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IMF Executive Board Concludes 2008 Article IV Consultation with the Republic of Equatorial Guinea

On November 3, 2008 the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Equatorial Guinea.[1]

Background

Equatorial Guinea's petroleum-based economy has become an important contributor to growth in central Africa. The National Development Plan (NDP) adopted in 2007 will guide the government's economic strategy until 2020.

Economic growth recovered sharply in 2007. The opening of a new oil field in late 2006 and a liquefied natural gas facility in mid 2007, supported by increased public infrastructure spending, lifted 2007 economic growth to an estimated 21.4 percent. In 2008, despite a small decrease in primary extraction of oil, a full year of liquefied natural gas production is expected to lead to moderate growth. Rising international food and oil prices are contributing to inflationary pressures. The price for staple foods rose sharply in 2007, while the strong euro, lagged adjustment of refined fuel prices, public spending restraint, and better monetary management helped avoid a sharp rise in prices. Inflation is expected to jump in 2008, mainly because of pent up pressures from rising import prices.

[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.

High oil, gas, and derivatives prices contributed to a strong external current account and a balance of payments surplus in 2007. Gross official foreign assets, held in both the Bank of Central African States (BEAC) and abroad, rose to about 21 months of non-oil imports of goods and services by the end of 2007. The current account and balance of payments are expected to strengthen in 2008, reflecting the rise in oil prices.

The fiscal surplus was high though it narrowed in 2007 as a result of increased capital spending and some weakening of revenues relative to GDP. The non-oil primary deficit, a key fiscal indicator, improved to 49.7 percent of non-oil GDP, reflecting budgetary restraint and growth of non-oil GDP. The 2008 non-oil deficit is expected to decline slightly, with only a minor weakening of the overall fiscal surplus.

Implementation of the Social Development Fund has been slow. About twelve projects were agreed on, to be implemented with assistance from the U.S. Agency for International Development (USAID), in education, health, water and sewerage, gender equality, and community development. Funds were allocated in the 2008 budget but the government has yet to approve their disbursement so work can begin.

A number of measures are being taken to improve tax and customs administration, including the use of pre-shipment inspection. In late 2007, the authorities met the nominal requirement for civil society participation in the Extractive Industries Transparency Initiative (EITI), but have not yet met the substantive requirement. A World Bank advisor is expected soon to begin training civil society and establishing a terms of reference for the aggregator as a preliminary to preparing the first report.

Financial soundness indicators show a reduction in nonperforming loans and increased returns on both assets and equity in 2007. Bank lending rates have come down in real terms reflecting a more competitive environment, but lending is mainly concentrated in public infrastructure projects. Consumer credit remains modest.

Executive Board Assessment

Executive Directors 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 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.

The Republic of Equatorial Guinea: Selected Economic Indicators

	2004	2005	2006	2007 Prel.	2008 Proj.
	(Annual percentage change)				
Production, prices, and money					
Real GDP	38.0	9.7	1.3	21.4	7.4
Oil and gas GDP (excluding hydrocarbons secondary production)	40.4	6.7	-6.4	11.9	2.5
Non-oil GDP (including hydrocarbons secondary production)	28.4	22.8	29.8	47.2	17.6
Hydrocarbons production (thousand of barrels of oil equivalent per day)	378.4	401.7	382.0	459.8	464.7
Oil and gas primary production [1]	351.0	367.4	344.8	356.8	335.2
Hydrocarbons secondary production [2]	27.4	34.2	37.3	103.0	129.5
Consumer prices (end of period)	5.1	3.2	3.8	3.7	6.0
Broad money	33.5	34.7	14.1	41.3	38.2
	(Percent of GDP, unless otherwise specified)				
Government operations					
Overall balance after grants (cash basis)	12.2	20.4	23.4	19.2	17.1
Non-oil primary balance (cash basis, percent of non-oil GDP) [3]	-64.2	-60.9	-54.6	-49.7	-47.4
	(Millions of U.S. dollars)				
Gross official foreign assets	1,648	2,911	5,078	7,057	8,472
Reserve assets at the BEAC	945	2,102	3,067	3,846	4,619
Government bank deposits abroad	703	808	2,011	3,211	3,853
	(Percent of GDP, unless otherwise specified)				
External sector					
Current account balance (including official transfers; deficit -)	-21.6	-6.2	7.1	4.3	11.4
Outstanding medium- and long-term public debt	5.6	3.1	1.5	1.0	0.7
Real effective exchange rate (annual average percentage change) [4]	7.0	2.7	2.1	7.1	…

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

[1] Including oil equivalent of gas.

[2] Including oil equivalent of liquefied natural gas, liquefied propane gas, butane, propane, and methanol.

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

[4] Negative values indicate depreciation.