

**EXECUTIVE
BOARD
MEETING**

EBS/21/80
Correction 1

September 14, 2021

To: Members of the Executive Board

From: The Secretary

Subject: **Republic of Equatorial Guinea—Request for Purchase Under the Rapid Financing Instrument**

Board Action: The attached corrections to EBS/21/80 (9/1/21) have been provided by the staff:

Evident Ambiguity

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Factual Errors Not Affecting the Presentation of Staff's Analysis or Views

Pages 9 and 27

Questions:

Ms. Colacelli, AFR (ext. 36090)
Mr. Nicholls, AFR (ext. 38514)
Mr. Amui, AFR (ext. 39690)

6. Fiscal balances are expected to deteriorate sharply in 2021. The overall balance is now projected at -0.8 percent of GDP for 2021, compared to a surplus of 1.6 percent under the EFF-supported program. Emergency measures to respond to the Bata mass casualty event (including spending to meet the immediate needs of the affected population) are projected to increase spending by 1.1 percent of GDP. At the same time, lower economic activity due to disruptions from the Bata explosions and the COVID-19 pandemic, is projected to result in a 2.0 percent of GDP fall in non-hydrocarbon revenues. The combined effect of revenue losses and increased expenditure associated with the Bata explosions and the COVID-19 pandemic are expected to weaken the non-hydrocarbon primary fiscal balance by 3.4 percent of GDP relative to the EFF-supported program projection.

7. The Bata explosions and the COVID-19 pandemic have created an urgent balance of payments (BOP) need. Higher oil

prices in 2021 are expected to only partially mitigate the urgent BOP need. Indeed, through end-December 2020, net foreign assets (NFA) at the BEAC declined by CFAF 143 billion from their end-2019 level, to negative CFAF 267 billion, as the government drew down deposits in the face of lower revenues and increased expenditure related to the pandemic. Overall, the external current account deficit is expected to widen to 4.3 percent of GDP in 2021, compared to 3.8 percent projected under the EFF. Foreign

direct investment inflows are projected to fall, as companies respond to the increased uncertainties in the wake of the pandemic. At the same time, the need to import construction materials to rehabilitate and rebuild destroyed property and infrastructure in Bata, together with emergency assistance and COVID-19 inputs, is expected to more than offset the import-depressing impact of the pandemic, leading to higher imports. The weakening of the current and capital accounts will cause a further substantial strain in Equatorial Guinea's NFA at the BEAC, keeping it in negative territory. The BOP financing need created by the 2021 shocks is estimated at about CFAF 206 billion (3.1 percent of GDP), with a government financing need of CFAF 275 billion (4.1 percent of GDP) (Text Table 4).

Text Table 4. Change in Fiscal and External Financing Requirements in 2021, Compared to EFF
(Billion CFA francs, unless otherwise stated)

	Fiscal	External
Impact of COVID-19 and Bata incident (I)	167	153
Lower hydrocarbon revenue / higher exports	-46	-204
Lower non-hydrocarbon revenue net of grants	138	
COVID and Bata-incident-related spending / higher imports	87	83
Other spending / higher imports (incl. goods, services, income & transfers)	-12	143
Lower foreign direct investment		131
Change in other financial outflows (II)	107	53
Amortizations (net)	2	2
External Arrears payment	95	95
Change in reserves		-44
Other (net)	11	
Overall financing needs change relative to EFF (III = I + II)	275	206
Financing sources (IV)	139	70
Net deposit accumulation/government deposit repatriation	56	20
Arrear payments	54	
Program financing	28	28
Lower net accumulation of foreign private assets (incl. banks)		1
Other capital flows (net)		21
Residual gap (V = III - IV)	136	136
in million US dollars	252	252

Source: IMF staff calculations

reconstruction and COVID-related spending. The authorities indicated that they will cover the new financing needs through RFI assistance and other emergency support, including from the African Development Bank (AfDB). They indicated that discussions with other institutions are currently ongoing to determine the size and timing of this support. The authorities are also reducing government deposit accumulation at the BEAC and cash payments on domestic arrears, compared to the December 2019 program. The lower deposit accumulation will be accompanied by the repatriation of government financial assets held abroad between 2021 and end-2023—with the authorities making efforts to repatriate them as soon as they become available (this action was an end-2020 commitment under the EFF-supported arrangement).³ The authorities indicated that, if downside risks materialize or external financial support is lower than expected, they stand ready to further reduce non-priority current and capital expenditures and revise the budget. These issues will be revisited in the context of discussions for the first review under the off-track EFF-supported program, for which the authorities have indicated their continued commitment in their program relationship with the Fund.

- *SDR Allocation.* A balance of payments gap remains even after approval of the SDR allocation by the IMF Board of Governors. Notably, the size of the 2021-22 residual external financing gap is higher than the SDR allocation (even before any regional decision on BEAC reserve accumulation), with a projected external residual financing gap of about \$335 million (compared to an SDR allocation of about \$215 million) assuming that the projected RFI, EFF, and AfDB disbursements are made over 2021-22 (Table 6). At this stage, the authorities have not decided the potential specific use of the SDR allocations resources. As in other CEMAC countries and in line with the recently concluded discussions on CEMAC's regional policies, the possible use of SDR allocations resources will be discussed in the context of the first review under the EFF. These potential uses will need to be consistent with regional policy objectives, including rebuilding regional reserves, while taking into account any possible additional urgent pandemic-related needs and domestic financing constraints.

12. The authorities continue working to clear government arrears, despite the challenges posed by the COVID-19 pandemic. They agree that it is imperative to finalize the settlement of validated domestic arrears through securitization, which will be accompanied by cash payments on small debts. With the assistance of legal and financial advisors they expect to conclude this process and issue securities at market rates by the second half of 2021. They share staff's assessment that the timely settlement of these obligations is key to reducing NPLs and helping strengthen banks' liquidity and solvency positions, thus ensuring that the banking system can function effectively as well as support the recovery of the non-hydrocarbon sector. The authorities are committed to ensuring the full recapitalization of the country's largest bank, as well as ensuring its independent governance, at arm's length from the government. On external arrears, the authorities are advancing talks with Spain and Belgium, with the aim of clearing arrears to [Spain and Belgium](#) before the first review of the extended arrangement under the EFF. The authorities also have external arrears to a

³ The repatriation of foreign assets will partly cushion the impact of lower private sector claims and government deposit accumulation on Equatorial Guinea's imputed reserves at the BEAC, relative to the 2019 EFF Staff Report.

Table 6. Equatorial Guinea: External Financing Requirements, 2019–22
(In millions of U.S. dollars, unless otherwise indicated)

	2019		2020		2021		2022	
	Prog.	Est.	Prog.	Est.	Prog.	Proj.	Prog.	Proj.
1. Total financing requirements	760	491	1,057	398	978	1,372	974	1,075
Current account deficit	678	691	667	634	455	529	482	626
Trade balance	2,354	2,379	2,074	1,367	2,173	2,426	1,942	1,982
Exports	4,191	4,228	3,845	2,793	3,649	4,319	3,246	3,553
Imports	-1,837	-1,848	-1,771	-1,426	-1,476	-1,893	-1,304	-1,571
Services (net)	-1,247	-1,258	-1,134	-755	-1,096	-1,233	-1,027	-1,130
Income (net)	-1,450	-1,477	-1,280	-936	-1,205	-1,381	-1,074	-1,133
Transfers (net)	-335	-335	-327	-309	-327	-341	-322	-344
Debt amortization	148	205	173	164	148	163	210	209
Net change in external arrears (increase = -)	-80	-115	-80	-51	0	177	0	0
Net change in government deposits abroad (increase = +)	-112	-128	-223	-101	0	-37	0	0
Net change in net reserves (increase = +)	126	-161	441	-248	375	540	282	239
2. Total financing sources	719	451	852	398	773	845	793	596
Capital transfers	0	0	0	0	0	0	0	0
Foreign direct investment (net)	410	410	590	269	636	445	617	444
Portfolio investment (net)	-2	-2	-2	-2	-2	-2	-2	-2
Debt financing	85	92	255	208	172	186	174	188
Public sector	85	92	255	208	172	186	174	188
Commercial banks' capital flows	121	138	2	59	2	1	-2	0
Other net capital inflows ¹	105	-187	6	-136	-36	216	7	-35
Errors and omissions	0	0	0	0	0	0	0	0
3. Financing gap	40	40	205	0	205	527	180	479
4. Identified Financing	40	40	205	0	205	274	180	329
IMF	40	40	81	0	81	170	81	86
AFDB	0	0	124	0	124	104	99	244
5. RFI	0	0	68
5. Residual	0	0	0	0	0	184	0	150

Source: IMF staff estimates

¹Includes the SDR allocation