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November 3, 2008

**The Acting Chair's Summing Up
Republic of Equatorial Guinea—2008 Article IV Consultation
Executive Board Meeting 08/95
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Executive Directors agreed with the thrust of the staff appraisal. They welcomed Equatorial Guinea's recent robust economic performance and sound macroeconomic policies that have strengthened fiscal sustainability. While medium-term prospects are favorable and there has been some diversification within the petroleum industry, the economy remains susceptible to swings in the price of oil. Directors emphasized that a strengthening of governance and transparency and steps toward creating a more conducive business environment will be critical to sustain growth, promote economic diversification and private sector development, generate employment, and reduce poverty, which remains widespread.

Directors welcomed the National Development Plan, which provides an appropriate framework for economic and institutional reforms to diversify the economy and enhance external competitiveness. The Plan's focus on reducing the non-oil fiscal deficit is commendable, and will help to contain inflation and to achieve long-run fiscal sustainability. Directors were concerned that the proposed 2009 budget is overly expansionary, and that it contains only a small increase in the share of spending for social sectors.

Most Directors suggested reining-in capital spending on less pressing infrastructure projects, while at the same time giving greater emphasis to human resource development in order to raise the employment potential of nationals, reduce poverty, and help prepare for the future tailing-off of oil production. Directors called for initiating rapidly the programs of the Social Development Fund aimed at achieving the Millennium Development Goals. They looked forward to the public expenditure review that is to be undertaken by the World Bank.

Directors welcomed recent efforts to improve tax and customs administration, but noted the scope to strengthen fiscal management and transparency as a means to promote high-quality public spending and increase non-oil revenues. Public financial management reforms need to be accelerated. Directors encouraged the authorities to work with the World Bank and civil society organizations with the aim of pressing ahead more rapidly with the Extractive Industries Transparency Initiative (EITI), and of issuing the first EITI report for Equatorial Guinea in 2009.

The authorities are committed to working with Central African Economic and Monetary Community (CEMAC) partners to improve the governance and management of the regional central bank (BEAC). Directors encouraged the authorities to remit Equatorial Guinea's official offshore assets to the BEAC and to develop a prudent strategy for managing the country's growing asset portfolio.

Directors considered that the pegged exchange rate regime has served Equatorial Guinea well, and remains an appropriate anchor for macroeconomic stability. They observed that the real exchange rate has appreciated significantly, consistent with recent movements in the terms of trade. Going forward, it will be important for the authorities to focus their efforts on enhancing productivity and improving competitiveness by pressing ahead with structural reforms and maintaining a sound fiscal stance.

Equatorial Guinea's banking sector appears generally sound, with improvements in the financial soundness indicators. Directors emphasized the importance of intensifying and extending financial intermediation over the medium term, and of ensuring that small and medium-sized businesses gain access to needed credit. They looked forward to the operationalization of the National Agency for Financial Investigation in 2009 as part of efforts to counter money-laundering and the financing of terrorism.

Directors emphasized the need to foster a supportive climate for private sector and foreign direct investment, in part through legislation that aims to reinforce confidence and safeguard the competitiveness of Equatorial Guinea's oil and other investments.

Directors welcomed recent progress in improving statistics, but much work remains to be done to ensure the adequacy of current data for surveillance. They encouraged the authorities to establish speedily the National Statistical Institute and to ensure that it has sufficient capacity to collect and analyze data.

It is expected that the next Article IV consultation with Equatorial Guinea will be held on the standard 12-month cycle.