

**Equatorial Guinea: Selected Economic and Financial Indicators**

	2000	2001	2002	2003 Proj.	2004 Proj.
	(Annual percentage change, unless otherwise specified)				
<b>Domestic economy</b>					
Real GDP	18.0	37.5	17.6	14.7	10.2
<i>Of which:</i> non-oil GDP	11.7	3.6	9.8	5.6	8.8
Oil production (thousands of barrels per day) 1/	117.9	205.1	247.0	279.4	315.3
Consumer prices (annual average)	6.0	8.8	7.6	8.0	6.0
<b>External economy</b>					
Exports, f.o.b.	64.4	35.7	22.4	30.4	0.8
Imports, c.i.f.	16.3	65.0	-30.7	23.3	-29.3
Exchange rate (CFA francs per U.S. dollar)	710	732	695	586	...
Real effective exchange rate (depreciation -) 2/	-0.9	6.6	7.4	12.2	...
<b>Financial variables</b>					
Government revenue	108.6	97.3	19.1	38.6	18.1
Government expenditure and net lending	24.6	46.8	46.0	-20.2	-1.1
	(In percent of GDP, unless otherwise specified)				
<b>External economy</b>					
Current account balance (including official transfers; - deficit)	-29.0	-34.4	-8.6	-1.7	13.6
Outstanding medium- and long-term public debt	31.5	22.9	19.1	16.4	16.0
Debt service-to-export ratio	1.2	0.7	0.5	0.3	0.3
<b>Financial variables</b>					
Gross investment	43.9	57.0	29.4	26.8	20.1
Gross national savings	14.9	22.6	20.8	25.1	34.4
Government revenue	19.6	27.7	28.0	33.9	39.7
<i>Of which:</i> oil revenue	16.4	22.8	22.8	28.9	34.1
Government expenditure and net lending	11.8	12.4	15.3	10.6	10.5
Overall government balance (including oil revenue; - deficit)	7.8	15.3	12.6	23.2	29.2
	(In millions of U.S. dollars, unless otherwise specified)				
<b>External economy</b>					
Exports, f.o.b.	1,341	1,819	2,226	2,903	2,926
Imports, c.i.f.	-968	-1,597	-1,107	-1,365	-965
Current account balance	-367	-589	-183	-49	396
Overall balance of payments	36	168	258	553	805
<b>Financial variables</b>					
Gross international reserves (excl. oil reserve fund)	23.0	70.8	70.2	105.1	112.9
(equivalent months of imports, c.i.f.)	0.3	0.5	0.8	0.9	1.4
(equivalent months of non-oil sector imports, c.i.f.)	2.6	4.1	4.7	9.8	12.7

Sources: Equatoguinean authorities; and IMF estimates and projections.

1/ Including oil equivalent of methanol and liquefied gas beginning in 2001.

2/ Period average changes; for 2003, the average of the first half of 2003 over the first half of 2002.

**Statement by Damian Ondo Mafie, Executive Director for  
Republic of Equatorial Guinea  
November 12, 2003**

**Introduction**

I would like to thank staff for a good report on the economy of Equatorial Guinea. The discussions that form the basis of this report have been helpful to my authorities in the design of their macroeconomic policies. My authorities welcome this report, which is being discussed ahead of the next National Economic Conference to be held early next year to evaluate how the government has fulfilled the recommendations of the first Economic Conference held in 1997. That conference which was attended by representatives of all political parties and social organizations took stock of Equatorial Guinea's economic and social situation, and designed an economic strategy for the medium term (1997-2001) to ensure a productive use of the country's natural resources, as well as the country's development. In this context, it set up objectives and priorities for the government in the areas of macroeconomic policies, governance, privatization, private sector development, civil service reforms, among others. It also set social and sectoral objectives. In particular, it made recommendations as regards education, health, environment and women's conditions. The Conference also set priorities in the agricultural, fishing and mining sectors. The next Conference will evaluate the progress achieved in these areas, and will decide on the next strategy to follow.

The surge of oil production in Equatorial Guinea since the mid-1990s has led to rapid growth in GDP and generated large increases in fiscal revenues, which have in turn contributed to considerable fiscal surpluses. It also allowed for a significant improvement in the external current account, and a quick accumulation of foreign reserves. Moreover, external debt indicators have improved and some structural reforms have been implemented, particularly in the forestry area, regional trade, and commercial law.

My authorities recognize that the country's oil wealth provides them with a unique opportunity to establish the foundations for broad-based economic growth and poverty reduction. However, they agree with staff that the oil boom has confronted them with a number of new challenges in economic management. These challenges include the need to ensure that the large oil endowment is translated into tangible benefits for the population, the attainment of a sustainable fiscal position; and the implementation of structural reforms to enhance the development of the non-oil sector and diversify the economy.

In this regard, my authorities have provided all necessary information to facilitate the reconciliation of the discrepancies between the budgetary surplus in 2002 and bank account transactions.

Moreover, there is now an improvement in management of key ministries involved in oil activity. Taking advantage of the improvements in government revenue, the authorities have restructured the Ministry of Mines, the Ministries of Economy and Finance, and the Treasury. These ministries have been also equipped with more qualified personnel and better equipments. At the same time, a system of audit of oil companies, service companies, and

contractors has been put in place. The authorities have also indicated their intention to participate in the Extractive Industries' Transparency Initiative (EITI). All these actions go in the direction of improving tracking of government revenue and better governance.

In the fiscal sector, it is important to stress that following large spending overruns in 2002, steps have been taken towards fiscal consolidation in the first half of 2003, and all revenues are now centralized within the Treasury. My Equatorial Guinea authorities are committed to further spending restraint for the remainder of 2003 and for 2004. The recent adoption of a new finance law should help strengthen fiscal discipline. My authorities also share staff's concerns on the possible effect of "Dutch disease" on the competitiveness of Equatorial Guinea's economy. Taking into account the depletive nature of oil resources, my authorities are determined to implement good macroeconomic management and appropriate structural reforms, in order to turn the country's oil wealth into sustainable development of non-oil sector. However, given the limits of the economy's absorptive capacity and the constraints on implementation skills, Equatorial Guinea will need technical assistance from the international community, in order to fill the gaps in project management capabilities, and to strengthen the management of surplus oil resources for future generations.

Being a member of the CEMAC and the CFA franc zone, Equatorial Guinea has met all the convergence criteria, with the exception of the one related to inflation. My authorities are aware of this problem, and they have set up an Interministerial Committee to deal with the issue, which they attribute to their policy based on large investments in basic and essential social infrastructures, which had not been undertaken in the past due to lack of resources. These investments were for the construction of schools, hospitals, and roads.

### **Economic and financial performance in 2002 and during the first half of 2003**

Equatorial Guinea's economy has continued to perform well since the last Article IV consultation in August 2001. Reflecting a further strong expansion of the oil sector, real GDP grew by 18 percent in 2002, and non-oil GDP rose by almost 10%, owing to strong performance in services to oil sector and construction activity. At 8 percent in 2002, the annual consumer price inflation exceeded the CEMAC's regional target of 3 percent. The sound monetary policy of the regional central bank, *Banque des Etats de l'Afrique Centrale* (BEAC) has helped to keep inflation within single digits. On the external front, although the real effective exchange rate appreciated by 15 percent between end-2001 and mid-2003, the external current account deficit narrowed significantly and is expected to reach near balance in 2003. My authorities are in agreement with staff's suggestions concerning intergenerational equity considerations, and the development of Equatorial Guinea's non-oil sector over the coming years.

In the **fiscal area**, the oil boom has led to rapid budgetary revenue and spending growth, leading to an accumulation in overall surpluses, which averaged 12 percent of GDP between 2002 and mid-2003. However, following public spending overruns in 2002 partly related to investments on social sectors and on infrastructures as noted above, my authorities have, since the first half of 2003, embarked on a process of fiscal consolidation, and overall spending has been brought within budgeted limits.

In the **monetary sector**, reflecting the rise in oil exports, there was a buildup of net foreign assets of the banking system, as the government accumulated deposits with the BEAC and with domestic commercial banks, in addition to growing balances kept in bank accounts abroad. Credit to the economy increased significantly between 2000 and 2002, mainly in the form of bridge financing to construction companies engaged in public works.

### **Macroeconomic policies and objectives for the medium-term**

The macroeconomic objectives for the medium-term aim at generating an average growth rate of GDP of about 13 percent in 2004-08, with oil production expected to reach 556,000 barrels per day by 2008. Surpluses in the external and fiscal accounts are projected to lead to an accumulation of net foreign assets of around US\$9 billion by 2008. The non-oil economy is expected to increase by an average of 8 percent in real terms during 2004-08. My authorities consider the macroeconomic framework proposed by staff as appropriate for the remainder of 2003 and for 2004. This framework aims at reducing pressures on prices and the exchange rate, through a gradual move towards fiscal sustainability.

In the **fiscal area**, there is an agreement between my authorities and staff to maintain overall spending within limits in 2003 and to contain overall spending in 2004 at its 2003 level, in line with the need to move to a sustainable fiscal stance. In order to strengthen the budgetary process, particularly through expenditure tracking and control, a new public finance law was adopted and regulations for public accounting are under preparation. A new draft tax code was prepared, incorporating formerly dispersed legislation into one document. Efforts are being made to regularize external arrears. Following a debt-rescheduling agreement with Russia in 2002, an agreement with Spain has been signed and contacts were initiated with other creditors.

**Monetary policy**, which is conducted by the BEAC, will continue to be prudent and consistent with the net foreign assets target. The BEAC recognizes that the current instruments for liquidity management were unable to help counteract the increase and large swings in liquidity caused by government deposits with domestic commercial banks. Under these circumstances, my authorities share the view that fiscal consolidation and a permanent reduction in government deposits with domestic commercial banks would help control monetary expansion and reduce the scope for excessive credit to the economy. Under the macroeconomic framework for 2003-04, credit to the economy would increase at a moderate rate, also reflecting the current problems in extending loans to local enterprises. It is also important to stress that Equatorial Guinea's banking system remains sound, as reflected by the stability of the share of nonperforming loans in overall loans between end-2001 and March 2003. My authorities will continue to monitor closely the banking system.

My authorities remain determined to pursue efforts to establish full transparency of oil-related transactions. With regard to the public oil company (GEPETROL), its objective is to support the government management of oil resources. It is also important to indicate that use of advance payments on oil revenue has been discontinued.