrocarbon Production Has Been Steadily Declining Since the Late 2000s
(Barrels per day)

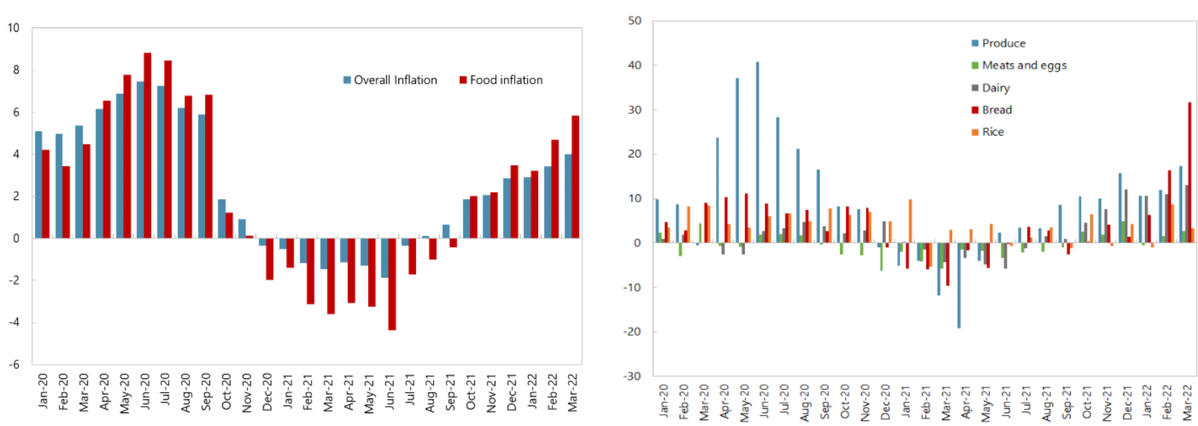


Sources: Equatoguinean authorities and IMF staff calculations.

- Non-hydrocarbon GDP is estimated to have increased by 1.6 percent in 2021, as the authorities gradually eased pandemic containment measures in line with a deceleration of COVID cases.

- Hydrocarbon production declined by 7.3 percent in 2021, as an incident in a key gas export terminal shut down the facility for six weeks from September 2021.

Text Figure 2. Inflation is Picking Up Again, With Significant Spikes in Food Inflation (Including Bread) Since February (Percent, year-on-year)



Sources: Equatoguinean authorities and IMF staff calculations.

- Inflation rose to 3.9 percent (year-on-year) in March 2022, up from 2.9 percent in December 2021 (Text Figure 2). All subgroups in the CPI basket registered price increases, led by food (5.8 percent) and transport (5.2 percent).

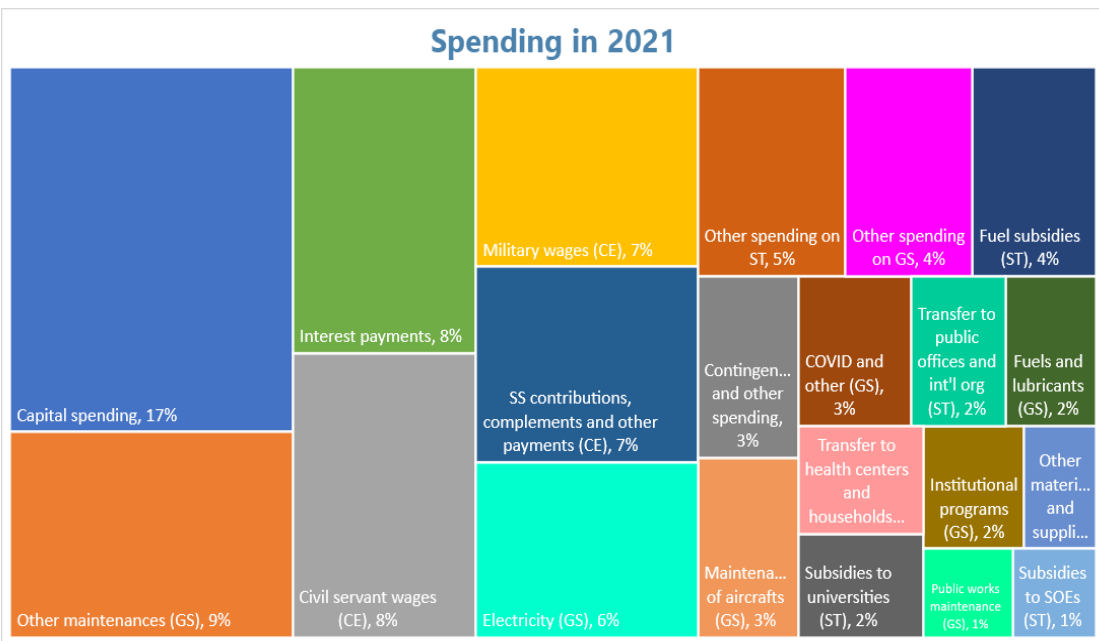
- The non-hydrocarbon primary fiscal balance (NHPB) is estimated to have improved by 2.4 percentage points of GDP in 2021 relative to 2020, led by a decline in capital spending and purchases of goods and services (Text Figure 3).

- Equatorial Guinea's net foreign assets (NFA) at BEAC increased but remained negative through end-December 2021—the twenty-fifth consecutive month of negative NFA—even when the government accumulated deposits at BEAC in the wake of higher hydrocarbon export earnings. Reserve accumulation was supported by the 2021 RFI and SDR allocation resources. NFA at BEAC turned positive in January 2022 for the first time since September 2019.

- Urban poverty increased during the pandemic by about 8 percentage points (to an estimated 44 percent of the population) in H2 2020.

Text Figure 3a. Capital Spending Decreased Substantially to 2 Percent of GDP in 2021, Accounting for 17 Percent of Fiscal Spending

(Fiscal spending by sector, share in total spending, percent)

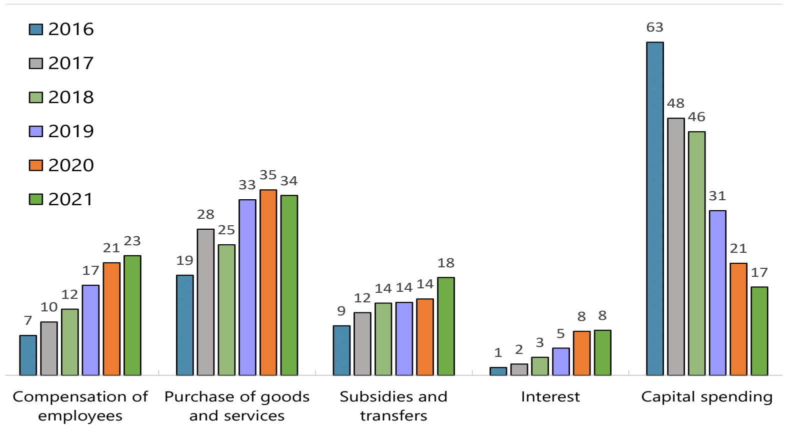


CE - Compensation of employees; GS - Goods and Servicies; ST - Subsidies and Transfers

Text Figure 3b. Capital Spending Decreased Substantially to 2 Percent of GDP in 2021, Accounting for 17 Percent of Fiscal Spending

Spending, 2016–21

(Percent of total)



Sources: Equatoguinean authorities and IMF staff calculations.

5. The current account deficit is estimated to have narrowed modestly in 2021 to 3.4 percent of GDP, mainly due to a rise in hydrocarbon export earnings. An improved surplus on the goods trade balance more than offset higher net outflows on the income balance. The financial account recorded net inflows of 4.9 percent of GDP in 2021 (after recording net outflows of 3.2 percent in 2020) supported by the SDR allocation and short-term capital inflows, while net foreign direct investment inflows remained stable. The 2021 external position is assessed as substantially weaker than medium-term fundamentals and desirable policies (Annex II).

Text Table 1. The Banking Sector Remains Weak

(Financial Soundness Indicators, 2017–21, Percent)

	2017	2018	2019	2020	Jun-21	Aug-21
Core FSIs						
Capital Adequacy[1]						
Regulatory capital to risk-weighted assets	31.8	29.5	-2.8	-1.6	-5.3	-5.6
Tier 1 capital to risk-weighted assets	32.6	30.3	-1.6	-0.4	-4.0	-4.3
Nonperforming loans net of provisions to capital	89.0	133.8	N/A	N/A	N/A	N/A
Capital to assets (leverage ratio)	13.4	12.8	-0.7	-0.2	-1.5	-1.6
Asset Quality						
Nonperforming loans to total gross loans	27.2	36.7	48.8	51.1	56.2	58.3
Provisions to nonperforming loans	40.8	35.4	34.3	33.6	30.2	29.3
Earnings and Profitability						
Return on assets	1.2	0.9	0.1	-0.6	-0.8	...
Return on equity	5.4	3.7	-0.6	-3.9	-5.1	...
Interest margin to gross income	60.7	54.7	50.2	54.1	29.4	...
Noninterest expenses to gross income	70.0	71.6	79.3	106.8	117.1	...
Liquidity						
Liquid assets to total assets	31.2	30.3	20.2	19.9	19.8	19.1
Liquid assets to short-term liabilities	171.2	170.1	120.7	131.5	146.2	143.8
Sensitivity to Market Risk						
Net open position in foreign exchange to capital	1.6	3.0	-18.6	28.8	28.0	41.3
Additional FSIs						
Large exposures to capital	177.2	172.2	N/A	N/A	N/A	N/A
Trading income to total income	5.8	11.8	10.4	8.3	6.2	...
Personnel expenses to noninterest expenses	26.4	27.1	26.5	29.4	22.3	...
Customer deposits to total (noninterbank) loans	99.4	98.1	104.0	98.5	103.1	105.7
FX loans to total loans	0.0	0.1	0.5	0.3	0.3	0.3
Residential real estate loans to total gross loans	1.2	1.0	1.5	1.3	1.2	1.2
Commercial real estate loans to total gross loans	0.2	0.2	0.3	0.8	1.0	1.0

Source: IMF Financial Soundness Indicators; Banking Commission of Central Africa (COBAC).

[1] The reduction in the regulatory capital in 2019 results from the implementation of Basel II norms at end-2019.

6. The banking sector has been weighed down by high non-performing loans (NPLs), undercapitalization, and low liquidity at some banks. High NPLs and low coverage ratio are mainly driven by government arrears with construction firms (for which a provisioning is not compulsory). Much of the NPLs are concentrated in the largest bank, in which the government acquired a majority stake in 2020. Following COBAC's alignment of capital definitions with the Basel II framework at end-2019, the banking sector is deeply undercapitalized (Text Table 1). The aggregate short-term liquidity ratio remains above the prudential minimum, although deposits continue to decrease.

7. Despite the legacy of the pandemic, near-term growth has improved considerably. In 2022, GDP is projected to grow by about 5.8 percent due to base effects from the lower-than-expected gas production in 2021, and the start of Bata reconstruction (following the March 2021 accidental explosions). Inflation is projected to rise to 6 percent in 2022, driven by the pass-through from higher international oil and food prices, owing to global recovery from the pandemic and supply shocks caused by Russia's invasion of Ukraine. Increased fiscal spending for the Bata reconstruction, support to the banking system, and higher other spending from the oil price increase would lower the 2022 NHPB by 4.6 percentage points of non-hydrocarbon GDP relative to 2021. That said, owing to higher hydrocarbon revenues, the overall fiscal balance is projected to record a surplus of 3.7 percent of GDP (1.1 percentage point higher than in 2021). Higher hydrocarbon export earnings are also expected to further increase the goods trade balance and reduce the current account deficit in 2022 (to 1.6 percent of GDP), while higher imports (from pent-up demand) and higher net outflows on the income balance (due to profit transfers abroad) provide a partial offset. Relative to end-2021, NFA at BEAC at end-2022 is projected to increase but remain negative.

8. Real GDP is projected to decline over the next five years on falling hydrocarbon output and a stalled structural reform agenda.

- Hydrocarbon output is expected to fall as major fields mature, and investments in new field exploration and development slow—partly due to a shift in global sentiment against hydrocarbons.

- Against authorities' development plan, a continued slow pace of policy implementation and reforms will stymie growth and diversification—including due to subdued business confidence, weak governance, and a weak banking sector. Non-hydrocarbon growth would remain sluggish and living standards would fall.

- In light of reduced access to external sources of financing and tight domestic liquidity conditions, deficit financing would be limited to the use of available government deposits, further limiting room for capital spending. A forced fiscal consolidation (due to reduced financing) would delay much needed investment, including for maintenance, and likely adversely impact priority spending (including water and sanitation).

- The projected drawdown of government deposits at BEAC would reduce the country's contribution to the NFA and Equatorial Guinea's access to the reserve pool over the medium term.

9. The balance of risks to the outlook is titled to the downside (Annex III). On the upside, a further sustained increase in hydrocarbon prices would further boost export earnings, improve fiscal balances, and the NFA; while stronger reform efforts would help reverse the medium-term decline in real GDP. On the negative side, a further sustained surge in international food and fertilizer prices would increase domestic inflation more, negatively impacting food security of already vulnerable segments of the population, while raising the prospects of social tension. A resurgence of the pandemic could have a substantial adverse impact on non-hydrocarbon growth and fiscal revenue. Lower oil prices would weaken fiscal and external stability. A spike in marine piracy incidents in the Gulf of Guinea, and any failure to attract private investment for new gas fields, would result in a faster decline in hydrocarbon output (Annex IV). A continued worsening of banking sector stability indicators would hinder investment sentiment and growth. Further delays in addressing governance and corruption vulnerabilities, coupled with capacity constraints, would delay fiscal and structural reforms, and may result in the squandering of hydrocarbon revenues.

10. Authorities' Views. The authorities broadly agreed with staff's assessment of the outlook and risks. They envision a recovery in near-term growth, but appreciated the need to move ahead with structural reforms to diversify the economy and raise non-hydrocarbon growth over the medium term. They view higher inflation—driven mainly by imported food prices—as a key risk threatening food security, and they have also focused efforts to protect the Gulf of Guinea and hydrocarbon production from marine piracy risks.

POLICY DISCUSSIONS

Policies need to balance short-term urgencies—including to support food security and the banking system—with long-lasting overarching reforms to ensure macroeconomic stability, improved social outcomes, and strengthened governance and transparency, delivering sustainable and inclusive economic growth.

A. Fiscal Policy to Maintain Sustainability while Supporting Inclusive Growth

Short Term

11. The 2022 budget appropriately centers on stabilizing the economy—with continued support for the banking system, vulnerable population, repayment of domestic arrears, and Bata rehabilitation. The NHPB is projected to deteriorate to about -19.5 percent of non-hydrocarbon GDP in 2022—despite improved non-hydrocarbon revenues and tax administration. A fuel subsidy reform was implemented in March (Box 1) generating savings of 0.1 percent of GDP in 2022—representing a step in the right direction after fixed retail fuel prices for the past fifteen years. The authorities plan to provide support to the banking system (see paragraphs 21, 22), as well as continue the rehabilitation of critical Bata infrastructure. Absent these two one-off measures and the impact on spending of higher oil prices, the NHPB (which includes higher resources to enhance the social safety net) would remain stable in 2022 relative to 2021, amounting to a neutral fiscal stance. The authorities have initiated their plan for settling audited domestic arrears, financed by

90 percent of the 2021 SDR allocation and by government bonds. They also plan to start repaying BEAC statutory advances in 2022.

12. Measures are needed to rebuild macroeconomic buffers and provide temporary relief from higher food prices. Part of the revenue windfall from higher oil prices should be used to rebuild sufficient buffers by accumulating deposits at BEAC (which will support foreign reserve accumulation), and/or repaying domestic arrears. On the spending side, capital expenditures should prioritize water and sanitation for the poor, and the reconstruction of Bata infrastructure. To protect food security for the most vulnerable population, temporary tax, or temporary spending measures—such as the subsidization of basic food items—should be considered.

13. Authorities' Views. The authorities consider that oil prices may not remain high for long and therefore plan to use part of the hydrocarbon revenue windfall to rebuild macroeconomic buffers and protect the economy from future adverse shocks. In addition, in the short term, they are taking steps to protect the most vulnerable population from the increase in food prices, to support the banking system—including via the repayment of domestic arrears—and to rebuild critical Bata infrastructure after the explosions from March 2021. The authorities consider that the main short-term priority is to mitigate the food price increase, given the social implications for food security and malnutrition. They highlighted ongoing discussions with food distributors and supermarkets to help lower food costs that disproportionally affect low-income households (e.g., wheat, eggs, etc.) while protecting small vendors. Meanwhile, the authorities indicated that they are advancing work on related medium-term goals including boosting domestic food production and an expanded social safety net.

Medium Term

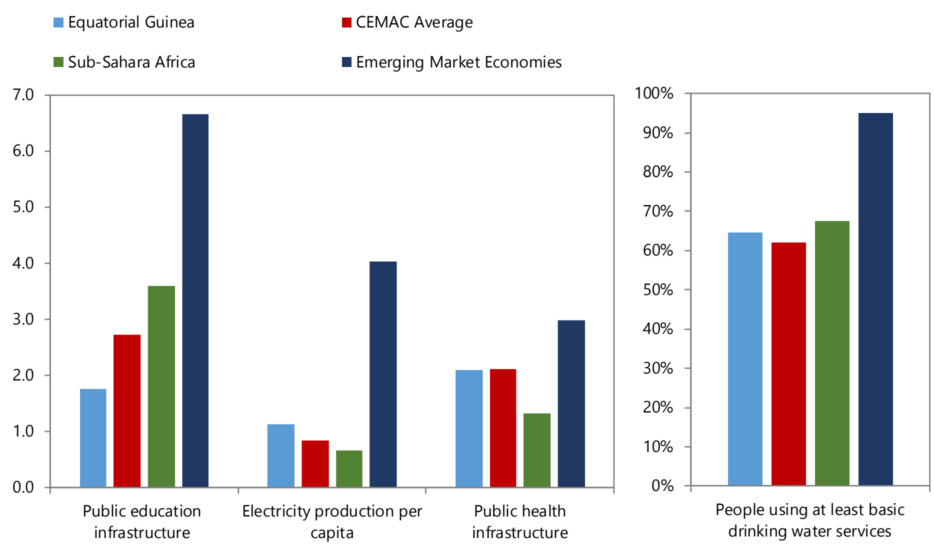
14. Over the medium term, fiscal policy should focus on maintaining sustainability, while promoting inclusive growth. Hydrocarbon production is in secular decline. As a result, policy adjustments are needed to maintain fiscal sustainability whilst stimulating the non-hydrocarbon sector and pursuing inclusive growth (Annex V). The authorities should strengthen adherence to their fiscal policy framework that targets a reduction in the non-hydrocarbon primary balance. Raising non-hydrocarbon revenues and efficiency in spending are key (Annex VI, VII, and Text Figure 4). Specific measures include:

- Spending priorities: Strengthening PFM to improve public expenditure monitoring and tracking to improve accountability; implementing a more comprehensive reform for fuel subsidies, ultimately moving to an automatic pricing mechanism with price smoothing rules, while protecting low-income households with targeted programs (Box 1); tackling underperformance of SOEs and reducing transfers to the gas company and other public entities; increasing spending efficiency prioritizing health and education to boost human capital; and strengthening the public procurement framework, including by regularly publishing beneficial ownership information.

- Revenue priorities: Improve revenue collection, including from hydrocarbon, income tax (particularly from corporates), customs, and excise taxes; ensure a strong and rapid implementation of the new electronic system to collect VAT; implement measures to fully roll out the customs IT reform to posts across the country and ensure that the posts have adequate power and connectivity infrastructure to adopt the new system; revamp the organizational and functional structures of tax and customs offices; strengthen core functions and governance arrangement and create a basic IT system in the tax administration to reinforce collection efforts; and compile and publish an inventory of tax exemptions and prepare a plan for phasing them out.

Text Figure 4. Public Education Infrastructure is Below Comparators, and Access to Basic Drinking Water Lags Sub-Saharan Africa

(Access to infrastructure, 2019)



Sources: IMF staff calculations; FAD Template for Investment and Efficiency (TIE); data from IMF, World Bank, and others.

Note: LHS chart shows indices based on the following specific series: Public education infrastructure index is based on secondary teachers per 1,000 persons; Electricity production per capita index is based on thousands of kWh per person, per year; and public health infrastructure index is based on hospital beds per 1,000 persons. RHS chart shows the percentage of people with access to basic drinking water services or better.

15. Authorities' Views. The authorities agreed with staff recommendations on the medium-term fiscal strategy. The authorities consider that hydrocarbon production is in secular decline and emphasized the need to diversify fiscal revenue sources. They noted that non-hydrocarbon revenue has not performed in line with expectations in recent years, partly due to the impact of the pandemic, and are adopting measures to increase revenue collection from VAT, customs, and other sources. The authorities stressed their commitment to maintaining fiscal sustainability by reducing the non-hydrocarbon primary deficit. They acknowledged that, even after the reform, fuel subsidies remain high (crowding out priority spending) and that it would be useful to have a strengthened social safety net and reduce untargeted fuel subsidies. They noted that they have a system in place to better track capital expenditures and are working to improve monitoring of current expenditure.

They agree with the need to improve the efficiency of public spending and strengthening public procurement and to this end they noted that they recently created a procurement committee under the office of the presidency.

16. Public debt management needs strengthening. Equatorial Guinea's public debt is assessed to be sustainable over the medium term, but subject to substantial risks—namely the volatility of international oil prices and the authorities' commitment to reforms (Annex V). Meanwhile, the authorities are in the process of settling audited domestic arrears with construction companies (about CFAF 650 billion or 7 percent of GDP) in a two-part operation starting in April 2022. On external arrears, the authorities are in good-faith discussions with Belgium regarding a payment schedule, and they are advancing talks with Spain, with no reports of arrears with other external creditors. The authorities should press ahead with settling arrears and strengthening debt management, with the following priorities:

- Conclude the first part of the domestic arrears clearance at the earliest, to help strengthen the banking sector and support non-hydrocarbon sector recovery, and establish a timeline to execute the second part of this clearance. For any new domestic arrears that could have accumulated since the last audit, before settlements are made, launch a robust external independent audit (by end-2022), and verify them.
- Settle external arrears in line with agreements.
- Advance the implementation of a multi-annual expenditure tracking and control system, and a new debt management and financial analysis system, to prevent the emergence of new arrears and for monitoring the current stock.

17. Authorities' Views. The authorities remain committed to maintaining fiscal discipline over the medium term to preserve debt sustainability. They noted that progress with the clearance of domestic arrears has been slow over 2020-21, partly due to the pandemic and Bata emergency, but highlighted recent progress towards clearing a portion of arrears with cash payments and the ongoing hiring process of a broker to securitize the remaining amount. They indicated that the new debt management system—expected to be adopted by end-2022—will allow them to keep track of arrears on a continuous basis.

B. Improving Social Outcomes and Protecting Food Security

18. The authorities reacted swiftly to mitigate the social and health impact from the pandemic and Bata explosions, and are working on enhancing food security. To mitigate the impact from the pandemic, the authorities delivered targeted assistance to a limited share of the vulnerable population in the form of basic nutrients, water, and hygiene supplies. The authorities also distributed cash and other assistance to families affected by the Bata explosions, as well as some mobile payments. Pandemic- and Bata-related spending amounted to 0.4 percent of GDP in 2021. During the pandemic the authorities increased spending on the healthcare system (e.g., equipment and facilities). The Ministry of Health developed the "Distritos Sanitarios" health program, seeking to partner closely with local communities to increase access to care. Despite these measures, social welfare decreased during the pandemic. To mitigate the recent hike in the local price of bread and other basic food stuff, the authorities suspended some customs fees and plan to restructure the operations of the port to reduce costs, while considering targeted subsidies.

19. Social expenditure requires a significant overhaul. There is a crucial need to invest in basic healthcare, education, and sanitation to strengthen human capital and improve social outcomes. Addressing food security and social protection are also key. The authorities would benefit from prioritizing the following:

- While a Social Protection Law has been drafted, there is a need for a social protection strategy with clear objectives, measures, timelines, and financing, within a streamlined administrative structure. The strategy would include the development of a single beneficiary registry with evidence-based criteria for social assistance—based on social welfare. In the meantime, initiatives led by international institutions in coordination with the government and NGOs, such as the Bata mobile cash transfer initiative, should be supported (Annex VIII).

- To provide better access to healthcare across the country, replicating the Baney "Distrito Sanitario" model could be considered.

- To address immediate food security needs, the provision of targeted support benefiting vulnerable households for a limited time should be considered—including temporary subsidization of basic food items or temporary reduction or suspension of their import taxes—in line with international good practice (Annex IX). Domestic food production over the medium term should be supported.

- Importantly, to support good governance, efforts must be made to improve the transparency of spending plans, their execution, and outcomes, by improving the collection and reporting of social spending data that could be easily traced in the fiscal outturn.

20. Authorities' Views. The authorities highlighted their ongoing work to improve social outcomes and protect food security. Regarding their strategy, they noted that social ministries have improved coordination among themselves, including by sharing information on social spending and their medium-term plans. They highlighted ongoing work on results-based budgeting for health, sustainable financing, and more efficient spending. The authorities noted their plans to expand the social beneficiary registry with ongoing support from UNICEF, and assistance from international financial institutions to improve progressive spending and taxation. They highlighted recent measures to protect food security, including containing food costs that disproportionally affect low-income households and ongoing work to boost domestic food production.

C. Strengthening the Banking Sector and Financial Inclusion

21. The banking system remains weak and prompt measures are needed to strengthen its soundness. Longstanding vulnerabilities in the banking sector were further aggravated by the pandemic. A key pillar of the government plan for enhancing banking sector soundness is the clearance of audited government domestic arrears, as it is expected that most banks' liquidity and capital ratios would fulfill regulatory limits once it is completed. In addition, COBAC is working with the banking sector to resolve a host of deficiencies, but progress is slow.

22. A well-coordinated set of measures would help reduce NPLs, strengthen banking sector stability, and promote financial inclusion.

- The authorities' immediate priority is to advance the hiring of a broker to assist with the timely completion of the clearance of audited domestic arrears. To strengthen NPL resolution, the authorities should enhance judiciary capacity and implement new mechanisms to resolve commercial and credit disputes, drawing on the experience of other countries in the region working to set up specialized commercial courts.

- Ongoing work to strengthen the financial situation of state-owned systemic banks should be swiftly completed—while minimizing the fiscal cost and maintaining financial stability. Work with COBAC should be advanced so that any institution with capital shortfalls submits a credible recapitalization and/or restructuring plan to the supervisor. To strengthen the governance and transparency of state-owned banks, legislation should be adopted (consistent with regional regulation) to ensure that procedures are in line with international good practice. A shareholding management framework for state-owned banks should be pursued, to help ensure that state-owned banks operate on commercial terms and a sound balance is found between management independence and accountability. The financial sector unit of the Ministry of Finance could be strengthened to enhance the monitoring of the financial sector in close cooperation with the supervisor, including on issues of regulatory compliance and quality of financial sector indicators.

- Following the adoption of the regional financial inclusion strategy, the authorities have started developing the national financial inclusion strategy with World Bank TA. To enhance financial access and inclusion, work should be advanced, including with BEAC, to develop and promote mobile payments, accompanied by adequate oversight.

23. Authorities' Views. To help strengthen the banking system, the authorities agree with the importance of completing the clearance of audited domestic arrears in the coming months. To enhance the positive boost from this operation to the financial sector and the economy, they highlighted their commitment to regularly update the public, banks, and firms on transaction progress. They stressed their determination to restore financial sector soundness and regulatory compliance in cooperation with regional authorities. In this regard, the authorities noted their commitment to swiftly implement a strategic plan to deal with weak banks and nonperforming loans while minimizing any immediate or future fiscal costs. To minimize such costs, the authorities highlighted their support for all legal actions required to maximize recoveries on nonperforming loans. To strengthen the governance of state-owned banks, they plan to establish a shareholding management framework over the next twelve months, with Fund technical assistance. As a first step towards establishing a specialized commercial court, they noted their plan to pass relevant legislation by end-2022. They highlighted their plans to incentivize the adoption of mobile payments to make it a central and affordable instrument of payments.

D. Improving Governance and Transparency and Fighting Corruption

24. Given continuing severe governance and corruption vulnerabilities, the authorities need to step up the pace of macro-critical governance reforms (Annex X). In 2019, the authorities published a Governance Diagnostic Report prepared by Fund staff, and an Action Plan for addressing governance weaknesses, increasing transparency, and fighting corruption.[5] The 2019 Governance Diagnostic Report identified several governance, transparency and potential corruption challenges, comprising: (i) governance weaknesses in the area of public finance management, on investment spending; financial oversight; public procurement and transparency; (ii) significant challenges on the rule of law, notably regarding implementation, transparency, and enforcement of laws; (iii) weak overall effectiveness of the existing legal and institutional pillars of the anti-money laundering (AML) and anti-corruption systems; and (iv) governance challenges affecting market regulation and the business climate. Some of the proposed reform measures were included as structural reforms under the 2019 EFF, with no reviews completed. In 2021, as part of the RFI request, the authorities made additional/recalibrated commitments to implement several macro-critical governance reforms. They have started implementing the anti-corruption framework and enhanced revenue administration (Table 1), but these efforts need to be accelerated to secure gains.

25. Enhanced governance, transparency and anti-corruption frameworks need to be prioritized as they help maximize gains from all macroeconomic reforms. In this context, the authorities should:

- Issue regulations, and asset and interest declaration forms consistent with the anti-corruption law of 2021, and international good practices on asset declaration regimes.[6] The asset declarations of senior public officials should be published on a government website. In accordance with the anti-corruption law, all by-laws needed to implement the law should be published.

- Press ahead with pandemic and Bata spending governance measures. The audits for COVID-19 pandemic and Bata rehabilitation and recovery spending, should be completed and published. In addition, all COVID-19 and Bata rehabilitation public procurement contracts (awarded after the issuance of the beneficial ownership information regulation from December 2021), and the beneficial owners of the entities that have been awarded the contracts, should be published.

- Publish periodic reports with implementation progress of the 2019 Good Governance and Anti-Corruption Action Plan. Continuing to pursue EITI membership would bring important

[5] https://minhacienda-gob.com/estrategia-de-gobernanza/

[6] The asset declaration forms published in March 2022 and initially distributed to public officials deviated in part from the 2021 anti-corruption law. The authorities are amending the form to align it with the law and good practices.

benefits to transparency in the extractive industry. The authorities should also seek to improve the timely publication of economic data essential for surveillance. The audits of the state-owned oil and gas companies should be completed and published.

26. Authorities' Views. The authorities emphasized their continued commitment to improving governance, enhancing transparency, and fighting corruption as outlined in their Action Plan published in 2019. They noted that, starting in September 2022, they plan to commence publication of semi-annual reports on implementation progress of the Good Governance and Anti-Corruption Action Plan. They highlighted the recently adopted anti-corruption law, and the anticorruption commission and asset declaration regime (being implemented), as key strong efforts at fighting corruption. They noted additional efforts on transparency, good governance and fighting corruption demonstrated by the ongoing audits of COVID and Bata spending, and GEPetrol and SONAGAS companies, for all of which there are now preliminary draft reports. They noted their ongoing work on updating the EITI membership application, including with comments from the EITI secretariat, having voluntarily withdrawn their previous submission. Noting challenges due to capacity and lack of public knowledge of the issue, they highlighted further efforts to improve transparency in the area of public procurement by publishing beneficial ownership information (with new regulation published in December 2021), and ongoing work to publish more than twenty public contracts (for COVID and Bata) awarded since end-2021.

E. Boosting Non-Hydrocarbon Growth

27. Economic diversification away from hydrocarbons is key to sustained inclusive economic growth. The authorities revised and updated their Development Plan 2035, contemplating private sector-led economic diversification and environmental sustainability (Annex XI). Key initiatives implemented thus far include the establishment of a one-stop shop for investment to help improve the business environment, and the removal of the domestic partner requirement for foreign investors. Helping reduce costs for businesses, telecommunication prices were recently decreased, and a new commission to improve port operations and reduce tariffs is in place. In April 2022, the authorities published a list of state assets for privatization through outright sale or through management contracts. They have also identified the development of tourism, through improving visa accessibility and leveraging existing hotel and road networks, to contribute to inclusive growth. The authorities ratified the United Nations Framework Convention on Climate Change in 2018, and recently launched the REDD+ program (or Reducing Emissions from Deforestation and forest Degradation program, with roles for conservation, sustainable management of forests, and enhancement of forest carbon stocks). The key goal of REDD+ is to limit deforestation and forest degradation, and the first step is developing a Land Use Plan with FAO (Annex XII).

Table 1. Overview on the Mixed Progress in the Implementation of Macro-Critical Governance Reforms and Next Steps[1]

Measure	Implementation Details	Next Steps
Prior Actions and Key Commitments under the Rapid Financing Instrument Request		
Prior Actions		
Passage by Parliament of an anti-corruption law in line with the 2020 decreee-law and international obligations under the UNCAC, and issuance of the law by the Presidency and its publication	**Met**	
Hire an international independent audit firm and start the audit of COVID-related expenditures	**Met**	
Hire an international independent firm to audit the Bata emergency response and rehabilitation related expenditures, and commit to publishing the reports	**Met**	
Establish two escrow accounts at BEAC—one for COVID and one for Bata emergency spending	**Met**	
Key Commitments		
COVID and Bata spending audits	**Outstanding**. The completion of the audits is outstanding. A preliminary draft report has been submitted by the external auditor to the authorities. As key pieces of information are missing, the auditor has indicated their inability to render an opinion. The authorities are working with the auditor to provide the missing documentation and clarifications required.	Once the audits are finalized the authorities plan to publish the full reports on the website of the Ministry of Finance, Economy and Planning.
Asset declarations of senior public officials	**Outstanding**. Implementation work is progressing. Declaration forms have been published and distributed to senior public officials, even as revisions are ongoing to better align it with the law and international good practice. The Prime Minister indicated that he has completed his declaration.	Completed asset declaration forms are to be held by the Accounts Tribunal (recently established), which will also publish them. https://minhacienda-gob.com/formulario-de-declaracion-de-patrimonio-e-intereses/
Issue the implementation decree(s) related to the asset declaration regime for senior public officials and the governance of the Anti-Corruption Commission	**Outstanding**. The authorities report that the regulations are being drafted by a joint Commission composed of the Ministry of Finance and the Ministry of Justice and are pending for promulgation.	
Issuing regulations to require for beneficial ownership information of awarded companies to be required in public procurement contracts for COVID and Bata related spending	**Implemented**. Decree 141/2021 was issued in November 2021 (and published in December 2021), requiring legal entities to declare their beneficial owners upon being awarded public procurement contracts to mitigate the COVID-19 pandemic and the Bata explosions. The decree also establishes that the procurement contract and the beneficial ownership information will be made public in a government website within 15 days of the signature of the contract.	
Publication of all public procurement contracts and the beneficial ownership information of awarded entities for COVID and Bata emergencies signed since the adoption of new regulation	**Outstanding**. The authorities are working to publish the beneficial ownership information as prescribed in their recently adopted regulation from December 2021. Thus far, the beneficial ownership declaration has been published for five entities at the following website: https://minhacienda-gob.com/beneficiarios-finales-covid-7m/. Contracts have not been published.	It is recommneded that the authorities follow through with the publication of the contracts and beneficial ownership information. The authorities have recently established a national procurement office under the office of the Presidency to coordinate all public procurement.
Preparation and publication of a list of assets for privatization, including high-value liquid assets	**Outstanding**. The lists have been approved by the Council of Ministers and have been published on the Ministry of Finance website. Staff and the authorities continue discussions on the composition of the lists, including identifying high-value liquid assets. https://minhacienda-gob.com/privatizacion-de-activos-del-estado/	The next step is for the authorities to prepare an asset-sales plan based on open and transparent international tenders, while enhancing safeguards to promote their good governance.

[1]This table summarizes past IMF staff advice on governance-related reforms in the macro-critical areas of (i) anti-corruption, (ii) fiscal governance and data dissemination/transparency, (iii) regulatory framework, (iv) rule of law, and (v) AML/CFT. The recommendations are sorted by the time they were recommended. Annex X complements this table by focusing and deepening the analysis on IMF staff advice on (i) anti-corruption, (ii) rule of law, and (v) AML/CFT by presenting the implementation status by topic.

Table 1. Overview on the Mixed Progress in the Implementation of Macro-Critical Governance Reforms and Next Steps (continued)

Measure	Implementation Details	Next Steps
Prior Actions and Structural Benchmarks under the EFF-Supported Program		
Prior Actions		
Publish the Governance Diagnostic Report and a governance strategy as developed in consultation with IMF staff	**Met**. These documents were published on the Ministry of Economy, Planning and Finance website. https://minhacienda-gob.com/estrategia-de-gobernanza/	
Submit a membership application to the EITI	**Met**	The authorities withdrew their application after receiving feedback from the EITI secretariat, and plan to resubmit an updated application in 2022.
The Ministry of Finance, Economy and Planning to operationalize a system to track and control expenditure commitments	**Met**	
Structural Benchmarks		
Share active oil and gas contracts with BEAC	**Met**	
Congressional approval of legislation to implement excise taxes	**Met**	
Congressional approval of ammendments to the 2017 tax amnesty law	**Met**	
Clear through the exchange with government bonds the domestic arrears validated through the audit	**Outstanding**. The settlement of audited domestic arrears through securitization is progressing, albeit slowly. The authorities have already made cash payments to some firms using most of their 2021 SDR allocation. The outstanding portion is to be settled with government bonds.	The delay in undertaking this transaction is partially due to the dismissal of the previously hired broker in late 2021. In May 2022, the authorities issued new TOR to hire a broker to undertake the securitization leg of the transaction. The authorities plan to complete the settlement of audited domestic arrears by end-2022.
Publish the audits of GEPetrol and Sonagas on the Hydrocarbon Ministry's website	**Outstanding**. A preliminary draft audit report has been submitted to the companies, which are now in the process of completing information requested by the auditor to facilitate completion of the audits. The authorities have indicated that the audit report has been delayed primarily owing to the exigencies of the pandemic.	Once the audits are finalized the authorities plan to publish the full reports on the website of the Ministry of Mines and Hydrocarbons.
Set up a website for the Official Gazette and publish all laws, orders and decrees since 2000	**Outstanding.** A website for the Official Gazette has been set up, and the authorities have been uploading relevant legal documents, but it is not complete. The authorities continue to work to identify and upload all existing laws and regulations since 2000 on the Official Gazette website (https://boe.gob.gq)	Keep the website of the Official Gazette up-to-date.
Publish a comprehensive hydrocarbon data and information report for 2019	**Met.** https://minhacienda-gob.com/nota-de-prensa-sobre-el-informe-del-sector-nacional-de-hidrocaburos-2019/	Annual publication going forward.
In consultation with IMF staff prepare a meaningful list of assets for privatization and a list of assets that will be subject to other forms of private management, and submit such lists to the Council of Ministers for approval	**Outstanding**. In October 2021, the authorities shared with staff lists of assets for privatization and other forms of private management (including most SOEs). The lists have since been approved by the Council of Ministers and have been published on the Ministry of Finance website. Staff and the authorities continue discussions on the composition of the lists. https://minhacienda-gob.com/privatizacion-de-activos-del-estado/	The next step is for the authorities to prepare an asset-sales plan based on open and transparent international tenders, while enhancing safeguards to promote their good governance.

Table 1. Overview on the Mixed Progress in the Implementation of Macro-Critical Governance Reforms and Next Steps (concluded)

Measure	Implementation Details	Next Steps
	Other Macro-Critical Governance Measures	
Revenue administration reforms	**Implemented**. Adopted excise taxes on imported beverages, tobacco and vehicles, and repealed provisions of the 2017 tax amnesty law that forgave outstanding tax obligations, in line with Fund's Fiscal Affairs Department (FAD) recommendations. Implementation of some FAD recommendations to increase non-hydrocarbon revenue, including measures to limit tax fraud and exemptions, and strengthen large-taxpayer management. To enhance capacity and governance at the customs, the authorities obtained membership in the World Customs Organization in 2021—which will also facilitate the adoption of international good practices. **Outstanding**. In progress: (i) Full implementation of ASYCUDA; (ii) Improve the collection of revenues from the hydrocarbon sector; (iii) Introduce a computerized system for tax information drawing on the resources of the National Center for the Computerization of the Public Administration; (iv) Improve tax compliance by strengthening enforcement of existing penalties; (v) Fully implement the provisions of Decree 134 of 2015 to eliminate ad-hoc tax exemptions; and (vi) Launch a program to foster a tax-paying culture in Equatorial Guinea.	TA has been requested on the taxation of the hydrocarbon sector, and more generally on tax policy (general tax code), and revenue administration (review of draft Code of Tax Procedures and support for ASYCUDA).
Public financial management (PFM) reforms	**Implemented**. Measures adopted to improve PFM in the context of the SMP, including: tighter control over spending, and merger of the Ministries of Economy and Finance. Specific procedures implemented by the new Finance Ministry for expenditure approvals and oversight for current and capital spending. The budget preparation process has also been revamped, with all projects now reviewed by a budget committee in the context of government's announced policy priorities. Strengthened expenditure tracking and monitoring, especially for capital spending, through the adoption of a system to adequately track commitments. **Outstanding**. In progress: (i) Adopt a medium-term fiscal framework to frame and strengthen budget preparation and coordination of public investment; (ii) Establish a public accounting unit and publish in a budget annex the value of exemptions granted during the previous year; (iii) Publish on a government website a register of all SOEs including statutes and names of management ; (iv) Publish yearly, on the Finance Ministry's website, the annual financial accounts for all SOEs; and (v) Publish on a government website all audits of SOEs undertaken by the State Auditor for the past 3 years, and yearly going forward. Implement expenditure tracking within a multi-year framework, and improve tracking of commitments on current spending.	
Rule of law reforms	**Implemented**. Website created for the Official Gazette (https://boe.gob.gq). Some laws, orders, and decrees have been uploaded to this website. **Outstanding**. (i) Continue to update all prescribed documents starting from 2000 in the Official Gazette site; (ii) Set up a website for each court and publish on the website for each court (judiciary) the number of serving judges and staff along with vacant positions, and for each work unit (prosecution) the number of prosecutors and staff, along with vacant positions; (iii) Publish on the courts' website all Supreme Court decisions and all corruption decisions, if any, and commercial decisions; (iv) Publish on the Ministry of Finance's website, for each court, the number of corruption cases, AML/CFT cases, insolvency cases, foreclosure cases, and land cases, specifying how many have been closed, how many are pending, how many are new, and how many are carried over from the previous year; and (v) ANIF will publish an annual report on its activities, budget and resources, and main achievements, including typology studies on laundering of proceeds of main corruption schemes.	
AML/CFT reforms	**Implemented**. ANIF has applied for Egmont membership (membership pending). The government has created a National Coordination Committee on AML/CFT (ANIF is the secretariat of the Committee). The President has asked the Committee to prepare an action plan in anticipation of the GABAC mission. There is also an operational committee to oversee the national risk assessment. **Outstanding**. Significant gaps remain, including: (i) ANIF to develop guidance to assist financial institutions in identifying domestic politically exposed persons (PEPs) and beneficial owners (both physical and legal persons); (ii) ANIF to develop and implement proper arrangements to facilitate cooperation and exchange of information between the ANIF and COBAC to improve the quality of inspections; and (iii) Updating the existing decree on asset declarations for senior public officials in line with the law and international good practice.	
Data dissemination reforms	**Implemented**. In 2018, the Ministry of Finance, Economy and Planning revamped its website, posting historical fiscal data and other relevant information. The IMF Enhanced General Data Dissemination System (e-GDDS) was implemented and the National Summary Data Page was launched in 2019, but data have not been updated regularly. **Outstanding**. Further enhancement of the coverage, frequency and timeliness of data dissemination. In particular: (i) external and fiscal sector data; (ii) statistics on the production and export of extractive industries for each oil concession; and (iii) all data required to be published by the CEMAC Code of Transparency.	
Fiscal safeguards review (FSR)	**Outstanding**. FSR requested in February 2020. FAD had originally planned to conduct this review in May 2020, but this was delayed due the exigencies of the pandemic and related restrictions on international travel.	A mission date is to be established with staff.

28. Boost credible efforts to ignite non-hydrocarbon growth. Full implementation of structural reforms can yield substantial growth (Annex XIII). However, to achieve maximum economic benefits, it is key that announced policy plans are perceived as credible by consumers and investors. In this regard, it would be important for the authorities to prepare an asset-sales plan based on open and transparent international tenders, to accompany the recently published list of assets for privatization—while enhancing safeguards to promote their good governance. At the same time, efforts to identify high-value liquid assets that could help fulfill financing needs should be redoubled. Further to ensure the newly privatized enterprises function efficiently, the authorities should consider strengthening market regulations. To benefit from the AfCFTA agreement signed in 2018, efforts should be scaled up to improve the business environment, including by establishing an investment promotion agency, and improving external competitiveness by strengthening governance, the rule of law, and skills of the local workforce. In the tourism sector, identified as one of the priority sectors for diversification, a strategy should be established to kick start the industry.

29. Press ahead to build a climate-resilient economy, while carefully planning the transition away from hydrocarbons. Measures to promote investment in the hydrocarbon sector need to be assessed carefully, to focus primarily on encouraging further exploration while avoiding incentives for early shutdowns of declining wells. A transparent and credible framework is required to govern expected economic rents from preserving biodiversity and protecting local forests.

30. Authorities' Views. The authorities broadly agreed with staff's recommendations. They noted that supporting a dynamic private sector and the privatization strategy are key elements of the government's strategy to leverage existing assets to develop the non-hydrocarbon sector. They emphasized ongoing efforts to improve the business environment, including the establishment of the one-stop-shop for investment, and recent initiatives to lower charges at the port and telecommunication rates. They agreed with the priority of enhancing skills of the local workforce, including through health and education. They highlighted that a strategy to promote tourism is being developed, after a pause during the pandemic, including measures to streamline visitor visa requirements. They concurred with the need for a structured and transparent framework for the sale of public assets. The authorities emphasized their plans to carefully manage the transition away from hydrocarbons, and noted their intention to secure a financial return from the environmental services provided by their protected forest and its biodiversity.

OTHER ISSUES

31. Important efforts to enhance capacity development, governance, and improve statistics are ongoing and should be stepped up. The Fund's technical assistance (TA) is focused on supporting the authorities in enhancing governance and reducing corruption vulnerabilities. TAs to enhance financial sector soundness and strengthen macroeconomic statistics are ongoing (Annex XIV).

- On statistics: Although the authorities are taking some steps to improve quality, coverage, and timeliness, data provision has serious shortcomings that significantly hamper surveillance. Progress has been made in the compilation and dissemination of some macro data, including CPI, fiscal, and national accounts (including a quarterly index). However, key gaps remain due to continuing capacity weaknesses. In November 2021, the authorities approved a 2022–25 national development strategy for statistics. This strategy is now being implemented, and the statistics action plan for 2022 and the different Ministries are aligned with the strategy. In this regard, several activities are currently being undertaken, including elaboration of the national framework for quality assurance, implementing statistical services in all sectoral departments, introducing other economic indicators, and phasing in a mechanism for the routine collection of statistics on public security, and vital statistics. Going forward, it would be critical to tackle the remaining gaps in the provision of economic statistics, including on the external sector and the net international investment position.

32. Authorities' Views. The authorities expressed appreciation for Fund TA, including on the anti-corruption law and the financial sector. They requested additional TA in the areas of taxation of the hydrocarbon sector, tax policy (general tax code), PFM (annual and multi-annual spending control and monitoring and a Fiscal Safeguard Review), revenue administration (review of draft Code of Tax Procedures and support for ASYCUDA), and social protection (e.g., mobile transfers). They noted that they are reviewing their needs for debt management TA. The national strategy for the development of statistics, which is currently being implemented, is expected to guide future TA needs on statistics capacity building. They noted that implementation of TA recommendations in some areas had been slower than envisaged, mainly due to the exigencies of the pandemic and the Bata emergencies, and highlighted that this should improve going forward as conditions normalize.

33. Safeguards Assessment. The 2022 update safeguards assessment found that BEAC maintained strong governance arrangements following legal reforms in 2017. BEAC also completed its multi-year initiative in 2019 to transition to International Financial Reporting Standards, strengthening its financial reporting practices. The external audit arrangements continue to be robust. Nonetheless, the internal audit mechanism faces capacity constraints and is not yet fully aligned to international practices. BEAC also needs to strengthen its risk management and cyber resilience, and develop business continuity and disaster recovery plans.

STAFF APPRAISAL

34. Equatorial Guinea's economy is slowly emerging from the ravages of the COVID-19 pandemic and Bata explosions, buoyed by higher oil prices, but substantial challenges remain. The relaxation of pandemic containment measures and higher international oil prices are helping boost economic activity, government revenues, and export earnings. But hydrocarbon output remains in secular decline, and combined with a stalled structural reform agenda, governance and corruption concerns, and a weak business environment, will drive a fall in output and living standards. In the near term, surging food prices have increased the risk of food insecurity for a substantial proportion of the population. The risks to the outlook are titled to the downside, and include a further sustained surge in international food prices, a resurgence of pandemic variants, a spike in marine piracy incidents, lower oil prices, further delays in addressing governance and corruption vulnerabilities, and a worsening of banking sector stability indicators. The external position is assessed as substantially weaker than the level implied by medium-term fundamentals and desirable policies.

35. Measures to protect food security, and rebuild macroeconomic buffers are near-term priorities. The authorities' suspension of some fees at the customs and proposed reorganization of port operations, to reduce costs, in the wake of the recent surge in prices of basic imported food items are steps in the right direction. However, more targeted temporary support is needed, such as subsidization of basic food items that the poor consume, in the absence of support from a national social safety net. Attention should also be given to increasing domestic food production. At the same time, the authorities should use the important opportunity from the ongoing surge in international oil prices to rebuild sufficient macroeconomic buffers, including via the accumulation of foreign reserves.

36. Fiscal policy should focus on maintaining sustainability, while promoting inclusive growth over the medium term. Volatile hydrocarbon prices and a secular decline in production make it important to adopt measures to boost non-hydrocarbon revenues and enhance public spending efficiency to protect fiscal sustainability. Resource reallocation and efficiency gains should address the crucial need to invest in basic healthcare, education, and sanitation to strengthen human capital and improve social outcomes. In addition, a well-functioning social protection system with clear objectives is needed, supported by a single beneficiary registry with evidence-based criteria for social assistance. To ensure good governance in these initiatives, efforts must be made to improve the transparency of spending plans, their execution, and outcomes, by taking concrete measures to enhance the collection and reporting of social spending data.

37. Longstanding vulnerabilities in the banking sector, further aggravated by the pandemic, need to be promptly addressed. The authorities need to accelerate their plan to clear domestic arrears, and work with COBAC including to have any institution with capital shortfalls submit a credible recapitalization and/or restructuring plan. Additionally, measures are needed to maximize recoveries on nonperforming loans such as new mechanisms to resolve commercial and credit disputes. Beyond this, legislation to strengthen the governance and transparency of state-owned banks should be adopted to promote good practices. Development of mobile payments, which could enhance financial access and inclusion, should be promoted, and accompanied by adequate oversight.

38. A concerted effort is needed to tackle continuing and severe governance and corruption vulnerabilities to secure national development gains. The authorities need to press ahead with measures to improve governance, enhance transparency and fight corruption as detailed in their Action Plan. The promptness, success, and quality of the aforementioned macro-critical governance reforms would determine the dividends from the rest of the structural reforms, including improvement in the business environment, and reduction of NPLs in the banking system. The commissioning of audits for COVID-19 pandemic and Bata rehabilitation and recovery spending, and the audits of the state-owned oil and gas companies, are steps in the right direction—and prompt completion and publication of the audits is needed to deliver full gains. The authorities should commence publication of periodic implementation progress reports of the

2019 Good Governance and Anti-Corruption Action Plan. The COVID-19 and Bata rehabilitation public procurement contracts, and the beneficial owners of the entities that have been awarded the contracts, should be published in line with the related regulation from December 2021. In addition, the authorities should improve the timely publication of economic data essential for surveillance. Efforts to put in place the asset declaration regime for senior public officials are welcome, and should be credibly implemented—including the publication of the declarations—to further advance the government's anti-corruption framework.

39. Advancing structural reforms is key for economic diversification and sustainable inclusive growth. The identification of public assets for privatization and ongoing measures to strengthen governance of state enterprises are welcome, and a swift preparation of an asset-sales plan is needed—based on open and transparent international tenders. To facilitate diversification, ongoing work on leveraging existing public infrastructure to stimulate new economic activities, such as making the Bata port a trans-shipment hub for Central African countries, should be stepped up. The authorities should take concrete actions to stimulate the tourism industry by addressing existing hurdles, including access to visitor visas. Staff welcomes the authorities' commitment to building a climate resilient economy. Stepped up structural reforms in the coming years would increase productivity and export competitiveness, including from investment in human capital and improved social outcomes. In addition to supporting diversification, fulfilling social needs, and rebuilding macroeconomic buffers, these priorities will reduce external imbalances.

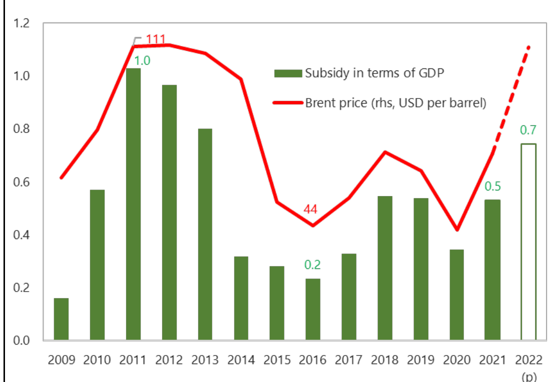
40. It is proposed that the next Article IV consultation with Equatorial Guinea take place in accordance with the Executive Board decision on consultation cycles for members with Fund Arrangements.

Box 1. Equatorial Guinea: 2022 Fuel Subsidy Reform[1]

Equatorial Guinea's annual fiscal cost in fuel subsidies has reached up to 1 percent of GDP since 2009, due to relatively low regulated domestic retail fuel prices. The 2022 fuel subsidy reform is a step in the right direction and is expected to generate small savings of about 0.1 percent of GDP in 2022. The reform is designed to safeguard the most vulnerable population by leaving kerosene prices unchanged. Going forward, further measures can be considered, starting with building a robust social safety net that would help more efficiently mitigate the impact of higher fuel prices on the most vulnerable. In a context of higher-than-previously-anticipated oil prices, the authorities could develop a more comprehensive reform plan, ultimately moving to an automatic pricing mechanism with price smoothing rules. Clearly communicating the benefits of a fuel subsidy reform to the public would help build public support.

Government spending on fuel subsidies has ranged from 0.2 to 1.0 percent of GDP since 2009. The regulated retail fuel prices have been fixed since early 2007. Over the past decade, the government faced a significant subsidy bill as market prices remained above regulated prices, reaching a peak of 1 percent of GDP in 2011–12 when the Brent crude oil averaged $110 per barrel (Figure 1). Following the decline in crude prices, subsidies fell through 2016 but rebounded starting in 2017. In 2021, fuel subsidies amounted to 0.5 percent of GDP, bouncing back from 2020, with further increases expected in 2022.

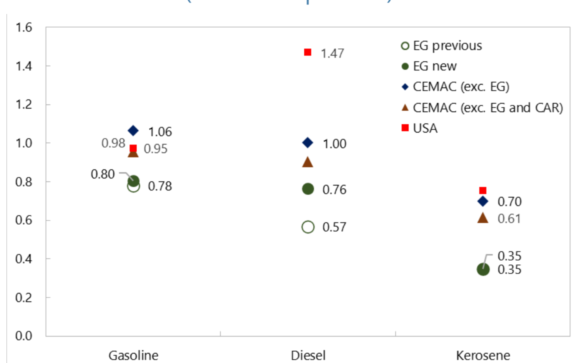
Figure 1. EG Fuel Subsidy and Oil Prices



Sources: Equatoguinean authorities, IMF, Global Petrol Prices and EIA

Figure 2. Fuel Prices in CEMAC

(U.S. dollar per liter)



Sources: Equatoguinean authorities, IMF, Global Petrol Prices and EIA

Retail fuel prices in Equatorial Guinea are generally lower than in other countries in the region (Figure 2). At half the price than the average in the rest of CEMAC, kerosene shows the largest gap, but the differences are also relevant for gasoline and diesel oil. Against this backdrop, EG has faced considerably larger subsidy bills than other CEMAC countries for these fuels. For example, in 2019, the subsidy bill in EG amounted to 0.5 percent of GDP compared to less than 0.05 percent for other countries in CEMAC that had subsidies for these three fuels. Importantly, the price difference has reportedly led to cross-border fuel smuggling, an issue that would be largely resolved by the reform as it prohibits gas stations to deliver to fuel containers (only to vehicle gas tanks). Moreover, under the relatively high projected 2022 oil price of $108, the increase in regulated retail fuel prices is expected to generate small savings (of 0.1 percent of GDP in 2022) and contain the projected increase in the subsidy bill to 0.7 percent of GDP in 2022.[2]

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[1] Prepared by Federico Amui (AFR).

[2] The net subsidy bill is projected at 0.5 percent of GDP in 2022—with net subsidy representing the difference between the fuel subsidy spending and the tax revenue from fuels. The $108 oil price is in line with IMF WEO March assumptions.

Box 1. Equatorial Guinea: 2022 Fuel Subsidy Reform (concluded)

The anticipated effect of regulated price increases on inflation is small. Given the small weight of fuels in the consumption basket, the price hikes are expected to have a first-round effect on consumer inflation of about 0.3 percentage points. Since businesses do not have access to subsidized fuels and face market prices, second-round effects from the reform are expected to be limited.

The reform is a step in the right direction, and additional measures to strengthen the reform design and implementation are desirable. In line with good practices and international experiences, as highlighted by the literature on fuel subsidy reforms[3], additional features to consider include:

- A clear communication strategy helps the population better understand the need for the reform and builds public support. The communication campaign should highlight the magnitude of subsidies, how these generally benefit high-income groups, and how fuel subsidies crowd out other priority spending that better serves the most vulnerable population and productive investment.
- Although keeping kerosene prices unchanged and adjusting gasoline prices only slightly aim to limit the impact on low-income households, more price flexibility together with social assistance programs specifically targeted to the poor, would serve the same goal and eliminate the need for large fuel subsidies and its negative externalities (e.g., cross-border smuggling, climate change).
- Phasing out ad-hoc pricing and moving to a system of automatic pricing with smoothing mechanisms would also help stabilize tax revenues from fuels by moderating the pass-through from international market fluctuations. This would help improve macro-fiscal planning as well as that of firms and households.
- A more comprehensive reform could also consider the environmental aspects to incentivize firms and households to switch to more efficient and clean energy sources.
- Maintaining transparency in the disclosure of information regarding government spending in fuel subsidies is beneficial for policymaking[4].
- Reconsideration of the limit set on the amount of subsidized fuel that individuals can purchase. The reform sets a relatively high limit (of 150 liters per vehicle per day) on the volume of fuels that individuals can purchase in gas stations at the subsidized price, creating inefficient arbitrage opportunities for individuals from reselling fuel to businesses. Moreover, international experience shows that these limits are very difficult to enforce in practice.

[3] D. Coady, I. W. H. Parry, and B. Shang. Energy Price Reform: Lessons for Policymakers. *Review of Environmental Economics and Policy*, volume 12, issue 2, Summer 2018, pp. 197–219; J. Rentschler, and M. Bazilian. Principles for Designing Effective Fossil Fuel Subsidy Reforms. *Review of Environmental Economics and Policy*, volume 11, issue 1, Winter 2017, pp. 138–155.

[4] In the new fuel price structure, the subsidy is named "stabilization rate" and included as a component of taxes and levies. The "stabilization rate" captures the difference between the market price and the regulated retail price for each fuel.

Table 2. Equatorial Guinea: Selected Economic and Financial Indicators, 2020–27

	2020		2021		2022		2023	2024	2025	2026	2027
	Prog.	Est.	Prog.	Est.	Prog.	Proj.	Projections				
	(Annual percentage change, unless otherwise specified)										
Production, prices, and money											
Real GDP	-1.9	-4.2	1.0	-3.2	-4.7	5.8	-3.1	-12.3	-2.6	-4.7	-1.1
Hydrocarbon sectors[1]	-5.0	-3.4	-0.6	-7.3	-11.3	9.0	-8.3	-25.3	-10.0	-16.2	-9.0
Non-hydrocarbon sectors	1.7	-5.2	2.9	1.6	2.2	2.4	2.7	0.7	3.0	2.7	3.1
GDP deflator	0.4	-8.8	-0.6	20.9	2.7	36.4	-6.0	-0.7	2.1	3.8	3.5
Hydrocarbon sectors	-3.6	-25.5	-5.5	76.2	-1.8	55.8	-15.9	-11.9	-6.7	-5.5	-3.4
Non-hydrocarbon sectors	2.0	3.5	2.0	2.8	2.1	5.4	6.0	5.5	5.0	4.5	3.8
Consumer prices (annual average)	1.7	4.8	1.7	-0.1	1.8	5.1	5.7	5.2	4.7	4.2	3.5
Consumer prices (end of period)	1.7	-0.5	1.7	2.9	1.8	6.0	5.5	5.0	4.5	4.0	3.0
Monetary and exchange rate											
Broad money	3.7	-7.0	4.9	0.4	4.3	1.8	-8.9	-12.9	-0.5	-1.1	2.3
Nominal effective exchange rate (- = depreciation)	…	2.7	…	1.4	…	…	…	…	…	…	…
Real effective exchange rate (- = depreciation)	…	5.9	…	-4.6	…	…	…	…	…	…	…
External sector											
Exports, f.o.b.	-7.9	-38.5	-6.1	57.6	-11.9	64.5	-21.2	-30.3	-12.4	-17.3	-10.0
Hydrocarbon exports	-8.6	-38.7	-6.8	63.8	-13.0	69.0	-22.3	-32.2	-13.8	-19.5	-11.9
Non-hydrocarbon exports	14.9	-36.0	13.5	2.6	11.9	0.5	2.4	2.6	2.8	3.0	3.3
Imports, f.o.b.	-3.3	-31.2	-17.6	22.3	-12.5	46.7	-21.5	-11.2	0.4	-4.1	-1.8
Terms of trade	-4.7	-13.7	-5.5	24.9	-1.3	54.1	-15.4	-10.9	-0.3	-9.1	-6.5
Government finance											
Revenue	-3.4	-33.9	0.2	27.0	-3.2	49.0	-8.0	-20.7	-9.6	-8.1	-2.9
Expenditure	-2.2	-17.7	-3.1	-6.4	-7.1	38.1	-11.2	-10.7	-1.3	-1.4	-0.7
	(Percent of GDP, unless otherwise specified)										
Investment and savings											
Gross investment	13.1	4.6	11.7	4.8	12.2	9.5	9.8	9.8	10.9	11.0	11.1
Gross national savings	7.3	0.4	7.9	1.3	8.1	7.9	7.7	4.6	4.5	4.0	4.1
Government finance											
Revenue	17.5	14.1	17.5	15.3	17.3	15.8	16.0	14.5	13.2	12.3	11.6
Of which: hydrocarbon revenue	12.8	10.5	11.4	12.3	10.1	13.3	12.9	10.8	9.1	7.6	6.7
non-hydrocarbon revenue	4.7	3.6	6.1	3.0	7.1	2.5	3.0	3.7	4.1	4.7	5.0
Expenditure	16.4	15.8	15.8	12.7	15.0	12.1	11.8	12.1	12.0	12.0	11.6
Overall fiscal balance (Commitment basis)	1.1	-1.7	1.6	2.6	2.3	3.7	4.1	2.4	1.2	0.3	0.0
Overall fiscal balance (Cash basis)[2]	-21.3	-3.2	1.6	1.0	2.3	-2.7	4.1	2.4	1.2	0.3	0.0
Non-hydrocarbon primary balance[3]	-10.6	-11.1	-8.1	-8.7	-6.2	-8.5	-7.7	-7.3	-6.9	-6.4	-5.8
Outstanding public debt[4]	46.6	48.4	45.3	42.8	44.4	27.1	26.5	28.5	26.2	24.1	21.1
Change in domestic arrears	-22.4	-1.4	0.0	-1.6	0.0	-6.4	0.0	0.0	0.0	0.0	0.0
External sector											
Current account balance (including official transfers; - = deficit)	-5.7	-4.2	-3.8	-3.4	-4.1	-1.6	-2.1	-5.3	-6.4	-7.1	-7.0
Total external public debt	13.0	15.1	14.8	12.9	16.2	8.4	9.0	10.3	10.0	9.8	9.2
External debt service-to-exports ratio (percent)	6.3	6.7	6.7	4.1	9.6	3.2	3.9	5.2	6.9	8.4	9.9
External debt service/government revenue (percent)	11.8	14.4	11.8	10.8	15.4	9.4	9.7	11.2	14.1	15.5	16.8
Memorandum items											
CEMAC Foreign Reserves											
(US$ billions, end-of-period)[5]	10.5	7.8	12.5	8.1	13.9	10.5	12.8	n.a	n.a.	n.a.	n.a.
(in months of extrazone imports)	4.2	3.2	4.8	2.7	5.3	3.5	4.2	4.6	5.0	n.a	n.a
Oil price (U.S. dollars a barrel)[6]	56.7	39.1	54.3	67.3	53.7	107.7	92.9	84.1	78.2	74.4	71.8
Nominal GDP (billions of CFA francs)	6,842	5,813	6,875	6,804	6,726	9,819	8,946	7,794	7,755	7,667	7,846
Nominal GDP (millions of US dollars)	11,639	10,099	…	12,269	…	…	…	…	…	…	…
Non-hydrocarbon GDP (billions of CFA francs)	4,096	3,832	4,298	4,003	4,481	4,323	4,707	5,002	5,410	5,810	6,214
Oil volume (crude + condensado, millions of barrels)	50	52	43	43	37	43	38	30	29	25	22
Exchange rate (average; CFA francs/U.S. dollar)	587.8	575.6	…	…	…	…	…	…	…	…	…

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

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

[2] Includes a one-time clearance of outstanding arrears through securitization in 2022.

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

[4] Outstanding public debt includes domestic arrears, which amounted to 9.2 percent of GDP in 2021.

[5] The SDR allocation is not included in this figure.

[6] The local price of crude oil is the Brent and includes a quality discount.

Table 3a. Equatorial Guinea: Balance of Payments, 2020–27[1]

(Billions of CFA francs, unless otherwise specified)

	2020		2021		2022		2023	2024	2025	2026	2027
	Prog.	Est.	Prog.	Est.	Prog.	Proj.	Projections				
Current account	-392	-241	-264	-233	-277	-157	-188	-412	-497	-541	-549
Trade balance	1219	831	1263	1634	1118	2889	2251	1310	994	670	513
Exports of goods, f.o.b.	2260	1751	2122	2759	1869	4539	3529	2432	2110	1731	1550
Hydrocarbon exports	2181	1573	2032	2577	1768	4356	3342	2240	1912	1528	1340
Crude oil	1521	1131	1234	1645	1050	2734	2061	1465	1305	1050	897
Liquefied natural gas	411	324	492	694	429	1209	928	468	338	235	222
Liquefied petroleum gas	94	43	135	73	124	101	90	81	73	67	60
Methanol	156	76	170	165	165	311	263	226	197	176	161
Non-hydrocarbon exports	79	178	90	182	100	183	188	193	198	204	210
Imports of goods, f.o.b.	-1041	-920	-858	-1125	-751	-1650	-1279	-1123	-1116	-1062	-1037
Petroleum sector	-165	-100	-83	-113	-77	-145	-93	-100	-78	-77	-77
Petroleum products	-222	-192	-217	-322	-217	-554	-437	-393	-373	-362	-358
Public sector equipment and construction	-350	-330	-299	-363	-245	-500	-394	-331	-349	-327	-317
Other[2]	-303	-298	-259	-327	-212	-451	-355	-299	-316	-296	-286
Services (net)	-667	-343	-637	-583	-591	-1060	-851	-570	-472	-351	-276
Income (net)[3]	-753	-313	-701	-980	-618	-1655	-1268	-849	-725	-578	-506
Current transfers	-192	-416	-190	-304	-185	-330	-319	-303	-294	-282	-280
Capital and financial account	531	-187	363	335	336	343	304	435	510	491	498
Capital account	0	0	0	0	0	0	0	0	0	0	0
Financial account	531	-187	363	335	336	343	304	435	510	491	498
Direct investment	347	236	370	255	355	286	297	413	382	373	397
Portfolio investment (net)	-1	11	-1	-1	-1	-1	-1	-1	-1	-1	-1
Other investment (net)[4]	185	-434	-6	81	-18	58	9	23	129	119	103
Medium- and long-term transactions	49	81	14	122	-21	44	48	59	39	37	28
General government	49	26	14	-52	-21	-15	-11	1	-18	-20	-29
Of which: amortization	-101	-94	-86	-87	-121	-115	-111	-99	-118	-120	-129
Monetary authority	0	0	0	119	0	0	0	0	0	0	0
Other sectors	0	55	0	55	0	59	59	58	57	57	57
Short-term transactions	136	-515	-19	-42	3	14	-39	-36	89	83	75
General government[5]	131	60	0	-10	0	37	44	0	0	0	0
Banks	1	32	1	-16	-1	0	-2	-1	-2	0	0
Other sectors	4	-607	-21	-16	4	-23	-81	-35	92	82	75
Errors and omissions	0	257	0	0	0	0	0	0	0	0	0
Overall balance	139	-171	99	102	59	186	117	22	13	-51	-51
Financing	-139	171	-99	-102	-59	-186	-117	-22	-13	51	51
Change in gross international reserves[6] (- = increase)	-259	142	-218	-83	-163	-148	-117	-22	-13	51	51
Exceptional financing	-44	29	0	-57	0	-38	0	0	0	0	0
Financing gap	121	0	119	38	104	0	0	0	0	0	0
Program Financing	121	0	119	0	104	0	0	0	0	0	0
African Development Bank	73	0	72	0	57	0	0	0	0	0	0
IMF-EFF	48	0	47	0	47	0	0	0	0	0	0
RFI		0.0		38							
Residual gap	0	0	0	0	0	0	0	0	0	0	0
Memorandum items:											
Growth of hydrocarbon exports (percent)	-8.9	-37.6	-5.8	70.0	-12.1	61.1	-22.3	-32.2	-13.8	-19.5	-11.9
Growth of non-hydrocarbon exports (percent)	14.5	-34.9	14.8	6.5	13.0	-4.2	3.8	3.8	3.8	3.8	3.8
Non-hydrocarbon current account	-895	-872	-794	-865	-697	-1262	-1015	-829	-824	-724	-661

Sources: Equatoguinean authorities; and staff estimates and projections.

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

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

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

[4] The SDR allocation is reflected via a neutral double entry of higher reserves and higher long-term liabilities.

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

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

Table 3b. Equatorial Guinea: Balance of Payments, 2020–27[1]

(Percent of GDP, unless otherwise specified)

	2020		2021		2022		2023	2024	2025	2026	2027
	Prog.	Est.	Prog.	Est.	Prog.	Proj.	Projections				
Current account	-5.7	-4.2	-3.8	-3.4	-4.1	-1.6	-2.1	-5.3	-6.4	-7.1	-7.0
Trade balance	17.8	14.3	18.4	24.0	16.6	29.4	25.2	16.8	12.8	8.7	6.5
Exports of goods, f.o.b.	33.0	30.1	30.9	40.6	27.8	46.2	39.5	31.2	27.2	22.6	19.8
Hydrocarbon exports	31.9	27.1	29.6	37.9	26.3	44.4	37.4	28.7	24.7	19.9	17.1
Crude oil	22.2	19.5	18.0	24.2	15.6	27.8	23.0	18.8	16.8	13.7	11.4
Liquefied natural gas	6.0	5.6	7.2	10.2	6.4	12.3	10.4	6.0	4.4	3.1	2.8
Liquefied petroleum gas	1.4	0.7	2.0	1.1	1.8	1.0	1.0	1.0	0.9	0.9	0.8
Methanol	2.3	1.3	2.5	2.4	2.5	3.2	2.9	2.9	2.5	2.3	2.0
Non-hydrocarbon exports	1.2	3.1	1.3	2.7	1.5	1.9	2.1	2.5	2.6	2.7	2.7
Imports of goods, f.o.b.	-15.2	-15.8	-12.5	-16.5	-11.2	-16.8	-14.3	-14.4	-14.4	-13.8	-13.2
Petroleum sector	-2.4	-1.7	-1.2	-1.7	-1.1	-1.5	-1.0	-1.3	-1.0	-1.0	-1.0
Petroleum products	-3.2	-3.3	-3.2	-4.7	-3.2	-5.6	-4.9	-5.0	-4.8	-4.7	-4.6
Public sector equipment and construction	-5.1	-5.7	-4.4	-5.3	-3.6	-5.1	-4.4	-4.2	-4.5	-4.3	-4.0
Other[2]	-4.4	-5.1	-3.8	-4.8	-3.2	-4.6	-4.0	-3.8	-4.1	-3.9	-3.6
Services (net)	-9.7	-5.9	-9.3	-8.6	-8.8	-10.8	-9.5	-7.3	-6.1	-4.6	-3.5
Income (net)[3]	-11.0	-5.4	-10.2	-14.4	-9.2	-16.9	-14.2	-10.9	-9.3	-7.5	-6.5
Current transfers	-2.8	-7.2	-2.8	-4.5	-2.8	-3.4	-3.6	-3.9	-3.8	-3.7	-3.6
Capital and financial account	7.8	-3.2	5.3	4.9	5.0	3.5	3.4	5.6	6.6	6.4	6.4
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	7.8	-3.2	5.3	4.9	5.0	3.5	3.4	5.6	6.6	6.4	6.4
Direct investment	5.1	4.1	5.4	3.8	5.3	2.9	3.3	5.3	4.9	4.9	5.1
Portfolio investment (net)	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment (net)[4]	2.7	-7.5	-0.1	1.2	-0.3	0.6	0.1	0.3	1.7	1.6	1.3
Medium- and long-term transactions	0.7	1.4	0.2	1.8	-0.3	0.4	0.5	0.8	0.5	0.5	0.4
General government	0.7	0.4	0.2	-0.8	-0.3	-0.2	-0.1	0.0	-0.2	-0.3	-0.4
Of which : amortization	-1.5	-1.6	-1.3	-1.3	-1.8	-1.2	-1.2	-1.3	-1.5	-1.6	-1.6
Monetary authority	0.0	0.0	0.0	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other sectors	0.0	0.9	0.0	0.8	0.0	0.6	0.7	0.7	0.7	0.7	0.7
Short-term transactions	2.0	-8.9	-0.3	-0.6	0.0	0.1	-0.4	-0.5	1.2	1.1	1.0
General government[5]	1.9	1.0	0.0	-0.1	0.0	0.4	0.5	0.0	0.0	0.0	0.0
Banks	0.0	0.5	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other sectors	0.1	-10.4	-0.3	-0.2	0.1	-0.2	-0.9	-0.5	1.2	1.1	1.0
Errors and omissions	0.0	4.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	2.0	-2.9	1.4	1.5	0.9	1.9	1.3	0.3	0.2	-0.7	-0.7
Financing	-2.0	2.9	-1.4	-1.5	-0.9	-1.9	-1.3	-0.3	-0.2	0.7	0.7
Change in gross international reserves[6] (- = increase)	-3.8	2.4	-3.2	-1.2	-2.4	-1.5	-1.3	-0.3	-0.2	0.7	0.7
Net change in external arrears	0	0.5	0	-0.8	0	-0.4					
Financing gap	1.8	0.0	1.7	0.6	1.5	0.0	0.0	0.0	0.0	0.0	0.0
Program financing	1.8	0.0	1.7	0.0	1.5	0.0	0.0	0.0	0.0	0.0	0.0
RFI		0.0		0.6							
Residual gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Non-hydrocarbon current account	-13.1	-15.0	-11.6	-12.7	-10.4	-12.9	-11.3	-10.6	-10.6	-9.4	-8.4

Sources: Equatoguinean authorities; and staff estimates and projections.

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

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

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

[4] The SDR allocation is reflected via a neutral double entry of higher reserves and higher long-term liabilities

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

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

Table 4a. Equatorial Guinea: Summary of Central Government Financial Operations, 2020–27

(Billions of CFA francs, unless otherwise specified)

	2020		2021		2022		2023	2024	2025	2026	2027
	Prog.	Est.	Prog.	Est.	Prog.	Proj.	Projections				
Revenue	1,197	820	1,200	1,041	1,163	1,552	1,427	1,132	1,023	941	913
Hydrocarbon revenue	874	611	784	836	683	1,307	1,156	841	707	584	523
Tax revenue	253	310	222	228	199	354	467	352	263	227	195
Other revenue	622	302	562	607	483	953	689	489	444	357	328
Non-hydrocarbon revenue	323	208	416	205	480	244	271	291	317	357	390
Tax revenue	226	131	290	124	340	155	177	192	210	239	264
Other revenue	97	78	126	81	140	89	94	99	107	117	127
Grants	0	0	0	1	0	0	0	0	0	0	0
Expenditure	1,123	921	1,088	861	1,011	1,190	1,057	944	932	918	912
Expense	803	726	816	717	791	944	815	788	777	765	755
Expense (primary)	724	650	700	647	678	832	714	698	693	688	685
Compensation of employees	191	195	195	195	195	204	206	207	208	209	210
Purchase of goods and services	370	322	355	293	343	337	335	327	324	318	315
Subsidies and transfers[1]	163	133	150	159	140	291	172	164	161	161	160
Interest	78	76	116	70	113	113	102	90	84	77	70
Domestic	38	55	60	45	55	82	74	63	58	51	46
Foreign	40	21	56	26	58	30	28	27	27	25	24
Net acquisition of non-financial assets	320	194	272	144	220	245	242	156	155	153	157
Net lending/borrowing (overall fiscal balance)	75	-101	112	180	152	362	370	188	92	22	1
Net financial transactions	-195	101	-232	-217	-255	-362	-370	-188	-92	-22	-1
Net change in domestic arrears[2]	-1,535	-83	0	-111	0	-627	0	0	0	0	0
Net acquisition of financial assets	-42	130	-51	-235	-34	0	-89	-46	88	160	184
Domestic deposits	-174	69	-51	-248	-34	-37	-133	-46	88	160	184
Foreign deposits/assets[3]	131	60	0	13	0	37	44	0	0	0	0
Net incurrence of liabilities	1,442	95	-181	160	-222	404	-282	-141	-180	-182	-186
Domestic[4]	1,393	69	-194	211	-201	419	-271	-142	-162	-162	-157
Foreign	49	26	14	-52	-21	-15	-11	1	-18	-20	-29
Disbursements	150	120	100	35	100	100	100	100	100	100	100
Amortization (-)	-101	-94	-86	-87	-121	-115	-111	-99	-118	-120	-129
Net change in external arrears	-44	29	0	-57	0	-38	0	0	0	0	0
Other	-15	-71	0	25	0	-100	0	0	0	0	0
Program financing (EFF)	121	0	119	0	104	0	0	0	0	0	0
Financing gap	0	0	0	38	0	0	0	0	0	0	0
RFI	0	0	0	38	0	0	0	0	0	0	0
Residual gap	0	0	0	0	0	0	0	0	0	0	0
Memorandum items:											
Overall fiscal balance	75	-101	112	180	152	362	370	188	92	22	1
Percent of GDP	1.1	-1.7	1.6	2.6	2.3	3.7	4.1	2.4	1.2	0.3	0.0
Non-hydrocarbon primary balance[5]	-723	-643	-557	-590	-419	-837	-688	-567	-535	-489	-456
Percent of non-hydrocarbon GDP	-17.6	-16.8	-13.0	-14.7	-9.4	-19.4	-14.6	-11.3	-9.9	-8.4	-7.3
Non-hydrocarbon revenue (percent non-hydro GDP)	7.9	5.4	9.7	5.1	10.7	5.7	5.8	5.8	5.9	6.1	6.3
Of which: Tax revenue	5.5	3.4	6.7	3.1	7.6	3.6	3.8	3.8	3.9	4.1	4.2
Outstanding public debt[6]	46.6	48.4	45.3	42.8	44.4	27.1	26.5	28.5	26.2	24.1	21.1
Gross government deposits	902	626	953	889	987	926	1,059	1,105	1,017	857	673
Of which: available	301	70	352	281	386	303	384	411	360	267	159
Deposits with BEAC[7]	370	121	421	322	454	360	492	539	450	290	106
Of which: available	274	19	325	183	359	206	286	313	262	169	62
Deposits abroad	304	305	304	320	304	320	320	320	320	320	320
Of which: available	0	0	0	0	0	0	0	0	0	0	0
Deposits with commercial banks	228	200	228	246	228	246	246	246	246	246	246
Of which: available	27	52	27	98	27	98	98	98	98	98	98
Nominal GDP	6,842	5,813	6,875	6,804	6,726	9,819	8,946	7,794	7,755	7,667	7,846
Nominal non-hydrocarbon GDP	4,096	3,832	4,298	4,003	4,481	4,323	4,707	5,002	5,410	5,810	6,214

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

[1] Includes social benefits and other transfers.

[2] Includes a one-time clearance of outstanding arrears through securitization in 2022.

[3] 2021-2023 refers to repatriation of financial assets.

[4] Statutory advances are assumed to be repayed in 10 years, starting in 2022. Includes payment of arrears.

[5] Equal to the overall balance minus interest and hydrocarbon revenues.

[6] Outstanding public debt includes domestic arrears.

[7] The SDR allocation is reflected via an increase in government deposits with BEAC.

Table 4b. Equatorial Guinea: Summary of Central Government Financial Operations, 2020–27

(Percent of GDP, unless otherwise specified)

	2020		2021		2022		2023	2024	2025	2026	2027
	Prog.	Est.	Prog.	Est.	Prog.	Proj.	Projections				
Revenue	17.5	14.1	17.5	15.3	17.3	15.8	16.0	14.5	13.2	12.3	11.6
Hydrocarbon revenue	12.8	10.5	11.4	12.3	10.1	13.3	12.9	10.8	9.1	7.6	6.7
Tax revenue	3.7	5.3	3.2	3.4	3.0	3.6	5.2	4.5	3.4	3.0	2.5
Other revenue	9.1	5.2	8.2	8.9	7.2	9.7	7.7	6.3	5.7	4.7	4.2
Non-hydrocarbon revenue	4.7	3.6	6.1	3.0	7.1	2.5	3.0	3.7	4.1	4.7	5.0
Tax revenue	3.3	2.3	4.2	1.8	5.1	1.6	2.0	2.5	2.7	3.1	3.4
Other revenue	1.4	1.3	1.8	1.2	2.1	0.9	1.1	1.3	1.4	1.5	1.6
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	16.4	15.8	15.8	12.7	15.0	12.1	11.8	12.1	12.0	12.0	11.6
Expense	11.7	12.5	11.9	10.5	11.8	9.6	9.1	10.1	10.0	10.0	9.6
Expense (primary)	10.6	11.2	10.2	9.5	10.1	8.5	8.0	9.0	8.9	9.0	8.7
Compensation of employees	2.8	3.4	2.8	2.9	2.9	2.1	2.3	2.7	2.7	2.7	2.7
Purchase of goods and services	5.4	5.5	5.2	4.3	5.1	3.4	3.7	4.2	4.2	4.2	4.0
Subsidies and transfers[1]	2.4	2.3	2.2	2.3	2.1	3.0	1.9	2.1	2.1	2.1	2.0
Interest	1.1	1.3	1.7	1.0	1.7	1.1	1.1	1.2	1.1	1.0	0.9
Domestic	0.6	0.9	0.9	0.7	0.8	0.8	0.8	0.8	0.7	0.7	0.6
Foreign	0.6	0.4	0.8	0.4	0.9	0.3	0.3	0.4	0.3	0.3	0.3
Net acquisition of non-financial assets	4.7	3.3	4.0	2.1	3.3	2.5	2.7	2.0	2.0	2.0	2.0
Net lending/borrowing (overall fiscal balance)	1.1	-1.7	1.6	2.6	2.3	3.7	4.1	2.4	1.2	0.3	0.0
Net financial transactions	-2.9	1.7	-3.4	-3.2	-3.8	-3.7	-4.1	-2.4	-1.2	-0.3	0.0
Net change in domestic arrears[2]	-22.4	-1.4	0.0	-1.6	0.0	-6.4	0.0	0.0	0.0	0.0	0.0
Net acquisition of financial assets	-0.6	2.2	-0.7	-3.4	-0.5	0.0	-1.0	-0.6	1.1	2.1	2.3
Domestic deposits	-2.5	1.2	-0.7	-3.6	-0.5	-0.4	-1.5	-0.6	1.1	2.1	2.3
Foreign deposits/assets[3]	1.9	1.0	0.0	0.2	0.0	0.4	0.5	0.0	0.0	0.0	0.0
Net incurrence of liabilities	21.1	1.6	-2.6	2.3	-3.3	4.1	-3.1	-1.8	-2.3	-2.4	-2.4
Domestic[4]	20.4	1.2	-2.8	3.1	-3.0	4.3	-3.0	-1.8	-2.1	-2.1	-2.0
Foreign	0.7	0.4	0.2	-0.8	-0.3	-0.2	-0.1	0.0	-0.2	-0.3	-0.4
Loans	2.2	2.1	1.5	0.5	1.5	1.0	1.1	1.3	1.3	1.3	1.3
Amortization (-)	-1.5	-1.6	-1.3	-1.3	-1.8	-1.2	-1.2	-1.3	-1.5	-1.6	-1.6
Net change in external arrears	-0.7	0.5	0.0	-0.8	0.0	-0.4	0.0	0.0	0.0	0.0	0.0
Other	-0.2	-1.2	0.0	0.4	0.0	-1.0	0.0	0.0	0.0	0.0	0.0
Program financing (EFF)	1.8	0.0	1.7	0.0	1.5	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RFI	0.0	0.0	0.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Overall fiscal balance	1.1	-1.7	1.6	2.6	2.3	3.7	4.1	2.4	1.2	0.3	0.0
Non-hydrocarbon primary balance[5]	-10.6	-11.1	-8.1	-8.7	-6.2	-8.5	-7.7	-7.3	-6.9	-6.4	-5.8
Gross government deposits	13.2	10.8	13.9	13.1	14.7	9.4	11.8	14.2	13.1	11.2	8.6
Of which: available	4.4	1.2	5.1	4.1	5.7	3.1	4.3	5.3	4.6	3.5	2.0
Deposits with BEAC[6]	5.4	2.1	6.1	4.7	6.8	3.7	5.5	6.9	5.8	3.8	1.4
Of which: available	4.0	0.3	4.7	2.7	5.3	2.1	3.2	4.0	3.4	2.2	0.8
Deposits abroad	4.4	5.2	4.4	4.7	4.5	3.3	3.6	4.1	4.1	4.2	4.1
Of which: available	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deposits with commercial banks	3.3	3.4	3.3	3.6	3.4	2.5	2.8	3.2	3.2	3.2	3.1
Of which: available	0.4	0.9	0.4	1.4	0.4	1.0	1.1	1.3	1.3	1.3	1.2

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

[1] Includes social benefits and other transfers.

[2] Includes a one-time clearance of outstanding arrears through securitization in 2022.

[3] 2021-2023 refers to repatriation of financial assets.

[4] Statutory advances are assumed to be repayed in 10 years, starting in 2022. Includes payment of arrears.

[5] Equal to the overall balance minus interest and hydrocarbon revenues.

[6] The SDR allocation is reflected via an increase in government deposits with BEAC.

Table 5. Equatorial Guinea: Monetary Survey, 2020–27
(Billions of CFA francs, unless otherwise specified; end of period)

	2020		2021		2022		Projections				
	Prog.	Est.	Prog.	Est.	Prog.	Proj.	2023	2024	2025	2026	2027
Net foreign assets	319	-251	488	-151	604	-3	115	147	186	153	106
Bank of Central African States (BEAC)[1]	262	-268	432	-185	548	-37	80	111	147	115	68
Commercial banks	56	16	55	33	56	34	35	36	38	38	38
Net domestic assets	898	1,247	789	1,151	727	1,021	812	660	618	641	707
Domestic credit	1,325	1,654	1,330	1,516	1,284	1,471	1,298	1,227	1,317	1,480	1,685
Net claims on the public sector	177	724	126	614	30	497	237	100	98	172	285
Net credit to the central government	240	711	237	602	187	485	225	88.1	86	160	273
Central Bank	310	511	307	470	258	373	177	60	63	141	259
Claims	680	631	728	792	712	732	670	598	513	432	365
Credit under statutory ceiling	609	609	609	609	547	547	485	423	361	299	237
Counterpart of IMF credit	71	23	119	61	165	62	62	53	30	12	8
Other				123		123	123	122	122	121	121
Deposits	-370	-121	-421	-322	-454	-360	-492	-539	-450	-290	-106
Commercial Banks	-71	201	-71	126	-71	106	42	22	17	13	8
Claims on the Treasury	158	401	158	372	158	353	288	269	264	259	254
Deposits	-228	-200	-228	-246	-228	-246	-246	-246	-246	-246	-246
Credit to public enterprises	8	13	8	12	8	12	12	12	12	12	12
Credit to financial institutions	16	0	16	0	16	0	0	0	0	0	0
Credit to the private sector	1,132	930	1,188	902	1,238	974	1,060	1,127	1,219	1,309	1,400
Credit to the economy	1,156	943	1,212	914	1,262	986	1,073	1,139	1,231	1,320	1,411
Other items (net)	-427	-407	-540	-365	-557	-450	-485	-566	-472	-466	-477
Broad money	1,217	996	1,277	1,000	1,331	1,018	927	808	804	794	813
Currency outside banks	183	179	192	190	201	196	148	97	101	109	141
Deposits	1,034	816	1,084	809	1,131	821	779	710	702	685	672
Memorandum items:											
Contribution to the growth of broad money (percentage points)											
Net foreign assets	17.8	-16.2	13.9	10.0	9.1	14.8	11.7	3.5	4.8	-4.0	-5.9
Net domestic assets	-14.1	9.3	-9.0	-9.6	-4.9	-13.0	-20.6	-16.3	-5.3	2.9	8.3
Of which : net credit to the central government	-14.8	6.3	-4.2	-11.0	-7.5	-11.7	-25.5	-14.8	-0.3	9.2	14.2
Credit to the economy (annual percentage change)	3.6	0.0	4.8	-3.0	4.2	7.9	8.8	6.2	8.0	7.3	6.9
Credit to the private sector											
Annual percentage change	3.7	0.2	4.9	-3.1	4.2	8.0	8.9	6.3	8.2	7.4	7.0
In percent of GDP	16.5	16.0	17.3	13.3	18.4	9.9	11.9	14.5	15.7	17.1	17.8
Broad money (annual percentage change)	3.7	-7.0	4.9	0.4	4.3	1.8	-8.9	-12.9	-0.5	-1.1	2.3
Currency outside banks	7.3	7.6	4.9	6.1	4.3	3.3	-24.8	-34.2	4.4	7.7	29.3
Deposits	3.1	-9.7	4.9	-0.9	4.3	1.5	-5.1	-8.8	-1.2	-2.4	-2.0
Velocity (GDP/ M2)	5.6	5.8	5.4	6.8	5.1	9.7	9.7	9.7	9.7	9.7	9.7

Source: Equatorial Guinea authorities and IMF staff estimates.
1/The SDR allocation is reflected via a neutral double entry of higher reserves and higher long-term liabilities, which has zero impact on reported net foreign assets.

Table 6. Equatorial Guinea: Fiscal Financing Requirements, 2020–23
(Billion CFA francs, unless otherwise indicated)

	2020		2021		2022		2023
	Prog.	Est.	Prog.	Est.	Prog.	Proj.	Proj.
A. Overall fiscal deficit (commitment basis)	-75	101	-112	-180	-152	-362	-370
B. Other financing needs	1,779	177	281	217	322	824	336
Amortization	243	94	281	106	322	197	336
External	101	94	86	87	121	115	111
Domestic	142	0	194	19	201	81	226
Repayment of BEAC statutory advances	0	0	0	0	62	62	62
Repayment of other domestic debt	142	0	194	19	139	19	164
Repayment of domestic arrears (including through securitization)	1,535	83	0	111	0	627	0
C=A+B Total financing needs	1,704	277	168	37	170	462	-34
D. Identified sources of financing	1,583	277	49	0	66	462	-34
External disbursements	150	120	100	35	100	100	100
Net change in external arrears	-44	29	0	-57	0	-38	0
Deposits/assets	-42	130	-51	-235	-34	0	-89
Domestic	-174	69	-51	-248	-34	-37	-133
Foreign	131	60	0	13	0	37	44
Bonds to securitize domestic arrears	1,535	0	0	0	0	501	0
Issuance of short-term domestic debt (net)	0	69	0	112	0	0	-45
SDR allocation	0	0	0	119	0	0	0
Other	-15	-71	0	25	0	-100	0
E. Program financing (EFF)	121	0	119	0	104	0	0
African Development Bank	73	0	72	0	57	0	0
IMF	48	0	47	0	47	0	0
F. Financing gap (C-D-E)	0	0	0	38	0	0	0
G. RFI	0	0	0	38	0	0	0
H. Residual (F-G)	0	0	0	0	0	0	0

Source: Fund staff estimates and projections.

Table 7. Equatorial Guinea: External Financing Requirements, 2020–23
(Millions of U.S. dollars, unless otherwise indicated)

	2020		2021		2022		2023
	Prog.	Est.	Prog.	Est.	Prog.	Proj.	Proj.
1. Total financing requirements	**1,057**	**180**	**978**	**846**	**974**	**724**	**646**
Current account deficit	667	419	455	420	482	269	327
Trade balance	2,074	1,444	2,173	2,946	1,942	4,965	3,919
Exports	3,845	3,042	3,649	4,975	3,246	7,801	6,145
Imports	-1,771	-1,598	-1,476	-2,029	-1,304	-2,837	-2,226
Services (net)	-1,134	-597	-1,096	-1,052	-1,027	-1,822	-1,481
Income (net)	-1,280	-544	-1,205	-1,767	-1,074	-2,845	-2,208
Transfers (net)	-327	-722	-327	-548	-322	-567	-556
Debt amortization	173	163	148	157	210	198	193
Net change in external arrears (increase =-)	-80	-51	0	103	0	66	0
Net change in government deposits abroad (increase=+)	-223	-105	0	17	0	-64	-77
Net change in net reserves (increase=+)	441	-247	375	149	282	254	203
2. Total financing sources	**852**	**180**	**773**	**778**	**793**	**724**	**646**
Capital transfers	0	0	0	0	0	0	0
Foreign direct investment (net)	590	410	636	460	617	492	517
Portfolio investment (net)	-2	19	-2	-2	-2	-2	-2
Debt financing	255	303	172	162	174	274	276
Public sector	255	208	172	64	174	172	174
Commercial banks' capital flows	2	55	2	-29	-2	0	-3
Other net capital inflows[1]	6	-1,054	-36	186	7	-40	-142
Errors and omissions	**0**	447	0	0	0	0	0
3. Financing gap	**205**	**0**	**205**	**68**	**180**	**0**	**0**
4. Identified Financing	**205**	**0**	**205**	**0**	**180**	**0**	**0**
IMF	81	0	81	0	81	0	0
AFDB	124	0	124	0	99	0	0
5. RFI	**…**	**0**	**0**	**68**	**…**	**…**	**….**
6. Residual	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Source: IMF staff estimates

[1]Includes the SDR allocation

Annex I. Implementation of Past IMF Advice (Article IV 2016)

Fund Advice	**Status**	**Comments**
A. Fiscal Policy and Public Financial Management		
Ensure continued fiscal consolidation with a revised 2016 budget	Partly implemented	In 2018 the authorities adopted a staff-monitored program as a precursor to an EFF-supported reform program that was approved by the Board in December 2019.
Implement priority non-hydrocarbon revenue mobilization measures	Partly implemented	The government has implemented several measures to improve mobilization of non-hydrocarbon revenues. In particular: (i) large taxpayer unit constituted but not working; (ii) single taxpayer identification number; and (iii) implementation of ASYCUDA is ongoing. The government has also established a single window for vehicle registration / payments. In December 2021, the country joined the World Customs Organization.
Embark on a comprehensive review of tax policy, including non-resource tax revenues	Partly implemented	In 2017, the IMF provided Technical Assistance on tax policy and tax administration. Since then, the authorities have been working to build consensus on implementing its key provisions. They have implemented some tax policy measures, including the excise taxes (though not collecting much yet), changed the tax amnesty law (both Structural Benchmarks for end-Dec-2019 under the EFF-supported reform program), and also introduced changes to some income tax rates based on the TA recommendations.
Accelerate public financial management (PFM) reforms focusing on the public investment program (PIP)	Partly implemented	The authorities have made some effort to improve public financial management. In particular, they have started implementing an expenditure tracking system and established a certifications committee to control capital spending execution. Moreover, since 2016 capital spending has been reduced by more than half.
Conduct an audit of the stock of arrears and prepare a clearance strategy	Partly implemented	In 2019, an independent audit of domestic arrears was conducted. The authorities are now working on a domestic arrears' clearance strategy.
Develop debt management capacity	Not implemented	The authorities have received TA from the Fund on debt management. However, progress in implementing the TA recommendations has been slow. As a result, the debt office (Caja Autonoma) is still focused primarily on back-office tasks.
Advocate for a tighter region wide (CEMAC) policy stance	Partly implemented	As a member country of the CEMAC group, Equatorial Guinea has adopted an EFF-supported economic reform program, whose objective, inter alia includes further reducing macroeconomic imbalances to rebuild buffers (such as net foreign assets) and support the CEMAC stabilization strategy.

Fund Advice	Status	Comments
B. Structural Policies to Promote inclusive Non-oil Growth		
Increase the share of spending on social programs and public service delivery	Partly implemented	Under the SMP and also the EFF-supported program, the authorities adopted a floor on social spending. In addition, as part of the authorities' responses to the fallout from the pandemic and the Bata explosions, the authorities implemented a targeted social assistance program for poor households. Further they are working on a strategy for expanding basic public health programs across the country.
Improve the business climate and efficiency of public services	Partly implemented	Since 2016, some specific actions have been implemented. These include: (i) opened a Single Window to register enterprises in Malabo; and (ii) a national committee has been constituted for business climate and economic competitiveness. The authorities have also amended the foreign investment law by eliminating the requirement to have a local partner in the non-hydrocarbon sector.
Address current real exchange rate overvaluation	Partly implemented	Reforms to improve competitiveness, including the business environment for private enterprises, and macro-critical governance issues are being rolled out.
Lower trade policy barriers with CEMAC countries	Partly implemented	The authorities have signed on to the African continental free trade area (AfCFTA). The reforms under this agreement are expected to be rolled out over time. Recently, a new commission has been established to improve port operations and reduce port tariffs.
Promote tourism by leveraging existing infrastructure	Not implemented	Initial efforts to ease visa requirements for potential visitors to Equatorial Guinea and promote tourism were stymied by the COVID-19 pandemic. Recently, these efforts have restarted.
C. Macro-financial Policies		
Maintain adequate financial buffers in the banking sector	Partly implemented	COBAC continues to monitor the operations of banks. In 2019, COBAC aligned capital definitions with the Basel II framework. This revealed that the banking sector was deeply undercapitalized.
Advocate a coordinated regional approach for developing bank supervision on a consolidated basis	Partly implemented	COBAC has worked to improve the quality and timeliness of financial sector data.
Implement crosscutting financial sector structural reforms to close the financial development gap	Partly implemented	At the CEMAC level, there is a credit registry by the banks (Central Risks). There is a financial inclusion project at the CEMAC level, coordinated by BEAC.
Strengthen the AML/CFT regime in line with the 2012 FATF standard	Partly implemented	The authorities have taken limited steps to improve its AML/CFT regime. However, there remains a need for capacity building especially in the area of financial investigative

Fund Advice	Status	Comments
		techniques. The upcoming GABAC evaluation, expected for September 2023, will provide important recommendations for enhancing the AML/CFT framework effectiveness.
D. Statistical Development Reforms		
Accelerate the INEGE capacity-building program, drawing on the findings of the June 2016 IMF Statistics Department mission	Partly implemented	The IMF continues to provide substantial TA on the key macroeconomic accounts.
Address capacity weaknesses in the compilation and reporting of International Investment Position data	Partly implemented	The authorities have received TA from the Fund on improving the compilation of the external sector statistics, including the international investment position. Preliminary NIIP data have been compiled but not disseminated.
Create metadata for each type of data currently being produced	Implemented	INEGE has created a national summary data page (NSDP) as part of its measures to participation in the enhanced General Data Dissemination System.
Undertake economic and socio-demographic surveys aimed at assessing economic activity, giving priority to the planned integrated household survey	Partly implemented	INEGE is conducting a number of surveys to access social and economic conditions in Equatorial Guinea. The economic census of enterprises launched in March 2021 and the household consumption and expenditure surveys (HCES) launched in October 2021.
Establish statistical units in each government ministry	Implemented	INEGE has established statistical units in all government ministries.
Step up the deployment of ASYCUDA World software for processing international trade transactions at customs	Partly implemented	Implementation of ASYCUDA is ongoing. The process has started with the Malabo airport and is expected to be rolled out and operationalized at other locations during 2022.

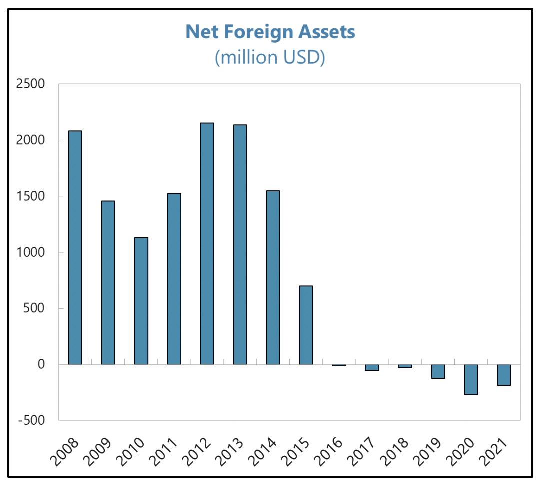
Annex II. External Sector Assessment

Overall Assessment: *The external position of Equatorial Guinea in 2021 is assessed as substantially weaker than the level implied by medium-term fundamentals and desirable policies. Although the COVID crisis and Bata explosions slowed down key structural reforms and reserve accumulation targets that were planned as part of the EFF-supported program, the current assessment marks an improvement, albeit small, when compared with the last assessment in 2019 that accompanied the EFF request.*

Potential Policy Responses: *Structural and fiscal reforms are needed to address the external sector weakness through policies to boost non-hydrocarbon sector's output and productivity—including reforms to the business environment, governance, financial sector, and human capital, as well as more efficient allocation of government expenditures.*

A. Foreign Assets and Liabilities: Position and Trajectory

1. Background. In 2021, the net foreign assets of Equatorial Guinea at BEAC increased to an estimated -2.7 percent of GDP, improving from -4.6 percent of GDP in 2020. Gross foreign asset stood at 0.4 percent of GDP in December 2021, despite a purchase under the 2021 RFI request, and SDR allocation (both of which increased liabilities by an equivalent amount).[1] At its peak in 2012, gross reserves represented as much as 19 percent of GDP, but lower oil prices, a secular decline in hydrocarbon production and a steady draw down of government deposits at the BEAC in subsequent years have contributed to reducing gross reserves. Gross foreign liabilities with BEAC amounted to 3.1 percent of GDP, of which public debt with the IMF was 0.9 percent of GDP from RFI and EFF disbursements, and 1.8 percent of GDP from SDRs usage. More broadly, the growing dependence on foreign financing (external debt reached 30 percent of total debt in 2021) could raise the economy's vulnerability to external shocks, especially oil price volatility, and rollover risks. On the upside, most of the existing foreign debt is owed to bilateral creditors and is secured by foreign deposits.



2. Over the last four years, Equatorial Guinea's BEAC net foreign liability position has increased by 2.3 percentage points of GDP, which can be attributed to a continued decline in hydrocarbon revenues, and a drawdown of government deposits at BEAC to fund spending. Staff estimates that Equatorial Guinea's reserves need to reach EUR 655 million by 2027 to cover 3 months of prospective imports of goods and services. However, current baseline medium-term

[1] The authorities are planning to withdraw most of the SDR allocation in 2022 to regularize domestic arrears.

gross asset projection (at EUR 341 million) fall short of the target, despite its short-term increase—BEAC estimates the reserve position of Equatorial Guinea to have reached EUR 310 million in April 2022, following the increase in hydrocarbon revenues.

3. **Assessment.** Equatorial Guinea's weak NFA performance has contributed to BEAC's missed NFA policy assurance for end-June 2021.[2] Staff assesses that the continued negative NFA position at BEAC of Equatorial Guinea exposes the economy to large short-term debt liabilities that could raise the risk to external sustainability. To contribute to regional and domestic external sustainability, and resilience, the country needs to rebuild its macroeconomic buffers.

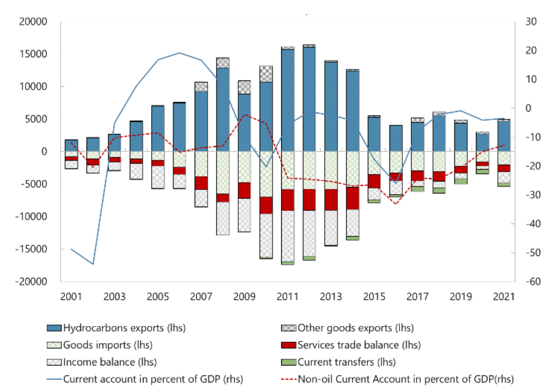
2021	NFA	Gross Assets	Gross Liab
(% GDP)	-2.7%	0.4%	3.2%

B. Current Account

4. **Background.** The current account balance (CA), which is dominated by the hydrocarbon sector, reached -3.4 of GDP in 2021 up from -4.2 percent in 2020 but still a larger deficit than -0.9 percent in 2019. The improvement, relative to 2020, was mainly driven by the rebound in hydrocarbon exports, which more than offset a surge of outflows on the income and services accounts. The COVID-19 pandemic and Bata explosions marked a break for what otherwise was a positive CA trend over 2015–19 driven by recovering hydrocarbon exports. Importantly, the non-hydrocarbon CA continued its improvement from over -26 percent of GDP in 2015 to an estimated -13 percent in 2021, driven primarily by slower nominal growth in imports in line with continuing fiscal consolidation.

Current Account Decomposition

(lhs) Million USD (rhs) Percent of GDP



5. **Both the ratio to GDP and level of the non-hydrocarbon CA are projected to continue to improve in the medium term**, reaching -8 percent of GDP in 2027, apart from the projected deterioration in non-hydrocarbon trade balance and CA in 2022 due to Russia's invasion of Ukraine (and higher food prices). Hydrocarbon nominal exports are projected to resume its decline in the medium term, and the total CA to be close to -7 percent of GDP by 2027.

[2] BEAC reserves reached EUR 2.2 bn at end-December 2021 (at 2.7 months of prospective imports of goods and services, down from 3.2 in December 2020).

6. Assessment. Staff assess that the external position of Equatorial Guinea in 2021 was substantially weaker than the level implied by fundamentals and desirable policies, with an EBA-Lite estimated CA gap of -5.7 percent of GDP.[3]

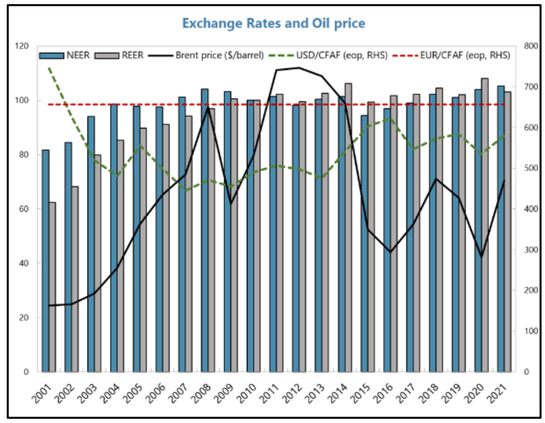
Equatorial Guinea: EBA-lite Model Estimates for 2021
(Percent of GDP)

	EBA-Lite CA model
CA-Actual	**-3.4**
Cyclical contributions (from model) (-)	1.7
COVID-19 adjustor (+) 1/	0.0
Additional temporary/statistical factors (+)	0.0
Natural disasters and conflicts (-)	-0.2
Adjusted CA	**-4.9**
CA Norm (from model) 2/	0.8
Adjustments to the norm (+)	0.0
Adjusted CA Norm	**0.8**
CA Gap	**-5.7**
o/w Relative policy gap	4.0
Elasticity	-0.3
REER Gap (in percent)	**20.5**

1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on oil trade balances and on tourism.
2/ Cyclically adjusted, including multilateral consistency adjustments.

[3] Given the limited number of commodity exporters in the EBA-Lite sample, and the idiosyncratic composition of such economies compared to the average economy in the sample, the model may overestimate the CA norm. Two factors stand out: (i) L.Own per capita GDP/US/JP/DM per capita GDP (PPP): given that the hydrocarbon sector is 40 percent of total GDP, but it only employs around 2 percent of the population (taking the Norway number which would be an upper bound), a factor of 0.6/0.98 (staff estimates) would need to be applied to the estimated CA norm model value, reducing it by 1.1 percent. (ii) Expected growth: estimated in the EBA-Lite model based on an average of medium-term growth projections, which are negative in Equatorial Guinea given the expected decline in hydro production; however, only in commodity exporting economies do growth values vary this widely following the lifecycle of producing wells, making the average coefficient estimated over the sample less accurate about the relation between growth, investment needs and the CA. Moreover, hydrocarbon production can be a poor proxy for investment needs in the sector over the medium term given the long horizon between investment (especially with respect to exploration) and when actual production begins. Abstracting from the hydro sector, staff projects an average value for non-hydro growth of 2.4 percent over the 2022–27 period. Using this growth value instead and scaling it by 0.6 (size of the non-hydro sector) would reduce the norm by 2.3 percent.

C. Real Exchange Rate



7. Background. Given the dominant role of hydrocarbon exports in Equatorial Guinea's CA, its REER is tightly linked to developments in the oil price. Estimates show a steady appreciation since the decline in oil prices in 2015. Despite improving terms of trade and trade deficit towards the end of 2021, staff estimates suggest that the average REER depreciated by -4.5 percent in 2021 compared to 2020. NEER on the other hand appreciated by 1.5 percent due to the higher relative (imported) inflation.

8. Assessment. The real effective exchange rate is assessed as overvalued in 2021 relative to medium-term fundamentals and desirable policies—deriving this result from the EBA-Lite CA gap estimate (and an elasticity of -0.28) that suggests a REER gap (overvaluation) of 21 percent. Notably, the estimated 2021 REER gap of 21 percent is lower than the 54 percent recorded at the time of the last assessment in December 2019.

D. Capital and Financial Accounts: Flows and Policy Measures

9. Background. Along with sovereign foreign borrowing, FDIs towards hydrocarbon projects dominate Equatorial Guinea's financial flows. FDI flows, however, are expected to decrease over the next decade as hydrocarbon resources are depleted, indicating a growing need for foreign borrowing going forward if structural reforms are not carried out to reduce the current account deficit in the medium term. Starting October 2022, companies operating in the CEMAC region (notably oil and gas firms) are obligated to (i) repatriate 35 percent of their foreign sales to a BEAC account,[4] and (ii) pay foreign subcontracting firms and vendors in local currency. These measures are being implemented at the regional (CEMAC) level to support BEAC reserve accumulation target, though some firms have indicated that it may come at the cost of discouraging foreign investment.

10. Assessment. BoP financing needs are expected to remain elevated, requiring a strong commitment to structural and fiscal reforms.

[4] This element of the policy is not significantly biting since international firms have to retain a share of their foreign revenues to pay local corporate income tax, which ranges between 25 and 35 percent, as well as wages and other expenses.

Annex III. Risk Assessment Matrix[1]

Sources of Risks	Relative/ Likelihood	Impact if Realized	Recommended Policy Responses
		Domestic Risks	
Financial sector exposure to affected sectors in the non-hydrocarbon economy	High	**High.** Further increases in NPLs and weakening of other financial soundness indicators.	Enforce prudential rules. Take actions to restructure weak banks, and settle domestic public payment arrears.
Weak governance and weak capacity	High	**High**. Slow or stalled implementation of policy reforms, affecting business environment, investment, productivity, and inclusion.	Press ahead with governance and PFM reforms; request technical assistance and training to raise capacity.
Outbreaks of lethal and highly contagious COVID-19 variants	Medium	**Medium.** Quarantine and other containment measures would adversely impact economic activity.	Ramp-up national inoculation program and COVID monitoring program. Enhance testing for the entire population and efforts to address vaccine hesitancy with a focus on education campaigns.
		External Risks	
Russia's invasion of Ukraine leads to escalation of sanctions and other disruptions	High	**Medium.** For Equatorial Guinea, the resulting higher food prices could increase food insecurity, and tighter financial conditions could impact investment flows, especially in the non-hydrocarbon sector. That said, higher hydrocarbon prices resulting in increased export earnings and government revenues, would help offset adverse financial impacts.	Use windfall hydrocarbon earnings to rebuild macroeconomic buffers. Adopt temporary fiscal measures to protect food security for vulnerable population.
Rising and volatile food and energy prices	High	**High.** Higher hydrocarbon export earnings results in higher government revenues, and lower financing needs; lower oil exports would have the opposite effect. Higher food prices would increase the risk of food insecurity for vulnerable households.	Save at least a portion of any additional revenue relative to the price assumption in the budget to rebuild macroeconomic buffers. Identify contingency fiscal adjustment measures and financing. Adopt temporary fiscal measures to protect food security for vulnerable population.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. We focus on risks that could materialize within 1 year to 3 years.

Sources of Risks	Relative/ Likelihood	Impact if Realized	Recommended Policy Responses
Abrupt growth slowdown in China	**Medium**	**Medium.** Abrupt growth slowdown in China is likely to result in lower hydrocarbon prices as demand falls. This would result in lower export earnings and government revenues, likely increasing the financing gap.	Take measures to support the non-hydrocarbon sector, including by facilitating trade with the CEMAC region and with other African CFTA countries. Implement the AfCFTA agreement.
De-anchoring of inflation expectations in the U.S. and/or advanced European economies	**Medium**	**Medium.** De-anchoring of inflation expectations could lead to higher interest rates and higher cost of financing.	Prioritize spending and financing. Identify contingency fiscal adjustment measures while protecting food security and the vulnerable population.
Geopolitical tensions and deglobalization	**High**	**Medium.** Regional political instability would affect economic activity limiting the potential to expand the non-hydrocarbon sector. Piracy in the Gulf of Guinea could threaten offshore activity.	Enhance trade relations in the CEMAC and harmonize policies and regional cooperation on security.

Annex IV. Piracy Risk in Equatorial Guinea[1]

1. **Piracy remains an important security and economic challenge in the Gulf of Guinea (GoG) which encompasses seventeen African countries, including Equatorial Guinea (EG)**.[2] Covering an area of 2.35 million square kilometers and linking Africa with Europe and Asia, the GoG is the most important offshore oil field in Africa accounting for two-thirds of hydrocarbon production in the region, 25 percent of Africa's maritime traffic, and 35 percent of global petroleum reserves. GoG consists of four main islands (Sao Tome, Principe, Bioko, and Annobon) and other smaller islands. Bioko Island, the largest of the four islands, belongs to EG as well as the islands of Annobon, Corisco, Elobey Grande, and Elobey Chico. Piracy activities in GoG have evolved over the years from cargo hijacking to kidnapping for ransom. In 2020, over 95 percent of kidnapping at sea incidents globally occurred at GoG, making it the most dangerous maritime area in the world.

2. **Among GoG countries, EG ranks third, after Nigeria and Cameroon, with worst conditions on the issue of piracy and armed robbery at sea (Chart 1)**.[3] Actual and attempted piracy attacks in EG and GoG have increased over the last two decades (Chart 2). For example, in 2020, crew members kidnapped from EG-owned vessels were held hostage for up to 150 days with about $200,000 paid in ransom in one of the kidnapping incidents.[4]

3. **Exacerbated by regional poverty, underdevelopment, and weak governance and corruption, piracy poses direct and indirect costs to Equatorial Guinea.** The direct costs include financial cost of lost and stolen cargoes, ransom payments, increased insurance costs and naval and other security expenses. According to UNODC and Stable Seas, direct costs of piracy to GoG nations are estimated between $1 million and $4 million yearly, however the economic impact is estimated at $800 million. Indirect costs include discouragement of foreign investment, decrease in trade along piracy-affected shipping routes, supply chains disruptions, human costs to seafarers and foregone resources spent on counterpiracy efforts. Counterpiracy activities costs GoG governments approximately $524 million a year.[5] Studies by the World Bank and UNCTAD show that piracy also causes economic losses equivalent to about 1 percent ad valorem increase in trade costs[6], fosters rerouting of ships to alternative shipping routes leading to a loss in foreign investment, affects oil

[1] Prepared by Ruth Akor (AFR).

[2] Data from World Atlas, Geopolitical Intelligence Services (GIS).

[3] The Maritime Security Index ranks countries' performance on nine maritime security issues: international cooperation, rule of law, maritime enforcement, coastal welfare, blue economy, fisheries, piracy and armed robbery at sea, illicit trades, and maritime mixed migration.

[4] Stable Seas 2021–Pirates of the Gulf of Guinea: A cost-analysis for coastal states.

[5] Stable Seas 2021–Pirates of the Gulf of Guinea: A cost-analysis for coastal states.

[6] World Bank–The Pirates of Somalia: Ending the Threat, Rebuilding a Nation.

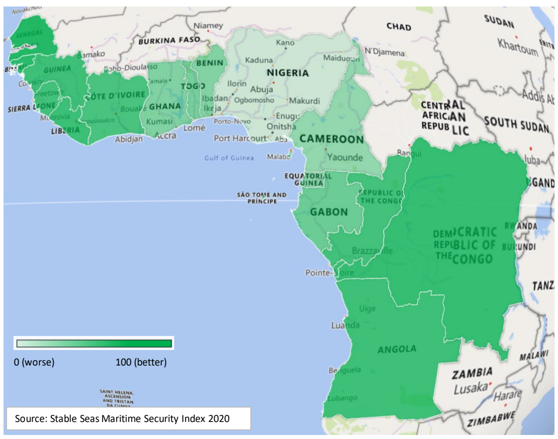
production and investment, and decreases resources available for economic development stemming from revenue losses[7].

4. National and international economic and security coordination efforts can help contain piracy risks. Ongoing regional efforts to address maritime security in GoG countries include the Deep Blue Project in Nigeria and the Joint Force of Cameroon, EG, and Sao Tome and Principe established in 2009. In addition, regional economic development and prosperity that increase opportunities for lower income groups would help disincentivize crime in general, and piracy in particular.

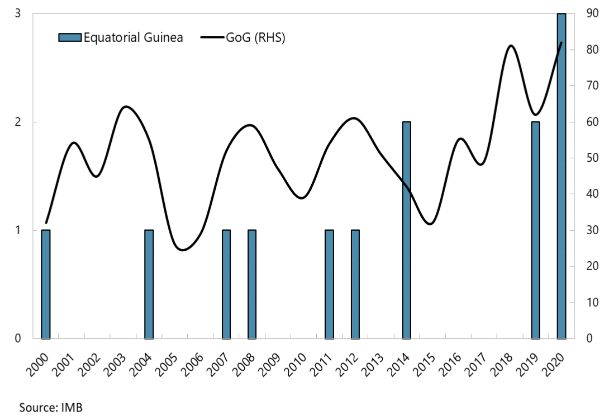
Piracy Incidence in the Gulf of Guinea

Text Chart 1. Piracy and Armed Robbery at Sea

A component of the Maritime Security Index 2020



Text Chart 2. Actual and attempted piracy attacks in Equatorial Guinea and Gulf of Guinea



Sources: International Maritime Bureau, Stable Seas, International Maritime Organization, UNODC.

[7] UNCTAD–Maritime Piracy (Part 1): An overview of trends, costs, and trade-related implications.

Annex V. Debt Sustainability Analysis

Staff assesses Equatorial Guinea's public debt to be sustainable over the medium term. Having peaked in 2020 at 48 percent of GDP, it is expected to follow a downward path to reach 21 percent of GDP in 2027. This projected improvement relies largely on the recovery in oil prices. Volatility of hydrocarbon prices constitutes the primary risk to the baseline, further intensified by the country's narrow domestic creditor base and uncertainty about long-term depletion of hydrocarbon resources.[1] *Rebuilding buffers with the windfall from oil revenues and steadfast implementation of reform measures—including non-hydrocarbon revenue mobilization—remain essential to reduce the primary deficit and keep the public debt ratio on a firm downward trajectory and gross financing needs manageable.*

A. Debt Profile

1. Public debt coverage in the DSA includes general government debt,[2] 70 percent of which is in local currency and held by domestic financial institutions within the CEMAC region. About thirty percent of total debt is held by multilateral and bilateral foreign creditors. On the other hand, 90 percent of the debt carried a medium to long-term maturity.

Text Table. Equatorial Guinea Public Debt
(Billions of CFA francs)

	2020	2021
Total debt	**2,812**	**2,914**
External	**879**	**880**
Multilateral	134	193
o/w IMF	22	61
Bilateral	619	602
o/w Arrears	40	38
Commercial	125	85
Domestic	**1,933**	**2,034**

Sources: Equatoguinean Authorities, and IMF staff estimates.

B. Recent Developments

2. Public debt and gross financing needs ratios dropped in 2021 below their pre-COVID levels. With the 2021 increase in oil prices that increased nominal GDP, both debt and GFNs ratios fell by 6 and 5 percentage points of GDP, respectively. The main reason for the decline in the debt-to-GDP ratio was the increase in nominal GDP, followed by a significant improvement in the primary balance (from -0.5 percent in 2020 to 3.5 percent in 2021).

3. The RFI purchase of CFAF 37 billion (SDR 47.25 million, 30 percent of quota) approved by the IMF Executive Board in September 2021 provided support for meeting the urgent needs stemming from the COVID-19 pandemic and Bata explosions. Staff's estimate of the economic impact of the Bata explosions (in part using authorities' data) suggests that direct damages and losses amount to about 2.5 percent of 2020 GDP (CFAF 145 billion), with a likely broader economic impact. In addition, public sector revenues declined in 2020 by 34 percent (CFAF 420 billion) due to COVID-related lockdown restrictions and the decline in global demand. The authorities have indicated they have, so far, used their own funds and donations to finance COVID

[1] Relative to the approved EFF in 2019, the projected medium-term debt in 2027 is 5 percentage points of GDP lower, while cumulative gross financing needs over the 2022-2027 horizon declined by 2.5 percentage points of GDP.

[2] The authorities stated that SOEs are financed via the central government budget and do not issue their own debt.

and Bata related spending, while holding the RFI funds in designated escrow accounts at BEAC, supporting foreign reserves.

4. **The recent SDR allocation is being used to settle domestic arrears.** Equatorial Guinea was allocated SDR 151 million, amounting to 1.7 percent of 2021 GDP. In December 2021, the authorities drew down the proceeds of the SDR allocation and are using most of it to settle a part of their domestic arrears. The government plans to use about 90 percent of the total 2021 allocation to settle domestic arrears, with a small fraction used for reserves. The withdrawal of SDRs, made available by the BEAC with no amortization schedule, carries a low fixed interest rate of 0.5 percent.

C. Outlook

5. **Equatorial Guinea expects large short-term windfalls from the rise in oil prices**. The rise in 2022 oil prices (to over $100 a barrel after Russia's invasion of Ukraine) translated into a projected increase in hydrocarbon revenues of [56 percent] relative to 2021. The impact on the fiscal balance is expected to be limited by the 38 percent increase in fiscal expenditures mainly from the reconstruction of Bata, continued support to the banking sector and the vulnerable population, and higher fuels subsidies. Staff projects the primary balance to be 3.7 percent of GDP in 2022, relative to 2.6 percent of GDP in 2021.

6. **Pressure on foreign reserves in the CEMAC region is elevated due to heightened imports prices, especially food**. Staff projects that the improvement in the primary balance will contribute to Equatorial Guinea's efforts to meet its commitments to the BEAC reserve accumulation target. BEAC reserves reached EUR 2.2 billion at end-December 2021 (at 2.7 months of prospective imports of goods and services, down from 3.2 in December 2020).

7. **Staff expect Equatorial Guinea's public debt ratio to tilt towards a downward path over the medium term, in line with projected financing constraints.** This baseline scenario assumes relatively strong oil prices and improved fiscal path, as spending is contained, over the medium term. After six consecutive years of negative growth averaging -6 percent during 2015 to 2021, average growth is projected to become less negative for the next five years, averaging -3 percent between 2022 to 2027.

8. **The authorities plan to clear around CFAF 650 billion of domestic government arrears in 2022 through a mix of cash payment and securitization**. Since the approval of the EFF program in 2019, the amount of domestic arrears has declined from CFAF 1535 billion to about CFAF 650 billion in 2022. The decline is due to an external audit that brought down the total figure to CFAF 1135 billion, of which the authorities (i) did a securitization for CFAF 290 billion and (ii) paid a portion of the remaining arrears in H2 2019, 2020, and 2021. The authorities continue to work on the arrears' settlement transaction steps. On external arrears, the authorities report they are advancing talks with Spain and to be in good faith discussions with Belgium to agree on a schedule of payments.

9. Financing assumptions over the projection horizon do not assume new financing sources. Domestic medium-term financing (excluding arrears securitization) is carried out through domestic bond issuance, and external financing needs are projected to continue to be covered mainly through the same bilateral and multilateral lending institutions.

D. Risks to the Baseline—Stress Tests

10. The main risks to the baseline arise from the volatility of hydrocarbon prices. Despite the projected path of high oil prices, GFNs are expected to fluctuate at a level close to 6 percent of GDP over the medium term—exposing the country to significant vulnerabilities to rollover risks, and a low debt stabilization probability if oil prices drop. Results from the stress test suggests that the debt-to-GDP and GFN ratios would reach over 40 percent and close to 15 percent, respectively, if a persistent 10 percent decline in oil prices materializes relative to the baseline. The large width of the historical fan chart reflects the high historical volatility, and the macro-fiscal stress scenario indicates an increasing trend for GFN. Given the high marginal interest rate on new domestic bond issuances (reaching over 7 percent), GFN could grow at a significantly faster pace if commodity price risks materialize. This risk could be partly mitigated by the full implementation of fiscal reforms, including measures to mitigate liquidity risks by following through with the plan to privatize state assets in a structured approach over the medium term.[3]

11. The share of foreign currency denominated debt is projected to rise, adding to the country's vulnerability to liquidity risks. Although total debt as a share of GDP is projected to fall over the medium term, the share of foreign currency denominated debt is projected to rise to 33 percent of total debt in 2022 and 46 percent by 2027, reflecting the country's vulnerability to external shocks, especially from oil price fluctuations. This pattern is an outcome of the government's stable reliance on borrowing from foreign bilateral institutions, and projected diminishing domestic borrowing given the narrower CEMAC domestic creditor base. It is also important to note that given the high share of the hydrocarbon sector in real activity in the region, a stress scenario of low oil prices would be damaging to the domestic creditor base of Equatorial Guinea and would further accelerate the rise of foreign borrowing stock. Achieving progress over the reform agenda is therefore essential to maintain a liquid foreign financing channel and expand the domestic and regional investor base. Substitution towards domestic debt and improved liquidity support to the domestic financial sector should be part of the country's debt management strategy.

12. The high level of NPLs in the banking sector is a potential contingent liability that can increase GFN and debt over the medium term. The NPL ratio stood at about 50 percent of total bank loans, due to the large size of domestic arrears owed to the construction sector. Importantly, the planned arrears settlement is expected to inject liquidity into the banking sector and resolve a large share of outstanding NPLs. The baseline already incorporates the clearance of

[3] In this respect, the authorities have prepared and published a list of state assets to be privatized and a list of entities that will be restructured or placed under a concession regime with the private sector.

arrears and support for the banking system. Overall, banking sector assets stood at 17 percent of GDP in 2021, posing limited risks given the low public debt level.

13. Strong reform efforts remain necessary to mitigate fiscal slippage. In line with the expected continued projected decline in hydrocarbon revenues over the medium term, Equatorial Guinea's GFN are expected to remain substantial, making its finances highly dependent on domestic and external creditors. Further delays in implementing the structural reform agenda could reduce the authorities' access to financing channels on favorable terms.

Figure 1. Public DSA–Baseline Scenario
(Percent of GDP, unless otherwise indicated)

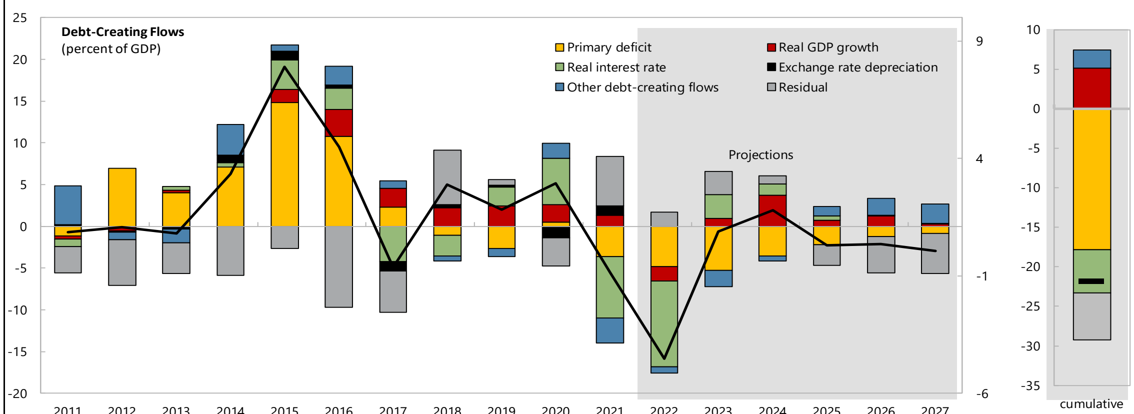
Debt, Economic and Market Indicators 1/

	Actual			Projections					
	2011–2019 2/	2020	2021	2022	2023	2024	2025	2026	2027
Nominal gross public debt	25.2	48.4	42.8	27.0	26.4	28.3	26.0	23.9	20.9
Public gross financing needs	6.1	4.0	-0.7	8.0	1.8	3.3	5.7	5.3	6.2
Real GDP growth (percent)	-2.7	-4.2	-3.2	5.8	-3.1	-12.3	-2.6	-4.7	-1.1
Inflation (GDP deflator, percent)	1.4	-8.8	20.9	36.4	-6.0	-0.7	2.1	3.8	3.5
Nominal GDP growth (percent)	-1.0	-12.7	17.0	44.3	-8.9	-12.9	-0.5	-1.1	2.3
Effective interest rate (percent) 4/	3.2	2.7	2.5	3.9	3.9	3.9	3.8	3.8	3.8

As of May 15, 2022		
Sovereign Spreads		
EMBIG (bp)3/		n.a.
Ratings	Foreign	Local
Moody's	n.a.	n.a.
S&Ps	n.a.	n.a.
Fitch	n.a.	n.a.

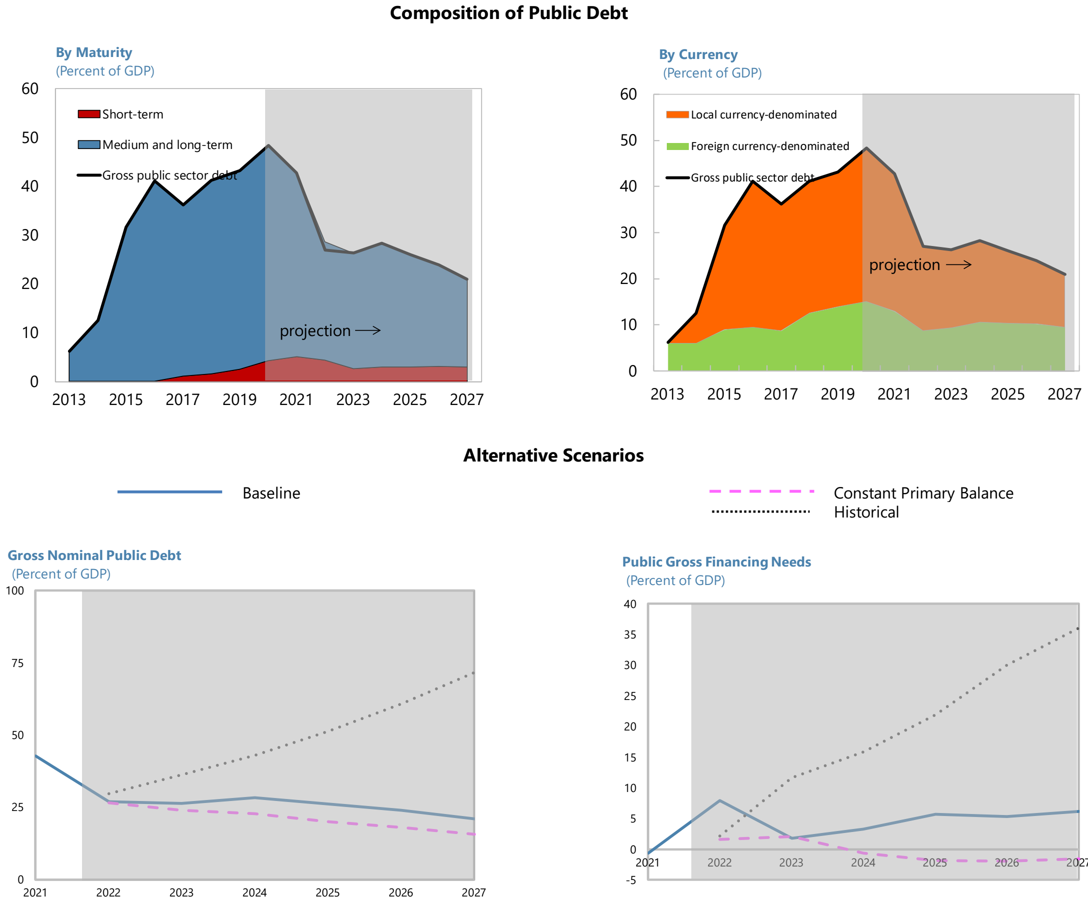
Contribution to Changes in Public Debt

	Actual			Projections							
	2011–2019	2020	2021	2022	2023	2024	2025	2026	2027	Cumulative	Debt-stabilizing primary balance 9/
Change in gross public sector debt	3.9	5.2	-5.6	-15.8	-0.6	2.0	-2.3	-2.1	-3.0	-21.9	2.7
Identified debt-creating flows	7.1	8.5	-11.6	-17.5	-3.4	0.9	0.2	2.1	1.8	-15.9	
Primary deficit	4.6	0.5	-3.6	-4.8	-5.2	-3.5	-2.2	-1.2	-0.9	-17.9	
Automatic debt dynamics 5/	1.6	6.2	-4.9	-12.0	3.8	5.1	1.2	1.3	0.3	-0.3	
Interest rate/growth differential 6/	1.4	7.6	-6.0	-12.0	3.8	5.1	1.2	1.3	0.3	-0.3	
Of which: real interest rate	0.2	5.5	-7.3	-10.3	2.8	1.3	0.5	0.1	0.1	-5.4	
Of which: real GDP growth	1.2	2.1	1.3	-1.7	0.9	3.7	0.7	1.2	0.3	5.1	
Exchange rate depreciation 7/	0.2	-1.4	1.1	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.9	1.8	-3.0	-0.8	-2.0	-0.6	1.1	2.1	2.3	2.2	
Net privatization proceeds	0.0	0.0	-0.1	-0.4	-0.5	0.0	0.0	0.0	0.0	-0.9	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other liabilities (net deposit accumulation)	0.9	1.8	-3.0	-0.4	-1.5	-0.6	1.1	2.1	2.3	3.1	
Residual, including asset changes 8/	-3.2	-3.3	6.0	1.7	2.8	1.0	-2.4	-4.3	-4.8	-6.0	



Source: IMF staff
1/ Public sector is defined as general government
2/ Based on available data
3/ Bond Spread over U.S. Bonds.
4/ Defined as interest payments divided by debt stock at the end of previous year
5/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation
6/ The real interest rate contribution is derived from the denominator in footnote 6 as r - π (1+g) and the real growth contribution as -g
7/ The exchange rate contribution is derived from the numerator in footnote 6/ as ae(1+r).
8/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year

Figure 2. Composition of Public Debt and Alternative Scenarios



Underlying Assumptions

(Percent)

Baseline scenario	2022	2023	2024	2025	2026	2027	Historical scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	5.8	-3.1	-12.3	-2.6	-4.7	-1.1	Real GDP growth	-3.8	-3.8	-3.8	-3.8	-3.8	-3.8
Inflation	36.4	-6.0	-0.7	2.1	3.8	3.5	Inflation	36.4	-6.0	-0.7	2.1	3.8	3.5
Primary balance	4.8	5.2	3.5	2.2	1.2	0.9	Primary balance	-3.9	-3.9	-3.9	-3.9	-3.9	-3.9
Effective interest rate	3.9	3.9	3.9	5.5	3.8	3.8	Effective interest rate	3.9	3.8	5.2	6.0	6.9	7.2
Constant primary balance scenario													
Real GDP growth	5.8	-3.1	-12.3	-2.6	-4.7	-1.1							
Inflation	36.4	-6.0	-0.7	2.1	3.8	3.5							
Primary balance	4.8	4.8	4.8	4.8	4.8	4.8							
Effective interest rate	3.9	3.8	3.6	3.3	3.2	3.3							

Source: IMF staff

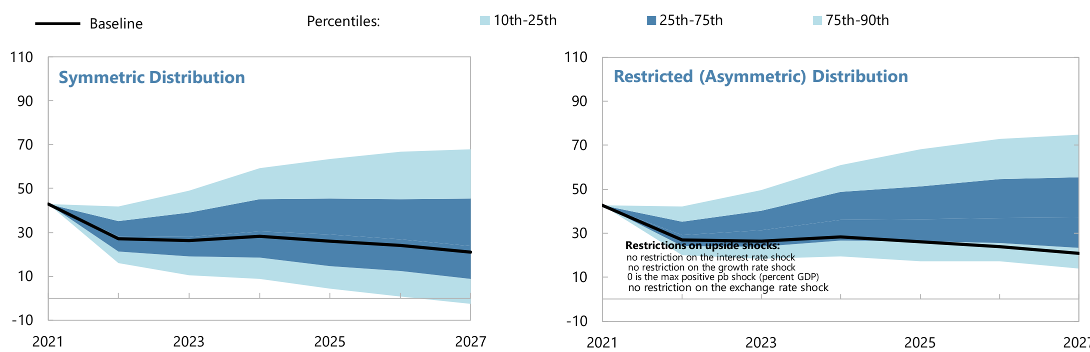
Figure 3. Risk Assessment

Heat Map

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

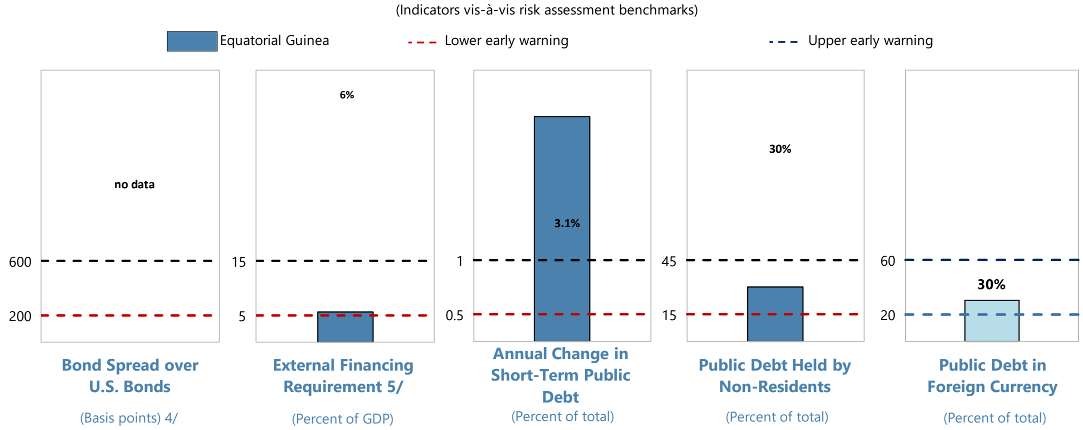
Evolution of Predictive Densities of Gross Nominal Public Debt

(Percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks)



Source: IMF staff.

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

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

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

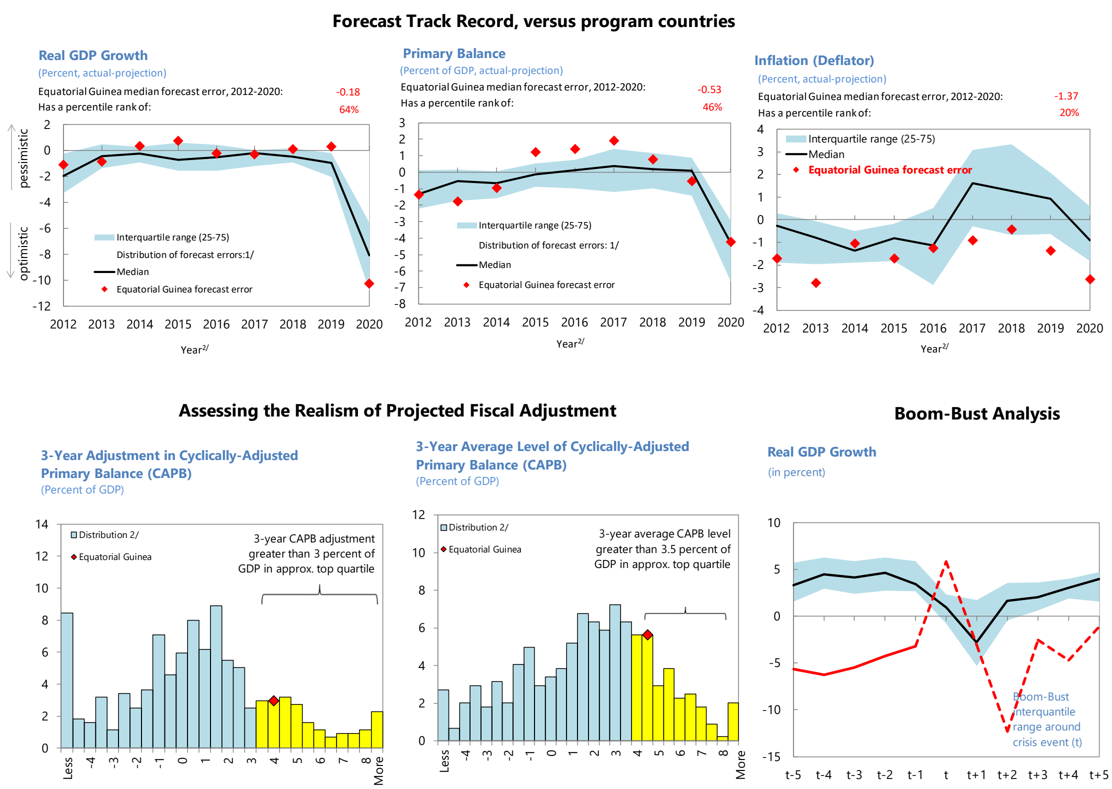
Lower and upper risk-assessment benchmarks are:

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

4/ Bond Spread over U.S. Bonds, an average over the last 3 months, 14-Feb-22 through 15-May-22.

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

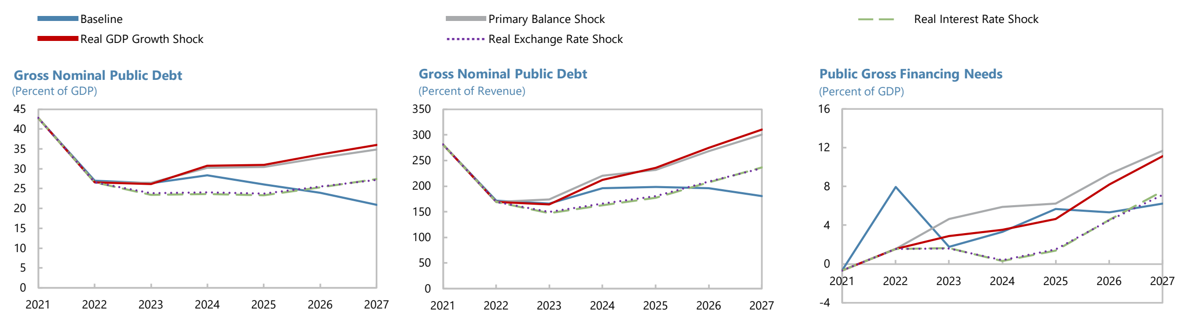
Figure 4. Realism of Baseline Assumptions



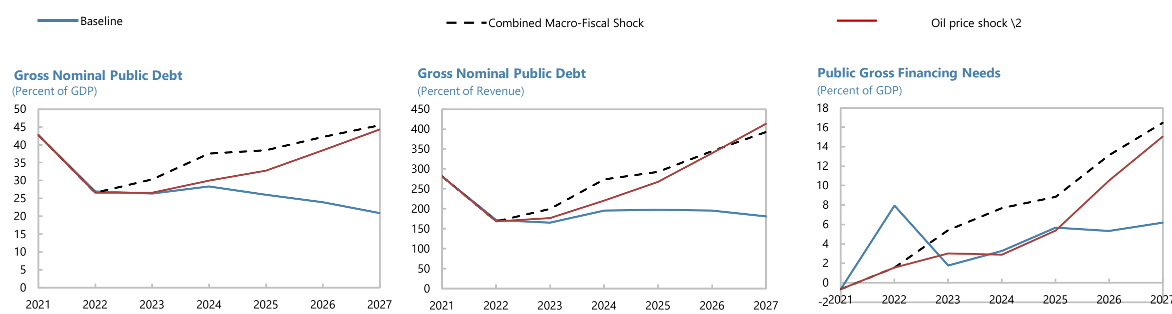
Source: IMF staff.
1/ Plotted distribution includes program countries, percentile rank refers to all countries
2/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 5. Stress Tests

Macro-Fiscal Stress Tests\1



Additional Stress Tests



Underlying Assumptions

(Percent)

	2022	2023	2024	2025	2026	2027
Primary Balance Shock						
Real GDP growth	5.8	-3.1	-12.3	-2.6	-4.7	-1.1
Inflation	36.4	-6.0	-0.7	2.1	3.8	3.5
Primary balance	4.8	2.2	0.5	2.2	1.2	0.9
Effective interest rate	3.9	3.8	3.9	4.2	4.3	4.4
Real Interest Rate Shock						
Real GDP growth	5.8	-3.1	-12.3	-2.6	-4.7	-1.1
Inflation	36.4	-6.0	-0.7	2.1	3.8	3.5
Primary balance	4.8	5.2	3.5	2.2	1.2	0.9
Effective interest rate	3.9	3.8	3.6	3.4	4.2	5.2
Combined Shock						
Real GDP growth	5.8	-8.2	-17.4	-2.6	-4.7	-1.1
Inflation	36.4	-7.2	-1.9	2.1	3.8	3.5
Primary balance	4.8	2.2	0.5	2.2	1.2	0.9
Effective interest rate	3.9	4.0	4.3	4.9	5.7	6.4

	2022	2023	2024	2025	2026	2027
Real GDP Growth Shock						
Real GDP growth	5.8	-8.2	-17.4	-2.6	-4.7	-1.1
Inflation	36.4	-7.2	-1.9	2.1	3.8	3.5
Primary balance	4.8	4.5	1.9	2.2	1.2	0.9
Effective interest rate	3.9	3.8	3.6	3.7	4.0	4.3
Real Exchange Rate Shock						
Real GDP growth	5.8	-3.1	-12.3	-2.6	-4.7	-1.1
Inflation	36.4	-1.4	-0.7	2.1	3.8	3.5
Primary balance	4.8	5.2	3.5	2.2	1.2	0.9
Effective interest rate	3.9	4.0	3.5	3.4	3.7	4.0
Oil price shock						
Real GDP growth	5.8	-4.3	-13.5	-3.8	-5.9	-2.3
Inflation	36.4	-10.0	-4.7	-1.9	-0.2	-0.5
Primary balance	4.8	4.3	2.6	1.3	0.3	0.0
Effective interest rate	3.9	3.9	3.7	3.7	4.1	4.4

Source: IMF staff

\1 The lower growth scenario depicts a permanent negative shock of -2 percent to the baseline projection for growth and non-interest revenues to GDP. By contrast the other shock are temporary shocks.

\2 Oil price shock assumes a persistent 10% decline in the price of oil, which impacts growth, GDP deflator, primary balance and exchange rate.

Annex VI. Long-Term Hydrocarbon Resources and Debt Sustainability in Equatorial Guinea[1]

1. Hydrocarbon revenues in Equatorial Guinea have passed their peak, pointing at the country's imminent need to move towards more sustainable sources of growth. Equatorial Guinea held 1.1 billion of proven liquid hydrocarbon reserves[2] and 0.26 billion barrels of oil equivalent of proven gas reserves in 2020. In the same year, hydrocarbon exports included $1.9 billion of oil and $0.8 billion of natural gas. Over the medium term, crude oil production is projected to significantly decline, allowing natural gas exports to dominate total hydrocarbon exports. Using 2021 prices ($70 barrel of crude oil and $110 barrel of oil equivalent of natural gas), the total hydrocarbon wealth of Equatorial Guinea is estimated at $105.6 billion or CFAF 60.8 trillion.

2. Incorporating information on the commercial viability of proven resources, only 75 percent would be commercially viable for production at projected medium-term prices of $70.[3] Oil and gas supply curves show the effect of changes in prices on commercially available resources for production.[4] Between 2015 and 2019, Equatorial Guinea achieved strong advances in lowering the cost of production, making the hydrocarbon sector more resilient to a low-price environment, and allowing a higher level of extraction to be profitable at lower prices; however, this advancement has been associated with a decline in the total size of available resources as more expensive prospects appear to have been abandoned.[5]

3. Comparing the shape and dynamics of supply curves across countries signals a declining risk appetite in the hydrocarbon industry, limiting prospects of long-term growth in the sector. Similar patterns to Equatorial Guinea's experience are observed in neighboring oil-producing countries such as Gabon, Angola, and Cameroon; however, more developed oil-producing countries (such as Norway, Mexico, and Brazil) on the other hand experienced a downward shift in the supply curve that lowered the cost of production but also raised the projected magnitude of hydrocarbon reserves. This last observation suggests that, at least until early 2022, resources in the global hydrocarbon sector may be undergoing a reallocation to fewer and more developed producers; this move is likely motivated by a desire to limit risks amid global uncertainty about the future of the hydrocarbon industry.

4. Absent fiscal and structural reforms, the anticipated decline in hydrocarbon revenues carries significant negative implications for long-term debt sustainability in Equatorial Guinea. Thanks to hydrocarbon revenues, the debt level has remained relatively stable (at about 43

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[1] Prepared by Khalid Elfayoumi (SPR).

[2] Includes crude oil, condensate, and LNG according to BP energy statistical review and OPEC using data up to 2020.

[3] Jan 2022 WEO projects oil price of $66 and $73 for natural gas in 2026.

[4] Supply curves are constructed by summing up asset level reports (i.e. fields and wells) of the size of proven reserves that report a break-even prices lower or equal to every price point.

[5] All vintages used in the analysis use information on the level of reserves as of 2019. For the 2015 vintage, the level of 2019 reserves are projected, while later vintages reflect actual figures.

percent of GDP in 2021). However, under a scenario where the non-hydrocarbon revenues do not increase, as hydrocarbon reserves continue to be depleted, debt would rise to over 100 percent of GDP by 2036,[6] with the GFN-to-GDP ratio reaching above 25 percent of GDP.[7] The severity of the described "no-reforms scenario" suggests that, in order to maintain long-term debt sustainability, reforms to government finances would be essential over the next 15 years.

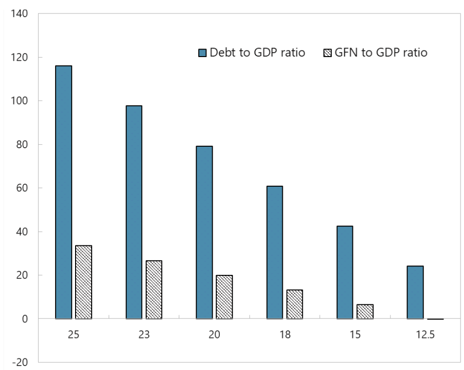
5. Accelerating growth in the non-hydrocarbon sector and raising non-hydrocarbon revenues in the medium term can reduce the risk of a costly sovereign stress event in the long term. Non-commodity revenues in Equatorial Guinea are low, averaging around 6 percent of non-hydrocarbon GDP between 2018 and 2021. On the other hand, expenditures as a percent of non-hydrocarbon GDP are relatively high at 28 percent on average between 2018 and 2021. Maintaining these values would deliver the extreme "no-reforms scenario" mentioned before. An alternative scenario (a "reform scenario") where non-hydrocarbon revenues are increased by 5 percentage points to 11 percent of non-hydrocarbon GDP and expenditures are reduced by 5 percentage points to 23 percent of non-hydrocarbon GDP would be sufficient to maintain a similar level of debt-to-GDP ratio observed today (at 42 percent of GDP). Under this "reform scenario," long-term GFN level would be around 6 percent of GDP.

[6] This debt level is more of a lower bound value since it does not incorporate the impact of depleting hydrocarbon resources across the region on reserve accumulation.

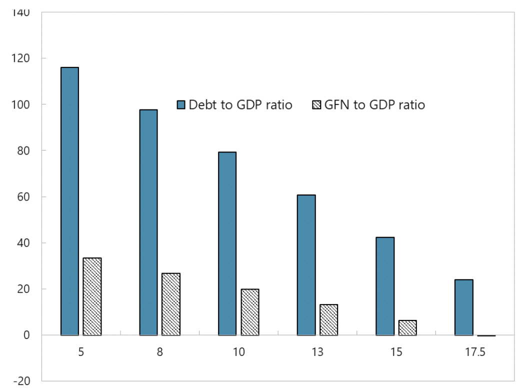
[7] Assuming financing needs are met with domestic currency bond issuance at a maturity of 7 years and a 7.8 percent interest rate.

Figure 1. Debt and GFN to GDP Ratios over Different Long-term Fiscal Adjustments

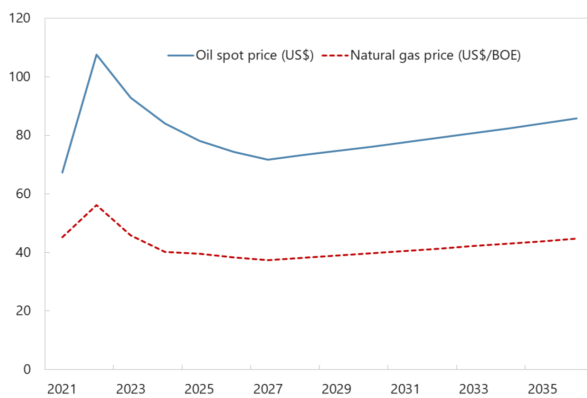
Long-term Government Expenditures
(percent of non-hydrocarbon GDP)



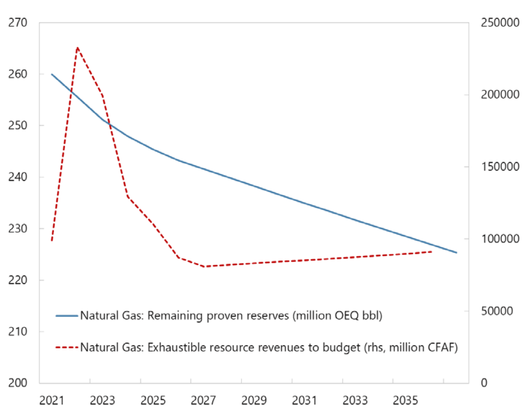
Long-term Government Revenues
(percent of non-hydrocarbon GDP)



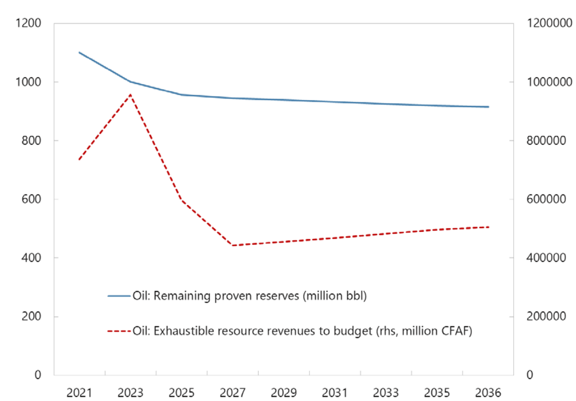
Underlying long-term Price Assumptions



Natural Gas Reserves and Revenues



Oil Reserves and Revenues



Source: IMF staff calculations.

Figure 2. Estimated Hydrocarbon Supply Curves, 2015 and 2019

(Horizontal axis in thousand barrels per day)

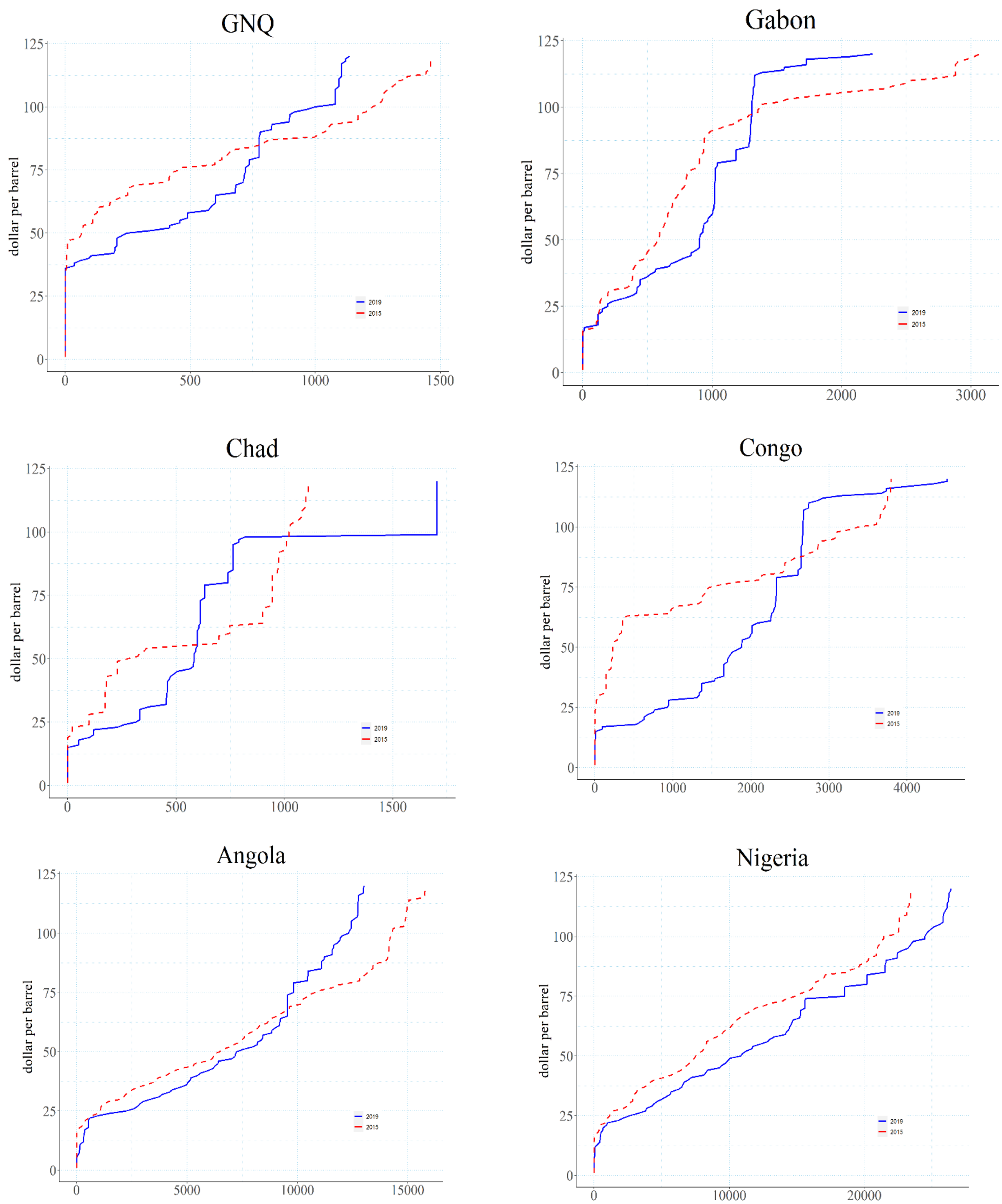
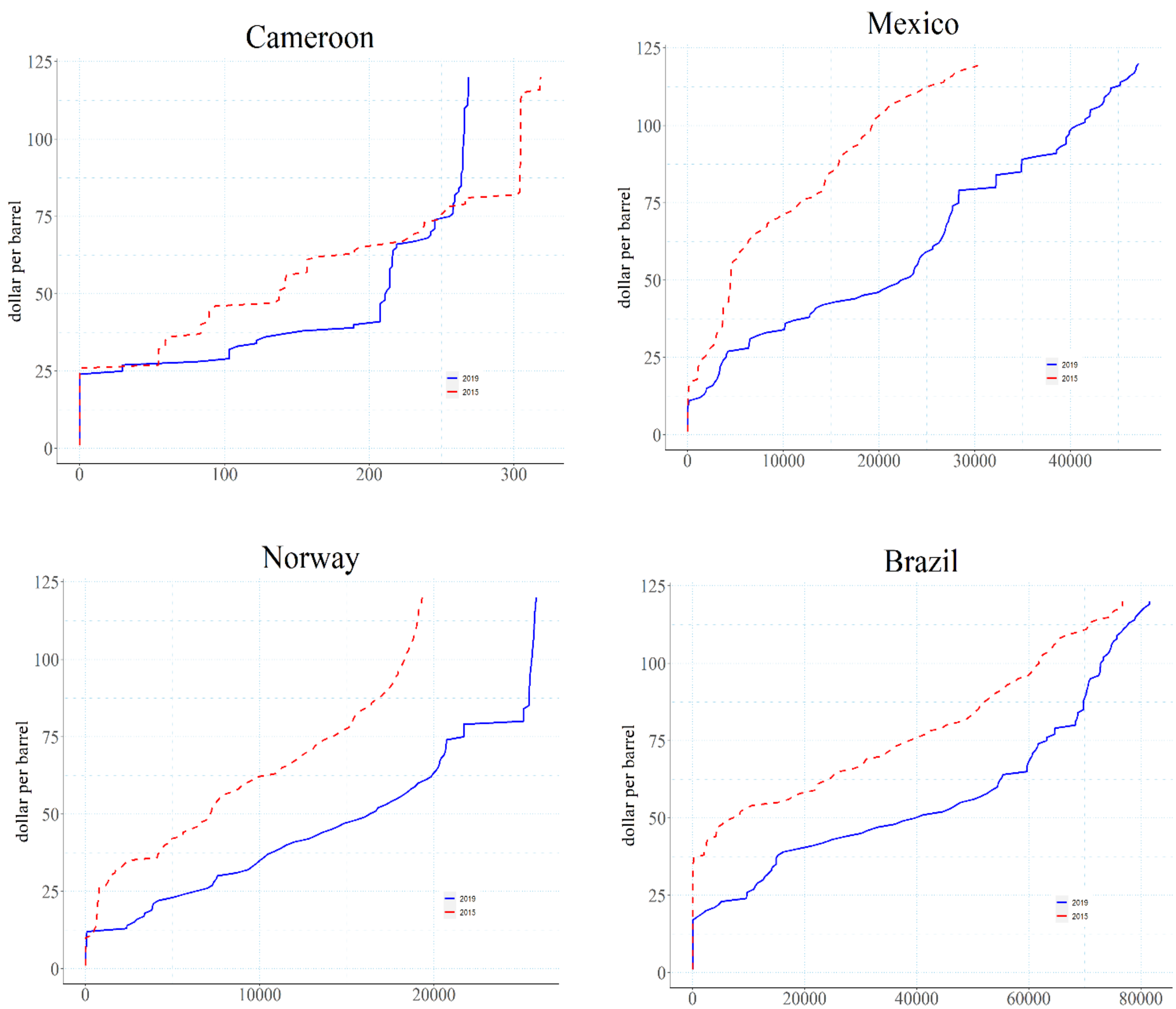


Figure 2. Estimated Hydrocarbon Supply Curves, 2015 and 2019 (concluded)
(Horizontal axis in thousand barrels per day)



Note: Shown supply curves are constructed by summing up asset level reports (i.e., fields and wells) of the size of remaining reserves that report break-even prices lower or equal to every price point. The blue solid lines represent data reported in the 2019 vintage, while the red dashed line represents the 2015 vintage. Both vintages use remaining reserves data starting year 2019 (for the 2015 vintage, the reports of 2019 remaining reserves are forecasts). Countries shown include hydrocarbon producers in the region, as well as others with similar technological needs for production (i.e., offshore fields).

Source: IMF staff calculations.

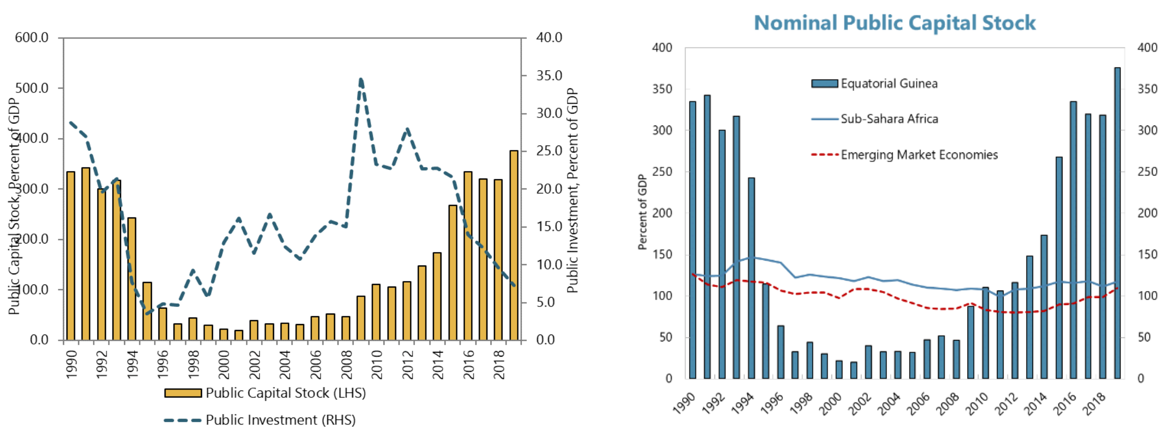
Annex VII. Public Investment Program, 2008–17[1]

During 2008–17, a strong investment push to address largely critical public infrastructure needs, resulted in an extremely large capital stock, spending inefficiencies, and possibly a considerable misallocation of resources. The authorities are now contemplating reforms to enhance productive uses of the installed capital stock, and increase the allocation of public spending to health, education, and other social sectors to improve future sustainable and equitable economic growth and outcomes.

A. A Surge in Public Investment and Capital Stock

1. During 2008–17, the government of Equatorial Guinea spent about $41 billion ($32 billion budgeted) on the acquisition of non-financial assets. This has allowed Equatorial Guinea to accumulate the highest public capital stock (relative to GDP, and also in per capita terms) among CEMAC countries, with capital spending above all AFR countries (Text Figures 1, 2 and 3).

Text Figure 1. Equatorial Guinea: Public Investment and Capital Stock

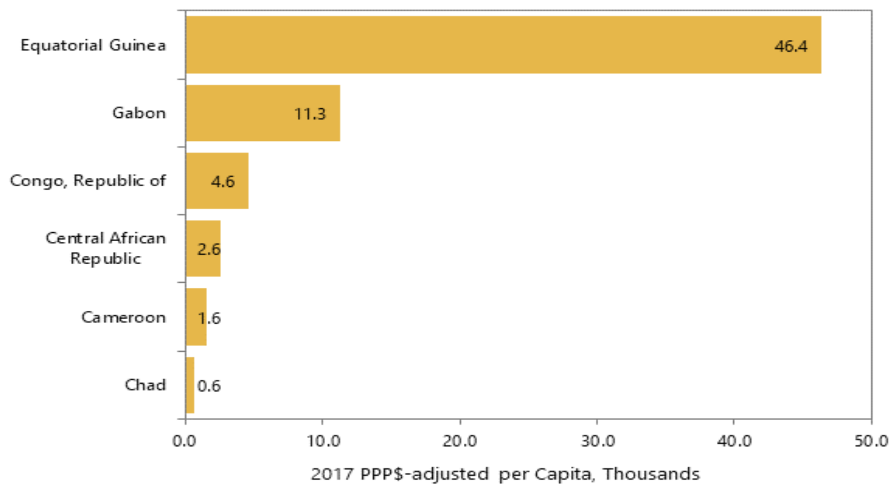


Note: “Nominal” public and PPP capital stock throughout the Annex refers to the capital at “current cost” and not at historical cost, while “real” capital refers to capital stock in 2011 constant local currency prices. Finally, “2011 PPP$-adjusted” capital refers to capital stock in 2011 constant international dollars.

Source: IMF staff calculations.

[1] Prepared by Brooks Evans (FAD) and Garth Nicholls (AFR).

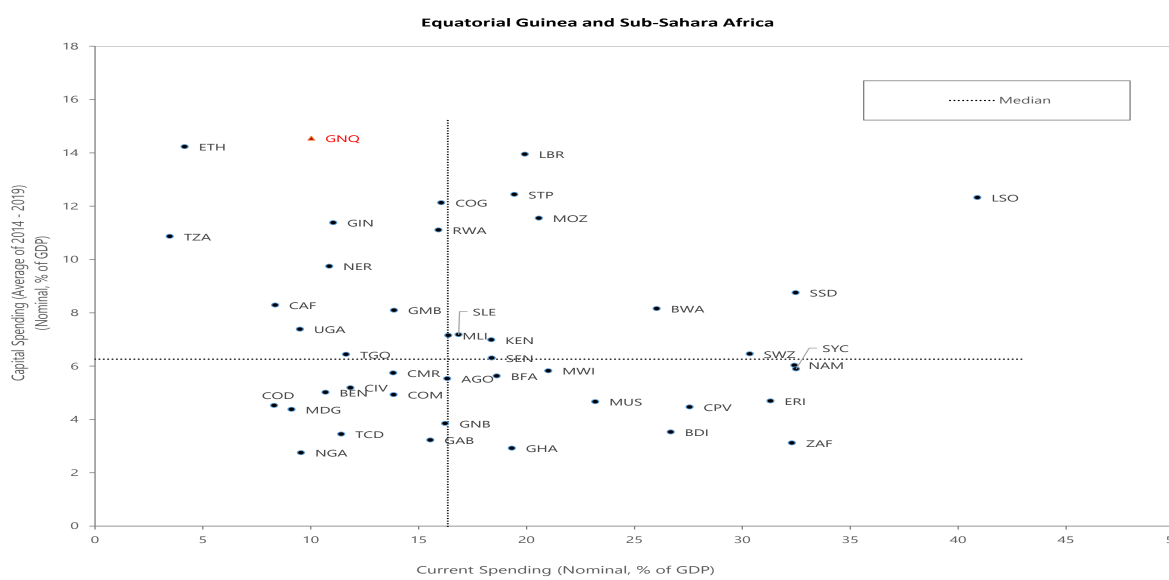
Text Figure 2. Public Capital Stock per Capita, 2019



Note: The perpetual inventory method is used to construct capital stocks series for 170 countries. Specifically, several sources of data are used to compile a comprehensive series for public, private, and PPP investments. The investment flow data are then transformed into "real cost" (constant 2017 U.S. dollars) using purchasing power parities from the International Comparison Program (ICP). After making assumptions on depreciation rates and on the initial capital stock, based on the academic literature, the net "real cost" stocks (constant 2017 U.S. dollars) is estimated. The depreciation rates are time varying and depend on each country's income grouping, while the initial capital stock is derived using a synthetic time series approach. The main advantage of our approach is that it relies on a unified and standardized framework making our estimates comparable across countries, while the drawback is that the estimates do not take into account detailed asset-level investment information.

Source: IMF staff calculations.

Text Figure 3. Capital Spending 2014–19 and Current Spending 2019



Source: IMF staff calculations.

B. Sectoral Allocation of Capital

2. Over 40 percent of total acquisition of non-financial assets was spent on infrastructure (Text Table 1). Substantial investments were made in roads (2,530 km paved, and 1,441 km graveled), electricity generation (installed 847,969 MW), social housing (10,477 build, with 7,842 awarded), public administrative buildings (90 percent of ministerial and 40 percent of autonomous entity buildings were modernized), ports (6 newly built, 3 rehabilitated) and airports (5 newly built), telecommunications infrastructure (national fiber optic network installed), promenades in Bata (15 km), Malabo (3 km) and Kogo (970 m), sports stadiums in Bata (35,700 capacity) and Malabo (15,250 capacity), the Malabo national park (87 hectares), monuments and other basic public infrastructure. The government also began construction of the Ciudad de la Paz in the administrative province of Djibloho, which in 2014 accounted for about 78 percent of the budgeted public capital spending.

Text Table 1. Equatorial Guinea: Summary of Public Investment Program, 2008–17

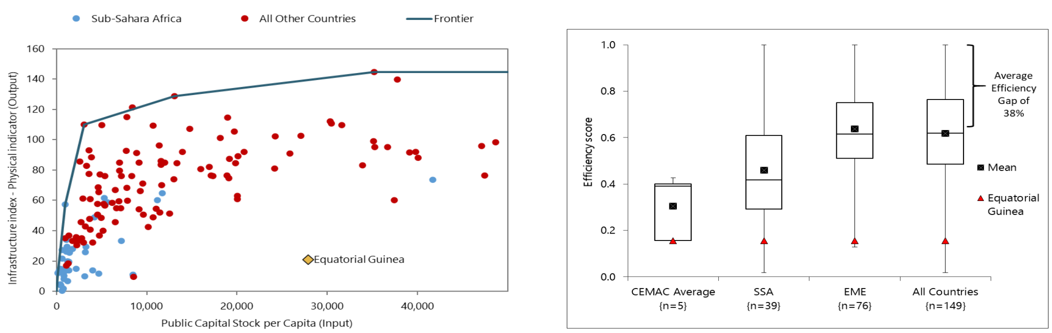
Total Investment, USDbn	Budgeted USD31bn (183% of GDP) spent USD41bn (234% of GDP)
Key Projects	**Actual Output**
Infrastructure	
o/w Roads	2,530km paved, and 1,441km graveled
o/w Social Housing	10,477 units built, 7,842 distributed
o/w Ports	6 newly built, 3 rehabilitated
o/w Airports	5 newly built
o/w Other urban infrastructure	Improvement of the streets in the main cities of the country, the urbanization of 53 Town Councils promoted to Urban Districts
o/w New Cities	The new city of **Sipopo** was completed and work also begun on construction of Ciudad de la Paz in the administrative province of Djibloho
Public administration	
o/w Public administrative buildings	90 percent of ministerial and 40 percent of autonomous entity buildings were modernized. 36 City Council headquarters and 39 Government delegation headquarters were built and modernized throughout the territory, as well as around 30 security and defense infrastructures between barracks and police headquarters
Productive Sectors	
o/w Electricity generation	Installed 847,969 MW
o/w Telecommunication	National network of 208 GB fiber optic of 1,724 Km that connect 95% of the Municipalities of the Country
Education, Health and Sanitation	
o/w Health	Construction of the "La PAZ" Hospitals in Sipopo and Bata.Rehabilitation of Regional Hospitals of Malabo and Bata, and four provincial hospitals, as well as the rehabilitation and extension of the other District Hospitals.
o/w Water & Sanitation	Access to sanitation, rose from 60% in 2006 to 63.34% in 2014 for the urban population, and from 46% in 2006 to 48% in 2014 for the rural pouplation. Access to drinking water has increased for the urban population from from 59.4% in 2009 to 67.73% in 2014
o/w Education	
Other Sectors	
o/w Sports Stadiums	Bata (35,700 capacity) and Malabo (15,250 capacity)
o/w Other recreation	Malabo national park (87- hectares), monuments
o/w Promenades	Bata (15km), Malabo (3km) and Kogo (970m)

Sources: Staff Report for the Equatorial Guinea 2016 Article IV consultation, IMF Country Report No. 16/341, and the Equatoguinean authorities.

C. Efficiency of Capital Allocation

3. Despite having a public capital stock triple the size of that for SSA, its efficiency is low. Equatorial Guinea is far from the physical infrastructure frontier with inputs translating poorly into outputs as measured by the efficiency scores that lags most comparators (Text Figure 4). Meanwhile, public education infrastructure access is below all comparators, while access to basic drinking water lags SSA (Text Figure 5). To address some of these realizations in the social sector outcomes and other indicators, the authorities are now contemplating reforms to refocus future investments on health and other social sectors, and to increase spending on education and training, which should boost human capital and growth.

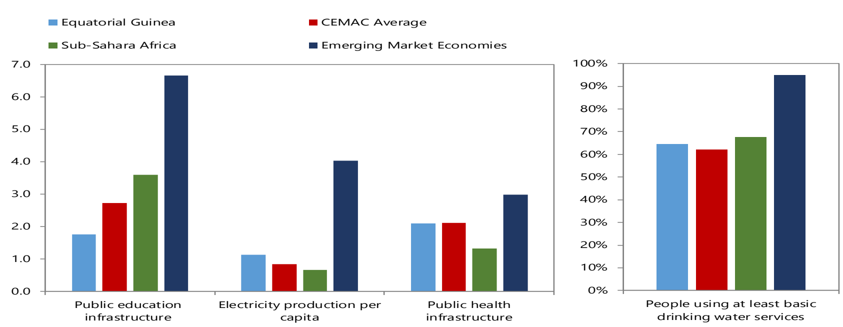
Text Figure 4. Physical Infrastructure Frontier and Efficiency Score



Source: Making Public Investment More Efficient. International Monetary Fund, 2015.

Note: Physical Infrastructure: "A physical indicator, which combines data on the volume of economic infrastructure (length of road network, electricity production, and access to water) and social infrastructure (number of secondary teachers and hospital beds). While this indicator provides a sense of the coverage of infrastructure networks and physical output of public investments, it does not fully measure the quality of the infrastructure."

Text Figure 5. Measures of Infrastructure Access, 2019



Source: IMF staff calculations.

Note: LHS chart shows indices based on the following specific series: Public education infrastructure index is based on secondary teachers per 1,000 persons; Electricity production per capita index is based on thousands of kWh per person, per year; and Public health infrastructure index is based on hospital beds per 1,000 persons. RHS chart shows the percentage of people with access to basic drinking water services or better.

Annex VIII. Mobile Cash Transfers in Equatorial Guinea to Improve Social Welfare[1]

Following the Bata explosion of March 7, 2021, the 300 most impacted families received within months financial aid using mobile payments. This local initiative, led by UNICEF and the government in coordination with non-governmental organizations (NGOs), was highly successful but resource intensive. To replicate this at the national level, the authorities should (i) promote mobile payments and (ii) together with NGOs, provide support to international institutions that would conduct transparent and progressive transfers, possibly using innovative technologies, until an effective single register of beneficiaries is developed to better target initiatives. With the support of mobile transfers, the government shall be able to conduct initiatives to protect people in need, especially in emergency situations.

1. Financial support using mobile payments have been widely used during the pandemic. Global mobile penetration increased significantly during the pandemic. In Africa, countries scoring high on personal identification and consumption information, digital inclusion, and availability of regulated mobile payment services, such as Kenya or Uganda, were able to react fast and deliver targeted large-scale support to the poor during the pandemic. In Kenya, the Inua Jamii program reached over 1 million people since April 2020 with weekly transfers using the mobile money platform M-Pesa. In Uganda, the social assistance grant for empowerment (SAGE) initiative was activated in March 2020, targeting primarily elderly. Also, in Togo, the "Novissi" program combined satellite imaging, voting registers, and mobile phone data to target support for 57 thousand poor people out of the 100 poorest cantons. These initiatives were highly effective, since they were safe—direct, traceable, and mostly cashless—and not conditional to holding a bank account. These two features proved to be of superior importance to implement large scale initiatives in countries featuring weak public sector governance and low financial inclusion.

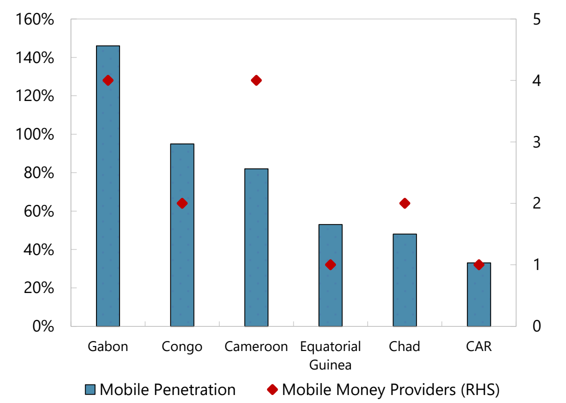
2. Targeted initiatives were also conducted in Equatorial Guinea, though it could be difficult to scale them up. In 2020, the Ministry of Health held a measles vaccination and COVID information campaign with the support of UNICEF; during this campaign, social workers—both banked and unbanked—as well as volunteers, were paid via Muni Dinero, a mobile payment operator with a large cashpoint network. In summer 2021, a MINASIG/UNICEF initiative financed by UNICEF USA and USAID, targeted 300 families impacted by the Bata explosions. It consisted of 3 phases (i) identification of beneficiaries, (ii) coordination with NGOs and authorities, and (iii) phone distribution and payment. In phase I, local authorities in coordination with MINASIG and NGOs collected recipient data onsite, that was confirmed and completed during further visits and phone calls. The collected data are now part of the Single Social Registry (RUS), an open database maintained by UNICEF. In phase II, MINASIG approved the project and NGOs joined and took responsibility for facilitating the process of data collection and verification in the affected area. In

[1] Prepared by Jean Portier (MCM) and Brooks Evans (FAD).

phase III, UNICEF, in coordination with MINASIG and support from NGOs, distributed phones and access codes to recipients that subsequently received texts and collected payments at cashpoints. The 2021 Bata initiative was successful and promising because (i) funds came safely and timely to address the emergency, and (ii) low financial inclusion but also low digital inclusion were addressed. However, phase I (recipients' identification) was quite resource intensive, may not have targeted the most vulnerable, and could prove a major challenge if this initiative would be rolled out nationally.

3. **To conduct large-scale social protection payments in the medium term, Equatorial Guinea should actively promote the conditions for safe and effective mobile-based payments.** To that aim, authorities should facilitate (i) bank-telecom partnerships, and mobile payment offerings; (ii) the rapid development of a payment acceptance network, including for the payment of tax and utility bills to the government, (iii) strengthen and streamline public finance management to allow for the roll-out of safe and fast initiatives in future emergency situations, and (iv) development of adequate oversight for mobile payments, especially to protect consumers.

Figure 1. Mobile Payments in CEMAC, 2020



Source: BEAC, FinTalk.

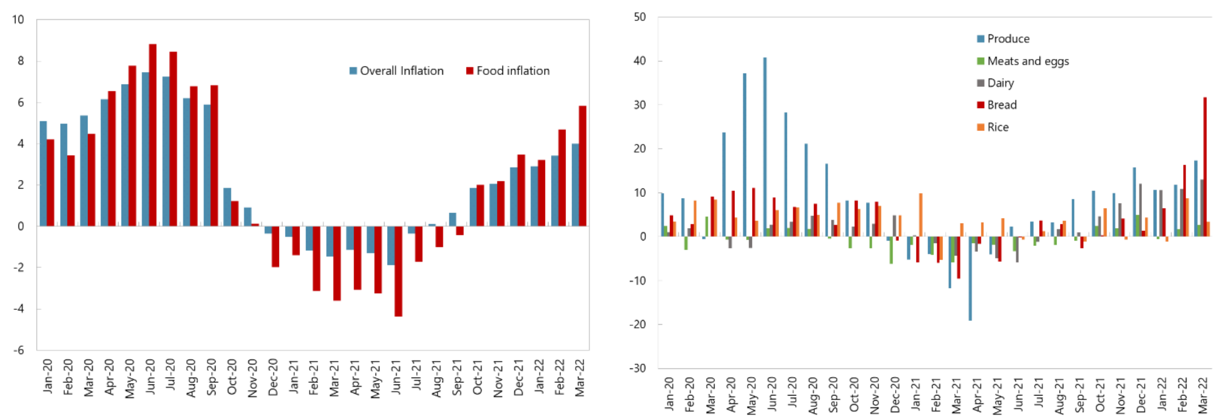
4. **Once a basic but comprehensive Single Registry of Beneficiaries (RUB) is completed, the government will have a critical instrument of social protection.** Progressive initiatives, conducted in cooperation with international institutions and NGOs, will deliver a RUB. In the circumstances of an abrupt shock that increases poverty across the country such as a pandemic, innovative approaches similar to the "Novissi" in Togo, AidTech in Lebanon, or PhilSys in the Philippines could be envisaged to better target assistance. However, if technical challenges continue to prevent those solutions, regularly replicating an improved version of the Bata initiative should be preferred—that is: identify and register beneficiaries, pay on e-wallets cashable at cashpoints and give phones to those who need one, using broad communication in advance and simple targeting criteria (e.g. exclusion of (i) formal sector employees, (ii) high phone consumption, (iii) home and car owners). Such actions would strengthen the mobile payment culture and digital inclusion, but would also give a central importance to the RUS. By setting a registration to RUB, a sub-module of the RUS centered on economic criteria, as a precondition to obtaining benefits, the beneficiaries themselves would help build the RUB and the RUS. By the same token, the government would benefit from an opportunity (i) to increase formality and the tax base, by requesting to have or get an ID and collect beneficiary information as part of the registration process, and (ii) to better target social protection over time as the RUB, and thus the RUS, become more exhaustive.

Annex IX. Considerations for Mitigating Surging Food Prices[1, 2]

International food and energy prices have recently risen to their highest levels in the last twenty years. Equatorial Guinea will benefit from the rise in oil prices, but it will face difficulties due to rising food prices—especially given the high proportion of imported food. The risk of food insecurity has increased, particularly for vulnerable households. This annex presents considerations for short-term revenue and expenditure policies—with limited duration—that will help mitigate rising food prices, while designing medium-term solutions.

1. The sharp rise in food prices is anticipated to rapidly increase food insecurity. Equatorial Guinea largely relies on food imports, as in many African countries. The consumer price index (based on the 2006 basket) is projected to increase to 6.0 percent in 2022 (with over half of the increase caused by rising food prices). Given that poor people (estimated at over 40 percent of the urban population) spend a much larger proportion of their income on food (food and non-alcoholic beverages already account for 48 percent of the overall 2006 CPI basket), the population is highly vulnerable to shocks. The resulting lack of food security due to difficulties in acquiring basic foods increases the risks of malnutrition and raises the prospects of social tension.

Inflation is picking up again since February, with significant spikes in food (including bread) inflation (percentage, year-on-year)



Sources: Equatoguinean authorities and IMF staff calculations.

2. Given the weak social safety net (SSN) in Equatorial Guinea, to mitigate the impact of rising food prices in the short term, measures could include time-limited expenditure and

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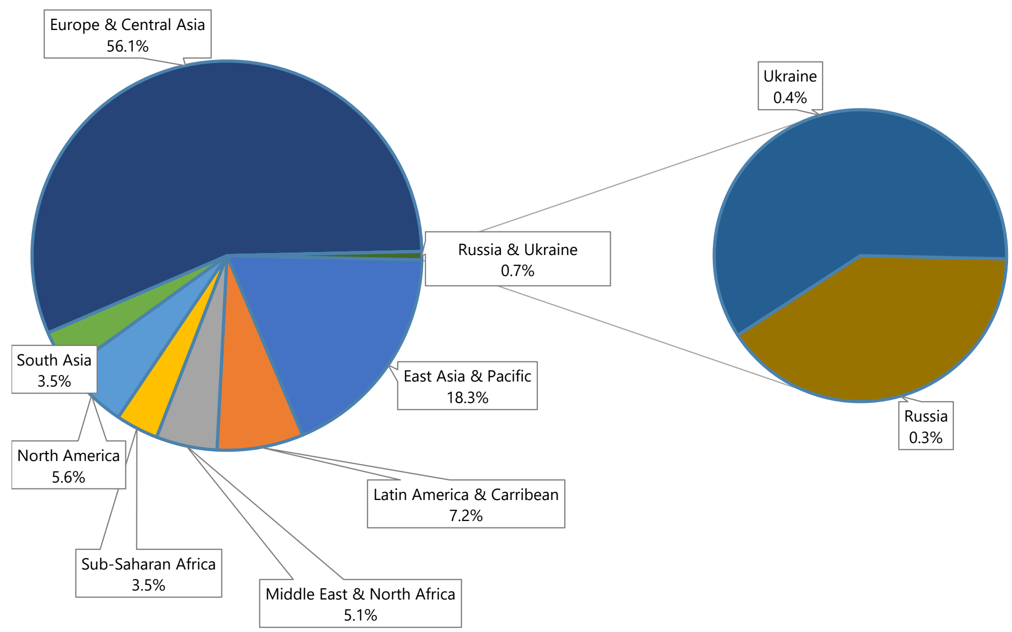
[1] Prepared by Brooks Evans (FAD).

[2] References for the annex: IMF Fiscal Monitor, 2022, “Fiscal Policy from Pandemic to War” (Link); IMF Note, 2022, “Fiscal Policy for Mitigating the Social Impact of High Energy and Food Prices” (Link); IMF Policy Paper, 2008, "Fuel and Food Price Subsidies—Issues and Reform Options" (Link); IMF Policy Paper, 2008, "Food and Fuel Prices—Recent Developments, Macroeconomic Impact, and Policy Responses" (Link); Impact of High Food and Fuel Prices on Developing Countries—Frequently Asked Questions (Link); Various FAD Covid-19 notes, including tax and expenditure policies (Link).

revenue policies as recently adopted in other countries. Ideally, countries should have strong SSNs to mitigate economic impacts and protect those at the bottom of the income distribution—this requires broad national coverage of the SSN and adequate benefits for beneficiaries. However, Equatorial Guinea has a weak SSN (with minimal coverage and adequacy), there are no food subsidies, and 80 percent of food is imported (largely from Europe and Central Asia) including relatively important items for low-income households, such as wheat products, rice, meat, fish, and eggs. New IMF research based on recent information from 134 countries provides timely data on measures taken across the world to mitigate rising food prices—with highlights on good practices that Equatorial Guinea could consider, as summarized below:

Food Imports by Region, 2017–20



Sources: Equatoguinean authorities and IMF staff calculations..

- System of vouchers, distributed to consumers who can use them to buy food in supermarkets and shops. Under this measure, supermarkets/shops are compensated by the government for the value of the vouchers. The government could estimate the fiscal cost of this measure by assuming full food price pass-through and a 50–75 percent population uptake.

- Temporary subsides to food distributors in the country with clear sunset clauses, applied to staple foods (i.e. those consumed mainly by the poor) suffering from rising prices (such as wheat products, eggs, and meat). This measure is accompanied by the commitment of food distributors to set retail prices for these products in accordance with the government's subsidy for the period when they have the subsidy.

- Reduction or suspension of import taxes and customs service charges on critical food imports.

- Temporary reduction in consumption taxes (VAT and excise duties), with clear sunset clauses, may also be implemented.

- In addition, food imports could be coordinated together with other countries in the region, to reduce costs.

3. **Other measures—while only bearing fruit over the medium term—should also be considered,** including:

- Enhance incentives to increase domestic production of food (and possibly fertilizer).

- Efforts to increase the number of food importers in the country to strengthen competition in the market.

- Strengthen the SSN system to improve the ability to promptly reach the most vulnerable. A reform strategy for SSN should address the inefficiencies of the SSN system, including the creation of a nation-wide register of beneficiaries and mainstreaming the ability to perform mobile transfers.

Annex X. Governance–Update on Anti-Corruption, Rule of Law, and AML/CFT Frameworks [1,2]

1. **Improving governance and fighting corruption are a major challenge for the country's development.** Corruption, perceived as affecting most government functions, may undermine the development agenda outlined in the government's National Strategy for Sustainable Development 2035. During the period 2010-20, the Worldwide Governance Indicators (WGI) for rule of law[3] and control of corruption[4] stagnated at a very low percentile: at approximately 7/100 and 0.7/100 respectively.[5] Equatorial Guinea significantly underperformed the regional average for Sub-Saharan Africa (SSA) for both indicators for the past 10 years (at approximately 29/100 for rule of law and 30/100 for control of corruption). Similarly, the Ibrahim Index of African Governance shows that the member underperformed the SSA regional average over the past 10 years for Overall Governance.[6]

2. **The 2019 IMF Governance Diagnostic Report identified key corruption and governance weaknesses in Equatorial Guinea.** During 2018–19, the authorities worked with IMF staff to prepare a governance diagnostic report, to form the basis of a government strategy to improve governance and transparency and fight corruption (the 2019 Good Governance and Anti-Corruption Action Plan).[7] This annex provides an update on the progress the authorities have made in implementing their action plan regarding anti-corruption, rule of law, and AML/CFT frameworks, and identify remaining reforms in the period ahead.

3. **Since the 2019 Governance Diagnostic Report, some actions have been implemented in the areas of rule of law, AML/CFT and anti-corruption framework, but much more needs to be done.** The government's 2019 Good Governance and Anti-Corruption Action Plan was to be

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[1] Prepared by Ioana Luca (LEG).

[2] This Annex complements Text Table 2 and has a narrower focus on (i) anti-corruption, (ii) rule of law, and (iii) AML/CFT in which it deepens the analysis.

[3] This indicator captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. The accuracy of the indicator can be biased by experts' views (instead of facts).

[4] This indicator captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests. The accuracy of the indicator can be biased by experts' views (instead of facts).

[5] D. Kaufmann (Natural Resource Governance Institute and Brookings Institution) and A. Kraay (World Bank).

[6] Equatorial Guinea | Ibrahim Index of African Governance (IIAG) Data Portal | Mo Ibrahim Foundation. The IIAG governance framework comprises four categories: Security & Rule of Law, Participation, Rights & Inclusion, Foundations for Economic Opportunity and Human Development. The accuracy of the indicator can be biased by experts' views (instead of facts).

[7] The Governance Diagnostic as well as the Action Plan were published on the website of the Ministry of Economy and Planning in 2019: Estrategia de gobernanza - Ministerio de Hacienda y Planificacion (minhacienda-gob.com)

implemented during the 2019–22 extended arrangement. With no reviews completed, largely due to a slower than originally envisioned pace of governance reforms,[8] few measures were put in place, and some were recalibrated for purposes of the 2021 RFI. During 2019–22, the authorities prioritized implementation of governance measures that formed part of the initial set of structural benchmarks under the EFF-supported reform program.

Table 1. Commitments Under the Extended Arrangement of the 2019 Extended Fund Facility (EFF): Anti-Corruption and Rule of Law

Anti-Corruption and Rule of Law (Prior Actions and Structural Benchmarks)			
Measure	**Date**	**Result**	**Comments**
Publish the governance diagnostic report and a governance strategy as developed in consultation with IMF staff (Prior Action)	By Board meeting (December 2019)	Met	
Submit a membership application to the EITI (Prior Action)	By Board meeting (December 2019)	Met	The authorities withdrew their application after receiving feedback from the EITI secretariat. They plan to resubmit a revised and updated membership application during 2022.
Congressional approval of an anti-corruption law in line with international obligations under the UNCAC (Structural Benchmark)	End-March 2020	Implemented with delay	The decree law was signed in July 2020 and the amended law was passed in April 2021.
Set up a website for the Official Gazette and publish all laws, orders and decrees applicable in EG since 2000 (Structural Benchmark)	End-June 2020	Not met. In progress.	A website (https://boe.gob.gq) was launched but is still incomplete.
Governance and Anti-Corruption Framework			
Measure	**Date**	**Result**	**Comments**
ANIF to apply for Egmont membership. ANIF's membership in Egmont should enhance the international exchange of information	end-March 2020	Met	Egmont membership is still pending
ANIF to develop guidance to assist financial institutions in identifying domestic politically exposed persons (PEPs) and beneficial owners (both physical and legal persons)	End-Sept. 2021	Not met	

[8] The exigencies of the COVID-19 pandemic, the Bata explosions, and capacity constraints played some role in the delays but challenges in garnering domestic consensus has held back traction.

Table 1. Commitments Under the Extended Arrangement of the 2019 Extended Fund Facility (EFF): Anti-Corruption and Rule of Law (concluded)

ANIF to develop and implement proper arrangements to facilitate cooperation and exchange of information between the ANIF and COBAC to improve the quality of inspections.	End-Sept. 2021	Not met. In progress.	The authorities reported that cooperation with COBAC has improved.
Updating the existing decree on asset declarations for senior public officials in line with the law and international best practice during 2020	June 2021	Not met. In progress.	On March 31 2022, the government published an asset declaration form with the aim of starting to implement the system (https://minhacienda-gob.com/formulario-de-declaracion-de-patrimonio-e-intereses/). The published form was not in line with asset declaration requirements established in the 2021 Anti-Corruption law, but the authorities are amending the form with IMF assistance.
Data Dissemination, Transparency of Information and Rule of Law			
Measure	**Date**	**Result**	**Comments**
Set up a website for each court and publish on the website for each court (judiciary) the number of serving judges and staff along with vacant positions, and for each work unit (prosecution) the number of prosecutors and staff, along with vacant positions	End- 2020	Not met	
Publish on the Courts' website all Supreme Court decisions and all corruption decisions, if any, and commercial decisions commencing December 2019	End- 2020	Not met	The authorities reported that the Information Technology, Archives, and Documentation Directorate established in 2019 for this purpose does not have the means to fulfill its objectives.
Publish on the Ministry of Finance's website, for each court, the number of corruption cases, AML/CFT cases, insolvency cases, foreclosure cases, and land cases for the past three years and every year thereafter, specifying how many have been closed, how many are pending, how many are new and how many are carried over from the previous year	End- 2020	Not met	
ANIF will publish an annual report on its activities, budget and resources, and main achievements. The report will include typology studies on laundering of proceeds of main corruption schemes	End-Sept. 2021	Not met	ANIF authorities noted that they are in the process of updating ANIF's website.
Publish a comprehensive hydrocarbon data and information report for 2019	End-Sept. 2020	Implemented with delay	Report published in March 2022 https://minhacienda-gob.com/nota-de-prensa-sobre-el-informe-del-sector-nacional-de-hidrocaburos-2019/

Table 2. Commitments Under the 2021 Rapid Financing Instrument (RFI): Anti-Corruption and AML/CFT			
Anti-Corruption Framework (Prior Action)			
Parliamentary approval and publication of an anti-corruption law in line with UNCAC	By Board meeting (September 2021)	Met	
Anti-Corruption /AML (Commitments)			
Issue the implementation decree(s) related to the asset declaration regime for senior public officials and the governance of the Anti-Corruption Commission	within the 60 days specified in the anti-corruption law.	Not met. In progress.	The authorities report that the regulations are being drafted by a joint Commission composed of the Ministry of Finance and the Ministry of Justice and are pending for promulgation.
In line with the anti-corruption law, adopt a Presidential decree requiring key high-level public officials to submit their asset declarations for publication on an easily accessible official website.	Prior to first review	Not met. In progress.	
Issuing regulations to require for beneficial ownership information of awarded companies to be required in procurement contracts	By end-August 2021	Met	Decree 141/2021 was issued on December 9, 2021, requiring legal entities to declare their beneficial owners upon being awarded public procurement contracts to mitigate the COVID-19 pandemic and the Bata explosions. The decree also establishes that the procurement contract and the beneficial ownership information will be made public in a government website within 15 days of the signature of the contract.
Publishing all procurement contracts (for government spending in relation to the Bata emergency and COVID-19 responses), that are awarded subsequent to the issuance of the beneficial ownership information regulations, on the Ministry of Finance website (including the names of the companies awarded the contract and their beneficial ownership information, the specific nature of the goods or services procured, their price per unit, and the overall contract amount) with Fund technical assistance as needed [...]. Publish on the same website reports of ex-post validation of delivery.	By end-September 2021 and regularly thereafter	Not met. In progress.	The consistent and timely publication of all the public procurement contracts and beneficial ownership information of the legal entities is still pending. The beneficial ownership declaration has been published for four entities at the following website: https://minhacienda-gob.com/beneficiarios-finales-covid-7m/
Conduct Bata audit and that on COVID-related spending, and publishing their results on the Ministry of Finance's website	by end-April 2022 (Bata audit) by end-September 2021 (Covid audit)	Not met. In progress.	Audits are ongoing. The authorities have received a draft report on the COVID spending audit and are working to provide clarifications, and additional documentation to enable the auditor to have a full set of information from which they can form and opinion.

4. The existing anti-corruption institutions are assessed to be highly vulnerable to political interference, have limited resources and some have not been established as prescribed in the law. The Anti-Corruption Commission has not been established yet, even though the statutory deadline under the Anti-Corruption law for establishing it has passed multiple times.[5] Other anti-corruption and governance institutions such as the Anti-Corruption Prosecutor, the ANIF and the courts remain severely underfunded, have capacity constraints to perform their functions and are not perceived as independent.

- Enforcement against corruption cases is assessed to be weak. Since the entry into effect of the Anti-Corruption law in May 2021, the Anti-Corruption Prosecutor has investigated 18 cases of corruption, out of which 7 were directed at senior public officials.[6] These public officials include directors of SOEs and military personnel; they do not include government officials, who are treated as de facto immune from prosecution. The Anti-Corruption Prosecutor does not have a sufficiently clear legal mandate arising from a law or regulation, which prevents it from managing its own resources and making operational decisions. The Special Office for the administration of confiscated goods, which is stipulated in the Anti-Corruption Law to strengthen the capacity of the Anti-Corruption Prosecutor, has not yet been established. Additionally, there continue to be some delays in the adjudication of cases in the judicial system and no publication of judicial decisions.

- The implementation of the asset declaration regime of senior public officials is still pending. Progress is being made as detailed in the table above. The Anti-Corruption Law of May of 2021 established that all regulations should have been issued within the following six months of the publication of the law; however, over a year has lapsed. The slow progress on the regulations limits the implementation of the Anti-Corruption Law and, most importantly, the capacity of the country to fight corruption.

- The government's National Strategy for Sustainable Development 2035 includes some objectives on reforming the judicial sector, such as: restructure, modernize and strengthen the judicial administrative system, consolidate the independence of the judicial system, improve the qualification of the human resources, including of judges. The objectives are far reaching, but more concrete actions need to be defined on how to reach these objectives,

[5] The President and Vice-President of the Commission were to be named within 60 days of the entry into effect of the decree and then again, within 60 days of the entry into effect of the Anti-Corruption Law (the decree entered into effect in July 2020, and the law in May 2021). The President and Vice-President for the Commission were named on June 2, 2022. In accordance with the Anti-Corruption Law, the regulations for the Anti-Corruption Commission and for the Asset Declaration regime should be issued within 60 days from the naming of the President and Vice-President of the Commission.

[6] One of these cases has reached final judgment in court, with the defendant being acquitted.

and aggressive implementation will be needed if meaningful change is to be obtained. Measures should be defined on how to reach the stated objective of the National Strategy of preventing corruption.

5. Rule of Law weaknesses continue to generate vulnerabilities in all sectors of the economy. Some of these weaknesses are specific to each economic sector (e.g. the hydrocarbon sector, the construction sector). However, two cross-cutting rule of law weaknesses, continuing to affect all sectors, are: (i) an implementation deficit and allegations of a lack of even-handedness and fairness in the application of the law; (ii) a transparency deficit (a comprehensive absence of transparency and public data reporting). These weaknesses are further magnified by capacity constraints and the fact that there is no professional career for judges, prosecutors, or notaries, nor clear term limits or destitution for cause. The authorities mentioned that the reform of the Organic Law of the Judiciary, which was also referenced in the 2019 Diagnostic Report and which foresees the creation of a professional track for judges, is expected to come into force by the end of this year.

6. Efforts to strengthen the AML/CFT framework should be stepped up to ensure its effectiveness to combat proceeds of corruption and other financial crimes. While there are significant delays in the implementation of the AML/CFT items under Equatorial Guinea's 2019 Good Governance and Anti-Corruption Action Plan, the authorities reported updating the decree regulating the financial intelligence unit (ANIF) to support the country's application to the Egmont Group.[7] These efforts also included updating the internal regulations of ANIF, the issuance of an ethics code for its staff, and the implementation of security measures in ANIF's offices to safeguard its information. The authorities also noted that a money laundering and terrorist financing national risk assessment is underway, and that they created a National Committee for AML/CFT policy and coordination. The ANIF is also improving the manner of reporting of suspicious transactions through an enhancement of the customer due diligence procedures in financial institutions and more focus on the origin of funds. ANIF's publication of an annual report including budget, activities, resources, and milestones, as well as AML/CFT typologies based on corruption activities is still pending.

7. The upcoming GABAC evaluation, expected for September 2023, will provide important recommendations for enhancing the AML/CFT framework effectiveness. In 2016, GABAC assessed the AML/CFT framework, focusing on the legislative and institutional framework highlighting significant deficiencies,[8] many of which have yet to be addressed. In the upcoming evaluation, the effectiveness of the framework will also be assessed, and specific recommendations will be provided.

A. Prioritized Recommendations

Anti-Corruption Regime

[7] http://www.anif.gq/?p=3022

[8] http://spgabac.org/rapports-devaluation-mutuelle/

8. Improving the authorities' capability to fight corruption offenses will be key to enhancing transparency and accountability. The anti-corruption legal and institutional framework needs to be upgraded and implementation should be significantly enhanced.

- An updated anti-corruption strategy could usefully guide anti-corruption efforts, building on the 2019 Action Plan, and with a basis in the National Strategy for Sustainable Development 2035. This should include developing a strategy to address the risks notably in the prevention, investigation, prosecution of corruption, improving national and international cooperation and enhancing mechanisms for public sector and civil sector partnership.

- As a first step, the Anti-Corruption law needs to be implemented, with a well-funded and independent Anti-Corruption Commission established, with the capacity to design and apply the Anti-Corruption Commission Regulations and the Asset Declaration Regulations. The Anti-Corruption Commission Regulations should be drafted with a view to limit any potential jurisdictional overlap with the Anti-Corruption Prosecutor.

- Public officials must start declaring their assets, in line with the AC law and AD regulations. The asset declaration regime of senior public officials needs to be strictly enforced to enhance the capability of detecting and prosecuting corruption cases. As a first step, the adoption of regulations and an asset declaration form, as established in the Anti-Corruption Law and following international good practices should be prioritized. This should be promptly followed by the submission of declarations by high-level public officials and the publication of such declarations in a government website.

- Finally, enhancing the independence, governance and capacity of the Anti-Corruption Prosecutor and the Ministry of Justice to effectively detect, investigate and prosecute corruption cases require increased financial and human resources, and stepping-up efforts to enhance education and expertise amongst investigators, prosecutors, and judges. The Anti-Corruption Prosecutor should also have a sufficiently clear legal mandate arising from a law or regulation, with independence and resources enshrined in its legal mandate, and the Special Office for the administration of confiscated goods, stipulated in the Anti-Corruption law, should be established. Any regulation designed for the Anti-Corruption Prosecutor should distinguish its functions from those of the Anti-Corruption Commission to limit any jurisdictional overlap.

Rule of Law

9. The Rule of law must be strengthened through (i) ensuring the independence of the judiciary and of the prosecutors, such as professional exams, clear term limits, termination only with cause which has been duly published and disseminated to the public; (ii) an effective implementation of existing laws, and (iii) enhancing public data access to laws, orders, and judicial decisions, as well as on the administration and efficiency of the courts. Notaries should also be subject to a professional career track, that would be accessible to any Equatoguinean person, and not just to public servants. We furthermore reiterate our recommendations from the 2019 Governance Diagnostic Report (included in paragraph 71, table 3).

AML Tools to Tackle Corruption

10. An effective AML/CFT framework can support efforts to fight corruption. Strengthening the legal framework and effective implementation of requirements related to politically exposed persons and beneficial ownership to ensure they are in line with international standards should be prioritized. It is also important to ensure that banks and other financial institutions effectively apply AML/CFT preventive measures proportionate with corruption risks, including its coordination at the regional level with COBAC. At the domestic level, AML/CFT regulation and supervision of designated non-financial businesses and professions (e.g., lawyers, accountants, and real estate agents) should also be a priority. In addition, relevant authorities, such as ANIF and the Anti-Corruption Prosecutor, should have adequate staff, resources, and independence to ensure proper detection, investigation and prosecution of corruption and financial crimes. Efforts should also include measures to: ensure the transparency, accuracy, and accessibility of beneficial ownership information; enhance the use of financial intelligence related to corruption and money laundering for financial investigations; improve the detection and capabilities against ML, corruption, and other financial crimes; and enhancing the scope of AML/CFT risk-based supervision and the cooperation between the ANIF and COBAC.

Annex XI. National Strategy for Sustainable Development "Equatorial Guinea Agenda 2035"[1]

1. **In April 2021, through presidential decree, the government officially adopted the Equatorial Guinea's National Development Strategy for 2021–35 (PLAN-35), as the framework to transform the country over the next fifteen years**. This long-term development strategy was built on a set of national aspirations emanating from the Third National Economic Conference held in 2019 and is aligned with the Sustainable Development Goals of the United Nations and with the Agenda 2063 of the African Union.

2. **The PLAN-35 intends to achieve a structural transformation of Equatorial Guinea by making fundamental changes in economic and social structures to promote inclusive development, while preserving the environment for future generations**. Specifically, the strategy aims to:

- Eradicate poverty: Sustainably improve the living conditions of the population, with active intervention of the population in the process of development.
- Promote social inclusion and sustainable peace: Turn Equatorial Guinea into a modern, efficient, and socio-strategic State, with a central role in promoting development and strengthening civil society and national private initiative.
- Promote productivity and industrialization: Promote macroeconomic stability, economic and social development, and a balanced distribution of equitable development through the fair and effective allocation of public resources.
- Promote environmental sustainability and territorial development: Ensure the existence and maintain the quality of nature's resources, ensuring their healthy use for present and future generations through an appropriate legal and institutional framework and adequate management.

3. **The achievement of these objectives is based on four guiding principles:** (i) promoting equitable human development and the well-being of Equatorial Guineans, eradicating hunger and poverty and promoting the educational and health development of the population; (ii) guaranteeing national unity and cohesion, promoting peace and national identity, building a democratic, inclusive, and participatory society, guaranteeing fundamental freedoms and rights and the development of civil society; (iii) guaranteeing a high rate of economic development, with macroeconomic stability, structural diversity, and a fair distribution of national income, as well as the competitive insertion of Equatorial Guinea in the world and continental economy, guaranteeing a position of reference in the CEMAC and the region of the Gulf of Guinea; and (iv) promoting sustainable development that

[1] Prepared by Cornelio Nze Miko Nzang (Local Economist).

guarantees an effective use of natural resources and a harmonious occupation of the national territory, stimulating the competitiveness of the territories and promoting the development of the most disadvantaged regions.

4. **The authorities consider that fundamental reforms are required in several areas to facilitate the implementation of the development strategy.** Required reforms apply to different institutional levels: State, public administration, and judicial system. At the social level, reforms are envisioned in the health system, security, and social protection. In the area of macroeconomic planning and management, reforms are envisioned for macroeconomic planning and management, public finances, and national statistical system. Reforms are also proposed to support production and the development of private activity, including agrarian restructuring and land reorganization, the financial system, competition, and markets. Finally, reforms also affect the organization of the territory.

5. **Implementation of the development strategy is to be monitored and evaluated at different levels of the government.** At the highest level is the National Council for Sustainable Development, chaired by the President. The second level consists of a National Planning Council. This organ is responsible for planning, and is chaired by the Prime Minister. The third level of implementation monitoring is the Equatorial Guinea 2035 Observatory. This level facilitates the participation of other political and social actors in the strategy and their inputs are to be integrated in the National Planning Council. Finally, level four is the National Development Agency of Equatorial Guinea, a technical entity led by a General Director.

6. **The authorities plan to implement the new development strategy in three phases, each lasting five years.** The first phase (launch) includes the period 2021–25; the second phase (of development) would be implemented in the five-year period 2026–30; while the last phase (consolidation) would be implemented during the last five years of the established time horizon.

7. **The economic diversification pillar of the PLAN-35 focuses on six broad priority production areas.** This pillar is to be led by the private sector and is planned to be implemented during 2021–25. The focus of the economic diversification strategy is import substitution and promotion of exports. Six broad priority production areas have been identified as key for the economic diversification push under the support for economic diversification program (PRODECO).

- Priority areas are: (i) Agribusiness and fishing; (2) mineral resources and hydrocarbons; (3) industry and energy; (4) hospitality and tourism; (5) logistics, transportation, telecommunications, and technology; and (6) financial services, consulting, and auditing.

Beyond these sectors, the authorities plan to set up special economic zones to promote the development of industry, establish an innovation hub, establish an international logistics and transportation center, promote energy diversification, improve banking and insurance services, and create areas (sectors) of excellence.

8. **The strategy identifies four instruments to support economic diversification**: creation of a coordination mechanism in the office of the head of government; re-creation of the sovereign fund of

Equatorial Guinea, inter alia, to preserve wealth for future generations; privatization and restructuring of state assets; and creation of a council for economic diplomacy and a public agency for the promotion of foreign trade and foreign investment.

Annex XII. Climate Change Risks—Impact and Government Plans[1]

While the impact of climate change on Equatorial Guinea has been modest so far, the authorities have embedded environmental sustainability in the revised Development Plan. A National Land Use Plan is currently being developed as an initial step to improving the management of its forest and leveraging its potential economic returns.

1. **Climate change in Equatorial Guinea, while notable, has had a relatively low impact so far and is expected to remain contained.**[2] Projections suggest that rainfall levels could increase somewhat in the future. If rainfall indeed becomes more concentrated[3], it could exacerbate pluvial flooding risks—the main climate-related risk to which EG is already exposed—given the large quantity of rainfall it receives. This risk is more prevalent in urban areas, in which about half of the population resides.

2. **Climate change is likely to exacerbate existing risks in EG, especially with regards to flooding.** For the Central African region, the IPCC and other researchers[4] project increases in heavy precipitation events, which could result in more pluvial and river flooding. However, the risks for EG are less than those for the region. Drought intensity is projected to increase in Central Africa (IPCC, 2021, p. 8–78; Ukkola et al., 2020), but mainly in the Sahel region, while EG's likelihood of experiencing drought is projected to increase only marginally.[5]

3. **The country's rural population is anticipated to be affected by climate change due to its reliance on subsistence agriculture and, to a lesser extent, fisheries.** EG's agriculture and fishery sectors remain almost exclusively based on subsistence activity, and they provide considerable employment to rural population. Agricultural productivity declines are typically projected to be highest for countries reliant on rain-fed agriculture, like EG. Declines in agricultural value added per degree of temperature increase could be between 1–1.5 percentage points for a median low-income country, to which EG's agricultural sector is quite comparable.[6] Maximum catch

[1] Prepared by Christian Henn (WHD) and Cornelio Nze Miko Nzang (Local Economist). This annex is part of a larger study of climate change in Equatorial Guinea.

[2] IPCC, 2021.

[3] IMF, 2020.

[4] Fotso-Nguemo et al. (2018, 2019) and Sonkoué et al. (2019).

[5] Finally, in line with global trends under the IPCC's warming scenarios, Central Africa would experience rises in the sea level, ocean acidity, atmospheric carbon dioxide and coastal erosion (IPCC, 2021, p. 12–39). However, sea level rises pose a lesser risk to EG than pluvial flooding events.

[6] IMF, 2017. "The Effects of Weather Shocks on Economic Activity: How can Low-Income Countries cope?", World Economic Outlook, October 2017, Chapter 3.

potential off EG's coasts could decrease between 25 and 50 percent by 2050 under the UN's most extreme warming scenario.[7]

4. The largest risk posed by climate change on EG is indirect: A global low-carbon transition could further accelerate the decline of its hydrocarbon sector. In the absence of significant economic diversification, the country remains highly reliant on the sector, which still accounts for almost all exports, almost 80 percent of government revenues, and more than 40 percent of GDP. A global low-carbon transition is expected to (i) further depress global investment in the sector and (ii) reduce global prices for hydrocarbons, although there is considerable uncertainty about the latter, especially during the transition years. However, stranded assets are not a real concern in the hydrocarbon sector, because most of EG's fields are aging quickly.

A. Government Plans

5. EG ratified the United Nations Framework Convention on Climate Change (UNFCCC) in 2018, setting out its ambitions for reducing emissions by 20 percent by 2030 (relative to 2010 levels) and by 50 percent by 2050. Cost of adaptation commitments is estimated to be moderate (a cumulative 2½ -4 percent of 2020 GDP until 2030). In contrast, cost of mitigation is expected to be high at $3.7 billion (37 percent of 2020 GDP) until 2030 and $6.0 billion (60 percent of 2020 GDP) during the 20 years thereafter through 2050. The authorities' mitigation efforts would focus on five sectors: Energy, Transport, Forestry, Industrial and Waste Management.

6. One of the four pillars of the new Development Plan is environmental sustainability. In 2021, the government adopted the National Strategy for Sustainable Development "Horizon 2035" that aims to incorporate the SDGs in its implementation, whose fourth pillar is Environmental Sustainability. The implementation of this new Development Plan, in the coming years, is expected to help the country achieve sustainable development. Specifically, the government intends to implement environmental actions such as:

- Organize and carry out the mapping of natural resources.
- Guarantee the integrated management of hydrographic basins.
- Develop, within the framework of the National Science, Technology and Innovation System, a subsystem on the Environment and Natural Resources.
- Organize and manage a network of reserves and natural parks.
- Build an information system on the environment and natural resources.

[7] UNCTAD, 2021. *Trade and Environment Review 2021: Trade-climate readiness for developing countries*, New York: United Nations Conference on Trade and Development.

- Develop a national documentation network on the environment and natural resources.

7. **With regards to projects related to the environment, the UN Reducing Emissions from Deforestation and forest Degradation program (REDD+) has progressed the furthest so far.** REDD+ aims to reduce deforestation and forest degradation, which is considered high in EG by the UN's Food and Agriculture Organization (FAO). A key initial step, which will guide this program, is the development of a National Land Use plan. Work on this plan has kicked off in mid-2021 with technical assistance from FAO. In addition, the government has started this year other projects to improve capacity in the forestry sector and foster the blue and green economies.

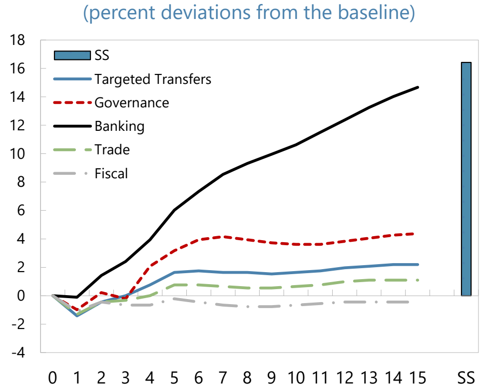
8. **The authorities are also advancing with a reform of their fuel price subsidy system.** A new price structure was approved in 2021 and implemented in early 2022, increasing domestic energy prices and therefore incentivizing the use of more efficient and clean energy sources.

Annex XIII. Potential Macroeconomic Impact of Structural Reforms[1]

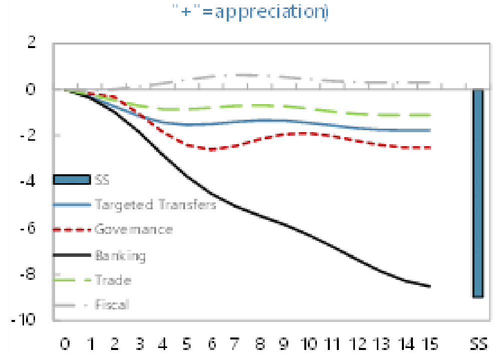
Delays in implementing reforms could stymie Equatorial Guinea's efforts to reverse the expected GDP decline and improve external competitiveness. Estimations reveal that reforms which boost productivity—such as improved governance and NPL reduction—could yield the largest gains. Achieving these dividends, however, critically depends on reform implementation and their initial credibility.

1. **In 2019, the Equatoguinean authorities adopted a structural reform package,** within the context of an IMF-supported economic reform program, but reforms have not been fully implemented. The policy package included: (i) fiscal adjustment and rebalancing to achieve an overall fiscal adjustment of about 2 percent of GDP after three years; (ii) improved public administration, including improving the organization and operation of customs, and controlling and tracking public spending; (iii) measures to improve human capital formation by improved targeting of social spending, in a fiscally-neutral manner, including adopting a floor for social spending that benefits the poor, and creating a specific social safety net for the very poor segment of the population; (iv) measures to reduce banking system NPLs with the aim of improving bank profitability and their lending capacity to the private sector, and; (v) measures to improve the business environment, including by streamlining procedures for the establishment of business enterprises, and fighting corruption and perceptions thereof. Beyond the EFF-supported program, the authorities have also signed on to the African Continental Free Trade Agreement (AfCFTA), which aims to liberalize intra-African trade.

Text Figure 1. Real GDP
(percent deviations from the baseline)



Text Figure 2. Real Exchange Rate
(percent deviations from the baseline, "+"=appreciation)



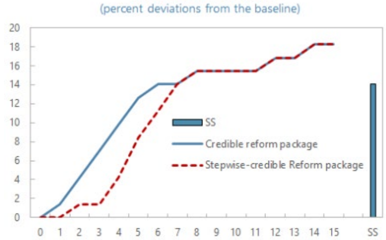
Source: GIMF Simulation.

Notes: Horizontal axis = years. As lines are stacked, the black line measures the total impact. SS = steady state.

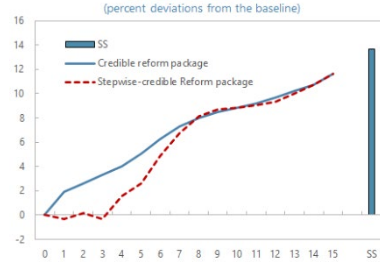
[1] Prepared by Garth Nicholls (AFR).

2. **Simulation results from a GIMF model calibrated to Equatorial Guinea indicate that full implementation of the reform package can potentially increase output by about 16 percent above baseline and delivers a notable REER depreciation** (Text Figure 1–2).[2] Although declining in the short term, after six years, real GDP is about 7 percent higher than the baseline. About two-thirds of the output gains are driven by a reduction in non-performing loans[3] (to under 10 percent over 13 years increases real GDP by 7.8 percent), transmitted through higher productivity in both the traded and non-traded intermediate sectors; and an improvement in Equatorial Guinea governance, as measured by the worldwide governance indicators (WGI) to the world's average, which also increases total factor productivity.[4] Upfront implementation of these reforms, along with those on targeted transfers and trade, helps offset output losses associated with the fiscal consolidation package. By itself, fiscal consolidation results in lower real GDP that, at its peak, is about 1 percent below baseline on impact. However, taken together with upfront implementation of other reforms, including bank balance sheet cleanup, these costs are offset. Just under half of the competitiveness gains over the medium term (captured in the REER depreciation) stem from reforms to governance, targeted transfers, and trade. This is consistent with the work of Abrego, et al, 2019, on the gains of the AfCFTA for African countries. The other half comes from productivity-enhancing cleanup of bank balance sheets, as higher productivity in the tradeable intermediate sector, reduces marginal production costs and tradable intermediate goods prices.

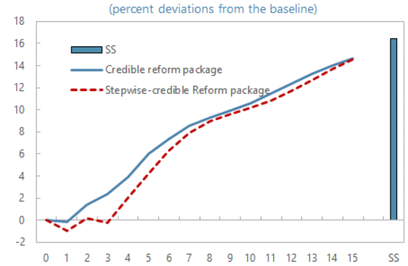
Text Figure 3. Investment
(percent deviations from the baseline)



Text Figure 4. Consumption
(percent deviations from the baseline)



Text Figure 5. Real GDP
(percent deviations from the baseline)



Source: GIMF Simulation.

Notes: Horizontal axis = years, SS= steady state.

3. **Macroeconomic gains are directly related to the credibility of the reform efforts.** With stepwise credibility, agents (investors and consumers) do not perceive the benefits of future reforms, slowing the adjustment process, so gains are lower in the short term (Text Figures 3 and 4). As a result, as shown in Text Figure 5, the level of GDP under the credible reform scenario is initially

[2] The Global Integrated Monetary and Fiscal (GIMF) model is a multi-country structural dynamic general equilibrium model developed by the IMF. It links the behavior of households, firms, and government sector within and among countries in a consistent framework, including stock-flow budget constraints for all sectors — see Kumhof, M., Laxton, D., Muir, D. and S. Mursula, 2010, "The Global Integrated Monetary and Fiscal Model (GIMF)–Theoretical Structure," IMF Working Paper No. 10/34 (Washington: IMF).

[3] Recovering value from existing NPLs that permit banks to increase lending.

[4] Table 1 provides a mapping of the policy experiments and GIMF mappings.

higher than the stepwise credibility scenario—precisely because the reform measures in the latter are delayed for three years. The gains in GDP eventually converge, after 8 years.

4. **The sequencing of reforms has also been shown to be key to maximizing gains.** According to the IMF's WEO (2019, October), reforms yield the largest gains in countries with higher-quality governance. Conversely, in countries with weaker governance, gains are considerably less. Therefore, upfront reforms to governance can, by acting as a complementary input, amplify the gains from other reforms. For example, upfront governance reforms that ensure the consistent application of the rules can magnify the gains from the AfCFTA. Additionally, given the role that bank credit plays in financing the domestic private sector, improving availability and access to credit through cleanup of bank balances, alongside strengthened banking sector supervision, could amplify the investment and output effects of other reforms. In sum, early governance reforms will help deliver larger gains from all other reforms.

Table 1. Equatorial Guinea: GIMF Simulation Strategy

Measures	GIMF Instrument/Shock	Scale	Mapping
Fiscal Adjustment and Rebalancing			
Lower spending on subsidies and transfers	Lower general transfers	0.4 percent decrease in general transfers over four years	Anderson and others (2013), Kumhof and others (2010)
Lower capital spending	Lover government investment	5 percent decrease in government investment over four years	
Higher spending on goods and services	Higher government consumption	1.2 percent increase in government consumption over four years	
Higher spending on wages	Higher government consumption	1.2 percent increase in government consumption over four years	
Higher income tax on non-residents	Higher taxes on corporate income	0.1 percent increase in corporate income tax over four years	
Introduction of a new-excise tax	Higher consumption taxes	2 percent increase in consumption taxes over four years	
Banking Sector Clean-up			
Reduction in NPLs	**TFP shock** to both non-tradables and tradables	7.8 percent increase in real GDP over 13 years	AFR DP/2021/014
Trade liberalization			
AfCFTA Tariff Liberalization	**Tariff reduction shock**: 13 ppt reduction in tariffs on goods from AfCFTA; & 9 ppt reduction in tariffs faced by CEMAC exports in the rest of AfCFTA, over 4 years		Dirk Muir (2014), Anderson and others (2013)
Reduction of NTMs	**Tradable Price Markup shock**: 9.3 ppt reduction		
Other Structural Reforms			
Improved governance	Aggregate productivity shock	1.3 percent increase in steady state real GDP	IMF (2018), Mauro (1995), Hammadi et al, (2018)
Establishment of a floor on social spending	Targeted transfers and labor supply	1 percent of GDP increase in targeted transfers over 4 years	Anderson and others (2013), Barnes (2014)

Source: IMF staff calculations

Annex XIV. Technical Assistance Priorities, 2022–24

A broad technical assistance strategy supports the government's macroeconomic policy priorities. As pandemic disruptions subside, pending TA that had been difficult to conduct remotely is moving ahead. Table 1 summarizes priority programs and key objectives for 2022–24, following the authorities' reform program.

Table 1. Equatorial Guinea: Top Technical Assistance Priorities

Topics	Objectives
Tax Policy and Revenue Administration	Raise non-hydrocarbon and hydrocarbon revenues; strengthen tax and customs administration and improve core functions.
Public Financial Management	Improve budget preparation, execution, control and reporting and strengthen treasury management. Improve coordination across ministries; redefine the architecture of the internal audit system and establish a mechanism to coordinate internal and external control and audit institutions; enhance fiscal transparency.
Expenditure Policy	Enhance efficiency of public spending; shift allocation of spending to underpin human capital formation and social programs, including mobile transfers, that serve the needs of the vulnerable segments of the population; strengthen procurement processes. Increase the fiscal space.
Banking Sector	Reduce high NPLs. Improve the governance framework for government owned banks.
Legal Framework	Strengthening the framework for good governance, enhanced transparency and fighting corruption.
Real Sector Statistics	Update the base year of the national accounts using the results of a new household survey, further develop quarterly GDP data; improve timeliness of definitive annual national accounts data release.
Government Financial Statistics	Improve the timeliness, quality and coverage of fiscal data, including full recording of off-budget capital expenditures and government domestic arrears. Additionally, more detailed budget execution data is needed, including, a proper delineation between capital and current spending and functional classification. Implementation of TOFE Directive 5/11 of the CEMAC based on the 2001/2014 Government Finance Statistics Manual (GFSM 2001/2014) to update fiscal statistics.
External Sector Statistics	Produce and disseminate up-to-date balance of payments and net international investment position data, including quarterly series. Support the Ministry of Finance and Budget to accelerate the use and expansion of the ASYCUDA software (trade flow statistics) and the DMFAS software (external public debt statistics).

REPUBLIC OF EQUATORIAL GUINEA

July 11, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By: The African Department (in consultation with other departments)

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TECHNICAL ASSISTANCE ____ 4

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FINANCIAL POSITION IN THE FUND

As of May 31, 2022

I. Membership Status: Joined: December 22, 1969		Article VIII
II. General Resources Account:	**SDR Million**	**%Quota**
Quota	157.50	100.00
IMF's Holdings of Currency (Holdings Rate)	229.11	145.46
Reserve Tranche Position	4.94	3.14
III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	182.25	100.00
Holdings	20.63	11.32
IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
Emergency Assistance 1/	47.25	30.00
Extended Arrangements	29.29	18.59
1/ Emergency Assistance may include ENDA, EPCA, and RFI.		

V. Latest Financial Commitments:				
Arrangements:				
Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
EFF	Dec 18, 2019	Dec 17, 2022	205.01	29.29
ECF[1]	Feb 03, 1993	Feb 02, 1996	12.88	4.60
SAF	Dec 07, 1988	Dec 06, 1991	12.88	9.20
1/ Formerly PRGF.				

Outright Loans				
Type	Date of Commitment	Date Drawn/Expired	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
RFI	Sep 15, 2021	Sep 17, 2021	47.25	47.25

VI. Overdue Obligations and Projected Payments to Fund 2/ (SDR Million; based on existing use of resources and present holdings of SDRs)					
	Forthcoming				
	2022	2023	2024	2025	2026
Principal			10.79	28.51	22.60
Charges/Interest	1.12	2.26	2.85	1,98	1.52
Total	1.12	2.26	13.04	30.49	24.12
2/ When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.					

Implementation of HIPC Initiative: Not Applicable

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

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

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

Safeguard Assessments: The Bank of the Central African States (BEAC) is the regional central bank of the Central African Economic and Monetary Community (CEMAC). Under the IMF safeguards policy and in line with the four-year cycle for safeguards assessments of regional central banks, an update safeguards assessment was completed in 2022. The assessment found that the BEAC maintained strong governance arrangements following the comprehensive 2017 legal reforms that strengthened both governance and autonomy arrangements, and completed the supplementary work on secondary legal instruments in 2019. The BEAC accomplished an important milestone and strengthened its financial reporting practices with its implementation of International Financial Reporting Standards. The external audit arrangements continue to be robust with joint audits conducted by experienced firms. Nevertheless, the internal audit function faces capacity constraints and has not yet achieved full alignment with international practices, and efforts are needed to develop the risk management function, cyber resilience, and business continuity and disaster recovery plans.

Exchange Arrangements: Equatorial Guinea participates in the CAMU and has no separate legal tender. The regional currency issued with the CEMAC is the CFA franc, which has been pegged to the euro at the rate of CFAF 655.957 per euro, since the euro was introduced in 1999. The exchange rate arrangement of the CAMU is a conventional peg. Equatorial Guinea has accepted the obligations under Article VIII, Sections 2(a), 3 and 4 and maintains an exchange system free of multiple currency practices and 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 29, 2016.

TECHNICAL ASSISTANCE

2022

May	STA mission on balance of payments
April	AFRITAC mission on GFS and PSDS
April	AFRITAC mission on implementing CEMAC directives

2021

September	AFRITAC training on GFS and PSDS
September	LEG desk-based review FY21
August	AFRITAC mission on real sector and national accounts
March	STA mission on external sector statistics
March	AFRITAC mission on GFS

2020

June	AFRITAC mission on national accounts
June	FAD mission on revenue administration FY 2021
May	MCM mission on remote debt management
February	LEG mission on legislative drafting on anti-corruption law

2019

October	FAD mission on assessment of revenue administration
October	MCM mission on debt management diagnostic
September	STA mission on external sector statistics
July	AFRITAC mission on national accounts
July	AFRITAC mission on GFS — implementation of the TOFE directive
April	FAD mission on capital expenditure budgeting
February	STA mission on external sector statistics
January	STA mission on data dissemination standards

2018

October	AFRITAC mission on GFS

Resident Representative:

The post of IMF Resident Representative in Malabo was established in 2019. The post has been vacant since October 2021.

WORK PROGRAM WITH PARTNER INSTITUTIONS

The World Bank work program can be found on the following website:
http://www.worldbank.org/en/country/equatorialguinea

The African Development Bank work program can be found on the following website:
https://www.afdb.org/en/countries/central-africa/equatorial guinea

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance

(As of June 24, 2022)

General: Although some efforts are being made at improving data provision, it has serious shortcomings that significantly hamper surveillance. There are data shortcomings in national accounts, monetary, fiscal, and external sector statistics. There is significant scope for improvements in quality, timing, and coverage.

Real sector statistics: The National Statistics Institute (INEGE) publishes national accounts series according to the recommendations of the System of National Accounts, 1993 (1993 SNA). Quarterly GDP estimates compiled by the production approach were developed by INEGE (still pending publication) and would benefit from further coordination to facilitate data sharing. INEGE has launched benchmark surveys needed for a GDP rebasing exercise, including an economic census of enterprises and a household consumption and expenditure survey. Compilation of the official CPI resumed in January 2009, with data collected in five major cities. However, several deficiencies remain, including outdated weights and composition of the basket of goods and services, and gaps in the time series corresponding to the period for which data was not collected. The authorities are working on a new household expenditure survey to update the weights and base year of the CPI.

Government finance statistics: The authorities provide budget execution data to the Fund, including annual data to the Statistics Department's (STA) GFS database, albeit with delays. The data on transactions in financial assets and liabilities (below-the-line transactions) is limited, and is not fully reconciled with the monetary accounts. The internal process of verification of the fiscal data among the different departments involved in the production and use of statistics is still weak. The authorities should advance work on the functional classification of spending and improve the reporting of below-the-line transactions, as well as extending the fiscal statistics beyond the budgetary central government to include local governments and other relevant subsectors of general government.

Monetary and financial statistics (MFS): Monetary statistics are reported to the Fund by the Bank of Central African States (BEAC) monthly in the standardized report forms (SRFs), for central bank and other depository corporations but with significant delays. The last MFS data, which were submitted to STA, referred to November 2020, while the last submission of monthly balance sheet data from BEAC was for January 2022. The depository corporation survey does not include data from deposit-taking microfinance institutions. The BEAC reports data for Equatorial Guinea on several indicators of the Financial Access Survey (FAS), including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

Financial sector surveillance: The Banking Commission of Central African States (COBAC) reports on (i) a monthly basis, nine core and four additional Financial Soundness Indicators (FSIs) for deposit-takers (DTs) as well as two FSIs on Real Estate Markets, and (ii) semi-annual basis, four core and two additional FSIs for DTs to STA for Equatorial Guinea for dissemination on IMF's FSI Website. The last FSI data, which were submitted to STA, referred to August 2021.
External sector statistics: The National Directorate of the Bank of Central African States is responsible for the compilation of the balance of payments statistics of Equatorial Guinea. The BEAC produces balance of payments data for its monetary programming exercise, but these largely rely on estimations. Trade transactions processing and data compilation are complicated by the fact that customs authorities have not yet fully implemented a computerized system. Data are disseminated with a substantial lag. Annual balance of payments and IIP statistics for 2016–17 is expected to be disseminated by August 2022, and quarterly data for 2018–19, by October 2022. Staff capacity remains a concern and is being addressed through training.

II. Data Standards and Quality

Participant in the IMF Enhanced General Data Dissemination System (e-GDDS), Equatorial Guinea launched the National Summary Data Page in May 2019, but data has not been updated regularly. Metadata is posted on the Dissemination Standards Bulletin Board (http://dsbb.imf.org).	No data ROSC has been conducted.

Equatorial Guinea: Table of Common Indicators Required for Surveillance
(As of June 1, 2022)

	Date of latest observation	Data received	Frequency of data	Frequency of reporting	Frequency of publication
Exchange rates	May 2022	May 2022	D	D	D
International reserve assets and liabilities[1]	Jan 2022	Apr 2022	M	M	M
Reserve/Base money	Jan 2022	Apr 2022	M	M	M
Broad money	Jan 2022	Apr 2022	M	M	M
Central bank balance sheet	Jan 2022	Apr 2022	M	M	M
Consolidated balance sheet of the banking system	Jan 2022	Apr 2022	M	M	M
Interest rates[2]	Jan 2022	Apr 2022	M	M	I
Consumer price index	Mar 2022	Apr 2022	M	Q	Q
Revenue, Expenditure, Balance and Composition of Financing[3] – General government[4]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3] – Central government	2021	Apr 2022	M	Q	I
Stocks of debt contracted or guaranteed by the central government[5,6]	2021	Apr 2022	A	A	I
External current account balance	2016	Jun 2021	A	A	I
Exports and imports of goods and services	2016	Jun 2021	A	A	I
GDP/GNP	2021	May 2022	A	A	I
Gross external debt	2021		A	A	I
International Investment Position[7]	NA	NA	NA	NA	NA

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

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

[3] Foreign and domestic bank, nonbank financing.

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

[5] Includes currency and maturity composition.

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

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

REPUBLIC OF EQUATORIAL GUINEA

July 20, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—SUPPLEMENTARY INFORMATION

Approved By
Vitaliy Kramarenko (AFR) and Andrea Schaechter (SPR)

Prepared by the African Department

This supplement provides an update on developments since the issuance of the staff report for the 2022 Article IV Consultation (SM/22/180). The update does not affect the thrust of the staff appraisal.

1. **Publication of asset declarations of senior members of the government has begun.** As of July 19, 2022, asset declarations for twelve senior officials (including the Prime Minister, the Second Vice Prime Minister, and nine Ministers) were published on the Ministry of Finance, Economic and Planning website (Declaración de patrimonio e intereses – Ministerio de Hacienda y Planificacion). A few of the published declarations use the final template form from June 2022, while most use a first template form issued in March 2022 which was later amended—with support from Fund staff—to ensure that the final template complies with the declaration of all the categories of information required by the 2021 anti-corruption law, such as assets abroad and beneficially owned.

2. **The authorities have published more details on the beneficial ownership information of companies that do business with the government.** For public procurement contracts regarding COVID and Bata-related spending (that were done after the finalization of the related legislation), the authorities published additional information including: a description of the type of goods and services acquired; the contracting ministry; value and date of the contract; and a copy of the declaration with the name of the beneficial owners of the entity. As of July 19, 2022 this information was provided for seven declared relevant transactions (Beneficiarios finales COVID-7M – Ministerio de Hacienda y Planificacion). However, the authorities have not yet published the actual awarded contracts.

3. **The authorities published the preliminary audit report on COVID-related spending.** The audit was conducted by an international, independent audit firm, covering

COVID-related spending between February 2020 and September 2021. The published audit report reads that—with the exception of two reservations—no material misstatements were identified that may call into question the accuracy and eligibility of the expenditure appearing on the Statement of Expenditure (https://minhacienda-gob.com/auditoria-covid-19/). The auditor's reservations relate to spending incurred for construction work of yet-unfinished hospitals and for the lack of supporting documents in some transactions—with reservations amounting to about 30 percent of the amount audited.

4. Latest macroeconomic data suggest developments are broadly in line with staff projections.

- The quarterly index of economic activity indicates that real output grew by 3.2 percent (year-on-year) in the first quarter of 2022, led by growth in hydrocarbon output, along with a recovery of public investment. Meanwhile, hydrocarbon output in the first half of 2022 expanded by 3.3 percent (year-on-year), with dry gas increasing by 10 percent.

- Headline inflation stood at 5.1 percent (year-on-year) in May, the highest since September 2020, primarily driven by fuel and food prices.

- Equatorial Guinea's NFA at BEAC remained positive from January to April 2022. In April, NFA at BEAC was CFA 126 billion, after falling from a high of CFA 278 billion in February. This performance was supported by accumulation of government deposits at BEAC of over CFA 100 billion between end-2021 and end-April 2022—compared with an accumulation of CFA 43 billion in the same period a year earlier.

Statement by Mr. Aivo Andrianarivelo, Executive Director for Equatorial Guinea
Mr. Mohamed Sidi Bouna Senior Advisor to the Executive Director
and Mr. Eustaquiano Ndong Ondo Bile, Advisor to the Executive Director

July 25, 2022

I. Introduction

On behalf of our authorities, we would like to express our deepest gratitude to Executive Directors and Management for the continued support to Equatorial Guinea. We extend our appreciation to staff for the excellent policy advice and fruitful discussions held in Malabo in May 2022 and in Washington during the Spring Meetings.

The 2020 COVID-19 pandemic and accidental massive explosions at Bata's military compound in March 2021 struck at a time when Equatorial Guinea was implementing a wide range of measures to stabilize its economy following a lengthy period of economic contraction. To address the imbalances created by the multiple shocks, the authorities have drastically consolidated fiscal spending and revised their development program following the April 2019 Third National Economic Conference, drawing lessons from development experts, as well as the Fund's Extended Fund Facility (EFF) and the Rapid Financing Instrument (RFI). Such recalibration was necessary to ensure fiscal sustainability, increase non-hydrocarbon revenues and boost social spending. The authorities broadly concur with staff's analysis and main policy recommendations and are committed to comply with CEMAC regional strategy agreed upon in 2016.

II. Recent Economic Development

Overall macroeconomic conditions have gradually improved. Real GDP is expected to grow by 5.8 percent in 2022 compared to negative 3.2 percent in 2021. The lower-than-expected gas production in 2021, the start of Bata reconstruction, the authorities' gradual ease of pandemic containment measures consistent with a deceleration of COVID cases, together with recent fiscal adjustments, program implementation and improving international oil prices led to an improvement in overall economic conditions. However, inflation is estimated to have risen to 6 percent in 2022, driven by higher international oil and food prices, fueled by global recovery from the pandemic and supply shocks caused by war in Ukraine. The non-hydrocarbon primary fiscal balance is estimated to have improved by 2.4 percentage points of GDP in 2021, led by a decline in capital spending and purchases of goods and services. Nonetheless, increased fiscal spending related to Bata reconstruction, support to the banking system, and higher other spending are anticipated to negatively offset such improvement in 2022.

The external and fiscal sectors are expected to recover considerably this year. The improvement is led by higher hydrocarbon prices, which should strengthen the balance of goods trade and reduce the current account deficit in 2022 by 1.6 percent of GDP. As a result of limited capital spending, increased hydrocarbon revenue resulting from improved oil prices, an overall fiscal surplus of 3.7 percent of GDP is expected in 2022.

III. Outlook and Risks

The outlook is expected to remain challenging amid continued depletion of hydrocarbon output linked to mature fields and a lack of new investments on the sector. Overall GDP is projected to contract in 2023 and through the medium term, dragged by continued declining hydrocarbon yield, stalled structural reforms, subdued business confidence, and a fragile banking sector. The authorities are aware of this challenging outlook and remain committed to address it forcefully. They will enhance their efforts to accelerate the implementation of their 2035 development plan and related reforms to diversify the economy away from oil and gas sectors and boost inclusive growth. The work underway to improve governance, and the banking sector will be intensified. The non-hydrocarbon sector is expected to recover gradually with enactment of the online tourist visa and other measures to strengthen private sector confidence and enhance the business climate. The authorities will continue to address structural rigidities to unleash supplemental sources of revenue.

Risks to the outlook are titled to the downside. The authorities will proceed with their targeted measures to mitigate risks, including by diversifying sources of imports of basic goods against the backdrop of increased domestic inflation. Health authorities also remain attentive to any resurgence of the pandemic and are committed to act swiftly with targeted measures to keep the pandemic under control and preserve the flow of economic activity. Similarly, structural reforms remain a top priority on the authorities' development agenda aimed at improving the health of the financial sector, and they will continue to work closely with their development partners to boost capacity, enhance governance, and further improve non-hydrocarbon growth.

IV. Fiscal Policy

Fiscal policy in the near-term seeks to stabilize the economy while providing support to vulnerable populations, repaying domestic arrears, and rehabilitating Bata's critical infrastructure. Thus, part of the hydrocarbon revenue windfall will be used to rebuild macroeconomic buffers and protect the economy from future adverse shocks, while protecting the most vulnerable population from the increase in food prices with targeted measures. The authorities reiterate their resolve to maintaining fiscal sustainability by reducing the non-hydrocarbon primary deficit and are adopting measures to increase revenue collection from VAT, customs, and other sources. They are also advancing on their goals aimed at boosting domestic food production and expanding social safety net programs implemented during the COVID-19 pandemic to a wider set of vulnerable population. To this objective, they are working closely with UNICEF, and other international financial institutions to progressively make such spending sustainable and cost-effective.

The government is committed to containing spending, strengthening PFM while preserving debt sustainability. A system to track capital expenditures on a timely basis has been put in place and the authorities are currently working to improve the monitoring of current expenditure to enhance the overall public spending efficiency and accountability. They also envision room for fiscal saving by reducing further the still high fuel subsidies through enhanced targeting. Technical assistance from the Fund might be necessary to implement a more comprehensive reform on fuel subsidies, to ultimately incorporate an automatic pricing mechanism, while at the same time protecting low-income households with targeted measures. On public debt, Equatorial Guinea's debt remains low and is assessed to be sustainable over the medium term. Nevertheless, it is subject to substantial risks steaming from the volatility of international oil prices and the path of the authorities' reform agenda.

The authorities' tax reform targets an efficient and broad-based tax system that applies equitably to all. Accordingly, the authorities have adopted measures to improve tax administration, modernize the PFM framework, increase transparency, and improve the business climate for non-oil investment, including on tourism, farming, and fishing industries. They have also adopted other tax measures including enactment of excise taxes on imported beverages, tobacco, luxury vehicles to help generate additional non-hydrocarbon revenues. Similarly, they will uphold a higher personal income tax rate for non-residents, introduced in early 2019.

V. Financial Sector

The authorities are determined to address high nonperforming loans (NPLs), undercapitalization, and low liquidity at some banks. To this end, they have financed part of their domestic arrears' repayments with 90 percent of the 2021 SDR allocation as well as government bonds under their strategy of domestic arrears clearance and recapitalization, which is consistent with COBAC prudential regulations and governance norms. The second phase of the strategy should be completed in the coming months since the hiring of a new broker has recently been finalized, and the process of bonds issuance and treasury bills administration should be accelerated from now on. The authorities have taken robust actions to fully capitalize a major troubled bank with the support of COBAC.

To enhance financial inclusion, the authorities are closely working towards the implementation of the regional financial inclusion strategy. They have started developing the national financial inclusion strategy with the TA of the World Bank and will continue along this path to enhance financial access and inclusion, including by working with BEAC, to develop and promote mobile payments, complemented with adequate oversight and regulations. As a first step towards establishing a specialized commercial court, the authorities plan to pass relevant legislation by end-2022. They also plan to incentivize the adoption of mobile payments to make it a central and affordable instrument of payments.

VI. Structural Reforms and Governance

The authorities are promoting economic diversification to boost non-hydrocarbon growth. The economic diversification strategy based on the Third National Economic Conference in April 2019 aims to diversify the economy away from oil and gas sectors. As a result, the authorities' revised and updated their development plan to 2035 following the conference. Some of the key actions implemented already under the strategy include the establishment of a one-stop shop for investment to boost the business environment, and the removal of the domestic partner requirement for foreign investors. Efforts to reduce costs for businesses, telecommunication prices were recently made, and a new commission to improve port operations and reduce tariffs is also in place. In April 2022, the authorities published a list of state assets for privatization through outright sale or through management contracts. The authorities ratified the United Nations Framework Convention on Climate Change in 2018, and recently launched the REDD+ program or Reducing Emissions from Deforestation and forest Degradation program, with roles for conservation, sustainable management of forests, and enhancement of forest carbon stocks. This will help to limit deforestation and forest degradation, and the first step is developing a Land Use Plan with FAO.

The authorities are committed to supporting a dynamic private sector and see their privatization strategy as key element of the government's approach to leverage existing assets to develop a dynamic non-hydrocarbon sector. They see merit in enhancing skills of the local workforce, including through health and education. The authorities support the need for a structured and transparent framework for the sale and/or privatization of public assets. They envision plans to carefully manage the transition away from hydrocarbons and reiterate their intention to secure a financial return from the environmental services provided by their protected forest and its biodiversity program.

The government has devised a strategy to improve governance, transparency, and the fight against corruption and is currently implementing it. Their objectives under the strategy are outlined in their Action Plan published in 2019. Starting in September 2022, they plan to begin publication of semi-annual reports on implementation progress of the Good Governance and Anti-Corruption Action Plan. Recently, an anti-corruption law has also been adopted, and an anti-corruption commission and asset declaration regime are being implemented as well, reflecting their firm efforts to fighting corruption. The production of preliminary reports by the ongoing audits of COVID and Bata spending, GEPetrol and SONAGAS proves the authorities' resolute commitment to transparency, good governance and fighting corruption. The authorities are also making good progress on their ongoing work to update their EITI membership application.

VII. Conclusion

The authorities reiterate their strong commitment to remain closely engaged with the Fund to address the country's macroeconomic imbalances as well as the region's. They will continue to enhance their fiscal position, improve governance, and protect the most vulnerable populations from the adverse impact of fiscal adjustment and elevated inflation. They will continue to work with the Fund and their development partners to address the daunting challenges they face.