

Equatorial Guinea



Hamet Aguemon

Yann Pambou

Country Overview:

The Republic of Equatorial Guinea is a country located in Central Africa. With an area of 28,000 km² it is one of the smallest countries in continental Africa, having a population estimated at half a million. It comprises two parts: a Continental Region (Río Muni), including several small offshore islands like Corisco, Elobey Grande and Elobey Chico; and an Insular Region containing Annobón island and Bioko island (formerly Fernando Po) where the capital Malabo is situated. Equatorial Guinea is bordered by Cameroon on the north, Gabon on the south and east, and the Gulf of Guinea on the west, where the island nation of São Tomé and Príncipe is located between Bioko and Annobón. It is one of the few territories in mainland Africa where Spanish is an official language, besides the Spanish exclaves of Ceuta and Melilla. Equatorial Guinea is the third smallest country in continental Africa in terms of population. It is also the smallest United Nations member from continental Africa.

On the political scene, Equatorial Guinea adopted a nominally multiparty system in 1991, but the president, Teodoro Obiang Nguema Mbasogo, dominates the political system.

The discovery of sizeable petroleum reserves in recent years is altering the economic and political status of the country. It transformed external relations with foreign powers in the late 1990s, whose priority was no longer to seek democratic change, but to secure commercial interests. The discovery of large deposits of oil and gas in the 1990s transformed Equatorial Guinea into one of Africa's fastest-growing economies and one of the main destinations of foreign investment on the continent. Equatorial Guinea's GDP was 60 times larger in 2007 than in 1995. Despite this impressive performance, real GDP growth has slowed down since 2004 and is expected to contract from 2009. In 2007 oil and gas accounted for an estimated 91% of GDP, 91% of government revenue and 99% of exports. Increasing oil production has allowed the government to follow an expansionary fiscal policy: public spending increased by an estimated average of 44% per year in 2003-07. Over 75% of this spending was capital expenditure. Oil production peaked at an estimated 290,000 barrels/day in 2005. Gas production, which comes mainly from the Alba field, is processed at local plants as condensate, liquefied petroleum gas, methanol and, since 2007, as liquefied natural gas (LNG). Chronically in

deficit in the 1990s and early 2000s, the current account has posted surpluses in recent years as a result of rapidly growing exports.

Education:

At independence Equatorial Guinea inherited a relatively good education system, but it deteriorated quickly during the 1970s, when the then president, Francisco Macías Nguema, closed many schools. In the 1980s educational enrolment improved again, and the net enrolment rate has been close to 90% since the beginning of the 1990s. Although the country's 87% overall literacy rate is significantly above the 63% average for Sub-Saharan Africa, major gender inequalities persist. The net enrolment rate was only 81% in 2005, very low for a country with vast oil resources, and human resources and skills are not well developed, partly because the share of budget resources devoted to the education sector continues to be very small (4% in 2002-05).

Natural resources :

Mainland Equatorial Guinea consists of Río Muni (26,017 sq km), bordered in the north by Cameroon and in the east and south by Gabon. In the oil-rich Gulf of Guinea lie the islands of Bioko (2,017 sq km, which contains the country's capital, Malabo) and Annobón (17 sq km). Bioko is a volcanic island with fertile soil and has been heavily cultivated, while Río Muni is mainly covered by tropical rainforest. The country's maritime boundaries contain significant oil and gas resources. Oil reserves are estimated at 1.8bn barrels, while gas reserves are believed to amount to 9.6trn cu ft.

Infrastructure:

The country's transport and telecommunications infrastructure has improved rapidly in recent years, as the government has used the oil revenue windfall to boost spending in public infrastructure.

Road & Railways

There is no railway infrastructure, and the government does not intend to build any in the next few years. From 2000 the government started increasing public spending to rehabilitate the dilapidated road infrastructure. A new road links the airport with the city of Malabo, and the

government is rapidly upgrading urban roads in Malabo to connect it to Malabo II, a new satellite city currently under construction. In addition, since 2005 the road between Malabo and Luba has been upgraded, the rehabilitation of the circular road around Bioko island has almost been completed, and roads connecting all the major towns and borders in the continental region have been upgraded and rehabilitated.

Port

The administration's first priority has been to improve infrastructure in sectors relating directly to the oil industry in order to provide port facilities and a service centre dedicated exclusively to the oil sector. In 2003 a new deepwater port 45 km from Malabo, Luba Freeport, was inaugurated, and in 2007 it was expanded to cater for the greater number of companies using its facilities. Equatorial Guinea has two other ports, Malabo and Bata, the expansion of which started in 2007 and is expected to be completed in 2009. Freight tonnage has been increasing rapidly, in line with the country's fast economic growth.

Air Transport

The growth of the economy since the mid-1990s has been accompanied by a substantial increase in air traffic, both in terms of flight numbers and air freight activity. The country has two international airports, in Malabo and Bata. Two other airports have been built at Mongomo in the east of the country and on the island of Annobón. Several international airlines operate flights from Malabo to Europe. In addition, several smaller and regional airlines also connect Malabo and Bata to other regional centres. However, security at the country's domestic airlines is poor, and accidents have been a recurrent liability.

Energy

Despite Equatorial Guinea's large oil reserves, the country imports all of its refined petroleum products, as it has no refinery. Equatorial Guinea's electricity sector is owned and operated by Sociedad de Electricidad de Guinea Ecuatorial (SEGESA), in which the government holds a 62% stake and a Spanish company, Infinsa, the remaining 38%. Electricity tariffs must be approved by the government. SEGESA's power supply is unreliable, as a result of ageing equipment and poor management. Generous subsidies to low-end consumers and illegal connections contribute towards SEGESA's financial difficulties, preventing the necessary upgrading of the

grid. Generating capacity is made up of thermal generation (80%) and hydroelectric generation (20%). The gas-fired power plant in Punta Europa, near the capital Malabo, the extension of which was finished in 2004, has four turbines that can generate 28 mw. An additional 4 mw of generation capacity has been built at the methanol complex on Bioko Island. The Riaba dam, which has been in operation since 1989, is another source of power on Bioko. The mainland region is supplied by thermal plants, which are connected to a network that works independently from the one in Bioko Island. The government started a major rehabilitation and expansion of the electricity grid in Bioko in 2007, but few areas outside the main towns receive a regular supply of electricity.

Telecommunication

Telecommunications have improved substantially in the 2000s. The parastatal, Guinea Ecuatorial Telecomunicaciones (Getesa), received the support of French companies in the 1990s, which has enabled Equatorial Guinea to have an efficient, digital, fixed-link network in most major urban areas and good mobile-phone coverage. The state currently holds a 60% share in Getesa, while the remaining 40% is held by France Telecom. Although less than 2% of the population has a fixed-line connection, mobile telecoms grew at an average rate of 80% during 2000-07, and in 2007 almost one-half of the population was using mobile phones. This rapid growth has caused periodic disruptions to services, as the telecoms infrastructure has not expanded at the same speed. As a result, the government decided to increase competition in the sector and awarded a second mobile-phone license to Saudi Arabia's Hist Telecom in 2008. Internet access remains limited, although Internet cafés have spread to all major urban centers.

Macroeconomics data:

Population:	527,000 (2007 estimate)
Population growth rate:	2%
GDP (nominal)/ per capita:	\$15.1bn/\$32,195
GDP growth rate (%):	11.2%

Consumer Price Inflation:	7.5%
Current-account balance (US\$ bn):	1.1
Total external debt (US\$ bn):	1.6
Currency:	CFA
Exchange rate (CFAfr:US\$):	471.4
Human Development Index:	0.717 (Medium)
Unemployment rate	8% (2009 estimate)
Illiteracy rate	11.8%
Total international reserve (US \$ m)	4,248
Interest rate:	15%

Equatorial Guinea Industries:

Agriculture

Despite Equatorial Guinea's tropical climate and fertile soils, agriculture, forestry and fishing only constituted an estimated 3% of GDP in 2007. The main food crops are sweet potatoes and cassava. The oil boom has led to an exodus of rural workers to urban areas, which has limited the development of the agricultural sector. Equatorial Guinea claims an exclusive maritime fishing zone of 300,000 sq km, which gives it access to substantial fishing resources. The government has identified fisheries as a key sector for promoting economic diversification.

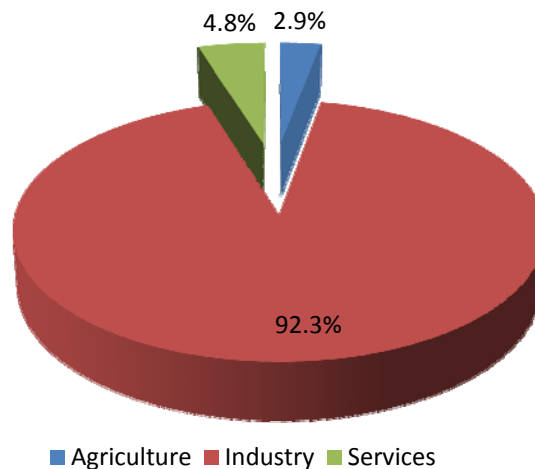
Mining

The discovery of the Zafiro field in 1995 by US-based ExxonMobil marked the real beginning of the country's transformation. Production at Zafiro peaked at 260,000 barrels/day in 2005. Oil is also exploited in two other fields operated by a US oil company, Hess Corporation: the Ceiba oilfield, which came on stream in 2001, and the Okumé complex, where production started in 2007. Oil production peaked at an estimated 290,000 b/d in 2005, but despite the coming on stream of the Okumé complex, it declined to an estimated 268,000 b/d in 2006-07 owing to a fall in production at the Zafiro field. With reserves estimated at 1.8bn barrels, Equatorial Guinea

could produce at current levels for another 13 years. The 2008 Crude oil production is estimated at 428,000 barrels/day.

Equatorial Guinea also possesses substantial reserves of natural gas, an estimated 9.6trn cu ft, principally from the Alba field. The field's output was originally processed as condensate, liquefied petroleum gas and methanol. Then in May 2007 the US\$1.4bn LNG plant at Punta Europa started production. It has a capacity to produce 3.7m tonnes/year (t/y) of LNG. In April 2005 the government created a national gas company, Sonagaz, which will be involved in the distribution, transport, marketing and export of gas. The hydrocarbons sector has been dominated by US companies, notably ExxonMobil, Hess Corporation, Chevron and Marathon Oil which currently operate and control majority stakes in all producing blocks. However, since 2005 the oil sector has attracted the interest of several other players, and a number of non-US companies are currently exploring for oil in several blocks. A new hydrocarbons law was adopted in 2006, which increased the level of royalties and the minimum stake that the national oil company, Compañía Nacional de Petr leos de Guinea Ecuatorial (GEPetrol), held in each block. The new legislation reflected Equatorial Guinea's transition from industry newcomer to established player, as the original laws and contracts were regarded as overwhelmingly favourable to foreign oil companies and created friction with the government. Rapid growth in the sector has not been accompanied by a similar increase in oil management capacity within the public administration, and there have been concerns that the creation of GEPetrol in 2001 only added to the level of bureaucracy in the government and encouraged an even more opaque attitude towards the management of oil revenue. The government has stated its determination to use its substantial fiscal savings to increase its stakes in the country's main hydrocarbon projects, and in 2008 it purchased the interests of a US company, Devon Energy, for US\$2.2bn. There are no commercial mining operations in Equatorial Guinea. Modern exploration techniques are non-existent, and any work that has been done has been preliminary and conducted by foreign geological surveys. The government claims that Equatorial Guinea possesses substantial deposits of minerals, including gold, diamonds, bauxite, iron ore, titanium, copper, manganese and uranium. Artisanal gold mining is reported to take place in parts of the mainland.

Real gross domestic product by sector
(% share of GDP)



Inflationary pressures are expected to persist in 2009, driven by increases in government spending ahead of the presidential election, but the forecast fall in global food and oil prices will allow annual average inflation to fall from an estimated 7.5% in 2008 to 4.5% in 2009. A rise in oil prices will push up average inflation to 4% in 2010. Nonetheless, as the government has recognised, the basket of goods that make up the composite price index is very outdated, and inflation is widely acknowledged to be much higher than official data suggest.

Banking System:

Equatorial Guinea is a member of the Central African Economic and Monetary Community (Communauté Economique et Monétaire de l’Afrique Centrale-CEMAC), which is composed of six member countries: Cameroon, Central African Republic, Chad, Republic of Congo, Equatorial Guinea and Gabon.

The CEMAC is composed of the following four institutions:

- Central African Economic Union (Union Economique de l’Afrique Centrale –UEAC-)

- Central African Monetary Union (Union Monétaire de l'Afrique Centrale- UMAC-)
- Community Parliament
- CEMAC court of justice

The UMAC, headquartered in Yaoundé, is responsible for the monetary policy of its member countries. It also involved, with the UEAC, in the coordination of economic policy to ensure consistency between national budget policies and the common monetary policy. The UMAC is administered through:

- The Conference of Heads of States, created through the Agreement establishing the CEMAC, the supreme authority of the UMAC;
- The Council of Ministers;
- The central bank, Bank of Central African States (Banque des Etats de l'Afrique Centrale -BEAC-), the common independent central bank;
- The Banking Commission, (Commission Bancaire de l'Afrique Centrale (COBAC),
- harmonises and controls banking activities;
- The stock market, Bourse des valeurs mobilières.

The BEAC was established in 1972, the successor to the Banque Centrale de l'Afrique Equatoriale et du Cameroon (established in 1955). It formulates and implements the monetary policy of its member countries, and also preserves the stability of the common currency of the member states, the CFA Franc, which is pegged to the Euro. The French treasury guarantees the convertibility (though not the exchange rate) of the CFA Franc. BEAC uses both reserve requirements and the discount window to implement its policy.

The financing of the economy of the CEMAC region has increased by 9.2% from XAF 1,850 billion in 2005 to 2,019 billion in 2006. The target inflation rate for the region has been set at a maximum of 3%.

The banking sector is now composed of four commercial banks:

1. Banque Meridien BIAO Guinee Equatorial (BMB)
2. Caisse Commune d'Epargne et d'investissement Guinee Equatorial (CCEI),
3. BGFI Equatorial Guinea (Banque Gabonaise et Française Internationale)
4. SGBGE (Societe Generale de Banques en Guinee Equatoriale)

The banking activities are supervised by the COBAC.

List of banks and structure

Bank name	Information	Business Activities	Ownership Structure
BGFI	(240)9-63-52 09-63-31 Agence_malabo@bgfi.com http://www.bgfi.com/htm/fr/banque-malabo.html	Development Banking Commercial Banking Western Union	Gov of Eq. Guinea: 15% Private Eq. Guinea: 35% BGFI Bank: 50%
CCEI	(240) 09-22-03 (240) 09-29-10 (240) 09-31-21 gececi@hotmail.com	Commercial Banking Money Gram Money first	Gov of Eq. Guinea: 10% Afriland First bank: 51% FMO: 19% Antonio Mansogo: 4%
BMB		Funds transfer and clearance and exchange services	
SGBGE	(240)09-33-37	Financing	Gov of Eq. Guinea:

	09-33-57 08-27-21 Jean-marie.navarro@socgen.com	Accessing Markets Operational Support Asset Management	31.8% Private Eq.Guinea: 24.3% Group Soc. Gen.:43.9%
--	--	--	--

Equatorial Guinea's small financial system is not fully developed. The banking sector, which has expanded as a result of high economic growth in recent years, dominates the financial system. However, the high costs of finance and limited access to credit instruments further hinder dynamic entrepreneurial activities. The banking sector consists of four main banks, all primarily foreign-owned. The government maintains ownership in two banks. Compliance with banking regulations is mixed, and the number of non-performing loans has not declined in recent years.

Equatorial Guinea: Financial Soundness Indicators for the Banking Sector, 2002–07 (Percent %)

	2006	2007
Capital		
Regulatory capital to risk-weighted assets	13	8.6
Tier 1 capital to risk-weighted assets	11.8	7.4
Capital to total assets	7	5.8
Asset quality		
Nonperforming loans (gross)	14.3	10.8

to total loans (gross)		
Loan loss provisions to nonperforming loans	79.9	98.6
Earnings and Profitability		
Return on assets	1.7	3.3
Return on equity	26.5	52.8
Liquidity		
Ratio of net loans to total deposits	37.3	37.4

Insurance Sector:

The insurance sector is regulated and supervised by a regional body, the Interprofessional Committee of the Insurance Market (Conférence Internationale des Marchés d'Assurances-CIMA). It was established on July 10, 1992 in Yaounde (Republic of Cameroon) and includes the following countries: Benin, Burkina, Cameroon, Central Africa, the Comoros, Ivory Coast, Gabon, Equatorial Guinea, Guinea Bissau, Mali, Niger, Senegal, Chad and Togo. The CIMA Treaty came into effect on February 15, 1995. The regulatory body of the CIMA is the Regional Commission of Insurance Control (CRCA) whereas the Council of Ministers is the supreme body.

The insurance sector is very small, consisting of three insurance companies and one reinsurance company with limited data available.

Central bank and its role in the economy:

Equatorial Guinea's monetary policy is determined by the regional central bank, BEAC, which sets regional monetary policy, fixes minimum interest rates for bank deposits loans, provides member governments with statutory financing, and sets minimum reserve requirements for commercial banks. BEAC's monetary policy has historically been prudent and aimed at controlling inflation, while maintaining the peg of the currency, the CFA franc, to the euro. Although in recent years the BEAC's monetary policy has been largely passive and has not followed the trends set by the European Central Bank (ECB), the sharp cuts in the latter's key refinancing rate in recent months - the reductions have totaled 225 basis points since October - and the expected fall in inflation in the region led the BEAC to cut its rediscount rate by 75 basis points to 4.75% in December 2008. The ECB is expected to cut its key refinancing rate by a further 100 points in 2009; this, together with a deteriorating economic situation in most central African countries, will put pressure on the BEAC to cut its rate by another 75 basis points by end-2009, although it is likely to raise it back to limit new inflationary pressures. However, as the change in the rediscount rate will have only a minor effect on liquidity levels, the BEAC is expected to continue to rely mainly on indirect instruments and to reduce minimum deposit requirements to increase liquidity in the banking sector. The BEAC's reputation as a robust institution has been negatively affected by revelations that it had placed deposits in high-risk international financial instruments, overlooking its own internal regulations.

Foreign Exchange

The CFA Franc is the common currency of 14 countries located in West Africa (WAMU) and Central Africa (CEMAC), and has a fixed parity with the Euro at XAF 655.957 / 1 EUR. The French treasury guarantees the convertibility and stability of the XAF. Payments and transfers of capital within the CEMAC region and current account transactions with all countries are unrestricted. However, restrictions on transactions of capital accounts apply for outflows to countries outside the CEMAC.

Interest rates

	2006	2007
Lending interest rate	15.3%	15%
Deposit interest rate	4.3%	4.3%
Discount rate	5.3%	5.3%

Stock market

Equatorial Guinea, a member of the Central African Economic and Monetary Community (CEMAC), has no stock exchange or securities market. Capital transfers within the CEMAC region are unrestricted, but there are restrictions on capital accounts transactions with other countries.

References

<http://www.heritage.org/Index/Country/EquatorialGuinea>

<http://www.beac.int/index.html>

<http://www.beac.int/cobac/Microfinance/microfiregle.htm>