



# REPUBLIC OF EQUATORIAL GUINEA

## STAFF-MONITORED PROGRAM

June 2018

In the context of the Staff-Monitored Program, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's information following discussions that ended on April 6, 2018 with the officials of the Republic of Equatorial Guinea on economic developments and policies underpinning the IMF arrangement. Based on information available at the time of these discussions, the staff report was completed on May 18, 2018.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of the Republic of Equatorial Guinea \*  
Memorandum of Economic and Financial Policies \*  
Technical Memorandum of Understanding\*

\*Also included in Staff Report

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### **IMF Managing Director Approves a Staff-Monitored Program for the Republic of Equatorial Guinea**

- The Staff-Monitored Program (SMP) will help build an adequate track record of performance for a potential Fund-supported program.
- The program aims to reduce further the fiscal deficit, increase non-oil revenue, and address critical public financial management weaknesses, while protecting social spending.
- The program will aim to lay the basis for improving governance and transparency in public administration and the hydrocarbon sector.

On May 10, 2018, the Managing Director of the International Monetary Fund (IMF), approved a SMP for Equatorial Guinea (EG), covering the period January-July 2018. An SMP is an agreement between country authorities and Fund staff to monitor the implementation of the authorities' economic program. SMPs do not entail endorsement by the IMF Executive Board.

The main objectives of the SMP in the area of public finances are to reduce further the fiscal deficit, increase non-oil revenue, and address critical public financial management (PFM) weaknesses, while protecting social spending. The SMP also envisages measures to improve the business climate and foster economic diversification. The program will aim to lay the basis for improving governance and transparency in public administration and the hydrocarbon sector.

The program will also provide a framework to strengthen public sector capacity through technical assistance provided by the IMF. It will help to build an adequate track record of performance as the basis for a potential Fund-supported program in the second half of this year.

Starting in the late 1990s when oil production came on stream, EG went through a long economic boom. The boom lifted income per capita in EG from least developed to upper middle-income levels. This process was accompanied by an increasing dependence on oil

and gas, which in 2013 accounted for about 90 percent of exports and government revenue, among the highest in Africa. The boom allowed a sharp and sustained increase in public investment that has led to a high degree of infrastructure development, which could prove crucial to diversify the economy. During the boom years, some macroeconomic buffers were built up, including substantial government deposits, while external and public debt remained very low. In the event, these buffers were not sufficient to withstand the oil-price shock that took place in mid-2014.

In 2014, like other CEMAC countries, EG was hit hard by the plunge in oil prices. Since then, oil prices have partially recovered, but this has been offset by a decline in hydrocarbon output, which peaked in 2008. In addition to weakening the external sector and the public finances, these factors, along with business environment weaknesses and financing constraints have led to a prolonged contraction in overall GDP. At the same time, weaknesses in the PFM framework have reduced the effectiveness of the macroeconomic policy responses.

Macroeconomic imbalances narrowed considerably and the pace of economic contraction slowed in 2017. Driven by a large reduction in capital spending and higher oil prices, the fiscal situation improved markedly in 2017, with the deficit declining to 3 percent of GDP. Real GDP is estimated to have declined by 3 percent, driven by continued decline in hydrocarbon output, but non-hydrocarbon GDP is estimated to have increased (1.2 percent) for the first time since 2013. However, macroeconomic conditions remained strained, and the country needs to further strengthen its public finances, rebuild macroeconomic buffers, and improve its economic growth prospects. The SMP would help the authorities to achieve these objectives.



# REPUBLIC OF EQUATORIAL GUINEA

## STAFF-MONITORED PROGRAM

May 18, 2018

### EXECUTIVE SUMMARY

**Context:** In 2014, like other CEMAC countries, Equatorial Guinea (EG) was hit hard by the plunge in oil prices. Since then, oil prices have partially recovered, but this has been offset by a rapid trend decline in hydrocarbon output, which peaked in 2008. These factors, along with business environment weaknesses, low private sector confidence, and financing constraints have led to a sharp and prolonged contraction in overall output. With very low government deposits and high domestic arrears, financing constraints are forcing a narrowing of external and fiscal imbalances. At the same time, weak institutional capacity, along with an inadequate public financial management (PFM) framework has reduced the effectiveness of the macroeconomic policy responses.

**Focus of the SMP:** The SMP will cover the period January 1, 2018–July 31, 2018,<sup>1</sup> and will aim to mobilize revenue, through new tax measures and improved administration, and address critical PFM weaknesses while protecting social spending. It also envisages measures to improve the business climate and foster economic diversification. In addition, the SMP will aim to lay the basis for improving governance and transparency in public administration and the hydrocarbon sector. The program will also provide a framework for addressing capacity weaknesses and help to build an adequate track record of performance as the basis for discussions on a potential Fund-supported program later this year.

**Policy recommendations:** Fiscal policy will focus on: (i) strengthening tax administration; (ii) implementing tax policy measures; (iii) reducing capital spending to be in line with the financial resource envelope of the country; and (iv) creating space to increase social spending. Structural reforms will focus on: (i) strengthening PFM; (ii) measures to foster good governance by strengthening the anticorruption framework, raising transparency in the hydrocarbon sector, and improving public data dissemination; and (iii) strengthening the technical capacity and institutional development of the public sector.

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<sup>1</sup> The proposed track record period commenced in January 2018, as the authorities started implementing substantial policy measures in line with staff proposals since then.

Approved By  
**Anne-Marie Gulde-Wolf**  
**(AFR) and Kevin Fletcher**  
**(SPR)**

Discussions were held in Malabo during December 11–20, 2017, February 12–22, 2018, and April 2–6, 2018. The staff team comprised Messrs. Abrego (head), Nicholls, Perez-Saiz, Mengistu (all AFR), Keim (SPR), El Khoury and Ms. Luca (LEG), and Hurtado (FAD). Messrs. Sembene (Executive Director) and Ondo Bile (OED) participated in some of the discussions. The mission held discussions with H.E. Francisco Pascual Obama Asue, Prime Minister; H.E. Lucas Abaga Nchama, Minister of Finance, Economy and Planning; H.E. Miguel Engonga Obiang Eyang, former Minister of Finance and Budgets; H.E. Eucario Bakale Angüe Oyana, former Minister of Economy, Planning, and Public Investment; H.E. Gabriel Mbega Obiang Lima, Minister for Mines and Hydrocarbons; H.E. Milagrosa Obono Angüe, Secretary of State for the Treasury ; Mrs Genoveva Andeme Obiang, Deputy National Director of the Central Bank for Central African States (BEAC), and other senior government officials. The mission also exchanged views with representatives of the private sector, civil society, and development partners.

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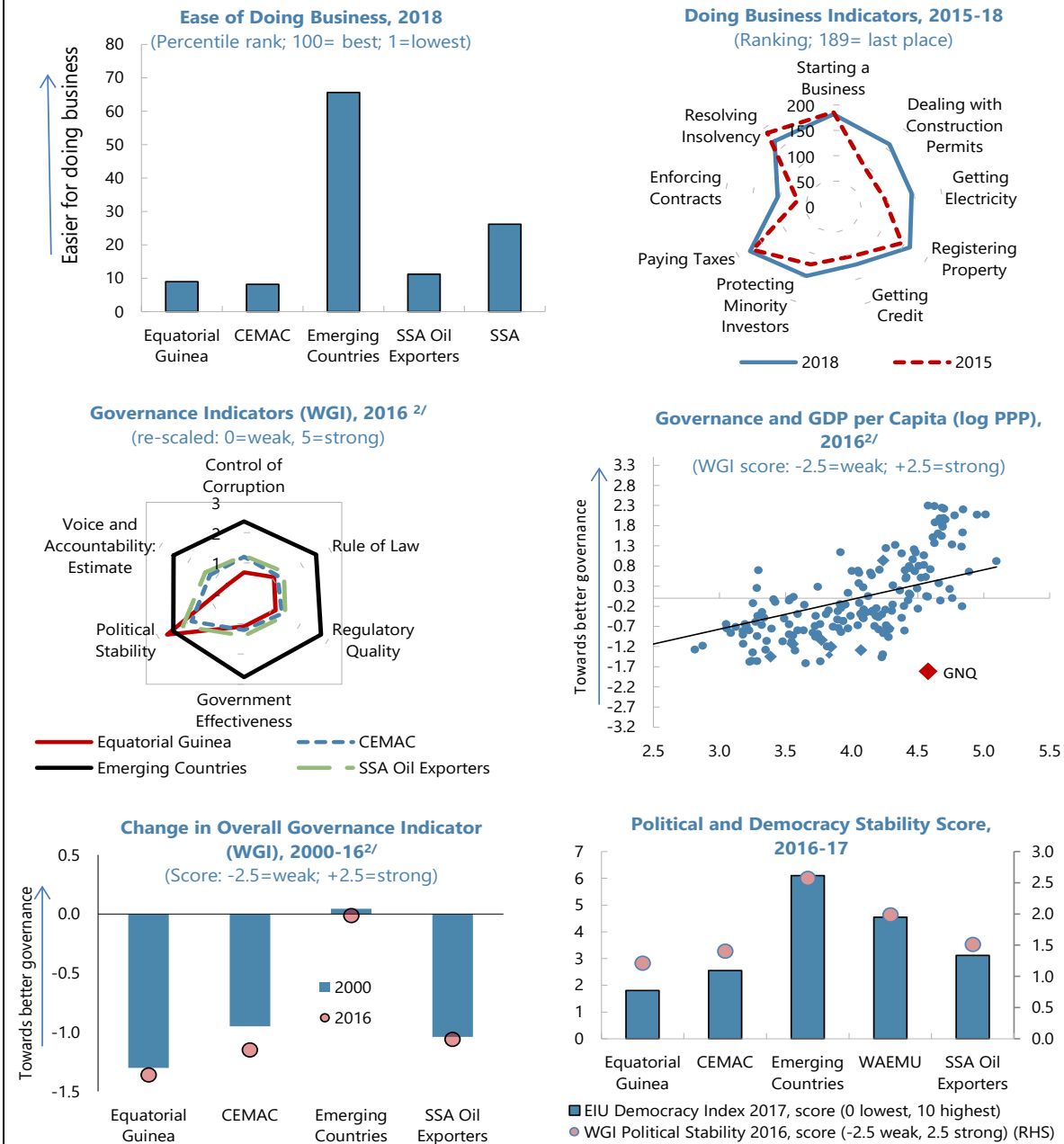
## BACKGROUND AND RECENT DEVELOPMENTS

**1. Prior to the current crisis, Equatorial Guinea (EG) went through a long economic boom that began in the late 1990s when oil production came on stream.** The boom lifted income per capita in EG from least developed to upper middle-income levels. This process was accompanied by an increasing dependence on oil and gas, which in 2013 accounted for about 90 percent of exports and government revenue, among the highest in Africa. The boom allowed a sharp and sustained increase in public investment that has led to a high degree of infrastructure development, which could prove crucial to diversify the economy. During the boom years, some macroeconomic buffers were built up, including substantial government deposits, while external and public debt remained very low. In the event, these buffers were not sufficient to withstand the recent oil-price shock that took place in mid-2014.

**2. Despite rapid income growth, EG has not resolved longstanding structural, social, and governance problems.** A persistently weak business climate has held back development of the non-hydrocarbon sector and contributed to a strong dependence on hydrocarbons. Although the government initiated several reforms aimed at improving governance and fighting corruption in 2011 (reiterated in 2014 at the launch of the second phase of the *Horizonte 2020* Plan), these actions are yet to gain sufficient traction to permanently change behavior and transform perceptions on governance, which are very weak (Figure 1). These problems have compounded the difficulties of attracting investment outside the hydrocarbon sector. While recent data on income distribution and social indicators are limited, indications are that income is highly concentrated, social indicators are below regional peers, and human capital is low, reflecting high inequality and inadequate levels of social spending.

**3. The oil-price decline that began in mid-2014 led to large macroeconomic imbalances and a strong economic contraction through 2016.** A sharp decline in exports and government revenue resulted in a widening of the external current account and fiscal deficits in 2014–16. The oil-price shock was compounded by a secular decline in oil output that started in 2009. In 2016 EG's government deposits declined to very low levels, while domestic arrears reached about 25 percent of GDP at end-2016. At the same time, real GDP fell by a cumulative 20 percent over 2013–16, with the non-hydrocarbon sector also strongly contracting. The sharp decline in oil prices caused nominal GDP to halve over the same period. Total public debt (including arrears) rose from 6 percent of GDP in 2013 to 48 percent of GDP in 2016. The crisis has also impacted the banking system, with government payment arrears leading to a large increase in NPLs (15).

**Figure 1. Equatorial Guinea: Business Environment and Governance <sup>1/</sup>**



Sources: Doing Business Report 2018; Worldwide Governance Indicators (WGI), 2000-2016; EIU Democracy Index 2017; WEO; and IMF staff estimates.

Note: Worldwide Governance Indicators (WGI) and EIU Democracy Index are governance measures that are perceptions-based.

<sup>1/</sup> SSA oil exporters = Angola, Cameroon, Chad, Congo, Rep. of Equatorial Guinea, Gabon, Nigeria.

<sup>2/</sup> WGI governance indicator in the middle right chart is the perception of control of corruption. The overall governance indicator in the bottom left chart is calculated as the simple average of control of corruption, government effectiveness, rule of law, regulatory quality, political stability, and voice and accountability. WGI scores are subject to uncertainty around the point estimate; scores reflect the relative, not the absolute, performance of the country.



**4. Although macroeconomic imbalances narrowed considerably and the pace of economic contraction slowed in 2017, macroeconomic conditions remained strained.**

Driven by a large reduction in capital spending and higher oil prices, the fiscal situation improved markedly in 2017, with the overall balance declining to 3 percent of GDP. The stock of arrears was reduced for the first time during the crisis, but remained high at 20 percent of GDP. Despite a large improvement in the current account balance, EG's buffers at the BEAC deteriorated, reflecting a significant drawdown of government deposits at the central bank to clear domestic arrears. Real GDP is estimated to have declined by 3 percent (marking the fifth consecutive year of contraction), driven by continued decline in hydrocarbon output, but non-hydrocarbon GDP is estimated to have increased (1.2 percent) for the first time since 2013. Inflation was slightly negative (-0.2 percent), consistent with the prolonged period of economic slack.

**5. The deterioration of the macroeconomic situation has affected the banking sector, which continues to show signs of weakness (Text Table 1).**

Bank exposure to construction companies with which the government has arrears is high overall. This, combined with the contraction of the non-hydrocarbon economy, has led to a large increase in NPLs, which remained at 27.8 percent as at end-December 2017. NPL provisions remain low, at about 40 percent as, in line with COBAC regulations, banks do not provision against NPLs from companies that have government contracts. This is based on the expectation that the government will repay these companies. Banks appear to remain well-capitalized, with capital ratios reported by the COBAC well above minimum requirements. Bank liquidity—which was very high prior to the crisis—has decreased but remains above prudential levels, with lower deposits largely due to a decline in credit to the private sector. The evolution of financial soundness indicators (FSI) for a systemic bank with high NPLs closely mirrors that for the system, with an upward NPL trend and low provisions but strong capital levels and still high liquidity. Banks' direct exposure to the government remains low, at about 4.5 percent of total assets at end-2017.

**6. Monetary conditions have continued to tighten.** Monetary aggregates continued to decline through December 2017 after contracting strongly in 2015–16. Policy measures by the BEAC are contributing to the tighter conditions, notably the increase in the policy rate in March (by 50bps to 2.95 percent) and the decision to freeze statutory advances in 2016. These developments, along with the contraction of GDP and increasing non-performing loans (NPLs), have weighed on the banking system, reducing its ability to provide credit.

**Text Table 1. Financial Soundness Indicators, Jan.2014-Dec.2017**  
(Percent, unless otherwise indicated)

	2014			2015		2016		2017		
	Jan	July	Dec	July	Dec	July	Dec	March	July	Dec
Regulatory capital to risk-weighted assets	21.4	19.9	25.5	24.1	23.8	28.4	27.3	25.3	28.3	31.2
NPLs: ratio to total loans	20.7	15.2	20.8	17.0	17.9	28.6	26.1	23.4	28.5	27.8
Provisions to non-performing loans	42.4	50.3	45.6	52.8	51.4	36.5	38.9	49.1	39.1	40.3
Profitability (ROA) <sup>1</sup>			1.4	1.3	1.2	1.1	0.8	0.5	1.1	0.7
Liquidity ratio <sup>2</sup>	207.1	181.7	194.0	178.5	200.7	184.8	158.4	167.9	146.6	171.2

<sup>1</sup> Moving average of the four previous available periods

<sup>2</sup> Ratio of high liquid assets (<1 M), to short term obligations (<1 M)

Source: COBAC

## OUTLOOK AND RISKS

**7. While macroeconomic imbalances are expected to be contained, the growth outlook is challenging, despite an anticipated recovery of the non-hydrocarbon sector.** Real output is projected to decline by 8 percent in 2018, driven by a strong contraction in hydrocarbon output, which will more than offset a continued modest recovery in non-hydrocarbon GDP. Over the medium term, driven by a declining oil sector, overall growth is expected to remain mostly in negative territory, turning positive only in 2022 as a new large natural gas project comes on stream and higher investment slows the decline in oil output (Annex II). This subpar growth performance would make it more difficult for public debt ratios to come down, notwithstanding large fiscal consolidation. In the absence of external budget support, significant financing gaps would remain over the medium term. In the external sector, the current account is projected to weaken moderately in 2018-19 as domestic arrears are repaid and non-hydrocarbon growth strengthens; the deficit would then spike temporarily in 2020-22, driven mainly by the natural gas project, before starting to improve.

**8. Risks are predominantly on the downside, and are as follows:**

- Lower international oil prices or domestic output would strongly affect the external sector and public finances. The SMP would respond to lower oil receipts by tightening fiscal policy further to forestall the reemergence of government liquidity problems, protect NFAs, and shore up confidence. There is also the possibility that oil prices turn out higher, in which case the program would seek to save any additional revenue to reduce arrears and debt faster and further strengthen buffers.
- If the underlying health of the financial sector is weaker than currently suggested by COBAC data, this could further constrain lending and economic growth. The potential further expansion of negative feedback loops between banks and the real economy would pose risks

to financial stability. However, banks' capital cushions should help limit risks, and low financial deepening should contain the incidence of such feedbacks on the real economy.

- Failure of a systemic bank, or spillovers from banking problems in other CEMAC countries, could impact public debt, confidence, and lending conditions and thereby economic growth.
- Extensive delays in transitioning to a Fund-financing arrangement would further weaken confidence and deepen financing constraints, leading to even weaker non-hydrocarbon economy growth, and setting back progress toward macroeconomic stability.
- Capacity constraints could pose challenges to implementing key reforms.

**Text Table 2. Equatorial Guinea: Macroeconomic Framework, 2015–23**  
(In percent of GDP, unless otherwise indicated)

	2015	2016	2017	2018	2019	2020	2021	2022	2023
		Prel.	prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
<b>Output and Inflation</b>									
Real GDP growth, percent	-9.1	-9.7	-2.9	-7.9	-2.7	-2.5	-1.5	1.1	3.9
Hydrocarbon sector	-8.9	-7.6	-5.5	-14.0	-7.4	-7.9	-6.5	-1.9	3.9
Non-hydrocarbon sector	-9.5	-12.9	1.2	1.2	3.3	3.7	3.4	3.8	4.0
Inflation, percent (annual average)	1.7	1.4	0.7	0.6	1.4	1.9	2.5	3.0	3.0
<b>Public Sector</b>									
Overall fiscal balance	-16.3	-12.0	-2.9	-0.9	-0.5	0.3	-0.1	-0.2	-0.1
Non-resource primary balance	-40.0	-26.1	-18.0	-14.0	-10.9	-8.4	-7.5	-6.7	-6.1
Public debt <sup>1</sup>	36.4	47.9	42.6	43.5	46.0	46.4	47.2	45.3	42.5
<b>External Sector</b>									
Current account balance (- = deficit)	-17.7	-11.7	-1.3	-2.7	-2.9	-3.9	-17.0	-4.6	-3.8
<i>of which:</i> Excluding FLNG	-17.7	-11.7	-1.3	-2.7	-1.9	-1.8	-4.0	-3.3	-3.2
Total external public debt	9.8	10.5	9.7	11.7	14.8	16.6	19.5	21.3	22.4

Sources: Equatoguinean authorities; and staff estimates and projections.  
<sup>1</sup>Public debt includes domestic arrears.

## POLICIES UNDER THE STAFF-MONITORED PROGRAM

**9. The proposed SMP would support continued fiscal consolidation and reform and seek to establish an adequate track record to pave the way for a possible Fund arrangement.** Building on recent progress in implementation and capacity, the proposed SMP would have a duration of 7 months (January 1-July 31, 2018). The program has the following key objectives: (i) to reduce the non-hydrocarbon primary deficit; (ii) raise non-hydrocarbon tax revenue; (iii) increase social spending; (iv) address critical PFM weaknesses, including expenditure control and tracking; (v) protect the banking sector by halting the accumulation of arrears; (vi) lay the groundwork for launching reform measures to help address governance and corruption

problems; and (vii) improve transparency and data dissemination. National policies will also be supported by policies at the regional level. In this regard, in the context of Fund-supported programs elsewhere in the CEMAC region, the regional authorities have committed to supportive policies and reforms, such as adequately tight monetary policy and sound bank regulation and supervision.

## A. Fiscal Policy

**10. The 2018 fiscal program is anchored by the objectives of keeping public debt on a sustainable path and strengthening the external sector to rebuild reserve buffers.** The SMP targets a reduction of 4 percent in GDP in the non-hydrocarbon primary deficit (Text Table 3), which would imply a decline in the overall deficit to about 1 percent of GDP. This would be consistent with a slight rise in public debt to 43 percent of GDP in 2018. Over the medium term, the overall deficit is projected to stabilize at around zero, and the debt ratio initially rises before it begins to decline, remaining below 50 percent of GDP. Achieving these targets would require a large reduction in capital expenditure from current high levels and increasing non-hydrocarbon tax revenues, which are very low. The authorities have indicated that they are strongly committed to restoring fiscal discipline and improving overall fiscal management. A 2018 budget consistent with the SMP targets is expected to be approved by parliament by end-April (structural measure).

### 11. Key elements of the fiscal program would include:

- **Revenue.** The authorities plan to implement a package of revenue-raising measures. These measures are focused on cracking down on tax evasion through better auditing, increasing the tax base, reducing exemptions through better implementation of existing legislation and termination of unwarranted tax benefits, and boosting non-tax revenue. In addition, they plan to introduce excise taxes on several products (e.g. alcohol, tobacco, automobiles, etc.). Other plans include the operationalization of the large and medium-taxpayer units, introduction of a single taxpayer identification number, streamlining of tax filing and transferring collection from treasury to both tax and customs administration. They have also started the process of reorganizing customs services, including by adopting new customs clearance procedures supported by the ASYCUDA software—which is expected to have a fully functional pilot in Malabo by end-June, and be extended to other key customs offices in the country by end-2018. The SMP targets an increase in non-hydrocarbon revenue of 0.7 percent of GDP in 2018 (equivalent to 1.0 percent of non-hydrocarbon GDP).

**Text Table 3. Equatorial Guinea: Proposed Fiscal Adjustment, 2018–23**  
(Change with respect to the previous year, in percent of GDP)

	2018	2019	2020	2021	2022	2023	2018-2023
Revenue	-1.1	-1.1	-0.6	-0.6	-0.3	-0.2	-3.8
Resource revenue	-1.8	-2.0	-1.7	-1.2	-0.8	-0.6	-8.1
Non-resource revenue	0.7	0.9	1.0	0.6	0.5	0.4	4.3
<i>In percent of non-resource GDP</i>	1.0	0.8	0.9	0.5	0.5	0.5	4.2
Total Primary Expenditure	-3.3	-2.2	-1.5	-0.2	-0.2	-0.2	-7.7
Current primary expenditure	-0.4	0.1	0.2	0.0	0.0	0.0	-0.2
Wages	0.1	0.1	0.0	0.0	0.0	0.0	0.2
Goods and services	-0.4	-0.2	0.1	0.0	0.0	0.0	-0.5
Subsidies and transfers	-0.1	0.2	0.0	0.0	0.0	0.0	0.0
Other expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	-2.8	-2.3	-1.7	-0.2	-0.2	-0.2	-7.4
<b>Adjustment</b>							
Overall fiscal balance	1.9	0.4	0.8	-0.4	0.0	0.1	2.8
Non-resource primary balance	4.0	3.2	2.5	0.8	0.8	0.7	12.0

Sources: Equatoguinean authorities; and staff estimates and projections.

- Expenditure.** The authorities plan to further reduce capital spending to be in line with the financial resources envelope of the country. They have reprioritized public investment given social and infrastructure needs. This has sharply reduced the number of projects to be implemented and created space for other priority spending. On current spending, the authorities have indicated there would be a need to increase allocations for social spending, security and infrastructure maintenance. In 2018, the fiscal program calls for a decrease of 0.4 percent of GDP in current primary spending, but a 0.4 percent of GDP increase in social spending.
- Financing.** Financing needs will be accommodated through a drawing of external loans under the financing arrangement with China, placements of debt in regional markets, and withdrawal of Treasury deposits (Text Table 4). In 2018, the authorities plan to draw down CFA140 billion (over 2 percent of GDP) from the Chinese loan facility. Multi-lateral development banks are not expected to provide any budget support under an SMP, but might provide such assistance, if and when an agreement is reached on a Fund-supported program. The SMP assumes that the authorities will continue to at least roll over existing loans with domestic banks in 2018. The government has signed an agreement with the BEAC that converts advances into a long-term loan, with repayments rescheduled to commence in 2022. Additional financing will come from the expected drawdown of treasury deposits.

**Text Table 4. Financing of the Fiscal Deficit, 2018-23**  
(In billion CFA francs, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023
<b>Total financing needs</b>	<b>1,556</b>	<b>206</b>	<b>183</b>	<b>213</b>	<b>305</b>	<b>312</b>
<b>Identified sources of financing</b>	<b>1,448</b>	<b>78</b>	<b>94</b>	<b>34</b>	<b>119</b>	<b>125</b>
External (EXIM bank)	140	125	125	125	125	125
Deposits	19	-47	-31	-91	-6	0
Domestic	-90	-47	-31	-91	-6	0
Foreign	110	0	0	0	0	0
Domestic bond (arrears)	1,288	0	0	0	0	0
<b>Financing gap</b>	<b>108</b>	<b>128</b>	<b>90</b>	<b>180</b>	<b>186</b>	<b>187</b>

Source: Fund staff estimates and projections.

**12. The authorities are committed to preventing the accumulation of domestic and external arrears.** The government has committed to the non-accumulation of new domestic arrears (net basis) in 2018. The authorities have indicated that it would be difficult to implement their plans to clear domestic arrears through the issuance of bonds to creditors during the SMP period. They noted, however, that this could still be done during 2018 once the arrears have been audited and validated, and a Fund-supported program is in place. In the meantime, some cash payments could be made to creditors as arrears are audited. They plan to hire an independent entity to audit the arrears (structural measure, end-July 2018) and have started working on the terms of the potential bond proposals that they would be willing to offer in settlement of the payment arrears. The settlement plan would include a cash portion, which would help to improve the commercial bank's liquidity position while providing additional space to increase lending to the private sector. The authorities have indicated that they have no external arrears. Still, the government should carefully monitor the transactions with its suppliers that may be subject to insurance by export credit agencies, as noncompliance with the specified terms can give rise to official external arrears.

## B. Public Financial Management

**13. Strengthening the public financial management framework is key to the success of the economic reform program.** The authorities are implementing measures to address the PFM weaknesses identified by a FAD mission in early 2017. In particular, they have agreed to bring all capital spending on budget and ensure that it is fully consistent with the budget's resource envelope. The recent merger of the Ministry of the Economy with the Ministry of Finance should help with these efforts. They have also indicated their willingness to strengthen coordination among the entities involved in the preparation and execution of the capital budget. In addition, they are implementing a system to improve the tracking and control of expenditure commitments to ensure that expenditures remain within the resource envelope and avoid the re-emergence of arrears. To facilitate this, they plan to implement a mechanism of centralized

control for spending approvals, whereby all spending decisions are under the Ministry of Finance and Economy's control. Meanwhile, to improve the monitoring of domestic arrears, regular and more frequent meetings of the National Payments Committee will be held.

### C. Protecting the Poor and Improving Social Indicators

**14. The SMP will increase the level of social expenditure, amid fiscal restraint.** Social spending, as defined in the SMP for monitoring purposes (see TMU, ¶30) is expected to increase from about 2 percent of GDP in 2017 to about 2.4 percent in 2018. This increase represents part of the authorities' strategy for protecting low income groups from the adverse effects of the fiscal adjustment. To achieve this, while maintaining fiscal restraint, the authorities have created the necessary fiscal space by reallocating capital expenditure toward the social sectors. At the same time, plans are also afoot, using the ongoing World Bank study on social sectors, to adopt a more strategic medium-term approach to sustainably improve social indicators, making economic growth more inclusive, and thus reducing poverty. That said, going forward, the authorities would need to fund regular household budget surveys that would help improve data collection on poverty and other social indicators. It would be important to improve the design of the social protection programs by improving targeting of its benefits to the neediest in EG.

### D. Financial Sector

**15. The SMP incorporates measures that would help strengthen banks and manage potential risks.** In particular, the government's commitment under the SMP to a target of zero net accumulation of domestic arrears would help to place a brake on the growth of NPLs. This is because the high NPL ratio in the banking system derives mainly from the banking system's exposure to construction companies and the existence of government arrears. Beyond the SMP period, and provided that resources become available in the context of a potential Fund-supported program, they plan to settle domestic arrears in 2018, including through some cash payments, which would also lower NPLs.<sup>2</sup> To address lingering concerns about the low level of NPL provisioning and the trend decline in liquidity, the authorities will continue to support COBAC's action plan to address high NPLs and strengthen supervision rules, and the implementation of provisioning rules, among other measures.<sup>3</sup> The authorities would also support any other initiatives to strengthen the financial system and the assessment of financial stability risks that COBAC may consider, including an asset quality review of EG's banks by COBAC and, if necessary, by an independent and competent private firm.

<sup>2</sup> The loan agreements between banks and construction companies envisage that payments made by the government to the latter are to be credited against bank debts, giving seniority to debt with banks.

<sup>3</sup> More details on the COBAC action plan for 2018 can be found in the Staff Report on the *CEMAC Common Policies of member Countries, and Common Policies in Support of Member Countries Reform Programs* (IMF Country Report 17/389)

## E. Structural Reforms to Boost Non-Hydrocarbon Growth

**16. Conscious of the need to lessen dependence on the hydrocarbon sector, the authorities are pursuing structural reforms to foster economic diversification.**<sup>4</sup> Their aim is to leverage the large stock of infrastructure created through the first phase of the economic development plan *Horizonte 2020*—that focused on road networks, energy, water, airports, and ports—to develop the non-hydrocarbon sector. In this regard, they are working on the development of plans to promote tourism, fisheries, agriculture, and other sectors (Annex I). Measures have also been taken to improve the management of non-hydrocarbon public sector assets, and a co-investment fund has been created for financing joint ventures with the private sector in the non-hydrocarbon sector. In 2018, the authorities also plan to host a national economic conference to update *Horizonte 2020* to take account of the new economic situation in EG. The updated plan would then be used to guide economic diversification and sectoral policies for the next 5 to 10 years.

**17. Reforms to improve the business environment are also being pursued.** The authorities are working with the World Bank on a business climate diagnostic to identify binding constraints to investment in the non-hydrocarbon sector. In the meantime, they have already modified the investment legislation to encourage more non-hydrocarbon investment, by eliminating the requirement to have a local partner contributing 35 percent of the capital (prior measure). They have indicated that they will reform the visa system to facilitate visits of investors and tourists to the country. The authorities have also expressed interest in setting up agencies to promote foreign investment and non-hydrocarbon exports, on which they plan to approach the World Bank for assistance. In addition, during 2018 the authorities plan to fully operationalize a one-stop shop for foreign investors that has already been approved by decree. In the area of human capital development, they are also working with the World Bank on a social sector study, from which specific recommendations could be derived to guide policy over the medium term.

## F. Improving Governance and Transparency

**18. The authorities are pressing ahead with steps toward improving governance and transparency in EG.** The current governance and transparency strategy involves the following elements:

- **Strengthening governance and anti-corruption measures.** The authorities have started the ratification process for the United Nations Convention Against Corruption (structural measure, July 2018). That said, it would also be important for the authorities to fully operationalize the various existing institutional frameworks and provisions for promoting good governance and fighting corruption, including the Accounts Tribunal Office. This office,

<sup>4</sup> More details provided in Annex I.



once operationalized, is expected to conduct annual audits of the budget outturn and publish the findings in a publicly available annual report.

- **Transparency in the oil sector.** The authorities are working towards submitting an application for EITI membership by end-July 2018 (structural measure).<sup>5</sup> EITI membership would commit EG to publishing oil and gas production-sharing contracts and produce regular reports with information reconciling hydrocarbon receipts and their transfer to the budget. They have shared with Fund staff all existing oil and gas contracts (prior measure). Moreover, with a view to improving the management of the hydrocarbon sector information flows, the authorities have indicated that they plan to hire an internationally reputable firm to (i) audit the accounts of the state-owned oil and gas companies and (ii) conduct a detailed reconciliation of EGs gross hydrocarbon output with hydrocarbon revenues received by the budget in 2017 (structural measure, July 2018), with the terms of reference agreed with Fund staff. The audits themselves would be expected to be completed around end-2018.
- **Data dissemination.** Some progress has been made with increasing data dissemination, but more needs to be done. The EG authorities have improved the timely dissemination of basic fiscal data on the central government accounts (including the budget). They have started publishing these data on the webpage of the Finance Ministry (prior measure). The national accounts are compiled and disseminated annually, while the CPI data are published every quarter. Additional work needs to be undertaken to gather accurate data on social indicators such as poverty and income distribution. The authorities also need to disseminate information on public expenditure by functional classification.
- **Governance diagnostic.** The authorities have requested a governance diagnostic and strategy study. This study, to be conducted by FAD and LEG in June 2018, will take stock of governance and corruption challenges and propose measures to address them. It will inform the preparation of a governance strategy to be adopted by the government in consultation with Fund staff. The authorities have also given a commitment to publish the study and strategy, as part of its actions to help improve governance.

## G. Capacity Building

**19. Equatorial Guinea is making an effort to enhance the technical capacity and institutional development of the public sector with the help of Fund TA.** EG has been a low recipient of IMF TA in recent years. The authorities are interested in increased technical support from the Fund, including in the form of training. In this context, the authorities have adopted a capacity development strategy that would increase support to the country. This strategy covers PFM, tax reform, fiscal and macroeconomic data, revenue administration, and building capacity for macroeconomic analysis and policy formulation. The authorities are strongly interested in

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<sup>5</sup> In 2010, Equatorial Guinea was an EITI (candidate) implementing country, but its request for an extension to the deadline for completing EITI Validation was not approved by the EITI board. Henceforth, Equatorial Guinea was no longer considered an EITI implementing country.

hands-on training, where possible, through resident experts. Immediate needs and priorities in the fiscal area have already been discussed with FAD. ICD also plans to provide hands-on training on macroeconomic policy analysis and forecasting during 2018. Implementation of the strategy should ultimately help strengthen further the institutional setting for policy making, the capacity for economic analysis and policy formulation, and EG's ability to implement any future Fund-supported program.

## H. Program Monitoring and Implementation Risks

**20. Program modalities.** A 7-month SMP would provide an appropriate timeframe to establish an adequate track record and pave the way to an Fund-supported program. The SMP includes structural measures in several policy areas and quarterly quantitative performance measures and indicative targets (Tables 6 and 7). More specifically, the program would be monitored through quantitative performance measures on non-resource tax revenue, the non-resource primary balance, external arrears, contracting and guaranteeing external debt, and BEAC net claims on the central government. The program would also include indicative targets on net lending by domestic banks to the government, and social spending. Except for the non-resource tax revenue target and social spending, the program would be monitored from below the line. Staff is of the view that the authorities—who have started producing quarterly comprehensive fiscal data in a timely fashion—can meet the relevant information requirements.

**21. Program risks.** In addition to the risks to the outlook described in 18, the SMP would be subject to the following risks:

- **Financing.** The lack of external financial support could result in a further dip in private sector confidence and non-hydrocarbon output growth, negatively affecting revenues. The authorities could find it difficult to rollover short-term debt with banks during the SMP, while no external assistance would be provided. This could lead to the accumulation of arrears.
- **Fiscal implementation.** PFM weaknesses could result in capital expenditure overruns.
- **Tax measures.** The authorities could experience technical difficulties and delays with implementing tax measures required to raise non-hydrocarbon revenue.
- **Governance and corruption.** Lapses in this area could also lead to fiscal and reform slippages.
- **Addressing risks.** To limit these risks, staff suggested to the authorities to develop a credible communication strategy on its macroeconomic strategy, laying out its key short-term and medium-term goals. In addition, staff also stressed the need to rapidly address PFM deficiencies. Staff will work with FAD to ensure that TA on additional tax policy and administration that might be required is promptly delivered. The program also provides for saving any excess hydrocarbon revenues and offsets potential hydrocarbon revenue shortfalls through fiscal adjustment.

## STAFF APPRAISAL

**22. The Equatoguinean authorities have made strenuous efforts to stabilize the economy and would benefit from continuing with such efforts through an SMP.** They have taken extraordinary steps to reduce public spending and contain the fiscal deficit. At the same time, some initiatives are being adopted to kick start economic diversification (away from hydrocarbon sector) to achieve sustainable and inclusive growth over the medium term. That said, much more needs to be done, especially on the structural reform end, but lack of institutional capacity and a weak PFM framework has held back policy implementation and weighed on outcomes. The SMP provides an opportunity for EG to address some of these capacity and institutional constraints, while building a track record of economic management and reform that would strengthen macroeconomic outcomes and could pave the way to a potential Fund-supported program. Economic stabilization will also be supported by region-level policies, such as adequately tight monetary policy and sound bank regulation and supervision.

**23. The government's fiscal program for 2018 under an SMP aims at further fiscal consolidation while raising social spending.** The non-hydrocarbon primary balance target that anchors fiscal policy under the SMP in 2018 builds on the strong 2017 outturn through further reduction in capital spending, improved revenue administration, and the adoption of excise taxes. Growth of current expenditure would need to be kept under control and mainly limited to providing space for increased social spending. The authorities are targeting a significant increase in non-hydrocarbon tax revenue. The emphasis on adjustment rather than financing during the first half of 2018 reflects the limited access to external financing, the need to adjust to persistent shocks, such as the trend decline in oil output, and the need to protect domestic bank financing for the non-hydrocarbon private sector. Strong upfront adjustment would also lower the risk of further accumulation of public sector arrears, ease financing constraints, and improve private sector confidence. The SMP contains a floor on social spending aimed primarily at education and health expenditure that will benefit low income groups and help protect them from the negative effects of the fiscal adjustment.

**24. PFM reforms are crucial to control expenditure and to improve the quality of spending.** Improved tracking and control of expenditure commitments would help to ensure that expenditures remain within the resource envelope and avoid the re-emergence of arrears. Bringing all expenditures on budget and devolving control of expenditure decisions to the Ministry of Finance, Economy and Planning would help strengthen fiscal discipline. Overall, the implementation of PFM reforms with support from technical assistance by the Fund should help to improve budget outcomes, by ensuring better control over spending and accounting for obligations.

**25. Reducing banking sector vulnerabilities is essential for financial stability and to support growth.** Fiscal consolidation, avoiding further accumulation of arrears, and settling existing arrears should permit the reduction of NPLs, a major source of vulnerability. This should

allow banks to better support the non-hydrocarbon sector through the provision of credit. At the same time, to limit risks, it is important that the authorities continue to support COBAC's efforts to enforce compliance with prudential norms, strengthen bank supervision and closely monitor the operations of systemic banks. Staff welcomes the authorities' plans to request an asset quality review from COBAC.

**26. Economic diversification is key to EG's future sustained prosperity.** The authorities' decision to revisit and update the Horizonte 2020 development plan is welcome and provides an opportunity to take stock of its achievements and areas for improvement, as well as to identify new strategies for transformation given the changed fiscal situation since the plan was launched in 2011. To fully leverage the vast public capital stock created by the first phase of the development plan, the authorities need to actively encourage the development and expansion of the domestic private sector by adopting a credible and transparent framework for doing business. The recent reform of investment legislation is an important measure to improve the business climate and make foreign investment in the non-hydrocarbon sector more attractive.

**27. Staff welcomes the commitment to foster good governance and tackle corruption.** In this context, the authorities have started the process to ratify the UN Convention Against Corruption. They have also given a commitment to have the LEG/FAD mission conduct the governance diagnostic study in June. The authorities now need to keep up the momentum and press ahead with their other reform plans including to hire a credible and independent firm to audit the state-owned oil and gas companies. In addition, the tentative steps taken with regards to gaining membership in the EITI need to be accelerated.

**28. While staff supports the authorities' request for a SMP, the key risks to program implementation are tilted to the downside.** These arise mainly from the limited access to external financial support, a potential fall in international oil prices, and PFM and governance weaknesses. In that regard, the ongoing work to improve the PFM framework and address weaknesses will help mitigate risks to fiscal performance under the program. The program includes other measures to limit these risks, including offsetting potential hydrocarbon revenue shortfalls through fiscal adjustment.

**Table 1. Equatorial Guinea: Selected Economic and Financial Indicators, 2014–23**

	2014	2015	2016 Prel.	2017 Prel.	2018 Proy.	2019 Proy.	2020 Proy.	2021 Proy.	2022 Proy.	2023 <sup>1</sup> Proy.
(Annual percentage change, unless otherwise specified)										
<b>Production, prices, and money</b>										
Real GDP	-0.7	-9.1	-9.7	-2.9	-7.9	-2.7	-2.5	-1.5	1.1	3.9
Hydrocarbon sectors <sup>2</sup>	1.2	-8.9	-7.6	-5.5	-14.0	-7.4	-7.9	-6.5	-1.9	3.9
Non-hydrocarbon sectors	-3.4	-9.5	-12.9	1.2	1.2	3.3	3.7	3.4	3.8	4.0
GDP deflator	-1.4	-25.4	-7.1	8.9	7.0	-0.4	1.9	3.1	3.4	2.4
Hydrocarbon sectors	-4.6	-43.2	-16.7	17.1	9.1	-8.1	-5.1	-2.6	-0.5	-0.3
Non-hydrocarbon sectors	3.3	-0.5	2.6	1.0	0.9	1.7	2.2	2.8	3.3	3.3
Consumer prices (annual average)	4.3	1.7	1.4	0.7	0.6	1.4	1.9	2.5	3.0	3.0
Consumer prices (end of period)	2.6	1.6	2.0	-0.2	1.3	1.5	2.3	2.7	3.3	3.3
<b>Monetary and exchange rate</b>										
Broad money	-14.1	-10.9	-16.4	1.0	2.1	16.2	10.5	6.3	7.2	7.4
Nominal effective exchange rate (- = depreciation)	-0.2	-9.1	1.2	...	...	...	...	...	...	...
Real effective exchange rate (- = depreciation)	2.7	-7.9	1.8	...	...	...	...	...	...	...
<b>External sector</b>										
Exports, f.o.b.	-9.9	-46.1	-26.9	12.8	-6.3	-14.6	-10.9	-7.1	-1.5	4.5
Hydrocarbon exports	-9.8	-47.5	-25.9	11.9	-6.5	-15.3	-12.4	-8.8	-3.0	3.2
Non-hydrocarbon exports	-16.2	34.6	-49.4	39.6	-1.2	1.8	19.4	17.1	16.2	15.7
Imports, f.o.b.	-4.6	-23.1	-40.8	-8.3	-4.7	-8.2	-5.3	75.5	-46.3	0.4
Terms of trade	-14.1	-39.2	2.4	25.3	15.3	-7.8	-4.8	-2.9	-0.4	-0.5
<b>Government finance</b>										
Revenue	-4.1	-19.9	-45.5	9.7	-6.9	-8.6	-4.3	-2.1	2.8	5.1
Expenditure	7.0	-4.4	-42.9	-23.3	-14.8	-10.6	-8.6	0.6	2.9	4.6
(Percent of GDP, unless otherwise specified)										
<b>Investment and savings</b>										
Gross investment	29.5	21.7	10.4	6.7	6.7	8.7	10.7	22.8	12.0	10.6
Gross national savings	25.2	4.0	-1.4	5.3	4.0	5.8	6.8	5.9	7.5	6.8
<b>Government finance</b>										
Revenue	24.4	28.8	18.7	19.4	18.3	17.3	16.6	16.0	15.8	15.6
Of which: resource revenue	21.6	24.1	14.3	15.5	13.7	11.7	10.0	8.8	8.0	7.4
Expenditure	32.0	45.1	30.7	22.3	19.3	17.8	16.3	16.2	15.9	15.7
Overall fiscal balance (Commitment basis)	-7.6	-16.3	-12.0	-2.9	-0.9	-0.5	0.3	-0.1	-0.2	-0.1
Overall fiscal balance (Cash basis) <sup>2</sup>	-4.8	-3.1	-8.7	-5.5	-2.1	-0.5	0.3	-0.1	-0.2	-0.1
Non-resource primary balance <sup>3</sup>	-28.8	-40.0	-26.1	-18.0	-14.0	-10.9	-8.4	-7.5	-6.7	-6.1
Outstanding public debt <sup>4</sup>	12.7	36.4	47.9	42.6	43.5	46.0	46.4	47.2	45.3	42.5
Change in domestic arrears	2.8	13.3	3.3	-2.6	-20.5	0.0	0.0	0.0	0.0	0.0
<b>External sector</b>										
Current account balance (including official transfers; - = deficit)	-4.3	-17.7	-11.7	-1.3	-2.7	-2.9	-3.9	-17.0	-4.6	-3.8
Total external public debt	6.1	9.8	10.5	9.7	11.7	14.8	16.6	19.5	21.3	22.4
Debt service-to-exports ratio (percent)	2.6	3.6	5.8	3.2	5.3	5.7	8.0	9.1	11.2	11.5
External debt service/government revenue (percent)	6.4	5.9	12.7	7.3	12.0	12.1	15.7	17.0	20.1	20.3
<b>Memorandum items</b>										
CEMAC Foreign Reserves										
(US\$ billions, end-of-period)	15.8	10.3	5.0	5.8	8.0	9.5	10.7	11.9	13.2	na.
(in months of extrazone imports)	5.8	4.3	2.4	2.5	3.4	3.9	4.1	4.6	5.0	5.3
Oil price (U.S. dollars a barrel) <sup>5</sup>	92.3	47.0	39.0	51.4	61.7	57.7	55.0	53.6	49.8	49.8
Nominal GDP (billions of CFA francs)	10,611	7,193	6,036	6,378	6,288	6,097	6,058	6,151	6,429	6,842
Nominal GDP (millions of US dollars)	21,462	12,162	10,178	10,957	11,885	11,656	11,713	11,977	12,606	13,472
Non-hydrocarbon GDP (billions of CFA francs)	4,442	4,001	3,578	3,658	3,736	3,925	4,159	4,421	4,741	5,094
Exchange rate (average; CFA francs/U.S. dollar)	494.4	591.4	593.1	582.1	529.1	523.1	517.2	513.6	510.0	na.

Sources: Data provided by the Equatoguinean authorities; and staff estimates and projections.

<sup>1</sup>Including oil, LNG, LPG, butane, propane, and methanol.<sup>2</sup>Includes a one-time clearance of outstanding arrears through securitization in 2018.<sup>3</sup>Excluding oil revenues, oil-related expenditures, and interest earned and paid.<sup>4</sup>Outstanding public debt includes domestic arrears.<sup>5</sup>The local price of crude oil is the Brent and includes a quality discount.

**Table 2a. Equatorial Guinea: Balance of Payments, 2014–23<sup>1</sup>**  
(Billions of CFA Francs, unless otherwise specified)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
			Prel.	Proy.	Proy.	Proy.	Proy.	Proy.	Proy.	Proy.
Current account	-459	-1274	-709	-84	-169	-177	-234	-1044	-295	-258
Trade balance	3538	1286	1229	1646	1525	1233	1044	194	928	1000
Exports of goods, f.o.b.	6251	3371	2464	2779	2604	2223	1981	1840	1812	1885
Hydrocarbon exports	6141	3223	2389	2674	2501	2118	1856	1693	1642	1688
Crude oil	4424	2457	1725	1798	1623	1313	1183	1090	993	946
Liquefied natural gas	1318	610	480	544	606	562	453	371	430	509
Liquefied petroleum gas	183	52	80	138	102	94	91	89	80	82
Methanol	217	104	104	195	170	149	130	142	139	152
Non-hydrocarbon exports	110	148	75	104	103	105	125	147	170	197
Imports of goods, f.o.b.	-2713	-2085	-1235	-1132	-1079	-990	-938	-1646	-885	-885
Petroleum sector	-327	-271	-25	-34	-29	-93	-154	-859	-104	-56
Petroleum products	-222	-200	-179	-183	-206	-197	-192	-193	-197	-204
Public sector equipment and construction	-919	-756	-501	-458	-422	-350	-296	-297	-292	-313
Other <sup>2</sup>	-1245	-858	-530	-457	-421	-350	-296	-297	-291	-312
Services (net)	-1674	-1202	-848	-567	-598	-454	-410	-420	-414	-427
Income (net) <sup>3</sup>	-2058	-1084	-830	-915	-874	-766	-683	-634	-623	-645
Current transfers	-265	-274	-260	-248	-222	-190	-185	-184	-185	-187
Capital and financial account	57	79	99	316	197	183	242	944	192	133
Capital account	0	0	0	0	0	0	0	0	0	0
Financial account	57	79	99	316	197	183	242	944	192	133
Direct investment	562	702	123	-26	61	160	235	944	221	173
Portfolio investment (net)	-12	-1	0	0	-1	-1	-1	-1	-1	-1
Other investment (net)	-494	-622	-24	342	137	24	8	1	-28	-39
Medium- and long-term transactions	-70	-20	247	181	31	48	24	20	-8	-19
General government	-134	-75	197	152	31	48	24	20	-8	-19
Of which : amortization	-148	-133	-120	-76	-109	-77	-101	-105	-133	-144
Other sectors	63	55	50	30	0	0	0	0	0	0
Short-term transactions	-423	-602	-271	161	106	-24	-16	-19	-20	-20
General government <sup>4</sup>	-132	-231	282	167	110	0	0	0	0	0
Banks	167	-71	-20	45	-1	-1	-1	-1	-1	0
Other sectors	-458	-299	-533	-51	-3	-23	-15	-18	-19	-20
Errors and omissions	-184	349	-102	-408	0	0	0	0	0	0
Overall balance	-586	-846	-712	-176	27	6	8	-100	-102	-125
Financing	586	846	712	176	-27	-6	-8	100	102	125
Change in net international reserves <sup>5</sup> (- = increase)	587	846	712	176	-135	-134	-98	-80	-83	-62
Financing gap				0	108	128	90	180	186	187
Memorandum items:										
Current account balance (percent of GDP; - = deficit)	-4.3	-17.7	-11.7	-1.3	-2.7	-2.9	-3.9	-17.0	-4.6	-3.8
Overall balance (percent of GDP; - = deficit)	-5.3	-11.7	-11.8	-2.8	0.4	0.1	0.1	-1.6	-1.6	-1.8
Growth of hydrocarbon exports (percent)	-9.8	-56.1	-26.1	14.1	2.9	-14.3	-11.4	-8.1	-2.4	3.2
Growth of non-hydrocarbon exports (percent)	-16.3	12.5	-49.5	42.3	8.6	3.0	20.8	17.9	17.0	16.2

Sources: Equatoguinean authorities; and staff estimates and projections.

<sup>1</sup> The BOP data in this table are not compiled in accordance with the IMF's Balance of Payments Manual, fifth edition. The historic data have not been derived from customs' and bank records' data, but from estimates of BEAC. Fund staff have made ad hoc adjustments to the data.

<sup>2</sup> Including private sector consumption and non-hydrocarbon sector investment imports.

<sup>3</sup> Including investment income of oil companies, which includes reinvested earnings (with an offsetting entry in foreign direct investment).

<sup>4</sup> Since 2000, entries represent changes in government deposits in commercial banks abroad.

<sup>5</sup> Consists only of items on the balance sheet of the BEAC (i.e., excluding government bank deposits abroad).

**Table 2b. Equatorial Guinea: Balance of Payments, 2014–23<sup>1</sup>**  
(Percent of GDP, unless otherwise specified)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
			Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	-4.3	-17.7	-11.7	-1.3	-2.7	-2.9	-3.9	-17.0	-4.6	-3.8
Trade balance	33.3	17.9	20.4	25.8	24.3	20.2	17.2	3.2	14.4	14.6
Exports of goods, f.o.b.	58.9	46.9	40.8	43.6	41.4	36.5	32.7	29.9	28.2	27.5
Hydrocarbon exports	57.9	44.8	39.6	41.9	39.8	34.7	30.6	27.5	25.5	24.7
Crude oil	41.7	34.2	28.6	28.2	25.8	21.5	19.5	17.7	15.4	13.8
Liquefied natural gas	12.4	8.5	8.0	8.5	9.6	9.2	7.5	6.0	6.7	7.4
Liquefied petroleum gas	1.7	0.7	1.3	2.2	1.6	1.5	1.5	1.5	1.2	1.2
Methanol	2.0	1.4	1.7	3.1	2.7	2.5	2.1	2.3	2.2	2.2
Non-hydrocarbon exports	1.0	2.1	1.2	1.6	1.6	1.7	2.1	2.4	2.6	2.9
Imports of goods, f.o.b.	-25.6	-29.0	-20.5	-17.8	-17.2	-16.2	-15.5	-26.8	-13.8	-12.9
Petroleum sector	-3.1	-3.8	-0.4	-0.5	-0.5	-1.5	-2.5	-14.0	-1.6	-0.8
Petroleum products	-2.1	-2.8	-3.0	-2.9	-3.3	-3.2	-3.2	-3.1	-3.1	-3.0
Public sector equipment and construction	-8.7	-10.5	-8.3	-7.2	-6.7	-5.7	-4.9	-4.8	-4.5	-4.6
Other <sup>2</sup>	-11.7	-11.9	-8.8	-7.2	-6.7	-5.7	-4.9	-4.8	-4.5	-4.6
Services (net)	-15.8	-16.7	-14.1	-8.9	-9.5	-7.4	-6.8	-6.8	-6.4	-6.2
Income (net) <sup>3</sup>	-19.4	-15.1	-13.7	-14.4	-13.9	-12.6	-11.3	-10.3	-9.7	-9.4
Current transfers	-2.5	-3.8	-4.3	-3.9	-3.5	-3.1	-3.1	-3.0	-2.9	-2.7
Capital and financial account	0.5	1.1	1.6	5.0	3.1	3.0	4.0	15.4	3.0	1.9
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	0.5	1.1	1.6	5.0	3.1	3.0	4.0	15.4	3.0	1.9
Direct investment	5.3	9.8	2.0	-0.4	1.0	2.6	3.9	15.3	3.4	2.5
Portfolio investment (net)	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment (net)	-4.7	-8.6	-0.4	5.4	2.2	0.4	0.1	0.0	-0.4	-0.6
Medium- and long-term transactions	-0.7	-0.3	4.1	2.8	0.5	0.8	0.4	0.3	-0.1	-0.3
General government	-1.3	-1.0	3.3	2.4	0.5	0.8	0.4	0.3	-0.1	-0.3
Of which : amortization	-1.4	-1.8	-2.0	-1.2	-1.7	-1.3	-1.7	-1.7	-2.1	-2.1
Banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other sectors	0.6	0.8	0.8	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Short-term transactions	-4.0	-8.4	-4.5	2.5	1.7	-0.4	-0.3	-0.3	-0.3	-0.3
General government <sup>4</sup>	-1.2	-3.2	4.7	2.6	1.7	0.0	0.0	0.0	0.0	0.0
Banks	1.6	-1.0	-0.3	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Other sectors	-4.3	-4.2	-8.8	-0.8	0.0	-0.4	-0.2	-0.3	-0.3	-0.3
Errors and omissions	-1.7	4.9	-1.7	-6.4	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-5.5	-11.8	-11.8	-2.8	0.4	0.1	0.1	-1.6	-1.6	-1.8
Financing	5.5	11.8	11.8	2.8	-0.4	-0.1	-0.1	1.6	1.6	1.8
Change in net international reserves <sup>5</sup> (- = increase)	5.5	11.8	11.8	2.8	-2.2	-2.2	-1.6	-1.3	-1.3	-0.9
Financing gap	0.0	0.0	0.0	0.0	1.7	2.1	1.5	2.9	2.9	2.7
Memorandum items:										
Non-hydrocarbon current account	-27.2	-28.8	-22.9	-18.7	-17.8	-14.7	-12.6	-12.7	-11.6	-10.9
Current account without FLNG/Kosmos project					-2.7	-1.9	-1.8	-4.0	-3.3	-3.2

Sources: Equatoguinean authorities; and staff estimates and projections.

<sup>1</sup> The BOP data in this table are not compiled in accordance with the IMF's Balance of Payments Manual, fifth edition. The historic data have not been derived from customs' and bank records' data, but from estimates of BEAC. Fund staff have made ad hoc adjustments to the data.

<sup>2</sup> Including private sector consumption and non-hydrocarbon sector investment imports.

<sup>3</sup> Including investment income of oil companies, which includes reinvested earnings (with an offsetting entry in foreign direct investment).

<sup>4</sup> Since 2000, entries represent changes in government deposits in commercial banks abroad.

<sup>5</sup> Consists only of items on the balance sheet of the BEAC (i.e., excluding government bank deposits abroad).

**Table 3a. Equatorial Guinea: Quarterly Summary of Central Government Operations, 2014–18**  
(Billions of CFA, unless otherwise specified)

	2014	2015	2016	2017		2018				
				Est.	Est.	Proj:T1	M4	T2	M7	T3
Revenue	2,585	2,071	1,129	1,238	241	289	559	661	823	1,153
Resource revenue	2,293	1,731	860	988	184	214	426	510	610	859
Tax revenue	800	662	256	273	21	27	193	225	222	272
Other revenue	1,493	1,069	604	715	164	187	233	285	388	588
Non-resource revenue	292	340	269	250	57	75	133	151	213	294
Tax revenue	190	221	166	147	28	37	77	90	140	180
Other revenue	103	119	102	103	29	38	56	61	72	114
Grants	0	0	0	0	0	0	0	0	0	0
Expenditure	3,396	3,247	1,853	1,422	289	386	618	713	808	1,212
Expense	764	685	689	732	197	233	347	418	486	710
Compensation of employees	112	121	139	143	40	48	72	90	106	148
Purchase of goods and services	417	345	350	392	110	124	171	201	229	360
Interest	50	30	27	30	9	14	23	26	32	44
Domestic	1	0	8	16	3	5	8	9	12	16
Foreign	49	30	19	14	6	9	14	16	20	28
Subsidies and transfers <sup>1</sup>	184	188	173	168	38	48	81	101	118	157
Other expense	0	0	0	0	0	0	0	0	0	0
Net acquisition of non-financial assets	2,632	2,562	1,164	689	92	153	271	295	323	502
Gross operating balance	1,822	1,386	440	506	44	56	213	244	337	444
Net lending/borrowing (overall fiscal balance)	-810	-1,176	-724	-183	-48	-97	-59	-51	15	-58
Net financial transactions	810	1,176	724	183	48	97	59	51	-123	-50
Net change in domestic arrears <sup>2</sup>	300	953	200	-165	0	0	0	0	0	-1,288
Net acquisition of financial assets	-21	-59	540	285	45	74	26	58	-124	19
Domestic deposits	112	172	257	118	45	74	-84	-52	-234	-90
Foreign deposits	-132	-231	282	167	0	0	110	110	110	110
Net incurrence of liabilities	260	275	72	63	3	23	33	-6	2	1,219
Domestic <sup>3</sup>	369	268	140	9	0	0	0	0	0	1,188
Foreign	-109	7	-68	54	3	23	33	-6	2	31
Loans	43	113	17	130	60	80	90	100	110	140
Amortization (-) <sup>4</sup>	-152	-106	-85	-76	-57	-57	-57	-106	-108	-109
Other	271	8	-88	0	0	0	0	0	0	0
Financing gap					0	0	0	0	108	108
Memorandum items:										
Overall fiscal balance	-810	-1,176	-724	-183	-48	-97	-59	-51	15	-58
<i>Percent of GDP</i>	-7.6	-16.3	-12.0	-2.9	-0.8	-1.5	-0.9	-0.8	0.2	-0.9
Non-resource primary balance <sup>5</sup>	-3,053	-2,876	-1,573	-1,151	-225	-300	-466	-540	-569	-882
<i>Percent of non-hydrocarbon GDP</i>	-68.7	-71.9	-44.0	-31.5	-6.0	-8.0	-12.5	-14.4	-15.2	-23.6
Outstanding public debt <sup>6</sup>	12.7	36.4	47.9	42.6	43.0	43.3	43.4	42.8	44.6	43.5
Gross government deposits	1,163	1,218	761	536	491	462	510	478	660	516
Deposits with BEAC	490	323	177	113	99	69	227	195	377	239
<i>Of which: available</i>	71	57	91	18	18	18	132	100	282	143
Deposits abroad	604	835	553	385	385	385	276	276	276	276
<i>Of which: available</i>	453	544	248	110	110	110	0	0	0	0
Deposits with commercial banks (available)	70	60	32	37	7	7	7	7	7	2
Nominal GDP	10,611	7,193	6,036	6,378						6,288
Nominal non-hydrocarbon GDP	4,442	4,001	3,578	3,658						3,736

Sources: Data provided by the Equatoguinean authorities; and staff estimates and projections.

<sup>1</sup> Includes social benefits and other transfers.

<sup>2</sup> Includes a one-time clearance of outstanding arrears through securitization in 2018.

<sup>3</sup> Statutory advances are assumed to be repayed in 10 years, starting in 2022. Includes payment of arrears in 2018.

<sup>4</sup> Includes exceptional repayment of foreign debt for years 2014 and 2015.

<sup>5</sup> Equal to the overall balance minus interest and resource revenues.

<sup>6</sup> Outstanding public debt includes domestic arrears.



**Table 3b. Equatorial Guinea: Summary of Central Government Operations, 2014–23**  
(Billions of CFA, unless otherwise specified)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
			Est.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	2,585	2,071	1,129	1,238	1,153	1,054	1,008	987	1,015	1,067
Resource revenue	2,293	1,731	860	988	859	713	608	541	514	505
Tax revenue	800	662	256	273	272	204	173	150	138	138
Other revenue	1,493	1,069	604	715	588	510	436	391	376	367
Non-resource revenue	292	340	269	250	294	340	400	446	501	563
Tax revenue	190	221	166	147	180	228	281	320	365	417
Other revenue	103	119	102	103	114	112	119	127	136	146
Grants	0	0	0	0	0	0	0	0	0	0
Expenditure	3,396	3,247	1,853	1,422	1,212	1,083	990	996	1,025	1,072
Expense	764	685	689	732	710	738	747	761	794	841
Expense (primary)	714	654	662	702	665	650	656	665	694	739
Compensation of employees	112	121	139	143	148	149	151	153	160	170
Purchase of goods and services	417	345	350	392	360	339	342	347	362	386
Interest	50	30	27	30	44	88	92	96	100	103
Domestic	1	0	8	16	16	37	35	33	29	26
Foreign	49	30	19	14	28	51	57	64	71	77
Subsidies and transfers <sup>1</sup>	184	188	173	168	157	161	163	165	172	183
Other expense	0	0	0	0	0	0	0	0	0	0
Net acquisition of non-financial assets	2,632	2,562	1,164	689	502	346	243	235	231	231
Gross operating balance	1,822	1,386	440	506	444	316	261	226	221	226
Net lending/borrowing (overall fiscal balance)	-810	-1,176	-724	-183	-58	-29	18	-9	-10	-5
Net financial transactions	810	1,176	724	183	-50	-99	-108	-171	-176	-181
Net change in domestic arrears <sup>2</sup>	300	953	200	-165	-1,288	0	0	0	0	0
Net acquisition of financial assets	-21	-59	540	285	19	-47	-31	-91	-6	0
Domestic deposits	112	172	257	118	-90	-47	-31	-91	-6	0
Foreign deposits	-132	-231	282	167	110	0	0	0	0	0
Net incurrence of liabilities	260	275	72	63	1,219	-52	-76	-80	-170	-181
Domestic <sup>3</sup>	369	268	140	9	1,188	-100	-100	-100	-162	-162
Foreign	-109	7	-68	54	31	48	24	20	-8	-19
Loans	43	113	17	130	140	125	125	125	125	125
Amortization (-) <sup>4</sup>	-152	-106	-85	-76	-109	-77	-101	-105	-133	-144
Financing gap					108	128	90	180	186	187
Memorandum items:										
Overall fiscal balance	-810	-1,176	-724	-183	-58	-29	18	-9	-10	-5
<i>Percent of GDP</i>	-7.6	-16.3	-12.0	-2.9	-0.9	-0.5	0.3	-0.1	-0.2	-0.1
Non-resource primary balance <sup>5</sup>	-3,053	-2,876	-1,573	-1,151	-882	-662	-506	-462	-433	-415
<i>Percent of non-hydrocarbon GDP</i>	-68.7	-71.9	-44.0	-32.7	-23.6	-16.9	-12.2	-10.5	-9.1	-8.1
Non-resource revenue (percent non-hydro GDP)	6.6	8.5	7.5	6.8	7.9	8.7	9.6	10.1	10.6	11.0
<i>Of which: Tax revenue</i>	4.3	5.5	4.7	4.0	4.8	5.8	6.8	7.2	7.7	8.2
Outstanding public debt <sup>6</sup>	12.7	36.4	47.9	42.6	43.5	46.0	46.4	47.2	45.3	42.5
Gross government deposits <sup>7</sup>	1,163	1,218	761	536	516	564	595	686	692	692
Deposits with BEAC	490	323	177	113	239	286	318	409	414	414
<i>Of which: available</i>	71	57	91	18	143	191	222	313	319	319
Deposits abroad	604	835	553	385	276	276	276	276	276	276
<i>Of which: available</i>	453	544	248	110	0	0	0	0	0	0
Deposits with commercial banks (available)	70	60	32	37	2	2	2	2	2	2
Nominal GDP	10,611	7,193	6,036	6,378	6,288	6,097	6,058	6,151	6,429	6,842
Nominal non-hydrocarbon GDP	4,442	4,001	3,578	3,658	3,736	3,925	4,159	4,421	4,741	5,094

Sources: Data provided by the Equatoguinean authorities; and staff estimates and projections.

<sup>1</sup> Includes social benefits and other transfers.

<sup>2</sup> Includes a one-time clearance of outstanding arrears through securitization in 2018.

<sup>3</sup> Statutory advances are assumed to be repayed in 10 years, starting in 2022. Includes amortization of advances in 2022-23, and payment of arrears in 2018-23.

<sup>4</sup> Includes exceptional repayment of foreign debt for years 2014 and 2015.

<sup>5</sup> Equal to the overall balance minus interest and resource revenues.

<sup>6</sup> Outstanding public debt includes domestic arrears.

<sup>7</sup> It does not include deposits with commercial banks that are not available.

**Table 3c. Equatorial Guinea: Summary of Central Government Operations, 2014–23**  
(In percent of GDP, unless otherwise specified)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
			Est.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue	24.4	28.8	18.7	19.4	18.3	17.3	16.6	16.0	15.8	15.6
Resource revenue	21.6	24.1	14.3	15.5	13.7	11.7	10.0	8.8	8.0	7.4
Tax revenue	7.5	9.2	4.2	4.3	4.3	3.3	2.9	2.4	2.1	2.0
Other revenue	14.1	14.9	10.0	11.2	9.3	8.4	7.2	6.4	5.9	5.4
Non-resource revenue	2.8	4.7	4.5	3.9	4.7	5.6	6.6	7.3	7.8	8.2
Tax revenue	1.8	3.1	2.8	2.3	2.9	3.7	4.6	5.2	5.7	6.1
Other revenue	1.0	1.7	1.7	1.6	1.8	1.8	2.0	2.1	2.1	2.1
Expenditure	32.0	45.1	30.7	22.3	19.3	17.8	16.3	16.2	15.9	15.7
Expense	7.2	9.5	11.4	11.5	11.3	12.1	12.3	12.4	12.4	12.3
Expense (primary)	6.7	9.1	11.0	11.0	10.6	10.7	10.8	10.8	10.8	10.8
Compensation of employees	1.1	1.7	2.3	2.2	2.4	2.5	2.5	2.5	2.5	2.5
Purchase of goods and services	3.9	4.8	5.8	6.1	5.7	5.6	5.7	5.6	5.6	5.6
Interest	0.5	0.4	0.5	0.5	0.7	1.4	1.5	1.6	1.6	1.5
Domestic	0.0	0.0	0.1	0.2	0.3	0.6	0.6	0.5	0.5	0.4
Foreign	0.5	0.4	0.3	0.2	0.4	0.8	0.9	1.0	1.1	1.1
Subsidies and transfers <sup>1</sup>	1.7	2.6	2.9	2.6	2.5	2.6	2.7	2.7	2.7	2.7
Other expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of non-financial assets	24.8	35.6	19.3	10.8	8.0	5.7	4.0	3.8	3.6	3.4
Gross operating balance	17.2	19.3	7.3	7.9	7.1	5.2	4.3	3.7	3.4	3.3
Net lending/borrowing (overall fiscal balance)	-7.6	-16.3	-12.0	-2.9	-0.9	-0.5	0.3	-0.1	-0.2	-0.1
Net financial transactions	7.6	16.3	12.0	2.9	-0.8	-1.6	-1.8	-2.8	-2.7	-2.7
Net change in domestic arrears <sup>2</sup>	2.8	13.3	3.3	-2.6	-20.5	0.0	0.0	0.0	0.0	0.0
Net acquisition of financial assets	-0.2	-0.8	8.9	4.5	0.3	-0.8	-0.5	-1.5	-0.1	0.0
Domestic deposits	1.1	2.4	4.3	1.8	-1.4	-0.8	-0.5	-1.5	-0.1	0.0
Net incurrence of liabilities	2.5	3.8	1.2	1.0	19.4	-0.8	-1.3	-1.3	-2.6	-2.7
Domestic <sup>3</sup>	3.5	3.7	2.3	0.1	18.9	-1.6	-1.7	-1.6	-2.5	-2.4
Foreign	-1.0	0.1	-1.1	0.8	0.5	0.8	0.4	0.3	-0.1	-0.3
Loans	0.4	1.6	0.3	2.0	2.2	2.1	2.1	2.0	1.9	1.8
Amortization (-) <sup>4</sup>	-1.4	-1.5	-1.4	-1.2	-1.7	-1.3	-1.7	-1.7	-2.1	-2.1
Other	2.6	0.1	-1.5	-1.2	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	1.7	2.1	1.5	2.9	2.9	2.7
Memorandum items:										
Overall fiscal balance	-7.6	-16.3	-12.0	-2.9	-0.9	-0.5	0.3	-0.1	-0.2	-0.1
Non-resource primary balance <sup>5</sup>	-28.8	-40.0	-26.1	-18.0	-14.0	-10.9	-8.4	-7.5	-6.7	-6.1
Gross government deposits <sup>6</sup>	11.0	16.9	12.6	8.4	8.2	9.2	9.8	11.2	10.8	10.1
Deposits with BEAC	4.6	4.5	2.9	1.8	3.8	4.7	5.2	6.6	6.4	6.1
Of which: available	0.7	0.8	1.5	0.3	2.3	3.1	3.7	5.1	5.0	4.7
Deposits abroad	5.7	11.6	9.2	6.0	4.4	4.5	4.5	4.5	4.3	4.0
Of which: available	4.3	7.6	4.1	1.7	0.0	0.0	0.0	0.0	0.0	0.0
Deposits with commercial banks (available)	0.7	0.8	0.5	0.6	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Data provided by the Equatoguinean authorities; and staff estimates and projections.

<sup>1</sup> Includes social benefits and other transfers.

<sup>2</sup> Includes a one-time clearance of outstanding arrears through securitization in 2018.

<sup>3</sup> Statutory advances are assumed to be repayed in 10 years, starting in 2022. Includes amortization of advances in 2022-23, and payment of arrears in 2018-23.

<sup>4</sup> Includes exceptional repayment of foreign debt for years 2014 and 2015.

<sup>5</sup> Equal to the overall balance minus interest and resource revenues.

<sup>6</sup> It does not include deposits with commercial banks that are not available.

**Table 4. Equatorial Guinea: Monetary Survey, 2014–23**  
(Billions of CFA, unless otherwise specified)

	2014	2015	2016	2017			2018				2019	2020	2021	2022	2023	
	Dec.	Dec.	Dec.	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Dec.	Dec.	Dec.	Dec.	
								Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	
Net foreign assets	1,629	854	163	127	195	212	75	62	193	346	177	272	340	420	478	534
Bank of Central African States (BEAC)	1,546	700	-12	-66	18	70	-55	-68	63	215	46	139	207	286	342	398
Commercial banks	83	154	174	193	177	142	130	130	130	131	131	132	133	135	136	136
Net domestic assets	-72	533	997	989	912	877	1,115	1,095	1,075	1,056	1,036	1,135	1,212	1,229	1,289	1,346
Domestic credit	360	938	1,403	1,399	1,328	1,312	1,535	1,525	1,516	1,506	1,497	1,539	1,597	1,648	1,753	1,876
Net claims on the public sector	-610	-168	232	232	148	127	346	332	317	303	288	279	275	237	231	231
Net credit to the central government	-619	-176	224	223	113	118	339	383	255	105	281	272	267	230	224	224
Central Bank	-120	194	441	471	336	290	496	511	382	232	403	394	389	352	346	346
Claims	370	517	618	615	615	611	609	609	609	609	642	680	707	761	761	761
Deposits	-490	-323	-177	-143	-279	-321	-113	-99	-227	-377	-239	-286	-318	-409	-414	-414
Commercial Banks	-498	-370	-217	-248	-187	-172	-157	-127	-127	-127	-122	-122	-122	-122	-122	-122
Claims on the Treasury	10	29	76	77	79	80	82	82	82	82	82	82	82	82	82	82
Deposits	-508	-398	-293	-325	-266	-252	-239	-209	-209	-209	-204	-204	-204	-204	-204	-204
Credit to public enterprises	9	8	8	8	7	7	7	7	7	7	7	7	7	7	7	7
Credit to financial institutions	2	1	19	34	21	21	22	22	22	22	22	22	22	22	22	22
Credit to the private sector	968	1,105	1,151	1,134	1,159	1,163	1,167	1,172	1,177	1,182	1,187	1,238	1,301	1,389	1,499	1,623
Credit to the economy 1/	978	1,113	1,178	1,176	1,187	1,192	1,196	1,201	1,206	1,211	1,216	1,268	1,330	1,418	1,528	1,652
Other items (net)	-432	-405	-405	-410	-404	-434	-420	-430	-441	-451	-461	-405	-385	-419	-463	-513
Broad money	1,557	1,387	1,160	1,116	1,107	1,156	1,172	1,178	1,184	1,190	1,196	1,389	1,535	1,632	1,750	1,880
Currency outside banks	280	222	175	145	144	160	165	168	172	176	179	209	230	245	263	282
Deposits	1,277	1,164	985	971	963	996	1,007	1,009	1,012	1,014	1,016	1,181	1,305	1,387	1,487	1,598
Of which: private deposits	1,212	1,100	918	897	884	955	979	973	967	961	955	1,107	1,226	1,302	1,396	1,500
<i>Memorandum items:</i>																
Contribution to the growth of broad money (percentage points)																
Net foreign assets	-41.6	-49.8	-49.9	-59.3	-28.9	-14.2	-7.6	-5.8	-0.2	11.6	8.8	7.9	5.0	5.2	3.5	3.2
Net domestic assets	27.5	38.8	33.5	49.7	12.4	-1.6	10.1	9.5	14.8	15.4	-6.7	8.3	5.6	1.1	3.7	3.2
Of which: net credit to the central government	26.5	28.4	28.8	50.2	7.5	4.4	9.9	14.4	12.8	-1.1	-5.0	-0.7	-0.3	-2.4	-0.3	0.0
Credit to the economy (annual percentage change)	17.4	13.8	5.8	2.5	7.4	-2.5	1.5	2.1	1.6	1.6	1.7	4.2	4.9	6.6	7.8	8.1
Credit to the private sector																
Annual percentage change	18.4	14.1	4.2	-0.3	5.7	-0.9	1.3	3.4	1.5	1.6	1.7	4.3	5.0	6.8	8.0	8.2
In percent of GDP	9.1	15.4	19.1	17.8	18.2	18.2	18.3	18.6	18.7	18.8	18.9	20.3	21.5	22.6	23.3	23.7
Broad money (annual percentage change)	-14.1	-10.9	-16.4	-9.6	-16.5	-10.7	1.0	5.5	6.9	3.0	2.1	16.2	10.5	6.3	7.2	7.4
Currency outside banks	3.0	-20.7	-21.4	-25.0	-21.5	-3.0	-5.8	16.1	19.4	10.2	8.9	16.2	10.5	6.3	7.2	7.4
Deposits	-17.1	-8.8	-15.4	-6.7	-15.8	-11.8	2.2	3.9	5.1	1.8	0.9	16.2	10.5	6.3	7.2	7.4
Velocity (GDP/ M2)	6.8	5.2	5.2	5.7	5.8	5.5	5.4	5.3	5.3	5.3	5.3	4.4	3.9	3.8	3.7	3.6

Sources: BEAC and staff estimates and projections.

1/ Credit to the economy includes credit to the public enterprises, financial institutions and private sector.

**Table 5. Equatorial Guinea: External Financing Requirements, 2013–23**  
(In millions of U.S. dollars, unless otherwise indicated)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>1. Total financing requirements</b>	<b>864</b>	<b>43</b>	<b>948</b>	<b>198</b>	<b>-140</b>	<b>781</b>	<b>741</b>	<b>837</b>	<b>2,392</b>	<b>1,002</b>	<b>914</b>
Current account deficit	547	929	2,154	1,195	144	320	338	453	2,033	578	508
Debt amortization	356	300	224	203	17	206	146	196	204	261	284
Change in gross reserves (increase=+)	-40	-1,186	-1,431	-1,200	-302	256	257	189	156	163	122
<b>2. Total financing sources</b>	<b>59</b>	<b>415</b>	<b>357</b>	<b>376</b>	<b>-340</b>	<b>577</b>	<b>496</b>	<b>664</b>	<b>2,042</b>	<b>637</b>	<b>546</b>
Capital transfers	0	0	0	0	0	0	0	0	0	0	0
Foreign direct investment (net)	2,146	1,138	1,186	208	-45	115	305	455	1,838	434	342
Portfolio investment (net)	29	24	2	0	0	-2	-2	-2	-2	-2	-2
Debt financing	433	158	190	618	329	265	239	242	243	245	246
Public sector	324	30	98	535	278	265	239	242	243	245	246
Non-public sector	109	128	93	84	51	0	0	0	0	0	0
Other net capital inflows	-2,549	-905	-1,022	-450	-624	200	-46	-30	-37	-40	-40
Errors and omissions	-805	-372	590	-172	-700	0	0	0	0	0	0
<b>3. Financing gap</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>204</b>	<b>245</b>	<b>173</b>	<b>350</b>	<b>365</b>	<b>368</b>

Source: Fund staff estimates and projections.

**Table 6. Equatorial Guinea: Prior and Structural Measures 2018**

Measure	Target date	Macroeconomic objective	Government Unit / instrument	Status
<b>Prior Measures</b>				
Reform foreign investment legislation by removing the local partner requirement	Before submitting SMP request to management	Foster good governance and encourage FDI in the non-hydrocarbon sector	Ministry of Finance Economy, and Planning (MFEP)/law-decree	Done
Share all oil and gas contracts with IMF staff	Before submitting SMP request to management	Increased transparency of the oil sector	MFEP /Ministry of Mines	Done
Start publication of quarterly data on the central government accounts for 2015-17	Before submitting SMP request to management	Increase transparency	MFEP / publication on official website	Done
<b>Structural Measures</b>				
Secure congressional approval of a 2018 budget consistent with targets under the SMP	End-April 2018	Improve macro-fiscal management	MFEP	
Hire an internationally reputable firm to (i) audit the accounts of the state-owned oil and gas companies and (ii) conduct a detailed reconciliation of EG's gross hydrocarbon output with hydrocarbon revenue received by the budget for 2017	End-July 2018	Foster transparency and good governance	Ministry of Mines in publication on official website	
Hire an independent entity to conduct an audit of domestic arrears accumulated through end-2017	End-July 2018	Improve public financing management	MFEP / submission of document to Fund staff	
Adopt mechanisms to track and control expenditure commitments and strengthen treasury cash management	End-July 2018	Improve public financial management	MFEP	
Submit a membership application to the Extractive Industries Transparency Initiative (EITI)	End-July 2018	Increased transparency of the oil sector	MFEP / submission of document to Fund staff	
Ratify the United Nations Convention Against Corruption	End-July 2018	Foster good governance	MFEP publication on official website	

Sources: IMF staff.

**Table 7. Equatorial Guinea: Quantitative Performance Measures and Indicative Targets**  
(Billions of CFA Francs, cumulative for each quarter)

	2017	2018			
	End-Dec.	SMP		End-Sep.	End-Dec.
		End-Apr.	End-Jul.		
<b>A. Quantitative performance measures</b>					
Floor on non-resource tax revenue of the central government	147	37	90	140	180
Floor on non-resource Primary balance of the central government	-1,151	-300	-540	-569	-882
Ceiling on external debt arrears accumulation <sup>1</sup>	0	0	0	0	0
Ceiling on contracting and guaranteeing new external debt	130	80	100	110	140
Ceiling on new BEAC credit to the government	-9	0	0	0	0
<b>B. Indicative Targets</b>					
Ceiling on net domestic bank credit to the government	-157	-127	-127	-127	-122
Floor on social spending (education and health) <sup>2</sup>	130	30	60	80	150
<b>Memorandum items:</b>					
Total social spending as a share of GDP	2.0				2.4
Sources: Equatorial Guinea authorities; and IMF staff estimates and projections.					
<sup>1</sup> This quantitative measure will apply continuously.					
<sup>2</sup> The floor for social spending is based on SMP definition of social spending.					

## Annex I. Economic Diversification Plans

**The authorities are stepping up their efforts to diversify the economy.** They plan to launch several initiatives to improve the business climate, such as removing the requirement of minimum capital of the local partner in foreign investment, and simplifying visa requirements for tourists and businessmen. The authorities have also expressed interest in receiving assistance of the WB to help promote foreign investment and non-hydrocarbon exports. Ongoing efforts seeking to diversify the economy by developing other sectors are summarized below. If well executed, these efforts could help set the stage for stronger private sector-led growth in the non-hydrocarbon sector.

**Agriculture.** The Ministry of Agriculture, Livestock, and Food is in the process of implementing a strategic plan to increase investment and exports in the agriculture industry. This plan includes (i) creating the Agricultural Bank of Equatorial Guinea (pending negotiations with private investors), (ii) working with micro, small, and medium-sized enterprises for commercial production, (iii) develop a plan to acquire machinery to boost agri-business, (iv) negotiating with foreign suppliers to help develop exports, (v) identifying the list of commercial crops to be cultivated, and finally (vi) developing a strategic plan for the promotion, marketing, and commercialization of agricultural exports.

**Fishing.** SONAPESCA is the government agency that is developing the strategic plan to transform the subsistence level fishing activity into a competitive industry. Estimated fishing resources in the country are above 75,000 tons per year. A new fishing law is being developed, and other efforts are being made to (i) select the most profitable and sustainable species for a future fishing industry, (ii) use the existing sea port infrastructure to facilitate the future deployment of fishing companies, (iii) build training facilities for fisherfolk, and (iv) attract foreign investors and select channels of commercialization. Discussions are ongoing with the Chinese government to develop a fishing industry in the cities of Riaba and Bolondo.

**Tourism.** Equatorial Guinea has very good infrastructure to jump-start the tourism sector. Between 2013-17, the country invested 117 billion CFA in the construction of new hotels (currently affiliated with international brands), and it has also invested in the construction of airports (293 billion), sea ports (461 billion), and roads (2,912 billion). To leverage this existing infrastructure, the government is planning a marketing strategy to attract airlines and tour operators so the inflow of tourists can be substantially increased in the future.

**Telecommunications.** In the last decade, the country has invested in several telecommunications networks such as the Ceiba-1 and ACE oceanic cables, and a fiber optics network that connects the main cities in the country. Future strategic plans are based on using this existing network to strengthen the country's telecommunication infrastructure and services. Some of the projects in planning are: (i) provide fiber optic high speed internet access to 40,000 homes, and (ii) position Equatorial Guinea as a key backbone internet service provider in Africa.

**Petrochemicals.** There is also an opportunity to diversify the hydrocarbon economy so products that have a higher value-added than crude oil or gas can be exported. Noble Energy is planning to produce a petrochemical product called phenol-formaldehyde resin (PFR) in partnership with the government. PFR is in high demand in the construction sector. This project complements the existing Punta Europa facilities, infrastructure, and feedstocks, and delivers high-value petrochemicals to generate additional revenue.



## Annex II. Recent Announcements of Major Hydrocarbon Sector Projects

**Two recently announced hydrocarbon sector projects have the potential to slow the pace of decline in Equatorial Guinea's oil and gas production:**

- Fortuna Floating Liquid Natural Gas (FLNG) project:* This project is led by Ophir Energy PLC, a London-based oil and gas exploration and production company with global operations. There are two components, a \$0.5 billion upstream part to extract offshore gas and a \$1.6 billion midstream part consisting of a vessel that liquefies, stores, and transfers LNG at sea before carriers ship it to markets. Project financing is the last remaining major milestone before the final investment decision (FID). If confirmed and implemented as planned, the first gas would be extracted in 2022, with annual production in the range of 2.2–2.5 million tons per year.
- Kosmos/Trident joint venture:* Kosmos Energy, a U.S. company, and Trident Energy Management Ltd., registered in England and Wales, announced their entry into Equatorial Guinea in October 2017. Entry entailed purchasing the Hess Corporation's interests in two already producing fields, with forthcoming investments expected to boost exports by 20,000 barrels of oil/day into the early 2020s, as well as acquisition of interest in three exploration contracts, which if successful could identify new longer-term sources for production.

Economic Impacts of Major Projects, 2018-24								
(Units as specified)								
	2018	2019	2020	2021	2022	2023	2024	Total 2018-2023
<b>New production</b>								
FLNG (million tons per year)	0	0	0	0	0.7	1.7	2.2	...
Kosmos/Trident (barrels of oil/day)	0	0	0	0	0	0	0	...
<b>Investment (million U.S. dollars)</b>								
FLNG	0	0	75	1,626	232	102		2,035
Upstream (extraction)	0	0	75	100	152	102		428
Midstream (vessel)	0	0	0	1,526	81	0		1,607
Kosmos/Trident	0	160	240	36	37	0		473
Total	0	160	315	1,663	269	102		2,508
<b>Current account (percent of GDP)</b>								
Excluding major projects	-2.7	-2.9	-3.9	-17.0	-4.6	-3.8		...
	-2.7	-1.9	-1.8	-4.0	-3.3	-3.2		...

Sources: Equatoguinean authorities; IMF staff calculations.

**The government of EG will participate in both projects.** For the upstream component of the FLNG project, the government's share will be 20 percent and paid at the time of the FID. The midstream part involves creating a company that will acquire the vessel using debt financing. The government's share in this part of the project would be 30 percent. This would be covered with financing obtained by the company. Key elements of this arrangement are not yet settled, and it

remains unclear whether it would give rise to public debt. The Kosmos/Trident project expects only superficial changes in the existing production sharing contract.

**The two projects will have a sizable, though temporary, impact on the balance of payments:**

- *Foreign direct investment:* The foreign private investors' majority investments in both components of the FLNG as well as the Kosmos/Trident project will raise FDI significantly over the projection horizon. In particular, FDI will peak at 15 percent of GDP in 2021, relative to roughly 1 percent in 2016–17.

Imports: For the upstream part of the FLNG project and the Kosmos/Trident venture, the import content is expected to be 80 percent of the overall investment. The midstream component of the FLNG project has a higher import content—over 90 percent—as it mainly entails installing an imported maritime vessel. Given the very high import component of FDI, the effect on medium-term reserves will be small.

## Annex III. Proposed Policies and Structural Reform Program for 2018

### Public Finances

#### Budget

- Adopt a 2018 budget consistent with the central government sector deficit targeted under the program (structural measure, end-April 2018).

#### Tax Policy and Administration

- Make the Large and Medium Taxpayer Unit fully operational (end-July 2018).
- Introduce a single tax payer identification number (end-July 2018).
- To increase non-hydrocarbon revenues, review the existing tax legislation with a view to implementing the short-term measures identified by the November 2017 IMF TA mission (end-April 2018).<sup>1</sup>

#### Customs Administration

- Strengthen and reorganize the customs offices by adopting modern customs clearance procedures supported by ASYCUDA software at the airport and port in Malabo (end-July 2018); and in Luba and Bata by end-December 2018.
- Manage customs exemptions with ASYCUDA properly once it is installed and operational.

#### Expenditure and PFM Measures

- Limit capital spending to plans that are realistic and focus on high priority projects (ongoing, program period).
- Adopt mechanisms to strengthen treasury cash management and expenditure controls, including mechanisms to track and control expenditure commitments (end-July 2018).
- Bring all government expenditures on-budget (from 2018, continuous).
- Devolve to the Ministry of Finance, Economy and Planning control of all expenditure decisions (2018).

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<sup>1</sup> See the technical assistance report *Medidas para Aumentar las Recaudacion con Equidad y Eficiencia, volume I- Política Tributaria*. IMF, Fiscal Affairs Department (January 2018).

**Arrears**

- Hire an independent company to conduct an audit of public sector arrears (structural measure, end-July 2018).
- Complete the audit of domestic arrears (end-December 2018).
- Start quarterly meetings of the National Payments Committee to improve the monitoring of domestic arrears (end-April 2018).

**Financial Sector**

- Petition the COBAC to conduct an asset review for EG's banks (end-July 2018).
- Work with COBAC to strengthen bank regulation and supervision and enforce compliance with prudential norms (continuous).

**Social Policies**

- Establish a minimum level of spending on social programs targeted at low income population (ongoing, program period).
- Improve data on social indicators by conducting regular household income and expenditure surveys to collect data on poverty and other social outcomes (2018).

**Business Climate /Economic Diversification Policies**

- Reform foreign investment legislation by removing local partner requirements (Before submitting SMP request to management).
- Operationalize the single window for investors (Article 23, item 6. Decree 134/2015) (end-2018).
- Conduct a diagnostic study of the business climate and review and update the government's strategy for economic diversification (2018).

**Measures to Combat Corruption/Improve Governance**

- Sign up and apply for EITI membership and subsequently work to remain compliant with its standards with the aim of increasing transparency in the hydrocarbon sector (structural measure, end-July 2018).
- Ratify the United Nations Convention Against Corruption (structural measure end-July 2018).

- Operationalize the Accounts Tribunal that will conduct annual audits of the budget outturn and publish the findings in a publicly available annual report (2018).
- Strengthen the management of resource-related funds through the documentation of operational rules (including investment policies) for these funds as part of an overall fiscal policy framework (2018).
- Conduct a governance diagnostic and adopt a governance strategy (2018).
- Conduct of fiscal safeguards assessment with technical assistance from the IMF (2018).
- Ask the IMF to conduct of fiscal transparency assessment (2018).

### **Measures to Promote Data Dissemination and Transparency**

- Share all oil and gas contracts with Fund staff (Before submitting SMP request to management).
- Hire an internationally reputable firm to (i) audit the accounts of state-owned oil and gas companies and (ii) conduct a detailed reconciliation of EG's gross hydrocarbon output with hydrocarbon revenue received by the budget for 2017, with the terms of reference agreed with Fund staff (end-July 2018).
- Start publishing the National Budget on the website of the Ministry of Finance, Economy and Planning (end-April 2018).
- Start online publication of quarterly data on central government accounts for 2015–17 (Before submitting SMP request to management).
- Submit regularly existing macroeconomic data to the IMF's Statistics Department (continuous).
- Share contracts for deposits abroad with Fund staff including contracts related to the line of credit from China (2018).

Annex IV. Risk Assessment Matrix<sup>1</sup>

Sources of Risks	Relative/ Likelihood	Impact if Realized	Recommended Policy Responses
<b>Domestic Risks</b>			
<b>Financial sector exposure to affected sectors in the non-hydrocarbon economy</b>	<b>Medium</b>	<b>Medium.</b> Further increases in NPLs and weakening of other financial soundness indicators.	Ensure full compliance with prudential requirements. COBAC does an asset quality review of the banks.
<b>Persistent corruption, and failure to address PFM weaknesses</b>	<b>High</b>	<b>High.</b> Adverse impact on growth through lower productive investment; and high fiscal cost from misallocation of resources.	Enforce existing rules, and increase transparency, by joining the EITI.
<b>Political infighting over succession and economic reform fatigue</b>	<b>High</b>	<b>High.</b> Reversal or a stall in much needed policy reforms will slow economic recovery and widen macroeconomic imbalances.	Publish the economic reform program; use communication to build consensus.
<b>External Risks</b>			
<b>Persistently low energy prices</b>	<b>Low</b>	<b>High.</b> Lower oil exports lead to lower government revenue and exports, and higher financing needs.	Build buffers to protect the program fiscal targets and contain the increase in public debt.
<b>Rise in populism and nationalism in large economies/ retreat from cross-border integration</b>	<b>High</b>	<b>High.</b> Reversals in policy coordination could impede export market access and the development of the non-hydrocarbon sector.	Enhance trade relations and facilitate trade with the CEMAC region to diversify export markets.
<b>Tighter global financial conditions</b>	<b>Medium</b>	<b>Low.</b> With no plans to access markets, the impact of this would be very limited.	
<b>Significant growth slowdown in China and its spillovers</b>	<b>Low/ Medium</b>	<b>High.</b> Could reduce project financing by China.	Strengthen the business climate, diversify investor base and export markets.
<b>Structurally weak growth in key advanced and emerging economies</b>	<b>Medium</b>	<b>Medium.</b> Adverse impact on growth through less FDI inflows.	
<b>Heightened risk of state failure/security dislocation in some countries in Africa</b>	<b>Medium</b>	<b>Medium.</b> Regional political instability would affect economic activity limiting the potential to expand the non-hydrocarbon sector.	Enhance trade relations in the CEMAC and harmonize policies on security.

<sup>1</sup> The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may jointly interact and materialize.

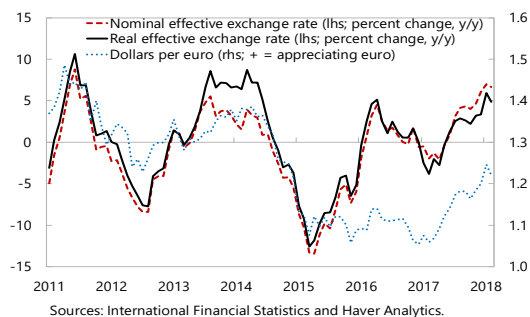
## Annex V. External Sector Assessment

*A partial recovery in hydrocarbon prices and sizable fiscal adjustment resulted in a substantial narrowing of Equatorial Guinea's external current account deficit. Nevertheless, several standard external sector assessment approaches highlight a weaker external sector than warranted by medium-term fundamentals and desirable policies. Additionally, the exhaustion of Equatorial Guinea's natural resource reserves in the coming years will have important external sustainability implications.*

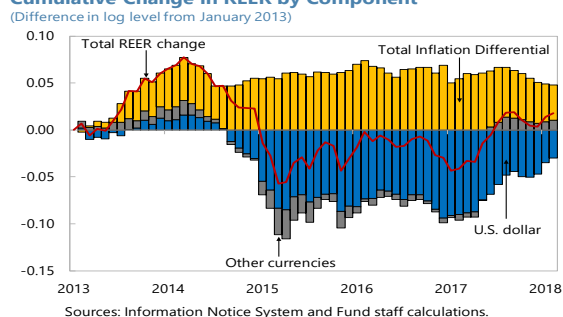
**1. The current account balance has narrowed significantly.** In 2017, the current account balance narrowed 10½ percentage points of GDP to a small deficit of 1⅓ percent of GDP. This sharp improvement owes to (i) the partial rebound in hydrocarbon prices, which boosted export values; (ii) a major import compression induced by fiscal adjustment; and (iii) lower service imports to support the petroleum and gas companies. The expectation for 2018 is for a modest deterioration in the current account to a deficit of 2.7 percent of GDP, as the effects of declining hydrocarbon production and economic recovery more than offsets more favorable commodity prices and the impact of fiscal adjustment. In the medium run, the current account dynamics are heavily impacted by the major projects in the hydrocarbon sector, which will largely disappear by 2023, leaving a deficit of 3¾ percent of GDP.

**2. The REER has been appreciating recently, entailing weaker price competitiveness.** Through February 2018, the CPI-based REER for Equatorial Guinea appreciated 4.9 percent (y/y). The recent upward trend mainly reflects the depreciation of several currencies, especially the U.S. dollar against the euro, to which the CFA franc is pegged. Weak inflation in Equatorial Guinea relative to trading partners has provided a little offset.

**Exchange Rate Changes**



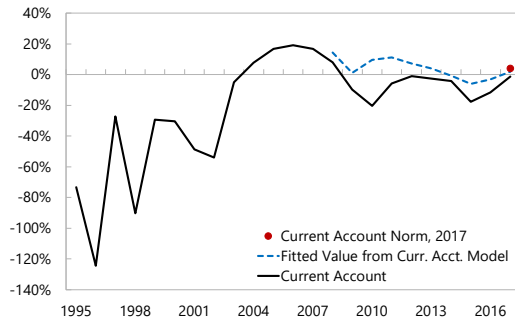
**Cumulative Change in REER by Component**



**3. Standardized exchange rate assessment techniques indicate that, to varying extents, the REER is stronger than warranted based on fundamentals and desirable policies.**

- *EBA-lite current account model.* The model implies a current account norm of around 4 percent of GDP,<sup>1</sup> in comparison to the 2017 deficit of 1.3 percent of GDP. Given a relatively small elasticity, this implies that the REER would need to depreciate 18.8 percent to eliminate the current account gap.

**EBA-Lite Current Account Model**  
(Percent of GDP)



**EBA-Lite Current Account Model Results**

(percent of GDP, unless indicated otherwise)

	2017
Projected current account balance	-1.3
Cyclical components (model)	-2.2
Cyclically-adjusted current account	0.9
Current account norm	
No cyclical adjustment	4.1
Cyclically adjusted	6.3
Current account gap	-5.4
Of which: policy gap	-2.5
REER elasticity (units)	-0.3
REER Gap (percent, + indicates overvaluation)	18.8

- *External sustainability for hydrocarbon exporters.* This approach follows Bems and Carvalho Filho (2009)<sup>2</sup> and aims to stabilize the net foreign asset position to a desirable level, accounting for temporary natural resource income and using several intertemporal allocation rules. It assumes that Equatorial Guinea’s oil production will cease when reserves are exhausted in the around 2030, while gas production will continue for the next 57 years. These approaches yield a range of estimates of REER overvaluation of around 8½-12 percent in the medium-term (2022–23).

<sup>1</sup> This takes as desirable policy settings (i) a cyclically adjusted fiscal balance of 1.3 percent of GDP, which is the medium-term primary balance that results from the planned fiscal adjustment; (ii) no further loss in international reserves; (iii) a credit-to-GDP equal to the latest outturns; and (iv) a capital control index equal to the cross-country average of 0.467.

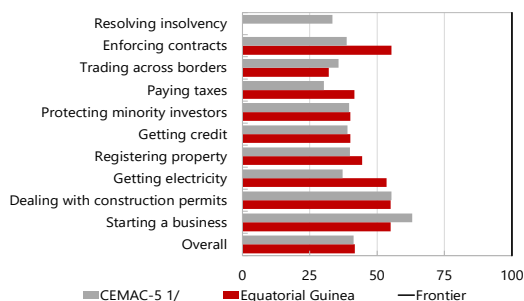
<sup>2</sup> Bems, R. and I. Carvalho Filho, 2009, “Exchange Rate Assessments: Methodologies for Oil Exporting Countries”, IMF Working Paper WP/09/281.



Equatorial Guinea, REER Misalignment under Various ES Specifications							
Misalignment (+/- = overvaluation/undervaluation)	2017	2018	2019	2020	2021	2022	2023
Static ES	3.6	7.8	7.5	10.0	43.4	11.3	n/a
Dynamic ES: Constant annuity/output ratio (No temporary oil or gas income)	2.8	6.1	6.5	9.0	42.5	10.8	8.7
Dynamic ES: Constant annuity/output ratio	3.0	6.3	6.7	9.1	42.7	10.9	8.7
Dynamic ES: Constant real per capita annuity	3.0	6.3	6.7	9.1	42.7	10.9	8.7
Dynamic ES: Constant real annuity	3.4	6.8	7.2	9.7	43.2	11.5	9.4
<i>Memorandum:</i>							
Underlying CA-to-GDP:	-1.3	-2.7	-2.9	-3.9	-17.0	-4.6	-3.8
Medium Term CA elasticity to REER	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4

**4. There is also ample scope to strengthen structural competitiveness.** Unfavorable perceptions of the business climate—revealed by weak performance on international assessments—has likely held back economic diversification. In the World Bank’s *Doing Business 2018* report, Equatorial Guinea ranked relatively poorly at 173 out of 190 economies. However, it made some improvement in closing gaps to higher performing economies by a reform that made it easier to start a business.<sup>3</sup> In doing so, it about closed its gap overall with other CEMAC countries, though extra-regional commodity exporters of varying income levels still have substantially stronger business climate assessments. Overall, the survey continues to suggest scope for easing requirements to start businesses and improve the solvency regime, among others.

Distance to Frontier



Sources: Doing Business 2018. 1/ Average of Cameroon, Central African Republic, Chad, republic of Conqo, and Gabon.

Distance to Frontier



Sources: Doing Business 2018. 1/ Average of Bolivia, Canada, Chile, Malaysia, and Norway.

<sup>3</sup> In particular, Equatorial Guinea removed a requirement to obtain authorization of establishment from the Office of the Prime Minister to start a business.

## Annex VI. Debt Sustainability Analysis

*Public debt grew rapidly over the past four years, increasing from an average of 4 percent of GDP over 2007-15 to peak at 48 percent of GDP in 2016. Along with low commodity prices, hydrocarbon production has weakened as reserves have been depleted. Both phenomena contributed to the large fiscal deficits, which are mainly responsible for the debt accumulation. With the adjustment envisaged under the SMP and over the medium term, public debt would rise modestly until 2021, but be on a firmly declining path thereafter. Gross financing needs are artificially high in 2018, as existing arrears are securitized, but promptly come down to moderate levels throughout the projection horizon. On this basis, staff assesses debt as sustainable over the medium term under program policies; however, incomplete implementation of the needed fiscal adjustment constitutes a major downside risk and could render public debt unsustainable.*

### Public sector debt sustainability analysis

#### 1. **There has been a rapid buildup of central government debt over the past four years.**

Equatorial Guinea's public debt is mainly composed of domestic arrears, which accumulated swiftly after the fall in commodity prices in 2014, and external borrowing from China. However, it also includes debt that is being repaid, including statutory advances from the BEAC, several domestic debts, and loans from various multilateral and bilateral creditors other than China. The public debt-to-GDP ratio increased from 6.3 percent in 2013 to 43 percent in 2017. This jump mainly reflects large primary deficits, which were only partly financed by drawdown of the government's deposits at the BEAC and commercial banks—both domestic and abroad. The steep economic contraction and rising real interest rates (due to deflation from low hydrocarbon prices) also contributed.

**2. Staff's baseline scenario anticipates a further—though much slower—buildup in debt, reaching a peak in 2021, and falling thereafter.** The more favorable debt dynamics are despite a still-challenging growth outlook, which entails continued—albeit slower—economic contraction until the non-hydrocarbon sector sufficiently strengthens and announced hydrocarbon sector projects are implemented. Instead, further adjustment measures will bring the primary deficit into surplus, and eventually over the estimated 1¼ percent of GDP deficit needed to stabilize debt. Thus, public debt is expected to rise from the 2017 level of 43 percent of GDP, peak at 47 percent of GDP in 2021, and then decline to about 43 percent of GDP in 2023. Nevertheless, staff's assessment of debt sustainability depends on the full implementation of the adjustment proposed and continued low effective borrowing costs. Longer-run risks also arise from the expected continued decline of hydrocarbon output.

**3. The outlook for Equatorial Guinea's debt issuance over the forecast horizon consists of securitizing domestic arrears and external borrowing.** The baseline scenario envisages a large transaction in 2018 to regularize domestic arrears by issuing gradually amortizing securities to claim holders. The securitization, while debt-neutral, causes an artificially high gross financing need in 2018, which causes the heat map to flash red (Figure 1). No further domestic issuance is assumed

over the forecast horizon. Instead, remaining financing needs are expected to be covered by external borrowing, including from China and from other institutions, assuming that the authorities' follow through with their intentions to engage with regional and international development partners.

**4. An array of debt diagnostics highlights risks to staff's outlook.** Debt-profile indicators are mixed, with the non-resident holdings and foreign currency debt indicators somewhat over the lower early warning thresholds. However, the fan charts show a very wide range of potential debt outcomes, as the variables used in the simulations have been highly volatile historically. Reflecting the wide range of economic performance, past forecast errors have tended to be large, though not uniformly optimistic or pessimistic (Figure 2). The fiscal adjustment to which the authorities have committed is also ambitious by cross-country experience. Still, the associated risk is offset by the consideration that most the cumulative fiscal adjustment has already taken place and that the resulting level of the cyclically adjusted primary balance is not ambitious by international standards.

**5. If adjustment measures are fully implemented, then the downward public debt trajectory would be robust to shocks envisaged under standard stress tests.** The envisaged policies to reduce fiscal deficits are needed to offset the upward pressure on debt from the continued economic contraction (Figure 3). If corrective policies were to be implemented less forcefully and promptly than planned, as illustrated by the historical or constant primary balance scenarios, then public debt would be on an explosive path (Figure 4). In contrast, full implementation of the adjustment would cause debt to stabilize (albeit at higher levels than the baseline) or begin to decline under all but one of the standard shock scenarios (Figure 5). The exception is the combined macro-fiscal shock, which is calibrated to include a sharp re-intensification of the economic contraction and much higher borrowing costs.<sup>1</sup> Oil price movements also pose large risks in both directions.

### External Debt Sustainability Analysis

**6. Equatorial Guinea's external debt has also increased rapidly from 6 percent of GDP in 2013 to around 10 percent of GDP in 2017, though it is still relatively low (Table 1).** A rise in central government external borrowing, mainly bilateral loans from China, explains the increase. Under staff's baseline scenario, external debt would continue to rise at a fairly gentle pace, as the government plans to satisfy its remaining financing needs with external borrowing. Nevertheless, at 22 percent of GDP in 2023, the external debt burden would continue to be at a modest level.

**7. Stress test scenarios show the greatest sensitivity to the non-interest current account and combined shocks** (Figure 6). With external debt on an upward path, under the baseline, it also rises under all adverse scenarios. However, the non-interest current account shock has a large magnitude, given the wide variation during the commodity boom, bust, and subsequent adjustment. For this reason, the external debt trajectory would tilt up sharply, leading to substantially more

<sup>1</sup> In particular, the scenario assumes a repeat of the large ex-post rise in real interest rates, which surged with deflation induced by the commodity bust; nominal interest rates changed little.

external debt accumulation. The combined shock scenario is also severe, mainly because it also incorporates the effects of a worse non-interest current account, though to a lesser extent. The effects of the other shocks are smaller, resulting in higher external debt of around 1–10 percent of GDP.

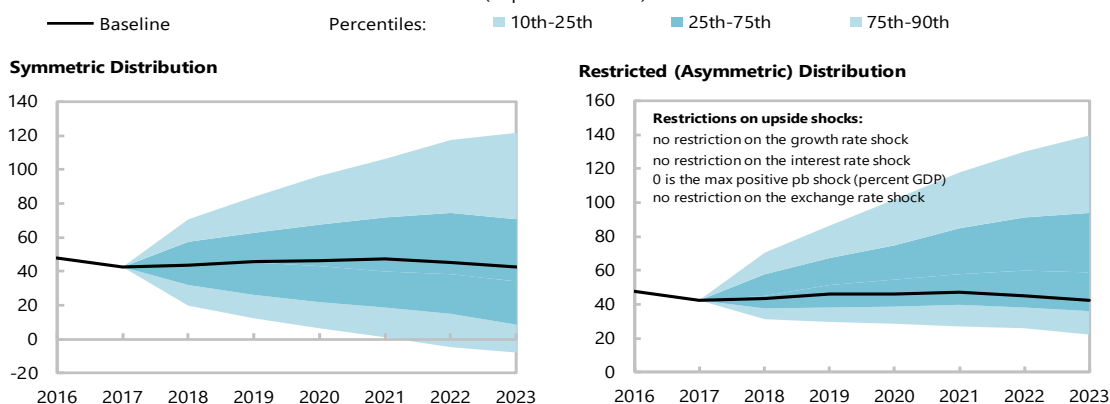
**Figure 1. Equatorial Guinea: Public DSA—Risk Assessment**

**Heat Map**

Debt level <sup>1/</sup>	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Gross financing needs <sup>2/</sup>	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile <sup>3/</sup>	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

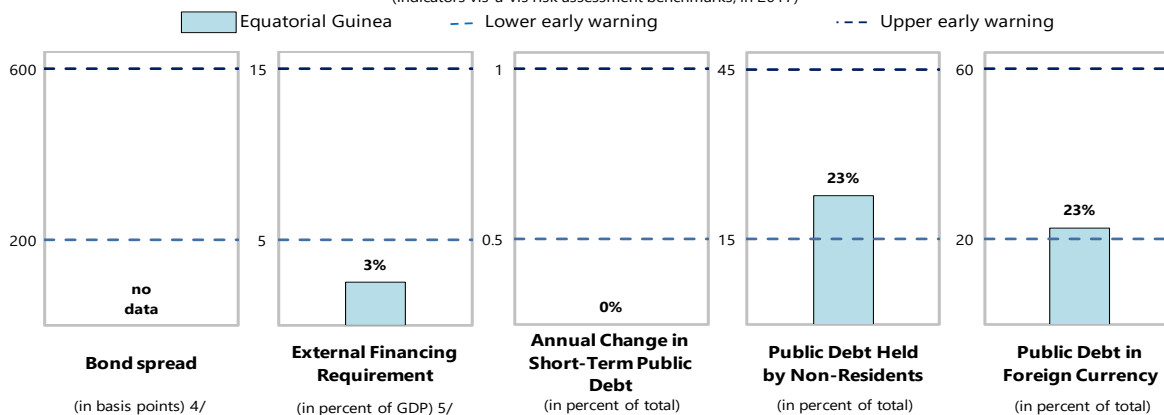
**Evolution of Predictive Densities of Gross Nominal Public Debt**

(in percent of GDP)



**Debt Profile Vulnerabilities**

(Indicators vis-à-vis risk assessment benchmarks, in 2017)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white. Lower and upper risk-assessment benchmarks are:

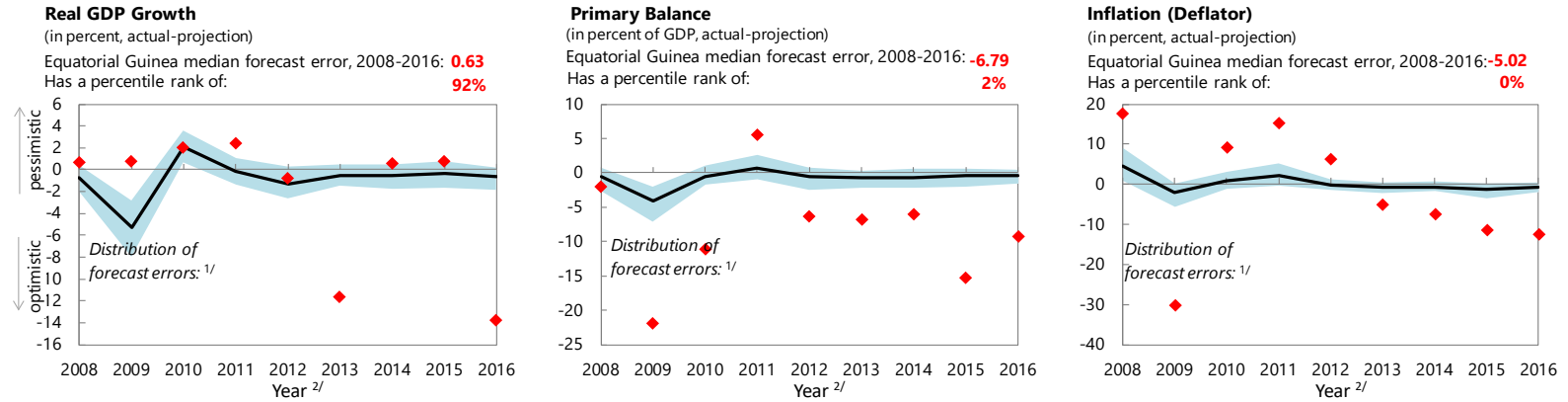
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over German bonds, an average over the last 3 months, 10-Jan-18 through 10-Apr-18.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

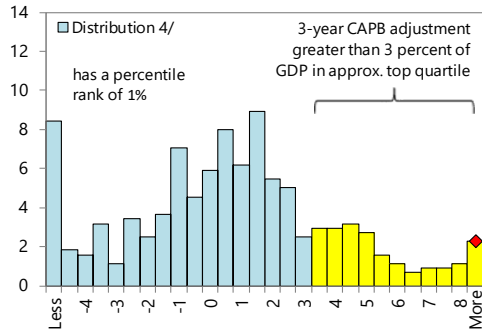
**Figure 2. Equatorial Guinea: Public DSA—Realism of Baseline Assumptions**

**Forecast Track Record, versus all countries**

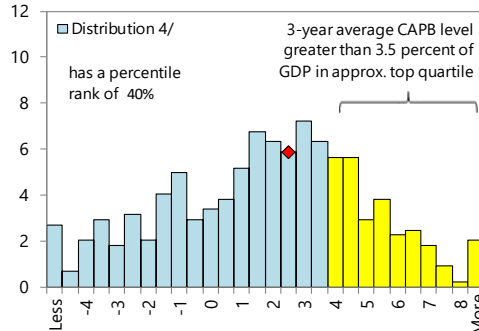


**Assessing the Realism of Projected Fiscal Adjustment**

**3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)**  
(Percent of GDP)

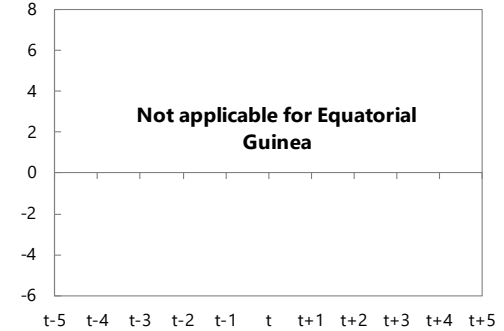


**3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)**  
(Percent of GDP)



**Boom-Bust Analysis<sup>3/</sup>**

**Real GDP growth**  
(in percent)  
— Equato...



Source : IMF Staff.

1/ Plotted distribution includes all countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Equatorial Guinea, as it meets neither the positive output gap criterion nor the private credit growth criterion.

4/ Data cover annual observations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.□

**Figure 3. Equatorial Guinea: Public DSA—Baseline Scenario**

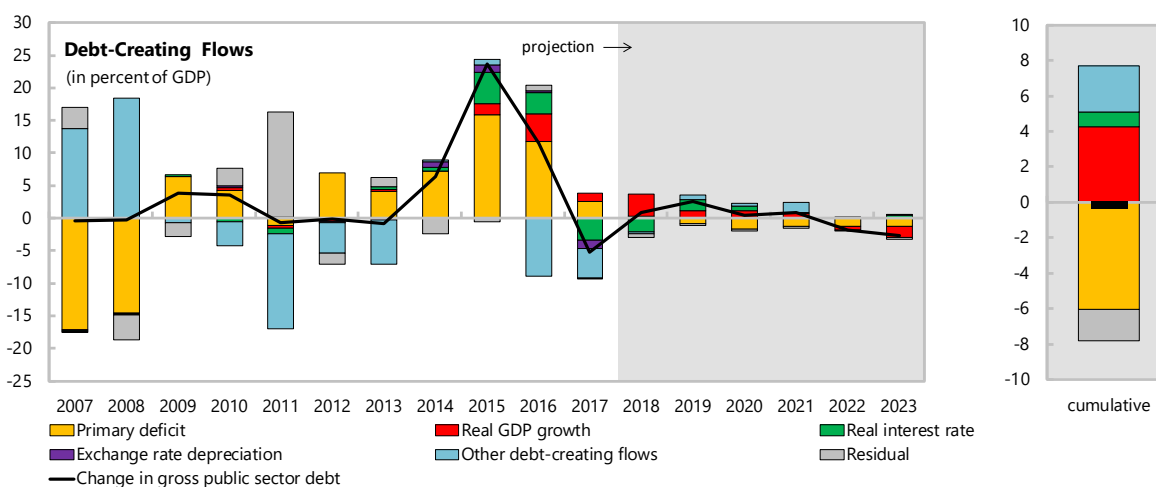
(in percent of GDP unless otherwise indicated)

**Debt, Economic and Market Indicators**<sup>1/</sup>

	Actual			Projections						As of April 10, 2018		
	2007-2015 <sup>2/</sup>	2016	2017	2018	2019	2020	2021	2022	2023	Sovereign Spreads	Foreign	Local
Nominal gross public debt	9.2	47.9	42.6	43.5	46.0	46.4	47.2	45.3	42.5	EMBIG (bp) 3/	n.a.	
Public gross financing needs	2.6	14.9	5.0	23.1	3.4	3.0	3.5	4.7	4.5	5Y CDS (bp)	n.a.	
Real GDP growth (in percent)	2.9	-9.7	-2.9	-7.9	-2.7	-2.5	-1.5	1.1	3.9	Ratings		
Inflation (GDP deflator, in percent)	2.3	-7.1	8.9	7.0	-0.4	1.9	3.1	3.4	2.4	Moody's	n.a.	n.a.
Nominal GDP growth (in percent)	5.9	-16.1	5.7	-1.4	-3.0	-0.6	1.5	4.5	6.4	S&P's	n.a.	n.a.
Effective interest rate (in percent) <sup>4/</sup>	4.9	1.0	1.0	1.6	3.2	3.3	3.4	3.5	3.5	Fitch	n.a.	n.a.

**Contribution to Changes in Public Debt**

	Actual			Projections						cumulative	debt-stabilizing primary balance <sup>9/</sup>
	2007-2015	2016	2017	2018	2019	2020	2021	2022	2023		
Change in gross public sector debt	3.9	11.5	-5.3	0.8	2.5	0.4	0.8	-1.9	-2.7	-0.1	
Identified debt-creating flows	2.5	10.7	-5.2	1.4	2.8	0.6	1.1	-1.7	-2.5	1.7	
Primary deficit	1.3	11.8	2.5	0.4	-0.8	-1.7	-1.3	-1.3	-1.3	-6.0	
Primary (noninterest) revenue and grants	29.5	18.4	19.3	18.2	17.2	16.5	15.9	15.7	15.5	98.9	
Primary (noninterest) expenditure	30.8	30.2	21.8	18.6	16.3	14.8	14.6	14.4	14.2	92.9	
Automatic debt dynamics <sup>5/</sup>	0.8	7.8	-3.3	1.3	2.8	1.8	0.9	-0.5	-1.2	5.1	
Interest rate/growth differential <sup>6/</sup>	0.6	7.4	-2.1	1.3	2.8	1.8	0.9	-0.5	-1.2	5.1	
Of which: real interest rate	0.5	3.2	-3.4	-2.1	1.6	0.7	0.2	0.0	0.5	0.8	
Of which: real GDP growth	0.1	4.2	1.3	3.4	1.2	1.1	0.7	-0.5	-1.7	4.3	
Exchange rate depreciation <sup>7/</sup>	0.2	0.4	-1.2	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.3	-8.9	-4.5	-0.3	0.8	0.5	1.5	0.1	0.0	2.6	
Equity in FLNG project	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Net accumulation of deposits	0.3	-8.9	-4.5	-0.3	0.8	0.5	1.5	0.1	0.0	2.6	
Residual, including asset changes <sup>8/</sup>	1.4	0.8	0.0	-0.5	-0.3	-0.3	-0.3	-0.2	-0.2	-1.8	



Source: IMF staff.

1/ Public sector is defined as central government.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

 5/ Derived as  $[(r - \pi(1+g) - g + ae(1+r))/(1+g+\pi+g\pi)]$  times previous period debt ratio, with  $r$  = interest rate;  $\pi$  = growth rate of GDP deflator;  $g$  = real GDP growth rate;  $a$  = share of foreign-currency denominated debt; and  $e$  = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

 6/ The real interest rate contribution is derived from the numerator in footnote 5 as  $r - \pi(1+g)$  and the real growth contribution as  $-g$ .

 7/ The exchange rate contribution is derived from the numerator in footnote 5 as  $ae(1+r)$ .

8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

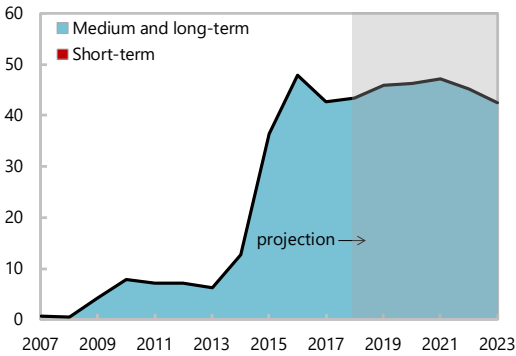
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

**Figure 4. Equatorial Guinea: Public DSA—Composition of Public Debt and Alternative Scenarios**

**Composition of Public Debt**

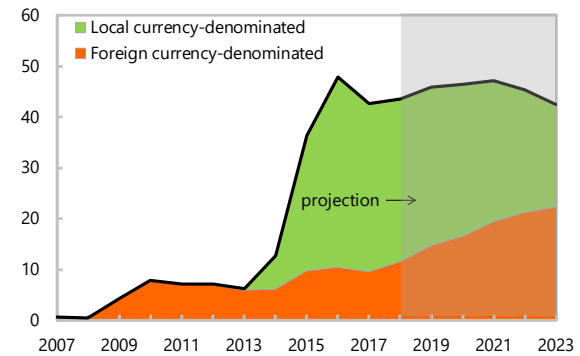
**By Maturity**

(in percent of GDP)



**By Currency**

(in percent of GDP)



**Alternative Scenarios**

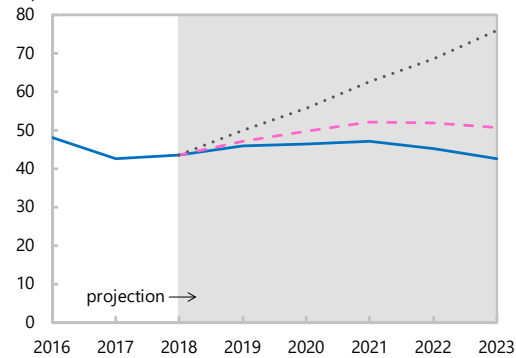
— Baseline

..... Historical

- - - Constant Primary Balance

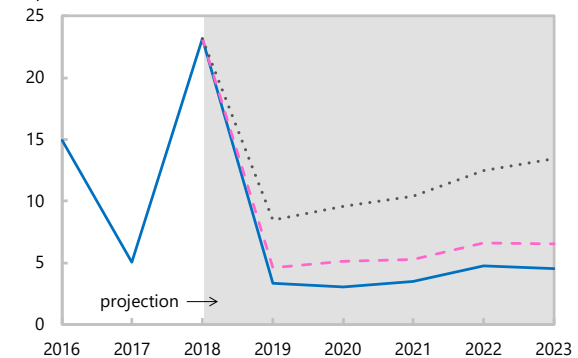
**Gross Nominal Public Debt**

(in percent of GDP)



**Public Gross Financing Needs**

(in percent of GDP)



**Underlying Assumptions**

(in percent)

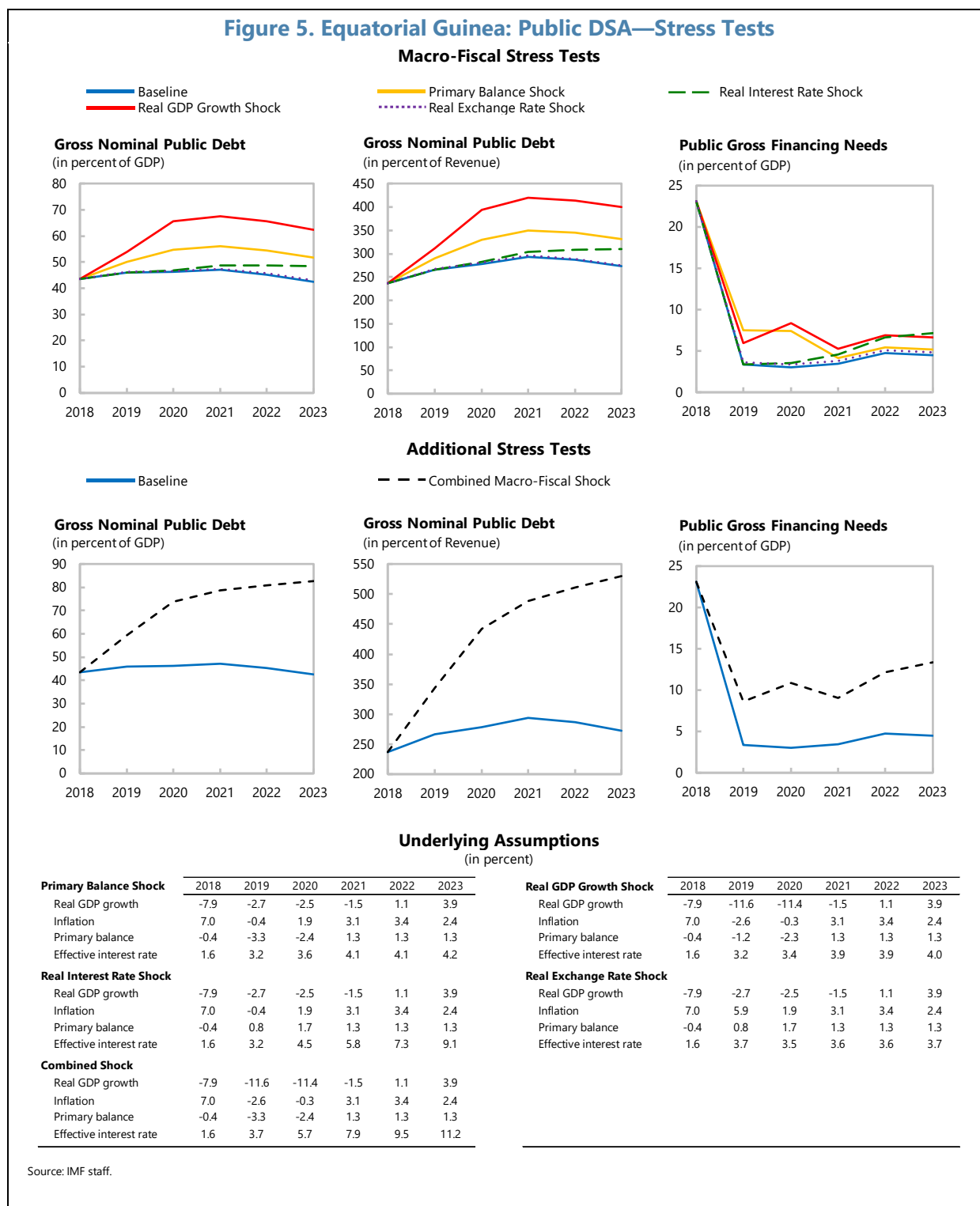
Baseline Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	-7.9	-2.7	-2.5	-1.5	1.1	3.9
Inflation	7.0	-0.4	1.9	3.1	3.4	2.4
Primary Balance	-0.4	0.8	1.7	1.3	1.3	1.3
Effective interest rate	1.6	3.2	3.3	3.4	3.5	3.5
Constant Primary Balance Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	-7.9	-2.7	-2.5	-1.5	1.1	3.9
Inflation	7.0	-0.4	1.9	3.1	3.4	2.4
Primary Balance	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Effective interest rate	1.6	3.2	3.3	3.6	3.7	3.8

Historical Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	-7.9	-0.2	-0.2	-0.2	-0.2	-0.2
Inflation	7.0	-0.4	1.9	3.1	3.4	2.4
Primary Balance	-0.4	-4.3	-4.3	-4.3	-4.3	-4.3
Effective interest rate	1.6	3.2	4.4	5.6	6.4	7.1

Source: IMF staff.



**Figure 5. Equatorial Guinea: Public DSA—Stress Tests**



Source: IMF staff.

**Table 1. Equatorial Guinea: External Debt Sustainability Framework 2013–23**

(In percent of GDP, unless otherwise indicated)

	Actual					Projections						Debt-stabilizing non-interest current account 6/	
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023		
<b>Baseline: External debt</b>	6.0	6.1	9.8	10.5	9.7	<b>11.7</b>	<b>14.8</b>	<b>16.6</b>	<b>19.5</b>	<b>21.3</b>	<b>22.4</b>	<b>2.3</b>	
Change in external debt	-1.1	0.1	3.6	0.8	-0.8	2.0	3.1	1.8	2.9	1.8	1.1		
Identified external debt-creating flows (4+8+9)	12.4	9.8	32.2	15.7	0.2	4.4	5.8	8.1	32.6	7.8	5.5		
Current account deficit, excluding interest payments	2.3	4.2	17.5	11.4	1.1	2.2	2.1	2.9	15.9	3.5	2.7		
Deficit in balance of goods and services	-23.0	-17.6	-1.2	-6.3	-16.9	-14.7	-12.8	-10.5	3.7	-8.0	-8.4		
Exports	64.9	59.7	49.1	43.6	46.2	44.2	39.4	35.7	32.9	31.1	30.5		
Imports	41.9	42.1	48.0	37.3	29.3	29.4	26.6	25.2	36.6	23.1	22.1		
Net non-debt creating capital inflows (negative)	9.8	5.3	9.8	2.0	-0.4	1.0	2.6	3.9	15.3	3.4	2.5		
Automatic debt dynamics 1/	0.4	0.3	4.9	2.3	-0.5	1.2	1.2	1.3	1.3	0.9	0.3		
Contribution from nominal interest rate	0.2	0.1	0.2	0.4	0.2	0.5	0.8	0.9	1.0	1.1	1.1		
Contribution from real GDP growth	0.3	0.0	1.0	1.1	0.3	0.7	0.3	0.4	0.3	-0.2	-0.8		
Contribution from price and exchange rate changes 2/	-0.2	0.1	3.7	0.8	-1.0	...	...	...	...	...	...		
Residual, incl. change in gross foreign assets (2-3) 3/	-13.5	-9.6	-28.6	-14.9	-1.0	-2.3	-2.7	-6.3	-29.7	-6.0	-4.4		
External debt-to-exports ratio (in percent)	9.3	10.3	19.8	24.1	20.9	26.5	37.6	46.6	59.3	68.5	73.5		
<b>Gross external financing need (in billions of US dollars) 4/</b>	924.2	1239.5	2383.7	1399.7	162.9	525.5	484.5	648.6	2236.5	838.5	792.6		
in percent of GDP	4.2	5.8	19.6	13.8	1.5	10-Year	10-Year	4.4	4.2	5.5	18.7	6.7	5.9
<b>Scenario with key variables at their historical averages 5/</b>						<b>11.7</b>	<b>26.4</b>	<b>38.1</b>	<b>27.0</b>	<b>39.0</b>	<b>52.3</b>	<b>11.1</b>	
<b>Key Macroeconomic Assumptions Underlying Baseline</b>						Historical Average	Standard Deviation						
Real GDP growth (in percent)	-4.1	-0.7	-9.1	-9.7	-2.9	-0.2	8.9	-7.9	-2.7	-2.5	-1.5	1.1	3.9
GDP deflator in US dollars (change in percent)	2.2	-1.5	-37.6	-7.3	10.9	0.9	20.8	17.7	0.8	3.0	3.9	4.1	2.8
Nominal external interest rate (in percent)	2.9	2.1	2.0	3.4	2.2	1.6	1.1	5.2	7.0	6.4	6.4	5.9	5.6
Growth of exports (US dollar terms, in percent)	-14.4	-10.0	-53.3	-25.8	14.2	-3.4	27.0	3.6	-12.6	-8.9	-5.7	-0.5	4.7
Growth of imports (US dollar terms, in percent)	-199.4	-1.7	-35.5	-35.0	-15.4	-23.4	66.0	8.9	-11.4	-4.6	48.3	-33.4	2.1
Current account balance, excluding interest payments	-2.3	-4.2	-17.5	-11.4	-1.1	-6.5	8.4	-2.2	-2.1	-2.9	-15.9	-3.5	-2.7
Net non-debt creating capital inflows	-9.8	-5.3	-9.8	-2.0	0.4	-10.6	6.9	-1.0	-2.6	-3.9	-15.3	-3.4	-2.5

1/ Derived as  $[r - g - r(1+g) + ea(1+r)] / (1+g+r+gr)$  times previous period debt stock, with  $r$  = nominal effective interest rate on external debt;  $r$  = change in domestic GDP deflator in US dollar terms,  $g$  = real GDP growth rate,  $e$  = nominal appreciation (increase in dollar value of domestic currency), and  $a$  = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as  $[-r(1+g) + ea(1+r)] / (1+g+r+gr)$  times previous period debt stock.  $r$  increases with an appreciating domestic currency ( $e > 0$ ) and rising inflation (based on GDP deflator).

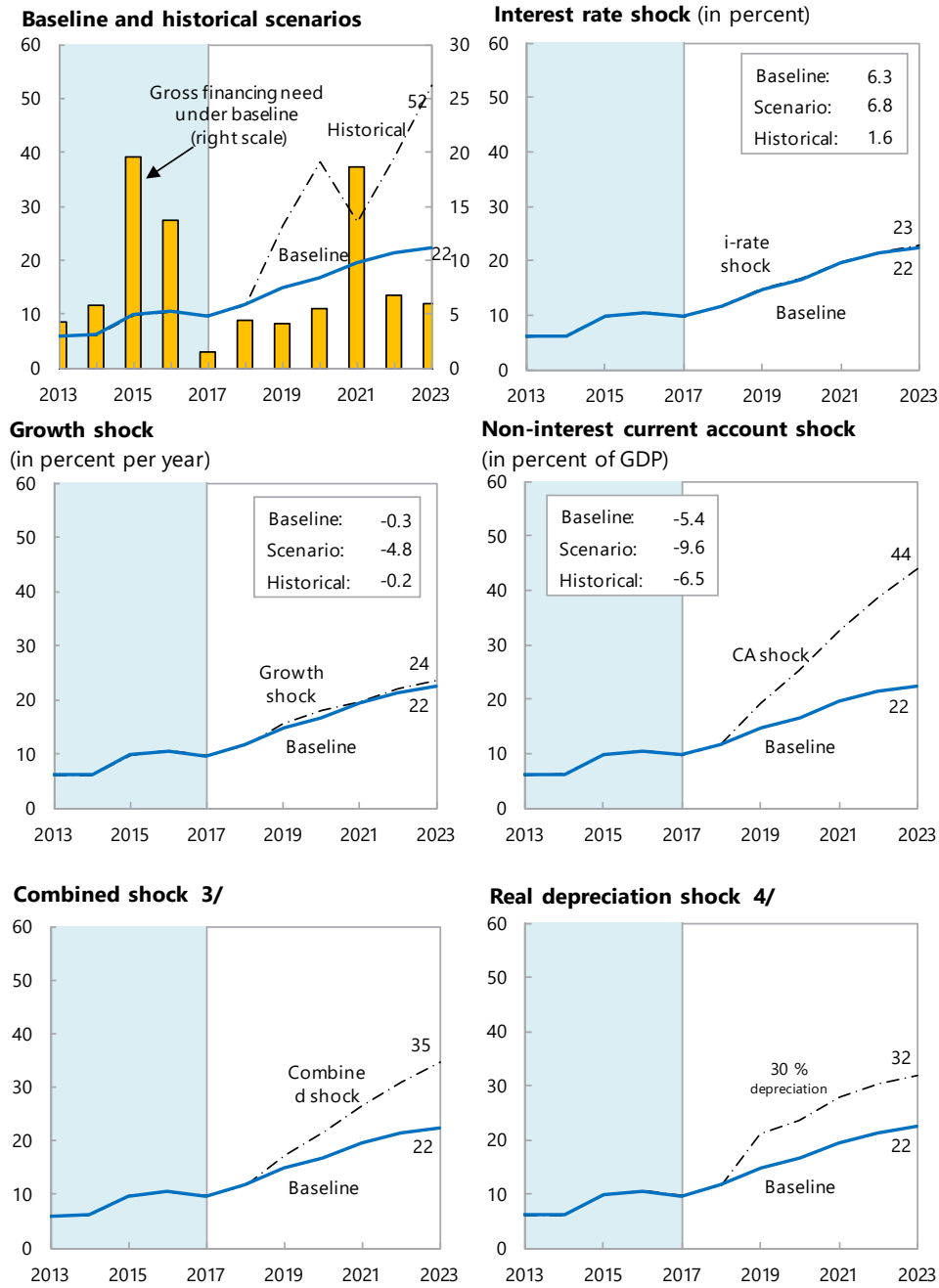
3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

**Figure 6. Equatorial Guinea: External Debt Sustainability—Bound Tests<sup>1/2/</sup>**  
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.  
 1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.  
 2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.  
 3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.  
 4/ One-time real depreciation of 30 percent occurs in 2010.

## Appendix I. Letter of Intent

Malabo, May 11, 2018

Madame Christine Lagarde  
Managing Director  
International Monetary Fund  
Washington, DC 20431

Dear Madame Lagarde:

Since 2014, macroeconomic conditions in Equatorial Guinea have weakened owing to a fall in international oil prices combined with a decline in oil production. At the same time, a persistent fiscal deficit has been recorded, reflecting lower revenues, causing payment arrears and a rise in public debt. Similarly, in the external sector, there has been a recurrent current account deficit, and lower foreign investment has contributed to a decline in EG's imputed foreign reserves at the regional central bank. The banking system has also witnessed a rise in non-performing loans (NPLs).

The Equatoguinean government is taking measures to reduce the fiscal deficit and continue implementing structural reforms. Our fiscal consolidation strategy is being driven mainly by cuts to capital and current spending, without prejudice to government commitments in priority sectors such as health, education, housing, water and roads. We have also cut spending on subsidies and we are implementing measures to raise non-hydrocarbon tax revenue. On the structural side, the government is in the process of updating its development strategy (*Horizonte 2020*) to strengthen economic diversification. In this context, we are modifying those elements of the investment legislation that might discourage non-hydrocarbon investment. At the same time, we are adopting key reforms and measures to strengthen good governance and fiscal transparency. This will favor the effectiveness of economic policies and will help improve the business climate and thereby promote economic diversification. We are also working to identify the binding constraints to investment in the non-hydrocarbon sector. These initiatives will be supported by efforts to ensure on-going financial system stability including through a review of the portfolio of systemic banks, and a strategy to reduce NPLs.

The main objectives of our economic program are to reduce macroeconomic imbalances, improve the conditions for inclusive growth, and foster economic diversification, while contributing to the national and regional adjustment strategy. The key elements of our program include strong, front-loaded macroeconomic adjustment; social protection; and measures to strengthen governance and fiscal transparency, and build capacity. These elements are particularly important to maintain social cohesion, improve the effectiveness of economic policy, and raise capacity to implement sound economic policies.

The government believes that the policies described in the attached MEFP are adequate to achieve the program objectives; however, if necessary, the government stands ready to take any additional measures that may be required. The government will consult with the Fund on the adoption of these measures and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

The government of Equatorial Guinea is interested in a financing program supported by the IMF, and considers the present staff monitored program (SMP) as transitory, with a limited duration of 7 months (January-July 2018). The SMP agreed with the IMF would help us to build an adequate track record of policy implementation, as proposed by your institution, and facilitate a Fund financial engagement. Given the various macroeconomic and structural challenges that we confront, along with the extensive reform agenda for addressing these, sustained multilateral engagement over the medium term is essential, including through the provision of technical assistance in priority areas, particularly in the management of the public finances.

Program implementation will be monitored through quarterly reviews, with the first scheduled to be completed by end-June 2018. The structural benchmarks and quantitative performance measures under the program are set out in table 1 and 2 of the attached MEFP. The government will also provide the Fund staff with all the relevant information required (as established inter alia in the Technical Memorandum of Understanding) to complete program reviews and monitor performance.

The Fund is hereby authorized to publish this letter and the attached MEFP, as well as all future program documents, to facilitate access to and review of Equatorial Guinea's policies both locally and internationally.

Very truly yours,

/s/

Lucas Abaga Nchama  
Minister of Finance, Economy and Planning

#### Attachments

- I. Memorandum of Economic and Financial Policies
- II. Technical Memorandum of Understanding

## Attachment I. Memorandum on Economic and Financial Policies

### BACKGROUND AND PROGRAM OBJECTIVES

1. This memorandum presents the economic and financial policies that the government of Equatorial Guinea will adopt under an IMF Staff Monitored Program (SMP).
2. **Equatorial Guinea is experiencing an economic recession.** After several years of rapid GDP growth and rising per capita income, the economy has entered a recession. The real growth rate experienced a cumulative decline of 22.4 percent during the period 2014-2017 (with major contractions in hydrocarbon and non-hydrocarbon GDP), due to a combination of plummeting international oil prices (since mid-2014) and a decline in oil production. A large increase in the external current account (from 4 percent of GDP in 2014 to 11.7 percent in 2016), coupled with a reduction in foreign investment, eroded Equatorial Guinea's reserves in the regional central bank. Meanwhile, the increase in the fiscal deficit (from 7.6 percent of GDP in 2014 to 12 percent in 2016) led to an increase of domestic payment arrears, estimated at 24.1 percent of GDP at end-2016. The total public debt (including internal arrears) rose from 12.7 percent of GDP in 2014 to 47.9 percent in 2016. The impact of the recession reverberated through the banking system, with overdue loans climbing from 20.8 percent of total loans in at end-December 2014 to almost 27.8 percent in December 2017 (a large share of this debt represents the government's arrears on its payments to domestic suppliers).
3. **The government took steps to stabilize the economy.** Since 2014, the government has been implementing a number of measures to reduce the fiscal imbalances. In particular, it cut public investment by 74 percent over the period 2014-2017, placed strict controls on current expenditure, and reduced fuel subsidies by about 80 percent. As a result of the spending cuts, the non-hydrocarbon primary balance was reduced from -28.8 percent of GDP in 2014 to -18 percent in 2017. We have also begun to take steps to increase government revenue, including measures to reduce tax evasion and exemptions.
4. **As the economy is still showing signs of weakness, we decided to develop our strategy into a full-fledged macroeconomic program.** Under that program, we will adopt additional fiscal measures to reduce macroeconomic imbalances and strengthen public financial management, such as implementing reforms to diversify the economy. We will also address persistent institutional weaknesses, capacity limitations, and challenges that still affect governance and make it more difficult for the economy to recover and diversify. We will not lose sight of the fact that Equatorial Guinea must continue to fulfil all its obligations to the CEMAC.
5. **The main objectives of our economic program are to reduce macroeconomic imbalances and renew growth, while contributing to the regional adjustment strategy.** This strategy is based on continuing the strong fiscal consolidation started by the government, decreasing public sector payment arrears and, through these measures, reducing banking sector

vulnerability. From a structural point of view, the program is intended to support fiscal consolidation efforts, promote economic diversification, contribute to the improvement of social indicators, and strengthen governance mechanisms in the country.

## RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

**6. Macroeconomic conditions were difficult in 2017.** After the measures adopted by the government to reduce the economic slowdown caused by the abrupt fall of world crude oil prices in 2014, it is anticipated a contraction of 2.9 percent of real GDP, compared to a contraction of 9.7 percent in 2016. The reduction of oil production, the persistence of low world hydrocarbon prices, and restrictions on access to financing (which has had an impact on investment in the non-hydrocarbon sector) have further limited public spending and the accumulation of domestic payment arrears, which are nonetheless lower than in previous years, and this has helped to reduce fiscal and external imbalances. These factors, and notwithstanding stricter compliance with current foreign exchange regulations, have led to a decline of net foreign assets in 2017.

**7. The macroeconomic outlook continues to show signs of a slowdown.** It is expected additional foreign direct investments (FDI) in the hydrocarbon sector, which could change the trend of production in the sector over the medium term. Additional fiscal adjustments will affect activity in the non-hydrocarbon sector in the short term, prolonging the decline in overall output, with real GDP growth projected to be -7.9 percent in 2018 and -2.7 percent in 2019. In the medium term, we anticipate that overall growth will slowly return to a positive rate, as our improved policy mix—including continued adjustment and prioritization of capital spending and structural reforms—takes hold, relaxing funding restrictions, boosting private sector confidence, and improving the outlook for the non-hydrocarbon sector. The economic program is also expected to reduce the external current account deficit and, therefore, contribute to an increase in BEAC reserves.

## POLICY OBJECTIVES OF THE PROGRAM<sup>1</sup>

**8. The economic program that the government of Equatorial Guinea will implement from January 1 to July 30, 2018 will also include a technical assistance component.** We believe that a seven-month SMP with good performance is a fitting complement to a financial assistance program under a potential Fund-supported program. The proposed program would entail a fiscal adjustment (measured by the change in the non-hydrocarbon primary balance) of 4.0 percent of GDP in 2018, with a 15 percent cut in expenditure in nominal terms. This would also prevent further weakening of the banking sector as it would stop the accumulation of domestic arrears. Furthermore, the government will make every effort to focus economic policy on poverty reduction in order to protect vulnerable groups from the negative effects of the fiscal adjustment. Finally, the government is committed to fostering economic diversification, strengthening governance (including in public financial management) and improving the legal framework for combating corruption.

<sup>1</sup> See Appendix I for a more complete summary of SMP measures.

## A. Fiscal Policy

**9. Our strategy for 2018 is to minimize the financing gap and maintain public debt sustainability.** In principle, we have made great efforts with respect to the primary deficit, reducing it from -28.8 percent of GDP in 2014 to -18.0 percent in 2017, notwithstanding the fact that our target for the non-hydrocarbon primary balance in 2018 is 14.0 percent of GDP. This target is 4.0 percentage points lower than the actual non-hydrocarbon primary balance in 2017. As outlined in the revised budget, a large part of this adjustment will come from additional government spending cuts. On the revenue side, steps will be taken to improve tax administration and to increase non-hydrocarbon tax revenue.

**10. Revenue:** In 2018, we plan to increase total tax revenue by 0.6 percent of GDP. Of this increase, 0.3 percentage points would come from improvements in the measures already adopted to raise non-hydrocarbon tax revenue. Our program to increase non-hydrocarbon tax revenue focuses principally on administrative measures as follows:

- **Large taxpayer unit.** We plan to activate the large and medium-size taxpayer units, and introduce a single taxpayer identification number, streamline tax returns, and transfer tax collection from the Treasury to the tax and customs administrations.
- **Customs.** We intend to reorganize the customs service and implement modern procedures based on the ASYCUDA program.
- **Exemptions.** We have started to implement the measures provided in the Decree 134 of 2015. These measures are focused on penalizing tax evasion, reducing exemptions, and increasing nontax revenue. We are also considering including information on fiscal spending costs in budget reporting documents in the future.
- **Compliance with the 2004 tax law.** We are negotiating with companies in the oil and gas sector to have their tax obligations regulated by the 2004 tax law and not by the 1986 law. We anticipate that the success of these negotiations will generate additional tax revenue for the State.
- **Strengthening revenue administration and auditing capacity.** With technical assistance from the IMF, we plan to strengthen our tax administration and our management of the tax regime in the oil and gas sector with the aim of increasing government revenue. This will require us to develop our capacity to carry out tax audits, including of companies operating in the oil and gas sector. We are also seeking to better monitor compliance by these companies with their contractual obligations to the government of Equatorial Guinea, including their tax obligations, by conducting the relevant audits.
- **Revision to the 2017 Tax Amnesty Law.** In the coming months, and during the period of the SMP, we plan to work with Parliament to secure approval of amendments to the 2017 Tax Amnesty Law to make it consistent with Equatorial Guinea's tax administration capacity, and regional and international best practices in this area. In particular, we will work with Parliament so that existing provisions for a write-off of tax liabilities spanning several years are replaced with provisions allowing negotiated payment arrangements for tax obligations covered by the



amnesty law. This proposed amendment will help to protect the government's potential revenue, and send a signal to economic agents of the need to comply with their tax obligations, including those that are overdue.

- **Revision of tax legislation.** With technical assistance from the IMF, we are reviewing the current tax laws. We plan to use the results of this review to reduce exemptions and implement concrete measures to increase non-hydrocarbon tax revenue, including the short-term measures identified in the report prepared by the November 2017 mission from the IMF's Fiscal Affairs Department (FAD).
- **Computerization of the tax administration.** We plan to begin computerizing the tax departments to facilitate voluntary filing, streamline procedures, and network them with the rest of the economy.
- **Training of tax administration personnel.** We have begun training human resources to create a specialized corps of tax inspectors.
- **Use of the single card.** We plan to introduce a single card for goods imports, which would simplify customs procedures and allow for customs duties to be paid into the banks, in order to improve revenue collection.
- **Startup of the one-stop facility.** Having completed almost all the procedures for funding the proposed one-stop shop, we plan to implement it as soon as possible, thereby reducing red tape and improving revenue collection.

**11. Expenditure:** The main component of the fiscal program is the additional cut in total government spending. We will amend the 2018 budget, as necessary, to make it fully compatible with the fiscal program. We are taking steps to further reduce capital expenditure and, notwithstanding our past and future efforts with respect to spending, we have increased, and plan to continue creating room to increase, our social and human capital development expenditure. The details of the expenditure program include:

- **Capital expenditure.** From 2014 to 2017, the government took the initiative to reduce capital spending by 74 percent, reprogrammed or prioritized its investments executing only the top priorities, and demonstrated its willingness to continue making efforts in that area. We intend to decrease capital expenditure by 2.8 percent of GDP in 2018, taking into account the volume of projects that are underway but not completed, their economic impact, and our commitment to diversify the economy. We will achieve this by establishing new priorities for public investment. The projects given priority are in the areas of education, health, housing, roads, and waterworks. Based on these priorities, we will ensure that capital expenditure does not exceed the government's resources.
- **Current expenditure.** Our country is facing a number of exogenous factors that have a strong impact on our economy, in general, and on public finances, in particular. These factors include the decline in raw material prices since 2014 and sub-regional threats since December 2017, such as terrorism, mercenaries, and other security problems, which have placed our

government defense and security forces on maximum alert. This second factor has put upward pressure on public spending by creating additional financing needs. To limit the growth of current expenditure and create more room for expanding social programs, we will limit the fuel subsidy to its 2017 level (CFAF 23.3 billion). This subsidy mainly benefits the low-income population.

**12. Stricter controls on public expenditure.** Since 2014, we have adopted stronger public expenditure measures. We created a database of public investment projects, which is the first centralized repository of information on the wide variety of public investment projects and undertakings. We also intend to continue taking the necessary measures to ensure that the Ministry of Finance, Economy, and Planning has full control of the budget. In keeping with regional requirements and supranational public financial management directives, we intend to maintain strict control of expenditure by adopting mechanisms to monitor and control expenditure commitments on an annual and multiyear basis, and to strengthen the Treasury's cash flow management. In addition, all government spending will be fully incorporated into the national budget.

## B. Protect the Most Vulnerable Segments of Society and Improve Social Indicator Statistics

**13. We are adopting measures to insulate low income groups from the impact of the fiscal adjustment while developing our human capital.** We are currently spending 2.0 percent of GDP on the social sector but, in light of the ongoing fiscal adjustments implemented, we plan to increase the social expenditure item in the 2018 budget to 2.4 percent of GDP. We have established a minimum of social spending that guarantees continued support for vulnerable groups. This increase will be financed by reallocating a portion of capital and current expenditure to the social sectors and by increasing non-hydrocarbon tax revenue. We will need to fund periodic household budget surveys to improve data collection on poverty and other social indicators. The government is working with the World Bank on a social sector study that will shape the design of a national strategy for the social sector focused on education, health, and social welfare. Through this initiative, we plan to adopt a more strategic focus in the medium-term designed to develop human capital, achieve more inclusive economic growth, and improve social outcomes in a sustainable manner.

## C. Financing

**14. In spite of the revenue and expenditure measures that have been announced, there will be a financing gap in 2018.** As these measures do not cover all of our government's financing needs, it is imperative that we have a financial assistance program. We have redoubled our negotiation efforts with the World Bank (WB) and the African Development Bank (AfDB) to obtain that financing. The negotiations, in combination with the present program, will lay the basis for obtaining financial support from these institutions under a possible future IMF-supported program. In any event, the government intends to continue using the existing line of credit from China to support priority investment projects. We propose to issue short-term debt

instruments with one-year maturities on the national and regional markets and to apply a proportion of available deposits to offset the public sector's financing requirements. Consistent with the regional strategy, the advances received from BEAC in recent years have been converted into a long-term loan to be repaid over 10 years starting in 2022.

**15. Domestic arrears.** Our commitment under this program is to avoid accumulating additional net arrears. We will achieve this by using available deposits and, as indicated above, issuing domestic debt as needed to cover short-term financing needs. A possible program from the IMF, along with budgetary support from the WB and the AfDB under that program, will help us cover our financing needs throughout 2018 and avoid the accumulation of additional net arrears. With respect to the accumulated domestic arrears, the government plans to hire an independent auditor by mid-2018 to validate the claims before drawing up a payment plan (structural measure, end-July 2018). Once the claims have been validated, we will issue bonds to the creditors and create the necessary fiscal space to make cash payments to settle these obligations. The terms of reference of the audit will be agreed upon with the IMF technical staff.

## D. Financial Sector Policies

**16. Our program includes measures to strengthen the banks and manage potential risks.** To that end, we will continue to support the work of COBAC and BEAC with respect to compliance with prudential standards—provisioning standards, in particular—stricter banking supervision and monitoring of the operations of systemic banks, money laundering and terrorism financing, greater financial inclusion, and the implementation of monetary policy reform. Recognizing COBAC's independence, we will ask the Commission to conduct a quality assessment of the banking system's assets<sup>2</sup> in 2018. If COBAC sees fit, it could also hire the services of a private firm of specialists to conduct a more comprehensive review of the assets of those banks.

## E. Structural Reforms to Stimulate Growth of the Non-Hydrocarbon Sector

**17. Our economic program also includes structural reforms to improve the business climate, to promote efficiency and competitiveness for increased growth outside the oil and gas sector, and to support diversification.** We plan to earn rents from the majority of the infrastructure created during the first phase of the National Plan of Development Horizon 2020 plan—which was concentrated on road networks, energy, water, various departments in the public administration, airports, and ports—in order to develop the non-hydrocarbon sector. To that end, we are working to develop plans for promoting tourism, fishing, agriculture, livestock, and other sectors. Our agenda for structural reforms is designed to promote greater private sector investment within a credible and transparent framework.

This agenda includes the following items:

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<sup>2</sup> An "asset quality assessment" typically examines the valuation of assets, the classification of overdue loans, the level of provisioning, the value of collateral, etc.

- **Economic diversification strategy.** Before adopting Decree 134/2015 on economic and financial policies, Holding Guinea Equatorial 2020 was created in 2014 for the purpose of: (i) centralizing and improving the management, efficiency, and profitability of non-hydrocarbon public sector assets; and (ii) providing joint funding with the private sector, through the Co-Investment Fund (FCI), for non-hydrocarbon sector projects with a high economic, fiscal, and social impact. Also, in mid-2018, we plan to organize a national economic conference to establish guidelines for updating the country's economic development strategy (Horizon 2020), taking into account the new reality facing Equatorial Guinea as a result of the constant decline in oil production and persistently low oil prices in the international markets. This updated strategy will then be used to guide economic transformation and sectoral policies for the following five to 10 years. We will focus, in particular, on well-designed transformation policies that carefully target sectors with high export potential and the ability to be integrated into international value-added chains. These actions could well reduce the economy's concentration on the oil and gas sector and promote sustainable, lasting, and inclusive economic growth.
- **Business climate diagnostics.** We are conducting a diagnostic study of the business climate with the World Bank to identify the main obstacles to foreign direct investment in the non-hydrocarbon sector. Before the end of the first half of the current year, and based on our international experience, we will create a National Technical Committee for Doing Business to study and implement all the necessary reforms that emerge from our diagnostic study.
- **Private investment.** We are in the process of changing aspects of our legislation that could deter non-hydrocarbon investment. The requirement to partner with a local entity contributing 35 percent of the capital (prior action) has been eliminated by the Decree 72/2018 of April 18<sup>th</sup>. We also intend to make the one-stop shop for investors fully operational by April 2018 (Article 23.6 of Decree 134/2015).

## F. Improved Governance and Transparency

**18. To increase the effectiveness of macroeconomic policy, we are renewing our emphasis on improving governance and introducing measures to enhance fiscal transparency.** Our strategy in this area will focus on the following:

- **Governance diagnostics and strategy.** We will work with the IMF to prepare a diagnostic study on governance in Equatorial Guinea. We propose to use the results of that study to address deficiencies in governance, ramp up anticorruption efforts, and prepare a governance strategy. When the strategy is completed, we plan to adopt and publish it within the framework of an IMF-supported program.
- **Governance and corruption.** We are committed to continuing our efforts to improve governance and strengthen anticorruption measures. This involves the following steps: (i) making operational the Audit Court, which will conduct annual audits of budget execution and publish its findings in an annual report released to the public; and (ii) ratifying the United Nations Convention Against Corruption (structural measure, end-July 2018).
- **Hydrocarbon sector transparency.** To enhance transparency in the hydrocarbon sector, we: (i) have begun the process to apply for membership in the EITI (structural measure, end-July

2018); (ii) shared all existing oil and gas contracts with the IMF staff (prior measure).<sup>3</sup> We also have plans to hire an internationally recognized firm to audit the accounts of state enterprises in the oil and gas sector for 2016–2017 and to conduct a detailed exercise to reconcile gross production of oil and gas in Equatorial Guinea with the oil and gas revenue recorded in the budget (structural measure, end-July 2018). The terms of reference will be worked out in collaboration with the IMF staff. We intend to complete this audit before the end of 2018.

- **Public financial management.** We are implementing the measures recommended by the recent IMF technical assistance mission on public financial management. Our efforts to make improvements in this area were guided by a number of goals:

(i) to assign both capital and current expenditure to a single authority, the Ministry of Finance, Economy and Planning;

(ii) to include all capital expenditure in the national budget and ensure that it is covered in full by the available budgetary resources;

(iii) to improve coordination between the entities involved in preparing and executing the investment budget;

(iv) to improve the monitoring of domestic arrears by holding periodic meetings with the national payments committee;

(v) to improve the monitoring and control of annual and multiyear expenditure commitments in order to ensure that spending is limited to resource allocations and avoid the recurrence of arrears;

(vi) to adopt centralized control for expenditure approvals, whereby all spending decisions are under the control of the Ministry of Finance, Economy, and Planning; and

(vii) to improve the application of government procurement procedures.

We will also improve administration of the funds related to oil and gas revenue by documenting all the operating rules applicable to such funds as part of our general fiscal policy framework. We will share the details of the contracts governing the operation of those funds with the IMF technical staff.

- **Data dissemination.** We are committed to providing the data necessary for program monitoring in a timely manner, including complete fiscal accounts reconciled with the monetary data on net credit to the government. Starting in 2018, we plan to publish the national budget on the website of the Ministry of Finance, Economy, and Planning. We also plan to start online publication of quarterly data on central government budget performance for the period 2015–17 (prior measure), and to regularly report existing economic data to the

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<sup>3</sup> This will promote a better understanding of the existing tax regime in the sector and will improve macroeconomic forecasts of oil and gas revenue, which is a fundamental component of the program. It will also allow the current tax regime to be evaluated to determine whether it meets the country's needs.

IMF Statistics Department. Lastly, we will share foreign deposit contracts, including those pertaining to the line of credit provided by China, with the IMF technical staff.

**19. Fiscal safeguards assessment.** We will ask the IMF to conduct an assessment of our public financial management framework. This assessment will focus on budget preparation and execution, cash management, controls and audit procedures, supervision, and fiscal reporting. The assessment will ensure that funds are used for budgetary expenditure through transparent and efficient processes of budget preparation, accounting, banking, and auditing. The conclusions of the assessment will be used as guidelines to strengthen cash management. In addition, we will ask the IMF to provide us with technical assistance for a Fiscal Transparency Assessment.

## G. Capacity Building

**20. We are committed to capacity building and institutional development in the public sector.** For some time now, we have been developing human capital, within the framework of public financial management, through training programs in the IMF and other institutions, and we plan to continue our training efforts through these programs. To that end, we intend to ask the IMF for additional financial support for training, which will cover public financial management (PFM), tax reform, fiscal and economic data, revenue administration, and capacity building for macroeconomic analysis and policymaking. We are very interested in receiving practical training from resident experts, wherever possible. We believe that by adopting this strategy we will further strengthen our institutional framework for policymaking and economic analysis and, therefore, our ability to fully implement the requirements of this agreement.

## H. Program Monitoring

**21. The program will have quarterly reviews monitored by means of quantitative performance measures, indicative targets, and structural measures.** These components are set out in Tables 1 and 2. The first review (with data through end-April) is expected to be completed by end-June 2018 and the second review (with data through end-July), by September 2018. The government will provide detailed information for program monitoring, as stated in the Technical Memorandum of Understanding (TMU). The TMU also includes definitions and reporting procedures.

**22. To ensure that the program remains on track, the government is committed to consulting regularly with the IMF staff on program implementation.** We will establish a high-level committee, with the support of the Minister of Finance, Economy, Planning and the Secretary of State for the Treasury. The government will monitor the SMP through that committee, which will meet at least once a month to review SMP implementation and the compliance of all relevant policy initiatives with program objectives and commitments.

**Table 1. Equatorial Guinea: Quantitative Performance Measures and Indicative Targets**  
(Billions of CFA Francs, cumulative for each quarter)

	2017	2018			
	End-Dec.	SMP		End-Sep.	End-Dec.
		End-Apr.	End-Jul.		
<b>A. Quantitative performance measures</b>					
Floor on non-resource tax revenue of the central government	147	37	90	140	180
Floor on non-resource Primary balance of the central government	-1,151	-300	-540	-569	-882
Ceiling on external debt arrears accumulation <sup>1</sup>	0	0	0	0	0
Ceiling on contracting and guaranteeing new external debt	130	80	100	110	140
Ceiling on new BEAC credit to the government	-9	0	0	0	0
<b>B. Indicative Targets</b>					
Ceiling on net domestic bank credit to the government	-157	-127	-127	-127	-122
Floor on social spending (education and health) <sup>2</sup>	130	30	60	80	150
<b>Memorandum items:</b>					
Total social spending as a share of GDP	2.0				2.4

Sources: Equatorial Guinea authorities; and IMF staff estimates and projections.

<sup>1</sup> This quantitative measure will apply continuously.

<sup>2</sup> The floor for social spending is based on SMP definition of social spending.

**Table 2. Equatorial Guinea: Prior Measures and Structural Measures for 2018**

<b>Measure</b>	<b>Target Date</b>	<b>Macroeconomic Objective</b>	<b>Government Unit/ Instrument</b>
<b>Prior Measures</b>			
Reform investment legislation eliminating the local partner requirement	Before submitting SMP request to management	Promote FDI in the non-hydrocarbon sector and foster good governance	Ministry of Finance, Economy, and Planning (MFEP)/ law-`decree
Share all oil and gas contracts with IMF staff	Before submitting SMP request to management	Increased transparency of the hydrocarbon sector	MFEP/Ministry of Mines
Start publication of quarterly data on the central government accounts for 2015-17	Before submitting SMP request to management	Increase transparency	MFEP/publication on the official website
<b>Structural Measures</b>			
Secure congressional approval of a 2018 budget consistent with targets under the SMP	End-April 2018	Improve macro-fiscal management	MFEP
Hire an internationally recognized firm to: (i) audit the accounts of state enterprises in oil and gas companies; and (ii) conduct a detailed reconciliation of gross oil and gas production in Equatorial Guinea with oil and gas revenue in the budget for 2017	End-July 2018	Foster transparency and good governance	Ministry of Mines/ publication on the official website
Hire an independent auditor to audit the accumulation of domestic arrears as at end-2017	End-July 2018	Improve public financial management	MFEP/submission of the document to the IMF staff
Adopt mechanisms to monitor and control expenditure commitments and strengthen the Treasury's cash management	End-July 2018	More disciplined budget management	MFEP
Submit a membership application to the Extractive Industries Transparency Initiative (EITI)	End-July 2018	Increased transparency of the hydrocarbon sector	MFEP/submission of the document to the IMF staff
Ratify the United Nations Convention Against Corruption	End-July 2018	Foster good governance	MFEP/publication on the official website
Sources: IMF technical staff			



## Appendix I. Key Policies and Structural Reform Program During 2018

### A. Public Finance

#### Budget

- Adopt a budget for 2018 that is consistent with the central government's targeted deficit under the program (structural measure, end-April 2018).

#### Tax Policy and Administration

- Ensure that the Large and Medium Taxpayers Unit is fully operational (end-July 2018).
- Introduce a single taxpayer identification number (end-July 2018).
- To increase non-hydrocarbon tax revenue, review the existing tax legislation with a view to implementing the short-term measures identified by the November 2017 IMF technical assistance mission (end-April 2018).<sup>1</sup>

#### Customs Administration

- Improve and reorganize customs offices by adopting modern customs clearance procedures using ASYCUDA software at the airport and at the port of Malabo (end-July 2018), and at Luba and Bata (end-December 2018).
- Manage customs exemptions correctly with ASYCUDA once it is installed and operational.

#### Expenditure on Public Financial Management Measures

- Establish a minimum floor for social spending and limit capital expenditure to realistic plans focusing on high priority projects (ongoing, for the program period).
- Adopt mechanisms to strengthen cash management and expenditure control, including processes for monitoring and controlling expenditure (end-July 2018).
- Include all government spending in the national budget (from 2018, continuous).
- Ensure that the Ministry of Finance controls all spending decisions (2018).

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<sup>1</sup> See the technical assistance report *Medidas para Aumentar la Recaudación con Equidad y Eficiencia, volumen I – Política Tributaria*. IMF, Fiscal Affairs Department (January 2018).

**Arrears**

- Hire an independent firm to audit public sector arrears (structural measure, end-July 2018).
- Complete the audit of domestic arrears (end-December 2018).
- Start holding quarterly meetings of the National Payments Committee to improve the monitoring of domestic arrears (end-April 2018).

**B. Social Policies**

- Establish a minimum level of spending on social programs for the low-income population (2018).
- Improve data on social indicators by conducting periodic surveys of household income and expenditure to collect better data on poverty and other social indicators (2018).

**C. Financial Sector**

- Petition the COBAC to review the assets of the banks in Equatorial Guinea (end-July 2018).
- Work with COBAC to strengthen bank regulation and supervision and ensure compliance with prudential norms (continuous).

**D. Business Climate/Economic Diversification Policies**

- Reform foreign investment legislation by eliminating local partner requirements (prior measure, before submitting SMP request to management).
- Start operating the one-stop shop for investors (Article 23.6, Decree 134/2015) (end-April 2018).
- Conduct a diagnostic study of the business climate and review and update the government's strategy for economic diversification (2018).

**E. Measures to Improve Governance and Reinforce the Anticorruption Framework**

- Apply for membership in the EITI (structural measure, end-July 2018) then work towards continued compliance with standards, with a view to increasing transparency in the oil and gas sector.
- Ratify the United Nations Convention Against Corruption (structural measure, end-July 2018).
- Begin operating the Audit Court, which will conduct annual audits of budget execution and publish its findings in an annual report that is available to the public (2018).

- Strengthen the management of resource-related funds by documenting their operating rules (including investment policies) as part of the general fiscal policy framework (2018).
- Carry out a diagnostic study of governance and adopt a governance strategy (2018).
- Conduct a fiscal safeguards assessment with technical assistance from the IMF (2018).
- Ask the IMF to perform a Fiscal Transparency Assessment (2018).

## **F. Measures to Promote Data Dissemination and the Transparency of Information**

- Share all oil and gas contracts with the IMF technical staff (prior measure, before submitting SMP request to management).
- Hire an internationally recognized firm to (i) audit the accounts of state-owned oil and gas companies; and (ii) perform a detailed crosscheck of gross oil and gas production in Equatorial Guinea against oil and gas revenue reported in the budget, under the terms of reference agreed upon with the IMF technical staff (structural measure, end-July 2018).
- Begin publishing the national budget on the Ministry of Finance website (end-April 2018).
- Start the publication of quarterly data on central government accounts for 2015–17 (prior measure, before submitting SMP request to management).
- Periodically report existing macroeconomic data to the IMF Statistics Department (continuous).
- Share foreign deposit contracts with the IMF technical staff, including contracts related to the line of credit from China (2018).

## Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) describes the concepts, definitions, and procedures for reporting the data referred to in the Memorandum on Economic and Financial Policies (MEFP) for the period January 1 to end-July, 2018 and prepared by the authorities of Equatorial Guinea. More specifically, it describes: (a) reporting procedures; (b) definitions and calculation methods; (c) quantitative targets; (d) adjustors for quantitative targets; (e) structural benchmarks; and (f) other commitments undertaken under the MEFP.

2. Within the framework of this program, all foreign exchange assets, liabilities, and flows will be valued on the basis of the “program exchange rates” defined below, with the exception of items that affect the government’s fiscal balances, which will be valued at the current exchange rate. The program exchange rates are those in effect as at December 29, 2017, namely CFAF 546.951 to USD 1; CFAF 655.957 to EUR 1; CFAF 83.98 to CNY 1; CFAF 739.008 to GBP 1; and CFAF 778.929 to SDR 1.

### REPORTING TO THE IMF

3. Data on all the variables subject to quantitative targets shall be transmitted periodically to the IMF in accordance with the timetable shown in Annex 1. Any updates shall also be promptly reported (within one week). In addition, the authorities shall consult with the IMF staff if they obtain new information or data that are not specifically defined in this TMU but are relevant for monitoring or measuring performance against program objectives.

### QUANTITATIVE PERFORMANCE TARGETS: DEFINITION OF VARIABLES

4. Unless otherwise indicated, the term **government** shall refer to the central government of the Republic of Equatorial Guinea, which includes all executive bodies, institutional units, and any structure receiving special purpose public funds and whose scope and functions are included in central government as defined in the *2001 Government Finance Statistics Manual (GFSM 2001)*, paragraphs 2.48–2.50.

5. The fiscal year begins on January 1 of each calendar year and ends on December 31 of the same year.

6. The **quantitative targets** listed below are broken down in Table 1 of the MEFP, unless otherwise indicated, all the quantitative objectives shall be measured cumulatively from the start of the calendar year to which they apply. The quantitative objectives and the details of their assessment are listed below:

## A. Cumulative Floor for Central Government Nonoil Tax Revenue

7. **Definition.** Non-hydrocarbon tax revenue is defined as total government tax revenue (as defined in *GFSM 2001*, Chapter 5, recorded on a cash basis), less tax revenue from hydrocarbons.

8. **Hydrocarbon tax revenue** is defined in Article 456.1 (on Oil and Gas Sector income tax) of the Tax Law of Equatorial Guinea, as the sum of corporate taxes (on contractors and subcontractors), personal income tax, and taxes on the incomes of residents and nonresidents.

The authorities shall notify the IMF staff if changes in the system of taxation of oil and gas production lead to fluctuations in revenue flows. Oil and gas revenue is recorded on a cash basis.

9. **Reporting.** The data shall be reported to the IMF no later than 45 days after the assessment date.

## B. Cumulative Floor of the Central Government's Non-Hydrocarbon Primary Balance

10. **Definition.** The non-hydrocarbon primary **balance** is defined as non-hydrocarbon revenue (not including income from interest on government assets), less total government expenditure, excluding payment of interest on the domestic and external debt.

11. **Hydrocarbon revenue** is defined as the sum of hydrocarbon tax revenue and oil nontax revenue (royalties on gross production; premiums or fees for surface rights; transfer and sales taxes charged on capital gains not invested in Equatorial Guinea; discovery, production, and marketing bonuses; income in respect of export rights; net equity income from oil and gas; income from shareholders' interests and other income flows paid by oil and gas companies; excluding indirect and special taxes (for example, the gasoline tax).

The authorities shall notify the IMF staff if changes in the system of taxation of oil and gas production lead to fluctuations in revenue flows. Oil and gas revenue is recorded on a cash basis.

12. **Total government expenditure** is understood to be the sum of personal expenditure, current expenditure on government goods and services, transfers and subsidies, interest payments (domestic and foreign), and capital or investment spending. All these expenses are recorded on an accrual basis, unless otherwise indicated. All expenditure items are defined according to the *GFSM 2001* (paragraphs 6.1-6.88).

13. **Reporting.** Data shall be sent to the IMF no later than 45 days after the assessment date.

14. **Adjustor.** In the event of any additional foreign grants for budgetary support to the government, the floor of the non-hydrocarbon primary balance shall be adjusted upwards by the amount of the grant.

### C. Ceiling on New BEAC Loans to Central Government

15. **Definition.** New BEAC financing to the government is defined as BEAC's gross lending to the central government above the existing stock (CFA 609 billion) as of December 31, 2017.

16. **Reporting.** Data shall be reported to the IMF no later than 45 days after the assessment date.

### D. Ceiling on New External Loans and Loan Guarantees to the Central Government

17. **Definition.** External debt, for the purposes of the relevant assessment target, is defined as debt borrowed or serviced in a currency other than the CFA franc. The net increase in central government debt, including guaranteed debt, is calculated as central government debt issuance less repayments, and guaranteed debt, in billions of African Financial Community (CFA) francs. The debt expressed in foreign exchange shall be converted to CFAF at the program exchange rate.

18. For program monitoring purposes, external debt is considered to be debt contracted or guaranteed, provided that all the conditions for the debt to take effect have been met, including the pertinent approvals by the Republic of Equatorial Guinea.

19. For purposes of this memorandum, the term **debt** is defined as follows:

**Definition of debt:**<sup>1</sup> The term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

- **Loans**, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements).
- **Suppliers' credits**, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided.

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<sup>1</sup> For purposes of this program, the definition of debt is set out in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 15688-(14/107), adopted on December 5, 2014.

- **Leases**, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property. For program purposes, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.
- Under the definition of debt set out above, penalties and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt give rise to debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

20. **Reporting.** Data shall be reported to the IMF no later than 45 days after the assessment date.

21. **Adjustor.** The ceiling for **new external debt contracted or guaranteed** by the government shall be increased by an amount equal to the value of the State's capital investment in the joint Fortuna FLNG project financed with public debt.

## E. Ceiling on the Accumulation of Arrears on the Central Government's External Debt

22. **Definition.** Arrears are defined as any debt obligation that is not paid on the terms specified in the contract or legal document establishing the debt. Arrears on external debt payments are defined as the difference between the amount owed under the contract or legal document and the amount actually paid after the due date specified in the contract or legal document in question.

23. **Reporting.** Data shall be reported to the IMF no later than 45 days after the assessment date. Given that this performance measure is applied continuously, the authorities will report to staff any external payment arrears immediately when they arise.

24. **Coverage.** This quantitative performance target covers the central government and the guarantees provided to public institutions. The current quantitative target does not include arrears resulting from the failure to service debt in connection with which a liquidation framework has been arranged or efforts are being made to obtain a rescheduling agreement.

**Monitoring.** This performance criterion is applied on a continuous basis.

## F. Accumulation of Domestic Arrears by Central Government

25. **Definition.** Domestic arrears are defined as commitments owed to certain residents under contractual obligations, which are still unpaid 90 days after the due date. According to this definition, the due date refers to the deadline by which payment must be made under the applicable contract, bearing in mind contractual grace periods. Domestic arrears of the central government include direct arrears on central government debt, including to suppliers, recurring

payments, and capital expenditure. The accumulation is calculated as the change in the stock of domestic arrears compared with the level at end-December 2017.

26. **Reporting.** Data shall be reported to the IMF no later than 45 days after the assessment date.

## QUANTITATIVE INDICATIVE TARGETS: DEFINITION OF VARIABLES

### G. Ceiling on Net Credit to the Government From National Banks

27. **Definition.** Net financing for the government from national banks is defined as the change in the government's net position vis-à-vis the banking system (commercial banks) since the end of the previous year. The cap on net domestic financing is not applicable to new agreements on domestic debt restructuring and securitization of domestic arrears.

28. **Reporting.** Data shall be reported to the IMF no later than 45 days after the assessment date.

29. **Adjustor.** In the event that revenue from hydrocarbons is greater than expected under the program, the government shall use the difference to reduce the budget deficit targeted in the program. Similarly, if this revenue is less than expected under the program, the government shall take fiscal measures to maintain the budget deficit at the planned level under the program.

### H. Floor for Social Spending by the Central Government

30. **Definition.** Social spending is calculated as the sum of central government expenditure on social safety net programs, as set out in the central government's budget for a given fiscal year. For purposes of the SMP, social programs include health, and education. Education includes calculations of spending at the preschool, primary, secondary, and university levels; technical and vocational training; assistance to children in low income households so that they can attend school; and teacher training. Public health programs include: vaccination campaigns, HIV/AIDS programs, maternal and child health, malaria control, assistance to low income children who are hospitalized or sick, and financing for public hospitals. The social spending target includes current and capital expenditure programs.

**Reporting.** Data shall be reported to the IMF no later than 45 days after the assessment date.

### I. Structural Benchmarks

31. The structural benchmarks are detailed in Table 2 of the MEFP.



Table 1: Reporting to the IMF

<b>Data</b>	<b>Provided by</b>	<b>Frequency and target date</b>
<b>I. Monetary Data</b>		
Monetary survey.	BEAC	Monthly, within 45 days from the end of the month.
<b>II. Fiscal Data</b>		
BEAC loans to central government.	BEAC	Monthly, within 45 days from the end of the month.
Central government position with commercial banks: (i) loans to central government and (ii) deposits by central government.	BEAC	Monthly, within 45 days from the end of the month.
Other sources of financing not specified above (including INSESO, bonds, Treasury notes and bills issued in CFAF).	Ministry of Finance, Economy, and Planning (MFEP)	Monthly, within 45 days from the end of the month.
Foreign deposits by the central government, by type of foreign currency and bank.	MFEP	Monthly, within 45 days from the end of the month.
External financing: detailed information on disbursements, amortization, interest, exceptional financing, zero coupon bonds, and accumulation of arrears.	MFEP	Monthly, within 45 days from the end of the month.
Acquisition of financial interests (Fortuna FLNG or other projects).	MFEP	Monthly, within 45 days from the end of the month.
Central government budget execution, broken down by category (revenues, current and capital expenditures).	MFEP	Monthly, within 45 days from the end of the month.
Breakdown of tax revenue by type of tax.	MFEP	Monthly, within 45 days from the end of the month.
Total income, broken down by category.	MFEP	Monthly, within 45 days from the end of the month.
Income from hydrocarbons, broken down by type (tax or nontax).	MFEP	Monthly, within 45 days from the end of the month.
Social spending (broken down by program, capital expenditure, and current expenditure).	MFEP	Monthly, within 45 days from the end of the month.

Subsidies and transfers broken down by category.	MFEP	Monthly, within 45 days from the end of the month.
<b>III. Domestic Debt</b>		
Stock of domestic debt by type.	MFEP	Monthly, within 45 days from the end of the month.
Domestic debt disbursements and service (interest and principal) by type.	MFEP	Monthly, within 45 days from the end of the month.
Stock of domestic arrears (including arrears on interest payments).	MFEP	Quarterly, within 45 days from the end of the quarter
<b>IV. External Debt</b>		
Stock of external debt. Include values for each type of foreign currency and the exchange rates used.	MFEP	Monthly, within 45 days from the end of the month.
Loan-by-loan accounting of all new loans contracted or guaranteed by the public sector, including detailed information on amounts, currency, and conditions, and the relevant supporting documents.	MFEP	Monthly, within 45 days from the end of the month.
Accounting of arrears on the external debt by creditor (if any), with detailed explanations.	MFEP	Monthly, within 45 days from the end of the month.
<b>V. External Sector Data</b>		
Provisional balance of payments statistics.	BEAC	Annually, within three months from the end of the year.
Oil and gas exports (values, volumes, and prices) broken down by product and oilfield.	MMH	Monthly, within 45 days from the end of the month.
<b>VI. Real Sector Data</b>		
Provisional national accounts (from the supply side and the expense side).	INEGE	Annually, within three months from the end of the year.
Consumer price index.	INEGE	Monthly, within 45 days from the end of the month.