Rapid macroeconomic assessment of the effects of Covid-19 in Equatorial Guinea

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Abbreviations

ADB	African Development Bank
BEAC	Bank of Central African States
CAR	Capital Adequacy Ratio
CEMAC	Economic & Monetary Community of Central Africa
COBAC	Central African Banking Commission
DGTC	Directorate-General for taxes and contributions
EFF	Extended Fund Facility
FDI	Foreign Direct Investment
FEP	Finance, Economics and Planning
GDP	Gross Domestic Product
IEA	International Energy Agency
IFC	International Finance Corporation
IMF	International Monetary Fund
INEGE	National Statistical Institute of Equatorial Guinea
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
OPEC	Organisation of Petroleum Exporting Countries
SDR	Special Drawing Rights
SMP	Staff Monitored Programme
UNDP	United Nations Development Programme
WB	World Bank

Executive Summary

Rapid macroeconomic assessment of the effects of COVID-19 in Equatorial Guinea Data-Pop Alliance in collaboration with ADE

This document summarizes the rapid assessment of the effects of COVID-19 in Equatorial Guinea, which corresponds to the first stage analysis of the consultancy developed by Data-Pop Alliance (DPA) in collaboration with Aide à la Décision Économique (ADE), within the framework of support that the United Nations Development Program (UNDP) provides to the Ministry of Finance, Economy and Planning in Equatorial Guinea.

The rapid macroeconomic assessment aims to provide an appreciation of the factors that determine large economic and fiscal balances, their ability to guarantee a more stable framework over time, the impact of Covid-19 on these balances and the short-term government measures taken through public policies to mitigate the impact of the pandemic.

This document presents a summary of:

- The macroeconomic situation prior to the pandemic.
- The macroeconomic impact of the pandemic through the chain of economic shocks.
- The short-term measures taken by the Government in the economic sphere to overcome the difficulties related to Covid-19.
- Main findings and preliminary recommendations.

The macroeconomic situation prior to the pandemic

In the early 2000s, Equatorial Guinea experienced significant economic growth driven by oil production. This was accompanied by an increase in public investment, the development of infrastructure and low levels of external and public debt. The country is heavily dependent on oil. Until 2019, more than 80% of government revenue came from this sector. However, the reserves created during the economic boom were not enough to face the oil price shock in 2014. Thus, public debt increased considerably (from 8.7% of GDP in 2014 to 40.8% during the 2014- 2019 period[1]), there was a negative economic growth in the 2013-2019 period (-9% in 2015-2016) and real GDP fell by 29% between 2014 and 2019 according to the IMF. In addition, the banking sector has stagnated, with a large number of non-performing loans tied to government arrears.

Equatorial Guinea benefited from an IMF-supervised program (Staff Monitored Program, SMP) between January and July 2018 to carry out budget adjustments and structural reforms (governance, fight against corruption and economic diversification). According to the IMF, although the program had delays, its performance was considered satisfactory. Additionally, in 2019, the country had access to an Extended Fund Facility (EFF) for 205 million Special Drawing Rights (approx. $ 282. 8 million) for three years.

Currently, the Equatoguinean economy continues to be dominated by hydrocarbons and remains poorly diversified despite the vast infrastructure modernization program carried out in the last two decades.

[1] IMF data, average

The macroeconomic impact of the pandemic

The immediate shock: sharp fall in demand and prices of petroleum products

The main shock affecting the Equatoguinean economy after Covid-19 is undoubtedly the change in international demand for hydrocarbons (the oil sector's share of GDP was 44% in 2019). The importance of the oil sector in the balance of payments and in the spending multiplier (public and private), especially for construction and services, remains essential and difficult to replace in the short and medium term. The overwhelming share of oil exports as a share of total exports was 97% in 2018. The different forecasts about the global economy after the crisis are still very uncertain, which makes it much more difficult to foresee the impact of Covid-19 on the demand of Equatoguinean oil. Furthermore, the consequences of the fall in the country's GDP have led to divergent estimates. The most pessimistic scenarios predict a drop of more than 8% in real GDP.

The immediate shock: fall in State revenue (macro-fiscal analysis)

One of the immediate effects of the foreseeable drop in exports is the drop in government revenue. The share of hydrocarbons in revenue has never fallen below 75% (IMF pre-Covid estimates for 2019, 2020 and 2021). The effect of a drop in the price per barrel on government revenue, even with production unchanged or considering a slight increase, could be far-reaching and reinforce the trend of erosion in the State's spending capacity, which until now has fueled the economy. Although this study has carried out simple impact evaluations based exclusively on publicly available data (OPEC, IMF and BEAC), a contraction in GDP is more than likely. For an average Brent price of $ 38 per barrel in 2020 (IEA assumptions, June 2020), our estimates show a deficit in State revenue between 410 billion and 476 billion of FCFA —or around -40 to -43% in revenue compared to 2019—.

Secondary shocks: evolution in supply and demand chains

The consequences of Covid-19 on imports are not clear yet. It is certainly necessary to distinguish between different types of imports. Foreign Direct Investment is an important source of imported goods and services (30% to 35% of imports) which will be reduced in the short term in the most part due to the impact of Covid-19. However, it is expected that the fall in imports of goods will be limited, due to the continuation in the maintenance of essential infrastructure linked to the extraction of hydrocarbons, which will allow to maintain a certain level of industrial activity. Regarding imported consumer goods, Equatorial Guinea is one of the most import-dependent countries in the world, even for high consumption products, such as fish, in which the country would have a clear comparative advantage. Consequently, for food products, the price elasticity of imports to available income is lower. Imports are not expected to decrease in the same proportion as income. Regarding inflation, the increase in consumer prices had started before the Covid-19 restrictions. This should continue in the coming months although probably to a lesser extent as a fall in demand takes hold

due to the containment measures. On the other hand, the USD/XAF exchange rate could have an impact on prices. It had constantly increased up until February and has since then entered a phase of turbulence which began to fade away after mid-May. In the short term, Covid-19 will likely further degrade the competitiveness of prices that are already falling in Equatorial Guinea.

Financial Flow Shocks

The most substantial flows have always been primary income flows. These have been negative because expatriate salaries and investment income in the oil sector are mostly exported abroad. A positive effect in the balance of payments is expected: the IMF estimates -850 billion FCFA in 2019 and forecasts -701 billion FCFA in 2021, given that opportunities in public works are becoming scarce for foreign workers and the dip in oil production reduces dividends and interests payable in the country (except royalties). An effect of the same sign is expected in secondary income. These include cash transfers from foreign workers that reside in Equatorial Guinea whose presence had increased in previous years before shrinking again. Equatorial Guinea is very little dependent on foreign aid flows, which represented on average 0. 06% of the GNI in the 2012-2018[2] period (around USD 10 million since 2013).

It could be thought that the stability of foreign direct investment, which occupies the most important position in the financial account of the balance of payments, will play a buffer role in a context in which the State considerably withdraws from the creation of physical assets. According to the IMF, the rapid accumulation of debt until 2016 appears to have stopped.

On the other hand, internal arrears related to delays in government payments to companies have prevented them from paying the loans received by local financial institutions and, therefore, have increased the number of doubtful receivables.

Arrears clearance, already urgent before the Covid-19 crisis, has become a key issue in revitalizing the economy after the crisis. The poor health of Equatorial Guinean banks is a major constraint for private sector development (excluding hydrocarbons). The high volatility of bank deposits is traditional in Equatorial Guinea and is mainly the result of large and highly irregular payments made by the Government to service providers; a factor that has long been limiting the supply of credit.

Second round effects of Covid-19: impact on employment

In general, the expected global effects on employment[3] refer to the reduction in the number of jobs because of company bankruptcy or recession, which the ILO estimates at 6.7% of the total time worked for the second quarter of 2020. Although the economy is dominated by oil derived products, as in Gabon, the hydrocarbon sector offers few jobs (around 1%). Most of those employed in the formal and informal sectors are in the agricultural and service sectors, where more than half of the production is for subsistence. This distribution of employment implies that variations in oil prices only affect directly a very small part of the employment. However, given the importance of the hydrocarbon sector for the country's

[2] OECD estimates; data is only available until 2018 data, average.

[3] ILO Monitor: COVID-19 and the world of work. Analyzed and updated estimates, April 2020.

production and income, the indirect impact of price changes can be very important, both for workers in the industrial and service sectors as well as for agricultural jobs. The latter are possibly dependent on the world prices of agricultural products that are, in turn, directly influenced by oil prices. In addition to the impact of oil prices, employment may be affected by social distancing measures taken in the context of the Covid-19 pandemic.

Government Response[4]

Social measures Private sector support

Initially, the measures taken by the Government –of a social nature– were aimed at supporting affected households through the creation of the Social Guarantee Scheme which aims to supply food and hygiene kits. At the time of publication, the decree 43/2020 reported that the program amounted to 5 billion CFA Francs (about 8. 5 million dollars). The health system has also been strengthened to meet the direct needs of the management of the pandemic, including the purchase of hygiene supplies and increased testing capacity.

Private sector support

On the other hand, there is a set of measures that aims to support SMEs, for example, the increase of one billion FCFA in donations to the Partial Guarantee Fund for SMEs that are affected by the declaration of the National State of Alarm in decree 43/2020. As well as through the reduction of taxes and discounts on electricity and telecommunication bills, documented in the ministerial order 2/2020. Additionally, measures have been implemented to support employment in the hydrocarbon sector. Likewise, there is also a plan for the regularization of arrears in internal payments (mainly in the construction sector) which should favor the availability of bank liquidity to finance productive projects in the medium term.

Budgetary measures

The first measures were implemented to contain the expected budgetary slippage after the sharp drop in oil revenues. These included the regularization of the 2019 tax debt and the postponement of non-essential expenses. In addition, seeking to cover the deficit in the balance of payments, the country continues to repatriate the financial assets of the State located abroad.

Main findings and preliminary recommendations

Faced with a more than likely GDP contraction and using a forecast of $38 per barrel of Brent oil, the impact evaluation of this study, which uses public data and simple methods, estimates a State deficit between 410 billion and 476 billion FCFA. That is a decrease of around 40% to 43% of government revenue compared to 2019. These figures show a first general vision of an order of magnitude and do not have an official status, nor do they anticipate the conclusion of the negotiations between the country and its creditors regarding the need for public sector financing. Losses in terms of revenue could be higher depending on the Brent price scenarios

[4] In the context of the crisis, the Government is still adapting to the evolution of the pandemic and the global economy; the measures carried out that are not included in the present report will be updated in the "Country brief" that is part of the consultancy.

that can be found in the literature (up to -69% of revenue for a barrel price of $ 20).

In a country that has so far been quite successful in containing inflation, further destabilizing effects after Covid-19 cannot be ruled out, including a sustained rise in consumer prices due to supply chain disruptions.

Some buffers of the analyzed shocks could create a margin for economic diversification, among them are: the possibility of redirecting imports towards non-European products, the difficulty of reducing certain maintenance costs of oil and gas infrastructures, and the fact that the emblematic investment in the gas sector has apparently not been postponed. Beyond finding new financing, the answer to the deficit lies in the current improvement of public financial management. The current programs of various partners, in particular the one of the IMF, rightly favor the dimension of governance, where UN agencies should exploit their complementarity with development finance institutions and their added value in approaches based on rights.

Clear measures to rationalize public spending and a bold fiscal reform are likely to strengthen both the budget balance and the country's external image, thus the private investment.

It is necessary to continue rationalizing capital expenditures. Particularly to allow an increase in spending in the social sectors and in the formation of human capital capable of supporting a more inclusive economic growth, the reduction of poverty and an improvement of social outcomes regarding health and education, where the United Nations has an added value.

The main courses of action to mobilize national income were described in an IMF study on the continuity and recovery of income services, these include: a review of the organizational structure of the General Directorate of Taxes and Contributions, the mapping of risks concerning compliance with fiscal norms, simplification of the number of procedures to file tax returns, taxpayer census, monitoring of large taxpayers, implementation of standard procedures and forms for transactions with third parties, improvement of VAT refund records, more coercive collection procedures for taxpayers reluctant to pay their tax debts, better communication with taxpayers and general reform of tax legislation.

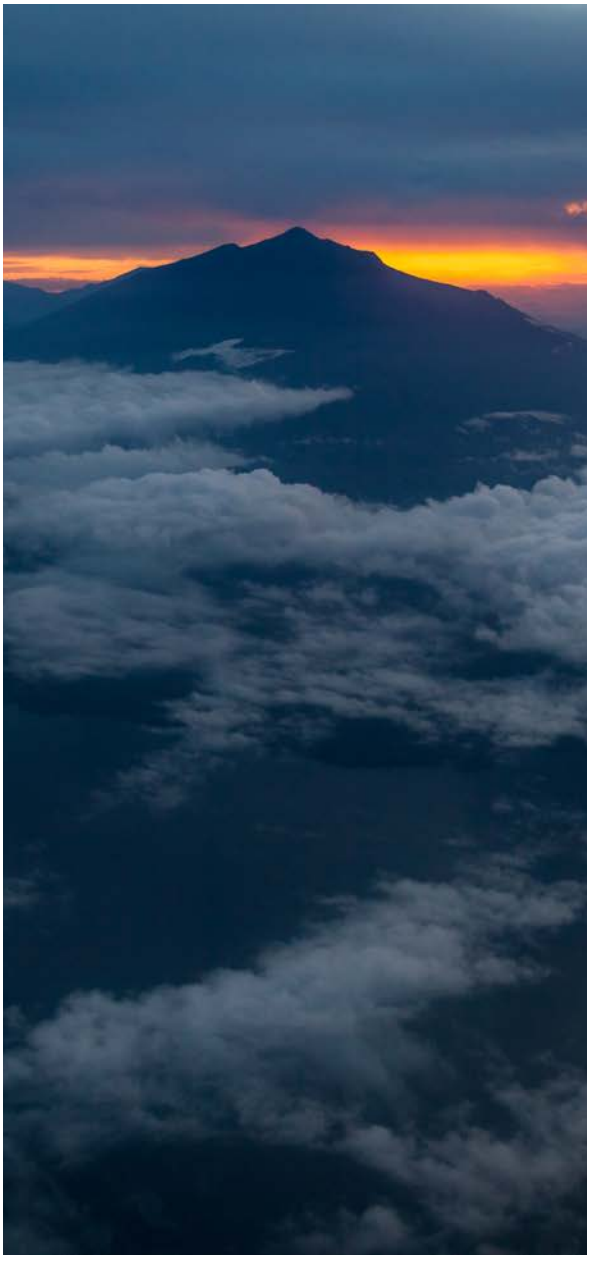
A higher flow of private funds is still desirable for macroeconomic equilibriums. To get out of the oil and gas enclave in which the country has been confined so far, international investors call for parallel domestic savings mobilization and a more innovative and original attitude on the part of the banks. Without it, development finance institutions, such as the International Finance Corporation, which was once active in the country, or their bilateral counterparts (DEG, Proparco, Norfund, CDC, etc.) would not be in capacity to invest.

Paying off internal arrears would improve bank liquidity and strengthen the sector, a prerequisite for inducing banks to intensify their lending to private investment. With the settlement of arrears to suppliers through the issuance of government bonds envisaged by the IMF, national financial institutions could be able to reactivate credit for private investment (excluding hydrocarbons) if saleable projects have been developed by then.

In addition to the positive impact of the settlement of internal arrears, the recapitalization strategy of banks with equity deficits, supported by the IMF program, should favor the stability of the banking sector. The acceleration in the creation of companies also happens through greater financial inclusion, and if necessary, through a better diffusion of Fintech innovations that have had pilots in Africa. The authorities are already working closely with the BEAC's COBAC to ensure that all banks are fully compliant with COBAC regulations, in particular, government and prudential requirements. The clear goal is to continue with the structural reduction of BEAC´s support to banks in the area of short-term liquidity. On the other hand, since there is no Findex data in Equatorial Guinea, one could be led to think that the country is most likely behind the others in the CEMAC in terms of transmission of mobile accounts.

The two tools for the responsible and equitable management of oil revenues in Equatorial Guinea can serve as catalysts. These tools are: the sovereign "Fund for Future Generations" with an estimated value of 80 million dollars and the "Co-investment Fund" apparently financed by a sum of one billion dollars to invest in profitable projects that reduce economic dependence on income from hydrocarbons. As a previous UNDP study (2019) had underlined, "these are totally opaque instruments in terms of capitalization, management, and strategic objectives" that must be reformulated in accordance with the best international practices on the matter.

There is a need to continue gathering and improving data collection systems in several areas where the lack of primary data limits the empirical base of studies. The socio-economic household survey that has been initiated is a priority, as is the organisation of a reliable system of national trade statistics. The latter will make it possible to assess the elasticity of exports and imports in the face of falling income and will facilitate the development of more detailed analyzes of the sectors with potential for import substitution.



1. Introduction

This rapid macroeconomic assessment of the effects of Covid-19 in Equatorial Guinea is part of the project "Impacts and Implications for Covid-19 for Equatorial Guinea" and responds to the need expressed by the Ministry of Finance, Economy and Planning to the United Nations Development Programme (UNDP) in Equatorial Guinea in order to complement the studies available so far on the socio-economic impact of COVID 19 in the country.

Such a rapid macroeconomic assessment aims to provide an appreciation of the factors that determine the major economic and fiscal balances, their ability to ensure a more stable framework over time, the impact of Covid-19 on these balances and the short-term government measures taken through public policies to mitigate the impact of the pandemic. It is not intended to provide a detailed analysis of all development challenges in Equatorial Guinea, nor to carry out sectoral analyses, which will be the subject of future work under this project.

The document presents:

- The macroeconomic situation before the pandemic;
- A brief status of the Covid-19;
- The macro-economic impact of the pandemic by setting out the chain of economic shocks;
- The short-term measures taken by the government at the economic level to overcome the difficulties related to Covid-19;
- The main findings and leads of preliminary recommendations.

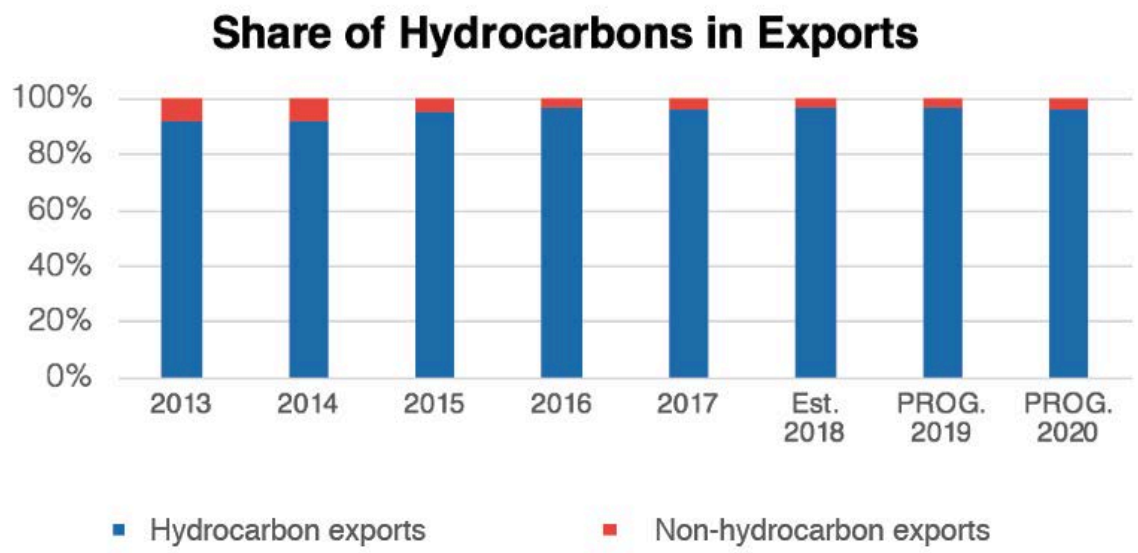
This study includes a quantitative analysis, based on data accessible to the general public and simple methods. It proposes some plausible scenarios on the evolution of government revenues in the context of the global pandemic of Covid-19. The analysis does not have an official status and does not take into account or makes judgements about the outcome of the ongoing negotiations with the creditors (summer 2020) on the maximum level of deficit and debt that will be allowed to the State of Equatorial Guinea.

2. Macroeconomic situation prior to the pandemic

In the early 2000s, Equatorial Guinea experienced significant economic growth driven by oil production. This boom was reflected in a significant increase in income per capita, which allowed Equatorial Guinea to move away from the group of "low-income" to "upper middle income" economies. The country also increased public investment, leading to a high degree of infrastructure development. Economic growth has been accompanied by a dependence on oil, and in a second stage of gas, which accounted for 95% of exports between 2013 and 2019 (Figure 1) and 82% of government revenues[5]. During the boom years, some macroeconomic buffers were accumulated, while external and public debts remained low.

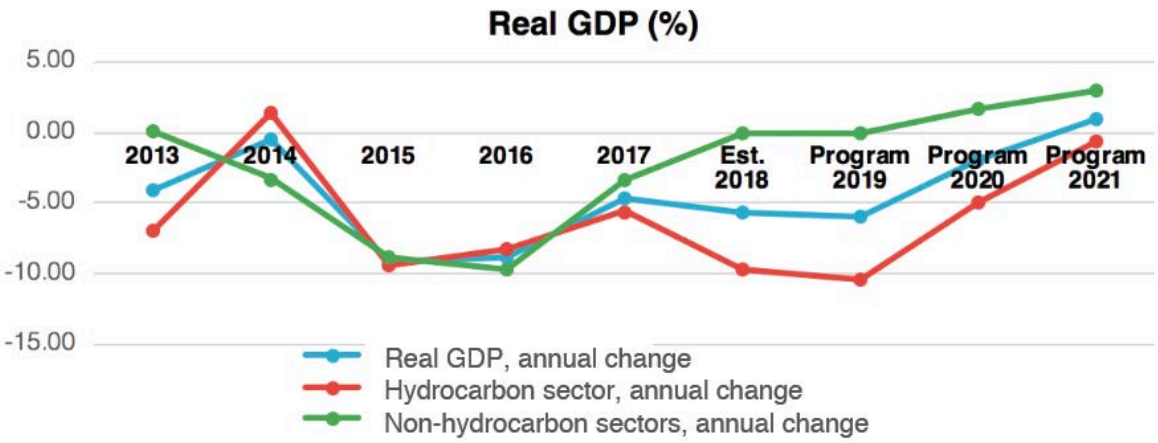
[5] On average. ADE calculations based on IMF data.

Figure 1: Hydrocarbon participation in exports between 2013 and 2020



Source: ADE based on IMF data

Figure 2: Real GDP growth in % between 2013 and 2021



Source: ADE based on IMF data

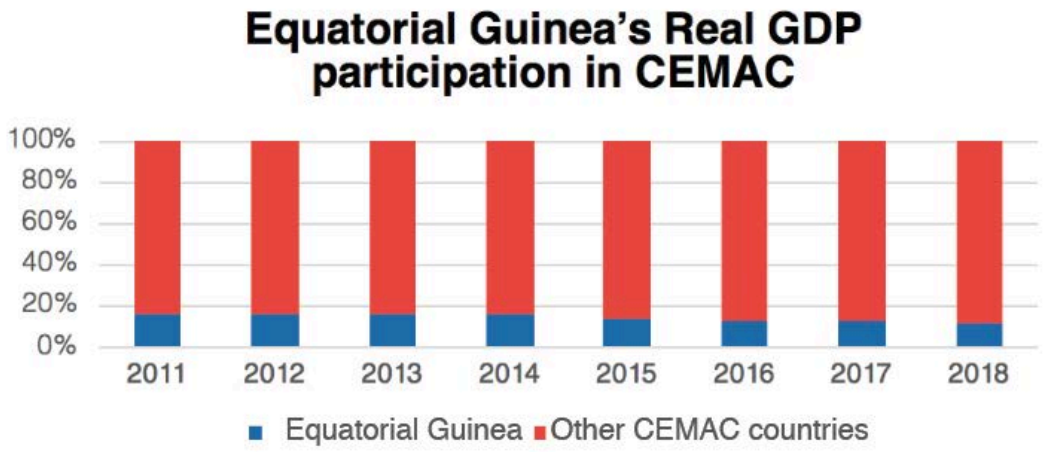
The country was severely hit by the oil price shock that took place in mid-2014 and the reserves created up to then were not sufficient to withstand it. The sharp fall in oil prices and the decrease in oil production have led to significant macroeconomic imbalances, particularly in terms of budget. They also led to negative economic growth in the period 2013-2019, with a peak around -9% in 2015-2016 (see Figure 2). According to IMF estimates, real GDP fell by 29% between 2014 and 2019.

Equatorial Guinea's economic weight in the CEMAC also contracted, representing only 12% of the region's real GDP, while in 2013 it was close to 20% (Figure 3).

The economy is still dominated by hydrocarbons and remains undiversified, despite the vast infrastructure modernisation programme carried out in the last two decades. The participation of the oil sector in GDP remains significant throughout the period, although it gradually declined from 57% to 44% between 2012 and 2019 (see Figure 4). Excluding the oil sector, the sectors that contributed the most to GDP over the period include the construction, public administration and trade sectors. Over the period 2012-2019, the contribution of the construction sector to GDP decreases (from 14% to 3% of GDP) in favor of trade/ restaurants/hotels (from 6% to 13% of GDP), transportation and telecommunications (from 3% to7 % of GDP) (see Figure 5).

The fall in oil prices had a direct impact on public accounts. Government revenue and expenditure have fallen sharply, with a reduction of 54% in revenues and 65% in expenditure between 2013 and 2019[6]. The share of total revenue is on average 17.8% of GDP over the period 2016-2019, prior to this, for the period 2013-2015 it was around 25%. The expenditure ratio is on average 18.3 % over the period of 2017-2019, after reaching 41.6 % of GDP in 2015.

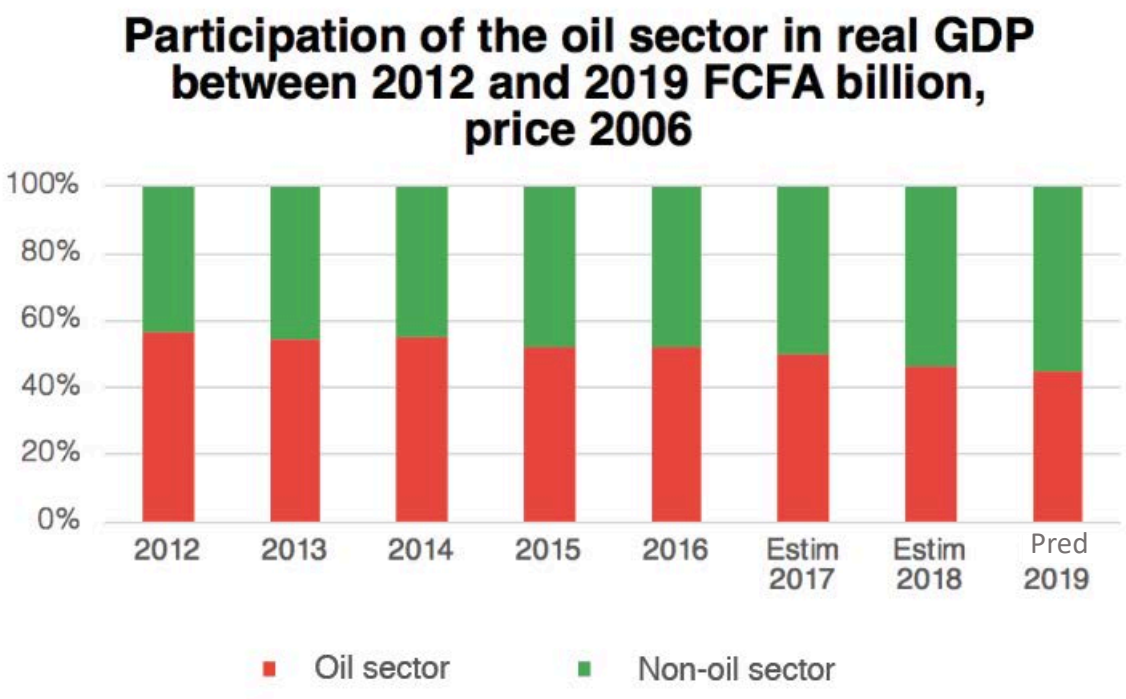
Figure 3: Real GDP share for Equatorial Guinea CEMAC



Source: ADE based on IMF data. Constant prices of GDP, PPP, international dollar 2011

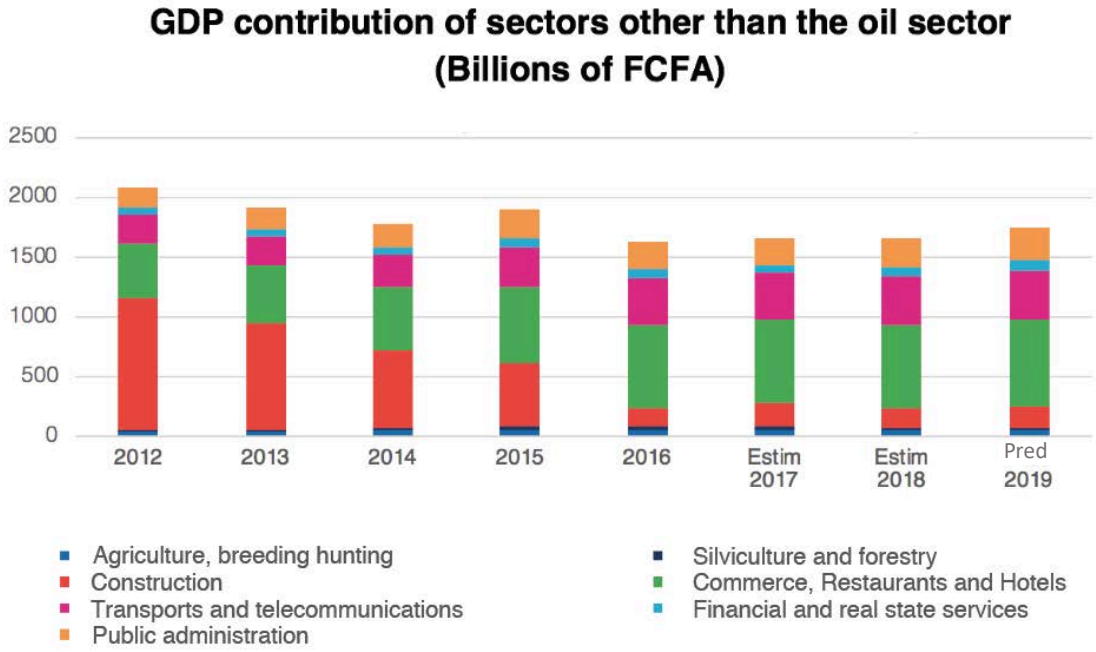
[6] The 65% reduction in expenditure includes the net acquisition of non-financial assets. ADE calculations based on IMF data.

Figure 4: Participation of the oil sector in real GDP between 2012 and 2019



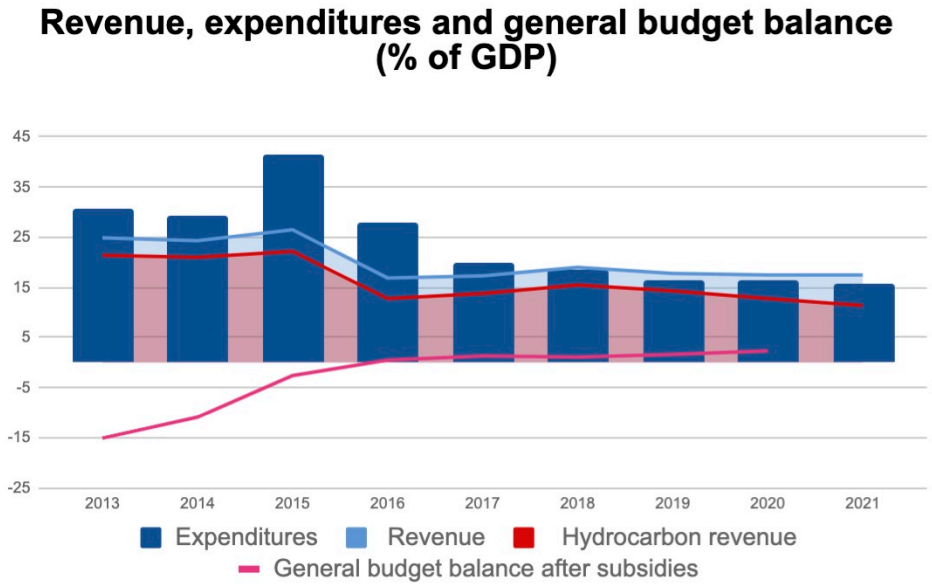
Source: ADE based BEAC data

Figure 5: GDP contribution of sectors other than the oil sector, 2012-2019



Source: ADE based BEAC data

Figure 6: Revenue expenditure and general budget balance between 2013 and 2021



Source: ADE based on IMF data

The general budget balance remains in deficit throughout the period (around -4.6 % in 2013-2015 and in 2017), except in 2018.

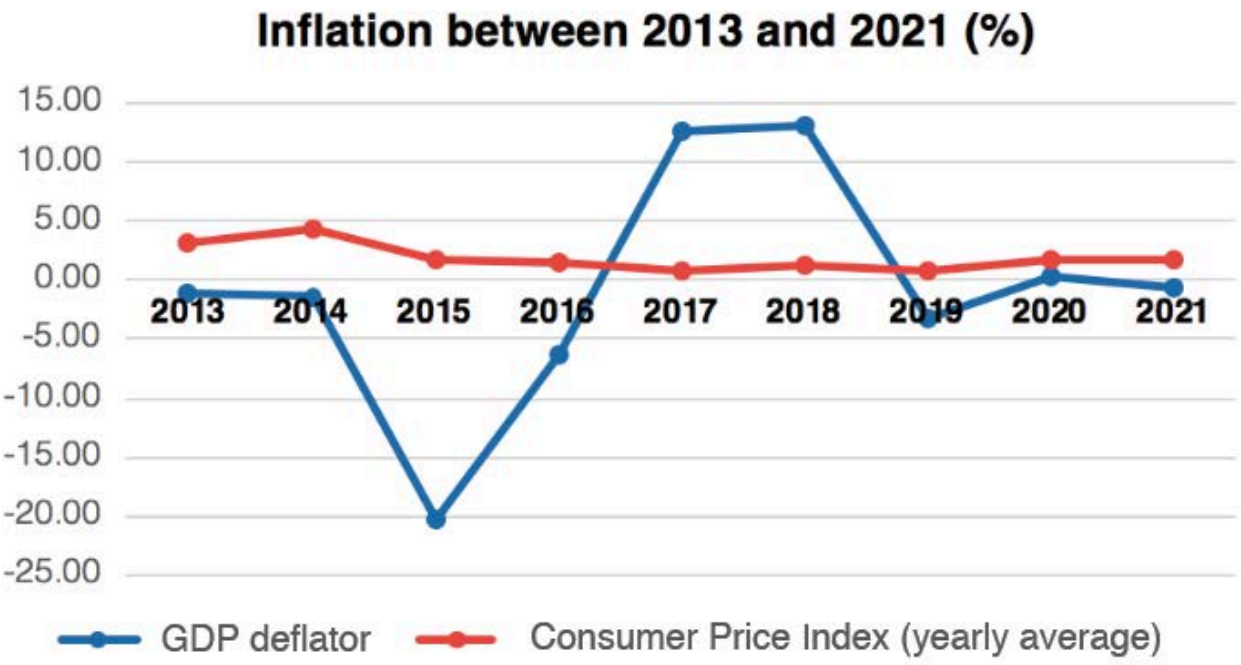
The national authorities and the IMF plan an improvement in the budget balance in 2019 and 2020, with a significant reduction in the non-oil primary balance. The approval by the authorities of a new law on excise duties (drinks, tobacco and imported vehicles) should contribute to these improvements (Figure 6).

Inflation was contained, staying below 2% between 2015 and 2018, with low inflation rate prospects from 2019 onwards. The Bank of Central African States (BEAC) played a key role in controlling inflation, in particular, by exercising banking supervision, controlling liquidity and eliminating the access to anticipated use of funds from 2017 onward.

The control of the key rates helped to curb inflation. However, the low rate might be due to low inflation in Europe, from which many consumer goods are imported. Moreover, 49 % of the Consumer Price Index of Equatorial Guinea is food products (communication from INEGE), of which a non-negligible part is agricultural and is imported in particular from neighbouring Cameroon.

The banking sector has stalled, with a large amount of non-performing loans linked to government arrears, which hampers the recovery of the non-oil sector. The protracted recession had a negative impact on banks' financial liquidity, with the increase in bad debt liabilities. This is mainly due to the arrears of government payments to suppliers, which had also obtained bank loans.

Figure 7: Inflation between 2013 and 2021 (%)



Source: ADE based on IMF data

It should be stressed that a large part of the debt owed to construction companies does not concern domestic but foreign ones, which have benefited from loans from domestic banks.

The authorities implement a strategy, supported by the IMF programme, to remove large arrears of construction companies by issuing government bonds and the recapitalisation of distressed banks, while ensuring compliance with the prudential and governance rules of the Central African Banking Commission (COBAC). The settlement of internal arrears would significantly reduce non-performing loans, improve bank liquidity and strengthen the banking sector, which is essential to boost non-oil growth.

Public debt soared from 8,7 % of GDP in 2014 to an average of 40. 8 % over the period 2014-2019[7], with a peak of 46 % of GDP in 2019. Most of the outstanding debt is linked to internal arrears.

Following discussions in 2017, Equatorial Guinea benefited from a programme monitored by the IMF (Staff Monitored Programme) covering the period of January-July 2018. The SMP served as the framework for the implementation of the budget adjustment and paved the way for the launch of structural reforms aimed at solving governance problems and supporting the fight against corruption, as well as promoting economic diversification. The IMF found that the implementation of the SMP was satisfactory, despite delays in

[7] IMF data.

achieving structural measures during the second review. By the end of July 2018, all but one of the quantitative objectives had been accomplished, and three out of the five structural benchmarks had been achieved.

The APP was the basis of discussions for the conclusion of an Extended Fund Facility (EFF) with the Fund for the amount of SDR 205 million (Special Drawing Rights, approximately USD 282.8 million) for three years in December 2019. The 2 and a half years, which approximately took place in order to complete the process an d approval of the programme reflects the difficulties encountered by the country in meeting the IMF requirements. The SCA has five key objectives: (I) further reduce macroeconomic imbalances to maintain the sustainability of public debt, reconstruct net external assets and support the CEMAC regional adjustment strategy, adopted in 2016, to improve the internal and external stability of the union; (ii) promote the development of human capital and enhance social protection, including mitigating the impact of the adjustment on the poor; (III) address vulnerabilities in the financial sector; (IV) promote good governance and transparency and the fight against corruption; and (v) promote economic diversification.

3.Covid-19 in Equatorial Guinea:

summarized status of the pandemic

On the first of July 2020, the Covid-19 cases reached 2,001 infected people, 32 deaths and 515 cured cases[8]. The John Hopkins Institute estimates that the impact of Covid-19 in Equatorial Guinea is 142 cases per 100.000 inhabitants. Although this rate is considerably lower than that of the most affected regions of Europe, the United States and, most recently, Latin America, it is relatively high compared to the African continent. Gabon and São Tomé and Príncipe are also among the most affected African countries in terms of the impact of contagion in the territory. The first cases known in Equatorial Guinea's territory corresponded to five persons arriving from Spain by air on 13 March[9] and were diagnosed with the virus between 18 and 19 March. The first local transmission was identified on March 26. The number of positive cases detected increased sharply since mid-April.

The state of national alert was declared on March 13, which involved the closure of land borders, a 14-day quarantine for any newly arrived person into the territory and the suspension of international commercial flights, as well as the creation of a special emergency fund worth $8 million. On March 23, measures (closure of bars and prohibition of groups of people) were strengthened. The health status alert was issued on March 26 ('Decree 42/2020'), including the strengthening of containment measures (prohibition of movement except for essential reasons,

[8] https://coronavirus.jhu.edu/map.html

[9] https://ahoraeg. com/salud/2020/03/18/guinea-ecuatorial-confirma-el-cuarto-caso-de-coronavirus/, accessed on 4 June 2020.

non-core business closures, etc.). In addition, a financial support for the health sector and a socio-economic support scheme (Decree 43/2020) was issued. At the end of April, Decree 44/2020 prohibited the demonstrations of the first of May.

Equatorial Guinea's response capacity to the pandemic is relatively limited. According to the preliminary list of WHO countries of March 16, the country is classified in Level 2[10] among the least prepared countries, on a scale up to 5 (5 being the lowest level of risk). Within the 54 African states, Equatorial Guinea is the 11th most vulnerable country[11]. Notable weaknesses include a reduced test capacity (200 per day, which increased to 500 per day by the end of April[12] in the laboratory of Baney) and a limited number of health establishments capable of handling Covid-19 cases (2 institutions in the country), with themselves less equipped with respirators. Finally, limited population access to basic health infrastructures increases the risk of contagion.

The main measures of disease prevention include the suspension of international travel followed by national travel, the prohibition of agglomerations of people and the general confinement of the population; traveling for professional reasons is authorised. Measures have also been taken to strengthen the health system, including the creation of an emergency fund, the increase in public spending on health, the purchase of medical equipment and the strengthening of the testing capacity of the Baney laboratory.

[10] https: //www. undp. org/content/dam/rba/docs/COVID-19-CO-Response/undp-rba-covid-equatorialguinea-apr2020. pdf, accessed on 4 June 2020.

[11] https: //africacenter. org/spotlight/mapping-risk-factors-spread-covid-19-africa/, accessed on 4 June 2020.

[12] https: //www. guineaecuatorialpress. com/noticia. php?id=15337, accessed on 4 June 2020.

4. The macro-economic impact of the pandemic: chain of economic shocks

4.1 The immediate shock: sharp fall in the demand for petroleum products

The main shock that affects the economy of Equatorial Guinea after Covid-19 is certainly the shift in international demand for hydrocarbons, of which its GDP is predominantly dependent despite the decline in recent years, as shown in section 2 (especially Figure 4).

The importance of the oil sector in the balance of payments and the multiplier of public and private (sector) expenditure, especially for construction and services, remains essential and difficult to replace at least in the short to medium term. This, despite the fact that oil production and exports have steadily decreased since the peak in the years 2004-2008 (Figure 8), due to the ageing of offshore tanks, the measures to control production res ulting from the country's OPEC participation since 2017 and the entry into the market of new and more competitive suppliers.

The overwhelming share of oil exports in total exports has hardly decreased over the years, and even increased again since 2015, reaching 97 % in 2018. Figure 9 shows the value of oil exports compared to total exports. According to data from the International Trade Centre in Geneva between 2012 and 2016, the two categories of products that were most exported besides petroleum were the chemical derivatives of hydrocarbons, mainly methanol (however, they barely accounted for 3.3 % of average exports) and wood (on average 1.8 %).

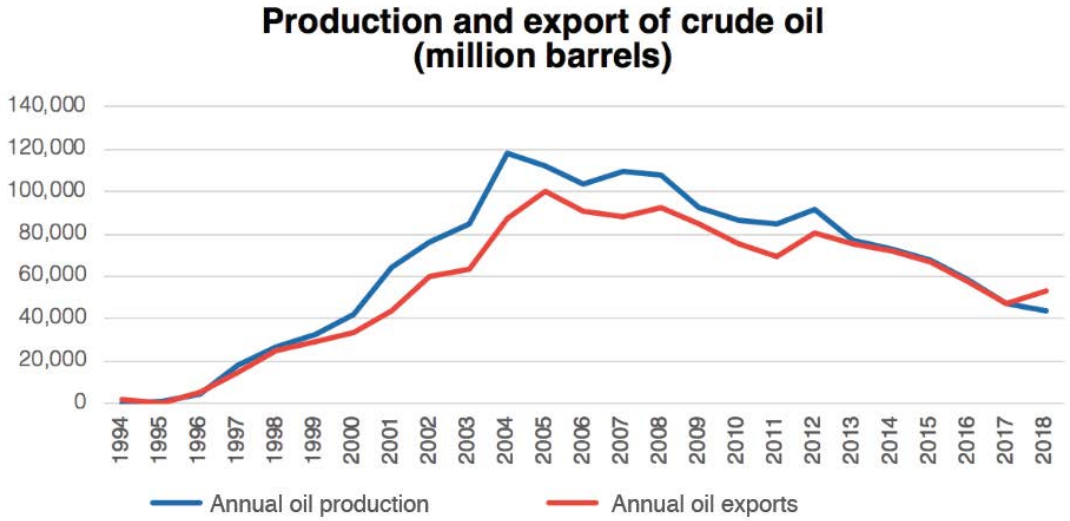
In addition to the volatility caused by changes in global demand, it should also be borne in mind that the oil sector in Equatorial Guinea has lost much of its elasticity to international demand. In other words, the capacity of the country to respond to peaks in demand decreased well before joining the OPEC price control mechanism, as shown in Figure 10.

Forecasting the impact of Covid-19 on oil demand in Equatorial Guinea is not easy, especially since forecasts on the global economy after the crisis are still very uncertain. Table 1 summarises the international estimates available to date on demand and prices of hydrocarbons.

Suffice to say that if the consensus at the end of April was for a Brent price of around $25/b until the end of the year, the prices at the end of May were around $30-35/b, even crossing briefly the threshold of $40/b, before going back in June and increasing at the beginning of July.

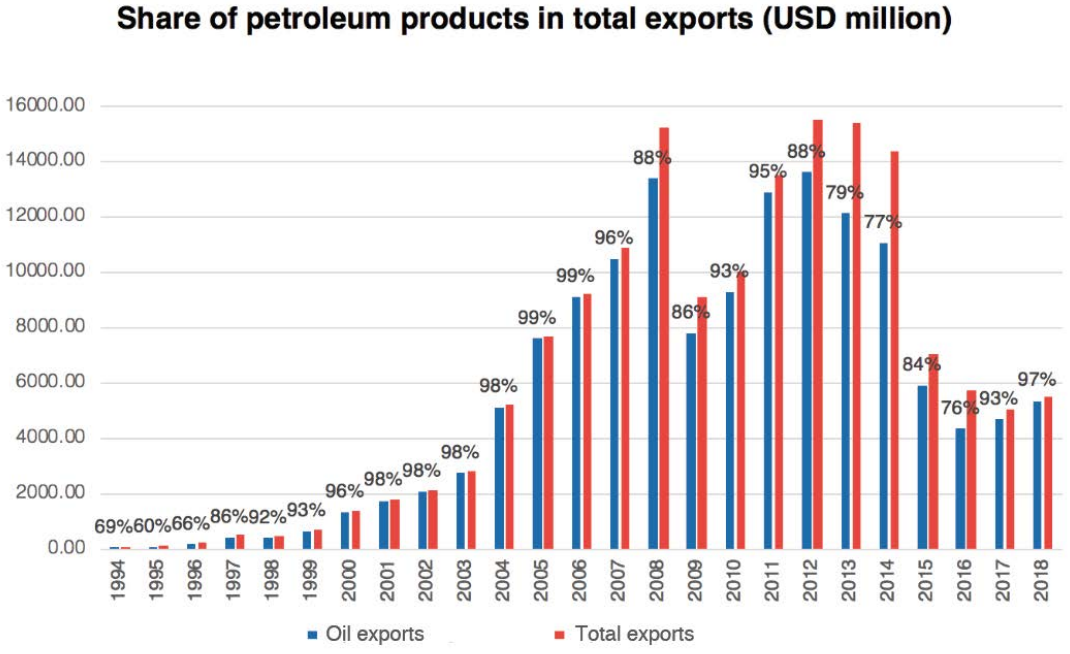
According to the worst-case scenarios, in mid-April the OPEC+ decided to decrease 10 million barrels per day for 2 months, then rose to 8 million barrels for the rest of the year, and to 6 million barrels for 2021 and 2022. It is assumed that the fall will favour the sale of stocks and put an end to the price war initiated in February by Saudi Arabia and Russia, but it is also very likely that it will be far from alleviating producers in countries outside the agreement, such as the United States and Canada.

Figure 8: Production and exports of crude oil



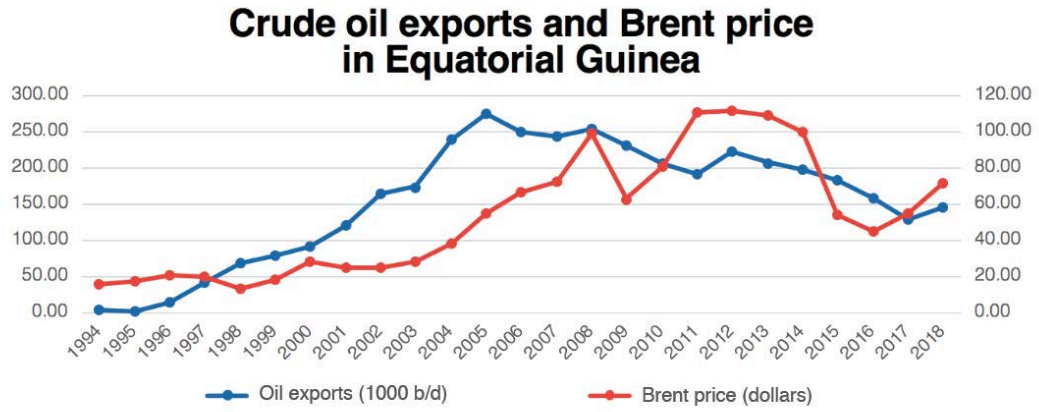
Source: OPEC, Statistical Yearbook 2019

Figure 9: Share of petroleum products in total exports between 1994 and 2018



Source: ADE based on OPEC data

Figure 10: Price per barrel and export volume of crude oil



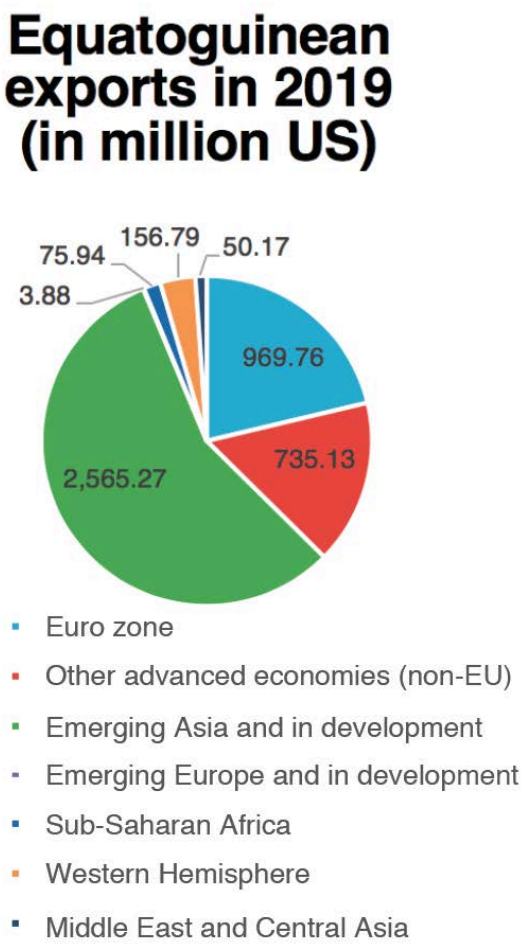
Source: ADE based on OPEC data

Table 1: Summary of international projections on demand and price of hydrocarbons

Aggregate	World	Source
Oil demand	Around - **8 % in 2020, compared to** 2019	IEA Global Energy Review
Gas demand	Around - **4 % in 2020** compared to 2019	IEA Global Energy Review and Gas Report
Oil prices (average Brent, Dubai, West Texas)	- 47.9 % compared to 2019, i.e. US $32 in 2020 and + 18.8 % compared to 2020, i.e. US $38 in 2020.	World economic prospects of the WB.The basic product market perspective of the WB provides **USD 35 in 2020 and USD 42 in 2021.**
Brent oil price (most relevant for Equatorial Guinea)	**US $33.3 in 2020** and **US $39.6 in 2021**	World economic outlook of the WB
	US $59.7 in 2019 **US $56.7 in 2020** **54.3 United States in 2021** 53,7 United States in 2022	IMF review, December **2019**
	(I) the initial baseline scenario at a price of **US $55.5** in 2020, (ii) the revised baseline scenario (transient crisis with an average price of one barrel of **US $39.1**, and (iii) the pessimistic scenario (rapid spread on a large scale) with an average barrel of **US** $ **20** in 2020	BEAC , Monetary Policy Report, March 2020
	US $38.02 in 2020	International Energy Agency, June 2020, see https: //www.eia.gov/analysis/
	Two scenarios, **US $36 and US $33.8** in 2020	INEGE
	US $33 e 2020	Ministry of FEP, in view of the request under the Instrument for Rapid Financing of the IMF
Gas prices	- 25 % compared to 2019, **US $3.6/mmbtu in 2020**	World Bank Commodity Markets Prospects

Equatorial Guinea, the smallest producer of OPEC, cannot have a major influence on international prices and its positioning vis-à-vis its main customers is ambiguous. As shown in Figure 11, most of its exports (56 %) were in 2019 to Asia, especially to China (where demand should recover), India (which should enter a severe recession), Singapore and Korea. The euro area accounts for 21 % of its exports, with Spain and Portugal being their most important customers (it is believed that their economies will recover at a slower pace than other countries in the region), while the United States (from which the annual demand for hydrocarbons is believed to decrease and which has become a much smaller customer in recent years), represents only 7% of the flow of Guinean exports.

Figure 11: Main export destinations in 2019



Source: IMF

For the time being, the only projections available on Equatorial Guinea's production and exports come from the IMF (end of 2019, before the Covid crisis) and the first Covid-19 INEGE impact study (April 2020). The latter uses two scenarios: one of a transitional and rapidly controlled crisis and one with a rapid and large-scale spread. In the first scenario, the crude oil price would be $36 and in the second scenario $33,8 per barrel. These levels are relatively in line with current Brent prices but are more optimistic than other recent forecasts. The scenarios project that crude oil exports would be reduced by 4.8 % and 12.2 % respectively.

Table 2 summarises the production and export estimates currently available. The Minister of Mines is making a more detailed assessment that has not yet been communicated to us.

The consequences of the fall in Equatorial Guinea's GDP have also led to differing estimates, which are shown in the table below (Table 3). For the most part, with a baseline of a decline in real GDP between -1.3 % and -1.6 %, the worst-case scenarios including the latest World Bank projections (June 2019), predict a fall of more than 8% of real GDP. For INEGE, the first macroeconomic scenario forecasts a fall of 5.8 % in real GDP in 2020, with a drop of 19.2 % in nominal GDP. It is also expected that the GDP of oil will be contracted by 7.2 % and that the non-oil crude GD P falls by 4.7 %. The second scenario shows a fall in real GDP of 8.9 % in 2020, a fall of 22.7 % in

Table 2: Summary of oil projections available in Equatorial Guinea

Aggregate	Equatorial Guinea	Source
Production of oil by volume	53 in 2019 **50 in 2020** 43 in 2021 37 in 2022[13]	IMF Review December 2019
Production of gas by volume	39 in 2019 **37 in 2020** 46 in 2021 41 in 2022	IMF Review December **2020**
Oil exports	**- 4.8 %** and respectively **- 12.2 % in 2020**, depending on the scenario chosen	INEGE
Daily production by volume.	**- 9 %** for oil, compared to 2019, and thus around **36,4** million barrels in 2020 **- 6 %** for gas, therefore some 7.300 million cubic meters	Ministry of FEP, in view of the IMF's request for the Rapid Financial Instrument

nominal GDP, while oil GDP is contracted by 12.5 %. It should also be borne in mind that the fall in real GDP had been over -9 % in 2015 and 2016, followed by an oil shock that appeared to be smaller than the current world economy. More pessimistic, the ADB predicted a decrease of -3.6 % in 2020 and -3.3 % in 2021. In comparison, it should be recalled that the Finance Act 2020, which was prepared in October-November 2019, forecasted for 2020 a recession of -1.6 % (in real terms) against -4.2 % in 2019.

In principle, the drop in international demand should have an impact on investment projects in the oil and gas industry. A gas pipeline of $170 million is being built, which can transport natural gas starting on 2021 to Punta Europa, with the ambition to make the terminal of Punta Europa a regional gas hub (Nigeria, Cameroon, Equatorial Guinea). The renewals of the Zafiro reservoir were ongoing (ExxonMobil) and a new warehouse was discovered in August 2019 (Noble Energy). These investment projects should not reverse the decrease in exploitable reserves, but at least slow it down for some years. In addition, the joint project with Cameroon in Yoyo/Yolanda and a licensed gas licence should be remunerated together with other new licenses. The future of these projects is now very uncertain[14]. However, the flagship gas project, the Campo Alén Campo pipeline in Punta Europa, seems to have been maintained and should start operating in June 2021 as initially planned.

[13] The unit of measurement is not indicated. This is probably millions of barrels.
[14] IMF 2019: box 1

Table 3: Summary of available projections of GDP growth in Equatorial Guinea

Aggregate	Equatorial Guinea	Source
Real GDP	-8.4 % in 2020 -1.6 % in 2021	World economic outlook of the WB
	-5.8 % in 2020 (crude oil -7.2 % and non-oil -4.7 %) under the first scenario; 8.9 % in 2020 (GDP oil -12.5 %) in the second scenario.	INEGE
	-5.5 % in 2020 and + 2.25 % in 2021	Prospects for the IMF Global Economy, April 2020
	-3.6 % in 2020 and -3.3 % in 2021	African economic prospects for the ADB
	— Revised Baseline Scenario (Table 14, p. 46): -1.3% of total GDP in 2020 (no doubt real but not clearly specified), no change to oil GDP and -2.2% of GDP without oil — Pessimistic scenario: -8.9 % of total GDP in 2020, -14.2 % of oil crude, -4.9 % of non-oil crude.	BELAC, Monetary Policy Report, March 2020
	Between -5.5 % and -6 %, total GDP in 2020, of which -7.25 % of GDP in oil and -4.7 % of the non-oil GDP	Ministry of Economy and Finance, in view of the support application under the fast financing instrument of the DMI

4.2 Immediate Shock on State's revenue: macro-fiscal analysis

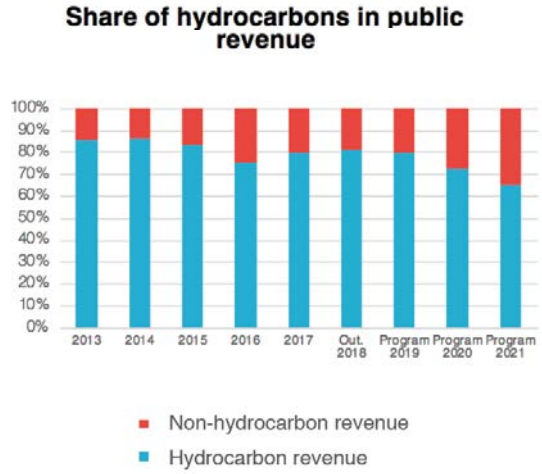
4.2.1 Forgone revenue

One of the immediate effects of the likely fall in exports is the fall in government revenue. In terms of revenues, the proportion of hydrocarbons (see Figure 13), with pre-Covid IMF estimates for 2019, 2020 and 2021, has never dropped below 75% and exceeded 80% in 2018. The fall in hydrocarbon revenues, and thus in the fiscal space of the State, is a phenomenon that started well before Covid-19, which was not reversed by its temporary increase in 2017 and 2018 (Figure 14). Covid-19 could therefore maintain and excavate it further.

In order to analyse the immediate effects of Covid-19 on the State's revenue for 2020, we offer a quantitative analysis (detailed in the Appendix) based on publicly-accessible data (i. e. OPEC, IMF and BEAC) and simple methods, the aim of which is to propose some plausible scenarios for the evolution of government revenues. We do not know the details of the ongoing negotiations

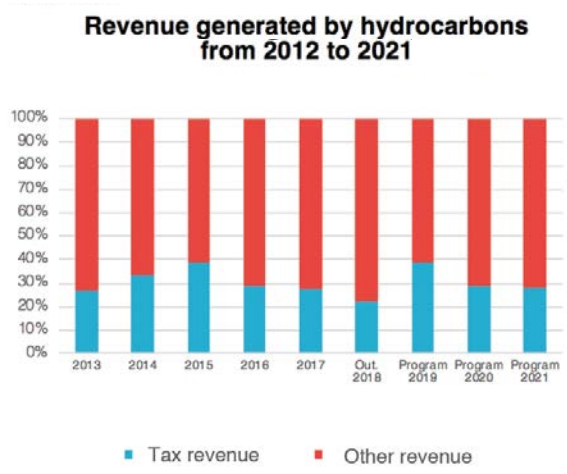
with the creditors on the revision of the future tax revenue and revenue projections. This analysis cannot have an 'official' status and does not give judgment on the outcome of these negotiations (summer 2020) as to the maximum level of deficit and debt allowed to the State of Equatorial Guinea.

Figure 12: Hydrocarbon participation in government revenues between 2013 and 2021



Source: IMF

Figure 13: Oil revenues from 2013 to 2021



Source: IMF

We use two different and complementary methodologies: the first suggests revenue projection from their average elasticity to GDP and an assumption on the change in the tax base; the second uses an econometric regression model to simulate oil price scenarios, production levels and exchange rates.

According to Tables 4 and 5, which show the projections for 2020 according to these two methods, we anticipate a dramatic fall in government budget revenues. A 39.16 % reduction is estimated, according to the elasticity method, based on the assumption of a nominal GDP fall of 22.68 % for 2020 (the assumptions proposed by INEGE[15]) and estimated at 38.3 % according to the regression model. For this latter projection, the assumptions about Brent fall in prices are based on the June 2020 forecasts of the International Energy Agency, the latest known public forecasts[16] (IEA). However, this fall in administrative resources would be lower for the tax side, with an expected decrease in tax revenues of 11.72 %, while oil participation in budgetary resources would decrease by 43.3 % according to these scenarios.

In 2020, the consequences of the global pandemic on oil prices and global demand further accelerate the fall in the country's budgetary resources that the country has witnessed since 2013 (Figure 14). The collection of non-oil revenues has led to some regulatory developments in recent years, but it is maintained at half mast, despite the increased priority given to it by the government. In 2010, the index of fiscal effort not related to hydrocarbons from Equatorial Guinea, developed by the OECD and the African Development Bank (AfDB), was in 0,08 the lowest level in Sub-Saharan Africa.

[15]
[16] impact of the Covid-19 pandemic in the economic economy of Equatorial Guinea, INEGE, April 2020.
https: //www. eia. gov/analysis/

a Forecast INEGE, April 2020; B average elasticity over the period 2006-2019 (national accounts available for the same base year);C: Minimum estimate of the Treasury, General Budget of the State 2019, Implementation of revenue as of 31 December.

Table 4: Budget revenue projected using the elasticity method

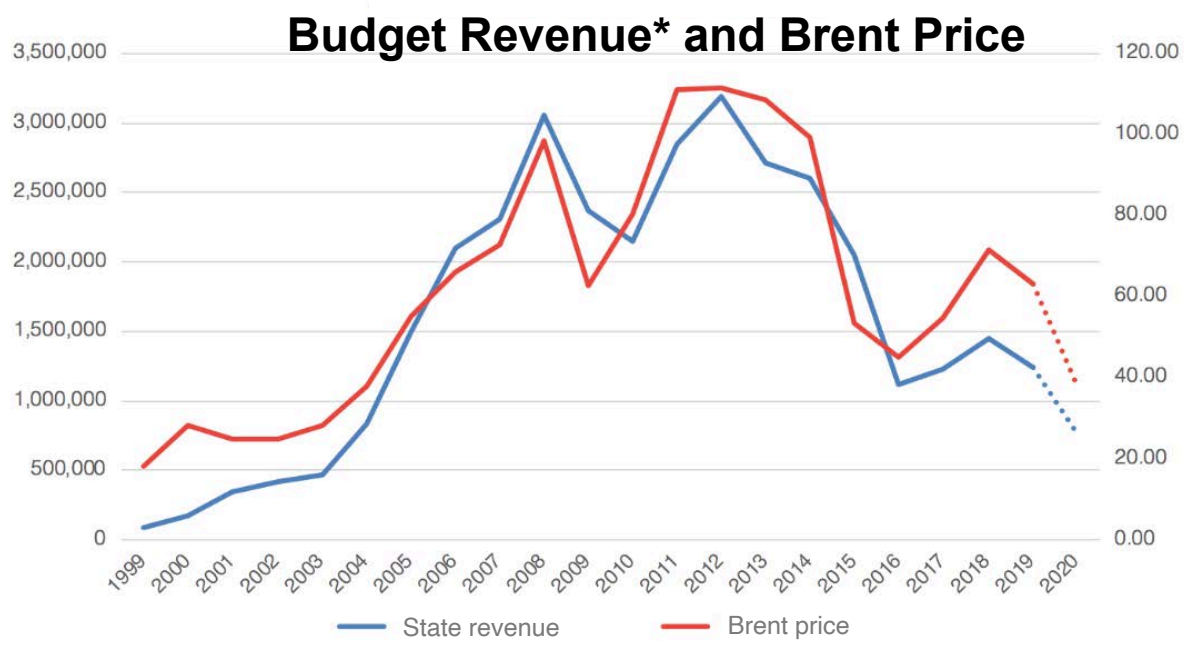
	2019	2020 F	2020 F
Covid standard scenario			
Brent price — annual average price	62,98	36 [a]	33,8 [a]
Nominal GDP (million XAF)	6 459 504	5 221 916 to	5 221 916 to
Δ nominal annual GDP (%)	- 12,42	- 19,16	- 22.68
Elasticity (marginal tax rate)	1,15	1,73 [b]	1,73 [b]
Tax revenue (million XAF)	602 540[c]	542 854	531 899
Δ Annual tax receipts (%)	39.36 %	- 9.91	- 11.72
Budgetary revenue (million XAF)	1 240 543[c]	830 078	754 746
Δ Annual budget receipts (%)	-14,24	-33. 09	-39. 16

Table 5: Projection of budget revenue under the regression method

a forecast of Brent prices for 2020 EBAIR in June https: //www. eia. gov/analysis/, b forecast from the Ministry of Mines in June 2020. c IMF forecast in June 2020, c forecast Source: IMF (exchange rate) and OPEC (Brent price and oil production)

	2019	2020 F Covid standard Scenario	2020 F Pessimistic scenario	2020 F Optimistic scenario
Brent price — annual average price	62,98	38 [a]	20	55,5
XAF/USD exchange rate	585,91	595 [c]	595	595
Annual oil production (1000 barrels)	39 997	42 125[b]	42 125	42 125
Δ National oil production (%)	- 8.81 %	5.31 %	5.31 %	5.31 %
Oil budget revenues (million XAF)	983 700	558 208	262 888	873 968
Δ Oil budget income (%)	- 16.56 %	- 43.3 %	- 73.3 %	- 11.2 %
State revenue (million XAF)	1 240 534	764 852	388 301	1 111 825
Δ Annual budget receipts (%)	- 14,24	- 38.3 %	- 68.7 %	- 10.4 %

Figure 14: Budget revenue and brent price



*Sources: Min. of Mines and Hicrocarbures and OPEC. *2020 forecast of the standard regression method for fiscal and IEA Revenue for Brent*

Currently despite the progress made, personal income tax has been caused by the destruction of formal employment in the country, caused by the economic crisis and the completion of most infrastructure projects. Moreover, VAT collection is hampered by the low capacity of tax services for the implementation, control and monitoring of the tax and, above all, due to the still widespread practice of exemptions for businesses, the lack of reliable accounts for companies and the practice of understatements. The recent technical assistance from the IMF to the Government, in particular to the Directorate-General of Taxes and Contributions (DGIC), has helped to develop a post-Covid continuity and recovery plan.

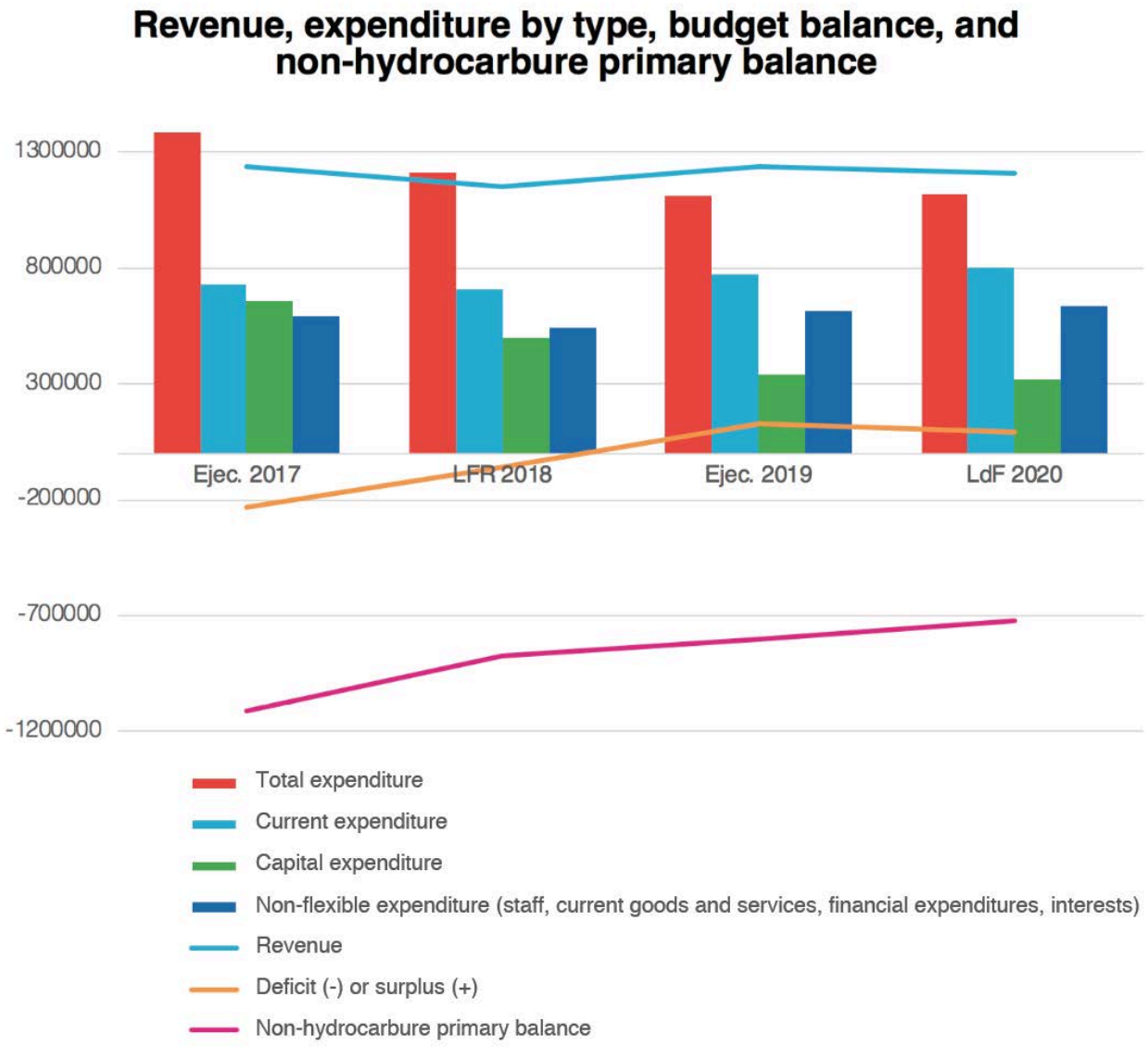
There is still little information about changes in tax collection post-Covid, because the validations in terms of revenue have not been made by the treasure department. However, from the IMF, we know that tax revenues (from oil and non-oil sectors) have reached only 63.6 % of the objective of collection on a quarterly basis for January-March 2020, that is to say, we see a recovery of less than 37,768 Million CFA Francs. This decrease consists of 13,255 Million CFA Francs in non-oil tax revenue, collected to 67.2 % of the recovery target and 24,513 Million CFA Francs in oil tax revenues, which were levied on 61.3 % of the recovery target.

With regard to the oil tax revenues, the reduction is mainly explained by the reduction of corporate income tax (49 % of the target), while the decrease in petroleum income tax revenue is due to the reduction of excise duties (alcoholic beverages, automobiles and telecommunications, collected to 6 % of the target), tax at the aggregate value (76.9 % of the target) and corporate tax (74.7 % of the target).

4.2.2 Short-term budget adjustments

The trend in recent years shows a gradual decrease in spending overall (-19 % between 2017 and 2020[17]), however, the remaining budget balance improves. There is an increase in current expenditure (+ 10 % between 2017 and 2020) combined with a fall in investment expenditure (-51 % between 2017 and 2020, see Figure 15). For current expenditures, non-flexible expenditure related to (i) staff (from 10 % to 17 % of total expenditure between 2017 and 2020), (ii) grants and current transfers (from 10 % to 14 % of expenditure during the same period) and (iii) interest (ranging from 2 to 6.8 % of expenditure over the same period) are triggered (Figure 16).

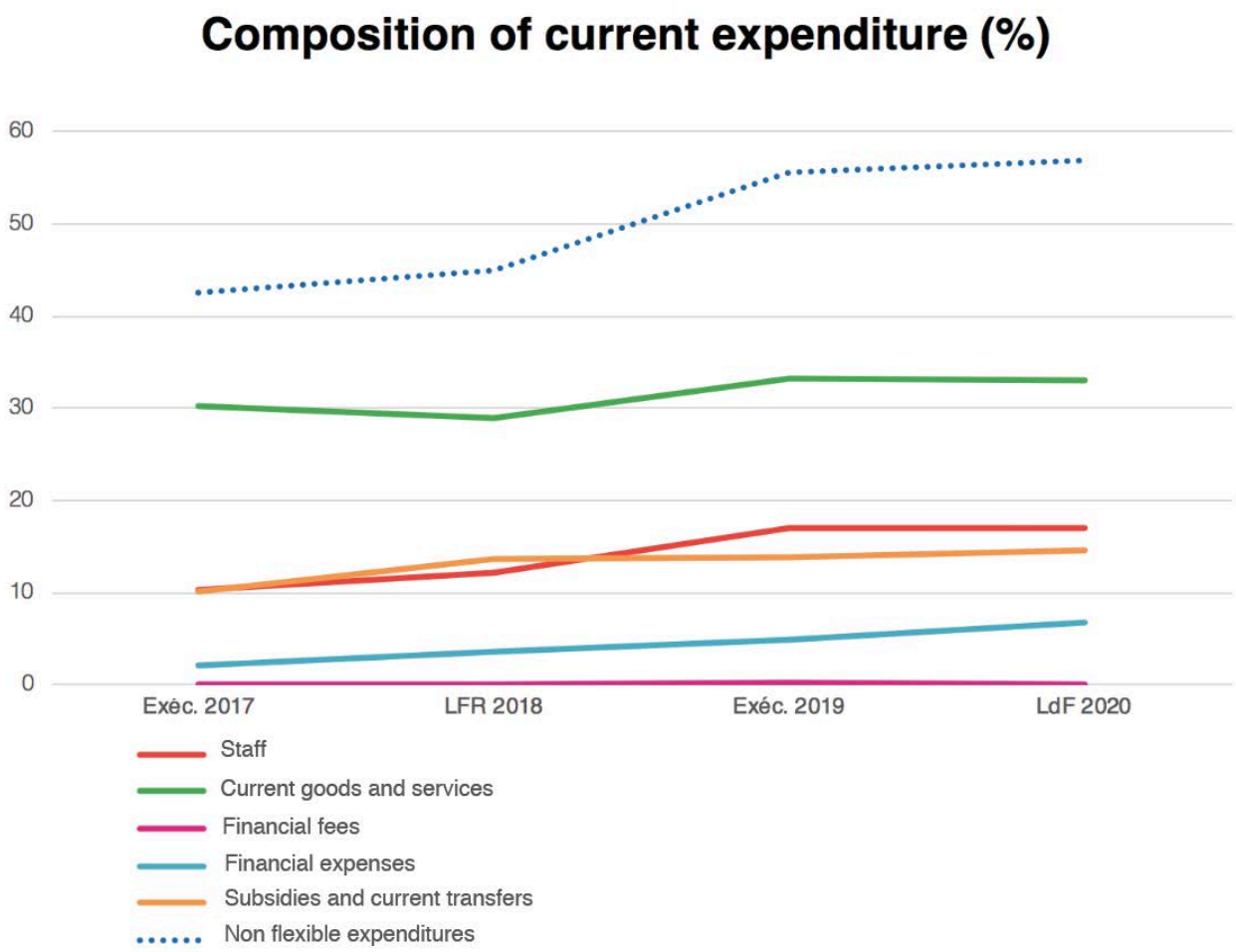
Figure 15: Change in expenditure by type between 2017 and 2020



Source: HEP Ministry, Draft Finance Act 2019 and 2020

[17] the data for 2020 correspond to those of the Draft Budget Law for 2020.

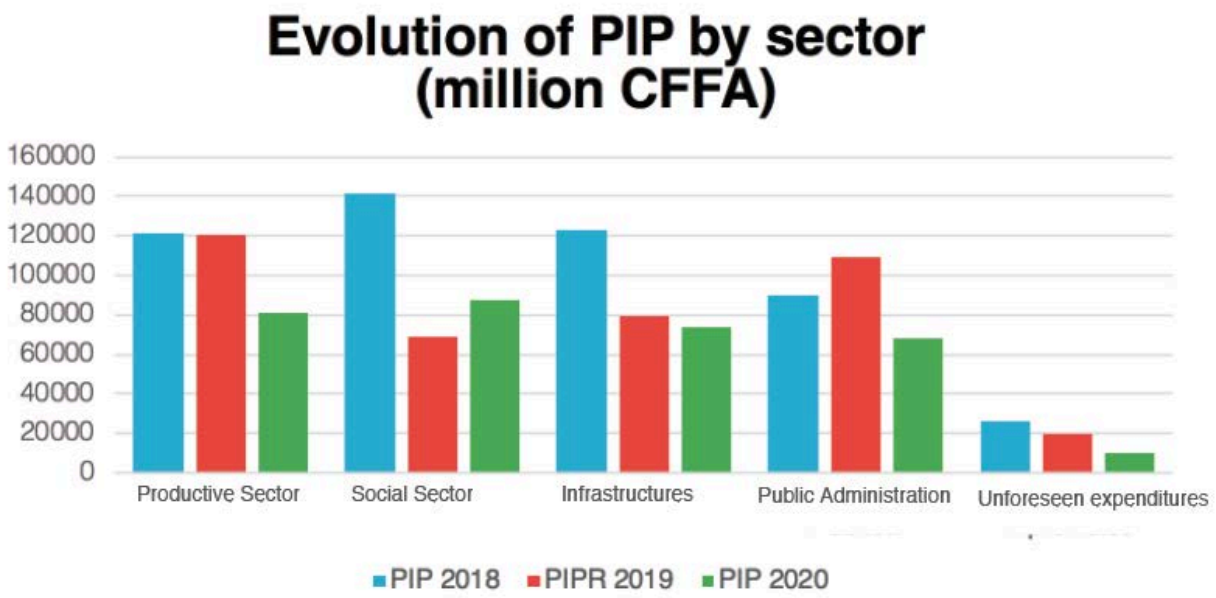
Figure 16: Change in the composition of current expenditure (2017-2020)



Source: HEP Ministry, Draft Finance Act 2019 and 2020

Foreseeing a revenue shortfall compared to the past, at least in the short term, and in order to maintain macroeconomic stability, the government significantly reduced the expenditure planned in the public investment programme during the period 2017-2020, from 500 M CFAF to 320 M CFAF. Expenditure is distributed fairly evenly between expenditure on the productive sector (especially energy and hydrocarbons), the social sector (especially water, education, housing), infrastructure (especially roads and airports) and public administration (especially defence and security, Figure 17). According to the information provided by the General Treasurer, the total implementation of expenditure in the first quarter of 2020 was around 102%, however this Figure is expected to decrease in the second quarter. Moreover, current expenditure has been implemented at 98 %. The future of expenditure in 2020 is still being discussed with the creditors, and the amended financial law is not ready yet, although a request for IMF support under the Rapid Financing Instrument is ongoing.

Figure 17: Evolution of the Public Investment Programme by sector (2017-2020)



Source: HEP Ministry, Draft Finance Act 2019 and 2020

According to interviews with the Ministry of Finance, Economy and Planning, the Government expects a total increase in expenditure of 4.4 % to deal with the effects of Covid-19, but there is no agreement yet with the IMF on this issue regarding the year's total. General patterns have been identified but not yet translated into figures, at least not in figures that can be shared at this stage, as negotiations with creditors are still ongoing. The government's attempt, inter alia, is to prioritise health costs, both in terms of current expenditure and investments, and to reduce in a particularly significant way the costs of maintenance and the costs of missions, which will be facilitated by the reduction in travel imposed by the enclosure.

4.3 Secondary shocks: change in demand and supply chains

4.3.1 Imported equipment and imported consumer goods

The following table (Table 6) shows the main import goods from Equatorial Guinea between 2012 and 2016, which are the data submitted by the International Trade Centre in Geneva and undoubtedly applicable to the situation before Covid-19. It should be recalled that Equatorial Guinea does not yet produce trade statistics, and the situation presented here is simply a reflection of the data used by its various trading partners.

The consequences of Covid-19 on imports are not clear at this stage, and it is certainly necessary to distinguish between different imported products. Foreign direct

Table 6: Breakdown of trade in Equatorial Guinea

Product category	% of total imports	Main imported product in category
Non electronic equipment	19.9	Gas turbine parts
Basic Manufacturing	16.4	Portland cement
Transport equipment	13.2	Floating or submersible platforms
REV prepared food	10.4	Beer made from malt
Varied manufacturing	6,9	Furniture, wood, etc.
Other minerals	6.4	Oil and petroleum products
Chemicals	5.6	Medicines
Electronic components	5.5	Electric conductors
Fresh food	4.3	Frozen chicken

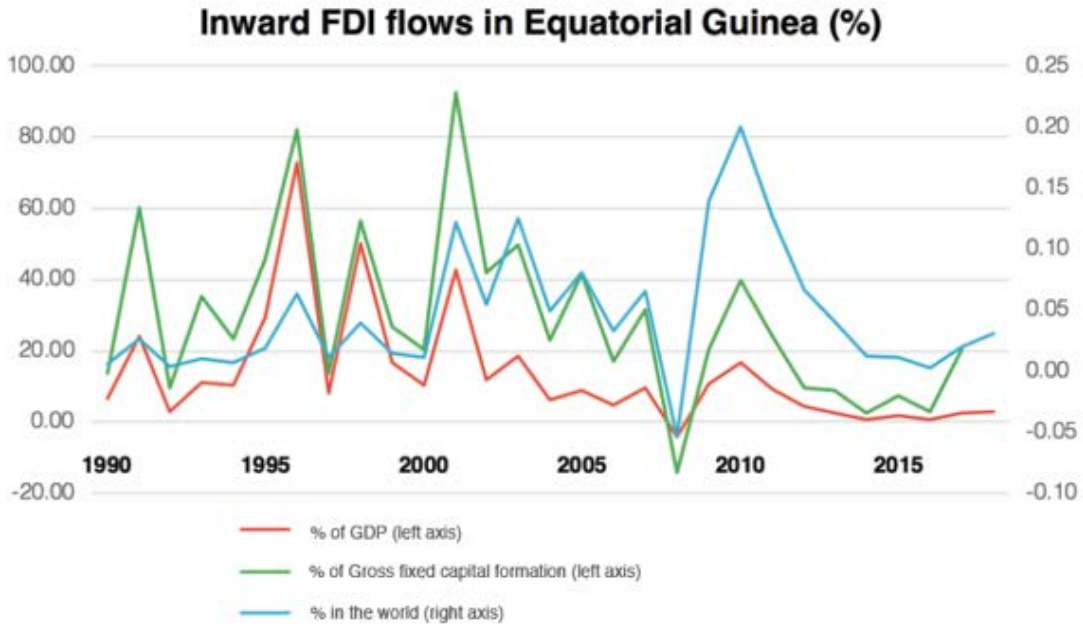
Source: International trade Centre. Geneva

investment, especially in the oil sector, was an important source of imported goods and services, at least 30-35 % of imports according to the data in Table 4, and this source will be largely exhausted in the short term due to the impact of Covid-19. We will return to foreign direct investment further on, but the following chart (Figure 18) shows FDI shares in GDP and gross fixed capital formation of a fairly unusual size for a country of Equatorial Guinea's size.

As these investments are concentrated in the oil sector and, to a lesser extent, in the services sector, the fall in oil production and export necessarily determines a fall in imports of the products needed for the operation of these sectors. That said, it should also be borne in mind that the cost of maintaining offshore platforms, which is expensive, must continue to be guarantee and that one of the largest physical investments in the gas sector, the pipeline under construction by Noble Energy, which connects Campo Alén with Punta Europa, continues to be built and should be put into service in June 2021. At least in hydrocarbons, imports should be less elastic to demand than exports. However, the absence of data by product or group of goods prevents this assumption from being statistically proven.

Regarding imported consumer goods, Equatorial Guinea is one of the world's most import dependent countries, even for products of high consumption, such as fish, where the country would have a clear

Figure 18: Inward FDI flows between 1990 and 2018



Source: UNCTAD

comparative advantage. Figures 19 and 20 show the balance of trade in agricultural production and food and animals.

Consequently, also for food products, the price elasticity of imports to the available income is lower, and imports are not expected to decrease in the same proportion. A certain substitution effect of European consumer goods (41 % of imports in 2019, with Spain, Italy and the Netherlands as the main suppliers) for goods produced regionally (6 % of imports in 2019, much of neighbouring Cameroon) or Asia (14 %, particularly China and India) could take place, especially since this year the government should start charging excise duties on certain non-essential consumer goods such as alcohol and tobacco. Figure 21 shows the distribution of Equatorial Guinea's imports by origin. We shall now examine the influence of that dependence on consumer prices.

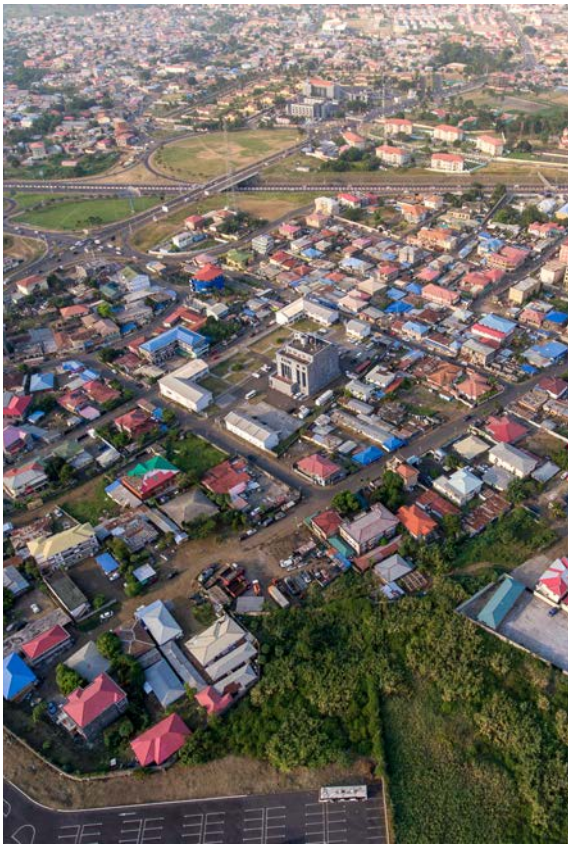


Figure 19: Imports and exports of agricultural products 2011 to 2017

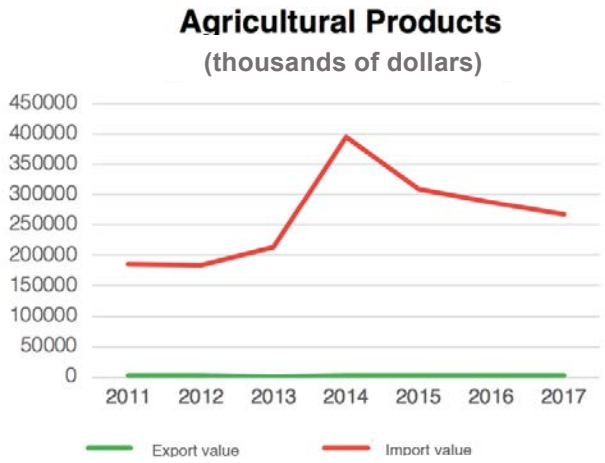
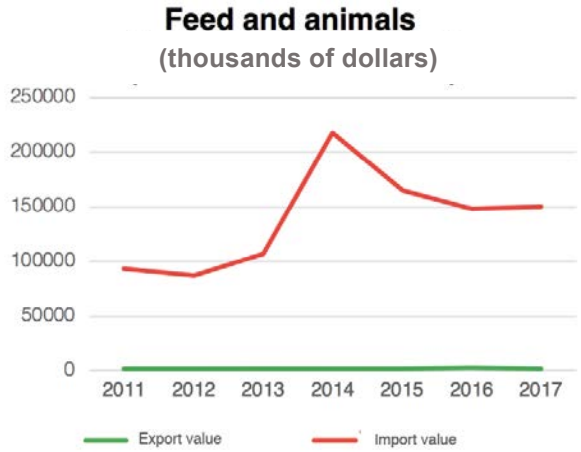
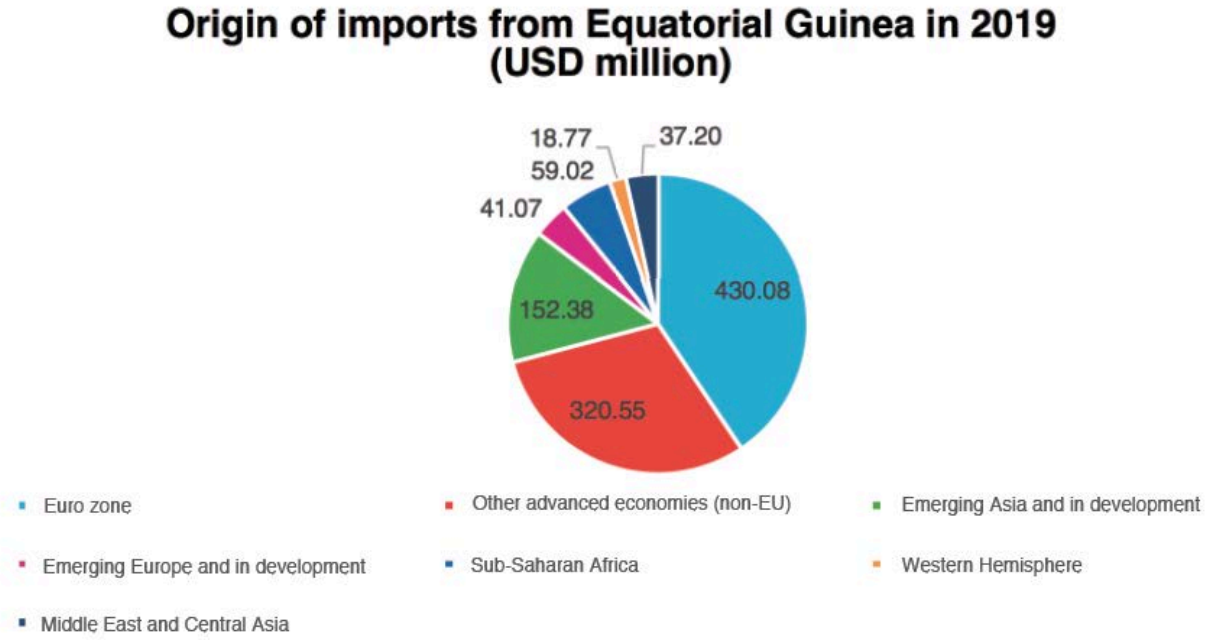


Figure 20: Food exports and imports between 2011 and 2017



Source: FAOSTAT

Figure 21: Origin of imports in 2019



Source: IMF

In principle, the longer the health emergency, the smaller the imports of consumer goods will have to be reduced as the government will have to meet the increasing need for medicines, hygiene and paramedics, and protective and care equipment (not less than 6 % of total imports). It is for this reason that, in the INEGE projections, imports of goods and services under the first scenario, that of a transitory health crisis, would decrease by 16.3 %, but in the second scenario, that of a longer-lasting crisis: imports of goods and services would decrease at around 12.9 %.

4.3.2 Price inflation

In order to understand the past dynamics of inflation in the context of other macroeconomic aggregates, and to draw lessons from them on the future outlook, it is advisable to take into account, as a whole, some macroeconomic indicators, the discussion of which will be resumed and further developed in the following sections:

Oil exports (most exports) collapsed between 2013 and 2016. Although the imports have adjusted rapidly, the slightly positive current account has deteriorated in 2013, particularly in 2015 and 2016, before picking up some colours in the following

Table 7: Main economic indicators

Main Economic Indicators											
		2013	2014	2015	2016	2017	2018 Est	2019 Progr	2020 Progr	2021 Progr	2022 Progr
Consumer Price Index (end of period)	Annual change	4.90	2.60	1.60	2.00	-0.20	2.60	1.60	1.70	1.70	1.80
GDP deflator	Annual change	-1.10	-1.40	-20.20	-6.30	12.70	13.10	-3.20	0.40	-0.60	2.7
Hydrocarbon sectors	Annual change	-3.50	-4.80	-36.50	-17.60	31.40	24.50	-9.80	-3.60	-5.50	-1.8
Non-hydrocarbon sectors	Annual change	3.10	3.70	1.10	3.60	-0.40	1.60	1.00	2.00	2.00	2.1
FAB exports	Annual change	-22.40	-6.50	-46.10	-26.90	10.50	11.60	-19.20	-7.90	-6.10	-11.90
Oil exports	Annual change	-23.60	-6.80	-47.50	-25.90	9.60	12.40	-18.90	-8.60	-6.80	-13
Non-hydrocarbon exports	Annual change	-3.90	-3.10	34.60	-49.40	39.60	-8.60	-27.90	14.90	13.50	11.9
FAB imports	Annual change	-23.80	-2.40	-23.10	-33.90	-13.20	9.50	-17.80	-3.30	- 17.60	-12.5
Terms of exchange	Annual change	-1.00	-7.60	-34.70	-5.40	35.00	40.70	-15.20	-4.70	-5.50	-1.3
Current account balance (including official transfers)	% GDP	0.10	-5.60	-16.40	-13.00	-5.80	-5.40	-5.70	-5.70	-3.80	-4.1
Reserve assets in the BEAC	Months of import	4.57	2.91	3.60	0.20	0.10	0.20	0.60	2.60	4.50	6.1
Rate of change	CFA/USD			591.40	593.00	582.10	555.20	585.80	581.40	575.60	570.4
Overall budget balance	% GDP	-5.80	-4.90	-15,10	-10,90	-2,60	0,50	1,3	1,1	1,60	2,3

two years, while remaining negative. A normal consequence of the fall in oil prices after 2014 was the decline of the GDP deflator, which includes exports in 2015 and to some extent in 2016. In contrast, the consumer price index, which includes imports — hardly fell. One reason for this price rigidity is that the exchange rate has remained stable; the second reason is that a large part of the decrease in imports had to do goods destined for the public investment programme, which had to be decreased due to the lack of foreign exchange; while the imports of essential consumer goods continued. The adjustment of the current account balance has been taken over by both the public and private sectors (which is largely dependent on public procurement) and its deficit has been largely financed through foreign currency, the coverage of which did not exceed one month of imports after 2015.

Contrary to 2015, by the end of 2019, the contraction in imports had a clearer impact on the consumer price index, which fell by the end of 2019, with a continuous increase between October 2019 and March 2020 from 136.70 to 145.40, an increase of 6.4 % the increase in the price index in education, health, housing/water/electricity/gas, culture, food and alcoholic beverages, and household furniture/domestic equipment and maintenance costs. Much of this increase is undoubtedly due to lower supply of imported goods due to global containment measures.

The increase in consumer prices had started before the restrictions due to Covid-19, and should continue in the coming months, probably to a lesser extent as a fall in demand due to containment measures is entrenched. The government expects an increase in the consumer price index of around 2% in 2020 due to the increase in the price of cleaning products and the behaviour of the storage of everyday consumer goods by the population.

The exchange rate of the CFA franc to the US dollar since the beginning of the year has suffered some volatility in the euro/dollar parity, and the movements of the former are almost exclusively due to movements in the latter (see above). This development was partly reinforced by the inflation differential. (see below) This increase is mainly due to exchange rate observed at the beginning

Figure 22: Changes in the consumer price index

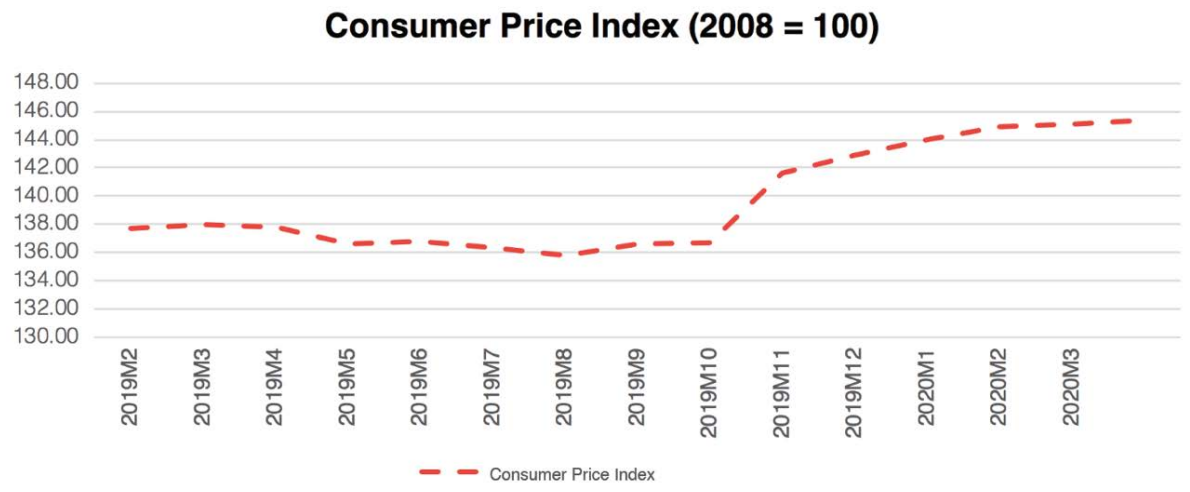
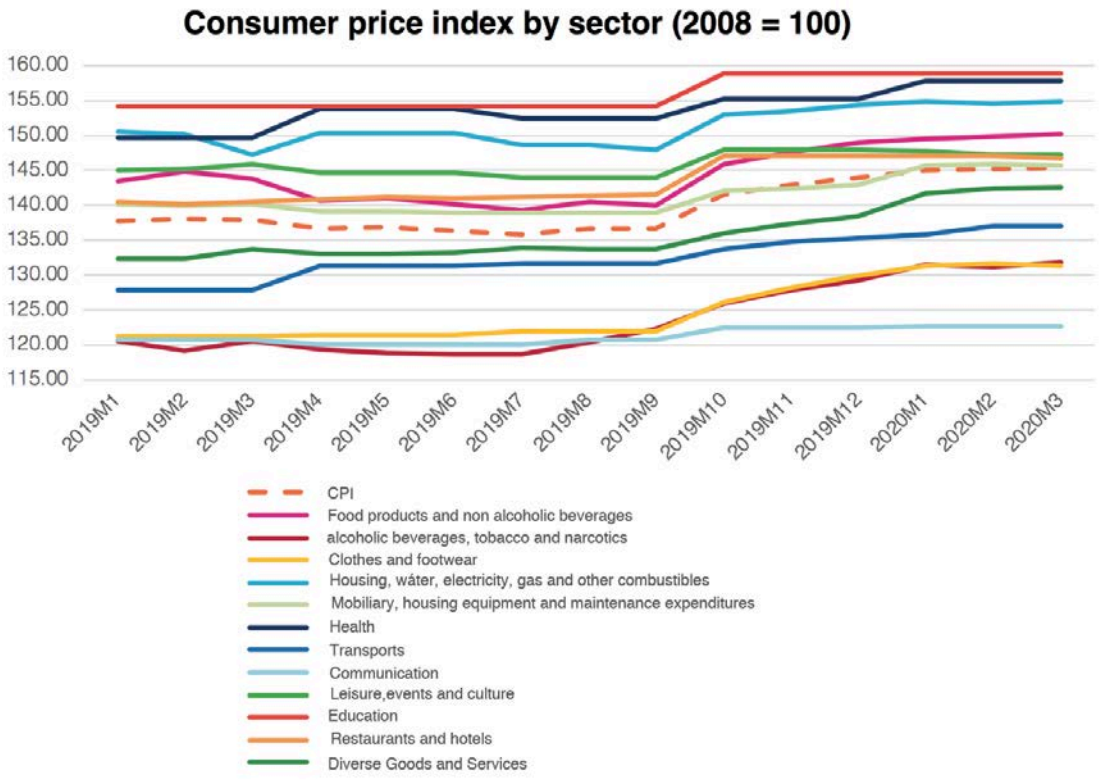
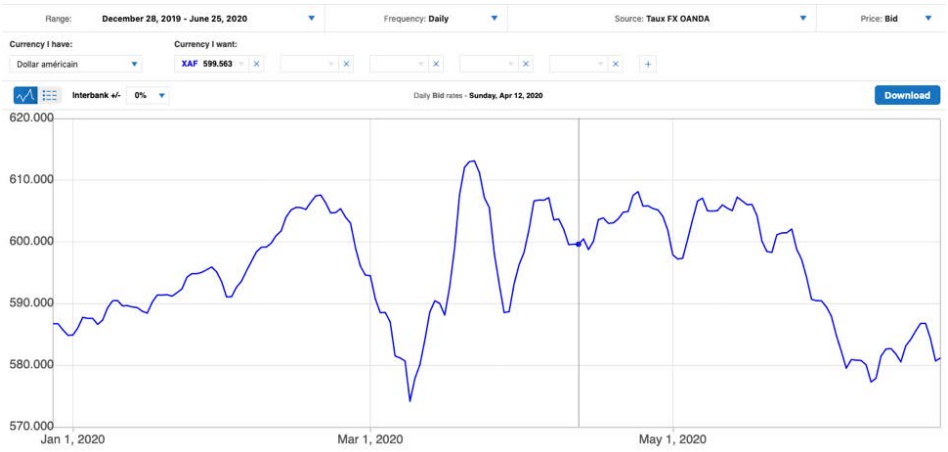


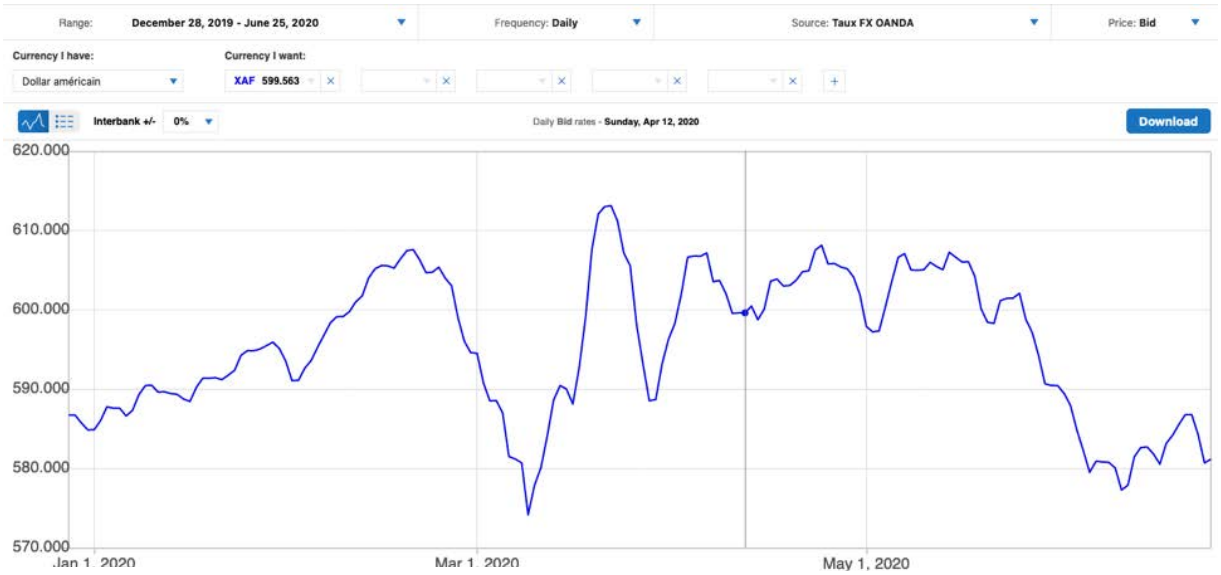
Figure 23: Changes in the Consumer Price Index by sector



Source: INEGE

Figure 24: Exchange rates USD/XAF (top panel) and USD/EUR (lower panel)





Source: oand.com

At this stage it is difficult to predict future developments, but the global money market appears to stabilise. In its request for financial support from the IMF under the Instrument for Rapid Financing, the Government expects an annual average of 595 FCFA for 1 US $, therefore not far from the exchange rate observed at the beginning of the year.

However, the econometric study made by the BEAC (Kenkouo 2019) shows that a negative impact on the USD/XAF exchange rate or a high volatility in oil prices contributes to the lasting deterioration of bank stability, an already serious problem in Equatorial Guinea as we will see below. However, the USD/XAF exchange rate has steadily increased until February and has entered a turbulence phase, which started fading after mid-May. If there were a devaluation of the value of the CFA franc, which at this stage is not very likely but cannot be excluded, "the possible increase in business operating costs may jeopardise the ability of these companies to honour their commitments to the banks. It should be recalled here that the CEMAC banks generally grant loans to a limited number of actors, in particular large companies whose inputs to the production activity are imported".

4.3.3 Changes in supply chains

Disruptions in the supply chain are another factor that cannot be assessed at this stage but could also have had an impact on prices. Such disturbances could depend, as was the case in East Africa, on the spread of the disease between lorry drivers, a particularly vulnerable category. They could also result from the partial suspension of air and maritime traffic and the partial closure of customs offices following the containment measures. More in depth interviews would be necessary to assess the weight of these factors. What will be done here will be to give an overview of the situation based on the scarce international data available for Equatorial Guinea.

4.3.4 Effects of Transportation

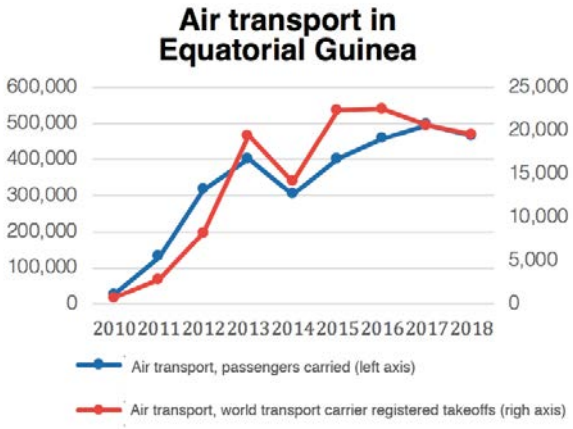
As shown in graph 25, air transport has increased in the country between 2014 and 2017 but has stabilised recently. Despite the lack of information available at this stage, air transport should be significantly affected, as in all countries, by the impact of Covid-19. Globally, IATA forecasts that passenger incomes will decrease by at least 30 % in March 2020, and for Africa in particular, flying capacity to 90 % in the first quarter of 2020, 40 % in the second, 70 % third and 90 % in the last.

This will include, inter alia, a government deficit in terms of airport revenues. According to the AIT, an association of airport managers, the revenue will be set at -33 % worldwide and on average -20 % in Africa by 2020.

Similarly, revenues from ports will also decrease, but will certainly be smaller than airport revenues, because we have seen that imports per container will not necessarily have a very abrupt fall. In addition, China, which provides 80 % of the world cargo of goods transported by boat, was the first economy to leave the enclosure and, unlike airports, ports were regarded as essential infrastructure even in the countries most affected by the pandemic. International logistics groups have made projections but are inconsistent with each other. The profile of the evolution of maritime transport in recent years in Equatorial Guinea (Graph 26) is equivalent to that of air transport with a rebound after 2014 and stability after 2017.

A foreseeable short-term consequence of Covid-19, with a loss of functionality for customs offices, could be a more or less durable increase in the flow of goods transported by the informal sector, which would also jeopardise the government's revenue objectives. In the World Bank's Logistics Performance Index that maps the efficiency of goods transport on the basis of a survey of major international logistics companies, Equatorial Guinea is 136 out of 160 countries surveyed, but in the subregion better than the Central African Republic and Gabon. The situation is worse for customs, where their position is 151. The reform of the customs sector is one of the key reforms of the programme signed with the IMF in order to strengthen tax revenues, but the digitalisation of the sector started only in Malabo.

Figure 25: Air transport between 2010 and 2018



Source: IATA, Geneva IMO, London

Figure 26: Maritime container traffic between 2010 and 2018

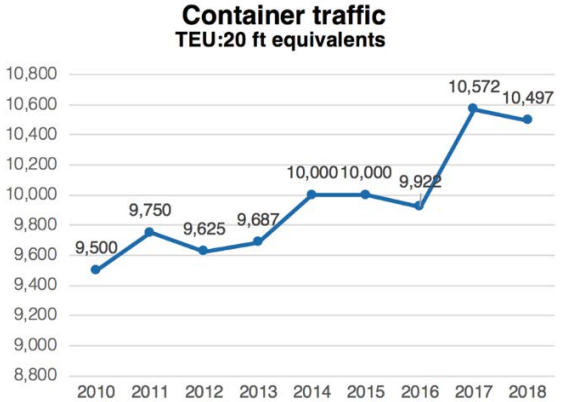
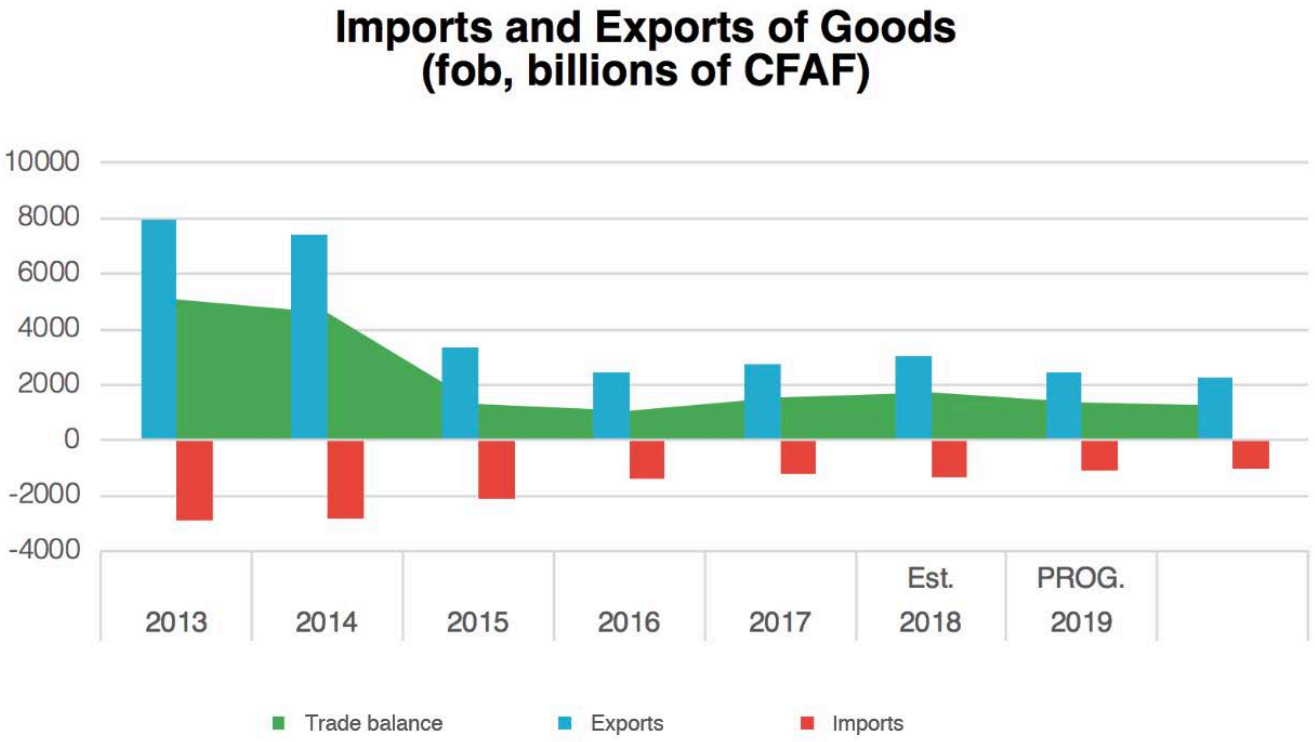
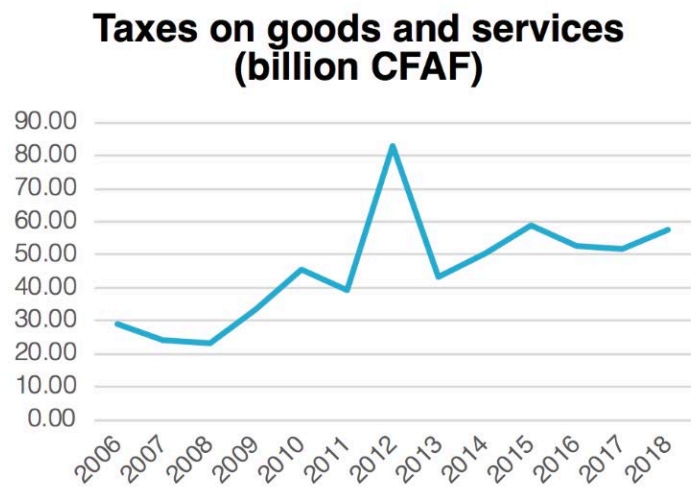


Figure 27: Trade balance 2012-2019



Source: IMF

Figure 28: Summary of oil projections available in Equatorial Guinea



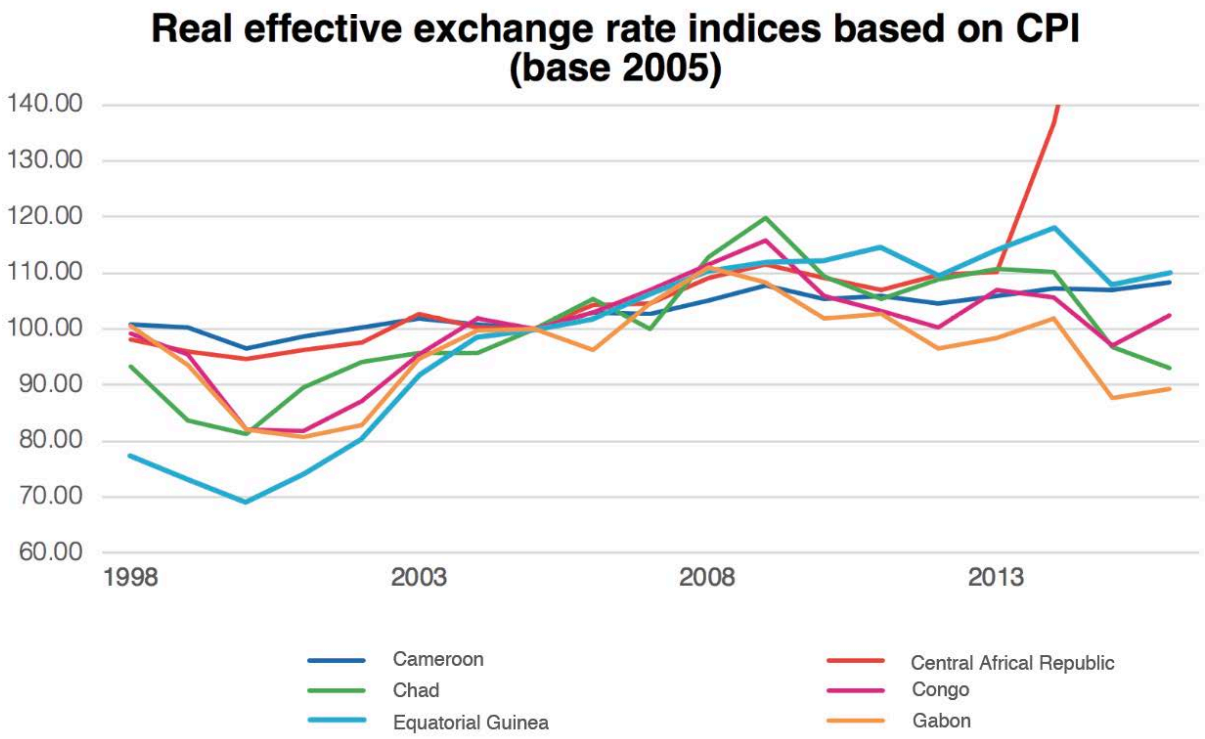
Source: IMF

4.3.5 Net trade effects

The result of the export and import elasticity gap should imply a decrease in the trade surplus of goods, of which last evolution is shown in Figure 27. We have already seen this has implications in terms of consumer prices.

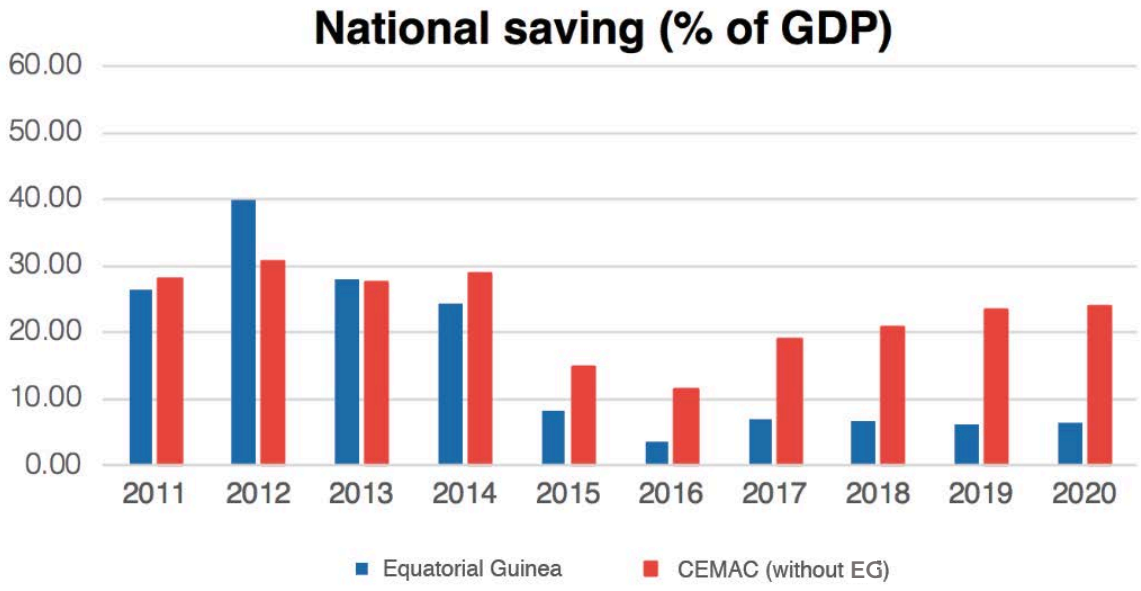
The contraction of the service sector will jeopardise the objectives pursued by the Government through the introduction of the tax at the aggregate value, the return of which was more than satisfactory (see Figure 28). However, it is likely to reduce the trade deficit in services.

Figure 29: Real effective exchange rate indices, 1998-2016



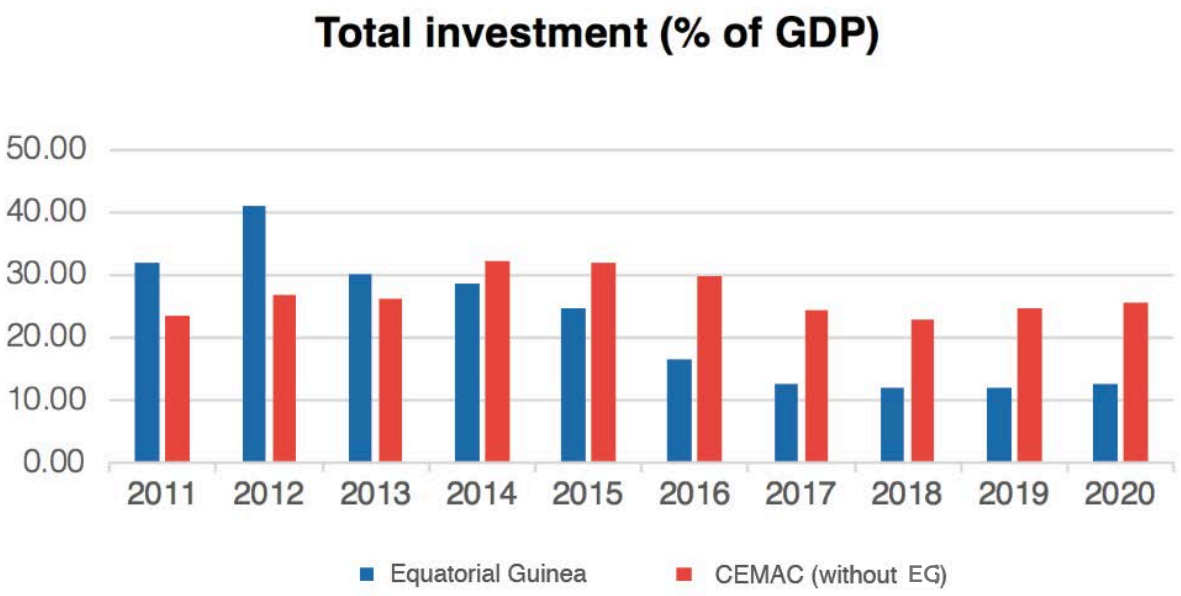
Source: UNCTAD

Figure 30: National saving (% of GDP)



Source: IMF

Figure 31: Total investment (% of GDP)



Source: IMF

In the short term, Covid-19 will probably further degrade price competitiveness, which is already falling in Equatorial Guinea. Although the estimates of the real effective exchange rate need to be taken with caution as trade statistics are not collected in the country and their calculation is based on data from their trading partners, the following Figure shows that after the Central African Republic, Equatorial Guinea is the CEMAC country where the common currency has had the largest increase in currency has had the largest increase in purchasing power compared with the trading partners of the country (Figure 29), which has been decreasing the cost of imports but degraded the competitiveness of exports.

Finally, based on the accounting identity of the current account (savings — investment), the fact that the current account will become increasingly negative, will affect both national savings and public and private investment, where Equatorial Guinea, well above the average levels of CEMAC, will now be structurally well below (Figures 30 and 31).

4.3.6 Impact on tourism

Leisure tourism from abroad is almost non-existent today, despite a natural capital of some interest. Procedures for obtaining visas are notoriously difficult, the destination is not promoted by operators and there is only one recent tourist guide published abroad. The data from the World Tourism Organisation does not mention Equatorial Guinea either. Covid-19 is not expected to have an effect.

On the other hand, business tourism and international conferences had won points in recent years, starting with the Latin American Cooperation Forum in Latin America in 2013. Their prospects are complicated, due to strong competition from Africa (Morocco, Senegal, Côte d'Ivoire, Ghana, Kenya, Ethiopia, Rwanda, Mozambique, South Africa, etc.), for the spread of remote working methods, which should reduce the need to travel, and the increasing awareness of climate change among international institutions organising conferences.

4.4 Shock in financial flows

The following table summarises the most likely predicted effects of COVID on the various components of the balance of payments, which will be analysed in detail:

Table 8: effects of Covid 19 on the Balance of Payments

Component	+ o -
Exports	Decrease
Imports	Decrease
Net balance of service	Increase
Trade balance (exports — imports + net services balance)	Decrease
Net primary income balance	Increase
Net balance of secondary income	Increase
Current account (trade balance + primary revenue + secondary income)	Decrease
Direct investment	Decrease
Other investment (net balance)	Decrease
General Balance sheet total	Decrease
Reserves	Decrease

Here, the term 'external financial flows' means: (1) the traceable flows between the primary income on the current account of the balance of payments (payment of non-resident wages, investment income as interest or dividends, and rents of natural resources as royalties); (2) the flows drawn from the secondary income of the same account, such as personal transfers and donations; (3) the flows drawn in the balance of payments account such as foreign direct investments. We leave aside the transactions on the capital account, such as the debt write-off, which do not concern Equatorial Guinea, and focus on each of the positions relevant for the country.

4.4.1 Primary Income Flow

In order of magnitude, the most substantial flows have always been the primary income flows. These have always been negative because expatriate salaries and investment income in the oil sector are mostly exported abroad, while the country does not receive, or does not have a large amount of income for investments made abroad. The trend in these transactions has been downward since 2014, mainly due to a declining return on investment in the oil and gas fields. It is also likely due to the increasing presence of expatriates who work on a stable basis in the country, therefore, considered to be resident in the national accounts..

The fall in the absolute value of this typology of financial flows should continue and intensify as a result of Covid-19: opportunities in public works are becoming scarce for foreign workers, and the fall in oil production decreases dividends and interest payable in the country (with the exception of royalties). Consequently, the balance of payments effect is positive: the IMF estimated -850 billion FCFA in 2019 and forecast -701 billion FCFA in 2021. Post-COVID, one of the flagship measures of the Presidential Decree 43 of March 30, 2020 for financial support is the repatriation of assets held abroad that would be "available" (i. e. not linked to guarantees or other country risk management tool). Therefore, the balance of payments effect is expected to be slightly more pronounced than expected.

4.4.2 Secondary income flows: remittances and aid

An effect of the same sign is expected on the secondary income. Again, the balance has always been negative but has been temporarily extended between 2015 and 2018. These include cash transfers of foreign workers residing in Equatorial Guinea, whose presence has increased in previous years before being retaken. The following graph (Figure 32) shows the estimated change of net migration since 1960, where the years 2005 to 2010 show a positive peak due to immigration from managers and technicians, but especially to the influx of people in sub-Saharan Africa, attracted by the large number of vacancies on ambitious construction sites.

As the government has already reduced the size of capital investments since the oil shock in 2014 and 2015, and post-covid, there will hardly be any kind of expenditure that is not the most urgent, the post is expected to be contracted, thus having a positive effect on the current account, as there will be fewer migrant workers in the country. Pre-Covid, the IMF estimated -196 billion FCFA in 2019 and forecasted EUR -190 billion in 2021. The decrease in absolute value is likely to be a bit more pronounced.

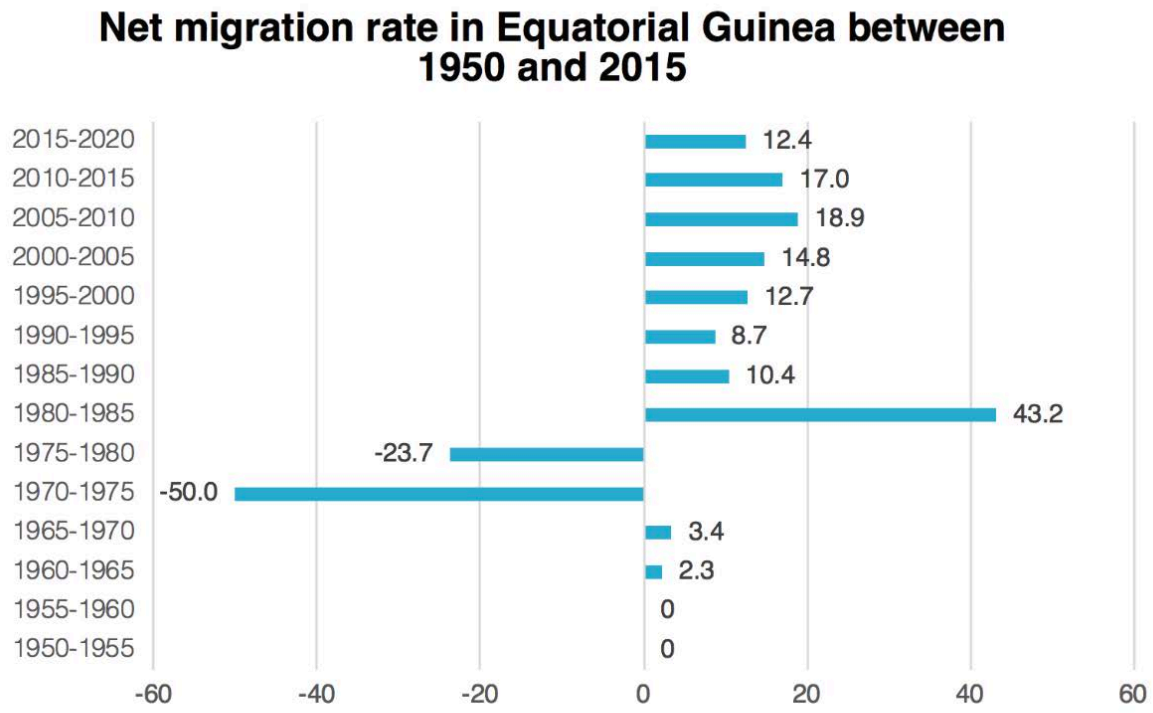
Due to its level of income, relative stability and negative perception of its institutions, Equatorial Guinea is very low depending on external aid flows, which represent on average 0.06 % of GNI in the period 2012-2018[18] and has stabilised at around USD 10 million since 2013 (see Figure 33).

France and Spain have been the two main bilateral donors, accounting for 54 % of total official development assistance (ODA) for the period 2012-2018 (see Figure 33). The UN provided 26 % of total ODA during the same period. UNICEF, UNFPA and WHO have contributed 75 % of the assistance provided by UN agencies.

The sectors supported were social infrastructure and services (55 % of ODA), mainly in the education and health sectors.

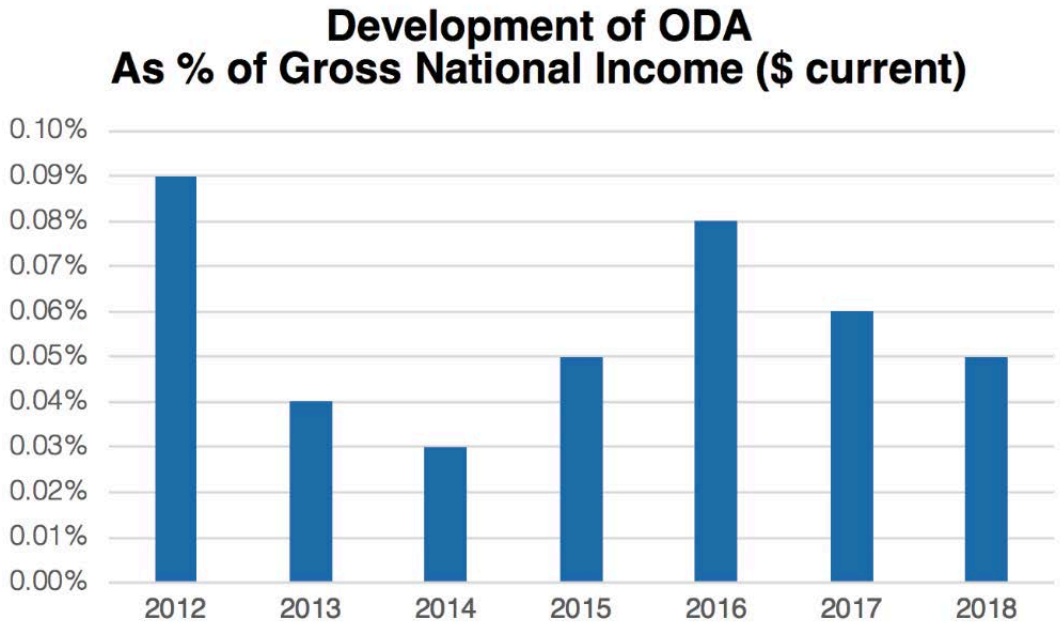
[18] OECD data; the data is only available until 2018

Figure 32: net migration rate between 1950 and 2015 (%)



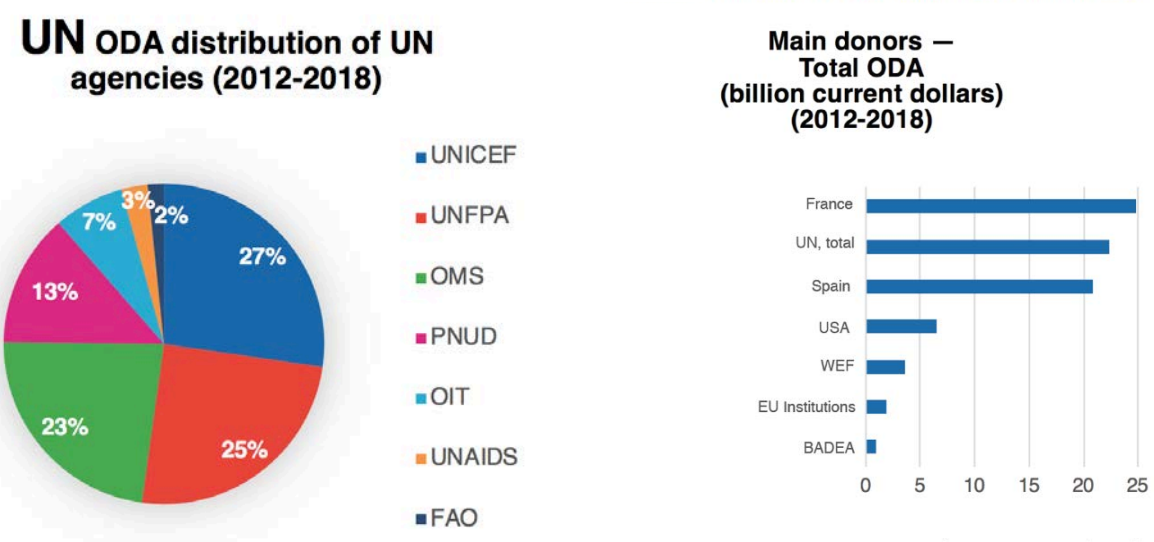
Source: UN Secretariat, Population Division

Figure 33: Development of ODA (% of INB) 2012-2018



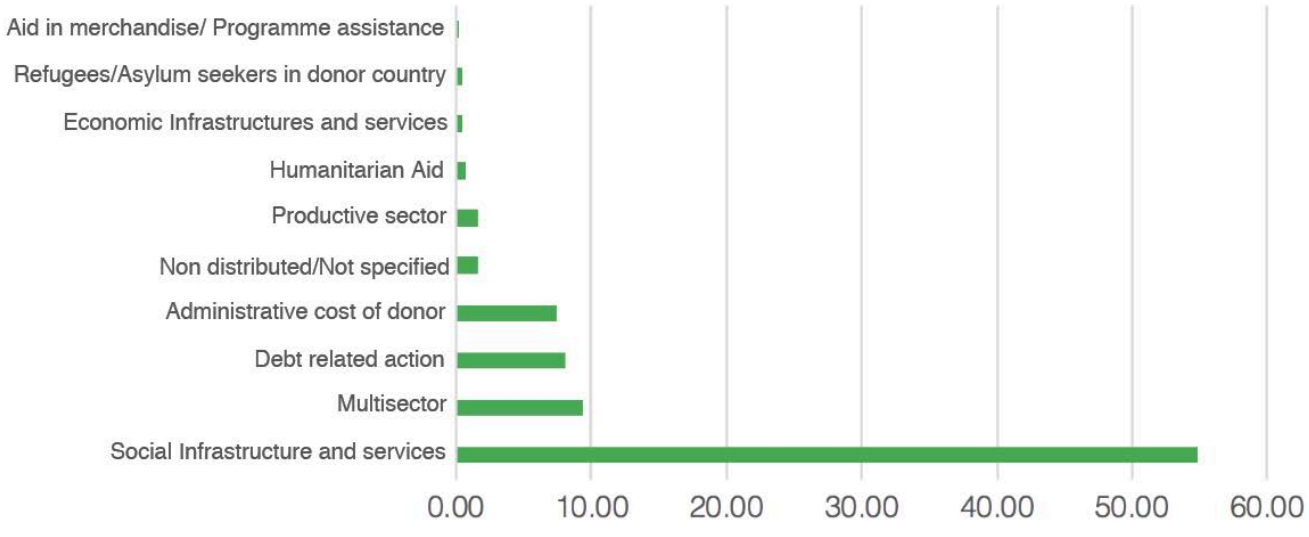
Source: OECD International Development Statistics

Figure 34: main donors and distributions of ODA within UN bodies



Source: OECD International Development Statistics

Figure 35: ODA distributions by sector



Source: OECD International Development Statistics

4.4.3 Foreign direct investment Foreign direct investment

Foreign direct investment occupies the largest position in the balance of payments financial account (portfolio investment is symbolic and other positions cover government debt, to be discussed below). Nominal FDI flows per capita are shown in Figure 36.

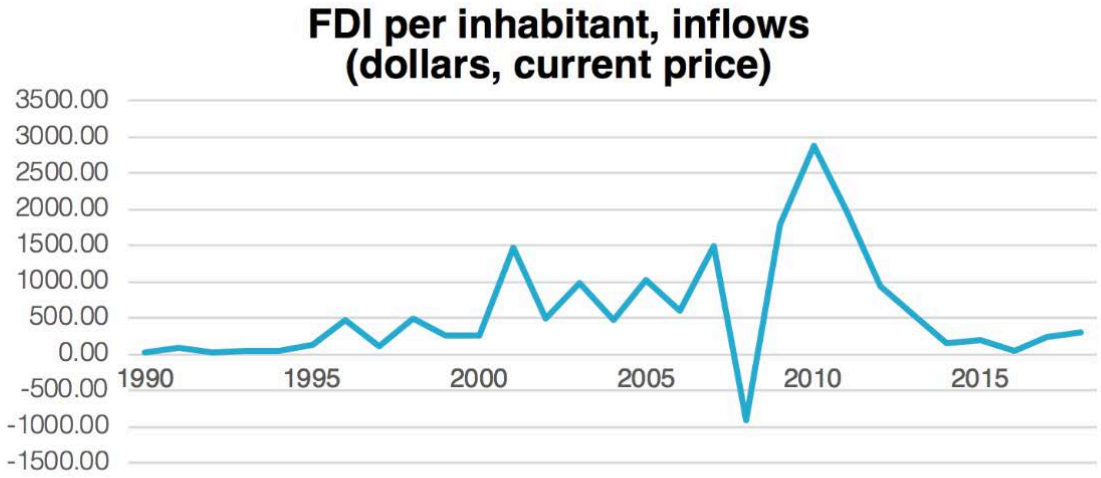
These are investments in the oil sector and to some extent in civil infrastructure and the services sector. The IMF was planning a pre-recovery to Covid-19, thanks to new oil and gas infrastructure works and the new licensing round. Of the 240 billion FCFA estimated in 2019, it was supposed to move to 370 billion FCCFA. Subsequently, these estimates may appear too optimistic, but in reality, dealing to a large extent with costly physical assets requiring maintenance, even if they are less used, it may be possible that the FDI stagnates rather than fall significantly.

In addition, we have seen that certain gas investments should be maintained Covid-19. In this respect, it should also be noted, with a return to Figure 14, that FDI has provided some of the gross fixed capital formation, sometimes very substantially and much higher than in other countries, up to 40 % in 2010. It might be thought that the stability of the FDI will probably guarantee a buffer paper in a context in which the state will be significantly removed from the creation of physical assets.

4.4.4 Government financial transactions and external financing prospects

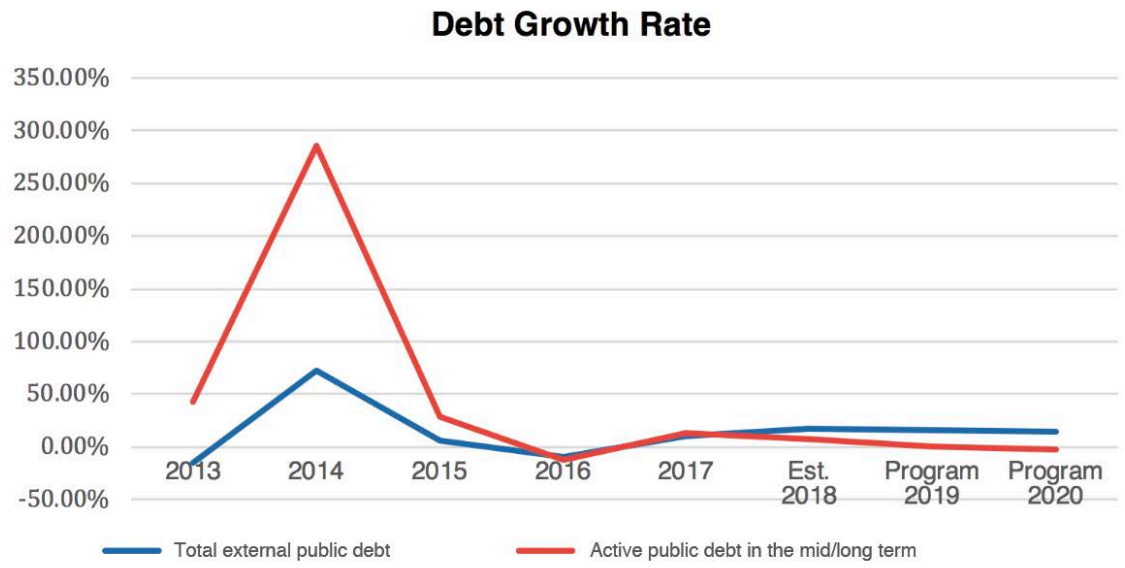
According to the IMF, the rapid build-up of debt until 2016 appears to have ceased. Most of the components of Equatorial Guinea's debt did not grow and their payment was expected to be gradual (Figure 37). In advance, Equatorial Guinea, given its level of income, is not the beneficiary of the two measures adopted by the IMF in the framework of the pandemic (the Fide — and Aliso Disaster

Figure 36: FDI inflows per capita between 1990 and 2018



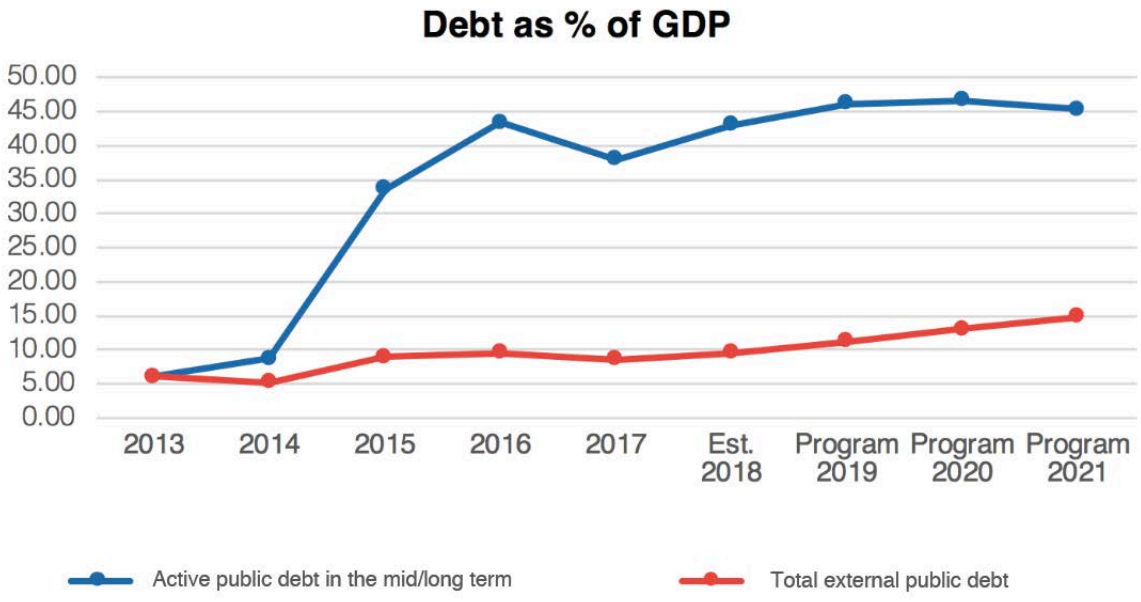
Source: UNCTAD

Figure 37: Growth rate of debt, 2013-2020



Source: IMF

Figure 38: Debt as % of GDP, 2013-2020



Source: IMF

Relief and Debt Service until October 2020), nor of the G20 government's 'Macron initiative' for the suspension of payments until the end of 2020.

Between 2012 and 2014, the International Finance Corporation (IFC) was a major funding provider in the oil sector, but these investments have been shut down and the organisation has been disconnected from fossil fuels. Prior to the crisis in Covid-19, the only real significant source of new loans for Equatorial Guinea was a credit line guaranteed with the Export-Import Bank of China (Eximbank).

As shown in Figure 38, the largest debts are linked to internal arrears, which increased rapidly since 2014 when the collapse of oil prices came as a surprise to the country, which was in the middle of major infrastructure investment activities, and continued to finance these works by delaying payments to construction companies.

Internal arrears are one of the most intractable problems of Equatorial Guinea's economy, as delays in state payments have prevented them from paying out the loans received by local financial institutions and therefore increase a large amount of doubtful receivables. Although most cases are of foreign non-domestic creditors, these deposits are non-performing and in turn, they undermine the ability of banks to reopen the credit gates to the real non-oil economy.

There are other debt components that are less significant. Among them, the legal progress made by the BEAC, which has since been stopped, against the background of a greater effort by the region to limit the monetisation of the debt. There are several bilateral and multilateral loans from official creditors other than China, including some external arrears, including a small amount of bilateral arrears (Spain and Belgium).

The issue of arrears was addressed in discussions with the IMF on the ongoing programme, and the principle of securitisation of these arrears has been validated. Many technical details remain to be refined, but the general idea is to transform the arrears once their audit was completed, which was completed before the end of 2019, at the level of the Treasury that companies could use to pay banks, after offsetting corporate tax debts to the government. As the vast majority of the state's creditors are large enterprises, regional or international, they have more capacity to accept securities, whereas a window for the payment of cash arrears for small enterprises would be considered in order to protect their liquidity. The government was planning to fully pay these bonds by 2030.

The clearance of arrears, already urgently ahead of the Covid-19 crisis, has become a key issue in revitalising the economy after the crisis. Work is progressing according to the IMF. However, being a technically complex matter for which the mobilisation of international financial experts is required, its progress has slowed down due to the current impossibility to travel.

According to the economic projections of the IMF, which as required by its statutes carried out a debt sustainability analysis, it should increase to 47 % of GDP inter alia due to the securitisation of arrears, during 2020 to begin to fall in 2021.

In reality, as it is almost certain that the government's budget deficit will be wider than expected due to lower oil revenues,

the need for funding will increase as well as the debt. However, the risk of over-indebtedness of Equatorial Guinea seems to be rather distant, even in the event of a worsening of the pandemic. That said, an effect of Covid-19 on exchange rates could increase debt service, due to the debt burden of non-residents and debt in foreign currency (lower IMF alert threshold). Prior to Covid-19, multilateral financing foreseen by the IMF in its programme was USD 631 million from 2019 to 2022, of which approximately USD 284 million had to be secured by the IMF, and the rest by the African Development Bank, the refinancing of short-term debt with local banks, or in part smaller by other financial institutions such as BADEA[19]. Equatorial Guinea should continue to use the guaranteed credit facility financing Eximbank China, but it was not expected to take new lending. It is not possible at this stage to make new projections because it is being discussed both with the ADB, which has offered its support, and with the IMF, in view of the country's access to its emergency assistance already implemented in other CEMAC countries or a reinforcement of the current programme beyond $284 million during the three years originally planned.

4.4.5 The financial system as a whole and monetary policy

The consolidated situation of the monetary system, examined on the basis of statistics published by the BEAC and available until March 2020, reveals a decline in monetary creation, in particular bank loans, for years in line with the near-continuous economic downturn and the growth of government arrears to suppliers.

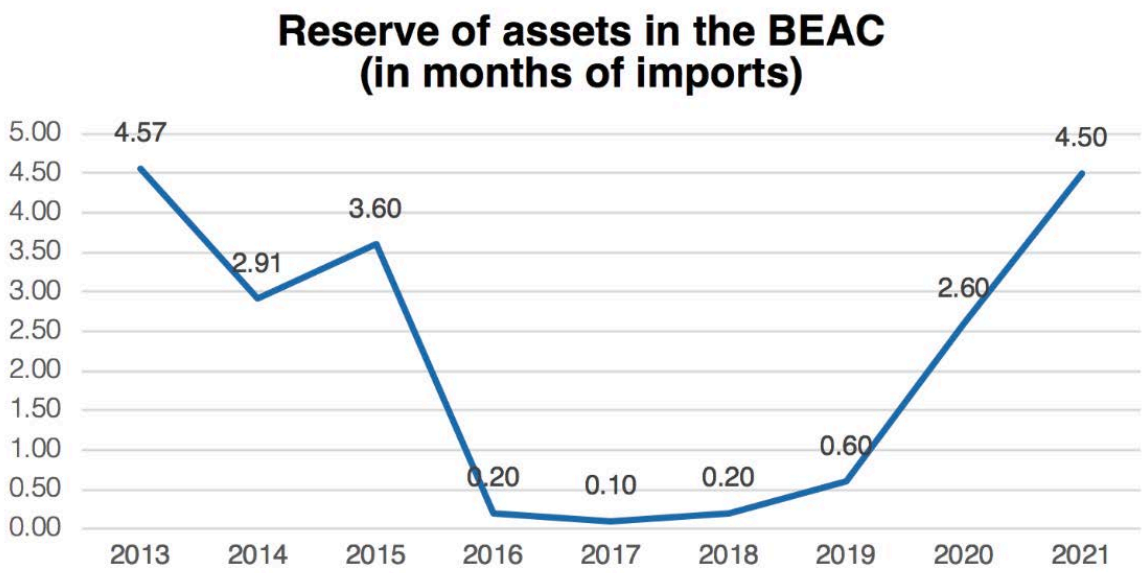
M1 (monetary offering in a narrow sense) shrank by almost half, and in a more or less ongoing manner, compared to the peak in 2012. The level of the last months, from January to March 2020, is lower than in 2019. The decrease in M1 is mainly due to banks other than the BEAC and to sight deposits because, since 2018, the fiduciary currency fluctuated little and the level of quasi-currency (money or deposits on demand or savings accounts) also remained fairly stable. The situation of other net elements has deteriorated since the end of 2019.

It should also be recalled that the foreign exchange reserves situation was already precarious before Covid-19, while the countries of the Central African Free Zone had undertaken to replenish the reserves of the BEAC. Net foreign assets, including foreign currencies, have been negative since 2019, after a peak in 2013. Net claims on the state have generally increased since 2019, but without a regular trend, and should increase, either due to increased government securities emissions from the first securitisation of arrears in 2019, or due to IMF disbursements at the end of the year. As in all parts of the CEMAC region, foreign exchange outflows are accelerating while returns stagnate or decrease due to the unfavourable external situation of the sub-region.

Since 2016, the Equatorial Guinea reserves were below one month of imports of the following year (see Figure 39), which did not represent an immediate risk in the financing of the balance of payments deficit due to the surplus trade balance and the flow of financial investments. The IMF expected before Covid-19 a gradual increase in reserve assets, thanks to budgetary consolidation, support from

[19] It is worth recalling that Equatorial Guinea, whose per capita income is not much lower than that of Portugal, is not eligible for development aid within the meaning of the CAD, with the exception of specific programmes of technical assistance or cultural and scientific cooperation programmes. Nor is it eligible for certain types of concessional loans from the World Bank Group.

Figure 39: Reserve of assets in the BEAC between 2013 and 2021



Source: IMF

creditors (IMF, ADB, etc.) and the return of government deposits abroad and 'available', i.e. not linked to guaranteed debt securities. The measures of Decree 43 of 31 March 2020 prioritise the return of assets held abroad but this is unlikely to improve the consistency of the stocks, as a result of the sharp fall in exports and the lower elasticity of imports. Furthermore, if one of the first measures envisaged by the IMF programme was the communication to the BEAC of oil and gas contracts, there are still doubts about the government's ability to ensure the proper enforcement of exchange rules by public bodies and private operators, in particular the domiciliation of export transactions with a resident bank.

The data also shows a tight monetary policy by the BEAC, which will continue after the Covid-19 crisis, and a greater search for financing outside the CEMAC zone. The BEAC balance sheet shows that the currency in use in Equatorial Guinea decreased compared to 2014 levels and remained relatively stable in recent years: between 2019 and the first months of 2020, it has not changed. On the other hand, the reserves of other banks increased since December 2019, but without returning to their high levels of early 2019. Overall, the increase in the monetary base since December 2019 was particularly related to the banking book effect provided by the BEAC. Status assets are at their lowest level since March 2018 due to a specific policy of the BEAC, but external liabilities are also at their highest level since the end of 2019. Since net external assets have been at a very low level since the end of 2019, the BEAC without any doubt sold foreign reserves to strengthen local banks in particular, while at the same time strengthened its capital (own funds) and since 2019 has been financed much from the outside.

We have seen that the poor health of the Guinean banks is an important constraint

for the development of the private sector, excluding hydrocarbons. The high volatility of bank deposits is traditional in Equatorial Guinea and is mainly the result of large and highly irregular payments made by the government to service providers, a factor that has for a long time been limiting credit supply. Deposits in the balance sheet of banks that create money are close to one third of the peak in 2013. Since September 2019, they have been fairly regular, while the term deposits are more or less stable. Public sector deposits continue to increase slowly since December 2019 and therefore, external liabilities increase as well, whether for interbank short-term transactions, or by foreign investors underwriting of the equatoguinean government. Own resources are recovering and the BEAC loans have slightly increased since the minimum of September 2019. The other liabilities became more negative since March 2019.

The credit to the private sector resumed its long-term decline in early 2019 and remains very dynamic. The old problems of the Equatorial Guinea banking sector have not been addressed. In particular, the limited information on the credit history of potential borrowers and the high collateral requirements, which remain important bottlenecks for financial development. Traditionally, an important part of this credit was credit for consumption, therefore import for safer borrowers such as public sector employees, and it did not always benefit the local economy. The government wants to boost the diversification of the banking sector by supporting i.e. the micro-financial sector, which has so far been present in the country's financial landscape compared to the region's partners.

Non-performing loans increased until the first half of 2019, reflecting a more stringent ranking of loans by banks and a deterioration in their portfolios as non-hydrocarbon related activity remained low. Most of these maturing loans originated from large loans to construction companies, often foreign companies, that had contracts with the government during the oil boom; these companies became unable to pay their loans when the government started accumulating arrears.

In terms of other headings of the asset, bank financing of the state grew considerably during the first half of 2019 but has been significantly reduced since. External assets have decreased since September 2019, in line with the implementation of new exchange-rate regulations at CEMAC level and possibly with the specific efforts of Equatorial Guinea to repatriate part of the assets held abroad. The mandatory and free reserves, the latter very limited in Equatorial Guinea, have been increasing since the end of 2019 as part of the BEAC's efforts to stabilise the banking system after the sharp decline that they had experienced during the whole of 2019. In advance, the improvement in the deposit rate of loans, which was evident in 2019, should continue.

Equatorial Guinea remains, with a large difference, the CEMAC country with less solid bank liquidity. This is indirectly confirmed by the consequent deterioration of the country's signature in regional markets since 2016. At more than 8%, the weighted average interest rate on government bonds in Equatorial Guinea at the end of 2019, albeit a slight decrease compared to 2018, remains by far the highest of all CEMAC.

The equity capital adequacy ratio (CAR) declared by COBAC for the equatoguinean banking system was 27 % in June, but this Figure includes the general reserves of a systemic bank, which have been artificially inflated by their own Category 1 fonds and CAR. The bank plans to convert these capital reserves into capital in the coming months to cover the equity gap. Liquidity remains low in some banks, which continue to depend on the funding of BEAC, albeit at significantly lower levels than in 2018. Loan provisioning is weak, compared to international best practices.

According to the latest Monetary Policy Committee decisions of March 27 2020, the BEAC essentially maintains the course of its restrictive policy with a view to gradually increase reserve assets. As mentioned: 'it is essential for the BEAC to continue to apply the exchange regulation strictly to prevent speculative and unjustified outflows of capital'. Its strategy now is to activate the interbank market. The BEAC provides resources for the banking system essentially through four tools (i) the main liquidity injection operation, (ii) the marginal credit facility window, (iii) long maturity liquidity injection operations and (iv) the special window to refinance irrevocable medium-term loans. Equatorial Guinea makes special use of its main liquidity-providing operation, which the other CEMAC countries have been able to waive to a large extent, and of the marginal lending facility.

However, arrangements have been made to help the financial system overcome the peak of the crisis. In this regard, the Committee decided to revise the interest rate for tenders (TIO) downwards from 3.50 % to 3.25 %; to review the rate of the marginal lending facility from 6.00 % to 5.00 %; bring back liquidity injections of CFA 240 billion with CFA Francs, and make it possible to increase this amount if necessary; expand the range of private effects accepted as collateral for monetary policy operations; reduce the levels of the cuts applicable to public and private invoices accepted as collateral for refinancing operations in the BEAC.

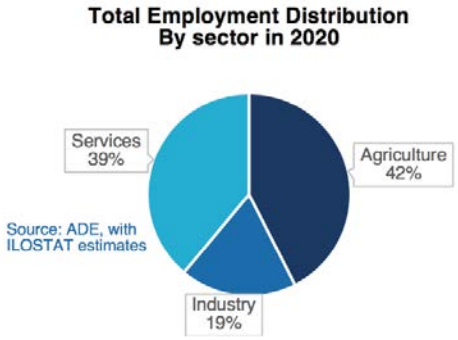
4.5 Second round effects of the Covid: Impact on employment

Overall, the expected global employment effects[20] relate to the reduction in the number of jobs as a result of the bankruptcy or the recession of enterprises, which may take the form of layoffs or temporary reductions in working time, estimated by the ILO to be 6.7 % of the total time worked for the second quarter of 2020. The sectors that are most at risk are retail, commerce, hotels and restaurants and the manufacturing industry, of which the first two in particular have a high proportion of workers in emerging countries who are informal or have little access to health and social protection services.

A rapid simulation by the ILO in a structurally similar economy[21], Gabon, clearly shows the importance of import, wholesale and retail channels and of the transportation and marketing chain beyond national borders for the generation of modern and mostly informal employment (e. g. in the importing of second-hand goods or clothing, in the importing of fresh fish, in the commercialization of imported products in the electricity, construction and repair

[20] ILO Observatory, Le Covid19 and the world of work. Updated estimates, April 2020.
[21] ILO, Bureau-Pays Kinshasa, potential impacts of Covid-19 on employment and labor market in Gabon, May 11 2020.

Figure 40: Distribution of employment by sector of economic activity in 2020

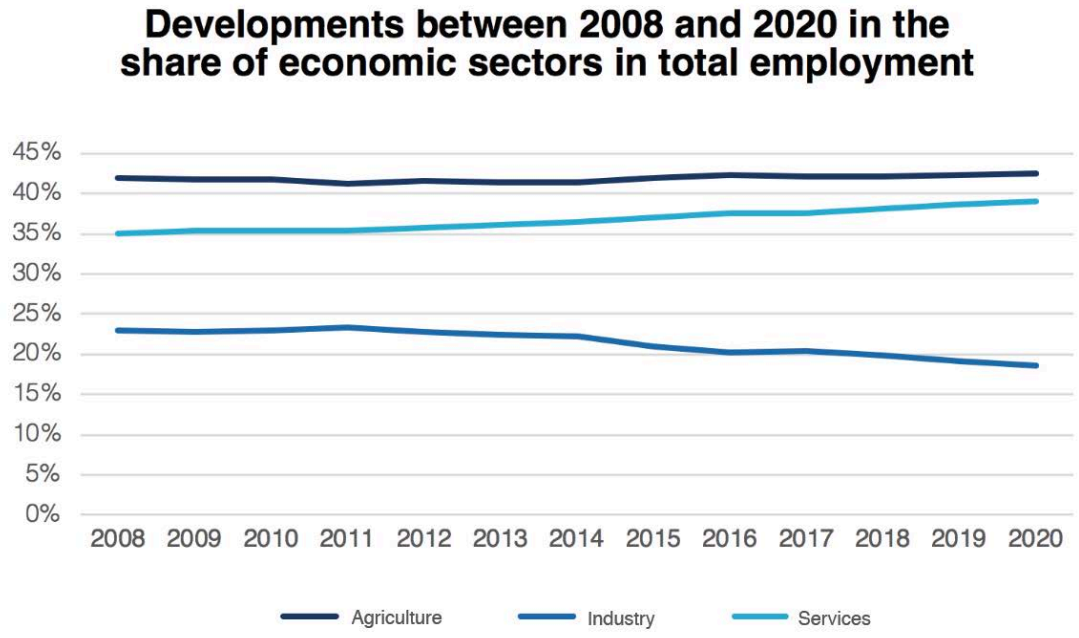


sectors, etc). This simulation provides for a job loss equal to 5.4 % of those who were in employment before Covid-19 in the optimistic scenario and 9.1 % in a pessimistic scenario.

How would the situation in Equatorial Guinea be?

Although the economy is dominated by oil products, as in Gabon, the hydrocarbon sector offers few jobs. In fact, it is estimated that only 1 % of the working-age population is employed in the oil and gas industry[22]. The low number of jobs generated by the main activity activity sector also explains the low share of labour income in GDP (around 50 %, estimated by ILOSTAT).The sectoral distribution of economic activity measured by the contribution to GDP differs greatly from the sectoral distribution of employment. Most of the employees are in the agricultural sector, where more than half of the production is for subsistence. The tertiary sector employs a growing proportion of workers, to the detriment of the secondary sector, whose participation in employment is gradually decreasing over time (see Figures 41 and 42). According to the ILO estimates, more than 90 % of the working age population (15 years and over) is "employed", the ILO definition includes different employment statuses, in particular the so-called informal "formal" employment. The figures presented below

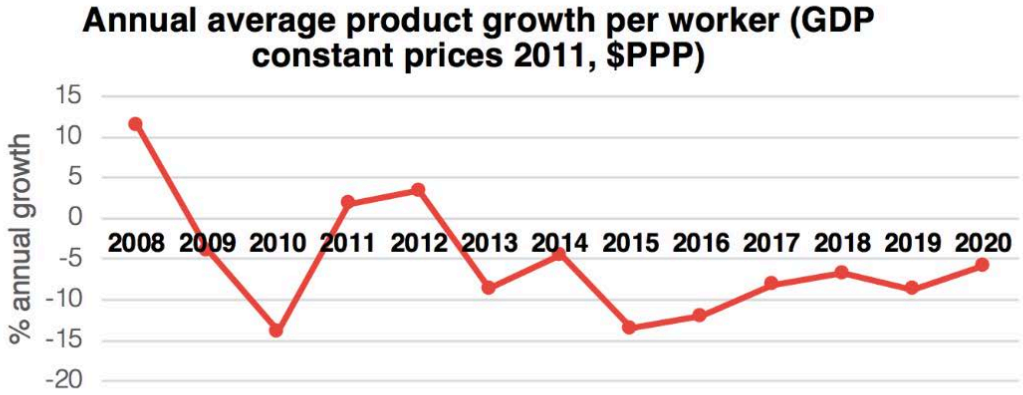
Figure 41: Development of economic sector's participation in total employment between 2008 and 2020



Source: ADE with ILOSTAT estimates

[22] ILO State of Skills 2019

Figure 42: Development between 2008 and 2020 of the average annual growth of the average product per worker



Source: ADE with ILOSTAT estimates

therefore refer to a large part of the population.

This distribution of employment implies that variations in oil prices directly affect only a very small part of employment. However, given the importance of the hydrocarbon sector for the country's production and income, the indirect impact of price changes can be very important for workers in the sectors of industry and services as well as in agricultural uses possibly dependent on prices of world agricultural products, directly influenced by oil prices.

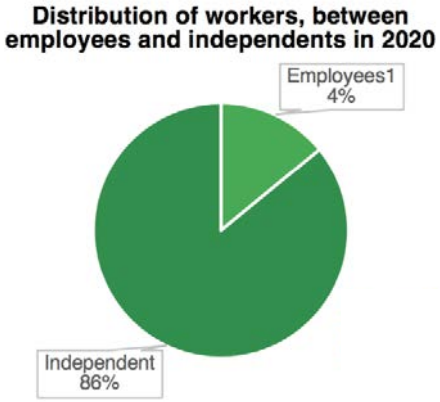
The impact of variations in the price of oil on the economic competitiveness of the country is shown by the analysis of the development over time of the average product per worker (GDP/number of employees) presented below. It is noted that the average product per worker has been in permanent decline since 2013, and that is for all workers, including the vast majority that are not directly employed in the oil sector. This illustrates the dependence of all national employment on oil prices.

In addition to the impact of oil prices, employment may be affected by social distancing measures taken in the context of the Covid-19 pandemic, in particular the closing of non-core business under the state of health alarm decreed on 31 March and extended by two weeks. However, authorised essential travel includes travel to work, which should reduce the impact of measures on workers in the industrial sector. Finally, the possibilities of distance working for the professions which allow it, are greatly reduced in view of the very small proportion of the population with access to the Internet by cable at home (slightly more than 1 in 1000[23]).

However, a larger and steadily growing segment of the population has access to the Internet (6 % in 2010, more than 26 % in 2017[24]) and just over half of the population has a mobile phone subscription. In addition, most workers do not have employment contracts as employees, as illustrated in Figure 43.

[23] World Development Indicators
[24] World Development Indicators, dates not available after 2017.

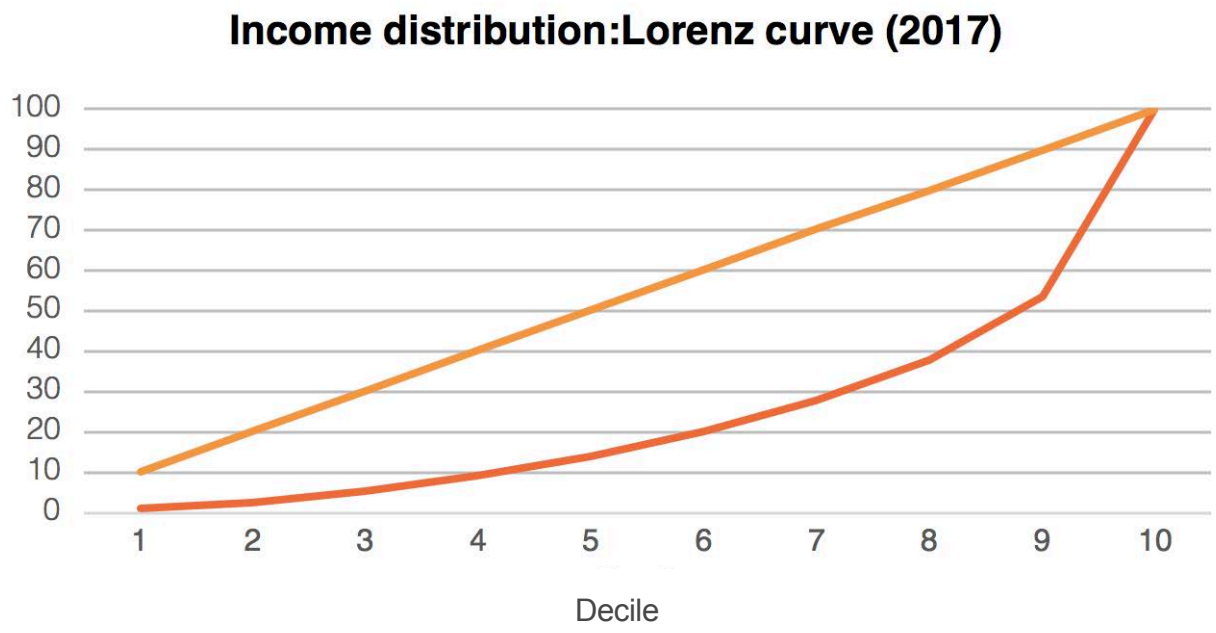
Figure 43: Distribution of employees and self-employed workers in 2020



Source: ADE with ILOSTAT estimates

ILO estimates show that labour income is distributed in a particularly uneven way: ILO estimates show that labour income is distributed in a particularly uneven way: the top decile of the distribution of labour income represents more than 46 % of total labour income, while the poorest half receives less than 14 % of total labour income. Figure 44 shows the cumulative proportion by decile of the employed population. In addition, nearly 10 % of the population reported to have a job is living on less than 1,9 $PPP per day (source: estimated ILOSAT). Thus, income losses, although minimal, can lead to a large proportion of workers to extreme poverty.

Figure 44: Breakdown of labour income by decile: Lorenz curve



Source: ADE with ILOSTAT estimates

5. Short-term Government response

In response to the crisis in Covid-19, the government adopted the Decree 43/2020 of March 31, 2020, which provides a set of short-term measures to facilitate the financing of the budget and to mitigate the negative effects of the crisis in the activity and vulnerable populations.

5.1 Measures relating to expenditure and revenue

In order to protect the State budget against a budgetary slip, Decree 43/2020 seeks to increase revenue by regularising a number of tax debts, in particular the clearance of tax debts in 2019 in the hydrocarbon sector, which has been accelerated. The controversial 2014 tax write-off law has been replaced by a tax incentive law, approved in July 2020 after consultations with the IMF and according to CEMAC standards, which determines the conditions for the regularizations of most tax debts for the years 2015 to 2019.

In addition, the customs system is becoming stronger in Malabo, partly thanks to the approval in April 2020 of the SIDUNEA system for recording customs transactions[25]. The use of this system in the customs jurisdiction in Malabo should be made compulsory.

The reduction of public expenditure is also led by Decree 43/2020, through the rationalisation of current expenditure of public administration, the promotion of public-private partnership contracts for essential public services, such as in the water, sanitation, electricity and telecommunications sectors, the revocation of public contracts that may exist and the postponement to the second half of 2020 of any physical investment programme which is not of priority.

5.2 Social measures and social protection

Decree 43/2020 provides support measures for households who have suffered a loss of income, including the creation of the Social Guarantee Scheme for a sum of five billion CFA francs (approximately USD 8,5 million). The objective of this programme is to provide food and hygiene kits primarily for around 33,000 vulnerable households. The implementation of the 'monetary transfer' type programmes is complicated by the low level of digitalisation, which means that citizens should go to official agencies to receive the aid[26].

Decree 43/2020 also establishes a plan to strengthen the national public health system, which will fund the identified needs for the purchase of the necessary equipment for compliance with basic hygiene conditions at offices.

5.3 Support measures for companies in the non-oil sector

In addition, this decree provides for a support scheme for SMEs in the non-oil sector, including a deferral and reduction of corporate income tax, a partial guarantee fund for SMEs (one billion CFA francs), a referral of energy and telecommunications invoices, especially for companies and establishments in the hotel/

[25] https: //www. vda. pt/en/publications/insights/impact-of-measures-approved-by-the-state/22137/, accessed on 4 June 2020
[26] https: //www. undp. org/content/dam/rba/docs/COVID-19-CO-Response/undp-rba-covid-equatorialguinea-apr2020. pdf, accessed on 4 June 2020.

restaurant sector that were forced to close, and a bonus on social security contributions for companies recruiting new employees. Measures have also been taken to protect employment in the hydrocarbons sector, including service companies depending on this sector, as well as measures aimed at the stability of the sector, for example through the extension of operating licences[27].

5.4 Measures to strengthen public finances and the banking sector

These measures include the repartition of state-owned financial assets that are located outside national financial institutions and the regularisation of internal arrears to construction companies.

6. Main findings and leads of preliminary recommendations

The Covid-19 crisis is expected to strengthen the adverse structural trends that progressed in recent years, while introducing some additional elements of weakness in the macroeconomic and fiscal framework.

The effect of a fall in the barrel price on the budget revenue, even with unchanged production and to a slightly increasing level, could be far reaching and strengthen the erosion trend in the government's spending capacity, which has so far been fuelled by the economy. Although this study has carried out simple impact assessments based solely on publicly available data, a contraction in GDP is more than likely, and therefore - for a forecast of average Brent price in 2020 of $38 per barrel, in line with the most recent assumptions made by the IEA (June 2020)-, a deficit for the State of between 410 billion and 476 billion CCFA, or around -40 to -43 % of budget revenue compared to 2019. These figures certainly cannot have any official status or anticipate the conclusions of negotiations between the country and its creditors on the need for public sector financing; they give only a first overview of the order of magnitude. Losses in terms of revenue may be higher, depending on the scenario of the Brent price that can be found in the literature, up to -69 % of the budget revenue for a price of a barrel to USD $20.

Further destabilising effects of Covid-19, including a sustained increase in consumer prices due to disruptions in the supply chain, cannot be ruled out; even in a country that has so far been quite successful in containing inflation. There are a priori factors that absorb shocks, in particular the wide scope to redirect imports to non-European products, the obligation to continue certain maintenance costs on oil and gas infrastructures -which helps maintaining a minimum level of investment-, and the fact that the flagship investment in the gas sector has apparently not been postponed. This gives room for the essential economic diversification for a government that, need to be noted, is less indebted than many of its neighbours.

For the time being, due to the almost complete lack of data on available income and the socio-economic conditions of households, it is impossible to identify the effects of the pandemic on poverty.

[27] https: //www. vda. pt/en/publications/insights/impact-of-measures-approved-by-the-state/22137/, accessed on 4 June 2020.

Sectoral analyses and socio-economic studies that will be carried out in the next stages of this project can provide information on the social consequences of the pandemic, which promise to be potentially difficult.

Prior to carrying out analyses in key sectors for post-Covid recovery, it is not possible to be very specific about the recommendations. The Covid-19 crisis brings light to the country's dependence on imports of all consumer products. Reversing the trend will not be easy in a context characterised by an image of corruption that still needs to improve, an unfavourable business climate and a nationally-oriented productive system that has been directly or indirectly driven by public procurement.

While the revenue shortfall is almost a certainty, this does not mean that the solution is only, or even mainly, in new financing. Rather, it is in the current improvement of public financial management. The current programmes of various partners, and in particular that of the IMF, are justly in favour of the governance dimension, where the UN agencies should exploit their complementarity with development finance institutions and their aggregate value in rights-based approaches. As summarised in the latest IMF review, implementing measures include:

- strengthening the anti-corruption framework, addressing conflicts of interest, implementing a robust asset declaration regime for senior officials and strengthening law enforcement and international cooperation;
- promoting transparency in the hydrocarbons sector in particular by joining the EITI, carrying out and publishing audits of public oil enterprises and publishing regular reports on the sector's data; and
- improving the framework to combat money laundering, particularly by reporting suspicious activities linked to politically exposed persons and improving business transparency through the availability of information on the effective ownership of companies.

Clear measures for rationalising public spending and a fiscal reform are likely to strengthen both the fiscal balance and the external image of the country, thus private investment. In this regard, further rationalisation of capital expenditure is necessary. In particular to allow for an increase in spending in the social sectors and training of human capital capable of supporting more inclusive economic growth, poverty reduction and the improvement of social outcomes in health and education. The UN has an added value in pro-poor policies and budgets, gender budgeting and, overall, in promoting transparent and widely shared socio-economic environments, which is still very poor in the country, despite the recent creation of INEGE.

In terms of mobilisation of domestic revenues, the main lines of action were described in an IMF study on the continuity and recovery of income services. The country is working with the IMF and AFRITAC on the following priorities, some of which expect -according to the partners contacted- a validation at the political level:

- the revision of the organisational structure of the Directorate-General for Taxation and Contributions to better fulfil its functions, in particular the activation of the Large Taxpayers Office, as well as the analytical and management units for risks and technological modernisation;
- mapping of risks related to compliance with tax rules and the measures to be taken to manage them in the context of each process of substance;
- simplifying the deposit of declarations and payments by means of electronic and payment validation forms, by developing information exchange mechanisms with the public treasury;
- implementing a reliable taxpayer census;
- the concentration of efforts to monitor large taxpayers, the hydrocarbons sector and the sectors that increased their activities in the emergency phase of the pandemic, which requires an agreement between the Ministry of Finance, Economy and Planning and the Ministry of Mines, and the strengthening of the tax inspection function;
- the preparation and implementation of procedures and standard forms for transactions with third parties and the preparation of inspection procedures;
- the improvement of VAT refund records;
- the strengthening of enforcement procedures for taxpayers reluctant to pay their tax debts;
- better communication with taxpayers, for example through an improved website;
- in the medium term, the general reform of the tax legislation.

In addition to the rebalancing on the expenditure side and better collection, a greater flow of private funds is still desirable for macroeconomic equilibria. The country cannot expect a further flow of external aid resources, either in the short or medium term. A UNDP study has certainly already looked at the few possibilities in terms of donations, particularly in terms of climate finance (GCF) and a further opening of the country to international civil society initiatives (NGOs). However, the expected volume for these subsidies is likely to remain limited, and traditional European partners are struggling with an unprecedented crisis. Private financing appears to be more likely, but to leave the enclave of petroleum and gas in which the country has been kept so far, international investors call for parallel domestic savings and a more innovative and original attitude on the part of the banks. The condition sine qua non development finance institutions, such as the International Finance Corporation -once active in the country-, or their bilateral counterparts (DEG, Proparco, Norfund, CDC etc.), would not be able to invest.

National banks are depleted by a large amount of non-performing loans due to state arrears to private suppliers. Settlement of internal arrears would improve bank liquidity and strengthen the banking sector, a prerequisite to induce

banks to step up their lending to private investment. Although the development of credit for the economy has been positive over the last decade, even after the crisis in the construction sector, it appears to have stagnated in private consumption financing (UNDP 2019, p. 23). The IMF programme preempts the settlement of arrears to suppliers by issuing government bonds, with a significant depreciation of these bonds over the period of the agreement. The settlement would take place -after the completion of an arrears audit, which was completed in the first months of 2020. If this component is succesful, national financial institutions could be able to relaunch credit for private investment, excluding hydrocarbons. If bankable projects have been developed by then.

In addition to the positive impact of the liquidation of internal arrears, the recapitalisation of banks with equity deficits should support the stability of the banking sector. Acceleration in business creation is also driven by increased financial inclusion, if necessary, through a better dissemination of FinTech innovations that have been driven by pilots in Africa. The authorities are already working closely with the BEAC's COBAC to ensure that all banks comply fully with COBAC regulations. In particular, the prudential and governance requirements. It is clear that the goal is to continue the structural reduction of BEAC support to banks in the short-term liquidity area. On the other hand, due to the fact that there is no data from Findex in Equatorial Guinea, one may think that the country is very likely behind the other CEMAC's in terms of transmission of mobile accounts.

It is important to remember the catalytic role that the two tools for the responsible and equitable management of oil revenues in Equatorial Guinea could play. First, the "Fund for Future Generations" and the "Co-investment Fund". The "Fund for future generations" is the sovereign fund of Equatorial Guinea, set up in 2002 and valued at USD 80 million. In February 2014, after the first national symposium on economic diversification, the government of Equatorial Guinea set up the Co-investment Fund (FCI), apparently financed by a sum of USD 1 billion, which aims to invest in cost-effective projects that reduce the economic dependence on hydrocarbon income. As underlined by an earlier UNDP study (UNDP 2019), "these are totally opaque instruments in terms of capitalisation, management and strategic objectives", which should be reformulated according to best international practice in this area.

Additionally, it is important to stress the need to continue to collect and improve the data collection in several areas where the lack of raw data prevents further investigations. Without primary data, even when conducting studies, the empirical basis will remain unstable. The first and foremost issue is the need to complete the initiated socio-economic survey of households, which will be able to provide the currently missing information on disposable income and the employment of households. A reliable system of national trade statistics should also be organised as a matter of priority, making it possible to assess the elasticity of exports and imports to the drop in revenue and above all, to carry out more detailed analyses of the sectors with the greatest potential for import substitution. This in turn depends largely on the improvement of customs procedures and information systems.

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Annex 1: Statistics

Annex 1.A: Key macroeconomic indicators

Main economic indicators		2013	2014	2015	2016	2017	2018 Est.	2019 Program	2020 Program	2021 Program	2022 Program
Production, prices and money											
Real GDP	% Annual change	-4,10	-0,50	-9,10	-8,80	-4,70	-5,70	-5,90	-1,90	1,00	-4,7
Hydrocarbon sectors (1)	% Annual change	-6,90	1,40	-9,40	-8,20	-5,60	-9,70	-10,40	-5,00	-0,60	-11,3
Non hydrocarbon sectors	% Annual change	0,10	-3,30	-8,80	-9,70	-3,40	0,00	0,00	1,70	2,90	2,2
GDP Deflator	% Annual change	-1,10	-1,40	-20,20	-6,30	12,70	13,10	-3,20	0,40	-0,60	2,7
Hydrocarbon sectors	% Annual change	-3,50	-4,80	-36,50	-17,60	31,40	24,50	-9,80	-3,60	-5,50	-1,8
Non-hydrocarbon sectors	% Annual change	3,10	3,70	1,10	3,60	-0,40	1,60	1,00	2,00	2,00	2,1
Oil price (USD a barrel)	% Annual change	100,30	92,50	47,00	39,00	51,40	67,20	59,70	56,70	54,30	
Consumer prices (annual average)	% Annual change	3,20	4,30	1,70	1,40	0,70	1,30	0,90	1,70	1,70	1,8
Consumer price (end of period)	% Annual change	4,90	2,60	1,60	2,00	-0,20	2,60	1,60	1,70	1,70	1,8
Broad money	% Annual change	7,30	-14,10	-10,90	-16,40	1,00	-0,80	1,00	3,70	4,90	4,3
Nominal effective exchange rate	% Annual change	2,60	-0,20	-6,90	2,70	2,20	..	..	..	..	..
Real effective exchange rate	% Annual change	4,20	2,70	-6,40	2,40	0,60	..	..	..	..	..
External sector											
Exports FOB	% Annual change	-22,40	-6,50	-46,10	-26,90	10,50	11,60	-19,20	-7,90	-6,10	-11,90
Hydrocarbon exports	% Annual change	-23,60	-6,80	-47,50	-25,90	9,60	12,40	-18,90	-8,60	-6,80	-13
Non-hydrocarbon exports	% Annual change	-3,90	-3,10	34,60	-49,40	39,60	-8,60	-27,90	14,90	13,50	11,9
Imports FOB	% Annual change	-23,80	-2,40	-23,10	-33,90	-13,20	9,50	-17,80	-3,30	-17,60	-12,5
Terms of trade	% Annual change	-1,00	-7,60	-34,70	-5,40	35,00	40,70	-15,20	-4,70	-5,50	-1,3
Investments and savings											
Gross investment	%GDP	47,80	51,90	24,70	16,70	12,60	12,00	12,20	13,10	11,70	12,2
Public	%GDP	24,60	19,30	..	..	..	..	..	..	..	..
Private	%GDP	23,20	32,70	..	..	..	..	..	..	..	..
Gross national savings	%GDP	47,90	46,30	8,30	3,70	6,80	6,60	6,50	7,30	7,90	8,1
Public	%GDP	16,80	17,10	..	..	..	..	..	..	..	..
Private	%GDP	31,10	29,10	..	..	..	..	..	..	..	..
Public Finance											
Revenue	%GDP	24,90	24,30	26,50	16,90	17,30	19,00	17,80	17,50	17,50	17,3
of which hydrocarbon revenue	%GDP	21,40	21,00	22,20	12,80	13,80	15,50	14,30	12,80	11,40	10,1
Expenditure	%GDP	30,70	29,20	41,60	27,80	19,90	18,50	16,50	16,40	15,80	15
Overall fiscal balance after grants	%GDP	-5,80	-4,90	-15,10	-10,90	-2,60	0,50	1,3	1,1	1,60	2,3
Non hydrocarbon primary balance (% of non hydrocarbon GDP)	%GDP	-66,10	-61,10	-37,00	-23,50	-16,10	-14,40	-12,40	-10,60	-8,10	-6,2
Outstanding medium- and long-term public debt	%GDP	6,10	8,70	33,60	43,40	38,00	43,00	46,20	46,60	45,30	44,4
Change in domestic arrears	%GDP	..	..	12,20	3,00	-2,30	0,70	-2,00	-22,40	0,00	0
External sector											
Current account balance (including official transfers)	%GDP	0,10	-5,60	-16,40	-13,00	-5,80	-5,40	-5,70	-5,70	-3,80	-4,1
Total external public debt	%GDP	6,10	5,20	9,00	9,50	8,60	9,50	11,20	13,00	14,80	16,2
Current account balance (including official transfers)	Billions CFA	20,00	-1214,00	-1281,00	-864,00	-412,00	-411,00	-397,00	-392,00	-264,00	-277
Overall balance of payments	Billions CFA	-40,00	-1241,00	-846,00	-712,00	-43,00	3,00	50,00	139,00	99,00	59
Total external public debt	Billions CFA	..	..	..	..	..	..	..	..	..	..
Debt service-to-exports ratio (%)	%	2,50	2,20	3,60	5,80	3,30	3,30	4,30	6,30	6,70	9,6
Extrenal debt service/govt revenue	%	7,30	6,40	5,90	12,80	7,30	6,90	8,60	11,80	11,80	15,4
Reserve assets at the BEAC	Month of next year's imports	4,57	2,91	3,60	0,20	0,10	0,20	0,60	2,60	4,50	6,1
of which government deposits at BEAC	Billions CFA	1575,00	649,00	177,00	113,00	156,00	185,00	322,00	176,00	196,00	199
Government bank deposits abroad	Billions CFA	1002,00	1041,00	553,00	392,00	501,00	427,00	442,00	435,00	436,00	416,0
usable external resources	Billions CFA	2649,00	2133,00	248,00	112,00	196,00	123,00	138,00	131,00	131,00	111
Real GDP	Billions CFA	7312,23	7342,58	6673,67	6085,27	5798,80	5466,62	5212,89	4952,68	4692,12	
Nominal GDP	Billions CFA	10841,00	10632,00	7795,00	6661,00	7152,00	7624,00	6950,00	6842,00	6875,00	6950
Non hydrocarbon GDP	Billions CFA	4406,00	4419,00	4272,00	3996,00	3846,00	3910,00	3949,00	4096,00	4298,00	3949
Population		1,10	1,20	1,20	1,30	1,30	1,40	1,40			
GDP per capita											
Exchange rate	CFA/USD			591,40	593,00	582,10	555,20	585,80	581,40	575,60	570,4

Sources: IMF, Equatorial Guinea, 2016 Article IV Consultation, November 2016 (for data between 2013 & 2014); IMF, Equatorial Guinea, 2019 Review, December 2019 (for data between 2015 & 2022)

(1)Including petroleum, LNG, LPG, butane, propane and methanol
(2)Includes a one-off offset of arrears due through securitisation in 2020

Annex 1.B: Real GDP Construction[28]

Billions FCFA, constant prices 2006	2012	2013	2014	2015	2016	2017 Estim.	2018 Estim.	2019 Pred.
GDP, constant market prices (2006)	7686,80	7385,20	7333,10	6651,90	6027,80	5903,90	5665,60	5629,20
Oil sector	4352,60	4019,60	4068,10	3458,80	3152,80	2948,20	2644,40	2512,00
Non-oil sectors	3334,20	3365,70	3265,00	3193,20	2875,00	2955,80	3021,20	3117,20
Primary sector	3144,8	2722,7	2771,9	2583,5	2156,4	1869,1	1692,9	1721,4
Agriculture, Breeding, Hunting	48,20	50,00	51,80	53,50	56,10	58,10	61,10	62,30
Export crops	0,6	0,8	0,8	0,9	1,7	1,8	2,8	2,1
Subsistence sector	44,00	45,50	47,10	48,70	50,40	52,10	53,90	55,70
Breeding and Hunting	3,6	3,7	3,9	4	4,1	4,3	4,4	4,6
Silviculture and forestry	16,10	15,60	24,40	30,10	34,90	28,20	18,00	16,90
Fisheries	2,9	3	3,1	3,2	3,4	3,5	3,6	3,7
Oil	2935,00	2525,40	2565,40	2390,90	2015,10	1722,60	1563,70	1592,30
Natural gas	32,4	34,5	34,2	25,8	21,6	23,3	20,5	17,5
Other extractive industries	110,10	94,30	93,00	80,00	25,30	33,30	26,00	28,70
Secondary sector	2609,8	2486,6	2289,4	1769,8	1480,4	1618,3	1438,7	1303,8
Methanol and Other gases	1385,20	1459,70	1468,60	1042,10	1116,10	1202,20	1060,10	902,30
Manufacturing industries	75	92	111,6	138,2	151,6	157,9	164,5	171,5
Water and Electricity	46,70	50,50	58,40	61,80	60,40	57,20	57,00	56,50
Construction	1102,9	884,4	650,9	527,8	152,3	201	157	173,6
Tertiary sector	1965,70	2163,40	2201,20	2200,90	2299,10	2318,70	2432,70	2497,20
Trade, restaurants and hotels	440,8	485	519,1	638,1	698,5	696,9	704	734,8
Transports and Telecomunications	245,40	246,20	280,30	340,70	384,30	388,90	396,90	401,20
Financial services and real state	65,9	55,9	58,5	63,8	69,8	66,9	80,8	87
Oil services	378,60	527,50	474,90	196,60	167,40	180,20	205,60	180,00
Public Administration	673	666,5	668,8	716,6	742,1	760,7	801,5	820
Other services	162,10	182,30	199,60	245,10	237,10	225,10	243,90	274,30
GDP at factor cost	7720,3	7372,7	7262,5	6554,2	5935,9	5806,1	5564,2	5522,5
Net taxes over products	-33,50	12,50	70,60	97,70	91,90	97,90	101,30	106,70

Sources: BEAC site, database "Offre et emplois des ressources" created with national admin. data, from IMF and BEAC
https://www.beac.int/economie-stats/statistiques-economiques/

[28] Source: BEAC's website, database 'Supply and use of resources' based on data from national administrations, the IMF and the BEAC

Annex 1.C: Balance of payments (source: IMF, Articles IV 2016 and Review 2019 for Equatorial Guinea)

Billions of CFA francs	2013	2014	2015	2016	2017	2018 Est.	2019 PROG.	2020 PROG.	2021 PROG.	2022 PROG.
Current account	10,0	-600,0	-1 281,0	-864,0	-412,0	-411,0	-397,0	-392,0	-264,0	-277,0
Trade balance (billions of CFA francs)	5 054,0	4 604,0	1 286,0	1 086,0	1 527,0	1 728,0	1 379,0	1 219,0	1 263,0	1 118,0
Exports of goods, f.o.b.	7 957,0	7 436,0	3 371,0	2 464,0	2 723,0	3 037,0	2 455,0	2 260,0	2 122,0	1 869,0
Hydrocarbon exports	7 354,0	6 852,0	3 223,0	2 389,0	2 618,0	2 942,0	2 386,0	2 181,0	2 032,0	1 768,0
Crude oil	4 947,0	4 635,0	2 457,0	1 725,0	1 738,0	1 953,0	1 692,0	1 521,0	1 234,0	1 050,0
Liquefied natural gas	1 576,0	1 519,0	610,0	480,0	534,0	679,0	443,0	411,0	492,0	429,0
Liquefied petroleum gas	301,0	275,0	52,0	80,0	144,0	124,0	100,0	94,0	135,0	124,0
Methanol	529,0	423,0	104,0	104,0	202,0	187,0	150,0	156,0	170,0	165,0
Non-hydrocarbon exports	603,0	584,0	148,0	75,0	104,0	95,0	69,0	79,0	90,0	100,0
Imports of goods, f.o.b.	-2 903,0	-2 832,0	-2 095,0	-1 377,0	-1 196,0	-1 309,0	-1 076,0	-1 041,0	-858,0	-751,0
Petroleum sector	-187,0	-177,0	-271,0	-82,0	-51,0	-68,0	-107,0	-165,0	-83,0	-77,0
Petroleum products	-625,0	-544,0	-214,0	-200,0	-192,0	-245,0	-229,0	-22,0	-217,0	-217,0
Public sector equipment and construction	-1 810,0	-1 834,0	-756,0	-599,0	-511,0	-535,0	-397,0	-350,0	-299,0	-245,0
Other	-281,0	-277,0	-844,0	-496,0	-442,0	-462,0	-343,0	-303,0	-259,0	-212,0
Services (net)	-1 298,0	-1 446,0	-1 202,0	-867,0	-793,0	-912,0	-730,0	-667,0	-637,0	-591,0
Income (net)	-3 588,0	-3 603,0	-1 091,0	-828,0	-899,0	-996,0	-850,0	-753,0	-701,0	-618,0
Current transfers	-158,0	-156,0	-274,0	-256,0	-246,0	-232,0	-196,0	-192,0	-190,0	-185,0
Capital and financial account	-110,0	163,0	327,0	168,0	429,0	414,0	447,0	531,0	363,0	336,0
Capital account	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Financial account	-110,0	163,0	327,0	168,0	429,0	414,0	447,0	531,0	363,0	336,0
Direct investment	288,0	83,0	702,0	190,0	312,0	309,0	240,0	347,0	370,0	355,0
Portfolio investment (net)	1,0	1,0	-1,0	0,0	0,0	-1,0	-1,0	-1,0	-1,0	-1,0
Other investment (net)	-398,0	80,0	-374,0	-22,0	117,0	107,0	208,0	185,0	-6,0	-18,0
Medium- and long-term transactions	6,0	272,0	13,0	278,0	152,0	64,0	-37,0	49,0	14,0	-21,0
General government	-15,0	248,0	-48,0	229,0	90,0	64,0	-37,0	49,0	14,0	-21,0
Of which : amortization	-183,0	-155,0	-106,0	-85,0	-76,0	-78,0	-87,0	-101,0	-86,0	-121,0
Other sectors	21,0	23,0	61,0	49,0	63,0	0,0	0,0	0,0	0,0	0,0
Short-term transactions	-404,0	-192,0	-387,0	-300,0	-35,0	43,0	245,0	136,0	-19,0	3,0
General government	-404,0	-192,0	-231,0	282,0	160,0	-109,0	66,0	131,0	0,0	0,0
Banks	-134,0	174,0	-71,0	-20,0	45,0	41,0	71,0	1,0	1,0	-1,0
Other sectors	-270,0	-366,0	-84,0	-562,0	-240,0	111,0	108,0	4,0	-21,0	4,0
Errors and omissions	80,0	-177,0	108,0	-16,0	-60,0	0,0	0,0	0,0	0,0	0,0
Overall balance	-20,0	-614,0	-846,0	-712,0	-43,0	3,0	50,0	139,0	99,0	59,0
Financing	20,0	614,0	846,0	712,0	-43,0	-3,0	-50,0	-139,0	-99,0	-59,0
Change in net international reserves (- = increase)	20,0	614,0	846,0	712,0	-43,0	-3,0	-50,0	-139,0	-99,0	
Memorandum items:										
Reserve assets at the BEAC (a)	4,6	2,9	3,6	0,2	0,1	0,2	0,6	2,6	4,5	6,1
Of which : government deposits at BEAC (b)	749,0	351,0								
Government bank deposits outside BEAC ©	477,0	563,0								
Usable external resource (a + c)	2 649,0	2 133,0	248,0	112,0	196,0	123,0	138,0	131,0	131,0	111,0
Gross government deposits (b + c)	1 226,0	913,0								
Usable external resource (months of next year's imports)	7,5	6,9								
Current account balance (percent of GDP; - = deficit)	0,1	-5,6	-16,4	-13,0	-5,8	-5,4	-5,7	-5,7	-3,8	-4,1
Overall balance (percent of GDP; - = deficit)	-0,2	-5,8	-10,8	-10,7	-0,6	0,0	0,7	2,0	1,4	0,9
Growth of hydrocarbon exports (percent)	-21,1	-6,9								
Growth of non-hydrocarbon exports (percent)	-0,7	-3,2								

Sources: IMF, Equatorial Guinea, 2016 Article IV Consultation, November 2016 (for 2013 & 2014 data); IMF, Equatorial Guinea, 2019 Review, December 2019 (for 2015-2022 data)

Annex 2:
Methods for projecting budget revenue

This appendix presents successively the objective of the quantitative analysis, the two methods used, the forecasts obtained, as well as the limits of the analysis.

1. Objective of the quantitative analysis and methods used.

The objective of this quantitative analysis is to make a projection of the budgetary revenue of the administration of Equatorial Guinea for the year 2020 that takes into account the effects of the global pandemic in Covid-19. The purpose of this analysis, which is requested under this project and based on accessible data to the general public (i. e. OPEC, the IMF) and simple methods, is to propose some plausible scenarios for the evolution of government revenues. We do not know the details of the ongoing negotiations with the creditors on the revision of the future tax revenue and revenue projections. This analysis cannot have an 'official' status and does not prejudge in any way the outcome of these negotiations on the maximum level of deficit and debt which is authorised for the Equatorial Guinea State (summer 2020).

Two complementary methods using assumptions on different variables were used: the forecast with elasticities (method 1) and a linear regression model (method 2). The data used comes from international organisations (i. e. OPEC, IMF and BEAC) and are accessible to the general public and put into context through interviews with the national authorities (Ministry of Economy and Finance and Ministry of Mines). The forecasts made in the context of these two methods converge, which reinforces the credibility of the results achieved, despite the limits set out below.

2. Method 1: elasticities forecast

The forecast from the marginal tax rate (MTR) or elasticity is a simple statistical method used by the IMF in its financial programming models. We prefer the MTR instead of the current official fees (tax rates foreseen by law) to forecast government revenue because there are tax exemptions and tax evasion that would distort the estimates according to a scenario in the tax base.

Marginal tax rate = Δ% tax revenue /Δ% replacement tax base (assiette de remplacement)
As the tax base is not always known, a replacement base is used, whose statistical data are generally available to calculate the MTR.

We have:

- Income taxes, profits and capital gains → nominal GDP or Gross Operating Surplus at current prices
- Taxes on goods and services → private consumption at current prices
- Tax on foreign trade → imports in national currency

In order to obtain a forecast of the budget revenue at t + 1, it is necessary to start with an estimate of the MTR and a forecast of the growth rate of the tax base. If the MTRs are stable, we can reasonably assume that the MTR will remain unchanged over the next year; if they vary, it is possible to calculate an average over the reference period or use a filter to soften the trend.

$$IT_{(t+1)} = \left(1 + \frac{e * \%\Delta TB_{(t+1)}}{100}\right) * IT_t$$

Where, IT = effective income tax; TB = replacement base; e = MTR

3. Method 2: Linear regression model

Oil revenues are grouped into two categories: (1) the rights, depending on the volume produced and the price in force during the year (2), taxes, depend on the profit from the previous year.
This relationship can be expressed with a simple linear regression model:

(1) $OR_t = OR_t + TB_t$

where OR = oil revenue in XAF; R = oil rights in XAF and TP = taxes/benefits in XAF

(2) $GNO_t = NOP_t * (OP_t — D_t) * E_t$

where GNO = gross national oil revenue; NOP national oil production in barrels; OP = price of crude (Brent) in USD; D = dollar barrel discount; E = exchange rate XAF/USD.

(3) $R_t = a_1\ GNO_t + b_1$ (b_1 constant)

(4) $TB\ t = b_1\ GNO_{t-1} + b_2$ (b_2 constant)

Whereby: (5) $OR_t = b_o + a_1\ GNO_t + GNO_{t-1} + \mu_t$ with $b_o = b_1 + b_2$

The econometric estimation of the OLS equation (5) puts more emphasis on the model's ability to replicate the previous results rather than on statistical robustness (low sample). It can therefore be used to simulate oil price scenarios, production levels and exchange rates.

4. Estimated budget revenue:

Annex 2.A: Summary of forecasts using both methods — Export Standard Scenarios

		Covid Standard scenario		
	2019	2020 p Regression- Method.	2020 p Elast. - Method.	2020 p Elast. - Method.
Brent price - annual average price	62.98	38a	36b	33.8b
Budgetary revenue (million XAF)	1 240 534e	764 852	830 078	754 746
Δ Annual budget receipts (%)	-14.24	- 38.3	- 33.09	- 39.16

a forecast by the IEA of June 2020;B INEGE's prediction April 2020;P: prediction;E: estimate Finance Ministry, General Budget of the State 2019, Implementation of revenue as of 31 December.

The results converge and indicate a forecast of the decrease in revenues for the year 2020 between 33 % and 39 % according to the assumptions on the average Brent price for this year.

Annex 2.B: Projected budget revenue using the elasticity method

	Covid standard scenario		
	2019	2020 p	2020 p
Brent - annual average price	62,98	36 a	33,8 a
Nominal GDP (million XAF)	6 459 504	5 221 916 to	4 994 783
Δ Annual nominal GDP (%)	-12,42	-19,16	- 22. 68
Elasticity (marginal tax rate)	1,15	1,73 b	1,73 b
Tax revenue (million XAF)	EUR 602 540	542 854	531 899
Δ Annual tax receipts (%)	39. 3	- 9. 91	- 11. 72
Budgetary revenue (million XAF)	EUR 1 240 543	830 078	754 746
Δ Annual budget receipts (%)	-14,24	- 33. 09	- 39. 16

a INEGE forecast, April 2020; b average strength 2006-2019 (national accounts available for the same base year);C: estimate Min. de Hacienda, General Budget of the State 2019, Collection of revenue as of 31 December;P: prediction.

Annex 2.C: Projection of the budgetary revenue according to the regression method

	2019	2020 p Covid standard	2020 p Pessimistic scenario	2020 p Optimistic scenario
Brent price - annual average price	62,98	38 a	20	55,5
XAF/USD exchange rate	585,91	595 c	595	595
Annual oil production (1000 barrels)	39 997	42 125 b	42 125	42 125
Δ National oil production (%)	- 8. 81	5. 31	5. 31	5. 31
Oil budget receipts (million XAF)	983 700	558 208	262 888	873 968
Δ Oil budget income (%)	- 16. 56	- 43. 3	- 73. 3	- 11. 2
Budgetary revenue (million XAF)	1 240 534	764 852	388 301	1 111 825
Δ Annual budget receipts (%)	-14,24	- 38. 3	- 68. 7	- 10. 4

a forecast the Brent 2020 price for IEA in June https: //www. eia. gov/analysis/
b prediction, Ministry of Mines in June 2020; c IMF forecast in June 2020
P: prediction
Source: IMF (exchange rate), OPEC (price of Brent and production of oil) and Min. of Finances, General Budget of the State 2019, Implementation of revenue as of 31 December (Budget Revenue)

Annex 2.D: Estimated results of the regression model in R (budget entry) and RP (oil revenue)

Dependent Variable: DLRP
Method: Least Squares (Gauss-Newton / Marquardt steps)
Date: 06/30/20 Time: 17:27
Sample (adjusted): 2000 2019
Included observations: 20 after adjustments
DLRP=C(1)+C(2)*DLCAP

	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	-0.069118	0.055512	-1.245103	0.2291
C(2)	1.035220	0.153477	6.745097	0.0000

R-squared	0.716519	Mean dependent var	0.137808
Adjusted R-squared	0.700770	S.D. dependent var	0.378237
S.E. of regression	0.206903	Akaike info criterion	-0.218495
Sum squared resid	0.770559	Schwarz criterion	-0.118921
Log likelihood	4.184947	Hannan-Quinn criter.	-0.199057
F-statistic	45.49634	Durbin-Watson stat	2.306012
Prob(F-statistic)	0.000003		

Dependent Variable: DLR
Method: Least Squares (Gauss-Newton / Marquardt steps)
Date: 06/30/20 Time: 17:26
Sample (adjusted): 2000 2019
Included observations: 20 after adjustments
DLR=C(1)+C(2)*DLCAP

	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	-0.047987	0.053475	-0.897360	0.3814
C(2)	0.906528	0.147847	6.131542	0.0000

R-squared	0.676235	Mean dependent var	0.133215
Adjusted R-squared	0.658248	S.D. dependent var	0.340940
S.E. of regression	0.199312	Akaike info criterion	-0.293251
Sum squared resid	0.715055	Schwarz criterion	-0.193677
Log likelihood	4.932507	Hannan-Quinn criter.	-0.273813
F-statistic	37.59581	Durbin-Watson stat	2.288103
Prob(F-statistic)	0.000009		

5. Limitations in the methods proposed:

The linear regression model (method 2) is estimated from a small sample (1999-2019), limiting its robustness. However, when it is forecasted retrospectively, it provides good estimates and the error is small. As for the elasticities (method 1), these are not stable over time and therefore the use of the average over the period as proxy for the year 2020 is necessarily biased. The convergence of estimates in accordance with the two methods makes it possible to ensure the robustness of the standard scenario forecasts.

In addition, the projections made here depend on the assumptions proposed for a Brent average price in 2020. Therefore, they reflect a projected price projection based on the June 2020 price forecast for the year. For this reason, “pessimistic” and “optimistic” scenarios have also been proposed.