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July 21, 2022

**Statement by Ms. Vumendlini and Ms. Nainda on Republic of Equatorial Guinea
(Preliminary)
Executive Board Meeting
July 25, 2022**

We thank staff for the comprehensive report and Messrs. Andrianarivelo, Sidi Bouna and Ondo Bile for their helpful Buff statement.

While Equatorial Guinea’s economy is set to recover in 2022 on the back of higher oil prices, risks to the outlook are tilted to the downside, considering the significantly weak macroeconomic position, which is delaying potential growth. The severe economic disruptions following the COVID-19 outbreak and Bata explosions are being aggravated by the ongoing shocks, further complicating Equatorial Guinea’s outlook. In this context, authorities should reprioritize near-term measures to cushion vulnerable households against the soaring food prices, while taking advantage of the high international oil prices to rebuild buffers. In the medium-term, ensuring resumption of the long-standing structural reforms would help promote economic diversification, improve the business climate, increase human capital investment and reduce inequalities. To this end, *could staff comment on the likelihood of the authorities’ re-engagement under the Fund program and to what extent the multiple shocks experienced over the last two years could’ve contributed to the program going off-track?*

On the fiscal front, we welcome the authorities’ efforts to use some of the windfall from higher oil prices to provide temporary relief from higher food prices, while advancing work on medium term fiscal policies to re-build buffers in line with the CEMAC strategy.

The near-term risks from the skyrocketing food prices are affecting purchasing power and could lead to serious social tensions. As such, we welcome the authorities’ focus to mitigate the food price increase through subsidies for key food items and reduce incidences of malnutrition. Beyond the short-term measures, we agree that the fiscal adjustment in the medium term should respond to the projected decline in hydrocarbon output. In this regard, we are concerned about the slow pace of diversification, which has significantly limited economic transformation and placed the economy vulnerable to exogenous shocks. Like

staff, we urge the authorities to ensure debt sustainability in light of the substantial risks. In this context, the ongoing efforts to settle arrears and strengthen debt management are noteworthy and should be sustained.

Managing the vulnerabilities in the banking sector should be a priority. Addressing risks and vulnerabilities in the banking sector would effectively contribute to both domestic liquidity and enhance stability of the regional central bank. More specifically, we wish to re-emphasize that the authorities should urgently implement measures to deal with the elevated levels of non-performing loans, undercapitalization, and liquidity pressures including through settling of domestic arrears, recapitalization and restructuring of the country's weak banks. In this regard, *could staff shed more light on the cited ongoing cooperation with the regional authorities to support financial sector soundness and regulatory compliance, including provisional timelines on this work.*

The mixed progress in the implementation of macro-critical governance reforms is worrisome. Staff comprehensively outlined in Table 1 the challenges faced by Equatorial Guinea in the areas of transparency, governance, and corruption. As previously underscored, stronger actions are needed to address the identified vulnerabilities and the long-standing institutional weaknesses and make progress to secure development gains. To this end, we encourage the authorities to push ahead with the publication of the public procurement contracts, along with the timely publication of economic data to enable adequate monitoring and timely diagnosis. We also encourage the country team to work closely with the authorities to help advance work on governance issues and provide TA support where necessary.