

EQUATORIAL GUINEA

Key conditions and challenges

Table 1 **2020**

Population, million	1.4
GDP, current US\$ billion	9.6
GDP per capita, current US\$	6852.7
School enrollment, primary (%gross) ^a	61.8
Life expectancy at birth, years ^a	58.4

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) WDI for school enrollment (2015); life expectancy (2018).

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

Equatorial Guinea entered 2020 with a challenging macroeconomic situation characterized by five years of economic contraction and a fragile fiscal position. The Equatorial Guinean economy is an undiversified economy which is dominated by a declining hydrocarbon sector that represents 55.7 percent of GDP, 87.6 percent of exports and 80.2 percent of government revenues in 2017-2019. Weak governance and a poor business environment constraint the use of the country's resources to reduce poverty, and the unleashing of the country's economic potential to achieve inclusive growth.

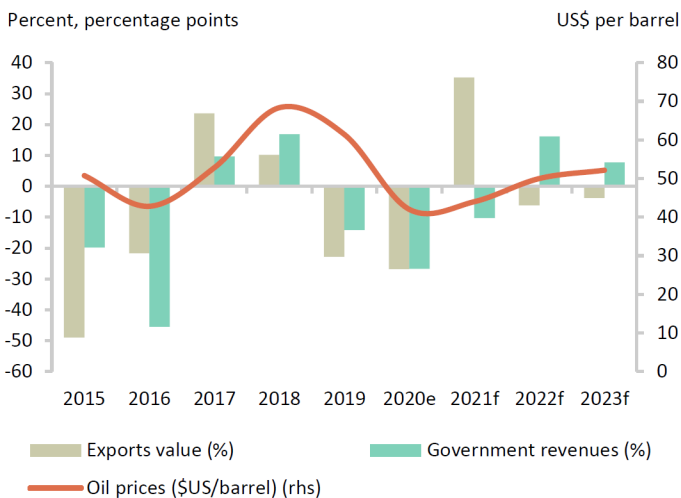
The impact of the COVID-19 pandemic on the real and fiscal sectors stressed the need to diversify the economy to achieve more inclusive growth, and to implement reforms that will help restore fiscal sustainability. Improving human capital and the business environment remain critical to diversifying the economy. As data remain scarce, there is a need to conduct the Living Standard Measurement Survey (LSMS), planned in 2021, to benchmark poverty incidence and undertake a poverty assessment to understand challenges faced by low-income households and inform design of the next National Economic and Social Development Plan, and implement the interim national development strategy. Economic prospects are subject to several headwinds. Despite the recent

developments on different vaccines in 2020, there is still an uncertainty surrounding their effectiveness and the timeline of their deployment in developing countries. In addition, investors could be concerned by the possible exuberance in equity markets and volatility in these markets could further feed uncertainty. In its 2021 Budget Law, the government adopted some tax cuts to increase liquidity in firms but it also adopted withholding taxes to adequately collect domestic tax revenues. However, the impact of these domestic resource mobilization (DRM) measures could be reduced by weak capacity to enforce the tax law and the absence of e-platforms which could help the tax administration. Finally, increased spending pressures and the government's capacity to secure external financing – in the form of budget support – could negatively affect the fiscal balance.

Recent developments

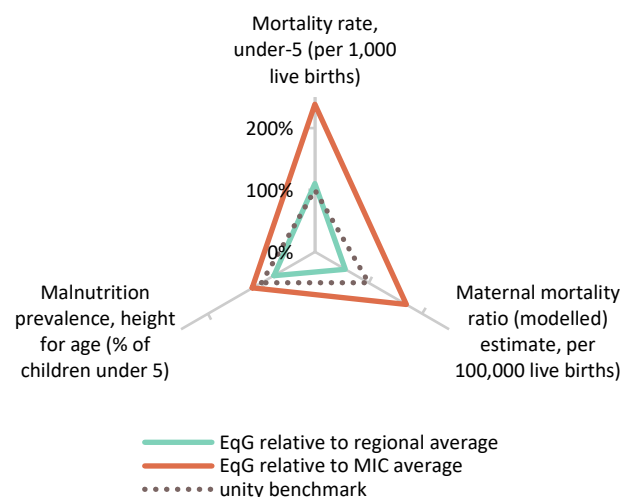
The COVID-19 pandemic resulted in an economic recession which was driven by lower domestic and external demand. With the implementation of containment measures at the national and international levels, real gross domestic product (GDP) contracted by 4.9 percent in 2020, compared with -6.0 percent in 2019. On the supply side, the recession was broad-based. Compared to our initial projections, the economic contraction was less severe because oil production stabilized with the drilling of additional wells.

FIGURE 1 Equatorial Guinea / Major sources of macroeconomic changes



Sources: National authorities, World Bank Commodity Pink Sheet and World Bank staff estimates.

FIGURE 2 Equatorial Guinea / Non-income poverty indicators



Source: World Development Indicators (WDI).

The prolonged lockdown, the associated disruption of economic activities and the sixth year of economic recession are likely to have resulted into additional 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. Additionally, the number of COVID-19 cases is increasing due to an erosion in compliance with containment measures, misuse of face masks and lack of hand sanitation.

Due to the decline in oil price that resulted in lower government revenues (-3.2 percent of GDP in 2020) and an increase in government expenditures (+2.1 percent of GDP in 2020), Equatorial Guinea recorded a shift from a fiscal surplus of 2.0 percent of GDP in 2019 to a fiscal deficit of 3.3 percent of GDP in 2020. In addition to the decline in government revenues, the government adopted some targeted and temporary measures to support the private sector (estimated cost of 0.3 percent of GDP) in 2020. In this challenging economic environment, the government cleared a portion of domestic arrears in 2020 (1.9 percent of GDP) but they were still estimated at 20.6 percent of GDP at end-2020.

This fiscal stance resulted into a higher total public debt estimated at 52.3 percent of GDP (at end-2020).

Lower oil prices also deteriorated the country's external position as its contribution to net foreign assets declined by Euro 265 million as the value of exports declined by 30.4 percentage points in 2020, and the current account deficit increased to 10.9 percent of GDP in 2020 from 1.6 percent of GDP in 2019.

Outlook

With more favorable economic prospects in trading partners, real GDP is projected to increase by 2.4 percent in 2021 on the back of an increase in gas production from the Alen field and the backfill project to the LNG plant. The current account deficit is projected to narrow to 4.7 percent of GDP 2021. However, the economy is projected to be back in recession in 2022-2023 as existing oil wells will reach maturity and major projects, such as the Fortuna gas project, have not yet materialized.

This outlook is subject to headwinds related to the management of the pandemic at the national and global level, the volatility of financial markets, the access to external financing to implement the government

budget, and potential delays in the implementation of critical reforms.

In its 2021 budget law, the government anticipated an increase of the fiscal deficit to about 3.8 percent of GDP in 2021 on the back of lower government revenues. The fiscal deficit is, however, forecasted at about 4.2 percent of GDP 2021 because of the above-mentioned headwinds. Progress in the implementation of the IMF program could help to finance the substantial gross total financing needs, estimated at 11.9 percent of GDP. The clearance of a portion of domestic arrears (about 2.1 percent of GDP), planned in 2021, could marginally strengthen the banking system and affect private sector confidence in the non-hydrocarbon sector despite uncertain outlooks. Public debt is projected at 46.6 percent of GDP in 2021, and to average 53.3 percent of GDP in 2022-2023.

With growth in 2021 being primarily driven by the hydrocarbon sector and the service sector projected to record a sluggish economic expansion, unemployment and poverty are likely to increase. The design of effective social policies depends on results from the Survey on the Impact of COVID-19 conducted in December 2020.

TABLE 2 Equatorial Guinea / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	-6.2	-6.0	-4.9	2.4	-5.6	-2.3
Private Consumption	3.4	3.4	3.4	3.4	2.8	2.8
Government Consumption	1.6	-4.5	-5.3	-4.2	-10.9	1.2
Gross Fixed Capital Investment	-10.1	-55.8	-42.1	-34.0	1.9	5.5
Exports, Goods and Services	-5.7	-6.2	-9.0	3.5	-9.2	-5.0
Imports, Goods and Services	6.2	-9.0	-7.8	-0.7	-4.0	1.1
Real GDP growth, at constant factor prices	-6.2	-6.0	-5.0	2.4	-5.5	-2.3
Agriculture	-2.4	-5.8	0.4	2.8	1.4	1.4
Industry	-11.7	-8.7	-6.8	3.7	-13.2	-8.5
Services	5.8	-1.2	-2.1	0.3	6.8	6.0
Inflation (Consumer Price Index)	1.3	1.2	5.8	3.5	3.4	3.3
Current Account Balance (% of GDP)	-2.8	-1.6	-10.9	-2.7	-3.0	-6.9
Net Foreign Direct Investment (% of GDP)	3.0	5.3	3.9	5.6	5.5	5.5
Fiscal Balance (% of GDP)	0.1	2.0	-3.3	-4.2	-2.6	-1.7
Debt (% of GDP)	42.1	45.9	52.3	46.6	53.0	53.7
Primary Balance (% of GDP)	0.8	2.7	-2.0	-2.3	-0.5	0.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

Notes: e = estimate, f = forecast.