

Republic of Equatorial Guinea: 2007 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statements by the Executive Director and Authorities of the Republic of Equatorial Guinea

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2007 Article IV consultation with the Republic of Equatorial Guinea the following documents have been released and are included in this package:

- The staff report for the 2007 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on April 2, 2007, with the officials of the Republic of Equatorial Guinea on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 22, 2007. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its June 8, 2007 discussion of the staff report that concluded the Article IV consultation.
- A statement by the Executive Director for the Republic of Equatorial Guinea.
- A statement by the authorities of the Republic of Equatorial Guinea on the staff's assessment in the 2007 Article IV consultation.

The document listed below has been separately released.

Statistical Appendix

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

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REPUBLIC OF EQUATORIAL GUINEA

Staff Report for the 2007 Article IV Consultation

Prepared by the Staff Representatives for the 2007 Consultation
with the Republic of Equatorial Guinea

Approved by Robert Corker and Scott Brown

May 22, 2007

- Discussions on the 2007 Article IV consultation with Equatorial Guinea were held in Malabo and Bata during March 20–April 2, 2007. The mission comprised Ms. Stotsky (head), Messrs. Franken and Iossifov (all AFR) and Ms. Rivas (STA). Mr. Ondo Bile, Advisor (OED), participated in the discussions. The mission worked closely with Ms. Tsikata and Mr. Munoz (World Bank) and Ms. Daban and Mr. Pessoa (FAD), and was assisted by Messrs. Veloz and Palmeira, IMF-backstopped advisors.
- The mission met with Mr. Owono Edu, Minister of Finance and Budget, Mr. Ela Oyana, Minister of Planning, Economic Development, and Public Investment, Mr. Ondo Mañe, Presidential Counselor, and Mrs. Bindang Obiang, the Banque des Etats de l’Afrique Centrale (BEAC) National Director. The Equatoguinean economic team was led by Mr. Abaga Nchama, Secretary General of the Ministry of Finance and Budget. The mission also met with other senior government officials, and representatives of the private sector, diplomatic community, technical assistance providers, and donors.
- Equatorial Guinea does not subscribe to the General Data Dissemination System (GDDS). Data provision for surveillance purposes is broadly adequate, with scope for improvement in quality, coverage, timeliness, and public availability of data.
- Equatorial Guinea is a member of the Central African Economic and Monetary Community (CEMAC). The common currency, the CFA franc, is pegged at the fixed exchange rate of CFA franc 656 per euro. CEMAC member countries accepted the obligations of Article VIII in 1996.

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EXECUTIVE SUMMARY

- **After many years of rapid growth, the economy slowed in 2006.** Production of oil and its derivatives declined, while other sectors remained buoyant. Inflationary pressures persisted, and the real exchange rate continued to appreciate. Favorable external conditions generated large balance of payments and fiscal surpluses. Banking system prudential indicators improved.
- **An economic recovery in 2007 will be accompanied by continued inflationary pressures and strong balance of payments and fiscal surpluses.** New hydrocarbons production will spur GDP growth, and continued high budgetary spending and wage increases will intensify inflationary pressures.
- **Based on current policies and relative stability in oil prices, medium-term prospects are positive.** Economic developments will largely mirror changes in oil and derivatives production, with strong but diminishing growth, and moderation in inflationary pressures and the balance of payments and fiscal surpluses. Restraint in the growth of public spending will lead to a consolidation of the non-oil primary deficit, a key fiscal indicator.
- **The National Development Plan (NDP), now being formulated, will guide government policies.** The government's strategy will have two main prongs: (i) a fiscal policy that aims at improvement in the non-oil primary balance, and thereby helps contain inflationary pressures and real exchange rate appreciation, and improves long-run fiscal sustainability; and (ii) structural reforms to raise productivity and enhance external competitiveness. The economy's diversification into hydrocarbon derivatives bolsters longer-term growth and fiscal sustainability. However, reforms to stimulate growth elsewhere are necessary to generate jobs and reduce poverty. The country now has adequate resources to hasten progress toward the achievement of the Millennium Development Goals (MDGs).
- **Improving the quality of public spending and strengthening non-oil revenues remain critical challenges.** A Social Needs Fund, whose projects are expected to get underway in mid-2007, will address important priorities in health, education and water. Current expenditures need to increase to support a growing public capital stock and the implementation of social programs. Public financial management reform must address serious weaknesses and is essential to improving the use of public resources. Strengthening tax and customs administration also remain key priorities.
- **Many important challenges remain in improving governance and transparency.** The new hydrocarbons law has raised investor concerns. The Extractive Industries Transparency Initiative (EITI) has stalled. Access to business credit is still limited. The weak statistical base hinders macroeconomic policy making. The authorities are engaged in negotiations with CEMAC partners on reforms of regional institutions and have premised remittance of overseas deposits to satisfactory resolution of these issues.

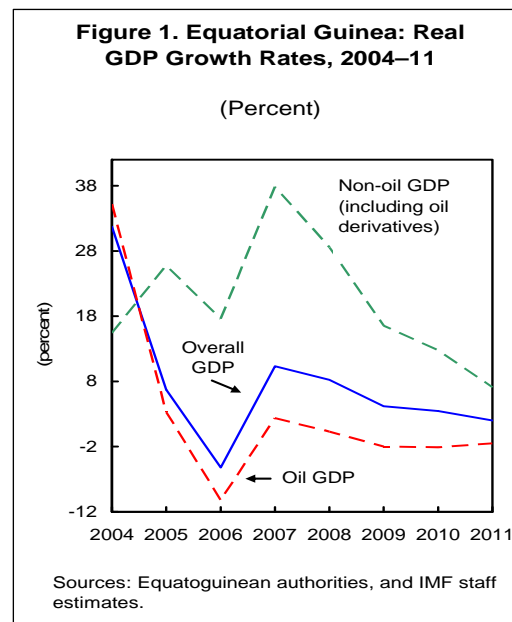
I. INTRODUCTION

1. **Equatorial Guinea has recorded one of Africa’s fastest growth rates over the past decade, as its petroleum industry has expanded and diversified into oil derivatives.** Oil production is currently the third largest in sub-Saharan Africa. Oil and its derivatives now account for around 85 percent of GDP and 95 percent of fiscal revenues, and virtually all exports. Strong oil revenues have allowed the accumulation of sizable foreign assets, and significant scaling up of infrastructure spending that is addressing many critical priorities, but also raising absorptive and administrative capacity concerns. Equatorial Guinea’s strategy to diversify into downstream activities will strengthen its longer-term economic and fiscal sustainability.

2. **Economic reforms will be guided by a NDP with a 2020 horizon, which is underpinned by a macro-fiscal framework that takes account of hydrocarbon resource exhaustibility.** Fiscal policies are targeting a slight reduction in the non-oil deficit in 2007 and a more substantial one over time. The authorities continue to negotiate with CEMAC¹ partners on reforms to the Bank of Central African States (BEAC) and have premised remittance of overseas deposits to satisfactory resolution of these issues. Equatorial Guinea has adequate resources to alleviate poverty and achieve the MDGs, though weak public financial management and limited access to education and health care have so far impeded progress.

II. RECENT DEVELOPMENTS

3. **Macroeconomic performance was mixed in 2006.** After rapid economic development in recent years, real GDP declined by about 5 percent, on account of a drop in oil and methanol production (Tables 1 and 2, Figure 1, and Text Table on Effects of Hydrocarbon Derivatives Reclassification). The economy continued to diversify into hydrocarbon derivatives, while strong growth in construction, utilities, and finance and housing was driven by a large increase in public capital spending.



¹ CEMAC encompasses Cameroon, the Central African Republic, Chad, the Republic of Congo, and Gabon, in addition to Equatorial Guinea.

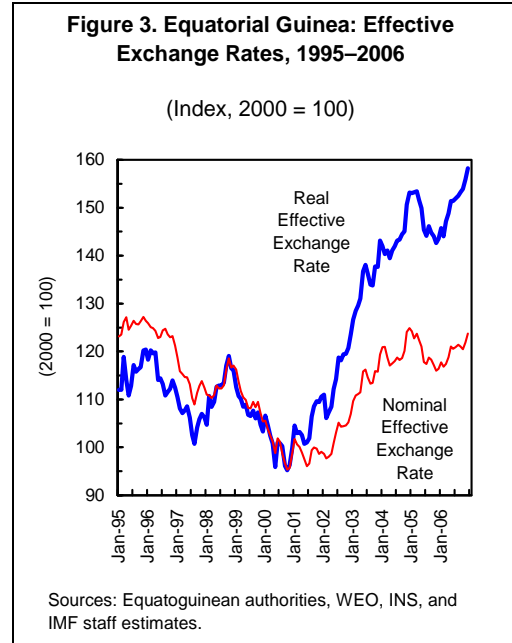
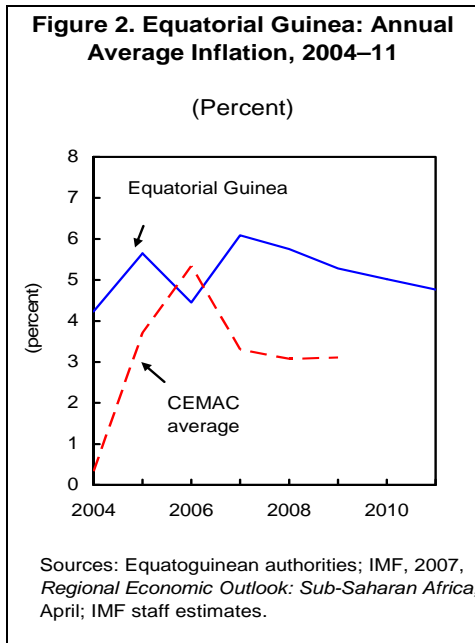
Equatorial Guinea: Effects of Reclassifying Hydrocarbon Derivatives from the Oil Sector to the Non-oil Sector

Staff reclassified oil derivatives from oil GDP to non-oil GDP, in accordance with national income accounting conventions, and refined measures of other components of non-oil GDP. The table below shows previous and revised measures for 2006 and 2011 (projected).

	2006		2011	
	Previous	Revised	Previous	Revised
Nominal non-oil GDP (in billions of CFA francs)	526	901	1,521	2,455
Share of real GDP of the non-oil sector (in percent)	14.7	22.5	27.3	44.5
Real non-oil GDP growth rate (in percent)	22.9	17.6	12.7	7.1

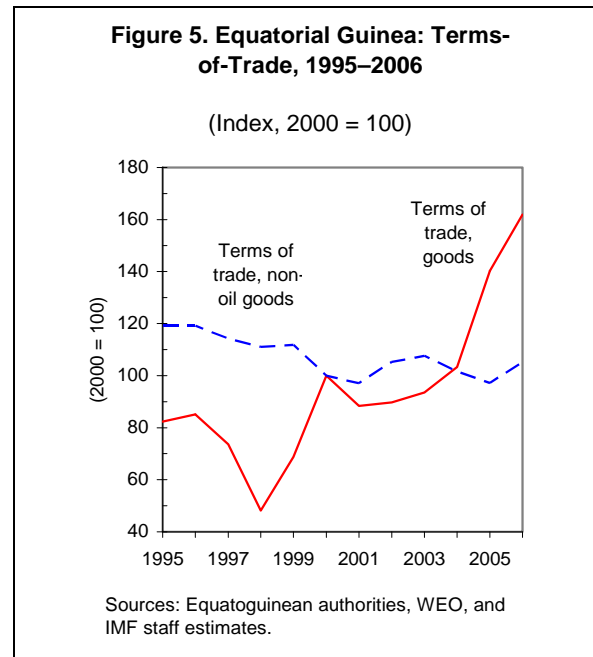
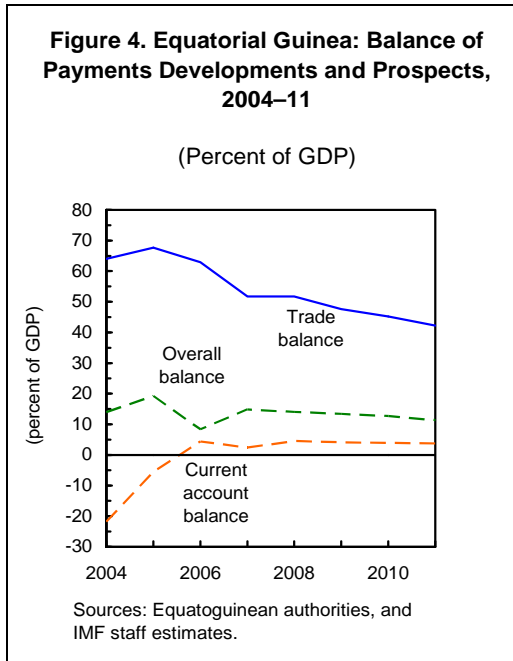
Source: IMF staff estimates.

4. **The average rate of inflation in 2006 was 4.5 percent.** Strong domestic demand exerted upward pressure on prices, though a temporary tightening of monetary conditions and improved availability of food at year end helped contain inflation (Figure 2). The real effective exchange rate (REER) continued to rise, reflecting the appreciation of the euro against the U.S. dollar and inflation above that in major trade partners (Figure 3). The appreciation of the REER recently is to a large extent driven by an adjustment to its equilibrium value, consistent with strengthening fundamentals.²



² Since 2000, real per capita GDP has grown at a dramatically higher rate than in main trading partners and the average price of exports relative to imports has risen by 83 percent. Applying the coefficients of the model of the equilibrium REER in the CEMAC countries, in IMF Working Paper, WP/06/236, to Equatoguinean data (with a country-specific intercept) shows that, in recent years, the REER in Equatorial Guinea has been below its estimated equilibrium values.

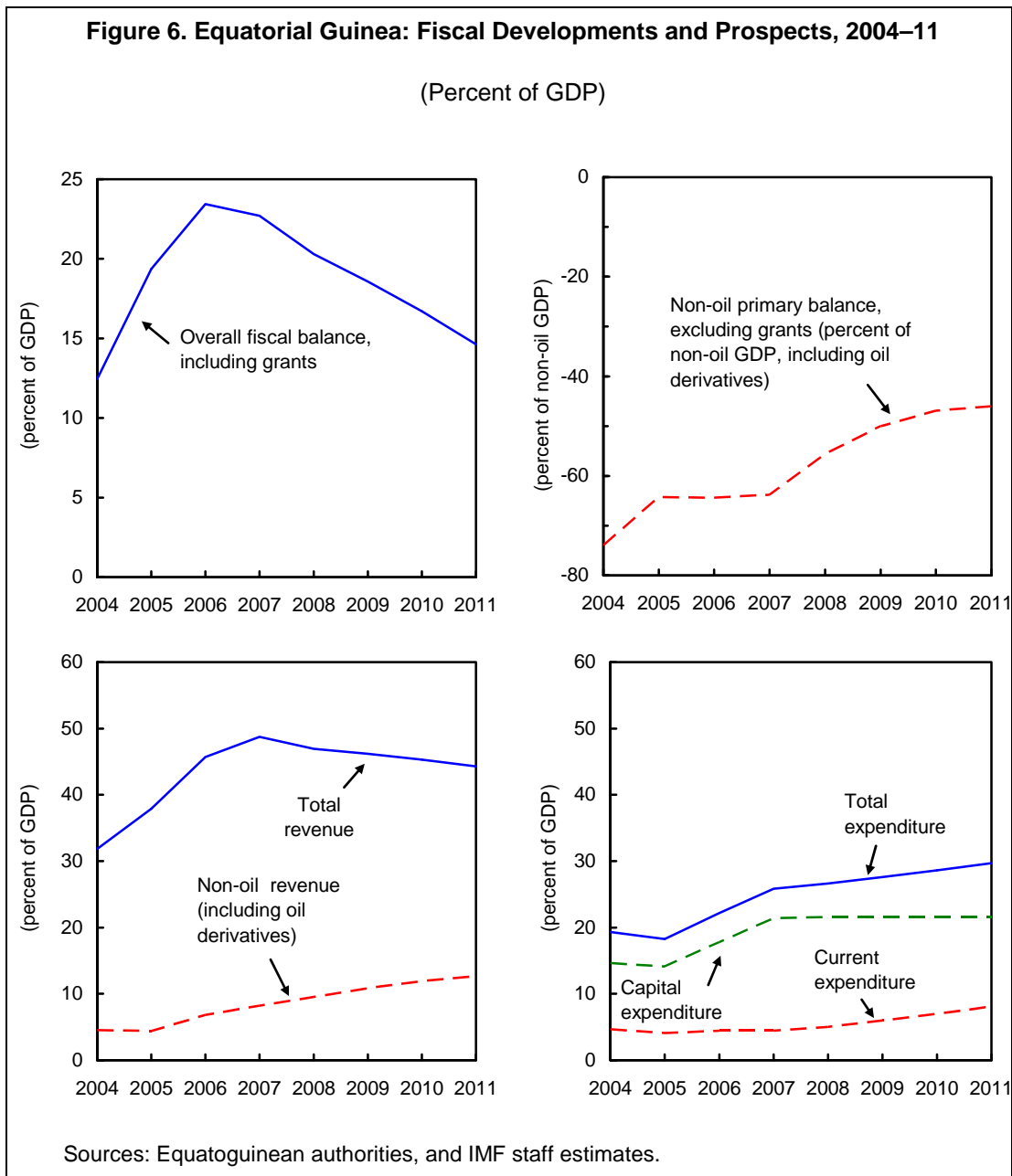
5. **High oil prices led to a strong balance of payments.** The overall balance of payments surplus exceeded US\$700 million, driven by continued inflows of foreign direct investment and improvement in the terms of trade (Table 3, and Figures 4 and 5). The current account moved into surplus, reflecting strong inflows of hydrocarbons revenues partially offset by high oil and public sector imports, and investment income outflows.³ Gross official foreign assets rose to about 24 months of non-oil related imports of goods and services. Traditional wood, cocoa, and coffee exports contributed minimally to exports.



6. **Fiscal performance in 2006 also benefited from the high oil prices.** The overall fiscal surplus rose to 23 percent of GDP, reflecting stronger oil revenues, partially offset by a sizeable rise in capital spending (Tables 4a, b, and c, and Figure 6). With the revised estimates of non-oil GDP and revenues, the non-oil primary deficit remained at about 64 percent of non-oil GDP. While significantly lower than previous estimates, the gap with a sustainable fiscal position over the long term remains sizeable. Deposits at the BEAC reached US\$3.1 billion and deposits in foreign commercial banks reached US\$2.1 billion, at end-2006.

³ In past years, the flows of government deposits to banks abroad were implicitly included in outflows in the current account. Staff have taken explicit account of government deposits abroad in the financial account, which implied a level improvement in the current account and corresponding weakening in the financial account. See Appendix I for description of adjustments to the balance of payments data and implications for the debt sustainability analysis.

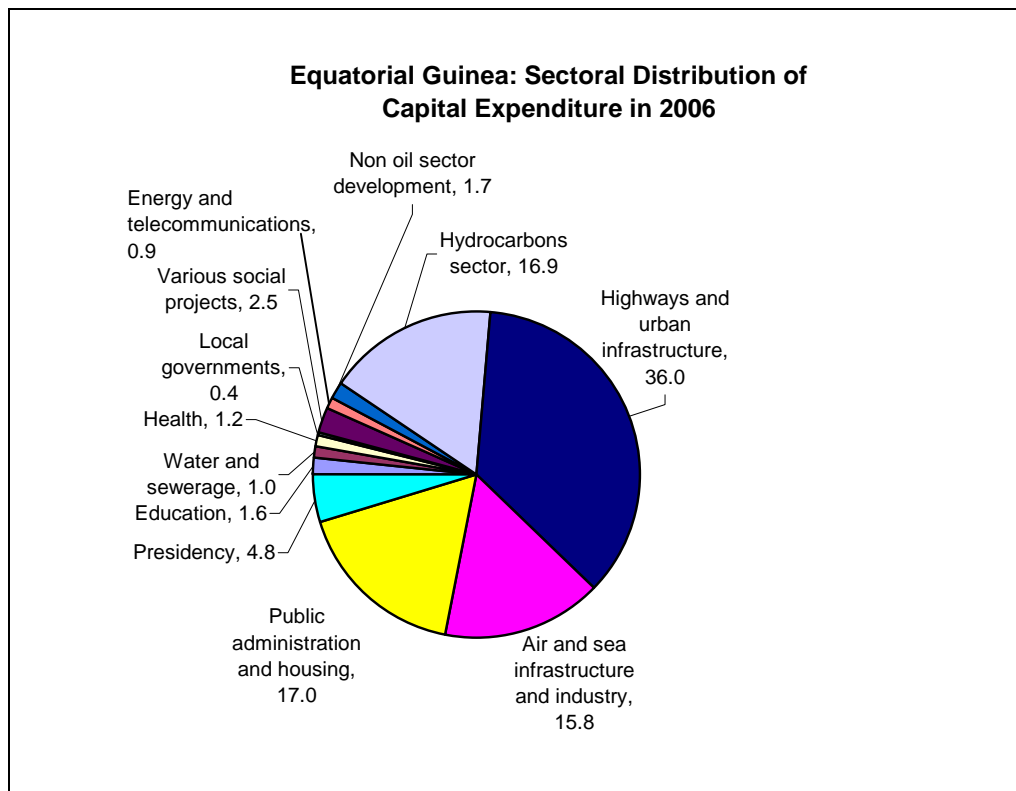
7. **The 2006 execution of the Public Investment Program (PIP), a three-year rolling plan for capital spending, considerably exceeded its budget.** This overexecution reflected unbudgeted purchases of shares of hydrocarbon sector projects and spending on physical infrastructure, including improvements to roads, and air and port facilities (Box 1). A number of social projects also took shape, including the renovation of schools, the national university, and health facilities, and the construction of the country's first modern hospital. But capital spending for education, health, and water and sewerage amounted to only a small share of PIP spending.



Box 1. The Public Investment Program

Public Investment Program: Budgeted vs. Actual Share of Spending by Area

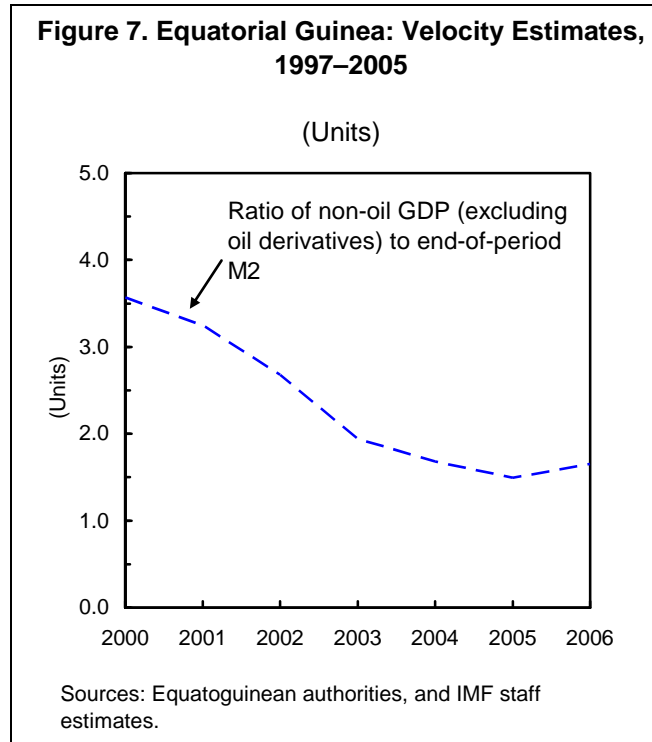
PIP Budget	2004	2005	2006	PIP Execution	2004	2005	2006
Social	44.2	5.6	47.3	Social	18.0	13.1	12.0
Infrastructure	24.1	83.2	46.8	Infrastructure	62.0	57.7	47.6
Productive	8.9	3.6	1.8	Productive	2.0	2.9	23.2
Public Administration	22.7	7.6	4.1	Public Administration	18.0	26.3	17.3
Total (US\$ millions)	302.5	381.1	817.3	Total (US\$ millions)	687.2	846.5	1,522.0



Sources: Equatoguinean authorities and IMF staff estimates.

8. **Public financial management and transparency remain weak.** Capacity building in spending control and analysis of the quality of public spending are critical to achieve budget priorities. Transparency and accountability are particularly weak, and the fiscal data need improvement, especially on the financing side. Although Equatorial Guinea was one of the earliest countries to publicly commit to the EITI, there has been relatively little progress toward compliance.

9. **In the absence of an active sterilization policy by the regional central bank, monetary conditions in 2006 continued to be shaped by fiscal and balance of payments developments.** A shift of government deposits from the commercial banks to the BEAC in December 2006 brought down the 12-month growth rate of reserve money to 5.4 percent and broad money (M2) to 14.1 percent, while private credit expansion picked up at year end (Tables 5a and b). M2 velocity relative to non-oil GDP (excluding oil derivatives) has stabilized in recent years (Figure 7).



10. **The financial system remains underdeveloped but appears generally sound.** Financial soundness indicators show an improvement in bank asset quality and capital adequacy in 2006 (at the expense of banks' profitability), following a deterioration in the previous year (Table 6). Risks stemming from bank's noncompliance with large exposure limits persist, with two of the three established banks remaining in noncompliance at end-2006. Currently most bank lending is short term, mostly in the form of deposit overdrafts. Bank lending rates, near the ceiling of 15 percent, result in high real interest rates, which limits the capacity of small- and medium-sized businesses to borrow. Moreover, most deposits earn no interest and access to savings accounts is limited by high minimum balance requirements. On the positive side, two banks are about to launch ATM services, and the new commercial bank, the National Bank of Equatorial Guinea (BANGE), which started

operations in 2006,⁴ has introduced a branch-to-branch money transfer service that does not require opening of a deposit at the bank.

11. **A new hydrocarbons law was enacted in 2006, intended in part to raise the government's share in oil revenues.** International oil companies were not consulted prior to enactment of the law, and are seeking clarifications of important aspects of the law and clear implementing regulations. A number of provisions are controversial, including a transitory provision that gives the Minister of Mines the right to require the renegotiation of existing production contracts to adapt them to the new law.⁵ Oil sector participants have also indicated that local content and employment provisions in this law and other decrees of government could be difficult to fulfill, given the limited size of the private sector and a lack of skills in the domestic labor force. The government is seeking a creditable international auditor for private sector hydrocarbons activities, while the national oil and gas companies would remain under fiscal audit controls.

III. REPORT ON THE DISCUSSIONS

12. **The discussions focused on the medium-term macroeconomic outlook and the building blocks of the NDP, with broad consensus on both the outlook and that appropriate fiscal and structural policies need to be at the NDP's core.** To ensure long-run fiscal sustainability, fiscal policies should be derived in the context of a rolling medium-term framework that targets a reduction in the non-oil primary fiscal deficit. To facilitate poverty reduction, a sustained strong pace of non-oil growth will hinge on improving competitiveness and creating a good climate for investment through: (i) high quality public spending, (ii) an emphasis on human capital development, (iii) a satisfactory resolution of outstanding issues regarding the new oil and gas law, and (iv) continued liberalization of goods and labor markets. Greater fiscal, financial, and data transparency and governance improvements will be essential.

A. Medium-Term Outlook

13. **The medium-term macroeconomic outlook is positive.** Growth is expected to recover to roughly 10 percent in 2007 (Table 7). A modest increase in oil production will be accompanied by a significant increase in liquefied natural gas (LNG), as a new facility comes online. Continued high public capital spending and private investment will support construction and rising incomes will lead to the expansion of retail trade. Thereafter, growth will be dominated by hydrocarbon sector developments. Absent new discoveries, oil and gas development will slow. But the growth of derivatives will provide some continuing

⁴ The government has a 35 percent stake in BANGE and the Minister of Planning chairs the board of directors.

⁵ The terms of the contracts, including any fiscal stability clauses, are confidential.

momentum.⁶ Growth will remain strong in service areas of the economy, but diversified export growth will falter without significant improvements in productivity.

14. **Inflationary pressures will remain.** Inflation is projected to rise to 6.1 percent, in 2007, reflecting the continued strong growth of public capital spending, a 30 percent increase in civil service base wages, and an increase in private sector wage norms. A slowly tightening fiscal stance and continued strength of the euro would imply some medium-term reduction of inflation but continued real exchange rate appreciation.

15. **The strong balance of payments will lead to continued rapid accumulation of foreign assets.** The external current account surplus will narrow in 2007 and the medium term, reflecting a moderate drop-off in oil prices and rapid rise in consumer imports (Table 8). Foreign direct investments will remain robust albeit declining, led by investments in oil exploration and hydrocarbons derivative activities.

16. **Equatorial Guinea has a minimal debt service burden.** Recently, it resolved a number of minor outstanding arrears. In late 2006, the government agreed to a framework with China for a credit line of up to US\$2 billion, on which it is not expected to draw immediately (Table 9).

17. **There are a number of significant risks to this positive outlook.** Weaknesses in the business environment and governance (Box 2), if left unaddressed, could jeopardize successful development by discouraging foreign investment and hindering sound economic policy formulation. A prolonged and deep weakness in oil prices also poses a threat, though the high stock of international reserves and low government debt should buffer against shocks. Moreover, without significant improvements in public expenditure control and project appraisal, there is a risk that capital spending will not have a high return.

B. Designing Fiscal Policies for Stability and Sustainability

18. **There was consensus that fiscal policy, within the NDP, should be guided by reduction in the non-oil primary fiscal deficit over time to improve competitiveness and longer-term sustainability.** The authorities indicated that they would benchmark public expenditures according to a measure of permanent income from oil and gas revenue over time and the ongoing evolution of non-oil revenues. Total expenditure would decline in the medium term as a share of GDP without a significant strengthening of non-oil revenues. Indeed, if spending in 2007 and the medium term were set according to staff projections for permanent income, the non-oil primary deficit should be no higher than 44 percent of non-oil GDP in 2007 and improve to 23 percent in 2011 (Text Table on Medium-Term Fiscal

⁶ At current rates of exploitation, primary oil and gas resources are expected to last until around 2035, while the capability to produce oil and gas derivatives will be significantly strengthened with realization of recent agreements to import natural gas from Nigeria and Cameroon.

Box 2. Equatorial Guinea: Indicators on the Business Environment and Governance

	Doing Business Overall Rank ¹	Days to Start Business	Days to Acquire License	Difficulty in Firing ²	Days to Enforce Contacts
Equatorial Guinea	150	136	156	70	553
Cameroon	152	37	444	80	800
Gabon	132	60	268	80	880
CEMAC	157	66	248	72	699
Sub-Saharan Africa	131	62	230	45	581
Lower middle income	98	38	214	34	576

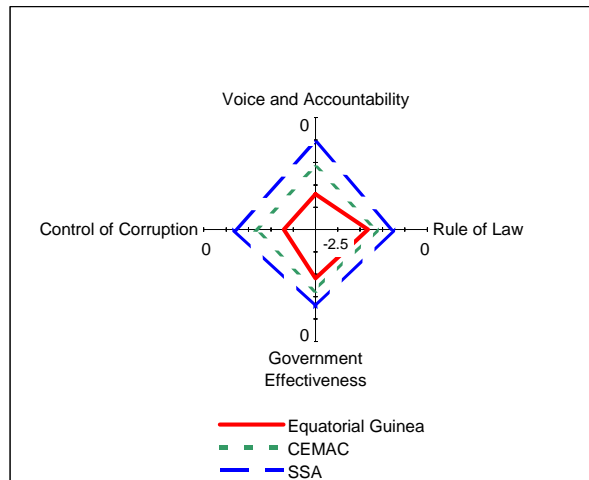
Source: World Bank Doing Business Indicators database, 2007.

¹ Indicates ranking out of 175 countries (lower number = higher ranking).

² Index (lower number = less difficulty).

Equatorial Guinea: Indicators of Institutional Quality, 2005 ¹

(In units)



Source: Daniel Kaufmann, Aart Kraay and Massimo Mastruzzi, 2006, "Governance Matters V: Governance Indicators for 1996-2005," World Bank Policy Research Working Paper No. 4012, September 2006.

¹ Positive values indicate better governance outcomes. Indices range from -2.5 to +2.5. See the source for description of indices.

Framework). Improvements in budgetary management that lead to a higher rate of return for public investments, stronger revenues, or higher return on financial assets could justify a higher level of spending.

Equatorial Guinea: Medium-Term Fiscal Framework: Budget vs. Targets¹				
	Non-Oil Primary Balance		Overall Balance	
	2007	2011	2007	2011
	(Percent of non-oil GDP)		(Percent of GDP)	
Price of oil based on WEO (US\$ per barrel)	57	61	57	61
1. Staff revenue projections ² - expenditure that follows permanent income ³	-43.6	-23.3	28.3	24.3
2. Staff revenue projections ² - staff expenditure projections ⁴	-63.8	-46.0	22.7	14.6
Price of oil 25 percent lower	43	46	43	46
3. Staff revenue projections ² - expenditure that follows permanent income ³	-33.5	-18.0	31.1	26.6
4. Staff revenue projections ² - staff expenditure projections ⁴	-66.9	-48.7	11.7	4.9

Source: IMF staff estimates.

¹ This analysis assumes that the remuneration of reserve assets is satisfactorily resolved (see Box 4), allowing for a real return of 3 percent over the long term. Higher returns will encourage greater saving through the substitution effect, but may discourage saving through the income effect.

² Hydrocarbons revenue projections are based on the baseline scenario assumptions for government take and WEO based oil price. Non-oil revenue grows at a rate slower than nominal non-oil GDP but considers administrative improvements over the medium term.

³ Expenditure is equal to the permanent income derived from hydrocarbons revenue plus non-oil revenue (excluding interest earned). Some alternative rules are explored in Helmut Franken, 2006 (IMF Country Report No. 06/237, pages 60–76.)

⁴ The baseline scenario projections for government expenditures consider a growing current expenditure and a stable capital expenditure (in terms of GDP).

19. **The fiscal outcome in 2007 is expected to remain strong.** The overall surplus is expected to be a little weaker than in the budget and last year's execution, but the non-oil primary deficit is expected to improve slightly (Tables 10a, b, and c). However, the non-oil primary deficit falls clearly outside of the one suggested by the permanent income benchmark, mainly owing to an overly ambitious public investment program. The authorities defended the level of capital spending, given the huge infrastructure needs of the country, but indicated that, unlike recent years, spending would adhere to budgetary allocations.

20. **Staff's medium-term fiscal projection shows a declining non-oil primary deficit, although by 2011, it would still be, at 46 percent of non-oil GDP, twice as high as the level implied by the permanent income benchmark.** This projection is based on the critical assumption of adherence to budget ceilings and a leveling off of the growth in capital spending relative to GDP after 2007, in accordance with the fiscal policies expected to be embodied in the NDP. Although current spending remains modest, staff expect it would gradually rise, reflecting the need for higher public sector staffing levels and for goods and services related to the expanding public capital stock and the achievement of Social Needs Fund goals. The hydrocarbons revenue share is expected to contract, as a result of the diminished importance of primary oil extraction, from which the government extracts a sizeable resource rent, and some modest decline in real oil prices. The non-oil revenue share is projected to grow at a slower rate than non-oil GDP.

21. **The composition of public expenditures raises several concerns.** There is a high concentration on capital spending compared to current spending, and within capital spending,

on infrastructure spending. The authorities recognized that current spending has to provide for the operational needs of the growing public infrastructure and for capital stock maintenance. In their view, social needs are being accorded sufficient priority in the budget. Nonetheless, they expressed interest in conducting a World Bank-led public expenditure review, and considered it timely to re-evaluate the general structure of the social safety net and to reformulate and improve monitoring of the subsidy to the monopoly gasoline retailer.

22. **The government also expects to begin implementing critical projects identified under the Social Needs Fund in the areas of education, health, water and sanitation, gender, and local government, to be executed by relevant line ministries.** The mechanism, established last year by the government, through a memorandum of understanding with USAID, would allocate priority spending in these areas of about US\$72 million (0.8 percent of GDP) in 2007, for which a rough allocation exists in the budget. An important element is to develop the capacity of the responsible ministries to administer and evaluate these projects. The mission urged the authorities to complete the governance structure of the Social Needs Fund, which had delayed its activation in 2006 and early 2007. The achievement of these priorities would hasten progress toward meeting the MDGs.

23. **The authorities agreed that public financial management reform efforts should be invigorated.** An overlapping mission of the Fiscal Affairs Department identified continuing serious weaknesses in this area, and priorities, which include: (i) introducing a functional classification of expenditures in the budget and using a medium-term budget ceiling for ministries; (ii) elaborating monthly forecasts of revenues and expenditures and a cash plan; (iii) assessing budget execution on a commitment basis; and (iv) improving information flows with autonomous agencies to move toward a general government budget.

24. **Improving fiscal transparency remains an important priority.** The authorities indicated their continued commitment to establish the national EITI framework. In the meantime, staff advised the authorities to enhance transparency by taking a number of priority steps, which can be done along with the EITI (Box 3).

25. **The authorities concurred on the need to improve non-oil revenues.** They pointed to tax and customs administration reforms, including reinforcement of tax police, improvements in customs infrastructure, and a value-added tax information campaign. The proposal to raise alcohol taxes is aimed at discouraging excessive consumption.

26. **The authorities have repeatedly expressed concerns that the government's deposits at the BEAC, where Equatorial Guinea's fiscal surpluses are meant to be placed, do not receive a sufficiently high remuneration.** The authorities indicated that they would remit these deposits upon satisfactory resolution of CEMAC institutional reforms that would enable an increase in the remuneration of BEAC deposits and share governance more

Box 3. Measures to Improve Fiscal Transparency

- Establish the national EITI framework and appoint an aggregator to compile, reconcile, and oversee the revenue data.
- Commit to regular external audits of the national oil and gas companies by a credible international auditor and publish the results.
- Publish new contracts with oil and gas investors (or key provisions), in accordance with emerging international best practice.
- Publish detailed information on the oil sector, including daily production and price statistics, on government websites.
- Build a wider data dissemination template and calendar, covering execution of all government revenues and expenditures, as well as its financial assets and liabilities, in fully reconciled form.
- Establish a clear calendar and channels for the dissemination of the budget law and budget execution law to the public.

Source: Equatorial Guinea Fiscal Transparency ROSC and staff.

equally among member countries (Box 4). In particular, they emphasized that in order to replace revenues from hydrocarbon resources with investment income in a fiscally sustainable way, these investments would need to receive a higher real return. Staff welcomed the authorities' intention to continue working with CEMAC partners to resolve outstanding differences on BEAC reforms and remit funds held abroad.

27. **The authorities concurred on the need for caution in borrowing, especially at rates of interest higher than currently received on reserves, and to reflect any borrowing transparently in the fiscal accounts and balance of payments.** The authorities indicated that they do not have any immediate plans to draw upon the China credit line, which staff noted could be difficult to reconcile with the large expected fiscal surplus. Any borrowing under this line would require a separate agreement, laying out the specific purposes and terms. The government has also expressed interest in purchasing shares of equity in oil and gas assets. Staff urged the authorities to be cautious in undertaking any large-scale borrowing for such purposes. A debt sustainability analysis shows that Equatorial Guinea's economy is robust to typical shocks (Appendix).

C. Strengthening Growth Prospects and Improving the Business Climate

28. **The authorities emphasized that sustained growth depends on the further development of the hydrocarbons sector and ancillary activities.** The authorities

Box 4. Equatorial Guinea: Investment of Foreign Assets

All CEMAC members have an obligation to pool their foreign assets at the BEAC, which invests them mostly in an operations account with the French Treasury. In 2006, the government placed roughly two-thirds of its fiscal surplus in commercial banks abroad, some in actively managed accounts and some in conventional deposit accounts. Despite this, Equatorial Guinea has contributed more than a third of the regional central bank's end-2006 gross official reserves.

Equatorial Guinea: Composition of Government Deposits					
(Billions of CFA francs, end-of-period stocks)					
	2002	2003	2004	2005	2006
Total government deposits	314	358	643	1,367	2,276
of which					
Government deposits at banks abroad	310	352	344	447	1,042
Treasury current accounts in national banks	3	3	6	35	18
Government deposits at the BEAC	2	3	293	884	1,216
of which					
Funds for Future Generations	1	0	4	8	16
Fiscal Revenue Stabilization Mechanisms	0	0	283	860	800
Conventional deposits	0	0	0	0	384
Treasury current accounts at the BEAC	1	3	6	16	16

Sources: Equatoguinean authorities, and IMF staff estimates.

Inflation in Equatorial Guinea exceeded the interest rate on BEAC deposits, about 2 percent on average in 2006, resulting in a negative real rate of return of about 2½ percent, which may discourage saving. Most of the deposits abroad were held in U.S. dollars, with the largest deposit earning a return of about 4½ percent. However, the depreciation of the dollar against the euro reduced the return in CFA francs on those deposits to about –6 percent. Some of the other terms of BEAC deposits that are perceived as unattractive are a remuneration rate that is lower than the short-term rate in the euro area, and other restrictions on when new deposits can be placed in the different funds and on withdrawal of deposits without penalty.

expressed confidence that the new oil and gas law provided a solid legal basis for oil sector activities. However, staff noted that improving governance and transparency are key to building investor confidence, and highlighted the importance of addressing the concerns of oil sector investors regarding the need for expeditious reconciliation of the fiscal, local content, and other terms of the law with existing production contracts and for clear implementing regulations.

29. **Staff and the authorities agreed that it is essential to reduce inflationary pressures and limit real exchange rate appreciation.** The authorities were not concerned about high money supply growth because they saw the high import component of consumption and investment as easing supply constraints. However, they noted that high inflation was leading to continued real exchange rate appreciation, in the context of the

pegged nominal exchange rate, and that this would undermine competitiveness and consequently efforts to diversify the economy—a key objective of their NDP.

30. **The authorities pointed to measures that have already been undertaken to raise productivity and to address a deterioration in competitiveness.** They highlighted the importance of an improved transport infrastructure in reducing business costs, and of vocational training to enable local workers to fill key roles in the oil and construction sectors. The removal of export taxes on timber and cocoa should also boost profitability in these industries. The authorities were supportive of CEMAC initiatives to reduce the common external tariff but were cautious on liberalizing the labor market. Staff encouraged the authorities to speed up the phasing out of the import surcharges.

31. **Job growth for low-skilled labor will require diversification outside the hydrocarbons sector.** The authorities support a development strategy for the non-oil economy, based on agriculture, aquaculture, and fishing, construction and utilities, financial services, and tourism. Staff noted that revitalization of agriculture and fishing holds promise. However, a lack of skilled personnel and high costs may limit prospects in financial services and tourism. A number of programs already exist to support farmers and small businesses, but the authorities indicated a need to improve the effectiveness of these programs. They emphasized the importance of expanding access to training, which could be supported by the international community.

32. **There was consensus that the financial sector should play a stronger role in supporting private sector development.** The authorities indicated the importance they attach to creating a more competitive atmosphere with expanded access for small- and medium-sized businesses. They expressed interest in participating expeditiously in a national Financial Sector Assessment Program (FSAP), to complement the findings of the 2006 CEMAC FSAP. Staff and authorities agreed that BANGE should operate on strictly commercial terms, a view shared by BANGE's management. Staff emphasized the importance of the National Agency for Financial Investigation to begin operations in the area of anti-money laundering and combating the financing of terrorism (AML/CFT) quickly.

D. Statistical Issues

33. **Equatorial Guinea's statistical apparatus remains weak.** The lack of timely, accurate, and comprehensive macroeconomic data hampers the monitoring of developments and policy formulation. The authorities need to create the national statistical institute with robust collection and analysis capabilities. Staff have laid out a methodology for improving estimates of non-oil GDP, which should be institutionalized. However, there remain critical deficiencies in the national accounts, price, and labor market statistics, and in indicators of poverty to measure progress toward the MDGs (Table 11). The results of the recently completed household survey should be used to inform anti-poverty policies.

34. **Two other high priorities are to improve balance of payments and fiscal statistics.** The balance of payments is still largely constructed on a historical basis from estimates rather than actual financial and customs records, including information on the hydrocarbons sector that is already available to some parts of the government. The fiscal execution should encompass the financing items, including flows to offshore accounts, and in fully reconciled form with the monetary accounts. A functional disaggregation of government current and capital spending is critical. Equatorial Guinea should strive to participate in the General Data Dissemination System.

IV. STAFF APPRAISAL

35. **Equatorial Guinea's macroeconomic performance in the recent period has generally been strong.** After a temporary respite, real GDP growth is expected to regain vigor and high oil prices will maintain a strong external and fiscal position. Medium-term macroeconomic prospects are favorable, given the outlook for world oil and hydrocarbon derivatives prices. But inflation and real exchange rate appreciation remain key concerns.

36. **The authorities' NDP is expected to lay out a solid foundation for guiding the economy.** It will focus on two key components: a fiscal policy guided by a gradual reduction of the non-oil primary deficit to improve competitiveness and longer-term sustainability and structural measures to support competitiveness, economic diversification, and job creation.

37. **An urgent priority is to ensure that the Social Needs Fund programs are implemented and that an emphasis is placed on human resource development.** Progress in alleviating poverty and meeting the MDGs has been slow.

38. **Improvements in fiscal management and transparency are needed to ensure high quality public spending and strengthen non-oil revenues.** The high concentration on capital spending on infrastructure, and the lack of progress on public financial management reforms and the EITI remain key concerns. Improving tax and customs administration will require sustained attention.

39. **The authorities' commitment to remitting offshore assets to the common central bank and to working with CEMAC partners to revise the investment strategy for central bank reserves is welcome.** A two-pronged strategy of reducing domestic inflation and revising the investment strategy for central bank reserves will be required to raise the real return on investments.

40. **The pegged exchange rate regime has served Equatorial Guinea well.** While some real appreciation has been consistent with fundamentals, it will be important to safeguard competitiveness going forward. To offset the steadily appreciating real exchange rate, the authorities need to ensure that public spending leads to high quality infrastructure and improved human resources and that goods, services, and labor markets are opened further to competition.

41. **Private sector development would benefit from further strengthening of governance and the legal and regulatory environment.** The authorities should move forward quickly to ensure that the new hydrocarbons law does not have a negative impact on investors, and that this law and new tax laws are clear and transparent in their implementation.
42. **Efforts to strengthen the role of the financial system in private sector development should be properly sequenced and integrated into the NDP.** To this end, the authorities are encouraged to participate expeditiously in a national FSAP, to complement the findings of the 2006 CEMAC FSAP. It is also important for the National Agency for Financial Investigation to begin operations in the AML/CFT area as soon as possible.
43. **While the data provided by Equatorial Guinea are broadly adequate for surveillance, the statistical apparatus remains weak.** The lack of timely, accurate, and comprehensive macro- and socio-economic data hampers economic analysis. The authorities should establish a National Statistical Institute and ensure that it has a robust capacity to collect and analyze data.
44. It is recommended that the next Article IV consultation be held on the standard 12-month cycle.

Table 1. Equatorial Guinea: Selected Economic and Financial Indicators, 2003–07

	2003	2004	2005	2006	2007
				Prel.	Proj.
	(Annual percentage change, unless otherwise specified)				
Production, prices, and money					
Real GDP	11.6	31.7	6.7	-5.2	10.3
Oil and gas GDP (excluding hydrocarbons secondary sector production)	13.4	35.2	3.3	-10.2	2.4
Non-oil GDP (including hydrocarbons secondary sector production)	3.7	15.4	25.8	17.6	37.8
GDP deflator	1.8	13.8	43.3	18.3	-9.9
Oil and gas GDP (excluding hydrocarbons secondary sector production)	1.0	16.6	47.5	20.9	-17.2
Non-oil GDP (including hydrocarbons secondary sector production)	6.3	3.2	5.1	4.5	5.5
Hydrocarbons production (thousands of boe per day)	283.1	381.9	402.6	365.8	408.4
Oil and gas primary sector production ¹	262.2	354.5	366.2	328.7	336.4
Hydrocarbons secondary sector production ²	21.0	27.4	36.4	37.2	71.9
LNG	0.0	0.0	0.0	0.0	27.1
LPG, butane, and propane	2.5	2.7	11.9	20.8	19.7
Methanol	18.4	24.7	24.5	16.4	25.1
Oil price (U.S. dollars per barrel) ³	26.9	33.7	49.3	60.3	56.8
Natural gas price (US\$/tcm) ⁴	197.8	212.7	319.0	242.7	270.0
Methanol price (US\$/ton)	210.3	244.0	363.4	452.4	430.6
Consumer prices (annual average)	7.3	4.2	5.7	4.5	6.1
Consumer prices (end of period)	5.9	5.1	3.2	3.8	6.1
Broad money	56.7	33.5	34.7	14.1	28.3
External sector					
Exports, f.o.b.	33.7	66.9	53.0	11.1	3.6
Hydrocarbons exports	34.2	68.5	54.1	11.1	3.4
Oil primary sector exports	34.0	69.8	51.2	9.7	-3.6
Hydrocarbons secondary sector exports	37.3	51.6	98.1	27.0	72.6
Imports, f.o.b.	143.8	27.7	34.4	23.5	37.6
Non-oil sector imports	53.1	106.1	49.0	43.7	32.4
Terms of trade	4.3	10.4	35.7	15.4	-10.1
Nominal effective exchange rate (depreciation -)	11.4	5.1	-0.1	0.4	...
Real effective exchange rate (depreciation -)	16.9	7.0	2.7	2.4	...
Government finance					
Revenue and grants	13.7	75.0	82.5	36.1	8.9
Total expenditure and net lending	18.3	86.0	44.8	37.4	18.9
	(Percent of GDP, unless otherwise specified)				
Investment and savings					
Gross investment	58.3	44.5	37.7	40.6	48.8
Public	9.8	14.0	10.1	15.1	19.3
Private	48.5	30.5	27.6	25.5	29.5
Gross national savings	25.1	22.6	32.2	45.0	51.1
Government finance					
Revenue and grants	27.3	31.9	37.9	45.7	48.8
Hydrocarbons revenue	23.1	28.3	34.7	42.0	44.1
Oil and gas primary sector revenue	22.2	27.3	33.5	38.9	40.6
Hydrocarbons secondary sector revenue	0.8	0.9	1.2	3.2	3.5
Expenditure and net lending	15.5	19.3	17.9	22.2	25.7
Overall balance after grants (cash basis)	11.6	12.5	19.3	23.4	22.7
Non-oil primary balance (cash basis, percent of non-oil GDP) ⁵	-44.4	-73.9	-64.3	-64.4	-63.8
External sector					
Current account balance (including official transfers; deficit -)	-33.3	-21.9	-5.5	4.4	2.4
Outstanding medium- and long-term public debt	9.3	6.0	3.4	1.74	1.3
Net present value (NPV) of medium- and long-term public debt	6.6	4.0	3.0	2.0	1.1
NPV of medium- and long-term public debt/exports (percent)	7.5	4.5	2.9	2.3	1.2
Debt service-to-exports ratio	0.3	0.2	0.5	1.2	0.4
External debt service/government revenue (percent)	2.1	1.3	2.6	4.7	1.6
	(Millions of U.S. dollars, unless otherwise specified)				
External sector					
Exports, f.o.b.	2,825	4,715	7,215	8,014	8,300
Hydrocarbons exports	2,750	4,634	7,141	7,931	8,203
Oil primary sector exports	2,558	4,342	6,564	7,197	6,936
Hydrocarbons secondary sector exports	192	292	578	734	1,267
Imports, f.o.b.	-1,237	-1,580	-2,123	-2,622	-3,607
Non-oil sector imports	-309	-636	-948	-1,362	-1,803
Current account balance (deficit -)	-988	-1,073	-417	378	214
Overall balance of payments	140	682	1,446	712	1,344
Outstanding medium- and long-term public debt	299	318	247	157	120
Gross official foreign assets	890.6	1,633.1	2,921.6	5,175.0	7,272.8
Of which: Reserve assets at the BEAC	231.3	930.1	2,112.9	3,076.4	4,379.9
Government bank deposits abroad	659.3	703.0	808.7	2,098.6	2,892.9
Gross official foreign assets (in months of next year's imports)	3.7	5.5	8.2	12.0	15.3
Gross official foreign assets (in months of next year's imports (excl. petroleum sector))	10.6	13.6	17.8	23.9	27.2
Nominal GDP (in billions of CFA francs)	1,724.1	2,588.0	3,966.8	4,477.6	4,573.6
Non-oil GDP (including hydrocarbons secondary production)	407.8	496.4	713.0	900.7	1,267.4
Exchange rate (average; CFA francs/U.S. dollar)	581	528	527	522	...

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

¹ Including oil equivalent of gas.

² Including oil equivalent of LNG, LPG, butane, propane, and methanol.

³ The price of oil is the average of three spot prices; Dated Brent, West Texas Intermediate, and Dubai Fateh; and includes a discount for quality.

⁴ Natural gas spot price at the Henry Hub terminal in Louisiana, US\$ per thousands of cubic meters of gas.

⁵ Excluding oil revenues, oil-related expenditures, and interest earned and paid.

Table 2. Equatorial Guinea: Summary of Real Sector Developments, 2003–11

	2003	2004	2005	2006	2007	2008	2009	2010	2011
		Est.			Proj.				
GDP by sector of origin (Billions of CFA francs at 2000 prices)									
GDP at market prices	1,917.4	2,525.7	2,696.2	2,556.3	2,820.5	3,053.1	3,181.0	3,290.5	3,356.2
Non-oil GDP	336.7	388.6	488.8	574.9	792.3	1,018.5	1,186.8	1,338.2	1,433.0
Primary sector	1,653.1	2,210.1	2,281.9	2,058.1	2,109.5	2,121.1	2,086.7	2,051.6	2,030.3
Non-oil	72.4	73.0	74.5	76.7	81.3	86.5	92.4	99.2	107.2
Oil	1,580.7	2,137.1	2,207.4	1,981.4	2,028.2	2,034.6	1,994.3	1,952.4	1,923.1
Secondary sector	179.5	226.8	315.2	391.6	594.5	801.1	949.3	1,080.1	1,152.5
Oil derivatives	105.2	126.6	182.2	198.2	329.7	445.5	515.6	559.0	555.4
Nonderivatives	74.3	100.2	133.1	193.5	264.8	355.7	433.7	521.1	597.2
Tertiary sector	66.0	71.5	84.0	91.9	102.9	116.2	128.1	140.3	153.1
Import duties and subsidies	18.8	17.3	15.1	14.6	13.6	14.7	16.9	18.5	20.3
(Annual percentage change in constant prices)									
GDP at market prices	11.6	31.7	6.7	-5.2	10.3	8.2	4.2	3.4	2.0
Non-oil GDP	3.7	15.4	25.8	17.6	37.8	28.6	16.5	12.8	7.1
Primary sector	12.6	33.7	3.2	-9.8	2.5	0.5	-1.6	-1.7	-1.0
Non-oil	-3.6	0.8	2.1	3.0	5.9	6.5	6.8	7.4	8.0
Oil	13.4	35.2	3.3	-10.2	2.4	0.3	-2.0	-2.1	-1.5
Secondary sector	2.0	26.4	39.0	24.2	51.8	34.7	18.5	13.8	6.7
Oil derivatives	-4.3	20.4	43.9	8.8	66.4	35.1	15.7	8.4	-0.7
Nonderivatives	12.5	34.9	32.8	45.4	36.9	34.3	21.9	20.1	14.6
Tertiary sector	12.7	8.3	17.4	9.5	11.9	12.9	10.3	9.6	9.1
Import duties and subsidies	23.9	-7.7	-12.9	-3.0	-7.1	8.4	15.1	9.3	9.8
(Percent of GDP)									
GDP at market prices	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Non-oil GDP	17.6	15.4	18.1	22.5	28.1	33.4	37.3	40.7	42.7
Primary sector	86.2	87.5	84.6	80.5	74.8	69.5	65.6	62.3	60.5
Non-oil	3.8	2.9	2.8	3.0	2.9	2.8	2.9	3.0	3.2
Oil	82.4	84.6	81.9	77.5	71.9	66.6	62.7	59.3	57.3
Secondary sector	9.4	9.0	11.7	15.3	21.1	26.2	29.8	32.8	34.3
Oil derivatives	5.5	5.0	6.8	7.8	11.7	14.6	16.2	17.0	16.5
Nonderivatives	3.9	4.0	4.9	7.6	9.4	11.6	13.6	15.8	17.8
Tertiary sector	3.4	2.8	3.1	3.6	3.6	3.8	4.0	4.3	4.6
Import duties and subsidies	1.0	0.7	0.6	0.6	0.5	0.5	0.5	0.6	0.6
GDP by use of resources (Billions of CFA francs at current prices)									
GDP at market prices	1724.1	2588.0	3966.8	4477.6	4573.6	5242.2	5441.9	5637.4	5742.9
Net factor income from abroad	-909.2	-1537.9	-2133.1	-1738.7	-1431.8	-1536.1	-1371.5	-1298.4	-1170.0
Gross national product	814.9	1050.2	1833.7	2739.0	3141.8	3706.1	4070.4	4339.0	4572.8
Unrequited transfers	-15.2	-24.3	-35.2	-48.3	-78.0	-94.6	-114.6	-138.5	-166.8
Gross disposable income	799.6	1025.9	1798.5	2690.7	3063.7	3611.5	3955.8	4200.5	4406.0
Consumption	367.7	440.7	521.4	675.7	724.8	892.2	1105.2	1173.2	1251.0
National savings	432.0	585.2	1277.1	2015.0	2338.9	2719.4	2850.6	3027.2	3155.0
Gross capital formation	1005.9	1151.8	1497.0	1817.7	2231.0	2482.6	2627.7	2805.7	2938.4
External current account	-574.0	-566.7	-219.9	197.3	108.0	236.8	222.9	221.5	216.6
Trade balance	350.5	995.5	1948.4	1984.2	1617.8	1867.5	1709.1	1658.5	1553.5
(Percent of GDP)									
GDP at market prices	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Net factor income from abroad	-52.7	-59.4	-53.8	-38.8	-31.3	-29.3	-25.2	-23.0	-20.4
Gross national product	47.3	40.6	46.2	61.2	68.7	70.7	74.8	77.0	79.6
Unrequited transfers	-0.9	-0.9	-0.9	-1.1	-1.7	-1.8	-2.1	-2.5	-2.9
Gross disposable income	46.4	39.6	45.3	60.1	67.0	68.9	72.7	74.5	76.7
Consumption	21.3	17.0	13.1	15.1	15.8	17.0	20.3	20.8	21.8
National savings	25.1	22.6	32.2	45.0	51.1	51.9	52.4	53.7	54.9
Gross capital formation	58.3	44.5	37.7	40.6	48.8	47.4	48.3	49.8	51.2
External current account	-33.3	-21.9	-5.5	4.4	2.4	4.5	4.1	3.9	3.8
Trade balance	20.3	38.5	49.1	44.3	35.4	35.6	31.4	29.4	27.1

Sources: Equatoguinean authorities, and IMF staff estimates.

Table 3. Equatorial Guinea: Balance of Payments, 2003–07¹

(Millions of U.S. dollars, unless otherwise specified)

	2003	2004	2005	2006	2007
			Est.		Proj.
Current account	-987.6	-1072.6	-417.3	377.6	214.1
Trade balance	1588.0	3135.5	5091.3	5391.5	4692.2
Exports of goods, f.o.b.	2825.1	4715.4	7214.7	8013.5	8299.6
Of which: Hydrocarbons exports	2750.3	4633.9	7141.3	7931.3	8202.8
Of which: Crude oil	2557.9	4342.2	6563.5	7197.3	6935.8
Liquefied natural gas	0.0	0.0	0.0	0.0	424.8
Liquefied petroleum gas	23.2	28.9	188.7	410.3	370.7
Methanol	169.3	262.8	389.1	323.7	471.5
Timber	53.6	56.3	50.3	57.1	65.9
Cocoa	4.4	6.1	3.5	4.7	4.7
Coffee	0.1	0.1	0.1	0.1	0.2
Imports of goods, f.o.b.	-1237.2	-1579.9	-2123.4	-2622.0	-3607.4
Of which: Petroleum sector	-928.5	-943.7	-1175.4	-1260.0	-1803.9
Petroleum products	-37.9	-62.4	-95.1	-114.3	-156.7
Public sector equipment	-204.4	-481.0	-697.4	-1053.7	-1359.6
Other ²	-66.3	-92.7	-155.5	-193.9	-287.1
Services	-985.0	-1251.1	-1393.4	-1593.5	-1484.1
Credit	34.2	50.9	70.3	82.9	87.7
Debit	-1019.2	-1302.0	-1463.8	-1676.5	-1571.8
Income	-1564.3	-2911.1	-4048.4	-3328.0	-2839.3
Investment income (net)	-1491.7	-2791.3	-3866.0	-3136.4	-2638.2
Credit	20.1	28.4	29.3	41.8	73.4
Debit ³	-1511.8	-2819.7	-3895.3	-3178.3	-2711.6
Current transfers	-26.2	-45.9	-66.7	-92.4	-154.7
Public	18.2	20.0	20.0	20.2	-14.4
Private	-44.4	-65.9	-86.8	-112.6	-140.3
Capital and financial account	1140.1	1738.3	1846.8	357.1	1129.7
Capital account	0.0	0.0	0.0	0.0	0.0
Financial account	1140.1	1738.3	1846.8	357.1	1129.7
Direct investment	1443.5	1651.8	1871.5	1861.4	1960.8
Direct investment abroad	0.0	0.0	0.0	0.0	0.0
Direct investment to Equatorial Guinea	1443.5	1651.8	1871.5	1861.4	1960.8
Portfolio investment (net)	0.0	0.0	0.0	0.0	0.0
Other investment (net)	-303.4	86.5	-24.7	-1504.3	-831.1
Medium- and long-term transactions	-18.6	-14.2	-45.2	-101.2	-47.5
General government	-7.0	-8.3	-36.3	-95.3	-34.1
Incl.: Disbursements	0.0	0.0	0.0	0.0	0.0
Amortization	-7.0	-8.3	-36.3	-95.3	-34.1
Banks	0.0	0.0	0.0	0.0	0.0
Other sectors	-11.5	-5.9	-9.0	-5.9	-13.4
Short-term transactions	-284.8	100.7	20.6	-1403.0	-783.5
General government ⁴	-178.2	-43.7	-105.7	-1289.8	-794.4
Banks	32.7	-25.9	-52.1	49.5	-42.3
Other sectors	-139.4	170.4	178.4	-162.7	53.1
Errors and omissions	-12.2	16.1	16.7	-23.2	0.0
Overall balance	140.3	681.8	1446.2	711.5	1343.8
Financing	-140.3	-681.8	-1446.2	-711.5	-1343.8
Change in net international reserves ⁵ (increase -)	-134.9	-658.9	-1415.8	-711.5	-1343.8
Exceptional financing	-5.3	-22.9	-30.3	0.0	0.0
Change in arrears (net; decrease -)	-75.2	-22.9	-85.2	0.0	0.0
Debt relief	69.9	0.0	54.9	0.0	0.0
<i>Memorandum items:</i>					
Gross official foreign assets (US\$ million)	890.6	1633.1	2921.6	5175.0	7272.8
Of which: Reserve assets at the BEAC	231.3	930.1	2112.9	3076.4	4379.9
Government bank deposits abroad	659.3	703.0	808.7	2098.6	2892.9
Gross official foreign assets (months of next year's imports)	3.7	5.5	8.2	12.0	15.3
Gross official foreign assets (months of next year's imports (excl. petroleum sector))	10.6	13.6	17.8	23.9	27.2
Current account balance (percent of GDP; deficit -)	-33.3	-21.9	-5.5	4.4	2.4
Growth of hydrocarbons exports (percent)	34.2	68.5	54.1	11.1	3.4
Growth of non-oil exports (percent)	16.9	8.9	-9.9	12.1	17.7
Growth of other imports	20.3	13.4	3.3	3.8	28.3

Sources: Equatoguinean authorities, and IMF staff estimates and projections.

¹ The BOP data presented in this table are not compiled in accordance with the IMF's Balance of Payments Manual, fifth edition. At least since 2003, the data have not been derived from customs' and bank records' data, but from estimates by the national office of the BEAC, which are based on a financial program. Fund staff have made ad hoc adjustments to both historical and forecast data.

² Including private sector consumption and investment imports.

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

⁴ Since 2000, entries represent changes in government deposits in commercial banks abroad.

⁵ Consists only of items on the balance sheet of the national office of the BEAC (i.e., excluding government bank deposits abroad).

Table 4a. Equatorial Guinea: Summary of Central Government Financial Operations, 2004–07

(Billions of CFA francs, unless otherwise specified)

	2004	2005	Budget 2006	Revised Budget 2006	Actual 2006	Budget ¹ 2007	Proj. 2007
Total revenue and grants	824.3	1,504.1	999.7	1,768.1	2,047.0	2,303.2	2,230.2
Revenue	824.3	1,504.1	999.7	1,768.1	2,047.0	2,298.0	2,230.2
Tax revenue	226.6	371.0	243.1	494.4	510.0	399.2	406.6
Taxes on income, profits, and capital gains	190.2	337.9	204.3	454.5	466.9	356.6	365.0
Personal income tax	26.2	33.3	27.0	38.7	34.4	37.5	38.8
Corporate income tax	163.7	304.4	177.0	415.7	432.3	319.0	326.2
Other income taxes	0.3	0.1	0.2	0.1	0.2	0.1	0.0
Domestic taxes on goods and services ²	22.6	22.1	24.0	28.3	28.8	27.6	31.6
Taxes on international trade and transactions	8.3	8.1	9.7	8.4	10.2	9.8	5.6
Other taxes	5.5	2.9	5.2	3.2	4.0	5.2	4.4
Nontax revenue	597.7	1,133.0	756.7	1,273.6	1,537.1	1,898.8	1,823.6
Hydrocarbons sector	580.9	1,089.3	739.7	1,236.1	1,475.9	1,855.8	1,715.2
Royalties	381.6	462.6	319.3	651.5	970.0	650.1	568.7
Profit sharing	195.3	573.4	417.5	584.0	500.2	1,204.0	1,139.5
Bonuses and rents	4.1	53.2	2.9	0.6	5.8	1.7	7.0
Non hydrocarbons sector	16.7	43.7	17.0	37.5	61.1	42.9	108.3
Nontax revenue excluding interest on saving funds	16.7	31.2	15.5	21.5	43.9	22.9	35.4
Interest on saving funds	0.0	12.6	1.5	16.0	17.2	20.0	72.9
Grants	0.0	0.0	0.0	0.0	0.0	5.2	0.0
Total expenditure and net lending	501.6	736.5	595.6	872.9	997.2	1,196.1	1,191.5
Current expenditure	121.1	163.3	160.0	207.3	199.4	208.1	203.5
Wages and salaries	30.9	36.6	38.9	39.7	40.6	48.6	48.6
Goods and services	50.5	82.0	68.4	88.6	87.5	92.4	92.4
Interest payments	1.7	1.7	5.8	5.9	1.2	5.8	1.2
Domestic	0.4	0.5	0.6	0.7	0.3	0.6	0.6
Foreign	1.3	1.2	5.2	5.2	0.8	5.2	0.7
Transfers and subsidies	38.0	43.0	46.9	73.2	70.2	61.3	61.3
Capital expenditure	378.8	560.6	427.0	657.0	795.2	979.4	979.4
Purchase of share in hydrocarbons projects	15.8	114.6	60.0	60.0	127.7	80.0	80.0
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic arrears payments	1.7	12.6	8.6	8.6	2.6	8.6	8.6
Reimbursement to depositors ³	1.7	12.6	8.6	8.6	2.6	8.6	8.6
Overall balance	322.7	767.5	404.2	895.2	1,049.8	1,107.1	1,038.7
Total financing	-322.7	-767.5	-404.2	-895.2	-1,049.8	-1,107.1	-1,038.7
Foreign borrowing (net)	-55.8	-74.8	-37.4	-37.4	-721.0	-27.4	-417.8
Budget support loans	0.0	0.0	0.0	0.0	0.0	10.0	0.0
Amortization (-)	-4.2	-19.1	-37.4	-37.4	-49.8	-37.4	-17.2
Exceptional financing	-51.6	-55.7	0.0	0.0	-671.2	0.0	-400.6
Payment of external arrears (-)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt rescheduling	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Treasury deposits abroad (=-increase)	-16.6	-60.7	0.0	0.0	-578.5	0.0	-400.6
Gepetrol/Sonagas deposits abroad (=-increase)	-35.0	5.0	0.0	0.0	-92.7	0.0	0.0
Domestic borrowing (net)	-284.7	-695.4	-366.8	-857.8	-326.6	-1,079.7	-620.9
Errors and omissions/financing gap	17.8	2.7	0.0	0.0	-2.2	0.0	0.0
<i>Memorandum items:</i>							
Overall balance, excluding grants	322.7	767.5	404.2	895.2	1,049.8	1,101.9	1,038.7
percent of GDP	12.5	19.3	9.0	20.0	23.4	24.1	22.7
Non-oil primary balance, excluding grants ⁴	-367.0	-458.2	-402.8	-578.6	-580.0	-826.4	-808.5
percent of non-oil GDP	-73.9	-64.3	-44.7	-64.2	-64.4	-65.2	-63.8
Nominal GDP	2,588.0	3,966.8	4,477.6	4,477.6	4,477.6	4,573.6	4,573.6
Nominal non-oil GDP	496.4	713.0	900.7	900.7	900.7	1,267.4	1,267.4

Sources: data provided by the Equatoguinean authorities, and IMF staff estimates and projections.

¹ Based on an oil price of US\$57 per barrel.² The VAT was legislated in early 2005; previously this was a sales tax. Currently, 40 percent of firms in the non hydrocarbons sector continue to pay on the basis of a sales tax.³ Related to the crash of the banking system during the early eighties.⁴ Equal to the overall balance excluding grants minus hydrocarbons sector corporate income tax and non tax revenue plus hydrocarbons revenue generated in the secondary LNG, LPG and methanol production and purchase of share in hydrocarbons projects, minus interest on saving funds plus interest expenditure (please see detailed hydrocarbons revenues in Table 3c).

Table 4b. Equatorial Guinea: Summary of Central Government Financial Operations, 2004–07

(Percent of GDP, unless otherwise specified)

	2004	2005	Budget 2006	Revised Budget 2006	Actual 2006	Budget ¹ 2007	Proj. 2007
Total revenue and grants	31.9	37.9	22.3	39.5	45.7	50.4	48.8
Revenue	31.9	37.9	22.3	39.5	45.7	50.2	48.8
Tax revenue	8.8	9.4	5.4	11.0	11.4	8.7	8.9
Taxes on income, profits, and capital gains	7.3	8.5	4.6	10.2	10.4	7.8	8.0
Personal income tax	1.0	0.8	0.6	0.9	0.8	0.8	0.8
Corporate income tax	6.3	7.7	4.0	9.3	9.7	7.0	7.1
Other income taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic taxes on goods and services ²	0.9	0.6	0.5	0.6	0.6	0.6	0.7
Taxes on international trade and transactions	0.3	0.2	0.2	0.2	0.2	0.2	0.1
Other taxes	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Nontax revenue	23.1	28.6	16.9	28.4	34.3	41.5	39.9
Hydrocarbons sector	22.4	27.5	16.5	27.6	33.0	40.6	37.5
Royalties	14.7	11.7	7.1	14.6	21.7	14.2	12.4
Profit sharing	7.5	14.5	9.3	13.0	11.2	26.3	24.9
Bonuses and rents	0.2	1.3	0.1	0.0	0.1	0.0	0.2
Nonhydrocarbons sector	0.6	1.1	0.4	0.8	1.4	0.9	2.4
Nontax revenue excluding interest on saving funds	0.6	0.8	0.3	0.5	1.0	0.5	0.8
Interest on saving funds	0.0	0.3	0.0	0.4	0.4	0.4	1.6
Grants	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Total expenditure and net lending	19.4	18.6	13.3	19.5	22.3	26.2	26.1
Current expenditure	4.7	4.1	3.6	4.6	4.5	4.5	4.5
Wages and salaries	1.2	0.9	0.9	0.9	0.9	1.1	1.1
Goods and services	1.9	2.1	1.5	2.0	2.0	2.0	2.0
Interest payments	0.1	0.0	0.1	0.1	0.0	0.1	0.0
Domestic	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	0.1	0.0	0.1	0.1	0.0	0.1	0.0
Transfers and subsidies	1.5	1.1	1.0	1.6	1.6	1.3	1.3
Capital expenditure	14.6	14.1	9.5	14.7	17.8	21.4	21.4
Purchase of share in hydrocarbons projects	0.6	2.9	1.3	1.3	2.9	1.7	1.7
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic arrears payments	0.1	0.3	0.2	0.2	0.1	0.2	0.2
Reimbursement to depositors ³	0.1	0.3	0.2	0.2	0.1	0.2	0.2
Overall balance	12.5	19.3	9.0	20.0	23.4	24.2	22.7
Total financing	-12.5	-19.3	-9.0	-20.0	-23.4	-24.2	-22.7
Foreign borrowing (net)	-2.2	-1.9	-0.8	-0.8	-16.1	-0.6	-9.1
Budget support loans	0.0	0.0	0.0	0.0	0.0	0.2	0.0
Amortization (-)	-0.2	-0.5	-0.8	-0.8	-1.1	-0.8	-0.4
Exceptional financing	-2.0	-1.4	0.0	0.0	-15.0	0.0	-8.8
Payment of external arrears (-)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt rescheduling	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Treasury deposits abroad (-=increase)	-0.6	-1.5	0.0	0.0	-12.9	0.0	-8.8
Gepetrol/Sonagas deposits abroad (-=increase)	-1.4	0.1	0.0	0.0	-2.1	0.0	0.0
Domestic borrowing (net)	-11.0	-17.5	-8.2	-19.2	-7.3	-23.6	-13.6
Errors and omissions/financing gap	0.7	0.1	0.0	0.0	0.0	0.0	0.0
<i>Memorandum items:</i>							
Non-oil primary balance, excluding grants ⁴							
percent of non-oil GDP	-73.9	-64.3	-44.7	-64.2	-64.4	-65.2	-63.8

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

¹ Based on an oil price of US\$57 per barrel.² The VAT was legislated in early 2005; previously this was a sales tax. Currently, 40 percent of firms in the non hydrocarbons sector continue to pay on the basis of a sales tax.³ Related to the crash of the banking system during the early eighties.⁴ Equal to the overall balance excluding grants minus hydrocarbons sector corporate income tax and nontax revenue plus hydrocarbons revenue generated in the secondary LNG, LPG and methanol production and purchase of share in hydrocarbons projects, minus interest on saving funds plus interest expenditure (please see detailed hydrocarbons revenues in Table 3c).

Table 4c. Equatorial Guinea: Detailed Central Government Revenue, 2004–07

(Billions of CFA francs, unless otherwise specified)

	2004	2005	Budget 2006	Revised Budget 2006	Actual 2006	Budget ¹ 2007	Proj. 2007
Total revenue and grants	824.3	1,504.1	999.7	1,768.1	2,047.0	2,303.2	2,230.2
Revenue	824.3	1,504.1	999.7	1,768.1	2,047.0	2,298.0	2,230.2
Tax revenue	226.6	371.0	243.1	494.4	510.0	399.2	406.6
Taxes on income, profits, and capital gains	190.2	337.9	204.3	454.5	466.9	356.6	365.0
Personal income tax	26.2	33.3	27.0	38.7	34.4	37.5	38.8
Hydrocarbons sector	19.8	25.9	19.8	26.0	23.6	28.0	28.0
Nonhydrocarbons sector	6.5	7.4	7.2	12.7	10.7	9.5	10.8
Corporate income tax	163.7	304.4	177.0	415.7	432.3	319.0	326.2
Hydrocarbons sector	150.4	286.2	163.5	392.7	406.5	298.0	300.0
<i>Contractors</i>	118.2	67.2	128.5	329.7	331.7	263.0	250.0
<i>Sub-contractors</i>	32.2	219.0	35.0	63.0	74.7	35.0	50.0
Nonhydrocarbons sector	13.3	18.3	13.5	23.0	25.9	21.0	26.2
Other income taxes	0.3	0.1	0.2	0.1	0.2	0.1	0.0
Domestic taxes on goods and services	22.6	22.1	24.0	28.3	28.8	27.6	31.6
Value added tax ²	15.1	15.0	16.0	20.2	21.3	19.5	23.4
Petroleum taxes	7.5	7.1	8.0	8.1	7.5	8.1	8.3
Other domestic taxes on goods and services	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on international trade and transactions	8.3	8.1	9.7	8.4	10.2	9.8	5.6
Import tariffs	4.4	4.0	5.5	4.5	5.3	5.6	5.6
Export taxes	3.9	4.1	4.2	3.9	4.9	4.2	0.0
Other taxes	5.5	2.9	5.2	3.2	4.0	5.2	4.4
Nontax revenue	597.7	1,133.0	756.7	1,273.6	1,537.1	1,898.8	1,823.6
Hydrocarbons sector	580.9	1,089.3	739.7	1,236.1	1,475.9	1,855.8	1,715.2
Royalties	381.6	462.6	319.3	651.5	970.0	650.1	568.7
Profit sharing	195.3	573.4	417.5	584.0	500.2	1,204.0	1,139.5
Primary oil and gas production	171.1	527.4	385.5	478.8	359.1	1,044.3	979.8
Secondary LNG, LPG, methanol production	24.1	46.0	32.0	105.2	141.1	159.7	159.7
Bonuses and rents	4.1	53.2	2.9	0.6	5.8	1.7	7.0
Nonhydrocarbons sector	16.7	43.7	17.0	37.5	61.1	42.9	108.3
Nontax revenue excluding interest on saving funds	16.7	31.2	15.5	21.5	43.9	22.9	35.4
Interest on saving funds	0.0	12.6	1.5	16.0	17.2	20.0	72.9
Grants	0.0	0.0	0.0	0.0	0.0	5.2	0.0

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

¹ Based on an oil price of US\$57 per barrel.² The VAT was legislated in early 2005; previously this was a sales tax. Currently, 40 percent of firms in the nonhydrocarbons sector continue to pay on the basis of a sales tax.

Table 5a. Equatorial Guinea: Monetary Survey, 2003–07

	2003	2004	2005	2006			2007	
	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec. Proj.	
Monetary survey								
	(Billions of CFA francs)							
Net foreign assets	153.6	499.6	1241.0	1346.2	1457.1	1563.9	1573.9	2272.9
(millions of U.S. dollars)	287.8	1021.0	2242.9	2484.1	2824.1	3018.3	3160.1	4514.6
Net domestic assets	1.6	-292.4	-961.9	-1102.4	-1161.0	-1238.1	-1255.4	-1864.3
Domestic credit	17.3	-269.2	-933.6	-1076.6	-1123.6	-1221.1	-1224.6	-1775.3
Claims on government (net)	-34.3	-332.0	-1027.4	-1194.5	-1230.5	-1336.7	-1354.0	-1975.0
Claims on nongovernment	51.6	62.8	93.8	117.9	106.9	115.6	129.5	199.6
Other items (net)	-15.6	-23.2	-28.3	-25.7	-37.4	-17.0	-30.8	-88.9
Broad money (M2)	155.2	207.2	279.1	244.1	296.1	325.8	318.5	408.7
Currency	35.1	45.7	57.7	51.6	54.5	59.7	68.2	77.9
Deposits	120.1	161.4	221.4	192.5	241.6	266.0	250.3	330.7
<i>Memorandum items:</i>								
	(Annual percentage change, unless otherwise specified)							
CPI inflation (average annual)	7.3	4.2	5.7	...	...	...	4.5	6.1
Broad money (M2)	56.7	33.5	34.7	36.4	20.0	52.0	14.1	28.3
Reserve money (RM)	142.5	25.1	77.9	76.7	25.3	62.2	5.4	31.8
Credit to the private sector	-3.8	22.3	48.8	84.7	56.4	15.5	34.8	56.4
Credit to the private sector (percent of non-oil GDP excluding oil derivatives)	16.8	17.8	22.1	...	...	...	23.7	28.9
Broad money (percent of overall GDP)	9.0	8.0	7.0	...	...	...	7.1	8.9
Velocity (overall GDP/end-of-period M2)	11.1	12.5	14.2	...	...	...	14.1	11.2
Velocity (non-oil GDP excluding oil derivatives/end-of-period M2)	1.9	1.7	1.5	...	...	...	1.7	1.7
Reserve money multiplier (M2/RM)	1.3	1.4	1.0	1.3	1.1	1.1	1.1	1.1
Currency/M2 ratio	0.23	0.22	0.21	0.21	0.18	0.18	0.21	0.19
Lending rate	18.0	18.0	17.0	15.0	15.0	15.0	15.0	...
Deposit rate	5.0	5.0	4.75	4.25	4.25	4.25	4.25	...

Sources: BEAC, and IMF staff estimates and projections.

Table 5b. Equatorial Guinea: Central Bank and Commercial Banks, 2003–07

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

	2003	2004	2005	2006			2007	
	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec. Proj.	
Central Bank								
Net foreign assets	118.0	450.3	1164.2	1249.6	1346.3	1504.2	1523.0	2200.7
(millions of U.S. dollars)	221.1	920.3	2104.2	2305.9	2609.2	2903.0	3057.9	4371.1
Net domestic assets	2.3	-299.7	-896.5	-1057.0	-1084.5	-1201.1	-1240.8	-1828.5
Claims on government (net)	-2.6	-302.4	-899.2	-1058.0	-1092.9	-1214.1	-1243.0	-1830.8
Claims on commercial banks (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Claims on rest of the economy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other items (net)	4.9	2.6	2.7	0.8	8.4	13.0	2.3	2.3
Reserve money	120.3	150.5	267.8	192.6	261.8	303.1	282.3	372.2
Currency outside banks	35.1	45.7	57.7	51.6	54.5	59.7	68.2	77.9
Bank reserves	84.4	104.7	210.0	141.0	207.2	242.4	213.4	294.2
Cash	5.1	7.3	9.2	10.1	9.3	9.7	11.0	15.2
Deposits	79.3	97.4	200.8	130.9	197.9	232.7	202.3	279.0
Nonbank deposits	0.8	0.1	0.1	0.1	0.1	0.9	0.7	0.0
Deposit money banks								
Net foreign assets	35.6	49.3	76.8	96.6	110.9	59.7	50.9	72.2
Net domestic assets	83.7	112.1	144.5	95.8	130.6	205.4	198.7	258.5
Reserves	84.4	104.7	210.0	141.0	207.2	242.4	213.4	294.2
Cash	5.1	7.3	9.2	10.1	9.3	9.7	11.0	15.2
Deposits with central bank	79.3	97.4	200.8	130.9	197.9	232.7	202.3	279.0
Domestic credit	19.9	33.2	-34.4	-18.6	-30.7	-7.1	18.4	55.4
Claims on central bank (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Claims on government (net)	-31.8	-29.6	-128.3	-136.5	-137.6	-122.7	-111.0	-144.2
Claims	2.1	5.8	3.5	3.8	1.6	1.6	3.7	3.7
Deposits	-33.8	-35.4	-131.8	-140.3	-139.2	-124.3	-114.8	-147.9
Claims on nongovernment	51.6	62.8	93.8	117.9	106.9	115.6	129.5	199.6
Public enterprises	0.9	0.8	1.4	3.6	1.5	2.0	4.9	4.9
Private sector	50.8	62.1	92.4	114.3	105.5	113.6	124.5	194.7
Other items (net)	-20.5	-25.9	-31.0	-26.5	-45.8	-29.9	-33.1	-91.2
Deposit liabilities to nonbank residents	120.1	161.4	221.4	192.5	241.6	266.0	250.3	330.7

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

Table 6. Equatorial Guinea: Financial Soundness Indicators for the Banking Sector, 2002–06
(Percent)

	2002	2003	2004	2005	2006
<i>Capital</i>					
Regulatory capital to risk-weighted assets ^{1 2}	7.2	11.0	12.4	9.2	13.0
Tier 1 capital to risk-weighted assets ²	6.0	9.8	11.1	8.0	11.8
Capital to total assets ³	7.8	7.9	8.9	5.6	7.0
<i>Asset quality</i>					
Nonperforming loans (gross) to total loans (gross)	...	...	13.5	17.2	14.3
Nonperforming loans (net of provisions) to regulatory capital ¹	...	...	23.9	38.3	15.8
Loan loss provisions to nonperforming loans	...	...	71.4	67.0	79.9
<i>Earnings and Profitability</i>					
Return on assets ⁴	2.4	2.2	1.9	1.9	1.7
Return on equity ⁵	29.4	27.6	22.1	27.5	26.5
<i>Liquidity</i>					
Ratio of net loans to total deposits ⁶	48.3	35.3	43.6	29.1	37.3

Source: IMF Staff estimates based on COBAC data and FSI definitions from IMF's "Compilation Guide on Financial Soundness Indicators".

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

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

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

⁴ The ratio of after-tax profits to the average of beginning and end-period total assets.

⁵ The ratio of after-tax profits to the average of beginning and end-period shareholders' funds (excluding current-year profits).

⁶ Including government deposits.

Table 7. Equatorial Guinea: Selected Medium-Term Economic and Financial Indicators, 2006-11

	2006	2007	2008	2009	2010	2011
	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.
(Annual percentage change, unless otherwise specified)						
Production, prices, and money						
Real GDP	-5.2	10.3	8.2	4.2	3.4	2.0
Oil and gas GDP (excluding hydrocarbons secondary sector production)	-10.2	2.4	0.3	-2.0	-2.1	-1.5
Non-oil GDP (including hydrocarbons secondary sector production)	17.6	37.8	28.6	16.5	12.8	7.1
GDP deflator	18.3	-9.9	3.3	-1.7	0.0	0.1
Oil and gas GDP (excluding hydrocarbons secondary sector production)	20.9	-17.2	-0.2	-5.1	-3.8	-2.0
Non-oil GDP (including hydrocarbons secondary sector production)	4.5	5.5	6.0	5.1	5.2	4.5
Hydrocarbons production (thousands of boe per day)						
Oil and gas primary sector production ¹	365.8	408.4	442.4	454.1	460.3	455.2
Hydrocarbons secondary sector production ²	328.7	336.4	337.5	330.8	323.8	318.7
LNG	37.2	71.9	105.0	123.3	136.5	136.5
LPG, butane, and propane	0.0	27.1	60.5	76.8	90.4	90.4
Methanol	20.8	19.7	17.2	19.3	19.0	19.0
Oil price (U.S. dollars per barrel) ³	16.4	25.1	27.2	27.2	27.2	27.2
Natural gas price (US\$/tcm) ⁴	60.3	56.8	61.0	61.0	61.3	60.8
Methanol price (US\$/ton)	242.7	270.0	250.0	245.0	240.0	240.0
Consumer prices (annual average)	452.4	430.6	453.5	449.9	446.5	442.0
Consumer prices (end of period)	4.5	6.1	5.7	5.3	5.0	4.8
Broad money	3.8	6.1	5.5	5.2	4.9	4.7
	14.1	28.3	29.8	22.2	21.4	17.2
External sector						
Exports, f.o.b.	11.1	3.6	12.5	1.1	0.3	-2.5
Hydrocarbons exports	11.1	3.4	12.5	1.0	0.1	-2.6
Oil primary sector exports	9.7	-3.6	7.7	-2.1	-1.9	-3.3
Hydrocarbons secondary sector exports	27.0	72.6	38.7	14.1	7.6	-0.4
Imports, f.o.b.	23.5	37.6	9.2	8.2	1.8	-0.7
Non-oil sector imports	43.7	32.4	28.4	17.5	5.7	6.6
Terms of trade	15.4	-10.1	2.1	-2.6	-2.9	-3.3
Nominal effective exchange rate (depreciation -)	0.4	...	...	...	...	...
Real effective exchange rate (depreciation -)	2.4	...	...	...	...	...
Government finance						
Revenue and grants	36.1	8.9	10.3	2.2	1.6	-0.4
Total expenditure and net lending	37.4	18.9	18.1	7.7	7.3	5.7
(Percent of GDP, unless otherwise specified)						
Investment and savings						
Gross investment	40.6	48.8	47.4	48.3	49.8	51.2
Public	15.1	19.3	17.3	17.3	18.4	19.5
Private	25.5	29.5	30.1	31.0	31.4	31.7
Gross national savings	45.0	51.1	51.9	52.4	53.7	54.9
Government finance						
Revenue and grants	45.7	48.8	46.9	46.2	45.3	44.3
Hydrocarbons revenue	42.0	44.1	41.6	40.0	38.2	36.3
Oil and gas primary sector revenue	38.9	40.6	37.4	35.4	33.4	31.6
Hydrocarbons secondary sector revenue	3.2	3.5	4.2	4.6	4.8	4.6
Expenditure and net lending	22.2	25.7	26.6	27.6	28.6	29.7
Overall balance after grants (cash basis)	23.4	22.7	20.3	18.6	16.7	14.6
Non-oil primary balance (cash basis, percent of non-oil GDP) ⁵	-64.4	-63.8	-55.6	-50.0	-46.9	-46.0
External sector						
Current account balance (including official transfers; deficit -)	4.4	2.4	4.5	4.1	3.9	3.8
Outstanding medium- and long-term public debt	1.7	1.3	1.1	1.0	0.9	0.8
Net present value (NPV) of medium- and long-term public debt	2.0	1.1	0.6	0.6	0.5	0.5
NPV of medium- and long-term public debt/exports (percent)	2.3	1.2	0.7	0.6	0.6	0.6
Debt service-to-exports ratio	1.2	0.4	0.1	0.1	0.1	0.1
External debt service/government revenue (percent)	4.7	1.6	0.4	0.2	0.2	0.2
(Millions of U.S. dollars, unless otherwise specified)						
External sector						
Exports, f.o.b.	8,014	8,300	9,338	9,440	9,464	9,232
Hydrocarbons exports	7,931	8,203	9,229	9,322	9,335	9,093
Oil primary sector exports	7,197	6,936	7,472	7,317	7,178	6,944
Hydrocarbons secondary sector exports	734	1,267	1,757	2,005	2,157	2,148
Imports, f.o.b.	-2,622	-3,607	-3,939	-4,264	-4,342	-4,313
Non-oil sector imports	-1,362	-1,803	-2,316	-2,721	-2,877	-3,068
Current account balance (deficit -)	378	214	472	446	445	439
Overall balance of payments	712	1,344	1,467	1,458	1,436	1,317
Outstanding medium- and long-term public debt	157	120	113	108	103	99
Gross official foreign assets	5,175.0	7,272.8	9,522.6	11,689.5	13,785.2	15,716.6
Of which: Reserve assets at the BEAC	3,076.4	4,379.9	5,875.1	7,375.0	8,887.2	10,315.3
Government bank deposits abroad	2,098.6	2,892.9	3,647.5	4,314.4	4,898.0	5,401.3
Gross official foreign assets (in months of next year's imports)	12.0	15.3	18.6	22.5	26.7	30.2
Gross official foreign assets (in months of next year's imports, excluding petroleum sector)	23.9	27.2	31.0	36.2	40.7	44.5
Nominal GDP (in billions of CFA francs)	4,477.6	4,573.6	5,242.2	5,441.9	5,637.4	5,742.9
Non-oil GDP (including hydrocarbons secondary production)	900.7	1,267.4	1,668.5	1,961.9	2,243.5	2,454.5
Exchange rate (average; CFA francs/U.S. dollar)	522	...	...	...	...	...

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

¹ Including oil equivalent of gas.² Including oil equivalent of LNG, LPG, butane, propane, and methanol.³ The price of oil is the average of three spot prices: Dated Brent, West Texas Intermediate, and Dubai Fateh; and includes a discount for quality.⁴ Natural gas spot price at the Henry Hub terminal in Louisiana, US\$ per thousands of cubic meters of gas.⁵ Excluding oil revenues, oil-related expenditures, and interest earned and paid.

Table 8. Equatorial Guinea: Balance of Payments, 2006–11 ¹

(Millions of U.S. dollars, unless otherwise specified)

	2006	2007	2008	2009	2010	2011
	Est.			Proj.		
Current account	377.6	214.1	471.5	445.6	445.4	439.1
Trade balance	5391.5	4692.2	5398.6	5176.0	5122.1	4919.0
Exports of goods, f.o.b.	8013.5	8299.6	9337.8	9439.8	9464.2	9232.0
Of which: Hydrocarbons exports	7931.3	8202.8	9229.2	9322.0	9335.4	9092.6
Of which: Crude oil	7197.3	6935.8	7472.0	7316.5	7177.9	6944.2
Liquefied natural gas	0.0	424.8	878.4	1092.1	1258.6	1258.6
Liquefied petroleum gas	410.3	370.7	340.9	379.7	369.2	365.5
Methanol	323.7	471.5	537.9	533.7	529.7	524.3
Timber	57.1	65.9	69.5	70.7	71.9	72.3
Cocoa	4.7	4.7	4.7	4.6	4.6	4.6
Coffee	0.1	0.2	0.2	0.1	0.1	0.1
Imports of goods, f.o.b.	-2622.0	-3607.4	-3939.2	-4263.8	-4342.2	-4313.1
Of which: Petroleum sector	-1260.0	-1803.9	-1623.5	-1542.4	-1465.2	-1245.5
Petroleum products	-114.3	-156.7	-268.9	-388.1	-556.4	-741.8
Public sector equipment	-1053.7	-1359.6	-1579.7	-1646.1	-1470.0	-1384.0
Other ²	-193.9	-287.1	-467.0	-687.2	-850.5	-941.8
Services	-1593.5	-1484.1	-1679.3	-1759.3	-1787.5	-1769.7
Credit	82.9	87.7	101.0	105.2	109.6	112.5
Debit	-1676.5	-1571.8	-1780.3	-1864.5	-1897.1	-1882.2
Income	-3328.0	-2839.3	-3059.4	-2741.9	-2610.7	-2371.9
Investment income (net)	-3136.4	-2638.2	-2848.2	-2520.2	-2377.8	-2127.4
Credit	41.8	73.4	118.9	161.9	205.0	247.9
Debit ³	-3178.3	-2711.6	-2967.1	-2682.1	-2582.8	-2375.3
Current transfers	-92.4	-154.7	-188.4	-229.2	-278.5	-338.2
Public	20.2	-14.4	-14.4	-14.4	-14.4	-14.4
Private	-112.6	-140.3	-174.0	-214.8	-264.1	-323.8
Capital and financial account	357.1	1129.7	995.3	1012.0	990.5	877.6
Capital account	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	357.1	1129.7	995.3	1012.0	990.5	877.6
Direct investment	1861.4	1960.8	1764.7	1676.5	1592.6	1353.8
Direct investment abroad	0.0	0.0	0.0	0.0	0.0	0.0
Direct investment to Equatorial Guinea	1861.4	1960.8	1764.7	1676.5	1592.6	1353.8
Portfolio investment (net)	0.0	0.0	0.0	0.0	0.0	0.0
Other investment (net)	-1504.3	-831.1	-769.4	-664.5	-602.2	-476.2
Medium- and long-term transactions	-101.2	-47.5	-24.2	-22.7	-23.8	-23.0
General government	-95.3	-34.1	-8.4	-5.2	-5.4	-4.9
Incl.: Disbursements	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-95.3	-34.1	-8.4	-5.2	-5.4	-4.9
Banks	0.0	0.0	0.0	0.0	0.0	0.0
Other sectors	-5.9	-13.4	-15.8	-17.5	-18.5	-18.1
Short-term transactions	-1403.0	-783.5	-745.2	-641.8	-578.3	-453.1
General government ⁴	-1289.8	-794.4	-754.6	-667.0	-583.6	-503.2
Banks	49.5	-42.3	-52.3	-37.3	-56.0	-9.1
Other sectors	-162.7	53.1	61.7	62.4	61.2	59.1
Errors and omissions	-23.2	0.0	0.0	0.0	0.0	0.0
Overall balance	711.5	1343.8	1466.9	1457.6	1435.9	1316.7
Financing	-711.5	-1343.8	-1466.9	-1457.6	-1435.9	-1316.7
Change in net international reserves ⁵ (increase -)	-711.5	-1343.8	-1466.9	-1457.6	-1435.9	-1316.7
Exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears (net; decrease -)	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief	0.0	0.0	0.0	0.0	0.0	0.0
<i>Memorandum items:</i>						
Gross official foreign assets (US\$ millions)	5175.0	7272.8	9522.6	11689.5	13785.2	15716.6
Of which: Reserve assets at the BEAC	3076.4	4379.9	5875.1	7375.0	8887.2	10315.3
Government bank deposits abroad	2098.6	2892.9	3647.5	4314.4	4898.0	5401.3
Gross official foreign assets (months of next year's imports)	12.0	15.3	18.6	22.5	26.7	30.2
Gross official foreign assets (months of next year's imports (excl. petroleum sector))	23.9	27.2	31.0	36.2	40.7	44.5
Current account balance (percent of GDP; deficit -)	4.4	2.4	4.5	4.1	3.9	3.8
Growth of hydrocarbons exports (percent)	11.1	3.4	12.5	1.0	0.1	-2.6
Growth of non-oil exports (percent)	12.1	17.7	12.1	8.6	9.4	8.2
Growth of other imports	3.8	28.3	31.4	23.8	23.3	19.4

Sources: Equatoguinean authorities, and IMF staff estimates and projections.

¹ The BOP data presented in this table are not compiled in accordance with the IMF's Balance of Payments Manual, fifth edition. At least since 2003, the data have not been derived from customs' and bank records' data, but from estimates by the national office of the BEAC, which are based on a financial program. Fund staff have made ad hoc adjustments to both historical and forecast data.

² Including private sector consumption and investment imports.

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

⁴ Since 2000, entries represent changes in government deposits in commercial banks abroad.

⁵ Consists only of items on the balance sheet of the national office of the BEAC (i.e., excluding government bank deposits abroad).

Table 9. Equatorial Guinea: External Debt Position by Creditor, 2006–11

(Millions of U.S. dollars)

	2006	2007	2008	2009	2010	2011
NOMINAL STOCK OF DEBT	156.76	120.40	112.54	107.88	103.24	99.17
Multilateral creditors	105.77	100.77	97.66	94.75	91.99	89.81
IDA/World Bank	51.65	49.41	48.05	46.67	45.35	44.08
African Development Bank	43.01	41.60	40.90	40.21	39.60	39.04
BADEA	0.59	0.23	0.00	0.00	0.00	0.00
BEI	1.85	1.38	0.93	0.47	0.00	0.00
FIDA	7.71	7.36	7.15	6.93	6.74	6.54
Kuwait Fund	0.96	0.79	0.63	0.47	0.31	0.14
Bilateral creditors	49.66	18.32	13.57	11.80	9.92	8.02
Paris Club	33.77	4.42	1.36	1.30	1.23	1.16
France	0.83	0.79	0.76	0.73	0.69	0.64
Italy	0.00	0.00	0.00	0.00	0.00	0.00
Russia	0.65	0.62	0.59	0.57	0.54	0.52
Spain	32.30	3.01	0.00	0.00	0.00	0.00
Non-Paris Club	15.88	13.91	12.21	10.51	8.69	6.87
China ¹	15.88	13.91	12.21	10.51	8.69	6.87
Debt to private entities	1.33	1.31	1.32	1.32	1.33	1.34
Nigeria	1.33	1.31	1.32	1.32	1.33	1.34
AMORTIZATION	99.44	34.13	8.38	5.16	5.37	4.94
Multilateral creditors	3.08	3.54	3.55	3.34	3.41	2.96
IDA/World Bank	1.31	1.52	1.58	1.59	1.64	1.65
African Development Bank	0.62	0.82	0.88	0.88	0.88	0.89
BADEA	0.33	0.35	0.23	0.00	0.00	0.00
BEI	0.42	0.44	0.45	0.46	0.47	0.00
FIDA	0.24	0.24	0.24	0.24	0.25	0.25
Kuwait Fund	0.17	0.16	0.16	0.16	0.16	0.17
Bilateral creditors	96.36	30.60	4.83	1.82	1.96	1.97
Paris Club	90.68	28.84	3.07	0.07	0.07	0.09
France	0.02	0.03	0.03	0.04	0.05	0.05
Italy	85.16	0.00	0.00	0.00	0.00	0.00
Russia	0.02	0.02	0.03	0.03	0.03	0.03
Spain	5.48	28.79	3.02	0.00	0.00	0.00
Non-Paris Club	5.68	1.75	1.76	1.76	1.88	1.89
China	1.57	1.75	1.76	1.76	1.88	1.89
INTEREST PAYMENTS	1.59	1.30	0.94	0.80	0.77	0.79
Multilateral creditors	0.89	0.86	0.79	0.73	0.70	0.71
IDA/World Bank	0.39	0.37	0.36	0.34	0.33	0.34
African Development Bank	0.28	0.31	0.30	0.30	0.29	0.30
BADEA	0.10	0.07	0.03	0.00	0.00	0.00
BEI	0.04	0.04	0.03	0.02	0.01	0.00
FIDA	0.07	0.06	0.06	0.06	0.06	0.06
Kuwait Fund	0.02	0.01	0.01	0.01	0.01	0.01
Bilateral creditors	0.70	0.44	0.15	0.07	0.07	0.08
Paris Club	0.70	0.44	0.15	0.07	0.07	0.08
France	0.07	0.07	0.07	0.06	0.06	0.07
Italy	0.00	0.00	0.00	0.00	0.00	0.00
Russia	0.01	0.01	0.01	0.01	0.01	0.01
Spain	0.63	0.36	0.07	0.00	0.00	0.00
Non-Paris Club	0.00	0.00	0.00	0.00	0.00	0.00
China ²	0.00	0.00	0.00	0.00	0.00	0.00
<i>Memorandum item:</i>						
Debt to total GDP ratio	1.74	1.33	1.08	0.99	0.91	0.85
Debt to non-oil GDP (including oil derivatives)	8.64	4.78	3.38	2.74	2.28	1.98

Sources: Equatoguinean authorities, and IMF staff estimates.

¹ In 2006, China wrote-off roughly half of Equatorial Guinea's outstanding debt as of end-2005.² Loans from China have zero interest rate.

Table 10a. Equatorial Guinea: Summary of Central Government Financial Operations, 2006–11

(Billions of CFA francs, unless otherwise specified)

	Actual	Budget ¹	Proj.				
	2006	2007	2007	2008	2009	2010	2011
Total revenue and grants	2,047.0	2,303.2	2,230.2	2,461.0	2,514.5	2,555.3	2,545.0
Revenue	2,047.0	2,298.0	2,230.2	2,461.0	2,514.5	2,555.3	2,545.0
Tax revenue	510.0	399.2	406.6	467.2	482.4	485.2	481.2
Taxes on income, profits, and capital gains	466.9	356.6	365.0	418.2	425.1	420.3	410.0
Personal income tax	34.4	37.5	38.8	44.2	45.6	46.2	46.3
Corporate income tax	432.3	319.0	326.2	374.0	379.5	374.2	363.7
Other income taxes	0.2	0.1	0.0	0.0	0.0	0.0	0.0
Domestic taxes on goods and services ²	28.8	27.6	31.6	35.1	38.5	42.4	46.4
Taxes on international trade and transactions	10.2	9.8	5.6	9.1	13.4	16.6	18.4
Other taxes	4.0	5.2	4.4	4.9	5.3	5.9	6.4
Nontax revenue	1,537.1	1,898.8	1,823.6	1,993.7	2,032.1	2,070.1	2,063.8
Hydrocarbons sector	1,475.9	1,855.8	1,715.2	1,838.1	1,827.1	1,813.7	1,756.7
Royalties	970.0	650.1	568.7	656.5	640.5	624.7	599.5
Profit sharing	500.2	1,204.0	1,139.5	1,162.8	1,168.4	1,171.1	1,140.1
Bonuses and rents	5.8	1.7	7.0	18.8	18.3	17.8	17.1
Nonhydrocarbons sector	61.1	42.9	108.3	155.6	205.0	256.4	307.1
Nontax revenue excluding interest on saving funds	43.9	22.9	35.4	39.3	43.1	47.5	51.9
Interest on saving funds	17.2	20.0	72.9	116.4	161.9	208.9	255.1
Grants	0.0	5.2	0.0	0.0	0.0	0.0	0.0
Total expenditure and net lending	997.2	1,196.1	1,191.5	1,397.0	1,504.0	1,613.7	1,705.2
Current expenditure	199.4	208.1	203.5	263.9	327.7	395.2	463.8
Wages and salaries	40.6	48.6	48.6	56.2	64.8	70.6	76.8
Goods and services	87.5	92.4	92.4	127.2	164.6	205.7	247.7
Interest payments	1.2	5.8	1.2	1.0	1.0	0.9	0.9
Domestic	0.3	0.6	0.6	0.6	0.6	0.6	0.6
Foreign	0.8	5.2	0.7	0.5	0.4	0.4	0.4
Transfers and subsidies	70.2	61.3	61.3	79.5	97.3	117.8	138.4
Capital expenditure	795.2	979.4	979.4	1,133.1	1,176.3	1,218.5	1,241.3
Purchase of share in hydrocarbon projects	127.7	80.0	80.0	86.0	93.4	98.7	102.5
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic arrears payments	2.6	8.6	8.6	0.0	0.0	0.0	0.0
Reimbursement to depositors ³	2.6	8.6	8.6	0.0	0.0	0.0	0.0
Overall balance	1,049.8	1,107.1	1,038.7	1,064.0	1,010.5	941.6	839.8
Total financing	-1,049.8	-1,107.1	-1,038.7	-1,064.0	-1,010.5	-941.6	-839.8
Foreign borrowing (net)	-721.0	-27.4	-417.8	-383.1	-336.2	-292.9	-250.7
Budget support loans	0.0	10.0	0.0	0.0	0.0	0.0	0.0
Amortization (-)	-49.8	-37.4	-17.2	-4.2	-2.6	-2.7	-2.4
Exceptional financing	-671.2	0.0	-400.6	-378.9	-333.6	-290.3	-248.2
Payment of external arrears (-)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt rescheduling	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Treasury deposits abroad (=-increase)	-578.5	0.0	-400.6	-378.9	-333.6	-290.3	-248.2
Gepetrol/Sonagas deposits abroad (=-increase)	-92.7	0.0	0.0	0.0	0.0	0.0	0.0
Domestic borrowing (net)	-326.6	-1,079.7	-620.9	-680.9	-674.3	-648.7	-589.1
Errors and omissions/financing gap	-2.2	0.0	0.0	0.0	0.0	0.0	0.0
<i>Memorandum items:</i>							
Overall balance, excluding grants	1,049.8	1,101.9	1,038.7	1,064.0	1,010.5	941.6	839.8
percent of GDP	23.4	24.1	22.7	20.3	18.6	16.7	14.6
Non-oil primary balance, excluding grants ⁴	-580.0	-826.4	-808.5	-927.9	-981.1	-1,052.3	-1,129.1
percent of non-oil GDP	-64.4	-65.2	-63.8	-55.6	-50.0	-46.9	-46.0
Hydrocarbons sector revenue ⁵	1,882.4	2,153.8	2,015.2	2,183.1	2,174.8	2,152.9	2,082.1
Nonhydrocarbons sector revenue	164.6	144.2	215.0	277.9	339.7	402.4	462.8
Nominal GDP	4,477.6	4,573.6	4,573.6	5,242.2	5,441.9	5,637.4	5,742.9
Nominal non-oil GDP	900.7	1,267.4	1,267.4	1,668.5	1,961.9	2,243.5	2,454.5

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

¹ Based on an oil price of US\$57 per barrel.² The VAT was legislated in early 2005; previously this was a sales tax. Currently, 40 percent of firms in the nonhydrocarbons sector continue to pay on the basis of a sales tax.³ Related to the crash of the banking system during the early eighties.⁴ Equal to the overall balance excluding grants minus hydrocarbons sector corporate income tax and non tax revenue plus hydrocarbons revenue generated in the secondary LNG, LPG and methanol production and purchase of share in hydrocarbons projects, minus interest on saving funds plus interest expenditure (please see detailed hydrocarbons revenues in Table 8c).⁵ Personal income tax of people working in the hydrocarbons sector is included under non hydrocarbons sector revenue.

Table 10b. Equatorial Guinea: Summary of Central Government Financial Operations, 2006–11

(Percent of GDP, unless otherwise specified)

	Actual	Budget ¹	Proj.				
	2006	2007	2007	2008	2009	2010	2011
Total revenue and grants	45.7	50.4	48.8	46.9	46.2	45.3	44.3
Revenue	45.7	50.2	48.8	46.9	46.2	45.3	44.3
Tax revenue	11.4	8.7	8.9	8.9	8.9	8.6	8.4
Taxes on income, profits, and capital gains	10.4	7.8	8.0	8.0	7.8	7.5	7.1
Personal income tax	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Corporate income tax	9.7	7.0	7.1	7.1	7.0	6.6	6.3
Other income taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic taxes on goods and services ²	0.6	0.6	0.7	0.7	0.7	0.8	0.8
Taxes on international trade and transactions	0.2	0.2	0.1	0.2	0.2	0.3	0.3
Other taxes	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Nontax revenue	34.3	41.5	39.9	38.0	37.3	36.7	35.9
Hydrocarbons sector	33.0	40.6	37.5	35.1	33.6	32.2	30.6
Royalties	21.7	14.2	12.4	12.5	11.8	11.1	10.4
Profit sharing	11.2	26.3	24.9	22.2	21.5	20.8	19.9
Bonuses and rents	0.1	0.0	0.2	0.4	0.3	0.3	0.3
Nonhydrocarbons sector	1.4	0.9	2.4	3.0	3.8	4.5	5.3
Nontax revenue excluding interest on saving funds	1.0	0.5	0.8	0.7	0.8	0.8	0.9
Interest on saving funds	0.4	0.4	1.6	2.2	3.0	3.7	4.4
Grants	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Total expenditure and net lending	22.3	26.2	26.1	26.6	27.6	28.6	29.7
Current expenditure	4.5	4.5	4.5	5.0	6.0	7.0	8.1
Wages and salaries	0.9	1.1	1.1	1.1	1.2	1.3	1.3
Goods and services	2.0	2.0	2.0	2.4	3.0	3.6	4.3
Interest payments	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Domestic	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Transfers and subsidies	1.6	1.3	1.3	1.5	1.8	2.1	2.4
Capital expenditure	17.8	21.4	21.4	21.6	21.6	21.6	21.6
Purchase of share in hydrocarbon projects	2.9	1.7	1.7	1.6	1.7	1.8	1.8
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic arrears payments	0.1	0.2	0.2	0.0	0.0	0.0	0.0
Reimbursement to depositors ³	0.1	0.2	0.2	0.0	0.0	0.0	0.0
Overall balance	23.4	24.2	22.7	20.3	18.6	16.7	14.6
Total financing	-23.4	-24.2	-22.7	-20.3	-18.6	-16.7	-14.6
Foreign borrowing (net)	-16.1	-0.6	-9.1	-7.3	-6.2	-5.2	-4.4
Budget support loans	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Amortization (-)	-1.1	-0.8	-0.4	-0.1	0.0	0.0	0.0
Exceptional financing	-15.0	0.0	-8.8	-7.2	-6.1	-5.1	-4.3
Payment of external arrears (-)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt rescheduling	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Treasury deposits abroad (-=increase)	-12.9	0.0	-8.8	-7.2	-6.1	-5.1	-4.3
Gepetrol/Sonagas deposits abroad (-=increase)	-2.1	0.0	0.0	0.0	0.0	0.0	0.0
Domestic borrowing (net)	-7.3	-23.6	-13.6	-13.0	-12.4	-11.5	-10.3
Errors and omissions/financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Memorandum items:</i>							
Non-oil primary balance, excluding grants ⁴							
percent of non-oil GDP	-64.4	-65.2	-63.8	-55.6	-50.0	-46.9	-46.0

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

¹ Based on an oil price of US\$57 per barrel.² The VAT was legislated in early 2005; previously this was a sales tax. Currently, 40 percent of firms in the non hydrocarbons sector continue to pay on the basis of a sales tax.³ Related to the crash of the banking system during the early eighties.⁴ Equal to the overall balance excluding grants minus hydrocarbons sector corporate income tax and non tax revenue plus hydrocarbons revenue generated in the secondary LNG, LPG and methanol production and purchase of share in hydrocarbons projects, minus interest on saving funds plus interest expenditure (please see detailed hydrocarbons revenues in Table 8c).

Table 10c. Equatorial Guinea: Detailed Central Government Revenue, 2006–11

(Billions of CFA francs, unless otherwise specified)

	Actual	Budget ¹	Proj.				
	2006	2007	2007	2008	2009	2010	2011
Total revenue and grants	2,047.0	2,303.2	2,230.2	2,461.0	2,514.5	2,555.3	2,545.0
Revenue	2,047.0	2,298.0	2,230.2	2,461.0	2,514.5	2,555.3	2,545.0
Tax revenue	510.0	399.2	406.6	467.2	482.4	485.2	481.2
Taxes on income, profits, and capital gains	466.9	356.6	365.0	418.2	425.1	420.3	410.0
Personal income tax	34.4	37.5	38.8	44.2	45.6	46.2	46.3
Hydrocarbons sector	23.6	28.0	28.0	32.2	32.5	31.7	30.4
Non hydrocarbons sector	10.7	9.5	10.8	12.0	13.2	14.5	15.9
Corporate income tax	432.3	319.0	326.2	374.0	379.5	374.2	363.7
Hydrocarbons sector	406.5	298.0	300.0	345.0	347.7	339.1	325.4
Contractors	331.7	263.0	250.0	270.0	274.5	267.7	256.9
Sub-contractors	74.7	35.0	50.0	75.0	73.2	71.4	68.5
Non hydrocarbons sector	25.9	21.0	26.2	29.0	31.8	35.0	38.3
Other income taxes	0.2	0.1	0.0	0.0	0.0	0.0	0.0
Domestic taxes on goods and services	28.8	27.6	31.6	35.1	38.5	42.4	46.4
Value added tax ²	21.3	19.5	23.4	25.9	28.4	31.3	34.3
Petroleum taxes	7.5	8.1	8.3	9.2	10.1	11.1	12.1
Other domestic taxes on goods and services	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on international trade and transactions	10.2	9.8	5.6	9.1	13.4	16.6	18.4
Import tariffs	5.3	5.6	5.6	9.1	13.4	16.6	18.4
Export taxes	4.9	4.2	0.0	0.0	0.0	0.0	0.0
Other taxes	4.0	5.2	4.4	4.9	5.3	5.9	6.4
Nontax revenue	1,537.1	1,898.8	1,823.6	1,993.7	2,032.1	2,070.1	2,063.8
Hydrocarbons sector	1,475.9	1,855.8	1,715.2	1,838.1	1,827.1	1,813.7	1,756.7
Royalties	970.0	650.1	568.7	656.5	640.5	624.7	599.5
Profit sharing	500.2	1,204.0	1,139.5	1,162.8	1,168.4	1,171.1	1,140.1
Primary oil and gas production	359.1	1,044.3	979.8	942.2	917.6	902.9	875.2
Secondary LNG, LPG, methanol production	141.1	159.7	159.7	220.6	250.8	268.3	264.9
Bonuses and rents	5.8	1.7	7.0	18.8	18.3	17.8	17.1
Non hydrocarbons sector	61.1	42.9	108.3	155.6	205.0	256.4	307.1
Nontax revenue excluding interest on saving funds	43.9	22.9	35.4	39.3	43.1	47.5	51.9
Interest on saving funds	17.2	20.0	72.9	116.4	161.9	208.9	255.1
Grants	0.0	5.2	0.0	0.0	0.0	0.0	0.0

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

¹ Based on an oil price of US\$57 per barrel.² The VAT was legislated in early 2005; previously this was a sales tax. Currently, 40 percent of firms in the non hydrocarbons sector continue to pay on the basis of a sales tax.

Table 11. Equatorial Guinea: Millennium Development Goals

	1990	1995	2000	2004	Authorities Assessment ¹
1 Eradicate extreme poverty and hunger.	<i>2015 target = halve 1990 US\$1 a day poverty and malnutrition rates</i>				Very Likely a/; Likely b/ 60 (2000; PNUD)
Population below US\$1 a day (percent)	..	..	..	..
Poverty gap at US\$1 a day (percent)	..	..	..	..
Share of income or consumption held by poorest 20 percent	..	..	..	..
Prevalence of child malnutrition (percent of children under 5)	..	..	..	..	21 (2000 MICS Survey)
Share of population below minimum level of dietary energy consumption	..	..	..	..	80 (1992-93 UNICEF/OCEAC)
2 Achieve universal primary education.	<i>2015 target = net enrollment to 100</i>				Likely to plausible
Net primary enrollment ratio (percent of relevant age group)	90.5	..	87.1	..	51 (2000-01 Ministry of Economy)
Percentage of cohort reaching grade 5	..	..	32.6	..	
Youth literacy rate (ages 15–24)	..	..	93.8	..	
3 Promote gender equality.	<i>2005 target = education ratio to 100</i>				Very Likely
Ratio of girls to boys in primary and secondary education	..	83.6	82.5	..	91.2 (2001 Census)
Ratio of young literate females to males (ages 15–24)	..	..	99.8	..	
Share of women employed in the nonagricultural sector	10.5	..	..	..
Proportion of seats held by women in national parliament	13.0	9.0	5.0	5.0	
4 Reduce child mortality.	<i>2015 target = reduce 1990 under 5 mortality by two-thirds</i>				Likely
Under 5 mortality rate (per 1,000)	206	175	156	146	50 (2001 Census)
Infant mortality rate (per 1,000 live births)	122	113	103	97	
Immunization, measles (percent of children under 12 months)	88	80	51	51	
5 Improve maternal health.	<i>2015 target = reduce 1990 maternal mortality by three-fourths</i>				Likely to plausible
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	880	..	352 (1994 Census)
Births attended by skilled health staff (percent of total)	..	5	64.6	..	65.1 (2000 MICS Survey)
6 Combat HIV/AIDS, malaria and other diseases.	<i>2015 target = halt, and begin to reverse, AIDS, etc.</i>				Likely to plausible c/ ; Very Likely d/
Prevalence of HIV, female (ages 15–24)	..	..	..	..
Contraceptive prevalence rate (of women ages 15–49)	..	..	..	..
Number of children orphaned by HIV/AIDS	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	157.8	175.9	184.3	193.2	
Tuberculosis cases detected (percent)	..	75.1	71.4	..	
7 Ensure environmental sustainability.	<i>2015 target = various ²</i>				Very Likely e/; Likely f/
Forest area (percent of total land area)	66.2	..	62.5	..	
Nationally protected areas (percent of total land area)	..	..	..	..
GDP per unit of energy use ³	..	..	..	..
CO2 emissions (metric tons per capita)	0.3	0.3	0.4	..	
Access to an improved water source (percent of population)	..	..	44	..	47.4 (2000 MICS Survey)
Access to improved sanitation (percent of population)	..	..	53	..	
8 Develop a Global Partnership for Development.	<i>2015 target = various ⁴</i>				Unlikely
Youth unemployment rate (percent of total labor force ages 15–24)	..	..	..	..
Fixed line and mobile telephones (per 1,000 people)	3.7	6.5	24.5	94.1	
Personal computers (per 1,000 people)	..	..	4.4	6.9	
General indicators.					
GNI per capita (U.S. dollars)	368	418	1,798	3,391	
Adult literacy rate (percent of people ages 15 and over)	..	..	84.2	..	
Total fertility rate (births per woman)	5.9	5.9	..	5.4	5.5 (2001 Census)
Life expectancy at birth (years)	47.2	..	50.0	52.2	59.3 (2001 Census)

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

¹ This corresponds to the authorities' assessment on the likelihood to meet the MDGs by 2015. The information is taken from Annex 1 of the Equatoguinean authorities' report on MDGs issued in 2005 in collaboration with the U.N. agency in Malabo. The lack of background information limits the staff's ability to verify the plausibility of this assessment.

² Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. Halve, by 2015, the proportion of people without sustainable access to safe drinking water. By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers.

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

⁴ Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Address the Special Needs of the Least Developed Countries. In cooperation with developing countries, develop and implement strategies for decent and productive work for youth. In cooperation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries. In cooperation with the private sector, make available the benefits of new technologies, especially information and communications.

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

^a Poverty objective

^b Hunger objective

^c HIV/AIDS objective

^d Paludismo and other serious diseases objective

^e Sustainable development objective

^f Access to improved water and sanitation objectives

APPENDIX

EQUATORIAL GUINEA—EXTERNAL DEBT SUSTAINABILITY ANALYSIS

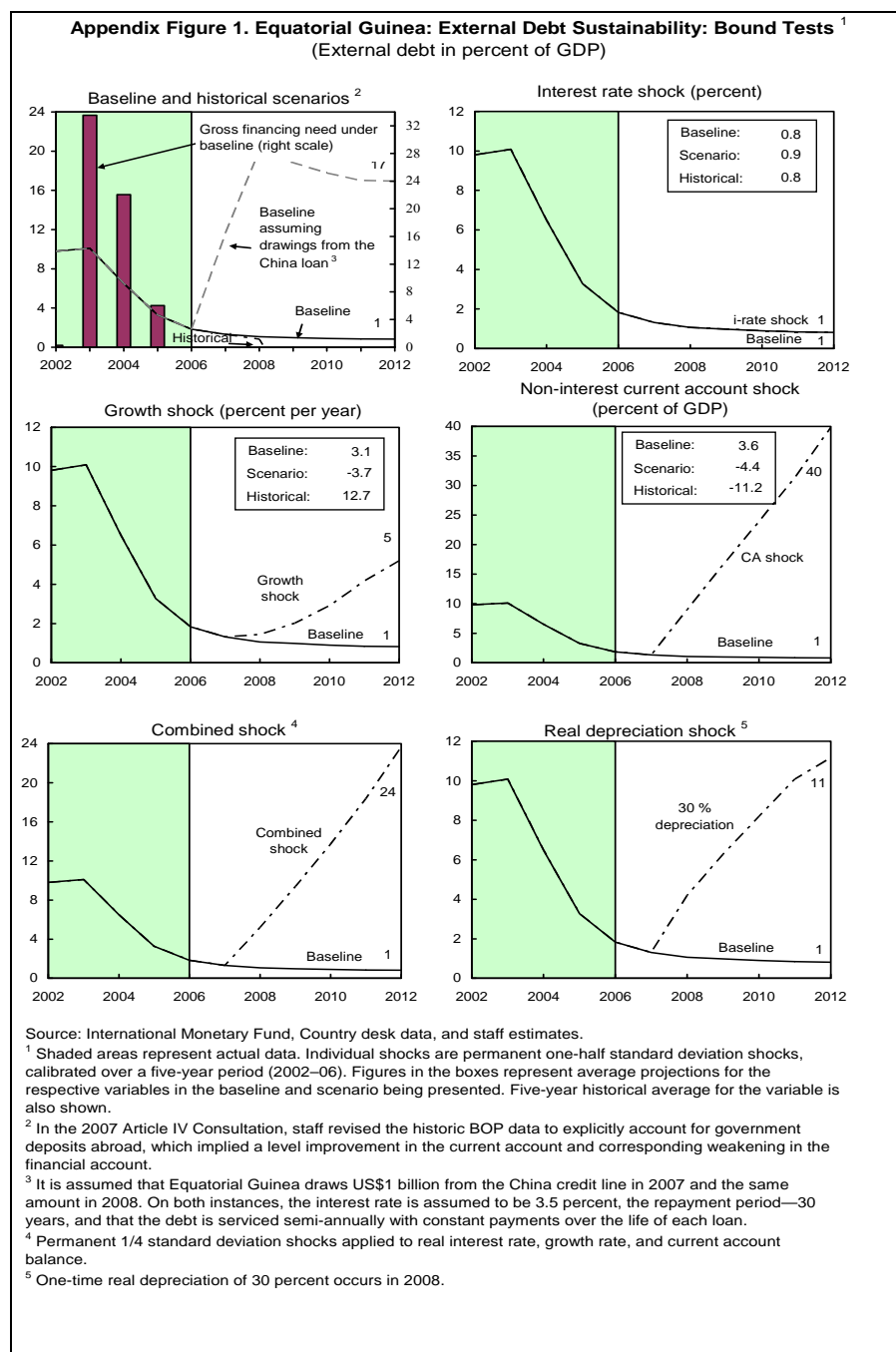
1. **Assuming no new borrowing, the external debt of Equatorial Guinea is expected to decline from around 2 percent of GDP in 2006 to less than 1 percent by 2012 (Appendix Table 1).** The external debt burden could increase substantially (to 17 percent of GDP in 2012), if the authorities decide to activate a recently negotiated credit line from China.^{7 8}
2. **Equatorial Guinea's external debt is sustainable.** A debt sustainability analysis (DSA)—using the middle income country template—demonstrates that the country's external debt would remain below the CEMAC convergence criteria of 70 percent of GDP under all stress-test scenarios (Appendix Figure 8).
3. **In stress-test scenarios, all shocks are calibrated over the period 2002-2006.** The shorter calibration period is chosen over the standard ten-year one, because in the late 1990s the Equatoguinean economy experienced extraordinary volatility related to the development of newly discovered oil fields, which is unlikely to recur in the future.
4. **Staff revised historic balance of payments data, which led to an improvement of the current account and gross financing needs.** In the 2007 Article IV Consultation it was established that in the official balance of payments data, the outflows of government deposits to banks abroad had been implicitly subsumed in current account outflows. Staff revised the historical data to explicitly account for government deposits abroad, which implied a level improvement in the current account and corresponding weakening in the financial account.
5. **The explosive path of the external debt to GDP ratio under the current account stress-test results from the standardized assumption that Equatorial Guinea would continue to accumulate reserves at the same pace as in the baseline scenario, if faced with a severe negative external shock.**⁹ This assumption is too stringent, as in reality any widening of the current account deficit relative to GDP is likely to result in a one-on-one

⁷ In 2006, Equatorial Guinea and China signed a framework agreement that could eventually result in China lending up to US\$2 billion to Equatorial Guinea. The framework contains a list of investment projects, which if awarded to Chinese companies and if the Treasury is unable to meet its obligations on the contracts, will be financed from the credit line. At present, there is no outstanding credit—any drawings in the future would require separate agreements, within the overall framework, laying out the specific purposes and terms of the credit.

⁸ During the 2007 Article IV consultations, the authorities insisted that there are no immediate plans to draw upon the China credit line, given the hefty foreign assets of the government. Based on this statement, the mission team did not include any drawings from the China credit line in the external debt forecasts.

⁹ In the DSA in last year's Article IV staff report, the shock on the current account was calibrated as a temporary one (that is, it was applied to the 2006 current account balance only) rather than as the standardized permanent one, which explains the different conclusions drawn from the current account stress test in the two analyses.

decrease of the ratio of accumulated foreign assets to GDP¹⁰ This issue does not typically arise in other DSAs, because the ratio of accumulated foreign assets to GDP in most countries is small.



¹⁰ The DSA template assumes that the evolution of the ratio of external debt to GDP reflects changes in the debt service as a share of GDP (with a positive impact), and the current account to GDP ratio, the ratio of net foreign direct investment to GDP and the ratio of accumulated foreign assets to GDP (all with a negative impact). The last category is a residual equal to the difference between the predicted evolution of the external debt to GDP ratio, given by changes in the other variables, and its actual realizations. In Equatorial Guinea, this residual is sizeable, reflecting government's savings of oil revenues and the big permanent transfers of assets from international oil companies to their local affiliates.

Appendix Table 1. Equatorial Guinea: External Debt Sustainability Framework, 2002–2012

(Percent of GDP, unless otherwise indicated)

	Actual					Projections						Debt-stabilizing non-interest current account ⁶
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	
1 Baseline: External debt	9.8	10.1	6.5	3.3	1.8	1.3	1.1	1.0	0.9	0.8	0.8	-11.0
2 Change in external debt	-14.3	0.3	-3.6	-3.2	-1.4	-0.5	-0.2	-0.1	-0.1	-0.1	0.0	
3 Identified external debt-creating flows (4+8+9)	-19.8	-18.0	-15.8	-21.6	-26.5	-23.9	-21.3	-19.3	-17.8	-15.2	-12.7	
4 Current account deficit, excluding interest payments	-0.2	33.2	21.8	5.5	-4.4	-2.3	-4.5	-4.1	-3.9	-3.7	-1.7	
5 Deficit in balance of goods and services	-46.9	-20.3	-38.5	-49.1	-44.3	-35.0	-35.2	-31.0	-29.1	-26.7	-21.2	
6 Exports	98.7	96.4	97.3	96.8	94.5	91.4	89.4	86.7	83.5	79.3	74.8	
7 Imports	51.9	76.1	58.8	47.6	50.2	56.4	54.2	55.7	54.4	52.6	53.6	
8 Net non-debt creating capital inflows (negative)	-14.9	-48.7	-33.7	-24.9	-21.7	-21.4	-16.7	-15.2	-13.9	-11.5	-11.0	
9 Automatic debt dynamics ¹	-4.6	-2.6	-3.9	-2.2	-0.4	-0.2	-0.1	0.0	0.0	0.0	0.0	
10 Contribution from nominal interest rate	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
11 Contribution from real GDP growth	-3.7	-0.8	-1.9	-0.3	0.1	-0.2	-0.1	0.0	0.0	0.0	0.0	
12 Contribution from price and exchange rate changes ²	-1.1	-1.8	-2.0	-2.0	-0.5	...	...	...	...	...	...
13 Residual, incl. change in gross foreign assets (2-3) ³	5.4	18.3	12.2	18.4	25.1	23.4	21.0	19.2	17.7	15.2	12.7	
External debt-to-exports ratio (percent)	9.9	10.5	6.7	3.4	1.9	1.4	1.2	1.1	1.1	1.1	1.1	
Gross external financing need (billions of U.S. dollars) ⁴	0.0	1.0	1.1	0.5	-0.3	-0.2	-0.5	-0.4	-0.4	-0.4	-0.2	
percent of GDP	0.3	33.5	22.1	6.0	-3.3	-2.0	-4.4	-4.0	-3.8	-3.7	-1.6	
Scenario with key variables at their historical averages ⁵						1.3	0.8	-5.1	-13.1	-21.9	-30.4	-20.4
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (percent)	18.8	11.6	31.7	6.7	-5.2	10.3	8.2	4.2	3.4	2.0	-2.2	
GDP deflator in U.S. dollars (change in percent)	4.9	22.7	25.4	44.0	20.1	-3.0	6.3	0.0	0.7	0.7	1.0	
Nominal external interest rate (percent)	0.7	1.3	0.9	0.7	0.6	0.8	0.8	0.7	0.7	0.8	0.8	
Growth of exports (U.S. dollar terms, percent)	21.5	33.7	66.7	52.8	11.1	3.6	12.5	1.1	0.3	-2.4	-6.8	
Growth of imports (U.S. dollar terms, percent)	-29.7	100.8	27.7	24.5	19.8	20.5	10.4	7.1	1.8	-0.7	0.7	
Current account balance, excluding interest payments	0.2	-33.2	-21.8	-5.5	4.4	2.3	4.5	4.1	3.9	3.7	1.7	
Net non-debt creating capital inflows	14.9	48.7	33.7	24.9	21.7	21.4	16.7	15.2	13.9	11.5	11.0	

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

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

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

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

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

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

INTERNATIONAL MONETARY FUND
REPUBLIC OF EQUATORIAL GUINEA

Staff Report for the 2007 Article IV Consultation—Informational Annex

Prepared by the Staff Representatives for the 2007 Consultation
with the Republic of Equatorial Guinea

(In consultation with other Departments)

May 24, 2007

- **Relations with the Fund:** Equatorial Guinea has been a member of the International Monetary Fund since 1969, and has accepted the obligations of Article VIII in 1996. Equatorial Guinea has no outstanding obligations to the IMF. In recent years, it has benefited from technical assistance by the Statistics and Fiscal Affairs Departments of the IMF.
- **Relations with the World Bank:** Currently, Equatorial Guinea, an IBRD country, has no lending program with the World Bank.
- **Exchange rate regime:** Equatorial Guinea is a member of the Central African Economic and Monetary Community (CEMAC). The common currency, the CFA franc, is pegged at the fixed exchange rate of CFA franc 656 per euro.
- **Statistical Issues:** Equatorial Guinea does not subscribe to the General Data Dissemination System (GDDS). Data provision for surveillance purposes is broadly adequate, with scope for improvement in quality, coverage, timeliness, and public availability of data.

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APPENDIX I.
EQUATORIAL GUINEA—FUND RELATIONS
(as of May 1, 2007)

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

II. General Resources Account:	SDR Millions	Percent Quota
Quota	32.60	100.00
Fund holdings of currency	32.61	100.02
Reserve Position	0.00	0.00

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

IV. Outstanding Purchases and Loans: None

V. Latest Financial Arrangements:

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

VI. Projected Payments to the Fund

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

	Forthcoming				
	2007	2008	2009	2010	2011
Principal					
Charges/Interest	0.17	0.23	0.23	0.23	0.23
Total	0.17	0.23	0.23	0.23	0.23

VII. Implementation of HIPC Initiative: Not Applicable

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

Exchange Rate Arrangement and Safeguard Assessments

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

Equatorial Guinea's currency, the CFA franc, is pegged to the euro at the fixed exchange rate of CFAF 655.957 per euro.

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

Article IV Consultations

Equatorial Guinea is on the standard 12-month Article IV consultation cycle. The last Article IV consultation with Equatorial Guinea was concluded by the Executive Board on May 10, 2006 (IMF Country Report No. 06/233).

Technical Assistance

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

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

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

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

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

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

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

STA conducted a follow-up mission in real sector statistics in January 2006.

A macrofiscal advisor, backstopped by AFR, and paid for by the government through a reimbursement agreement with the Fund, was in residence in Equatorial Guinea from June 2006 to early May 2007.

A public financial management advisor, backstopped by FAD, and paid for by the government through a reimbursement agreement with the Fund, was in residence in Equatorial Guinea from June 2006 to early May 2007.

STA conducted a technical assistance mission in real sector statistics in March 2007.

Resident Representative: None.

APPENDIX II.
EQUATORIAL GUINEA—RELATIONS WITH THE WORLD BANK GROUP
(as of April, 2007)

The discovery of large oil reserves caused Equatorial Guinea to graduate to IBRD status (based on a GNP per capita of \$1,170 in 1999), which has meant that concessional IDA assistance is no longer available. At the request of the authorities, a World Bank mission to examine Equatorial Guinea's participation in the Extractive Industries Transparency Initiative (EITI) coincided with a Fund fiscal ROSC mission in January 2005. Subsequently, the World Bank proposed a services agreement to finance various activities, including (i) strengthening the management of the petroleum sector and associated revenues; and (ii) preparing a poverty reduction strategy, although a final agreement was finally not reached for none of the activities.

The World Bank Group has not approved any new lending operations for Equatorial Guinea since mid-1992.

IMF—World Bank collaboration

Overall, the IMF and World Bank staffs have maintained a collaborative relationship in coordinating their activities and policy advice to the authorities, in particular around the shared interests on EITI implementation, introduction of high standards of governance in the hydrocarbons sector, and the emergence of a coherent national development plan.

World Bank activities

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

At the request of the authorities, a mission from FIAS—a joint facility of the World Bank and International Finance Corporation—visited Equatorial Guinea in April 2001 in order to survey the investment climate in the country. The FIAS report identified a series of obstacles to private investment in the oil and non-oil sectors (particularly foreign direct investment). In view of these obstacles, the report recommended various actions aimed at improving and simplifying the legal framework (laws and institutions) to create an investment-friendly environment.

In 2005, the Bank proposed to the Government a technical assistance project in the petroleum and energy sectors, that includes: (a) a study of the institutional set up to define the role and responsibilities of the Ministry of Mines, Industry and Energy and the state oil company, GEPetrol; (b) a review of existing petroleum sector laws and regulations, including environmental and regulations; (c) sector capacity building, and design and implementation of training programs; (d) the development of an Oil Revenue Diagnostic Model that integrates upstream and midstream activities by generating forecasts of future sector revenues under different assumptions regarding costs, prices and the pace of development; (e) the formulation of the national hydrocarbon and energy policy that optimizes the links between the two sectors; and (f) the formulation of resource revenue management policy, including relevant institutional arrangements. However, this project could not move forward because no services agreement was signed. At this time, government priorities have changed and technical assistance from the Bank has been requested with respect to the implementation of EITI. In particular, the government has expressed the interest in receiving the support of a technical advisor to help the EITI National Secretariat to move forward implementation actions. The Bank would facilitate the application for funds under the EITI Trust Fund.

A World Bank mission visited the government of Equatorial Guinea in late March-early April 2007. This mission overlapped with the IMF Article IV mission and participated in the workshop to kick-off the National Development Strategy. The mission reached preliminary agreement with the authorities on a new Services Agreement to prepare a Public Expenditure Review in 2007-2008. Possible areas for further joint work include analyzing the National Development Strategy after it has been revised and defining specific areas for Bank support, as well as a diagnosis of the problems of the current statistical system (with focus on National Income Accounts).

Finally, Bank assistance has been discussed in (a) the design and implementation of the reporting framework and institutional arrangements necessary to implement the EITI; (b) related governance and anti-corruption policies; and (c) assistance in the petroleum and energy sectors. Further discussions took place in the November 2006 and March 2007 missions, where it was agreed that the Bank will continue to discuss with the authorities how to enhance collaboration on these issues.

Equatorial Guinea: Summary of Bank-Fund Collaboration

Area of Structural Reform	Lead Institution
1. Fiscal area	
Public financial management and macro fiscal analysis	IMF
Public expenditure review	World Bank
Tax administration	IMF
Fiscal ROSC	IMF
2. Governance	
Extractive Industries Transparency Initiative (EITI)	World Bank/IMF
3. Private sector development	
FIAS study of the business climate	World Bank/IFC
4. Other	
Petroleum sector management and capacity building	World Bank
PRSP	World Bank/IMF
External trade	IMF
Education	World Bank

APPENDIX III.**EQUATORIAL GUINEA—STATISTICAL ISSUES**

The economic and financial statistics remain very weak, which hampers the monitoring of developments and policy formulation. The deficiencies in quality, timing, and coverage in most macroeconomic data are related to insufficient administrative and technical capacity. Technical assistance has resulted in some progress but there is still a need to consolidate these gains including through participation in the General Data Dissemination System (GDDS) and the establishment of the National Institute of Statistics (NIS). The BEAC regularly reports monetary, interest rate, and exchange rate statistics for publication in the *International Financial Statistics* (IFS), but their timeliness needs improvement.

Real sector and prices

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

STA missions visited Malabo in July 2005, January 2006, and March 2007. The 2005 mission reviewed the methods and data sources used to compile both the national accounts and the CPI, and assessed the adequacy of statistical legislation and the resources devoted to the statistical function, and made recommendations for improvement. The 2006 mission reviewed the work for implementing the recommendations of the July 2005 mission, and delivered a short seminar on national accounts. The mission found that little progress had been made, mainly due to persistent management problems and severe human and computing resource constraints.

The 2007 mission found that some progress had been made in implementing previous missions' recommendations. The pilot of the Agricultural Production Survey (APS) 2005–06 is being conducted with the support of the UN Food and Agriculture Organization, and a Quick Household Survey (QHS), with national coverage, was conducted between December 2006 and February 2007 in a sample of 5,240 households. The APS will be useful for revising the coverage of production and value-added for agriculture. Even though the QHS did not collect data on revenues and the collected expenditure data reflect seasonality, the results of the QHS, if adjusted, would be valuable to update the basket and weights of the CPI (currently, corresponding to 1986) and compile poverty and other social indicators.

The mission provided hands-on assistance to prepare a business register/sample frame and a database on employment and compensation of employees, basic source data for improving the coverage of the national accounts. Also, the mission revised estimates on oil and non-oil gross domestic product (GDP) for the period 2000–06 with 2000 as base year, and reclassified manufacturing of oil and gas derivatives in the non-oil sector following the *UN International Standard Industrial Classification of all Economic Activities (ISIC,)* Rev. 3. According to ISIC, the division 11 of Mining and Quarrying includes the extraction of crude petroleum and natural gas, owing to their extractive nature and the exhaustibility of the output. On the other hand, production of LNG, LPG, and methanol are classified in manufacturing, a division of the secondary sector. The mission explained the methodology of the revised series to the authorities and the General Directorate of Statistics and National Accounts (GDSNA) staff and left a methodological note describing the results for 2006, suggesting institutional implementation of the revised approach.

The collection of prices for the CPI was discontinued in June 2005 because of budgetary reasons, and reestablished in February 2006. Apparently, priority had been given to the International Comparison Program (ICP) exercise. The GDSNA revised the official figures for the period July 2005–January 2006 by using the data from the ICP, which include a limited subset of prices, and carrying the last reported price for the CPI forward. The 2007 mission observed that some relative prices for February 2006 were atypical and recommended revising price imputations for the period July 2005–January 2006 by using the price change of similar products, the price change of the related group/class of products, or its historical trend.

As regards the institutional framework, the statistical legislation is quite recent (2001) and is, in general, adequate to regulate the statistical system. However, the decree to create the National Institute of Statistics (NIS) has not been passed. In addition, the resources devoted to the statistical function are insufficient as only one person is assigned to the national accounts unit and three to the CPI unit. GDP estimates are prepared by the BEAC, rather than by the GDSNA. The Minister of Finance and Planning informed the mission of his commitment to improving statistics and requested assistance to establish the NIS and train the staff. The assistance will be provided by Central AFRITAC. The World Bank is also preparing a service agreement with Equatorial Guinea to provide technical assistance for compiling poverty indicators.

Real sector statistics reported to STA (*IFS*) are limited to GDP (without breakdown by sector or expenditure category), exports, and imports. The February 2007 issue of *IFS* includes data for GDP through 2005 and exports and imports through 2005. Export and import data are provided to AFR. Priorities for the period ahead include implementation of the *System of National Accounts, 1993*, updating the reference period of the national accounts (1985), and updating the CPI's basket and weights without delay.

Fiscal accounts

Following technical assistance from France, there have been some improvements in fiscal accounting. Further improvements are needed, particularly in procuring timely and accurate data from the Debt-Service Unit (Caja Autónoma de la Deuda Pública). Equatorial Guinea does not report fiscal data to STA for publication in *International Financial Statistics* and the *Government Finance Statistics Yearbook*. However, the authorities provide budget execution data to AFR although full information on the conciliation with the monetary accounts is still lacking. An STA mission in early 2006 reviewed government finance statistics and found that coverage remains incomplete, there is no functional classification of expenditure, which is critical, and dissemination practices need improvement. The fiscal data are not subject to any internal process of verification as internal and external audit capability remains weak.

Monetary accounts

The timeliness of monetary statistics has improved recently although delays in production and submission by BEAC headquarters to STA for publication in IFS still occur occasionally. The April 2007 issue of *IFS* includes data for the central bank and other depository corporations through December 2006.

Accuracy of monetary data may be hampered by large cross-border movements of currency among CEMAC member countries. Equatorial Guinea is affected by such movements: 59.3 percent of banknotes issued in Equatorial Guinea by the BEAC national directorate circulate in Cameroon, 7.7 percent in Gabon, and 7.1 percent in the three other countries of the CEMAC; only 26 percent of banknotes issued in Equatorial Guinea remain in this country. Currency in circulation in Equatorial Guinea includes 18.4 percent of banknotes from Gabon and 18.3 percent from Cameroon.

The mission that visited the BEAC headquarters in May 2001 provided technical assistance on the compilation of timely monetary statistics for the CEMAC member countries. The mission discussed an action plan for the implementation of the *Monetary and Financial Statistics Manual (MFSM)* and for the introduction of an area-wide page in *IFS* for the CEMAC. The new page for CEMAC was published in the January 2003 issue of *IFS*. Following the 2001 mission, a regional workshop on monetary and financial statistics was organized by the BEAC in Libreville (Gabon) in May 2002 to support the implementation of the *MFSM* in the CEMAC countries.

In addition, a monetary and financial statistics mission visited Malabo in December 2002. This mission (1) reviewed the structure of the financial system and the procedures used for compiling monetary and financial statistics; (2) provided technical assistance to the staff of the BEAC National Directorate in addressing data collection, compilation, and dissemination problems, and in improving the analytical usefulness of the monetary statistics; and (3) briefed the authorities on the methodology in the *MFSM*, and

initiated steps to facilitate its implementation. An action plan has been designed for implementing the recommendations but action is pending.

External debt

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

Balance of payments

Although the BEAC produces balance of payments data, delays are long and the data suffer from significant inconsistencies with other datasets. At present, all BOP data for 2004–06 are estimates. Statistics are still largely constructed on a historical basis from estimates rather than actual financial and customs records, including information on the hydrocarbons sector available to some parts of the government. Customs data have improved since the implementation of the Central African Customs and Economic Union reform and the deployment of customs brigades. However, data analysis is still hampered by the lack of computerization. While some progress has been made in compiling current and financial account items, the lack of source data is a key concern. Balance of payments data are published in the *International Financial Statistics Yearbook* through 1996 only.

Equatorial Guinea: Table of Common Indicators Required for Surveillance
May 4, 2007

	Date of latest observation	Date received	Frequency of Data ⁶	Frequency of Reporting ⁶	Frequency of publication ⁶
Exchange Rates	Current	Current	M	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Oct. 2006	Dec. 2006	M	M	M
Reserve/Base Money	Jan. 2007	Apr. 2007	M	M	M
Broad Money	Jan. 2007	Apr. 2007	M	M	M
Central Bank Balance Sheet	Jan. 2007	Apr. 2007	M	M	M
Consolidated Balance Sheet of the Banking System	Jan. 2007	Mar. 2007	M	M	M
Interest Rates ²	Jan. 2007	Mar. 2007	M	M	M
Consumer Price Index	Dec. 2006	Mar. 2007	M	I	I
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴					
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	Dec. 2006	Jan. 2007	Q	I	I
Stocks of Central Government and Central Government-Guaranteed Debt ⁵					
External Current Account Balance	Dec. 2005	Jul. 2006	A	I	I
Exports and Imports of Goods and Services	Dec. 2005	Jul. 2006	A	I	I
GDP/GNP	Dec. 2006	Mar. 2007	A	I	I
Gross External Debt	Dec. 2006	Jan. 2007	A	I	A

¹ Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

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

³ Foreign, domestic bank, and domestic nonbank financing.

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

⁵ Including currency and maturity composition.

⁶ Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).



INTERNATIONAL MONETARY FUND

Public Information Notice

EXTERNAL
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Public Information Notice (PIN) No. 08/48
FOR IMMEDIATE RELEASE
April 28, 2008

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

IMF Executive Board Concludes 2007 Article IV Consultation with the Republic of Equatorial Guinea

On June 8, 2007 the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Equatorial Guinea.¹

Background

Equatorial Guinea has recorded one of Africa's fastest growth rates over the past decade, as its petroleum industry has expanded and diversified into hydrocarbon derivatives. The development of downstream activities strengthens the country's longer-term economic and fiscal sustainability. However, weaknesses in the business environment and transparency could jeopardize successful development.

Macroeconomic performance was mixed in 2006. After rapid economic development in recent years, the real economy declined around 5 percent, on account of a temporary drop in oil and methanol production. In the non-oil sector, strong growth was observed in construction, utilities, and finance and housing, mainly driven by a large increase in public capital spending. Strong domestic demand exerted upward pressure on prices. With inflation above that in major trade partners and the euro appreciating against the U.S. dollar, the real exchange rate continued to rise.

The authorities are now developing a National Development Plan, with a 2020 horizon, to be supported by a macro-fiscal framework that takes account of hydrocarbon resource exhaustibility. Hydrocarbon revenues have provided the country with adequate resources to alleviate poverty and achieve the Millennium Development Goals (MDGs). Informal indicators suggest a growing prosperity, but the importance of a sound statistical base for policy making—including accurate measures on indicators of well-being—is becoming more pressing.

Fiscal performance in 2006 benefited from the high oil prices. The overall fiscal surplus rose to 23 percent of GDP, reflecting stronger oil revenues, partially offset by a sizeable rise in capital spending, which considerably exceeded the budget. This overexecution reflected unbudgeted

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

purchases of shares in hydrocarbon sector projects and spending on physical infrastructure. Education, health, and water and sewerage projects remain only a small share of public investment spending. The non-oil primary deficit—a key fiscal indicator—remained at about 64 percent of non-oil GDP. Although revised estimates of the non-oil GDP and non-oil revenues significantly improved measures of fiscal sustainability compared to previous estimates, the gap with a sustainable fiscal position over the long term remains sizeable.

The oil price windfall has also led to robust balance of payments surpluses, and the accumulation of sizeable financial assets. The balance of payments surplus was US\$712 million driven by continued inflows of foreign direct investment and improvement in the terms of trade. The current account moved into surplus. Deposits at the Banque des Etats de l’Afrique Centrale (BEAC) reached US\$3.1 billion and deposits in foreign commercial banks reached US\$2.1 billion, at end-2006. In the absence of an active sterilization policy by the regional central bank, monetary conditions in 2006 continued to be shaped by fiscal and balance of payments developments. The financial system remains underdeveloped but stable.

Executive Board Assessment

Executive Directors observed that, following a pause in 2006, Equatorial Guinea was poised to resume strong growth in 2007. Continued robust oil exports and diversification of the hydrocarbons industry into derivatives should help to sustain favorable growth prospects in the medium term.

Directors endorsed the authorities’ efforts to formulate a long-term National Development Plan, aimed at enhancing productivity and accelerating progress toward the MDGs. In that context, and in view of the inflationary pressures and real exchange rate appreciation, Directors underscored the importance of ensuring that macroeconomic policies help to safeguard competitiveness, and are accompanied by accelerated structural measures to support a sound business climate, economic diversification, and job creation.

Directors welcomed the development of a medium-term fiscal framework that takes into account the exhaustibility of hydrocarbon resources. They supported the authorities’ adoption of a fiscal policy guided by a reduction in the non-oil primary fiscal deficit. A key priority is to ensure that budgetary execution adheres to spending limits and safeguards the quality of public expenditure. Directors also stressed the need to improve the performance of non-oil revenues, which will require sustained attention to tax and customs administration reform.

Directors considered that the continued saving of a significant part of hydrocarbon revenues is critical to generate investment income to replace oil revenues that will decline over time. They emphasized the importance of Equatorial Guinea fulfilling its obligations within the monetary union to remit fiscal savings to the BEAC. Directors called on the authorities to work with their BEAC partners to reformulate the investment strategy for reserves and to ensure an appropriate return on oil savings.

While recognizing the country’s needs for physical infrastructure, Directors underlined that the authorities’ immediate priority is to reorient capital spending toward human resource development, and to ensure that current spending receives an appropriate allocation to operate and maintain the growing public capital stock. They welcomed the creation of a Social Needs Fund to guide the government’s social welfare activities, and looked forward to implementation

of its programs in 2007. A timely public expenditure review, with World Bank support, should contribute to enhancing the efficiency of public investments and improving social spending.

Directors regretted the lack of progress in public financial management reform, and encouraged the authorities to invigorate their efforts. They underscored the critical role of transparency and accountability in the fiscal accounts and oil sector, in particular through undertaking regular audits of the national oil and gas companies, and publishing the central government budget and its execution, as well as data and information related to the oil and gas sector in accordance with international best practice. In this regard, Directors urged faster progress toward full participation in the Extractive Industries Transparency Initiative.

Directors emphasized the need for clear and transparent implementing regulations for the new hydrocarbons law and tax laws. They encouraged the authorities to move expeditiously to reconcile the fiscal and local content terms of the hydrocarbons law with existing oil sector contracts.

Directors supported the authorities' efforts to strengthen the role of the financial system in private sector development, including by improving access to credit by small- and medium-sized enterprises. They highlighted the need for proper sequencing and integration into the National Development Plan. Directors welcomed the authorities' interest in a national Financial Sector Assessment Program (FSAP), to complement the findings of the regional FSAP. They looked forward to the early operation of the recently-created National Agency for Financial Investigation to counter money laundering and combat the financing of terrorism.

Directors saw Equatorial Guinea's minimal debt service burden and high reserves as key buffers against economic shocks. To preserve the advantages of a strong external position, they cautioned against sizable new borrowing. All external borrowing should be reflected transparently in the fiscal accounts and balance of payments.

Directors noted that Equatorial Guinea's statistical apparatus remains weak and hampers macroeconomic analysis and policy formulation. They encouraged the authorities to allocate with priority the required resources to enhance the statistical capacity, including by establishing a National Statistical Institute, and to consider participating in the General Data Dissemination System.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

The Republic of Equatorial Guinea: Selected Economic Indicators

	2003	2004	2005	2006 Prel.	2007 Proj.
	(Annual percentage change)				
Production, prices, and money					
Real GDP	11.6	31.7	6.7	-5.2	10.3
Oil and gas GDP (excluding hydrocarbons secondary production)	13.4	35.2	3.3	-10.2	2.4
Non-oil GDP (including hydrocarbons secondary production)	3.7	15.4	25.8	17.6	37.8
Hydrocarbons production (thousand of barrels of oil equivalent per day)	283.1	381.9	402.6	365.8	408.4
Oil and gas primary production ¹	262.2	354.5	366.2	328.7	336.4
Hydrocarbons secondary production ²	21.0	27.4	36.4	37.2	71.9
Consumer prices (end of period)	5.9	5.1	3.2	3.8	6.1
Broad money	56.7	33.5	34.7	14.1	28.3
	(Percent of GDP, unless otherwise specified)				
Government operations					
Overall balance after grants (cash basis)	11.6	12.5	19.3	23.4	22.7
Non-oil primary balance (cash basis, percent of non-oil GDP) ³	-44.4	-73.9	-64.3	-64.4	-63.8
	(Millions of U.S. dollars)				
Gross official foreign assets	891	1,633	2,922	5,175	7,273
Reserve assets at the BEAC	231	930	2,113	3,076	4,380
Government bank deposits abroad	659	703	809	2,099	2,893
	(Percent of GDP, unless otherwise specified)				
External sector					
Current account balance (including official transfers; deficit -)	-33.3	-21.9	-5.5	4.4	2.4
Outstanding medium- and long-term public debt	9.3	6.0	3.4	1.7	1.3
Real effective exchange rate (annual average percentage change) ⁴	16.9	7.0	2.7	2.4	...

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

¹ Including oil equivalent of gas.

² Including oil equivalent of LNG, LPG, butane, propane, and methanol.

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

⁴ Negative values indicate depreciation.

**Statement by Laurean W. Rutayisire, Executive Director
for Republic of Equatorial Guinea
June 8, 2007**

On behalf of my Equatoguinean authorities, I would like to thank Executive Directors and Management for their continued support. I also would like to convey my authorities' appreciation to staff for the policy advice, and for the constructive discussions held in Malabo.

Equatorial Guinea's economy continues to be dominated by the oil sector, in spite of slight decline in 2006 production. This decline was attributed to three main reasons: (i) the country's largest oil field of Exxon Mobil has experienced decreasing production pace since 2005, which continued in 2006; (ii) the new UN International Uniform Industrial Classification (CIU) of economic activities that places all oil derivatives under non oil sector - LNG, LPG, Propane, Methanol, and Butane all are considered non oil outputs and; (iii) the two months break in Methanol production activities due to mechanical problems. As a result, the real GDP decreased by about 4.9 percent of GDP, while the non oil sector remained strong. Agricultural activities for instance, grew by 6 percent. The average inflation rate remained almost the same as last year at 4.5 percent in 2006, against 4.8 percent the previous year.

Thanks to high international prices of export commodities and tight fiscal policy, Equatorial Guinea's economy experienced high fiscal revenues of 23.4 percent of GDP, a robust balance of payments, and a very comfortable external position at the end 2006.

The authorities have taken steps to ensure an efficient use of these buoyant revenues, and creating the basis for economic diversification. To this end, the authorities have expressed their determination to continue working closely with the Fund in order to establish a policy of permanent income that would align capital expenditure to non-oil GDP growth rate, address budgetary weakness, and further target inflationary pressures up to the CEMAC regional level.

Short-Term Outlook

The authorities are optimistic with the near term economic outlook that may be boosted by additional production from Okume oil field. This new facility discovered by Amerada Hess started its commercial production in December last year, with over 30 thousand barrels of crude oil per day, expected to double by end 2007. In addition, the 25 percent of government share from the liquefied natural gas (LNG) represents another source of revenue. This plant is expected to produce 4,607 million btu/year. On May 24, 2007, Marathon Oil Corporation and Equatorial Guinea's government representatives announced the delivery of the first cargo of LNG from Bioko Island, with 6 months ahead of anticipated time.

Assuming that no mechanical problem will interrupt Methanol plant again, and that all existing production facilities will continue at their actual production pace, including derivatives, the projected overall production output justifies the authorities' optimistic view of Equatorial Guinea's economic outlook. This optimism is shared by staff that estimates the average growth rate of all production sources to rebound at 11 percent of 2007 real GDP.

Social Sectors and Development Plan

In an April 2006 Memorandum of Understanding (MOU), the government of Equatorial Guinea and the USAID created a Social Fund intended to guide all government social activities. This Social Fund has identified essential priority areas to be added to the government existing social programs, including education, health, running water, environment, local governments, and women promotion. Most of the Social Fund's governance structure has been completed, except for the appointment of three foreign resident Advisors specialized in social development. The authorities are working on this last requirement to make the body operative.

The government has already included in its 2007 budget the USD 72 million (approximately 0.08% of GDP) cost for this year activities of the Social Fund. The authorities also have indicated their intent to work in close coordination with the Social Fund to strengthen capacities within Ministries responsible for social development projects. The Social Fund is expected to start financing implementation of projects by mid-2007, with the motto of one project at the time, to ensure efficiency. Other activities carried out by the government on this ground include the following:

- In May 2007, the government organized a second workshop in Bata – *Equatorial Guinea horizon 2020-*, to discuss the national development plan (NDP) that will guide the authorities' overall spending, taking account of the depleting nature of oil and gas resources. IMF staff attended the first and kick-off workshop on the NDP. The authorities expect their efforts on social sectors to help the country meet the Millennium Development Goals (MDGs). In that regard, the recent completion of a household survey will help the authorities assess progress made and monitor key indicators on alphabetization, life expectancy, infantile and maternal mortality, and other areas identified by the MDGs.
- The National Development Plan (NDP), now being formulated, will guide the government overall spending policies. In general, this strategy will have two main prongs: (i) fiscal policy aimed at improving the non-oil primary balance, thereby containing inflationary pressures and real exchange rate appreciation, and improving long-run fiscal sustainability; and (ii) structural reforms aimed at raising productivity and enhancing external competitiveness. The economic diversification into hydrocarbon derivatives should bolster longer-term growth and fiscal sustainability.

However, the authorities agreed with staff that reforms to stimulate growth in different sectors are necessary to generate jobs and further poverty reduction. Likewise, the authorities agreed with staff that this is the right time to start moving quickly in this direction, as the country has accumulated adequate resources to hasten progress toward the achievement of the MDGs.

Fiscal Policy and Reforms

On the fiscal front, Equatorial Guinea's policy is driven by the government determination to diversify the economy. To achieve this goal, the authorities increased capital expenditures by over 30 percent and 19 percent in 2005/06, and 2006/07, respectively. For instance, the 2006 three-year rolling plan of Public Investment Program (PIP) for capital spending considerably exceeded its budget. The over execution reflected unbudgeted allocations of funds to highways and urban infrastructures (36%), housing and public administration (17%), hydrocarbon sector (16.7%), and air and sea infrastructures and industry (15.8%).

Additionally, a number of social projects also took off, including renovation of schools, the national university, health facilities, and the construction of the country's first modern hospital in Bata. The non-oil primary deficit was reduced to about 64 percent of non-oil GDP.

On the revenue side, net collection was robust, reflecting high oil prices, albeit the slowdown in oil production during the 2005/06 compared to the 2004/05 fiscal year. Consequently, the government deposits at the BEAC further increased reaching USD 3.1 billion, while those in foreign commercial banks amounted to USD 2.1 billion, at end-2006. Complying with CEMAC regulations, the authorities expressed their intention to bring all their foreign deposits to the BEAC, hoping that the ongoing reforms within this central bank would lead to competitive remunerations for all public deposits in the BEAC.

Under their reform agenda, and well aware of the limited scope of oil and gas resources, the authorities are taking corrective measures to ensure long term fiscal sustainability. These measures include the new and more comprehensive 2006 Hydrocarbon Law, and the underway National Development Plan that would guide public spending to targeted areas, align capital spending with non-oil GDP growth rate, and set a policy of Permanent income beyond oil production era. These two initiatives constitute the core reform strategies through which the authorities intend to set up a reliable fiscal safety net. Regarding the new hydrocarbon law, some implementation aspects are still to be discussed between oil companies and the government, including a transitory clause that would give the Ministry of Mines the power to review and renegotiate any existing signed contract and adapt it to the new regulation.

As for the concern of aligning the spending pace with the non-oil GDP growth rate through the hypothesis of permanent income (PIH), the authorities have requested IMF assistance on

designing a financial program on that matter. Likewise, the authorities have initiated a number of actions to address the prevailing weaknesses in public finance management and transparency. The authorities have requested Fund assistance in this area, with the view of fostering spending control, and improving the quality of public spending.

To improve financial transparency and accountability, the authorities have recently engaged in a process to appoint an audit firm to audit the oil sector. The authorities have also requested World Bank assistance in providing them with a resident Advisor that will help them move expeditiously toward fulfilling the few remaining required preconditions for EITI Initiative.

Financial and Monetary Policy

While limited sterilization has resulted into the monetary situation being dominated by fiscal expansion and balance of payments, nevertheless, money supply growth experienced a reduction of about 5.4 percent in 2006, especially following the government transfer of some of its deposits from commercial banks to BEAC, causing M2 to decrease by 14.1 percent. Private sector credit also grew at a normal rate.

The financial sector of Equatorial Guinea is dominated by a few and less developed commercial banks. The authorities have created the National Bank of Equatorial Guinea (BANGE) to encourage competitiveness, innovation, and improve access to credit. The shares of this bank are held both by the public (35 percent) and the private sectors, with the latest being the majority. Accordingly, the sector has experienced improvement in capital placements, bank activities, and increased competition, compared to the deteriorating path suffered from the past.

Technical Assistance

In order to improve their public management system limitations, the authorities signed a Technical Assistance on June 2006 with the IMF. The Agreement consisted on hiring two resident Advisors, one for Public Finance Management, and the other for Macro Fiscal Analysis. Equatorial Guinea was to pay the full amount of the service delivered under this Agreement through the reimbursement system. Some progress was reported up to April 2007 when some private security issues caused the Advisors to leave the country. My Equatoguinean authorities and the Fund have exchanged letters on this matter, as well as on the conduct of the advisors' activities, especially the implications of Fund's Back-stopping policy. A decision on the future of the agreement is still pending.

As second area of TA, the authorities also have asked the Fund to help them get a better remuneration of their reserves. A Fund study that could provide the authorities with diverse

options regarding their BEAC's deposits, versus other competitive markets, would be very helpful.

Conclusion

My authorities have once again demonstrated their commitment to policies and their willingness to collaborate with the Fund on key issues facing Equatorial Guinea's economy. There have been commendable achievements on the path of reforms, economic prosperity and poverty reduction. Still, more needs to be done with the aim of diversifying the economy beyond the oil sector.

In view of the satisfactory fiscal performance in the past periods, the broad commitment of the authorities to implement structural reforms, I will appreciate the Board's support for the completion of the 2007 article IV consultation with Equatorial Guinea. My authorities continue to count on the Fund's support to achieve their development goals.

View of the authorities of Equatorial Guinea on IMF Staff's 2007 Article IV Consultation Report

The Equatoguinean authorities agree with much of the staff's 2007 Article IV report and assessment. However, we strongly disagree with the report's conclusion regarding real GDP growth rate in 2006 which, according to the report, was -5.2 percent. The authorities' estimate of growth is 5.3 percent. The authorities expect that over time as the methodology and source data are improved, we will arrive at a better measure of GDP, which could lead to a substantial upward revision of growth estimates for recent years.

The authorities consent to the publication of the staff report conditional to the inclusion of this note and look forward to future reconciliation of the methodologies and estimates.