EXECUTIVE BOARD MEETING

EBS/21/80
Correction 2

September 16, 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 correction to EBS/21/80 (9/1/21) has been provided by the staff:
Factual Errors Not Affecting the Presentation of Staff's Analysis or Views	**Page 33**
Questions:	Ms. Colacelli, AFR (ext. 36090) Mr. Nicholls, AFR (ext. 38514) Mr. Amui, AFR (ext. 39690)

3. **Gross financing needs are higher than under the December 2019 DSA.** As shown in the Text Table, the weaker baselines for both the debt ratio and gross financing needs reflects three factors: (i) lower hydrocarbon-related revenues over the projection horizon; (ii) weaker non-hydrocarbon primary balance broadly in line with higher public spending to combat the COVID-19 virus and finance the explosion-related expenses; and (iii) higher debt amortizations, as a result of higher prior year deficits.

4. **Despite the weaker outlook, staff assess Equatorial Guinea's public debt as sustainable:**

- **At the core is the authorities' commitment to the EFF-supported program.** Once the emergency phase of the Bata rehabilitation and the COVID-19 crisis passes (including the cost of vaccines), resumption of growth-friendly fiscal adjustment embedded in the program would put debt on a firm downward trajectory and reduce gross financing needs. Under the EFF-supported program the authorities had committed to an ambitious but necessary adjustment to put public debt on a sustainable path, while protecting social spending. The proposed adjustment remains feasible, once the crisis passes, given the already substantial adjustment that the authorities have undertaken during 2014-2019, primarily through the reduction of capital spending, and their commitment to bring the EFF-supported program back on track.

- **Growth is expected to strengthen over the medium term.** After six consecutive years of negative growth averaging -6.8 percent during 2015 to 2020, average growth is projected to become less negative for the next ten years, averaging 0.3 percent from 2021 to 2030 (compared with -0.1 percent in the EFF DSA). This improved growth outlook is driven by new projects and output projections that would slow the pace of output decline in the hydrocarbon sector. Moreover, as these projections are conservative and do not fully reflect the expected hydrocarbon output increases, overall growth over the medium term could be higher than contained in the macro framework. This would also have a positive impact on government revenue and the debt ratios.

- **The authorities have outlined a plan for economic diversification that should make the economy and public finances less dependent on the fortunes of the hydrocarbon sector.** In this context, they have begun to reform the environment for doing business to make it conducive to a thriving private sector. Other plans are for the creation of an investment promotion agency and a one-stop shop for external trade.

- **The authorities continue working to clear government arrears, despite the challenges posed by the COVID-19 pandemic.** The authorities continue to work on the securitization steps, including on quantifying construction companies' past-due tax obligations (to be netted out before the securitization) in preparation for the execution of the transaction before the first EFF review. It is expected that this operation could provide a boost to liquidity in the banking system and help to revive lending to the private sector. On external arrears, the authorities indicated that they are advancing talks with Spain and Belgium, with the aim of clearing arrears to Spain and Belgium before the first review of the EFF. The authorities also have external arrears to a Chinese commercial entity.