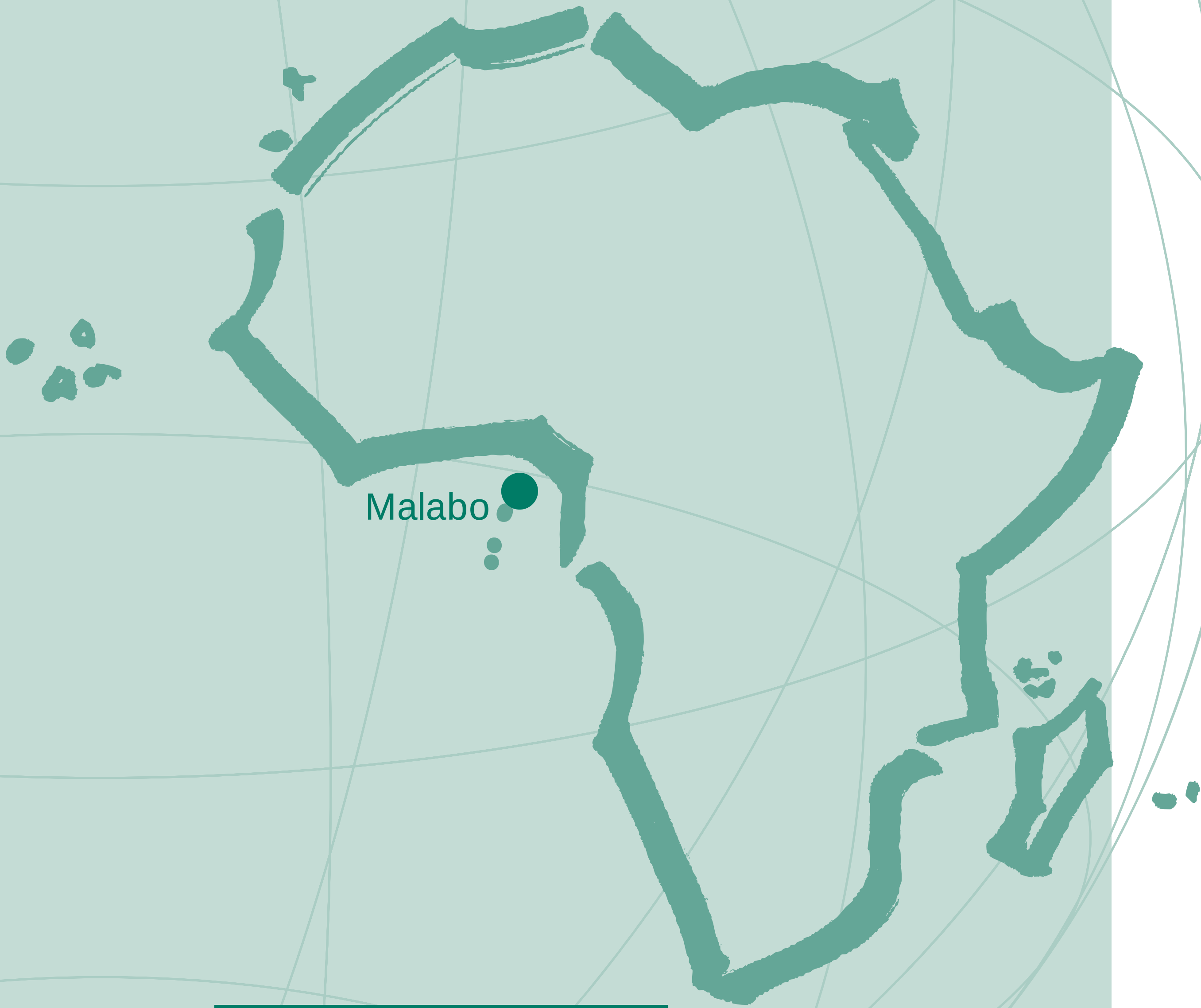
Equatorial Guinea



key figures

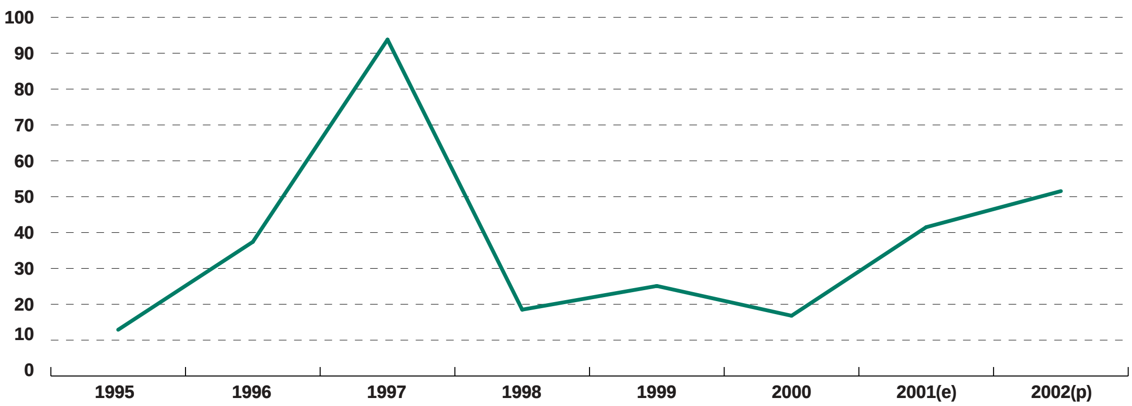
- Land area, thousands of km²: 28
- Population, thousands (2000): 457
- GDP per capita, $ (2000): 2 742
- Life expectancy (1995-2000): 50.0
- Illiteracy rate (2001): 15.8

Equatorial Guinea

THE ONLY SPANISH SPEAKING COUNTRY in the African continent, Equatorial Guinea has registered the highest growth path in Africa in the last five years. Recent large oil discoveries are structurally changing the economy making Equatorial Guinea one of the most oil-dependent countries in the world. 2001 and 2002 should be another two years of exceptional growth of GDP, owing to the sharp increase of oil production during the period. With a population of 450 000 people and oil production likely to reach one fifth of Nigeria's oil production in a few years, the country's main challenge consists of the management of such a rapid and large wealth inflow. Indeed, the spectacular abundance of oil revenues has strained Equatorial Guinea's undersized administration capacity. Lack of consistent and credible data on macroeconomic and financial flows is a significant example of this lack of capacity. The country needs to upgrade its organisational and human resources to create rapidly a modern managerial class which should be, on the one hand, accountable for its decisions and for the financial resources it supervises and, on the other hand, able to invest in infrastructure and help prepare the economy to deal with the post-oil boom development. Implementing anti-poverty strategies will be also a major challenge.

The spectacular abundance of oil revenues has strained Equatorial Guinea's undersized administration capacity

Figure 1 - Real GDP Growth[a]



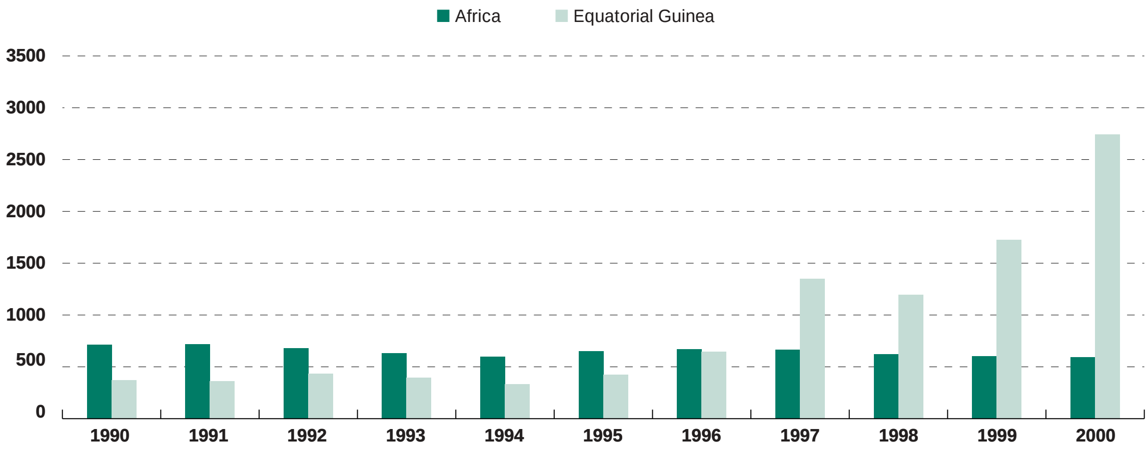
a. The percentage scale is different from the other countries since GDP growth exceeded the level of 10 per cent.
Source: Authors' estimates and predictions based on BEAC and Banque de France data.

Recent Economic Developments

Towards the end of the 1980s, when the first explorations begun, an oil boom of current proportions was not fully expected: large oil revenues did not appear until 1996 when production of an important oil field began, but growth had already been sustained since the beginning of the 1990s.

Then, from an already high average rate of growth of 8.5 per cent over the first part of the 1990s, partly due to the initial oil investments, the country has grown by an average level of 38.3 per cent during the period 1996-2000. This resulted in a deep structural change: the oil sector has gone up from 7 per cent of GDP in 1992 to 83 per cent by the year 2000, and Equatorial Guinea is rapidly becoming a rich oil-exports dependent country.

Figure 2 - GDP Per Capita in Equatorial Guinea and in Africa ($ current)



Source: Authors' estimates based on IMF data.

The general good performance has been further boosted by favourable external conditions, as the large appreciation of the terms of trade of 55.1 per cent clearly shows. Terms of trade improvements are mainly due to a rise of oil and timber prices and to the US dollar appreciation, which positively influenced export prices and helped in buying imports, coming mainly from the Euro area.

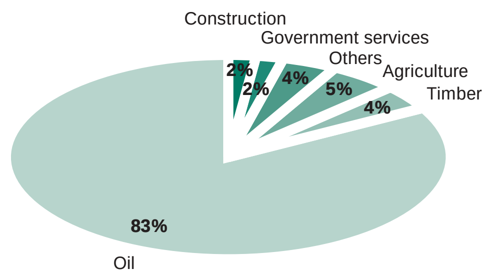
A quick review of the last five years' performance of Equatorial Guinea's economy should include a description of the evolution of its most important sectors: oil, timber and agriculture.

From a level of 6 000 barrel per day (bpd), with the coming on steam of the Zafiro and Alba oil fields in August 1996, oil production has started to become an important and growing resource, and by 2000 the exploitation of oil resources had reached the level of 117 887 bpd. Prospects are even more encouraging since the recent discoveries of other fields and the starting of production in the Jade field in November 2000: total oil production is projected at around 200 000 bpd by 2001 and at nearly 300 000 by 2003. Given its strategic geographic position, the government intends to push forward the ambitious project of making the country a regional centre for oil production services. In particular the implementation of this project includes the construction of the free port of Luba, which should work as a regional hub for the oil service sector of the Gulf of Guinea, and the development of an oil products transformation firm on the island of Bioko. The government strategy is to develop infrastructure and to generate employment that, even if connected with the oil sector, is not strictly dependent on the national extractive activities.

In addition to oil sales, impressive growth rates have been sustained by the rise of investment in the oil sector. Between 1996 and 1999, the oil sector's contribution to GDP growth has been on average 63 per cent and, in 2000, became 72 per cent, as a result of investments in the Zafiro, Alba and Ceiba fields and owing to the intensification of deep-sea explorations.

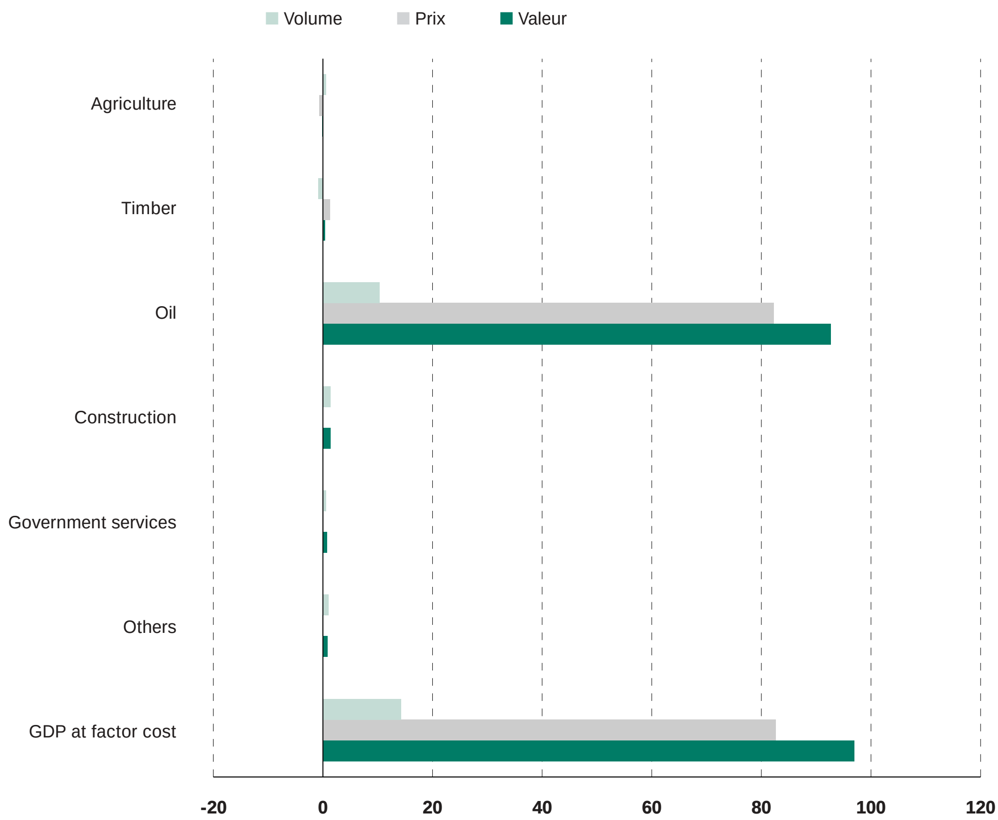
Given the oil sector's direct and indirect incidence in the economy, it is not easy to identify truly oil independent sectors in Equatorial Guinea. Perhaps the traditional timber and tropical agriculture productions, even if they represent a small share of GDP, can be considered the most important non-oil activities. The positive last two years' performance of the timber sector resulted from increased foreign investments (most of the activity is controlled by Chinese and Russian investors) and favourable external environment. Indeed, the positive terms of trade in 1999 and 2000, coupled with an increased external demand following the end of the Asian crisis, have largely influenced the

Figure 3 - GDP by Sector in 2000



Source: Authors'estimates based on domestic authorities' data.

Figure 4 - Sectoral Contribution to GDP Growth in 2000



Source: Authors'estimates based on domestic authorities' data.

developments of this export-oriented sector. Total production has been of 776 000m^3 and 689 000m^3 in 1999 and 2000 respectively after a level of 422 000m^3 in 1998 and around 95 per cent concentrated in logging activities. Processed wood is still in its early stages; however the government is attempting to set up incentives to help its expansion.

Agriculture's growth rate has been stable over the last five years as well as its sectoral composition with around two-thirds of total production in the form of food crops. Cocoa is still the main cash crop that small-scale sharecroppers inherited from Spanish farm owners and foreign labourers who left the country during the mid-1970s. The sector, very sensitive to producer price changes, suffered between 1999 and 2000 a 20 per cent price drop with strong impacts on production levels. These have decreased by 30 per cent in the 1999/2000 season, and by a further 5 per cent in the 2000/2001 season.

In 1999 and 2000, private investment was important for the non-oil economy, too, as investments for the transformation of logs and for the progress of the cocoa regeneration programme (partially supported by the European Union) sustained growth in the timber and cash crop sectors.

Industrial development in Equatorial Guinea is still in its infancy. Most manufactured goods are imported or, when needed as intermediates in other activities, locally produced by foreign ventures. The per capita income, low at least until recently, and the small national market make domestic manufacturing production a non-profitable activity. The oil boom with its increased incomes may somewhat help manufacturing activity if the limitations from insufficient transport infrastructure, the need for skilled human capital, and the risks of Dutch Disease can be eased.

In the last two years, construction gained momentum thanks to the public investment programme on road infrastructure and public building arrangement and to investment in the oil sector. The sector has grown by 19.8 per cent in 1999 and by 62 per cent in 2000 and growth prospects for 2001 are expected around 40 per cent. This evolution is not consistent with demand composition data, insofar as the construction activity principally depends on public capital formation, for which available data report a decline. Given the uncertainty surrounding Equatorial Guinean statistics, this discrepancy can hardly be solved. One possible explanation is that government capital formation, as reported in the government finance statistics, does not include extra-budgetary expenditure, for which recent data are not available, but which represent several percentage points of GDP.

Table 1 - Demand Composition (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Gross capital formation	**54.1**	**69.5**	**64.0**	**56.2**	**43.5**	**33.0**
Public	4.4	9.9	7.4	2.9	2.2	1.7
Private	49.7	59.5	56.7	53.4	41.3	31.3
of which oil sector	44.8	54.8	50.4	43.6		
Consumption	**79.6**	**82.2**	**55.5**	**38.6**	**31.0**	**24.9**
Public	13.1	13.4	6.9	4.6	2.6	2.0
Private	66.5	68.9	48.5	34.0	28.4	22.9
External sector	**-33.7**	**-51.7**	**-19.5**	**5.2**	**25.5**	**42.1**
Exports	56.4	83.8	95.0	102.1	100.1	98.9
Imports	-90.0	-135.5	-114.5	-96.9	-74.6	-56.9

Source: Authors' estimates and predictions based on BEAC and Banque de France data.

Macroeconomic Policy

Fiscal and Monetary Policies

As for the rest of the economy, fiscal policy has been influenced by the development of the oil sector. In recent years the fiscal position has greatly improved: the overall balance has passed from a deficit of 1.3 per cent of GDP in 1998 to a surplus of 15.9 per cent in 2000. Indeed, thanks to a better collection of proceedings from the oil sector, in 2000 total revenues were CFA franc 223.5 billion from a level of CFA franc 87.5 billion of the previous year and CFA franc 15.5 billion in 1995 ($319, $125 and $22 million respectively, at the average exchange rate of 700 CFA franc per dollar). As a result, the government's financial operations are increasingly relying on the oil sector: in 2000 the proportion of oil revenue was 88 per cent of the total value. Non-oil revenues have increased as well owing to the good performance of the timber sector. Overall, revenues in 2000 increased by 155 per cent. Estimates for 2001 are even higher since oil revenues should continue to boost government income. With only modest increases in public expenditures as a percentage of GDP, primary surplus will reach the level of 17.6 and of 18.9 in 2001 and 2002.

On the expenditure side, a four-fold increase of expenses from 1995 to 2000 owing to the extension of pension coverage over the public sector and an expansion of expenditure on wage and salaries — together with a rise in goods and services expenditures — have been responsible for the sharp increase of the total figure. Capital expenditures rose slightly in 1999 (from $42 million — CFA franc 29.4 billion — in 1998 to $53.4 million — CFA franc 37.4 billion — in 1999) for public building arrangements and for the completion of the infrastructure related to the CEMAC — CEEAC summit held in Malabo.

Table 2 - Public Finances (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Total revenue and grants[a]	**16.3**	**24.0**	**18.7**	**25.1**	**24.5**	**24.3**
Oil revenue	2.8	17.6	13.6	22.0		
Tax revenue	10.2	4.9	4.1	2.5	2.3	2.0
Total expenditure and net lending[a]	**21.4**	**25.3**	**17.9**	**9.2**		
Current expenditure[b]	17.5	15.3	9.9	6.3		
Excluding interest	*11.6*	*13.8*	*8.8*	*6.0*	*4.7*	*3.7*
Wages and salaries	4.4	2.4	3.2	1.4	1.2	0.9
Interest on public debt	5.9	1.5	1.1	0.4		
Capital expenditure	1.3	9.9	8.0	2.7	2.2	1.7
Primary balance	**0.8**	**0.2**	**1.9**	**16.2**	**17.6**	**18.9**
Overall balance	**-5.1**	**-1.3**	**0.7**	**15.9**		

a. Only major items are reported.
b. 1995 and 1998 figures include extra-budgetary and unidentified expenditure.
Source: Authors' estimates and predictions based on IMF data.

The central questions about Equatorial Guinea's fiscal policy, i.e. how the fiscal surplus will be used, remain unanswered given the limited disclosure on data regarding oil tax revenues. In fact, even the estimation of their true magnitude is somewhat obscure and the level at which they are recorded in the budget may be undervalued. Unfortunately the uncertainty about the exact amount and destination of oil fiscal revenues is worsened by the lack of transparency surrounding the amounts spent for extra — or exceptional — budgetary expenditures.

In terms of the longer-term economic strategy *(Estrategia Económica de Mediano Plazo* — EEMP), the government defined its public expenditure priorities in an important economic national conference held in Bata in 1997 and then reviewed in 1999 with a mid-term evaluation. This four-year government strategy has targeted four broad areas: infrastructure development, social development, public sector reform, and productive private sector development. Each area has subsequently been articulated into specific goals and actions to be undertaken and the public investment programme *(Programa de Inversión Públic* — PIP) has been conceived to cover transversally the four priorities.

These seem very good intentions but the exercise of controlling whether the actual short-run fiscal policy or long-run economic strategy have followed the programmed ones and whether they have achieved their targets is a difficult one in the context of Equatorial Guinea. Poor statistical collection and the periodic mid-year revisions of the actual policy pose serious concerns over any monitoring activity. A tentative conclusion on the fiscal performance of Equatorial Guinea could be that, although the government submits a budgetary law to Parliament, this document is not strictly binding, and that recurrent revisions on both the receipts and the expenditures sides makes it just a loose institutional arrangement.

At 4.7 per cent, the rate of inflation in 2000 was rather high compared to the previous year's level of 1.1 per cent. The recent acceleration has been caused by the rise of real estate rents and by pressures over the demand for food. However, given the impressive rate of growth of the economy, the current rate of inflation can be considered quite moderate. Favourable external conditions such as the low level of inflation of the major trade partners and an increasing proportion of food imports coming from Cameroon have helped price stabilisation. One has also to consider that Equatorial Guinea partnership in the franc zone has certainly helped in implementing a balanced effective monetary policy. As a result, for 2001 and 2002 inflation is likely to remain within the range of the CEMAC zone.

External Position

Equatorial Guinea is an open, export-oriented economy. Starting in 1994, trade policy has been liberalised and streamlined, with the implementation of the CEMAC custom and tax reform and other changes that have substantially reduced the level and the dispersion of tariffs and eliminated all quantitative restrictions.

Equatorial Guinea's external position — based on a narrow export base concentrated on natural resources and subject to terms of trade shocks — suggests that the country is very vulnerable to international developments. Oil and, to a lesser extent, timber exports dominate total exports with more than 98 per cent of the total share. On the imports side, oil-related imports are also predominant: in 2000, 74 per cent of imports were of petroleum products for local demand or petroleum investment to maintain or expand extractive capacity. The recent deep transformation of the economy has also influenced the geographic composition of Equatorial Guinea's commercial partners: the oil economy essentially trades with the United States, its largest partner both for imports and exports. The smaller non-oil economy still trades with its traditional partners: China for timber and france, Spain and Cameroon for other products.

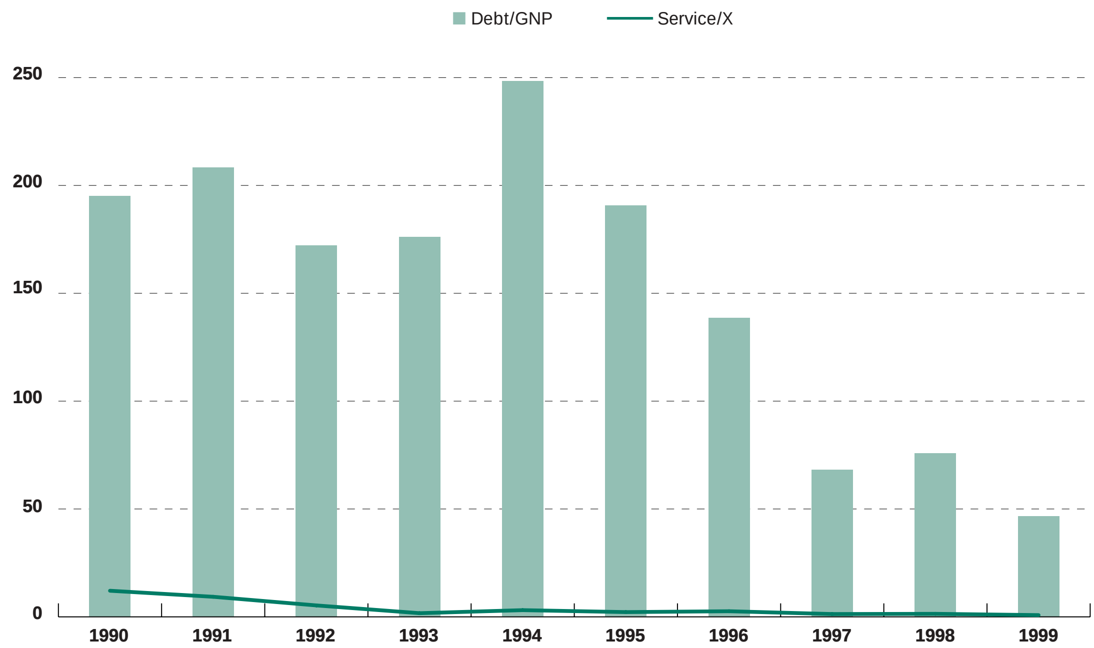
The balance of payments has recently been characterised by a large deficit of the current account compensated by foreign investment concentrated in exploration activities and by the repatriation of profits of the oil sector. Favourable external conditions (increases in timber and oil prices) and the increase of oil exports in volume have reduced the current account deficit from a level of 64.8 per cent of GDP in 1998 to a level of 3.8 per cent of GDP in 2000. With a decrease in oil exploration activities before 2003, the weight of oil-related imports should decrease, strengthening the trade balance surplus.

Table 3 - Current Account (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Trade balance	-6.2	11.4	37.7	50.4	59.7	67.7
Exports of goods (f.o.b.)	52.4	82.4	93.4	100.7	98.4	97.2
Imports of goods (f.o.b.)	-58.6	-71.0	-55.7	-50.2	-38.7	-29.5
Services	-42.5	-62.8	-57.1	-45.3		
Factor income	-12.2	-16.0	-14.5	-9.8		
Current transfers	2.9	2.7	1.2	0.8		
Current account balance	**-58.8**	**-64.8**	**-32.7**	**-3.8**		

Source: Authors' estimates and predictions based on BEAC, Banque de France and domestic authorities data.

Figure 5 - Stock of Total External Debt (percentage of GNP) and Debt Service (percentage of exports of goods and services)



Source: World Bank (2001), *Global Development Finance.*

Two reasons may explain the apparent oddity between the current account deficit and the government surplus: firstly, the private sector's expenditures may be very high or even exceed its income; secondly, government expenditures do not include certain items and are therefore under evaluated. Unfortunately, owing to the poor statistical record of Equatorial Guinea's national accounts we are not able to discriminate between these two reasons.

Owing to the remarkable rate of growth of the economy, Equatorial Guinea's external debt position has changed dramatically in the recent past. From a level of indebtedness of 248 per cent of GNP in 1994, the ratio of total debt over GNP is at 46.7 per cent in 1999. In absolute terms external public debt decreased from $292 million in 1995 to $271 million in 1999. Long-term debt owed to official bilateral creditors represents 46 per cent of total public debt at year-end 1999, while that to multilateral creditors represents 47 per cent. According to the IMF, arrears in 2000 amounted to $58.3 million, of which $55 million was owed to bilateral creditors. Spain and China are the major creditors of Equatorial Guinea. The unexpected co-existence of arrears and public budget surplus is due to the fact that the current government has been reluctant to inherit certain debts contracted during previous legislatures; apparently these contested sums were lent by foreign countries not directly to the government to finance true investment operations, but rather to officials who presumably were claiming to represent the government and to finance imports sold by the creditors themselves. However, the country is in the process of settling these disputes and it is beginning to repay its arrears; this will soon allow Equatorial Guinea to gain full access to privileged credit and to reorganise its overall debt structure. Because of the recent rise in the GDP per capita, Equatorial Guinea is not eligible for the HIPC initiative.

Structural Issues

As explained above, the management of the oil boom represents Equatorial Guinea's crucial test. Oil revenues are considerable and have deeply transformed the economic structure of the country; however they have not yet greatly benefited the whole of its small population. Additionally, the country's institutional development lags behind and, if not transformed adequately, it may become a major obstacle to a sustainable and more balanced growth and development process over the medium and long term.

The boom of the economy has shown the inadequacy of the institutional environment of Equatorial Guinea. The government, at the 1997 Economic National Conference held in Bata, acknowledged the need for public sector reforms. Besides the already mentioned deficiencies over the macroeconomic conduct, a general modernisation of the state's administrative capacities is needed; larger investments in the formation of skilled managers as well as medical doctors (currently a large proportion of doctors present in the country are on leave from Cuba), teachers, and technical workers are essential and urgent. Reforms of the judiciary are required since the system is incomplete and not working at its best; certain areas do not have sufficient coverage in terms of human and technical resources and the legislation is somewhat obsolete, incomplete or not adequately implemented in the various districts. Other reforms are required in the area of information and monitoring since the lack of a Central Statistical Office (the statistics are currently collected by a division in the Ministry of Planning) and the poor quality, availability and outdated nature of Equatorial Guinea's statistics prevents any form of surveillance and control of the economic and social development of the country.

In the area of economic structural reforms, the record of Equatorial Guinea is somewhat mixed**.** The distribution of petroleum products has been liberalised and the former GE Total has been privatised. The privatisation process started recently and some SOEs — notably in the sectors of petroleum products — have been privatised. The government's general attitude towards public firms is to support their privatisation yet neither a clear regulatory framework nor public authorities exist to supervise the privatisation process or the privatised activities. On the other hand, notwithstanding the government's introduction of a law in December 1997 for improving the supervision and monitoring of forestry activity, aimed at reducing logging activity to a sustainable level, actual timber production largely exceeded the upper limit of 450 000m^3 in 1999 and 2000. Besides, as indicated by the still high share of unprocessed timber over the total sectoral output, it appears that the incentives put in place since 1997 — through the form of fixed quotas and sanctions for logs over total production, and differentiated export taxes for transformed and non-transformed timber — have not produced the expected results.

The banking sector in Equatorial Guinea is controlled by the BEAC and of 30 banks operating in the region, three are licensed to operate in Equatorial Guinea. The system, according to the BEAC supervision activity, can be considered robust and its soundness has not been affected by the boom in the economy of recent years. Following an extended period of growth, banking activity is now more stable and the accumulated balance sheet has been of $92.8 million (CFA franc 65 billion) by the end of 2000. Overall liquidity largely covers the requirements of the economy: credit demand, $38.7 million (CFA franc 27.1 billion) by the end of 2000, is smaller than bank resources, which at that time were equal to $47.6 million (CFA franc 33.3 billion). The share of bad non-performing debt is diminishing and by the end of 2000 was equal to $3.3 million (CFA franc 2.3 billion) for the entire sector. The banking activity comprises *Caisse Commune d'Epargne et d'Investissement* (CCEI), a local branch of CCEI Bank-Cameroon, and the *Société Générale des Banques en Guinée Equatoriale* — SGBGE, a local branch of the French bank *Société Générale*, and a new branch of the Gabonese BGFI, established in June 2001.

Basic infrastructure is one of the major bottlenecks for the development of Equatorial Guinea. Following its independence in 1968, the normal erosion process due to adverse climatic conditions and the lack of adequate maintenance policies resulted in very poor road conditions with less than 350 km tarred roads over a total of 3 952 km. Indeed, surface transport is limited. Nonetheless, a few projects — supported by financial and technical assistance of the ADB and the EU — are restoring or expanding the surface infrastructure. A new road — with technical assistance and partial financing by China — connecting the coast (from Bata) to the eastern border (Mongomo) of the continental part of the country is under construction. Two projects, co-financed by the EU and the ADB with the Equatorial Guinea Government as a national counterpart, aimed at improving the paved roads from Malabo to Luba and Riaba (island of Bioko) and building an inter-state road network linking Equatorial Guinea to Cameroon and Gabon, have started in recent years.

Political and Social Context

After a period characterised by a unique party presidential regime led by the current President Obiang Nguema M'basogo and his *Partido Democrático de Guinea Ecuatorial* (PDGE), the country has embarked since 1991 on a process of democratisation. The present political context has been shaped by the promulgation of the new Constitution approved by referendum in November 1991. The form of the state is a unitary republic with a political system theoretically admitting opposition.

Although in name a multi-party republic, the political scene is still dominated by President Obiang and a circle of advisors who take the most significant decisions. In the various institutional bodies power is still concentrated in the hands of the PDGE, which holds a solid majority in the National Assembly (*Cámara de Representantes del Pueblo* — CRP) with 75 out of 80 parliamentary seats. The latest electoral polls were considered irregular by most international and independent observers. The main opposition parties boycotted and declared fraudulent the official claims over the latest elections for the municipals, which were held in May 2000 and secured by the PDGE with a majority of 96 per cent. Other serious concerns arise from the weak separation of power between judiciary, executive and legislative, as regulated by the *Ley Fundamental*. Indeed, with an imbalance in favour of the executive power, the independence of the civil judicial power, already overshadowed by military tribunals, is seriously compromised. Moreover, the obsolete judiciary system based on Spanish pre-independence legislation is inadequate for the present needs of Equatorial Guinea democracy.

Despite the successful economic growth trajectory, Equatorial Guinea social records still largely illustrate the low level of development of its population. Poverty still affects a large part of the population and, according to UNDP, Equatorial Guinea ranks at the 131st position out of 174 in terms of human development.

The health profile of Equatorial Guinea is quite alarming. Indicators are amongst the worst in the region with life expectancy at birth of 50 years (1999 ADB data), and child mortality and maternal mortality rates at 111 and 352 respectively per 1 000 and 100 000 live births (in 1994). Malaria is the first cause of mortality: 43 per cent of infant (less than five years) mortality rate is related to this pathology. The other major health endemic problems (respiratory infections and diarrhoeic pathologies) are those of a least developed country where the lack of basic needs such as access to safe water and malnutrition determine the country's health profile. HIV/AIDS, even if it is not a principal cause of mortality, is becoming a threat for the development of the country in light of its rapid dissemination: from a prevalence rate of one per cent in 1988, a May UNAIDS report shows an estimated prevalence rate of around 7 per cent in 2001.

In terms of infrastructure, the Equatorial Guinea population is quite well covered with 291 local health centres, 35 larger health units, 18 district hospitals, five provincial hospitals, and two regional ones. Nevertheless, less than half of the health centres are operative and most of them do not possess basic equipment. Another weakness of the health sector is related to the geographical distribution of skilled human resources, as 89.8 per cent of medical personnel are concentrated in Bata and in Malabo. The government has prioritised expenditure for the health sector and, in 2001, the health budget has more than doubled from a level of $5.6 million (CFA franc 3.9 billion) to a level of $14.3 million (CFA franc 10 billion). Nonetheless, the lack of a clear strategy indicated by the non-approval of the five-year national plan elaborated in 1996 has a clear impact over the actual expenditure of the available resources.

Educational attainment is slightly improving, with a level of gross primary and secondary school enrolment ratio of 89.1 per cent and 22 per cent in the last years. Moreover, the number of classes has increased from a level of 1 090 in 1990 to a level of 1 378 in 1999. Nonetheless, a low-skilled teaching body and lack of basic teaching materials hinder further ameliorations of the education system. In recent years, some 73 per cent of teachers had adequate qualifications, and this ratio was on a negative trend. The condition of educational infrastructure is worrying since only 60 per cent of the schools have access to safe water and proper toilets have not been installed in half of them. As for the health sector, the government, through Article 23 of the Ley Fundamental and through the recommendations in the Bata Conference which assigned 15 per cent of total expenditure to education, has emphasised the role of education in its national strategy for development. Despite increasing the total amount of the budget for educational expenditures, the government is not following the planned agenda: in 1998, such expenditure represented only 5.1 per cent of total public spending, compared with 5.9 per cent in 1997.