EQUATORIAL GUINEA

Table 1	2019
Population, million	1.4
GDP, current US$ billion	11.0
GDP per capita, current US$	8125.8
School enrollment, primary (% gross)[a]	79.0
Life expectancy at birth, years[b]	58.4

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) UNESCO for School enrollment (2015).
(b) WDI for Life expectancy (2018).

Equatorial Guinea experienced its fifth consecutive year of economic contraction as lower hydrocarbon exports and fiscal consolidation dampened growth. The country is affected by the COVID-19, its global consequences and the implementation of containment measures. The economy is expected to remain in recession in the medium term. Downside risks include COVID-19, and delays in the implementation of the structural reforms that are needed to improve competitiveness, and the effectiveness of fiscal policy. Such reforms would support the achievement of shared prosperity.

Recent developments

The economy is estimated to have contracted by 5.6 percent in 2019, after contracting by 6.4 percent in 2018, as hydrocarbon output continued to decline on the back of aging oil wells. Lower hydrocarbon exports and public expenditures contributed to the contraction on the demand side. Unemployment is estimated to have increased to 6.4 percent in 2019 and youth unemployment is estimated at 12.3 percent. Due to lower government revenues, large government arrears (25.9 percent of GDP at end-2019) to private construction companies were recorded and resulted in high non-performing bank loans (about 40 percent of total loans in 2019) that weakened financial stability.

The overall fiscal surplus improved from 0.1 percent of GDP in 2018 to 1.6 percent in 2019 as the government rationalized capital expenditures and introduced new taxes. Equatorial Guinea (GNQ) pursued its expenditure-led fiscal consolidation in 2019, completed an IMF Staff Monitored Program in September 2019, and has a three-year IMF Extended Fund Facility (EFF) program (US$ 282.8 million) that was approved in December 2019.

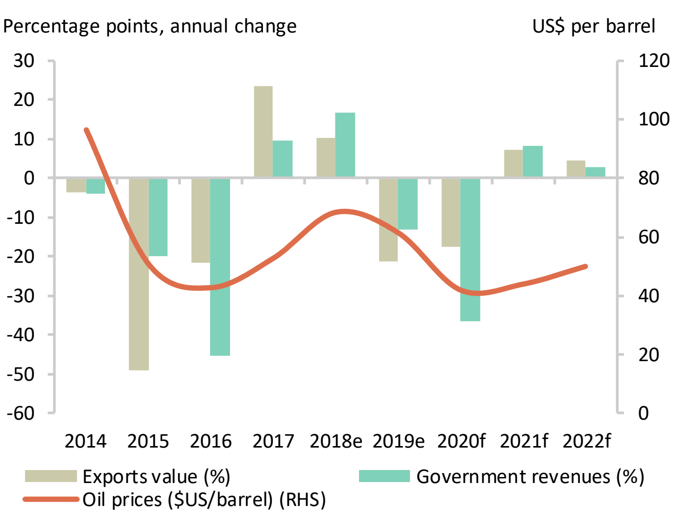
However, in 2020H1, despite data limitations, it is estimated that the country was significantly affected by the COVID-19 pandemic through lower oil prices and its subsequent consequences on government revenues, increased public social expenditures, and the contraction of the non-hydrocarbon sector due to national and international containment measures. For instance, credit to the economy declined by 1.5 percent in 2020H1. To cope with this challenging situation, the government has adopted a broad emergency health spending package (1 percent of the GDP), a social assistance scheme (0.3 percent of GDP) and temporary support to the private sector (0.3 percent of GDP). To contain the fiscal deficit, the government cut non-wage current expenditures and postponed non-priority capital expenditures. The anticipated fiscal deficit could be partially financed by the domestic market as BEAC, the regional central bank, decreased its policy rate by 25 basis points to 3.25 percent in March 2020 and resumed the purchase of government securities during 2020H2.

The prolonged lockdown, collapse of oil prices and disruption of economic activities is likely to have increased losses in jobs and earnings. The proportion of the population living below the poverty line is expected to have increased as Equatorial Guinea has very limited social safety nets, and the tertiary sector, which employs about 38.6 percent of the labor force, has been particularly affected by containment measures. Only formal employees, which make up a small share of the workforce, have pensions or health benefits.

Outlook

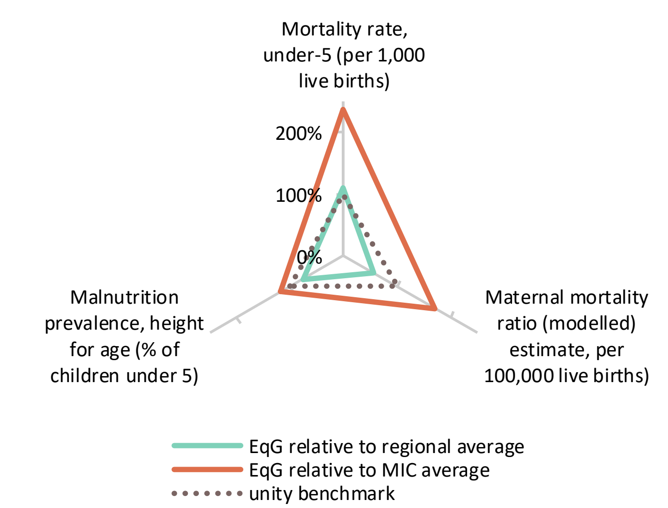
GNQ will continue to be affected by the COVID-19 outbreak through lower oil prices, hydrocarbon exports and government

FIGURE 1 Equatorial Guinea / Major transmission channels of the COVID-19 pandemic in Equatorial Guinea



Sources: World Bank staff estimates and INEGE.

FIGURE 2 Equatorial Guinea / Non-income poverty indicators



Source: World Development Indicators (WDI).

revenues. Output is expected to contract by 9.1 percent in 2020 as hydrocarbon output declines because the country will comply with the OPEC decision to reduce oil production, external demand will decline, and some investment could be delayed. The economy will contract by an average of 2.1 percent in 2021-2022 despite the potential increase in gas production in 2021-2022 that will result from the connection of the Alen gas field to the main gas processing plant (Punta Europa). The current account deficit is projected to widen to 9.1 percent of GDP in 2020 from 5.9 percent of GDP in 2019 as hydrocarbon exports decline.

Consequently, despite the fiscal policy measures announced in 2020Q2, GNQ is expected to record a fiscal deficit of 5.2 percent of GDP in 2020 and public debt will increase to about 55.2 percent of GDP in 2020. The securitization of domestic arrears, planned in 2020, will marginally strengthen the banking system and affect private sector confidence in the non-hydrocarbon sector as the latter was affected by COVID-19 containment measures, and the outlook remains uncertain.

Measures to mobilize non-resource tax revenues and cuts in public expenditures could help contain the fiscal deficit at 1.6 percent of GDP in 2021-2022. The EFF program-supported revenue measures include a full implementation of excise taxes, tax and custom administration reforms, the amendment of the 2017 tax amnesty law and the continued rationalization of tax exemptions. An expenditure review and additional cuts in inefficient capital expenditures could free fiscal space for new pro-poor social spending.

With investment expected to decline and real growth projected to be sluggish in the service sector in 2020, unemployment and poverty are likely to have increased. A Living Standard Measurement Survey (LSMS) is planned for 2021. This survey will help understand challenges faced by low income households and will provide inputs to design the next National Economic and Social Development Plan.

Risks and challenges

A further decline in oil price represents a major external downside risk as the effects of the COVID-19 pandemic weighs on growth prospects in major global economies. A decline in oil price would weaken the country's fiscal and external positions while a procyclical fiscal stance would exacerbate the negative effects of shocks on growth and poverty outcomes.

With the current debt path that assumed external borrowing to finance the expected financing gaps, sustained political support to economic governance reforms and a strong fiscal adjustment would be required to restore fiscal and external sustainability. This effort should not reduce the scope of the social assistance program that was launched amidst this health crisis, and which is expected to be expanded to 15 percent of the population.

Delays in the implementation of tax and public financial management reforms remain a major challenge that could erode the country's capacity to rebuild fiscal and external buffers, and to improve human capital in the medium-term.

Improving human capital and the business environment remains critical to diversify the economy. Implementing the recently adopted business environment roadmap is a major challenge as reforms are needed across sectors. The design of adequate policy actions to improve human capital is critical and will depend on a timely completion of the 2021 household survey.

The timely organization of the LSMS type survey will be essential for the implementation of the interim national development strategy adopted in April 2019 and design of the National Economic and Social Development Plan.

TABLE 2 Equatorial Guinea / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	-5.7	-6.4	-5.6	-9.1	-2.9	-1.3
Private Consumption	3.4	6.0	2.5	1.4	2.0	2.8
Government Consumption	0.4	-0.1	-1.9	-11.1	-5.1	-3.0
Gross Fixed Capital Investment	-11.2	16.3	-30.8	-39.1	-20.6	-17.9
Exports, Goods and Services	-3.8	-10.3	-1.5	-8.2	-3.2	-2.8
Imports, Goods and Services	8.3	7.4	1.9	-5.3	-1.8	-1.7
Real GDP growth, at constant factor prices	-5.6	-6.3	-5.7	-9.0	-2.9	-1.3
Agriculture	-2.7	-0.6	-5.6	1.2	0.5	1.4
Industry	-6.6	-11.6	-9.6	-8.7	-5.8	-4.9
Services	-3.5	4.9	1.6	-10.2	1.6	4.0
Inflation (Consumer Price Index)	1.1	1.3	1.2	1.7	1.8	1.3
Current Account Balance (% of GDP)	-5.8	-5.6	-5.9	-9.1	-6.7	-4.2
Net Foreign Direct Investment (% of GDP)	4.4	4.2	3.9	3.8	6.0	5.5
Fiscal Balance (% of GDP)	-7.0	0.1	1.6	-5.2	-2.5	-0.9
Debt (% of GDP)	43.2	44.5	49.6	55.2	57.3	54.4
Primary Balance (% of GDP)	-6.5	0.7	2.3	-3.8	-0.5	1.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices; based on data from national authorities.
Notes: e = estimate, f = forecast.