Generalities on the Country

Introduction

Equatorial Guinea, situated in the Gulf of Guinea, is a country of 28,000 km2 with a population estimated at about 1.1 million inhabitants in 2007, projected to be around 1.23 million in 2009; and consists of several geographically distinct areas. Rio Muni, the mainland region, accounts for approximately 85 percent of the land area and 80 percent of the total population.

Republica de Guinea Ecuatorial; Republic of Equatorial Guinea (former: Spanish Guinea) is located in Central Africa region.

Its total area: 28,051 sq. Km split between insular components - Islands of Bioko, (former Fernando Po), Pigalu, Elobey Grande, Elobey Chico Annobon, Corisco - and continental mainland territory Bata: (former Rio Muni - accounting for 85% of the total area).The two parts are separated by vast expanses of sea,

Neighbouring countries: Cameroon to the north of mainland territory (over 209 km), Gabon to the east and south of mainland territory (over 370 km), and the Atlantic Ocean to the west. (Coastline: 148 km for the mainland territory) . Maritime frontiers with Nigeria, Cameroon around the Island of Bioko.

Population: 1,230,060 (2009 est.) - growth rate of 2.5% (2007 est.)
Capital-City: Malabo (on the north coast of Bioko Island)
Independence : October 12, 1968
National holiday: Independence Day, October 12
New constitution November 17, 1991

The rest of the country includes the island of Bioko, which is the site of the capital city, Malabo, and five additional small islands in the Gulf of Guinea. Oil production began in 1992, with a production of 6,000 barrels a day, when an independent oil company, Walter International, started operations in the Alba field, situated 36 kilometres off the coast of Bioko; the larger Zafiro field, operated by Mobil Oil, came on stream in August 1996. Petroleum output average 83,000 barrels per day in 1988 representing more than 60 percent of GDP and reached a milestone of 500,000 barrels a day in 2006, about 90 percent of GDP.

Since Adam Smith and David Ricardo, there has been a belief that natural resources are "a blessing"; therefore, countries richly endowed with natural resources have an advantage over countries that are not. Natural resource endowments have helped many countries (Norway, Malaysia, Botswana, Finland and Indonesia) to grow and diversify, in part by providing a basis for developing associated technologies and capital goods industries.

The abundance of natural resources also carries a paradox that has inspired innumerable studies of mineral-rich countries in the developing world. Since the 1970s, they have consistently underperformed their mineral-poor counterparts on a variety of economic performance, good governance and income equality: this phenomenon has come to be known as the resource curse. The "resource curse" is the phenomena whereby a country with an export-driven, natural resources sector, generating large revenues for government, leads paradoxically to economic stagnation and political instability. There is considerable evidence that non-renewable natural resource revenues, especially windfall can, if not properly managed, adversely affect economic growth and poverty reduction. The wise and prudent economic policy championed by President Obiang Nguema Mbasogo has helped the country avoid this trap.

The large-scale production of hydrocarbon in Equatorial Guinea has set the stage for a significant and dynamic structural transformation of its economy. The objective of the new "National Economic Development Plan" NDP in short, adopted at the "Second National Economic Conference "Horizon 2020" in November 2007", has proposed a sound medium and long-term strategy for managing the country's rapidly rising oil wealth. It ensures that the large oil endowment relatively to the size of the population is being translated into economic opportunities and benefices for the overall economy and the future generation. The new National Economic Development Plan emphasizes the diversification of the economic base, with agriculture as the cornerstone of economic diversification away from the oil sector.

The Plan also emphasizes the need for an efficient management of oil wealth for a sustained poverty reduction. The National Economic Development Plan addresses the public finance management (PFM) weaknesses and governance, and underscores the reforms needed, if the country is to take advantage of its unique opportunity to use the non-renewable oil wealth to foster economic structural transformation and achieve sustained broad-based growth and poverty reduction (education, health and infrastructure).

Recent Economic Developments

Equatorial Guinea's economic developments in the 1990s were dominated by the coming on stream of important oil fields in 1996; breaking with a long period of economic stagnation, real GDP growth averaged 9.0 percent a year in 1992-1995, rose to 32 percent in 1996 and 74 percent in 1997 and was about 39.0 percent in 1999. Non-oil GDP grew by 10.5 percent on average in 1994-97 but remained flat in 1998 because of a downturn in timber output. Following the initial surge in prices in the wake of the devaluation, inflation fell to 4.7 percent in 1996 on a year-end basis and 3.8% in 1997.

Due to the development of the important Zafiro offshore oil field, investment rebounded, averaging 79 percent of GDP in 1994-98, while the national savings rate remained at 12 percent of GDP on average. In this context, the external current account deficit increased sharply from 56 percent of GDP to 103.5 percent in 1996 and 82 percent in 1998.

Macroeconomic developments continued to be dominated by the hydrocarbon sector, with oil and gas accounting for about 90 percent of GDP, 98 percent of exports and over 90 percent of government revenues. Real GDP grew by about 34 percent in 2004, driven by the sharp expansion in hydrocarbon production. Non-oil GDP increased by about 13 percent, owing to continued strong performance in the construction, infrastructure and service sectors simulated by government spending. In 2005 due to a slowdown in hydrocarbon production, the overall GDP growth decelerated sharply. Large public infrastructure investment and private housing construction continued to be the main sources of growth in the non-oil GDP.

The real effective exchange rate of the CFA franc calculated for Equatorial Guinea continued to appreciate during 2005. This pattern largely reflected the appreciation vis-à-vis the U.S. dollar and the persistent large inflation differential with the major trading partner countries: in fact these are evidences of what is called "The Dutch Disease". The appreciation of the real exchange rate for Equatorial Guinea was the largest in the CEMAC region, reflecting the country's position as the largest oil exporter and recipient of foreign direct investment relative to GDP.

The traditional exports stagnated during the last few years; because producers' profits were adversely affected by the nominal appreciation of the CFA franc vis-à-vis the U.S. dollar. However, another crucial underlying factor for stagnation in traditional exports was the loss of immigrant farm labor, which was exacerbated by the abandonment of the farms in search of more lucrative employment in the oil and related sectors and, the poor yields of aged plantations.

The traditional export sectors, which have always been in difficulty, given the recurrent shortage of labour, is further affected by the real exchange rate appreciation.

This is the consequence of favourable terms of trade developments, particularly world oil prices and other fundamentals, such as the strong overall fiscal position, which itself is good for the overall economy; given the current structure of Equatorial Guinea economy. The appreciation of the real exchange rate is likely to accelerate the shifting of production inputs (capital and labour - resource movement effect). The Dutch Disease, by reallocating resource may be doing what the government would have been otherwise reluctant to do, therefore facilitating the transformational process of the economy.

Despite the enormous resources derived from oil exports, which have increased the per capita GDP from US$ 346 in 1995 to more than US$ 11,000 estimated in 2007, Equatorial Guinea has not yet been able to, significantly improve living conditions of the majority of the population. Sixty-six percent of the population still does not have access to potable water and the illiteracy rate stands at 60 percent. Infant mortality is about 97/1,000. The 2005 UNDP Human Development Index ranked the country 121st over 177 countries for which the index has been calculated. This poor performance reflects the absence of a comprehensive development and poverty reduction framework as well as poor human resource capacity, which impedes the translation of the main policy objectives of the government into a set of budget priorities and expenditures. It is expected that the newly approved National Economic Development Plan, derived from the Second National Economic Conference "Horizon 2020" adopted in Bata in November 2007, would go a long way in correcting these shortcomings.

Considering the pattern of EQG traditional agriculture and export sectors before the coming on stream of important oil fields in 1996, the sector was already in decline despite the government's efforts. Cocoa, coffee and timber have traditionally been the country's main source of income. During the early period of independence, Equatorial Guinea experienced a drastic economic decline; GDP per capita in current terms fell sharply, from US$ 260 in 1970 to about US$ 170 in 1979, mainly because of the severe decline of the country's agricultural production. As already mentioned the cocoa sector has been deficient, long before the coming on stream of important oil field and subsequent oil-revenues. Cocoa exports fell from nearly 40,000 tons in 1968 to less than 20,000 tons at the beginning of the 1970s, following the departure of the foreign plantation owners and to about 7,000 tons a year after the exodus of some 30,000-40,000 Nigerian contract workers in the mid-1970s. In 2007, the cocoa exports are estimated to be less than 2,000 tons. Decline in the other agricultural sectors was equally striking; timber production declined from 360,000 cubic meters in 1968 to an annual average of 6,000 cubic meters in the late 1970s, and coffee and palm oil production virtually disappeared. Since then the sector has barely recovered, on the contrary, the labour's shortage remains persistent combined with the real effective exchange rate appreciation and the magnitude of oil resource, the very small traditional export sector seems not to be viable.

The authorities are aware that it is critically important to reorient their resources and development efforts where the country could have proven comparative advantage; for example agriculture, fishery, tourism and to develop other export niches and sectors of the economy which can generate as much as foreign exchange earnings than the traditional export sector. Food constitutes by far the largest single item of household consumption in general. Oil proceeds must be invested in raising the productivity of farmers by financing improved seed variety for local production to support the transition from the traditional agricultural export sector to increase local food production. The tertiary sector globally needs the government's attention toward a service-based economy supported by oil-revenues during the transitional period. This backdrop does not mean that the manufacturing sector should not exist on the contrary, the new economy in the making will demand a different type of industries framed on the agricultural base, and manufacturing alongside the service based economy. The traditional export sector may eventually disappear due to the necessary ongoing reallocation of resources within the economy. The sector could then be substituted by the emergence of an efficient and competitive food production sector to warrant food security and limit the dependency on imported foods, which now represents more than 80% of the national food consumption.

In addition, Equatorial Guinea is currently the only Sub-Sahara African oil producing country where oil revenue clearly exceeds the country's absorptive capacity and where sizable foreign assets have been accumulated. The widespread poverty and low human indicators in Equatorial Guinea also argue for upgrading domestic infrastructure and increasing public services so as to improve the quality and productivity of physical and human capital. Investment in financial assets would build the reserves needed to; gradually increase capital investment as absorptive capacity improves. The current fiscal rule, that the government is trying to follow, is to use non-oil revenue to finance current expenditures and oil revenue to finance capital expenditure, and to save what is left: this rule is wise and prudent.

The development of livestock in Equatorial Guinea is practiced within two distinct systems. The first, most widespread, relates to the traditional breeding, especially smaller livestock (goats, ovine, porcine, poultry, sheep) by farmers at the village level. The breeding system is just for subsistence and its serenity is jeopardized by the lack of appropriate workers, of suitable space for the pastures, of shelter and of veterinary services (lack of appropriate veterinarian products to take care of trypanosomiasis affecting ruminants). The second system is the practice of modern and intensive bovine breeding. This is done by very few private companies on an experimental basis in Moka, south of the island of Bioko. Meat consumption per capita from national production is very low and the consumption of meat and meat products is mainly met by imports.

The national production of meat does not cover the per capita consumption level per year and is by far lower than the minimum estimated at 18,25kg. The additional meat consumption of the population is met by imports of live animals from neighbouring countries, and by hunting of wild animals such as: small antelopes, porcupines, pangolins, etc.

The development of the livestock in Equatorial Guinea would also suffer from: the low purchasing power of the rural population, the deficiency in technical and veterinarian services, the lack of veterinarian products and disease control. The basic infrastructures are degraded. In addition, basic information for the development of livestock sub- sector is not reliable, and do not allow a rigorous planning for the revival of the sub-sector. However, Equatorial Guinea has the pastoral resources for the development of the livestock and the revival of the sub-sector deserves the attention of the authorities at the Highest Level.

The above analysis undertaken by the authorities, has shaped the vision of the President of the Republic for the economic and social development of his country; vision embodied in the new “National Economic Development Plan” NDP in short, adopted at the “Second National Economic Conference “Horizon 2020” in November 2007”

Oil has brought great wealth and growth to the Equatoguinean economy. Real GDP is estimated to have expanded by about 6 percent in 2009. However, with crude oil production on the decline and still-large development needs, preparations for the post-oil period has begun.

The Country's policies can be summarized as follows.
1) Guided by the National Development Plan 2020, policies aim to build up basic infrastructure in support of improved social welfare and greater diversification.
2) There is increasing recognition of the need to increase government savings over the medium term, but spending commitments reduce the scope for near-term adjustment.
3) Efforts to strengthen public financial management are being stepped up, through collaboration with the international community.
4) Collaboration with banks on financing modalities for SMEs is high in the agenda; while support for financial sector development at the regional level continues.
5) The role of government in economic diversification is that of facilitator. However, in the medium term, it appears necessary to fill the gaps left by infant private sector.

The medium-term outlook is clouded by the onset of declining hydrocarbon production but the nascent non-oil sector, is promising. The authorities expect robust growth in the small non-hydrocarbon sector, as investments in agriculture sub-sector, in basic infrastructure begin to bear fruit and new public investments support continued construction activity. Transportation is projected to grow steadily (ports, roads), with the hosting of two official regional events providing an additional boost over the next few years. However, activity will increasingly need to be driven by private sector activity, which depends on the ability to strengthen productivity and improve the business climate.

Economic diversification and private sector-led growth.
With hydrocarbon production expected to taper off, Equatorial Guinea is advancing other sources of value added if development is to be sustained. The Authorities are convinced that successful diversification requires strong human capital, financial intermediation, and an enabling business environment.

In one of his speeches in 2009, the Minister of State, Minister of Agriculture and Forest, talking about his country's economic diversification program, emphasized that: "The need for economic diversification is driven by a need to reduce the high dependency of the country on the income from a single commodities such as fossil fuels. This dependency exacerbates the vulnerability of Equatorial Guinea to the adverse effects of policies and measures taken at the international level to respond to climate change. Sustainable development, he stated, is not a one-size-fits-all concept and needs to be defined in the context of each national economy and according to particular circumstances and priorities. As such, the pursuit of economic diversification in any country needs to be carried out according to a country's driven agenda".

Although there is no common approach to economic diversification, the Minister of State emphasized that; "Basic measures to foster a favorable investment climate are helpful, including efficient administration, the rule of law, a stable macroeconomic environment, efficient and effective infrastructure and manageable political risks. Other prerequisites for economic diversification, he continued, are sustained efforts to improve the educational infrastructure, involvement of the private sector, and the need for governments to provide incentives and form partnerships at national and sectoral levels to bring together different types of expertise".

The Minister of State further added that: "Economic diversification involves both local and global aspects: local in that it should be tailored to local circumstances, but global when national economies are highly affected by high fluctuations in volatile international markets, for which countries have to find ways to be resilient. At this time, we are aware, the Minister of State underlined, that the economic options available are often limited to tourism, agriculture and fisheries, all of which are vulnerable to climate change. In such cases, economic diversification and sustainable development will involve trade-offs based on comparative advantages. These considerations have dictated the general framework within which the Government of Equatorial Guinea has elaborated its Economic Diversification Program, he stated".

He noted that "sustainable development strengthens adaptive capacity and safeguards the long-term prospects of vulnerable economies such as that of Equatorial Guinea, in the face of depleting natural resources. He pursued further that, economic diversification is only one aspect of sustainable development which enables the consideration of broader issues such as reducing poverty, improving technologies, increasing employment and ensuring the provision of ecosystem services within the framework of a well conceived eco-tourism program".

Guided by the framework in the National Development Program Horizon 2020 "NDP", Equatorial Guinea aims to graduate to emerging country status by 2020. In view of the exhaustible nature of oil resources, sustained growth would be achieved through economic diversification. In the current phase (2008–12), oil wealth is being used to build up basic infrastructure and diversify the economy towards non oil sector. Medium to Longer-term policies will aim to strengthen the business climate and foster identified sectors of potential growth and employment creation. Current business climate indicators point to a wide-ranging structural reform agenda.

In recognition of the important role to be played by small- and medium size enterprises (SMEs), the authorities are beginning to work with the banking sector on improving access to financing, including the creation of a credit fund (i.e., a long-term government deposit) which banks could loan out at concessional rates, a guarantee fund, or a direct interest rate subsidy.

More broadly, the authorities support regional initiatives to strengthen financial sector development. Improvements over the past year include real-time interbank clearance and ATM machines at the individual bank level and even at airports. The fibber-optic cable to the mainland should be operational by year's end, allowing faster and more reliable real-time information transfer from the island. Work is also ongoing on introducing an ATM network, use of credit cards, and a government debt market to facilitate liquidity management.

Outside of the financial sector, the authorities' diversification strategy envisions the government facilitating, but not competing with, the private sector. The national strategy should be seen in the context of the larger regional strategy to strengthen CEMAC integration.

Graduating to emerging marker status by 2020—ports and highways in Equatorial Guinea are a key pillar to increased trade. Over the near-term, the authorities also intend to continue orienting the economy toward identified key sectors (agriculture, fishing, tourism), filling the void left by a still infant private sector, through creation of public companies and agencies, as they have done in the management of public investment (highways, real estate).