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REPUBLIC OF EQUATORIAL GUINEA

November 2018

FIRST REVIEW UNDER THE STAFF-MONITORED PROGRAM—PRESS RELEASE; AND STAFF REPORT

In the context of the First Review Under the Staff-Monitored Program with the Republic of Equatorial Guinea, 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 following discussions that ended on July 11, 2018, with the officials of the Republic of Equatorial Guinea on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on October 25, 2018.

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

Letter of Intent
Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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IMF Management Completes First Review of Staff-Monitored Program

- Program implementation through April 2018 was satisfactory;
- A revised 2018 budget is helping to strengthen the public finances;
- While the growth outlook remains difficult, there are signs of a slight recovery of the non-oil sector;
- It would be important to sustain efforts to buttress the public finances and implement pending measures to foster diversification and good governance.

On August 16, 2018, the Management of the IMF completed the first review under the Staff-Monitored Program (SMP)[1] with Equatorial Guinea.

The authorities continue to see the program as an instrument for bolstering capacity and helping build an adequate track record of performance that could serve as the basis for discussions on a potential Fund-supported program.

Notwithstanding still difficult economic and financial conditions, program implementation for the first review has been satisfactory. All but one of the end-April 2018 performance measures and indicative targets were met, some by wide margins, and fiscal space was created to increase social spending. The implementation of a revised 2018 budget has helped strengthen the public finances. Progress has been made on the structural agenda and the authorities remain committed to its implementation, but there are delays in some areas, particularly in those related to governance and transparency.

Despite signs of an incipient recovery in the non-hydrocarbon sector, the overall growth outlook remains challenging, reflecting mainly a continued decline in hydrocarbon output. Inflation remains subdued, driven by the economic slack and low world inflation. That said, macroeconomic imbalances have narrowed, reflecting the implementation of measures to strengthen the public finances and higher international oil prices. This has allowed an

[1]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 SMP is supported by quantitative performance measures, indicative targets and structural measures.

increase in government deposits at BEAC and an improvement in Equatorial Guinea's reserves position at this institution, although the latter remains negative.

Going forward, it would be important to sustain efforts to further strengthen the public finances, as well as to ensure the implementation of measures to support economic diversification and improve governance and transparency.

IMF staff will remain engaged with the authorities to monitor progress with the implementation of their economic program and will continue to provide technical assistance and training to support Equatorial Guinea's capacity-building efforts.

REPUBLIC OF EQUATORIAL GUINEA

FIRST REVIEW UNDER THE STAFF-MONITORED PROGRAM

October 25, 2018

EXECUTIVE SUMMARY

Staff-Monitored Program. In May 2018, the IMF's Management approved a 7-month Staff-Monitored Program (SMP), covering the period January 1–July 31, 2018. The main fiscal objectives of the SMP are to (i) reduce the budget deficit through non-hydrocarbon revenue mobilization and expenditure reduction while protecting social spending and (ii) address critical weaknesses in public financial management. The program also contains measures to improve the business climate, foster economic diversification, and lay the basis for improving governance and transparency. In addition, the program is providing a framework for bolstering capacity and helping build an adequate track record of performance as the basis for discussions on a potential Fund-supported program later this year.

Macroeconomic context. Economic conditions remain difficult, although macroeconomic imbalances have narrowed, reflecting recent fiscal consolidation, satisfactory program implementation, and higher international oil prices. Government deposits have risen and imputed reserves at the BEAC are recovering, but are still negative. The growth outlook remains challenging, reflecting mainly a secular decline in hydrocarbon output, but there are signs of an incipient recovery in the non-hydrocarbon sector. Inflation remains subdued, driven by the economic slack and low world inflation.

Program implementation. Program implementation for the first review has been satisfactory. All but one of the end-April 2018 performance measures (PMs) and indicative targets were met, some by wide margins, and fiscal space was created to increase social spending. The implementation of a revised 2018 budget, even if it was not approved by end-April 2018 as planned, has helped strengthen the fiscal position. Progress is being made on the structural agenda and the authorities remain committed to its implementation, but there are delays in some areas.

Completion of first review. In view of the satisfactory program performance, staff supports the completion of the first review. Although the PM on external arrears was missed, the deviation was very small and due to logistical reasons to a large extent outside the government's control.

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

Discussions were held in Malabo during July 2–11. The staff team comprised Messrs. Abrego (head), Nicholls, Perez-Saiz, (all AFR), and Keim (SPR). Mr. Ondo Bile (OED) participated in the discussions. The mission held discussions with H.E. Lucas Abaga Nchama, Minister of Finance, Economy and Planning; 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, 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. Mr. Mengistu provided research support and Mr. Ogaja provided assistance in the preparation of this report.

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RECENT DEVELOPMENTS, OUTLOOK AND RISKS

1. **In May 2018, the IMF's management approved a 7-month Staff-Monitored Program (SMP).** The SMP covers the period January 1–July 31, 2018 and is being supported by quantitative performance measures, indicative targets and structural measures. The main fiscal objectives of the SMP are to (i) reduce the budget deficit through non-hydrocarbon revenue mobilization and expenditure reduction while protecting social spending and (ii) address critical weaknesses in public financial management. The program also contains measures to improve the business climate, foster economic diversification, and lay the basis for improving governance and transparency. In addition, the program is providing a framework for bolstering capacity and helping build an adequate track record of performance as the basis for discussions on a potential Fund-supported program later this year. Domestic political support for and ownership of the SMP remains strong. Private sector confidence appears to be improving, supported by the enhanced policy framework provided by the program.

2. **The pace of economic contraction has slowed and macroeconomic imbalances have narrowed, but economic conditions remain challenging.**

- In 2017 the real GDP contraction is estimated to have slowed to 3.2 percent, from 8.6 percent the previous year. This performance was driven by a lower decline of hydrocarbon output and a modest increase (0.2 percent) in non-hydrocarbon GDP, for the first time since 2013.

- In June 2018, inflation rose for the third consecutive month, but remained low (1.6 percent y/y), following negative readings in December 2017 (-0.2 percent) and March 2018 (-1.2 percent y/y). Economic slack and low international inflation are helping to keep domestic inflation contained. The inflation performance since April has been driven by the depreciation of the CFAF against the dollar.

- The fiscal deficit narrowed substantially. The government generated an overall surplus of 0.6 percent of GDP compared with a projected deficit of 1.3 percent for end-April 2018. This supported a large increase in the government's deposits at the BEAC. The surplus largely reflected a surge in resource revenues, due to higher oil prices, and lower spending.

- External sector buffers at the BEAC are recovering, but remain depleted. Despite the narrowing of the overall fiscal deficit and the higher export earnings from better oil prices, Equatorial Guinea (EG) imputed net foreign assets (NFAs) at the BEAC remained negative through June 2018, although they increased during Q2. Large outflows by the private sector, at least partly related to the payment of government arrears towards end-2017 and early 2018, have kept imputed NFAs in negative territory.

- The authorities have revised their national accounts from 2014 through 2016. The new estimates imply positive GDP growth in 2014 (vs. contraction in the vintage for the SMP request), a somewhat lower economic contraction in 2016, an increase in the share of the non-hydrocarbon sector, and an upward revision to nominal GDP (Annex I).

3. Banking system soundness indicators at end-April 2018 continued to show important weaknesses amid the still difficult macroeconomic conditions (Text Table 1). While banks' capitalization appears to exceed minimum requirements and profitability is steady, credit quality and liquidity measures flag important vulnerabilities. Nonperforming loans (NPL) to total loans reached 28 percent at end-April 2018, down from the end-March reading of 32 percent, but are at the same level as at end-December 2017. Two-thirds of NPLs are accounted for by construction companies, with most of which the government has arrears. The NPL decline in April 2018 is related to a reduction in such arrears, which shows the importance of settling these obligations after an appropriate audit. NPL provisions remain low, but are broadly in line with COBAC regulations as a large proportion of the NPLs are from companies that have government contracts and so do not require provisions. Bank liquidity remains ample for now, but a decline in foreign assets (and thereby of base money) over the last year has led to a reduction in private sector deposits (9 percent y/y in April). However, this has been partly offset by higher government deposits and increased BEAC refinancing to the banking system. The latter remains well below the ceiling set by the central bank.

Text Table 1. Financial Soundness Indicators, Jan. 2014–Apr. 2018

(Percent, unless otherwise indicated)

	2014			2015		2016		2017			2018
	Jan	Jul	Dec	Jul	Dec	Jul	Dec	Apr	Jul	Dec	Apr
Regulatory capital to risk-weighted assets	21.4	19.9	25.5	24.1	23.8	28.4	27.3	28.3	28.3	31.2	33.7
NPLs: ratio to total loans	20.7	15.2	20.8	17.0	17.9	28.6	26.1	28.8	28.5	27.8	28.4
Provisions to non-performing loans	42.4	50.3	45.6	52.8	51.4	36.5	38.9	39.5	39.1	40.3	41.7
Profitability (ROA)[1]			1.4	1.3	1.2	1.1	0.8	0.8	1.1	0.7	0.9
Liquidity ratio[2]	207.1	181.7	194.0	178.5	200.7	184.8	158.4	143.8	146.6	171.2	161.0

[1] Moving average of the four previous available periods

[2] Ratio of high liquid assets (<1 M), to short term obligations (<1 M)

Source: COBAC

4. There are signs that monetary conditions have begun to ease, but private credit growth remains weak. The inflation pick-up since April has reduced ex post real interest rates. At the same time, the pace of decline in broad money has slowed appreciably to -5.3 percent y/y in April 2018 compared with -18 percent in April 2017, aided by increased government deposits. Despite these favorable developments, private sector credit expanded by only 1.0 percent y/y in April 2018, after averaging 2.7 percent for the first three months of 2018. Nevertheless, this modest expansion of credit is being led by long and medium-term credit, which together comprise just over half of this increase and could help support stronger non-hydrocarbon activity in 2018. In line with SMP and regional commitments, BEAC's new lending to the government has remained at zero.

5. The 2018 growth outlook remains challenging, but good program implementation is supporting an improvement in private sector confidence. Despite continued increases in international prices, real GDP is projected to decline by 7.7 percent, owing to an increase in the pace of contraction of hydrocarbon output. Importantly, however, the non-hydrocarbon sector is expected to continue to grow as confidence recovers and bank credit expands. Inflation should remain subdued, owing to output still being below potential and low world inflation, despite a depreciating CFAF. EG's external buffers at the BEAC are expected to rise, in line with a narrower current account deficit and, to a lesser extent, continued FDI flows and public-sector deposit repatriation.

6. Risks to the outlook and the SMP, while subsiding somewhat, are still tilted to the downside. On the positive side, higher oil prices (these were well above program projections through June) and the public announcement of the SMP are supporting a recovery in private confidence and a concomitant up-tick in the non-hydrocarbon sector. These developments should help generate employment and additional revenues to the government, especially if complemented by the tax reforms envisaged in the SMP. Higher oil prices should also strengthen the external sector in the short-term and provide an opportunity for the government to reduce the fiscal deficit further. On the downside, concerns still linger about the following:

- The underlying health of the financial sector may be weaker than suggested by COBAC's data. In this scenario, and notwithstanding the banks' high reported capital cushions, the potential for negative feedback loops between the banks and the real economy remain strong.

- 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.

- While program performance for the first review has been satisfactory, the authorities need to remain vigilant and fully implement all remaining SMP measures. Failure to do so would delay transiting to any potential Fund-supported program, weakening confidence, deepening financing constraints, and setting back progress toward macroeconomic and financial stability.

- Capacity constraints and governance vulnerabilities could pose challenges to implementing fiscal and structural reforms.

PROGRAM IMPLEMENTATION

7. All quantitative performance measures and indicative targets for end-April 2018 were met, except one, which was missed by a very small margin.

- **Strong program performance on fiscal measures**. All quantitative fiscal performance measures and indicative targets for end-April 2018 were met. Non-resource tax revenue increased to CFAF 49 billion through end-April, which is well above the program target (CFAF 37 billion). This performance reflects the impact of revenue mobilization measures implemented as part of the SMP (Annex II). The non-resource primary deficit of the central government is estimated to have narrowed to CFAF -273 billion, well below the program ceiling of CFAF -300 billion. This performance was partly supported by a sharp decline in spending on goods and services and by lower capital spending relative to the program targets for end-April.

- **External Arrears**. The ceiling on the non-accumulation of external arrears was missed by a very small amount (see Table 7). This was due to a logistical issue with the correspondent bank, which returned the funds. The authorities are trying to find a solution to this logistical problem to avoid a recurrence.

- **Debt measures**. The ceiling on contracting and guaranteeing new external debt was met. Through end-April the authorities contracted CFAF 70 billion in new external loans, below the end-April ceiling of CFAF 80 billion. On new BEAC credit, the government has maintained its gross new credit at zero through end-April, as envisaged in the program.

- **Indicative targets**. The indicative targets on net domestic bank credit to the government and social spending were both observed.

8. The revised 2018 budget (a structural measure for end-April) was approved with a delay. Since early 2018, the authorities have used the revised budget to guide their fiscal policy and help achieve the SMP objectives. However, the revised budget was approved by Parliament only at end-July.

Text Table 2. Central Government Fiscal Outturn

(In Billions of CFAF, unless otherwise specified)

	End-April 2018	
	Prog.	Outturn
Revenue	289	412
Of which		
Resource revenue	214	336
Non-resource tax revenue	37	49
Other non-resource revenue	38	27
Expenditure	386	366
Of which		
Compensation of employees	48	51
Purchase of goods and services	124	83
Subsidies and transfers	48	73
Net acquisition of non-financial assets	153	141
Overall fiscal balance	-97	47
Non-resource primary balance	-300	-273

Source: Equatoguinean authorities and IMF staff estimates

POLICY DISCUSSIONS

9. **The policy discussions took place amid a somewhat improved macroeconomic environment**. The updated macroeconomic scenario reflects the impact of higher international oil prices, which have contributed to a narrowing of the external current account, higher government deposits, and higher imputed reserves at the BEAC. Going forward, the revised macroeconomic framework assumes that the higher oil revenues would be used in a balanced manner to rebuild deposit and reserve buffers and clear domestic arrears. Quantitative targets remain as in the original program, as these are based on non-hydrocarbon fiscal variables and higher oil revenue will be saved. By maintaining this tight fiscal stance, the authorities plan to take advantage of the higher oil prices to strengthen buffers. While they are committed to locking in these gains over the medium term, a further postponement of a large FLNG gas project due to financing delays has weighed on the growth, fiscal and external outlooks in the outer years of the projection horizon relative to expectations at the time of SMP approval.

Text Table 3. Medium Term Scenario, 2017–23

(In percent of GDP, unless otherwise indicated)

	2017	2018		Projections				
	prel.	Prog.	Proj.	2019	2020	2021	2022	2023
Output and Inflation								
Real GDP growth, percent	-3.2	-7.9	-7.7	-2.6	-2.3	-1.4	-1.7	3.4
Hydrocarbon sector	-5.6	-14	-14	-7.4	-7.9	-6.5	-7.5	2.6
Non-hydrocarbon sector	0.2	1.2	0.8	3.0	3.5	3.3	3.2	4.0
Inflation, percent (annual average)	0.7	0.6	0.9	1.4	1.9	2.5	3.0	3.0
Public Sector								
Overall fiscal balance	-2.5	-0.9	0.6	2.3	2.5	2.0	1.2	1.3
Non-resource primary balance	-15.8	-14.0	-12.1	-9.2	-7.2	-6.2	-5.7	-5.2
Public debt[1]	37.4	43.5	37.3	37.4	37.2	37.2	35.9	33.0
External Sector								
Current account balance (- = deficit)	-5.9	-2.4	-3.1	-3.6	-4.3	-4.4	-18.0	-6.0
Total external public debt	8.5	11.7	10.5	13.0	14.7	17.1	18.8	19.5

Sources: Equatoguinean authorities; and staff estimates and projections.

[1]Public debt includes domestic arrears.

A. Fiscal Policy

10. The authorities remain committed to strengthening the fiscal position.[1] The 2018 fiscal program targets an adjustment (measured by the change in the non-resource primary balance) of 3.7 percent of GDP, following the adjustment of 7.8 percent of GDP throughout last year. During the first four months of 2018, fiscal consolidation was driven both by expenditure cuts and higher non-resource tax revenues.

11. Fiscal consolidation in 2018 would continue to concentrate on reducing central government capital spending and raising non-resource tax revenues.

- **Expenditure reduction**. Non-priority public spending is being reduced, including on public investment. The authorities have confined capital projects to those with higher impacts. In addition, tighter controls on the approval of spending have been adopted. In the area of fuel subsidies, however, spending is growing at a faster pace than at the same period of 2017, reflecting higher international fuel prices. If this trend continues, the authorities could surpass their announced ceiling of CFAF 23 billion (see May 2018 MEFP, para. 11) on this item for 2018. Staff urged adjusting the local price of fuel at the pump to contain the subsidy to the level envisaged in the program. The authorities explained that it would be politically and socially difficult for them to adjust fuel prices in a significant manner given other substantive fiscal adjustments being implemented in other areas, but agreed to maintain the program target.

- **Revenue mobilization.** The authorities will continue to implement and fine tune their revenue mobilization agenda. On the policy side, they plan to send to parliament in early August 2018 draft tax regulations to implement the measures recommended to increase non-resource tax revenues.[2] The authorities also plan to continue implementing administrative measures to raise additional resources. In particular, they plan to continue with measures aimed at limiting tax fraud and exemptions, better enforcement at the border, and the requirement that companies file their corporate taxes in Malabo. On customs, now that ASYCUDA is operational in Malabo, the authorities plan to continue rolling out these new customs clearance procedures to Bata by year-end. They also plan to join the World Customs Organization, a move that can help to cement the customs reforms. Finally, to keep up the momentum on tax receipts, the authorities plan to ramp up the public relations campaign and staff training. While acknowledging the progress the authorities have made thus far, staff encouraged them to push ahead with the computerization of the revenue departments, which is key to increasing overall efficiency.

[1] Ratios to GDP have changed relative to the staff report for SMP approval due to the upward revision in nominal GDP (Annex I).

[2] Additional details on measures to increase non-resource tax revenue are provided in the authorities' Memorandum of Economic and Financial Policies, paragraph 10 and in Appendix I.

- **Financing**. As programed, the authorities have started drawing on the already established loan facility with the Export-Import Bank of China to finance the 2018 budget (Annex III). At the same time, the authorities continue their efforts to engage multilateral development banks on providing budget support on the expectation that an IMF-supported program will be in place in the coming months.

- **Arrears.** The authorities have developed draft terms of reference for the audit of domestic arrears and plan to use these to hire an independent auditor. In the meantime, they continue to talk with domestic creditors to build consensus on a path forward and pay down these arrears. They are working on proposals for settling the validated domestic arrears once they have been audited and plan to use part of the oil windfall to clear more domestic arrears than originally envisaged, while strengthening deposit and reserve buffers at the BEAC. Staff supports using part of the windfall to pay down arrears since reducing these is key to lowering NPLs in the banking system—and reduce risks to financial stability—which would help a recovery of credit to the non-hydrocarbon sector and support economic diversification.

B. Public Finance Management

12. Strong measures are being taken to revamp and strengthen the PFM framework. These include the full devolution of budget implementation to the Ministry of Finance and the merger with the Ministry of Economy. The Ministry of Finance has implemented specific procedures for spending approvals and oversight for both current and capital spending. In the case of current spending, these must be reviewed by the Directorate General of Budget Control. In the case of capital spending, a standing committee of technicians reviews the projects and determines commitments. The budget preparation process has also been revamped. In particular, all projects are now considered and reviewed by a budget committee in the context of the government's announced policy priorities (Annex IV). The authorities thus appear to have met the end-July structural measure on tracking expenditure commitments and strengthening expenditure controls (Table 6). Staff will make a final assessment regarding compliance with this measure during the next program review. While acknowledging progress made thus far, staff urged the authorities to unify the expenditure control mechanism for overall spending and to improve the efficiency of expenditure monitoring by computerizing the expenditure processes. While the Finance Ministry is now able to track spending commitments and control expenditures for the current year, it would be important for the authorities to move to multi-year budgeting in the future to further tighten fiscal management and discipline.

C. Protecting the Poor and Improving Social Indicators

13. Expenditure is being reallocated toward social areas. In addition to raising expenditure on health and education, the authorities indicated that they are prioritizing the construction of small "urban districts" in remote rural and underserved regions of the country. They explained that a key component of these centers is the construction of housing for low-income families living in the districts, medical and educational facilities and other basic public services and infrastructure. This spending is aimed at improving the population's living conditions while helping to protect them from the negative effects of fiscal adjustment. Staff urged the authorities to commence regular household budget surveys to improve data collection on poverty and other social indicators. These efforts will help inform ways of making needed improvements to social protection through better targeting.

D. Building Financial Sector Resilience

14. Financial sector reforms are being addressed mainly at the regional CEMAC level,[3] but domestic action can also contribute to financial stability.

- The authorities continue to support (i) COBAC's action plan to address high NPLs and strengthen supervision rules and (ii) the implementation of new provisioning rules, among other measures.[4] In addition, they have asked COBAC to undertake an asset quality review of EG's banking system, which is expected to be conducted by end-2018.
- As suggested in paragraph 3, dealing with government arrears to construction companies is key to sharply reducing NPLs and improving the overall level of solvency in the financial system. The authorities are making progress towards that goal by reducing arrears and launching the arrears audit process. Staff stressed the need for speeding up arrears auditing and settlement.[5]
- Improved private confidence and fiscal discipline should help raise deposits and ameliorate liquidity conditions of the banks in the medium term.
- The asset quality review might also be a useful input toward a strategy to reduce arrears not related to the construction sector, which were already relatively high prior to the current crisis. The long period of economic slack has led banks to initiate legal actions to repossess some of the defaulting borrowers' collateral, and banks have indicated that they are generally satisfied with the legal and regulatory framework for foreclosures.
- Banks have also noted increased vigilance of the monetary and regulatory authorities in the enforcement of existing rules on anti-money laundering, and the stricter enforcement of foreign exchange regulations.

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[3] Details on the measures contained in the SMP to strengthen banks and manage potential risks are contained in paragraph 15 of the SMP staff report (IMF Country Report 18/146).

[4] 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).

[5] The audit of arrears will also complement the future asset quality review as it will help determine the exact level of future revenues committed by the government to the construction companies that have loans with the domestic banks,

E. Structural Reforms to Boost Non-Hydrocarbon Growth

15. The authorities are steadily implementing their reform agenda to boost non-hydrocarbon growth. The agenda focuses on economic diversification and improving the environment for conducting business.

- **Economic diversification**. The authorities are preparing background studies to inform a national conference (scheduled for March 2019) to revise the *Horizonte 2020* strategy. A key pillar of the proposed revised plan is the integration of the Millennium Development Goals and environmental considerations with the economic strategy. The revised strategy will guide economic diversification and sectoral policies for the next 5 to 10 years. In the meantime, work on sectoral initiatives is moving ahead. In the area of tourism, the authorities are working on a national tourism development plan, expected to be completed later this year, and are discussing options to facilitate the issue of a tourist visa. Initiatives are also being implemented to promote the fisheries sector. These include, the establishment of a training institute in Bata for fisherfolk, and the construction of basic infrastructure to support the sector. Other sectoral initiatives, including for the agricultural sector, are being developed. The authorities are also implementing measures to reform autonomous agencies, focusing on improving corporate governance and profitability.

- **Business environment**. In April 2018 the authorities amended the foreign investment law by eliminating the requirement to have a local partner contributing 35 percent of the capital in the non-hydrocarbon sector. They have already operationalized this new policy as they view it as a key instrument for attracting new investment in the non-hydrocarbon sector. In this context, they indicated that they have also operationalized the one-stop shop for foreign investment. Later this year the authorities plan to launch a business climate diagnostic, jointly prepared with the World Bank. The national business climate commission will review the diagnostic's recommendations with a view to implementing them. The authorities have also invited the Singapore Corporation Enterprise to share with key stake holders in EG practical steps for improving the business environment using the Singapore example. Additional plans to support private investment include the creation of investment and export promotion agencies.

F. Improving Governance and Transparency

16. The authorities are pressing ahead with the implementation of their governance and transparency agenda. Under the SMP they are focusing on the following elements:

- **Strengthening governance and anti-corruption measures**. In May 2018 the authorities ratified the United Nations Convention Against Corruption (structural measure, July 2018). They are now deliberating regulations to implement this convention. Moreover, as reported in para. 15, the amendment of the foreign investment decree to remove the requirement for a local partner should help reduce opportunities for corruption. That said, no progress has as yet been made on the authorities' plan to fully operationalize the Accounts Tribunal Office, which is expected to conduct annual audits of the budget outturn and publish the findings in a publicly available annual report. The authorities have indicated that they will need to create the necessary fiscal space for this entity and that equipping it with adequate personnel and facilities will likely take them beyond 2018.

- **Governance diagnostic**. A Fund mission to conduct the governance diagnostic study visited Malabo during 11-15 June 2018. The study, due by September 2018, will report on governance and corruption challenges in Equatorial Guinea and propose measures to address them. It will also inform the preparation of a governance strategy to be adopted by the government in consultation with Fund staff. The authorities have reaffirmed their commitment to publishing the study and the strategy, as part of their actions to help improve governance.

- **Transparency in the hydrocarbon sector**.

    - The authorities noted progress in preparing for EITI membership, but have yet to submit an application. In particular, they indicated that the EITI National Committee has completed the necessary work program and plans for the coming year. They have also prepared a budget for their planned activities. They have indicated that they will present their membership application to the EITI by end-August. They explained that the delay reflects changes in government personnel managing the EITI process, stemming partly from the February 2018 government reshuffle. Staff stressed the need for submitting the application promptly and for civil society groups that are part of the National Committee to endorse the process so this can be validated by EITI.

    - The authorities have launched the bidding process—based on terms of reference prepared in consultation with staff—to hire independent firms for (i) auditing the accounts of the state-owned oil and gas companies and (ii) conducting a detailed reconciliation of EG's gross hydrocarbon output with hydrocarbon revenues received by the budget in 2016 and 2017 (structural measure, July 2018). Staff is in discussions with the authorities to assess whether the measure has been met.

- **Data dissemination**. The authorities have recently launched a new website of the Ministry of Finance, which was used to post historical fiscal data. Staff recommended that the authorities use this new website as a mechanism for disseminating more fiscal data and information—including on fiscal legislation—and to regularly update the new website. Meanwhile, the authorities have completed their preparatory work for subscribing to the general data dissemination standards (e-GDDS). The next step is for an e-GDDS implementation mission to EG.[6]

[6] An e-GDDS assessment mission took place in June 2016 and, subsequently, the authorities prepared draft metadata. An e-GDDS mission is tentatively scheduled for the first quarter of 2019.

G. Capacity Building

17. The authorities are pressing ahead with their capacity building agenda. In early June 2018 the Fund delivered training in macroeconomic analysis and forecasting for public officials. The authorities are discussing plans on how best to use the newly trained cohort to monitor, at a technical level, progress on program work. At the same time, as they implement the various TA recommendations, new TA needs are being generated. In this context, the authorities have requested TA on implementing the tax and customs recommendations, particularly in the area of training of tax inspectors. They have also requested additional assistance on further enhancing the system of expenditure controls that they are implementing based on previous FAD TA. The authorities have also expressed a strong interest in computerization of the expenditure processes. They are working on enhancing debt management by expanding training opportunities, and revamping systems and platforms.

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18. Program performance has been satisfactory thus far. The authorities have made a satisfactory effort to reduce macroeconomic imbalances, in most cases overperforming quantitative program targets. The implementation of the revised 2018 budget made an important contribution to the improved fiscal outturn through April. More broadly, commitment to the program and willingness to take tough, but needed measures, is helping bolster the public finances and rebuild private confidence.

19. Although the overall economy continues to contract, the outlook for the non-hydrocarbon sector has improved, albeit, modestly. After posting modest growth in 2017, the non-hydrocarbon sector is expected to continue to expand this year. The operationalization of a one-stop shop for foreign investors, along with initiatives to improve the business environment, would make EG more attractive for foreign investors by reducing transactions costs and other bottle necks to business development. Other reforms, such as the proposed national development plan for tourism and the creation of investment and export promotion agencies would bring a practical focus to the diversification efforts. Their plan to include the Millennium Development Goals as a key pillar of a revised *Horizonte 2020* development plan, to be discussed in March 2019, is also welcome.

20. The authorities have rightly decided to use the excess revenues from the recent oil revenue windfall to rebuild external and fiscal buffers. They are taking advantage of the recent increases in oil prices to reduce the fiscal deficit and accumulate more deposits at the BEAC than originally envisaged under the program. This is helping strengthen imputed NFA buffers at the BEAC, which are expected to turn positive by end-2018. Staff also welcomes the authorities' efforts and continued commitment to change the composition of public expenditure and create room for higher social spending to improve the living conditions of low-income groups.

21. The measures taken to enhance expenditure control and treasury management were key to initial program success. The recent decision to devolve implementation of the budget to the Ministry of Finance, Economy, and Planning, and bring all capital spending on budget are steps in the right direction. These actions, which have been crucially aided by the recent merger of the Ministries of Finance and Economy, should help to entrench fiscal discipline, reduce the opportunities for overspending, and avoid the accumulation of new arrears. In addition, the new procedures being used for preparing the budget should also help to weed out low priority projects, while promoting ownership and broad support for the fiscal program. Going forward, the authorities could further strengthen the management of expenditures by improving the information systems used in the spending control and tracking processes.

22. **Protecting the hard-won fiscal consolidation gains and maintaining the nascent non-hydrocarbon recovery requires a stable financial system**. The fiscal consolidation measures currently being undertaken and the halt to a further accumulation of domestic arrears are enhancing financial stability and boosting confidence. The authorities now need to develop a clear and well-defined strategy for repayment of existing arrears that would permit the elimination of most NPLs while rebuilding deposit and reserve buffers at the BEAC. It would also be important to tackle non-construction related NPLs, which would remain relatively high and could restrict banks' ability to fully support the non-hydrocarbon sector's nascent recovery. In this context, it would be important for the COBAC to conduct a banking sector asset review as early as possible and address any additional financial sector vulnerabilities that this exercise may uncover.

23. **The initial efforts being made to foster good governance and enhance transparency are welcome, but more work is needed**. In particular, staff welcomes the authorities' ratification of the UN Convention Against Corruption and their actions thus far in deliberating rules for its implementation. The recent amendment to the foreign investment law to remove the domestic partner requirement may also help to tackle corruption. After the completion of the diagnostic study on governance, it would be important for the authorities to adopt a strategy to foster good governance and fight corruption. The authorities also need to press ahead with the audits of the state-owned oil and gas companies while moving forward with their membership application to the EITI.

24. **Risks to the program, while subsiding somewhat, are still tilted to the downside.** Potential risks identified previously concerning the underlying strength of the banking system and public-sector management capacity are all still important concerns. Also, while program performance for the first review has been satisfactory, the authorities need to remain vigilant as future slippages would delay transiting to any potential Fund-supported program and set back macroeconomic stability. Therefore, the authorities need to remain committed to implementing the fiscal adjustment and structural reform agenda necessary to revive the economy. They also need to continue saving the excess revenues from higher oil prices, thereby protecting the fiscal program and strengthening public finances.

25. **Staff supports the completion of the first review under the SMP arrangement**. Although the PM on external arrears was missed, the non-compliance with the ceiling is small and does not imperil the successful implementation of the program.

Table 1. Selected Economic and Financial Indicators, 2014–23

	2014	2015	2016	Prel. 2017	Projections 2018	2019	2020	2021	2022	2023
	(Annual percentage change, unless otherwise specified)									
Production, prices, and money										
Real GDP	0.4	-9.1	-8.6	-3.2	-7.7	-2.6	-2.3	-1.4	-1.7	3.4
Hydrocarbon sectors[1]	1.3	-9.4	-8.5	-5.6	-13.9	-7.4	-7.9	-6.5	-7.5	2.6
Non-hydrocarbon sectors	-0.8	-8.8	-8.7	0.2	0.8	3.0	3.5	3.3	3.2	4.0
GDP deflator	-1.3	-20.2	-6.4	12.5	8.6	1.3	0.3	1.8	3.2	2.4
Hydrocarbon sectors	-5.5	-36.5	-17.8	17.1	24.2	-2.2	-6.6	-4.4	-2.9	-0.9
Non-hydrocarbon sectors	4.9	1.1	3.2	1.0	1.2	1.7	2.2	2.8	3.3	3.3
Consumer prices (annual average)	4.3	1.7	1.4	0.7	0.9	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
Monetary and exchange rate										
Broad money	-14.1	-10.9	-16.4	1.0	1.9	14.6	9.8	6.2	6.6	7.4
Nominal effective exchange rate (- = depreciation)	-0.2	-9.1	1.1	1.7	...	...	...	...	...	...
Real effective exchange rate (- = depreciation)	2.7	-7.9	1.6	0.5	...	...	...	...	...	...
External sector										
Exports, f.o.b.	-9.9	-46.1	-26.9	10.5	6.0	-8.9	-12.5	-9.1	-8.6	2.6
Hydrocarbon exports	-9.8	-47.5	-25.9	9.6	6.7	-9.6	-13.7	-10.5	-10.2	1.5
Non-hydrocarbon exports	-16.2	34.6	-49.4	39.6	-13.0	11.9	18.4	16.1	14.9	14.4
Imports, f.o.b.	-4.6	-23.1	-33.9	-12.9	-11.9	-3.7	-6.0	-8.6	95.4	-45.0
Terms of trade	-14.1	-34.7	-5.1	28.4	32.3	-3.6	-6.1	-4.8	-2.7	-1.3
Government finance										
Revenue	-4.1	-19.9	-45.5	9.7	1.5	-1.1	-6.8	-3.6	-2.4	5.7
Expenditure	7.0	-4.4	-42.9	-23.3	-14.8	-10.9	-8.7	-0.8	2.8	4.6
	(Percent of GDP, unless otherwise specified)									
Investment and savings										
Gross investment	28.7	24.7	16.6	12.0	10.8	11.3	11.9	11.7	24.4	13.3
Gross national savings	24.5	8.5	3.6	6.1	7.6	7.8	7.6	7.4	6.4	7.3
Government finance										
Revenue	24.1	26.6	16.9	17.0	17.3	17.3	16.5	15.8	15.2	15.2
Of which : resource revenue	21.3	22.2	12.7	13.6	13.2	12.6	10.8	9.4	8.1	7.7
Expenditure	31.6	41.6	27.8	19.6	16.6	15.0	14.0	13.8	14.0	13.9
Overall fiscal balance (Comitment basis)	-7.5	-15.1	-10.8	-2.5	0.6	2.3	2.5	2.0	1.2	1.3
Overall fiscal balance (Cash basis)[2]	-4.7	-2.9	-7.9	-4.8	-17.1	2.3	2.5	2.0	1.2	1.3
Non-resource primary balance[3]	-28.4	-36.9	-23.3	-15.8	-12.1	-9.2	-7.2	-6.2	-5.7	-5.2
Outstanding public debt[4]	12.6	33.6	43.3	37.4	37.3	37.4	37.2	37.2	35.9	33.0
Change in domestic arrears	2.8	12.2	3.0	-2.3	-17.7	0.0	0.0	0.0	0.0	0.0
External sector										
Current account balance (including official transfers; - = deficit)	-4.3	-16.2	-12.9	-5.9	-3.1	-3.6	-4.3	-4.4	-18.0	-6.0
Total external public debt	6.1	9.0	9.5	8.5	10.5	13.0	14.7	17.1	18.8	19.5
Debt service-to-exports ratio (percent)	2.6	3.6	5.8	3.3	4.9	4.8	6.9	8.0	10.6	10.9
External debt service/government revenue (percent)	6.4	5.9	12.7	7.3	11.3	10.3	13.6	15.0	18.5	18.5
Memorandum items										
CEMAC Foreign Reserves										
(US$ billions, end-of-period)	15.8	10.3	5.0	5.8	7.5	9.1	10.2	11.7	13.1	14.3
(in months of extrazone imports)	5.8	4.3	2.3	2.4	3.1	3.7	3.9	4.5	4.9	5.2
Oil price (U.S. dollars a barrel)[5]	92.3	47.0	39.0	51.4	68.9	69.7	66.0	63.1	56.8	55.4
Nominal GDP (billions of CFA francs)	10,747	7,795	6,674	7,268	7,285	7,185	7,041	7,070	7,172	7,589
Nominal GDP (millions of US dollars)	21,737	13,180	11,253	12,487	13,225	12,962	12,869	13,002	13,290	14,111
Non-hydrocarbon GDP (billions of CFA francs)	4,629	4,272	4,025	4,074	4,154	4,350	4,603	4,890	5,213	5,598
Exchange rate (average; CFA francs/U.S. dollar)	494.4	591.4	593.1	582.1	550.8	554.3	547.2	543.8	539.6	537.8

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

[1] Including oil, LNG, LPG, butane, propane, and methanol.

[2] Includes a one-time clearance of outstanding arrears through securitization in 2018.

[3] Excluding oil revenues, oil-related expenditures, and interest earned and paid.

[4] Outstanding public debt includes domestic arrears.

[5] The local price of crude oil is the Brent and includes a quality discount.

Table 2a. Balance of Payments, 2014–23[1/]
(Billions of CFA Francs, unless otherwise specified)

				Prel.	Projections					
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Current account	-457	-1266	-864	-430	-228	-255	-301	-308	-1290	-452
Trade balance	3538	1286	1086	1524	1829	1612	1344	1217	204	1019
Exports of goods, f.o.b.	6251	3371	2464	2723	2885	2629	2300	2090	1911	1955
Hydrocarbon exports	6141	3223	2389	2618	2795	2527	2180	1951	1751	1771
Crude oil	4424	2457	1725	1738	1831	1627	1454	1313	1167	1112
Liquefied natural gas	1318	610	480	546	680	641	492	391	352	411
Liquefied petroleum gas	183	52	80	138	106	100	96	95	85	87
Methanol	217	104	104	196	178	159	138	151	147	161
Non-hydrocarbon exports	110	148	75	104	91	102	120	140	160	183
Imports of goods, f.o.b.	-2713	-2085	-1377	-1199	-1056	-1017	-956	-874	-1708	-936
Petroleum sector	-327	-271	-82	-51	-30	-99	-130	-69	-905	-95
Petroleum products	-231	-214	-201	-204	-266	-278	-270	-264	-262	-271
Public sector equipment and construction	-919	-756	-599	-579	-466	-392	-342	-331	-331	-349
Other[2]	-1235	-844	-495	-366	-294	-248	-216	-209	-209	-220
Services (net)	-1674	-1202	-867	-808	-856	-764	-660	-615	-647	-612
Income (net)[3]	-2056	-1076	-828	-899	-974	-905	-793	-721	-659	-670
Current transfers	-265	-274	-256	-246	-228	-198	-192	-190	-187	-189
Capital and financial account	51	142	168	475	230	328	370	283	1245	394
Capital account	0	0	0	0	0	0	0	0	0	0
Financial account	51	142	168	475	230	328	370	283	1245	393
Direct investment	562	702	189	358	154	297	337	265	1149	370
Portfolio investment (net)	-12	-1	0	0	-1	-1	-1	-1	-1	-1
Other investment (net)	-499	-558	-22	117	77	32	35	19	97	24
Medium- and long-term transactions	-76	13	278	152	27	48	24	20	-8	-20
General government	-137	-48	229	90	27	48	24	20	-8	-20
Of which : amortization	-152	-106	-85	-76	-113	-77	-101	-105	-133	-145
Other sectors	61	61	49	63	0	0	0	0	0	0
Short-term transactions	-423	-571	-300	-35	50	-16	11	-1	104	44
General government[4]	-132	-231	282	167	90	-22	-11	-9	4	3
Banks	167	-71	-20	45	-1	-1	-1	-1	-1	0
Other sectors	-458	-269	-562	-247	-38	6	23	10	102	41
Errors and omissions	-181	278	-15	-88	0	0	0	0	0	0
Overall balance	-586	-846	-712	-43	2	72	69	-25	-45	-58
Financing	586	846	712	-43	-2	-72	-69	25	45	58
Change in gross international reserves[5] (- = increase)	587	846	712	43	-110	-200	-159	-135	-107	-96
Financing gap				108	108	128	90	160	152	155
Memorandum items:										
Growth of hydrocarbon exports (percent)	-9.8	-56.1	-26.1	11.7	12.8	-10.1	-12.6	-10.0	-9.5	1.5
Growth of non-hydrocarbon exports (percent)	-16.3	12.5	-49.5	42.3	-8.0	11.2	20.0	16.8	15.8	14.8
Reserve assets at the BEAC (months of next years' imports)	6.0	3.6	0.2	0.1	0.8	2.2	3.5	3.0	5.0	5.4

Sources: Equatoguinean authorities; and staff estimates and projections.

[1] 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.

[2] Including private sector consumption and non-hydrocarbon sector investment imports.

[3] Including investment income of oil companies, which includes reinvested earnings (with an offsetting entry in foreign direct investment).

[4] Since 2000, entries represent changes in government deposits in commercial banks abroad.

[5] Consists only of items on the balance sheet of the BEAC (i.e., excluding government bank deposits abroad).

Table 2b. Balance of Payments, 2014–23[1/]

(Percent of GDP, unless otherwise specified)

				Prel.	Projections					
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Current account	-4.3	-16.2	-12.9	-5.9	-3.1	-3.6	-4.3	-4.4	-18.0	-6.0
Trade balance	32.9	16.5	16.3	21.0	25.1	22.4	19.1	17.2	2.8	13.4
Exports of goods, f.o.b.	58.2	43.2	36.9	37.5	39.6	36.6	32.7	29.6	26.7	25.8
Hydrocarbon exports	57.1	41.3	35.8	36.0	38.4	35.2	31.0	27.6	24.4	23.3
Crude oil	41.2	31.5	25.8	23.9	25.1	22.6	20.6	18.6	16.3	14.6
Liquefied natural gas	12.3	7.8	7.2	7.5	9.3	8.9	7.0	5.5	4.9	5.4
Liquefied petroleum gas	1.7	0.7	1.2	1.9	1.5	1.4	1.4	1.3	1.2	1.1
Methanol	2.0	1.3	1.6	2.7	2.4	2.2	2.0	2.1	2.1	2.1
Non-hydrocarbon exports	1.0	1.9	1.1	1.4	1.2	1.4	1.7	2.0	2.2	2.4
Imports of goods, f.o.b.	-25.2	-26.7	-20.6	-16.5	-14.5	-14.2	-13.6	-12.4	-23.8	-12.3
Petroleum sector	-3.0	-3.5	-1.2	-0.7	-0.4	-1.4	-1.8	-1.0	-12.6	-1.2
Petroleum products	-2.2	-2.7	-3.0	-2.8	-3.6	-3.9	-3.8	-3.7	-3.7	-3.6
Public sector equipment and construction	-8.6	-9.7	-9.0	-8.0	-6.4	-5.5	-4.8	-4.7	-4.6	-4.6
Other[2]	-11.5	-10.8	-7.4	-5.0	-4.0	-3.4	-3.1	-3.0	-2.9	-2.9
Services (net)	-15.6	-15.4	-13.0	-11.1	-11.7	-10.6	-9.4	-8.7	-9.0	-8.1
Income (net)[3]	-19.1	-13.8	-12.4	-12.4	-13.4	-12.6	-11.3	-10.2	-9.2	-8.8
Current transfers	-2.5	-3.5	-3.8	-3.4	-3.1	-2.8	-2.7	-2.7	-2.6	-2.5
Capital and financial account	0.5	1.8	2.5	6.5	3.2	4.6	5.3	4.0	17.4	5.2
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	1.8	2.5	6.5	3.2	4.6	5.3	4.0	17.4	5.2
Direct investment	5.2	9.0	2.8	4.9	2.1	4.1	4.8	3.7	16.0	4.9
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)	-4.6	-7.2	-0.3	1.6	1.1	0.4	0.5	0.3	1.3	0.3
Medium- and long-term transactions	-0.7	0.2	4.2	2.1	0.4	0.7	0.3	0.3	-0.1	-0.3
General government	-1.3	-0.6	3.4	1.2	0.4	0.7	0.3	0.3	-0.1	-0.3
Of which : amortization	-1.4	-1.4	-1.3	-1.0	-1.6	-1.1	-1.4	-1.5	-1.9	-1.9
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	0.7	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Short-term transactions	-3.9	-7.3	-4.5	-0.5	0.7	-0.2	0.2	0.0	1.5	0.6
General government[4]	-1.2	-3.0	4.2	2.3	1.2	-0.3	-0.2	-0.1	0.1	0.0
Banks	1.6	-0.9	-0.3	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Other sectors	-4.3	-3.4	-8.4	-3.4	-0.5	0.1	0.3	0.1	1.4	0.5
Errors and omissions	-1.7	3.6	-0.2	-1.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-5.2	-10.8	-10.7	-0.6	0.0	1.0	1.0	-0.4	-0.6	-0.8
Financing	5.5	10.9	10.7	-0.6	0.0	1.0	1.0	0.4	0.6	0.8
Change in gross international reserves[5] (- = increase)	5.5	10.9	10.7	0.6	-1.5	-2.8	-2.3	-1.9	-1.5	-1.3
Financing gap	0.0	0.0	0.0	0.0	1.5	1.8	1.3	2.3	2.1	2.0
Memorandum items:										
Non-hydrocarbon current account	-26.8	-26.4	-22.0	-17.3	-14.7	-12.3	-10.8	-10.3	-11.0	-10.4
Current account without FLNG/Kosmos project					-3.1	-2.6	-2.9	-3.7	-6.3	-5.0
Reserve assets at the BEAC (months of next years' imports)	6.0	3.6	0.2	0.1	0.8	2.2	3.5	3.0	5.0	5.4

Sources: Equatoguinean authorities; and staff estimates and projections.

[1] 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.

[2] Including private sector consumption and non-hydrocarbon sector investment imports.

[3] Including investment income of oil companies, which includes reinvested earnings (with an offsetting entry in foreign direct investment).

[4] Since 2000, entries represent changes in government deposits in commercial banks abroad.

[5] Consists only of items on the balance sheet of the BEAC (i.e., excluding government bank deposits abroad).

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

	2014	2015	2016	2017	2018				
					Prog.M4	Out.M4	Prog.M7	Q3	Q4
Revenue	2,585	2,071	1,129	1,238	289	412	832	1,004	1,257
Resource revenue	2,293	1,731	846	988	214	336	681	791	963
Tax revenue	800	662	241	273	27	42	246	261	283
Other revenue	1,493	1,069	604	715	187	294	435	531	681
Non-resource revenue	292	340	283	250	75	76	151	213	294
Tax revenue	190	221	181	147	37	49	90	140	180
Other revenue	103	119	102	103	38	27	61	72	114
Grants	0	0	0	0	0	0	0	0	0
Expenditure	3,396	3,247	1,853	1,422	386	366	713	808	1,212
Expense	764	685	689	732	233	224	418	486	710
Compensation of employees	112	121	139	143	48	51	90	106	148
Purchase of goods and services	417	345	350	392	124	83	201	229	360
Interest	50	30	27	30	14	18	26	32	44
Domestic	1	0	8	16	5	4	9	12	16
Foreign	49	30	19	14	9	14	16	20	28
Subsidies and transfers[1]	184	188	173	168	48	73	101	118	157
Other expense	0	0	0	0	0	0	0	0	0
Net acquisition of non-financial assets	2,632	2,562	1,164	689	153	141	295	323	502
Gross operating balance	1,822	1,386	440	506	56	188	415	518	548
Net lending/borrowing (overall fiscal balance)	-810	-1,176	-724	-183	-97	47	120	196	46
Net financial transactions	810	1,176	724	183	97	-47	-120	-196	-154
Net change in domestic arrears[2]	300	953	200	-165	0	-27	-27	-27	-1,288
Net acquisition of financial assets	-21	-59	540	285	74	-90	-107	-166	-30
Domestic deposits	112	172	257	118	74	-64	-81	-140	-120
Foreign deposits	-132	-231	282	167	0	-26	-26	-26	90
Net incurrence of liabilities	260	275	72	63	23	69	14	-2	1,165
Domestic[3]	369	268	140	9	0	37	25	0	1,138
Foreign	-109	7	-68	54	23	33	-11	-2	27
Loans	43	113	17	130	80	68	100	110	140
Amortization (-)[4]	-152	-106	-85	-76	-57	-35	-111	-112	-113
Other	271	8	-88	0	0	1	0	0	0
Financing gap					0	0	0	0	108
Memorandum items:									
Overall fiscal balance	-810	-1,176	-724	-183	-97	47	120	196	46
Percent of GDP	-7.5	-15.1	-10.8	-2.5	-1.5	0.6	1.6	2.7	0.6
Non-resource primary balance[5]	-3,053	-2,876	-1,558	-1,151	-300	-273	-540	-569	-882
Percent of non-hydrocarbon GDP	-66.0	-67.3	-38.7	-28.2	-8.0	-6.6	-13.0	-13.7	-21.2
Outstanding public debt[6]	12.6	33.6	43.3	37.4	43.3	37.3	36.4	36.2	37.3
Gross government deposits	1,163	1,218	761	536	462	625	642	702	566
Deposits with BEAC	490	323	177	113	69	190	174	283	263
Of which: available	71	57	91	18	18	107	130	239	219
Deposits abroad	604	835	553	385	385	411	411	411	296
Of which: available	453	544	248	110	110	136	136	136	0
Deposits with commercial banks (available)	70	60	32	37	7	24	57	7	7
Nominal GDP	10,747	7,795	6,674	7,268					7,285
Nominal non-hydrocarbon GDP	4,629	4,272	4,025	4,074					4,154

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

[1] Includes social benefits and other transfers.

[2] Includes a one-time clearance of outstanding arrears through securitization in 2018.

[3] Statutory advances are assumed to be repayed in 10 years, starting in 2022. Includes payment of arrears in 2018.

[4] Includes exceptional repayment of foreign debt for years 2014 and 2015.

[5] Equal to the overall balance minus interest and resource revenues.

[6] Outstanding public debt includes domestic arrears.

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

					Prog.	Projections					
	2014	2015	2016	2017	2018	2018	2019	2020	2021	2022	2023
Revenue	2,585	2,071	1,129	1,238	1,153	1,257	1,243	1,159	1,118	1,091	1,153
Resource revenue	2,293	1,731	846	988	859	963	903	759	662	580	584
Tax revenue	800	662	241	273	272	283	250	211	180	158	153
Other revenue	1,493	1,069	604	715	588	681	653	548	482	422	431
Non-resource revenue	292	340	283	250	294	294	340	400	456	511	570
Tax revenue	190	221	181	147	180	180	228	281	329	375	424
Other revenue	103	119	102	103	114	114	112	119	127	136	146
Grants	0	0	0	0	0	0	0	0	0	0	0
Expenditure	3,396	3,247	1,853	1,422	1,212	1,212	1,080	986	978	1,005	1,051
Expense	764	685	689	732	710	710	735	743	747	778	824
Expense (primary)	714	654	662	702	665	665	650	656	657	686	732
Compensation of employees	112	121	139	143	148	148	149	151	153	160	170
Purchase of goods and services	417	345	350	392	360	360	339	342	347	362	386
Interest	50	30	27	30	44	44	85	87	90	92	93
Domestic	1	0	8	16	16	16	34	30	27	23	19
Foreign	49	30	19	14	28	28	51	57	63	69	74
Subsidies and transfers[1]	184	188	173	168	157	157	161	163	157	164	176
Other expense	0	0	0	0	0	0	0	0	0	0	0
Net acquisition of non-financial assets	2,632	2,562	1,164	689	502	502	346	243	231	227	227
Gross operating balance	1,822	1,386	440	506	444	548	509	416	371	313	329
Net lending/borrowing (overall fiscal balance)	-810	-1,176	-724	-183	-58	46	163	173	140	86	102
Net financial transactions	810	1,176	724	183	-50	-154	-291	-263	-300	-238	-257
Net change in domestic arrears[2]	300	953	200	-165	-1,288	-1,288	0	0	0	0	0
Net acquisition of financial assets	-21	-59	540	285	19	-30	-144	-112	-160	-35	-36
Domestic deposits	112	172	257	118	-90	-120	-123	-101	-151	-39	-39
Foreign deposits	-132	-231	282	167	110	90	-22	-11	-9	4	3
Net incurrence of liabilities	260	275	72	63	1,219	1,165	-147	-151	-140	-203	-221
Domestic[3]	369	268	140	9	1,188	1,138	-195	-175	-160	-195	-201
Foreign	-109	7	-68	54	31	27	48	24	20	-8	-20
Loans	43	113	17	130	140	140	125	125	125	125	125
Amortization (-)[4]	-152	-106	-85	-76	-109	-113	-77	-101	-105	-133	-145
Other	271	8	-88		0	0	0	0	0	0	0
Financing gap					108	108	128	90	160	152	155
Memorandum items:											
Overall fiscal balance	-810	-1,176	-724	-183	-58	46	163	173	140	86	102
Percent of GDP	-7.5	-15.1	-10.8	-2.5	-0.9	0.6	2.3	2.5	2.0	1.2	1.3
Non-resource primary balance[5]	-3,053	-2,876	-1,558	-1,151	-882	-882	-662	-506	-441	-411	-397
Percent of non-hydrocarbon GDP	-66.0	-67.3	-38.7	-28.2	-23.6	-21.2	-15.2	-11.0	-9.0	-7.9	-7.1
Non-resource revenue (percent non-hydro GDP)	6.3	8.0	7.0	6.1	7.9	7.1	7.8	8.7	9.3	9.8	10.2
Of which: Tax revenue	4.1	5.2	4.5	3.6	4.8	4.3	5.2	6.1	6.7	7.2	7.6
Outstanding public debt[6]	12.6	33.6	43.3	37.4	43.5	37.3	37.4	37.2	37.2	35.9	33.0
Gross government deposits[7]	1,163	1,218	761	536	516	566	710	823	983	1,018	1,054
Deposits with BEAC	490	323	177	113	239	263	386	487	639	678	717
Of which: available	71	57	91	18	143	168	291	392	543	582	621
Deposits abroad	604	835	553	385	276	296	317	328	337	333	330
Of which: available	453	544	248	110	0	0	0	0	0	0	0
Deposits with commercial banks (available)	70	60	32	37	2	7	7	7	7	7	7
Nominal GDP	10,747	7,795	6,674	7,268	6,288	7,285	7,185	7,041	7,070	7,172	7,589
Nominal non-hydrocarbon GDP	4,629	4,272	4,025	4,074	3,736	4,154	4,350	4,603	4,890	5,213	5,598

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

[1] Includes social benefits and other transfers.

[2] Includes a one-time clearance of outstanding arrears through securitization in 2018.

[3] 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.

[4] Includes exceptional repayment of foreign debt for years 2014 and 2015.

[5] Equal to the overall balance minus interest and resource revenues.

[6] Outstanding public debt includes domestic arrears.

[7] It does not include deposits with commercial banks that are not available.

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

	2014	2015	2016	2017	Prog. 2018	Projections 2018	2019	2020	2021	2022	2023
Revenue	24.1	26.6	16.9	17.0	18.3	17.3	17.3	16.5	15.8	15.2	15.2
Resource revenue	21.3	22.2	12.7	13.6	13.7	13.2	12.6	10.8	9.4	8.1	7.7
Tax revenue	7.4	8.5	3.6	3.8	4.3	3.9	3.5	3.0	2.5	2.2	2.0
Other revenue	13.9	13.7	9.1	9.8	9.3	9.3	9.1	7.8	6.8	5.9	5.7
Non-resource revenue	2.7	4.4	4.2	3.4	4.7	4.0	4.7	5.7	6.4	7.1	7.5
Tax revenue	1.8	2.8	2.7	2.0	2.9	2.5	3.2	4.0	4.7	5.2	5.6
Other revenue	1.0	1.5	1.5	1.4	1.8	1.6	1.6	1.7	1.8	1.9	1.9
Expenditure	31.6	41.6	27.8	19.6	19.3	16.6	15.0	14.0	13.8	14.0	13.9
Expense	7.1	8.8	10.3	10.1	11.3	9.7	10.2	10.5	10.6	10.9	10.9
Expense (primary)	6.6	8.4	9.9	9.7	10.6	9.1	9.0	9.3	9.3	9.6	9.6
Compensation of employees	1.0	1.6	2.1	2.0	2.4	2.0	2.1	2.1	2.2	2.2	2.2
Purchase of goods and services	3.9	4.4	5.2	5.4	5.7	4.9	4.7	4.9	4.9	5.1	5.1
Interest	0.5	0.4	0.4	0.4	0.7	0.6	1.2	1.2	1.3	1.3	1.2
Domestic	0.0	0.0	0.1	0.2	0.3	0.2	0.5	0.4	0.4	0.3	0.3
Foreign	0.5	0.4	0.3	0.2	0.4	0.4	0.7	0.8	0.9	1.0	1.0
Subsidies and transfers[1]	1.7	2.4	2.6	2.3	2.5	2.2	2.2	2.3	2.2	2.3	2.3
Other expense	0.0	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	24.5	32.9	17.4	9.5	8.0	6.9	4.8	3.5	3.3	3.2	3.0
Gross operating balance	16.9	17.8	6.6	7.0	7.1	7.5	7.1	5.9	5.2	4.4	4.3
Net lending/borrowing (overall fiscal balance)	-7.5	-15.1	-10.8	-2.5	-0.9	0.6	2.3	2.5	2.0	1.2	1.3
Net financial transactions	7.5	15.1	10.8	2.5	-0.8	-2.1	-4.1	-3.7	-4.2	-3.3	-3.4
Net change in domestic arrears[2]	2.8	12.2	3.0	-2.3	-20.5	-17.7	0.0	0.0	0.0	0.0	0.0
Net acquisition of financial assets	-0.2	-0.8	8.1	3.9	0.3	-0.4	-2.0	-1.6	-2.3	-0.5	-0.5
Domestic deposits	1.0	2.2	3.9	1.6	-1.4	-1.6	-1.7	-1.4	-2.1	-0.5	-0.5
Net incurrence of liabilities	2.4	3.5	1.1	0.9	19.4	16.0	-2.0	-2.1	-2.0	-2.8	-2.9
Domestic[3]	3.4	3.4	2.1	0.1	18.9	15.6	-2.7	-2.5	-2.3	-2.7	-2.6
Foreign	-1.0	0.1	-1.0	0.7	0.5	0.4	0.7	0.3	0.3	-0.1	-0.3
Loans	0.4	1.4	0.3	1.8	2.2	1.9	1.7	1.8	1.8	1.7	1.6
Amortization (-)[4]	-1.4	-1.4	-1.3	-1.0	-1.7	-1.6	-1.1	-1.4	-1.5	-1.9	-1.9
Other	2.5	0.1	-1.3	-1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	1.7	1.5	1.8	1.3	2.3	2.1	2.0
Memorandum items:											
Overall fiscal balance	-7.5	-15.1	-10.8	-2.5	-0.9	0.6	2.3	2.5	2.0	1.2	1.3
Non-resource primary balance[5]	-28.4	-36.9	-23.3	-15.8	-14.0	-12.1	-9.2	-7.2	-6.2	-5.7	-5.2
Gross government deposits[6]	10.8	15.6	11.4	7.4	8.2	7.8	9.9	11.7	13.9	14.2	13.9
Deposits with BEAC	4.6	4.1	2.7	1.6	3.8	3.6	5.4	6.9	9.0	9.4	9.4
Of which: available	0.7	0.7	1.4	0.2	2.3	2.3	4.0	5.6	7.7	8.1	8.2
Deposits abroad	5.6	10.7	8.3	5.3	4.4	4.1	4.4	4.7	4.8	4.6	4.4
Of which: available	4.2	7.0	3.7	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deposits with commercial banks (available)	0.6	0.8	0.5	0.5	0.0	0.1	0.1	0.1	0.1	0.1	0.1

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

[1] Includes social benefits and other transfers.

[2] Includes a one-time clearance of outstanding arrears through securitization in 2018.

[3] 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.

[4] Includes exceptional repayment of foreign debt for years 2014 and 2015.

[5] Equal to the overall balance minus interest and resource revenues.

[6] It does not include deposits with commercial banks that are not available.

Table 4. Monetary Survey, 2014–23

(Billions of CFA Francs, unless otherwise specified)

					Projections					
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Net foreign assets	1,629	854	163	75	155	317	450	593	706	806
Bank of Central African States (BEAC)	1,546	700	-12	-55	24	184	316	458	570	670
Commercial banks	83	154	174	130	131	132	133	135	136	136
Net domestic assets	-72	533	997	1,115	1,056	1,069	1,070	1,020	1,013	1,021
Domestic credit	360	938	1,403	1,535	1,461	1,445	1,447	1,444	1,486	1,565
Net claims on the public sector	-610	-168	232	346	258	174	100	-3	-42	-81
Net credit to the central government	-619	-176	224	339	251	167	92	-11	-50	-89
Central Bank	-120	194	441	496	378	294	220	117	78	39
Claims	370	517	618	609	642	680	707	755	755	755
Credit under statutory ceiling	370	517	618	609	642	680	707	755	755	755
Deposits	-490	-323	-177	-113	-263	-386	-487	-639	-678	-717
Commercial Banks	-498	-370	-217	-157	-127	-127	-127	-127	-127	-127
Claims on the Treasury	10	29	76	82	82	82	82	82	82	82
Deposits	-508	-398	-293	-239	-209	-209	-209	-209	-209	-209
Credit to public enterprises	9	8	8	7	7	7	7	7	7	7
Credit to financial institutions	2	1	19	22	22	22	22	22	22	22
Credit to the private sector	968	1,105	1,151	1,167	1,181	1,249	1,325	1,425	1,507	1,625
Credit to the economy 1/	978	1,113	1,178	1,196	1,210	1,278	1,354	1,454	1,536	1,654
Other items (net)	-432	-405	-405	-420	-405	-377	-377	-424	-473	-527
Broad money	1,557	1,387	1,160	1,172	1,194	1,368	1,502	1,596	1,701	1,827
Currency outside banks	280	222	175	165	177	203	222	236	261	282
Deposits	1,277	1,164	985	1,007	1,017	1,165	1,280	1,359	1,440	1,545
Of which: private deposits	1,212	1,100	918	979	957	1,091	1,205	1,277	1,352	1,452
Memorandum items:										
Contribution to the growth of broad money (percentage points)										
Net foreign assets	-41.6	-49.8	-49.9	-7.6	6.9	13.5	9.7	9.5	7.1	5.9
Net domestic assets	27.5	38.8	33.5	10.1	-5.0	1.0	0.1	-3.3	-0.4	0.5
Of which : net credit to the central government	26.5	28.4	28.8	9.9	-7.5	-7.1	-5.4	-6.9	-2.4	-2.3
Credit to the economy (annual percentage change)	17.4	13.8	5.8	1.5	1.2	5.6	5.9	7.4	5.6	7.7
Credit to the private sector										
Annual percentage change	18.4	14.1	4.2	1.3	1.2	5.8	6.1	7.6	5.7	7.8
In percent of GDP	9.0	14.2	17.3	16.1	16.2	17.4	18.8	20.2	21.0	21.4
Broad money (annual percentage change)	-14.1	-10.9	-16.4	1.0	1.9	14.6	9.8	6.2	6.6	7.4
Currency outside banks	3.0	-20.7	-21.4	-5.8	7.3	14.6	9.8	6.2	10.6	8.0
Deposits	-17.1	-8.8	-15.4	2.2	1.0	14.5	9.8	6.2	5.9	7.3
Velocity (GDP/ M2)	6.9	5.6	5.8	6.2	6.1	5.3	4.7	4.4	4.2	4.2

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. External Financing Requirements, 2013–23
(In millions of U.S. dollars, unless otherwise indicated)

	2013	2014	2015	2016	2017	Projections 2018	2019	2020	2021	2022	2023
1. Total financing requirements	**839**	**45**	**888**	**400**	**795**	**820**	**960**	**1,026**	**1,007**	**2,835**	**1,289**
Current account deficit	526	924	2,140	1,457	738	415	461	550	567	2,390	840
Debt amortization	353	308	178	143	131	206	138	185	192	246	269
Change in gross reserves (increase=+)	-40	-1,186	-1,431	-1,200	-75	200	361	291	248	199	179
2. Total financing sources	**10**	**411**	**367**	**481**	**383**	**624**	**729**	**861**	**713**	**2,553**	**1,000**
Capital transfers	0	0	0	0	0	0	0	0	0	0	0
Foreign direct investment (net)	2,146	1,138	1,186	319	615	280	535	615	487	2,130	688
Portfolio investment (net)	29	24	2	0	0	-2	-2	-2	-2	-2	-2
Debt financing	433	154	200	612	392	254	226	228	230	232	232
Public sector	324	30	98	529	285	254	226	228	230	232	232
Non-public sector	109	124	103	83	108	0	0	0	0	0	0
Other net capital inflows	-2,599	-905	-1,022	-450	-624	92	-29	20	-2	193	81
Errors and omissions	-829	-365	469	-25	-152	0	0	0	0	0	0
3. Financing gap	**0**	**0**	**0**	**0**	**0**	**196**	**231**	**165**	**295**	**282**	**288**

Source: Fund staff estimates and projections.

Table 6. Prior and Structural Measures

Measure	Target date	Macroeconomic objective	Government Unit / instrument	Status
Prior Measures				
Secure congressional approval of a 2018 budget consistent with targets under the SMP	Before submitting first Review of SMP to management	Improve macro-fiscal management	Ministry of Finance and Economy	Met
Structural Measures				
Secure congressional approval of a 2018 budget consistent with targets under the SMP	End-April 2018	Improve macro-fiscal management	Ministry of Finance and Economy	Not met
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	To be assessed
Hire an independent entity to conduct an audit of domestic arrears accumulated through end-2017	End-July 2018	Improve public financing management	Ministry of Finance and Economy / submission of document to Fund staff	To be assessed
Adopt mechanisms to track and control expenditure commitments and strengthen treasury cash management	End-July 2018	Improve public financial management	Ministry of Finance and Economy	To be assessed
Submit a membership application to the Extractive Industries transparency Initiative (EITI)	End-July 2018	Increased transparency of the oil sector	Ministry of Finance and Economy / submission of document to Fund staff	Not met
Ratify the United Nations Convention Against Corruption	End-July 2018	Foster good governance	Ministry of Finance and Economy publication on official website	Met

Sources: IMF staff.

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

	2018					
	SMP					
	End-Apr.			End-Jul.	End-Sep.	End-Dec.
	Prog.	Actual	Status	Prog.	Proj.	Proj.
A. Quantitative performance measures						
Floor on non-resource tax revenue of the central government	37	49	Met	90	140	180
Floor on non-resource Primary balance of the central government	-300	-273	Met	-540	-569	-882
Ceiling on external debt arrears accumulation[1,2]	0	0	Not met	0	0	0
Ceiling on contracting and guaranteeing new external debt	80	70	Met	100	110	140
Ceiling on new BEAC credit to the government	0	0	Met	0	0	0
B. Indicative Targets						
Ceiling on net domestic bank credit to the government	-127	-127	Met	-127	-127	-122
Floor on social spending (education and health)[3]	30	30	Met	60	80	150

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

[1] This quantitative measure will apply continuously.

[2] As of April 30th 2018, there is an external arrear of 160,000 USD with the Russian Federation.

[3] The floor for social spending is based on SMP definition of social spending.

Annex I. Revision of National Accounts

The Institute of National Statistics of Equatorial Guinea (INEGE) has updated the national accounts series from 2014 through 2017. This update is part of the normal finalization of the estimates for 2014 and 2015 and revised estimates for 2016. It derives from the incorporation of more accurate end of year results to the GDP estimates for the different sectors, including the public sector. The revision has impacted both the nominal and real GDP series. The key features of the updated national accounts series are as follows:

- *A higher level of GDP*. The level of both nominal and real GDP has increased relative to the vintage contained in the SR of June 2018. In the case of nominal GDP, the level of GDP is 1.3 percent higher in 2014 and increases gradually to 14 percent by 2017. Real GDP is 1.1 percent higher in 2014 and about 2.1 percent higher in 2017.

- *GDP growth*. With the revision to real GDP, growth in 2014 was 0.4 percent in contrast to the negative 0.7 reported in the May 2018 staff report. In 2016 growth is slightly higher, but lower in 2017. Nominal growth is however, higher through 2017.

- *Composition of GDP*. The share of the non-hydrocarbon sector in total real GDP has increased, which is mainly driven by new estimates for public administration.

Revised GDP series compared with the SMP Vintage, 2014-2017 (in percent)

	2014	2015	2016	2017
Real GDP series				
New GDP relative to old	1.1	1.1	2.4	2.1
Growth				
Old series	-0.7	-9.1	-9.7	-2.9
New series	0.4	-9.1	-8.6	-3.2
Share of Non-hydrocarbon GDP				
Old series	40.1	40.0	38.5	40.2
New series	40.8	40.9	40.9	42.3
Nominal GDP series				
New GDP relative to old	1.3	8.4	10.6	14.0
Growth				
Old series	-2.1	-32.2	-16.1	5.7
New series	-0.9	-27.5	-14.4	8.9
Share of Non-hydrocarbon GDP				
Old series	41.9	55.6	59.3	57.4
New series	43.1	54.8	60.3	56.1

Annex II. Fiscal Consolidation Measures in 2018

Equatorial Guinea continued its strong fiscal adjustment program in the first four months of 2018, reducing the non-hydrocarbon primary deficit. This performance was supported by both revenue and expenditure measures, and the bulk of the adjustment came from reductions in expenditure.

The government has implemented a system of better control and tracking of expenditure along with a reprioritization of spending. The key drivers of the fall in spending were purchase of goods and services and public investment. On purchase of goods and services, the government has imposed tighter controls on expenditures, including electricity/lighting. In addition, contingent and unforeseen expenditures were smaller than expected. More broadly, all spending must now be approved by the MFEP before implementation. In the area of capital spending, the authorities have reprioritized the projects to be included in the budget based on its perceived impact on economic and social welfare. Spending has increased in some other categories, notably on transfers and subsidies. For subsidies, there is more expenditure on maintenance (especially for planes) and fuel subsidy. Subsidies to families and other social expenditures have also increased.

Reforms to increase revenue mobilization, especially in the non-hydrocarbon sector, are being rolled out. In particular, the authorities have hired a tax expert to help with implementing the recommendations of the 2018 FAD TA report on tax policy and tax administration. On the policy side, the expert is helping to draft regulations to implement the recommended measures to increase non-resource tax revenues.[1]

On the tax administration side, many measures have already been taken. These include the creation of the large tax-payer unit; better enforcement of the existing corporate tax code; mandating all corporate taxes be filed in Malabo; creation of a single bank account to collect non-hydrocarbon revenues; and the unification of the Directorate General for Taxes and Contributions to better control payments and collections. In addition, the authorities have tightened the granting of exemptions as envisaged in Decree 134 of 2015. The tax amnesty law passed by parliament in late 2017 has not yet been operationalized as the authorities are currently studying proposals for its amendment. On customs, the authorities are moving ahead with the reorganization of customs services. In particular, implementation of the new customs clearance procedures supported by the ASYCUDA software has begun, as scheduled, in Malabo and is expected to be introduced in Bata by year-end. They have also started to implement the CEMAC common external tariff.

To support of the revenue reforms, the authorities have launched two initiatives: (i) a public relations campaign to encourage tax-payers to voluntarily comply with the tax laws; and (ii) a training agenda to upgrade the skills of public officers.

[1] Additional details on measures to increase non-resource tax revenue are provided in the authorities' Memorandum of Economic and Financial Policies, paragraph 10 and in Appendix I.

Annex III. External Debt from China

As economic cooperation efforts between China and Equatorial Guinea have strengthened, China has become Equatorial Guinea's main external creditor. Chinese lending to Equatorial Guinea has thus far occurred through two modalities, official concessional loans and a credit facility with the Export-Import Bank of China (Eximbank). Flows from these activities have been used to finance several projects aligned with the authorities' development objectives in various areas, including housing programs and electrification. As of end-December 2017, debt owed to China amounted to about CFAF 555 billion, or 20 percent of total public debt.

The Eximbank facility is the main debt obligation to China. It is governed by a framework that links hydrocarbon exports to China, deposit arrangements, and loans. In particular, this credit line allows Equatorial Guinea to borrow up to US$2 billion on non-concessional terms, though usage of this credit has so far been below that amount. Credits have been drawn in tranches, which are amortized, but the overall facility resembles revolving credits. These loans are secured by deposit accounts opened by Equatorial Guinea in Eximbank, into which proceeds from Equatorial Guinea's hydrocarbon exports to China are deposited. The required deposit in Eximbank increases with the utilization of the credit facility, and because they represent collateral, required balances are not freely available to be repatriated. Moreover, additional amounts that are credited to Equatorial Guinea's deposits can be used to service the existing loans made under this facility. Given that this is one of the few readily available sources of financing, staff has assumed that utilization of these loans comprise the full amount of identified fiscal financing in the projection period. Collateralization requirements are assumed to remain at the effective rate (about 50 percent), though there may be two-sided risks to this projection.

Equatorial Guinea and other Chinese lenders have been discussing potential future lending activities. In April 2015, China's largest commercial bank, the Industrial and Commercial Bank of China (ICBC) announced an infrastructure cooperation agreement with Equatorial Guinea. This agreement entails potential lending of up to US$2 billion. The credits are expected to be made on commercial terms and insured by the China Export and Credit Insurance Corporation (Sinosure); therefore, they do not entail collateralization requirements as in the Eximbank facility. The authorities have not yet drawn on these facilities, but are considering projects that they might choose to finance with these funds.

Annex IV. Reforming Public Financial Management Framework

After several years of weaknesses, the authorities are strengthening the PFM framework by implementing the recommendations of the 2017 FAD TA mission. In January 2018, the President issued a circular to all ministries mandating that, starting immediately, all spending authorization would need to be approved by the Ministry of Finance, Economy and Planning (MFEP) as prescribed in Decree 134. Previously, spending and payment requests were sent directly to the pay master (*Ordenador de Pagos*). These newly enforced procedures aim to separate spending into four components: approval, commitment, implementation, and payment. Specifically, the measures already implemented include the following:

- *Institutional reorganization*. The merger of the Ministry of the Economy and Planning with the Ministry of Finance to form the Ministry of Finance, Economy, and Planning has had a very positive effect, making the Minister of Finance responsible for both capital and current expenditure. Previously, these were separate ministries, with little coordination between them.

- *Capital spending*. The MFEP works on a continuous basis with GE Projectos to keep projects within approved budget ceilings. The MFEP and GE Projectos jointly sign spending authorizations. The MFEP does not sign any contracts for capital projects proposed by GE Projectos that are not covered in the budget. An internal committee of technical staff from MFEP and GE Projectos monitors and reviews the projects and determines which ones are completed and ready to be submitted to the payments council for payment.

- *Control of current spending*. All current spending must be approved by the Directorate of finance control in the Ministry of Finance, Economy, and Planning before it can be undertaken. The report is then sent to the Minister of Finance, who must approve before it is sent to the director of budget who signs the payment order, on which treasury and the *Ordenador de Pagos* act.

- *Budget execution*. The MFEP has established a technical committee to monitor spending on a monthly basis. However, the current system could be improved by strengthening interconnections with various components of the expenditure chain.

- *Budget preparation*. The preparation of the national budget is now better coordinated. A budget committee considers all submissions. Each department presents its request and these are discussed within the context of the government's announced policy priorities. In this structure all ministries get a full understanding of the size of the resource envelope, the allocation of spending, and the rationale for that allocation. Training seminars are organized so public officials are better aware of the budget needs. Also, the merger of the Ministries of Economy and Finance will greatly improve the information content of the capital spending element in future budgets.

- *Budget coordination*. All spending is now included in the national budget.

- *Treasury cash management*. The area of Treasury cash management has benefitted greatly from improvements to the spending control and authorization function. Payments are now scheduled with the availability of resources, and the treasury is no longer surprised by large payment requests. The public accounts at the banks are monitored daily, and the banks have been told that payments that bypass the treasury control mechanism will not be honored. The use of IT cash management systems (SIGMA system used with BEAC) has also been reinforced through technical training seminars.

- *Treasury accounts*: The reception of hydrocarbon cash revenues is now better centralized in one main BEAC account. Also, accounts in domestic commercial banks have been streamlined.

- *Training and capacity building*. To support these reforms the authorities have stepped up training on budget preparation for technical staff within the various departments.

The authorities plan to build on these initial efforts on several fronts. In particular, they are currently working on creating a unified control system for both capital and current spending. In the area of budgeting, they plan to develop a multi-year budget. They have also requested technical assistance to computerize spending control functions.

Appendix I. Letter of Intent

Malabo, October 23, 2018

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

Dear Madame Lagarde:

The Government of Equatorial Guinea continues to implement its economic reform program, now supported by a 7-month IMF Staff-Monitored Program (SMP), approved by the Fund's management in early May 2018. We are using the SMP as a framework to help us build capacity and an adequate track record of successful policy implementation that could be a bridge to a program that could be supported with IMF financial assistance, which we hope could be approved by the IMF's Executive Board this year.

Our policies under the SMP are focused on reducing macroeconomic imbalances, improving the conditions for inclusive growth, fostering economic diversification, and strengthening governance, while contributing to the regional CEMAC adjustment strategy. To achieve these objectives, we are reducing public spending and re-orienting the budget composition toward growth-enhancing and social spending. We have also begun the process of gradually reforming the public financial management framework to make it more efficient and effective. On the revenue side, we are taking measures to increase revenues through improved administration and measures to help raise non-hydrocarbon revenues. In the financial sector, we have petitioned the COBAC to do an asset quality review of the banks in Equatorial Guinea (EG) as part of the strategy to resolve the problem of high NPLs. On structural policies aimed at improving the business climate, we have changed the foreign investment law that previously required a local partner and have operationalized the one-stop shop for investors. These measures, we believe, will help to encourage more investment, including foreign direct investment in the non-hydrocarbon sector.

Aware of the need for continued public support for the economic reforms, our government has created a new webpage in the Ministry of Finance, Economy, and Planning to disseminate information to the population. On this website, we have already posted the fiscal outturn for the last four years, inclusive of our analysis of fiscal trends. Going forward, we plan to post on the webpage the 2018 revised budget, future annual national budget documents, quarterly reviews of the SMP, and other relevant information to keep the population informed about the state of the economy and the progress of our economic reform efforts. In line with our desire to strengthen governance, in May of this year parliament ratified the UN Convention against Corruption, and it is discussing a law to implement this Convention. These measures, we believe, demonstrate our government's commitment to enhanced governance and transparency in public administration.

We remain committed to the steadfast implementation of the policies agreed in our Letter of Intent (LOI) of May 11, 2018. For the first review period ending April 2018, we have met all but one quantitative performance measures (PMs). There was a small breach of the PM on the non-accumulation of external debt payments arrears, owing to a logistical issue of the correspondent bank when making the payment. We are working assiduously to solve this problem and will strive to avoid a recurrence.

While we did not secure parliamentary approval of a revised 2018 budget by end-April (structural measure), we have been conducting our fiscal affairs within the boundaries of this proposal. The 2018 revised budget was approved by parliament in late July 2018. At the same time, we have been making progress towards delivering on our policy commitments for the review period for end-July 2018. In particular, as mentioned above, we have already ratified the UN Convention against Corruption and are now deliberating regulations for its implementation. We have also strengthened public expenditure control by devolving it to the Ministry of Finance, Economy, and Planning, and have drafted terms of reference to hire independent auditors to audit the domestic arrears and the state-owned oil and gas companies and to do a reconciliation of hydrocarbon revenues in the budget with production for 2016 and 2017.

Our Memorandum of Economic and Financial Policies (Attachment 1) details our policy priorities. The Government of Equatorial Guinea believes that the policies set forth therein are adequate to achieve its programmed objectives at this juncture but stands ready to take any additional measures that may become necessary. We will consult with the IMF on the adoption of these measures and in advance of any revisions to the policies contained in this memorandum, in accordance with the Fund's policies on such consultation, and will continue to provide IMF staff with all relevant information needed, as outlined in the Technical Memorandum of Understanding (Attachment 2).

On the basis of our performance under the program thus far, and our strong commitment to its continued implementation, our Government requests that the IMF's Management complete the first review under the SMP.

Finally, we authorize the IMF to publish this letter, its attachments, and the staff report for this first review under the SMP in line with the increased transparency and good governance commitment of our government.

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

1. **The Government of Equatorial Guinea's reform program, supported by a seven-month Staff-Monitored Program, is off to a good start.** The SMP has allowed us to reinforce our commitment to macroeconomic stability and to lay out the foundations of our broader policy direction. Strong program implementation resulted in over performance on fiscal targets owing to higher revenue, and strict spending controls. Despite the fiscal consolidation, social spending increased to reduce poverty and income inequality. Meanwhile, structural reforms are broadly moving ahead (Tables 1 and 2).

2. **We remain fully committed to the objectives set forth in the May 2018 Memorandum of Economic and Financial Policies (MEFP)**. The measures underpinning these objectives will be complemented with the policies described in this MEFP to ensure the program's goals remain within reach. The seeks to (i) reduce macroeconomic imbalances, (ii) improve the conditions for inclusive growth, (iii) foster economic diversification, (iv) improve social protection, (v) strengthen governance and fiscal transparency; (vi) protect financial stability; and (vii) strengthen capacity. We will not lose sight of the fact that Equatorial Guinea must continue to fulfil all its obligations to the CEMAC.

Macroeconomic Developments, Program Implementation and Outlook

3. **Despite progress being made, macroeconomic conditions remain difficult**. After the measures adopted by the government to confront the crisis caused by the abrupt fall of international crude oil prices in 2014, it is anticipated a contraction of 8 percent of real GDP in 2018. Although the recent increase in the international price of oil is a positive development, the reduction of oil production, and restrictions on access to financing (which has had an impact on investment in the non-hydrocarbon sector) continue to weigh on overall economic activity Notwithstanding stricter enforcement with current foreign exchange regulations, our net imputed reserves at the BEAC have not recovered, owing to persistent demand for foreign exchange by the private sector.

4. **We are steadfastly implementing the policies that we committed to in the SMP**. For the first review period ending April 2018, we have met all quantitative performance measures (PMs), except for one, which was missed due to technical reasons not attributed to the government.

- The non-resource primary deficit of the central government reached CFA Francs -273 billion (target CFA Francs -300 billion) and non-resource tax revenue was CFA Francs 49 billion (target CFA Francs 37 billion). This over-performance reflected vigorous revenue collection——as well as expenditure control, including outlays on goods and services and capital spending;

- The ceiling on contracting and guaranteeing new external debt has been met. The government has contracted CFA Francs 70 billion in new external loans, below the ceiling of CFA Francs 80 billion;

- On new BEAC credit, the government has maintained its gross new credit at zero, which is the target for end-April;

- The indicative targets on net domestic bank credit to the government and social spending have also been met.

- External arrears: There was a small breach of the PM owing to the fact that the correspondent bank in the US could not process the payment for the creditor's bank as it is the subject of US government sanctions.

5. Our structural reform agenda is broadly moving ahead. While we could not present the revised 2018 budget to parliament by end-April (structural measure), since the beginning of the year we have been conducting our fiscal policy within the boundaries of this proposal. The revised budget was approved by parliament at end -July 2018. At the same time, we have been making progress towards delivering on our policy commitments for the review period for end-July. In particular, we have already ratified in May 2018, the UN Convention against Corruption, and parliament is now deliberating a law for its implementation. We have also strengthened public expenditure control, and have drafted terms of references to hire independent auditors to audit the public sector domestic payment arrears, the state-owned oil and gas companies, and to do a reconciliation of hydrocarbon revenues in the budget with production for 2016 and 2017.

6. The macroeconomic outlook remains challenging. 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, although tis is expected to continue to expand. In this context, real GDP growth is projected to contract by almost 8 percent in 2018 and by 2.6 percent in 2019. We also expect inflation to remain low, broadly in line with 2017, owing partly to the continued weak conditions in the economy. 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 and funding restrictions are relaxed, 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[1]

7. **The main objectives of our economic program are to reduce macroeconomic imbalances and renew growth, while contributing to the regional adjustment strategy.** We believe that a seven-month SMP with good performance is a first step towards a financial assistance program under a potential Fund-supported program, which we expect to access in 2018. The program consists of a planned fiscal adjustment (measured by the change in the non-hydrocarbon primary balance) of 3.7 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 is making every effort to focus economic policy on poverty reduction, by changing the composition of spending, in order to protect vulnerable groups from the negative effects of the fiscal adjustment. Finally, the government is also committed to fostering economic diversification, strengthening governance (including in public financial management) and improving the legal framework for combating corruption.

A. Fiscal Policy

8. **Our strategy for 2018 is to minimize the financing gap and maintain public debt sustainability.** We have already made a great effort with respect to the primary deficit, reducing it from -28.4 percent of GDP in 2014 to -15.8 percent in 2017, notwithstanding the fact that our target for the non-hydrocarbon primary balance in 2018 is 12.1 percent of GDP, 3.7 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 are being taken to improve tax policy and administration to increase non-hydrocarbon tax revenue.

9. **Revenue**: In 2018, we plan to increase total tax revenue by 0.5 percent of GDP. Of this increase, 0.3 percentage points would come from improvements in the measures already adopted. Our program to increase non-hydrocarbon tax revenue focuses principally on administrative measures as follows:

- **Large taxpayer unit**. We have activated the large and medium-size taxpayer units, and introduced a single taxpayer identification number, streamlined tax returns, and transferred tax collection management from the Treasury to the tax and customs administrations. All companies are now required to file their taxes in Malabo.

- **Customs.** We have started to reorganize the customs service and implement modern procedures based on the ASYCUDA program. The number of inspectors at all border crossings have also been increased.

[1] See Appendix I for a more complete summary of SMP measures.

- **Common sub-regional tariff**. We have directed all the customs posts to begin applying the prescribed tariffs on alcohol, cigarette and luxury goods. This is expected to generate positive revenue inflows later in 2018.

- **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. As part of enforcement measures, all requests for exemptions go through the Ministry of Finance, which prepares a study with recommendations for the paymaster's consideration. 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. In this context, we plan to coordinate with Directorate General of state office to conduct joint audits of these entities. More broadly we have unified the Directorate of taxes and collections with the aim of having better controls for payments and collections. In addition, we hired a tax expert to help us implement recommendations made in the IMF 2017 TA report.

- **Revision to the 2017 Tax Amnesty Law**. Although on the books, this law has not yet been operationalized. That said, 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 in January 2018 by the 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 have introduced a single card for goods imports, which has simplified customs procedures and allow for customs duties to be paid into the banks, with the potential to improve revenue collection.

- **Startup of the one-stop facility**. Having completed all the procedures needed for funding the proposed one-stop shop, we have operationalized it, which will help reducing red tape and improving revenue collection.

10. Expenditure: The main component of the fiscal program is the additional cut in total government spending. We have revised the 2018 budget to make it compatible with the SMP, and it has been approved by parliament in late July 2018, and have managed our public finances in line with its parameters. In this budget capital expenditure has been reduced, making room for more social spending. Going forward we will 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 and prioritized its investments executing only the top priorities. We intend to decrease capital expenditure by 2.6 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 have established new priorities for public investment, 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). We plan to continue to target this subsidy to the low-income population.

11. 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 has been fully incorporated into the national budget.

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

12. We have adopted measures to insulate low income groups from the impact of the fiscal adjustment while developing our human capital. We are currently spending 1.8 percent of GDP on the social sector but, in light of the ongoing fiscal adjustments implemented, we have increased the social expenditure item in the 2018 budget to 2.0 percent of GDP. This is a floor on social spending that guarantees continued support for our vulnerable groups, in the areas of health and education. This increase is being financed by reallocating a portion of capital and current expenditure to the social sectors and by increasing non-hydrocarbon tax revenue. Going forward, we will need to fund periodic household budget surveys to improve data collection on poverty and other social indicators. In this regard, we are 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

13. 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.

14. 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 have drafted terms of reference to hire an independent auditor 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 have been agreed upon with the IMF technical staff. In the meantime, we continue to make small payments on these arrears, as our public finances may permit.

15. Public Debt. The majority of our public debt is denominated in CFAs, with about half of this consisting of domestic payment arrears discussed above (para. 14). Other domestic components include loans from the BEAC, and securities issued in the nascent regional market–also mainly held by banks. On the external side, our debt stock is relatively small, has a simple structure and is mainly with one main creditor. Going forward, we plan to manage our debt portfolio more closely. In this regard, we plan to strengthen our debt office. This would involve strengthening the institutional structure and providing training in the area of debt management. Also, we are committed to adhering to the ceiling of external debt envisaged in the SMP, in order to keep our public debt under control.

D. Financial Sector Policies

16. Our program includes measures to strengthen the banks and manage potential risks. To that end, we 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 have asked the Commission to conduct a quality assessment of the banking system's assets[2] 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

[2] An "asset quality assessment" typically examines the valuation of assets, the classification of overdue loans, the level of provisioning, the value of collateral, etc.

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:

- ***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. While the Co-Investment Fund has not attracted any private sector takers, we are moving forward with initiatives to reform the autonomous agencies, focusing on improving corporate governance. We also continue with efforts to improve the business climate.

- ***Revising Horizonte 2020.*** In March 2019, 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, the integration of the millennium development goals, and environmental considerations. This updated strategy will then be used to guide economic and social transformation, with specific sectoral policies for the following five to ten years. In the economic sphere, 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. On the social component, the focus will be poverty reduction, social inclusion and empowerment of the youth. These actions could well reduce the economy's concentration on the oil and gas sector and promote sustainable, lasting, and inclusive economic growth.

- ***Priority sectors***. We have identified four priority sectors as part of the economic diversification strategy: Tourism, fishing, agriculture and financial services. In the area of tourism, we are working with stakeholders in the sector to draft a national tourism development plan. The work of this group would include proposals on easing access to visas for tourism travel to EG. On fishing, we are making advances in the development of a national fisheries industry. This initiative would include the creation of a training institute for fisherfolk; creation of a tuna factory; and construction of two fishing ports. We still working on firm proposals for the agriculture and financial services sectors.

- ***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. We have created a National Technical Committee for Doing Business to study and implement all the necessary reforms that emerge from our diagnostic study. To launch this report, we are planning a national event to sensitize the key stake holders in EG on the need for a favorable business environment. In this context, we have signed an agreement with the Singapore Corporation Enterprise to do a practical seminar on how to reform the business climate in EG.

- ***Private investment***. In April 2018, we changed aspects of our legislation that could deter non-hydrocarbon investment. In particular, 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 18th. We have also operationalized the one-stop shop for investors (Article 23.6 of Decree 134/2015). To further develop the private sector and encourage investment we plan to create three new instruments: (i) special economic zones; (ii) a specific agency to promote foreign direct investment in Equatorial Guinea, and (iii) a digital portal to provide strategic access to information on business opportunities. As we move forward with the design of the special economic zones, we will discuss their characteristics with the IMF staff.

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 is focused on the following:

- **Governance diagnostics and strategy**. We are working with the IMF to prepare a diagnostic study on governance in Equatorial Guinea. This process, which started in December 2017 with a scoping mission, continued in June with a follow up mission to Equatorial Guinea. We propose to use the results of this 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. In this regard, we have ratified the United Nations Convention Against Corruption (structural measure, end-July 2018), and are currently deliberating regulations in parliament for its implementation. An additional step involves 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.

- **Hydrocarbon sector transparency**. To enhance transparency in the hydrocarbon sector, we: are in the process of completing all the necessary documentation and domestic consultations with stakeholders to submit our membership application to the EITI (structural measure, end-July 2018). As decided by National Commission, we will do a seminar presentation on the proposed submission to the parliament before presenting our application to the EITI. We have also shared all existing oil and gas contracts with the IMF staff.[3] We have drafted the terms of reference 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

[3] 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.

budget (structural measure, end-July 2018). These terms of reference have been worked out in collaboration with the IMF staff. We intend to start this audit in the third quarter of 2018.

19. 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 have shared the details of the contracts governing the operation of those funds with the IMF technical staff.

20. 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. In May 2018, we launched a new webpage for the Ministry of Finance, Economy, and Planning (www.minhacienda.gob.gq), on which we have published quarterly data on central government budget performance for the period 2015–17. Going forward, we also plan to publish the revise 2018 national budget on this website as well as future budget, and also regularly report existing economic data to the IMF Statistics Department. Lastly, we have shared the details about the foreign deposit contracts pertaining to the line of credit provided by China, and shared the framework agreement on economic cooperation with China, with the IMF technical staff.

21. 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

22. 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. In early June 2018 we continued with these efforts, and hosted the IMF capacity development institute which delivered training to a cohort of 25 public officials (including BEAC staff) in macroeconomic analysis and forecasting. We plan to leverage this training to establish a policy unit within the Ministry of Finance, and Economy that would maintain the macro-fiscal framework as the basis for supporting informed economic policy. 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

23. The program has 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) was completed in early August 2018 and the second review (with data through end-July), would be done by end-October 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.

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

Table 1. Quantitative Performance Measures and Indicative Targets

(Billions of CFA Francs, cumulative for each quarter)

	2018					
	SMP					
	End-Apr.			End-Jul.	End-Sep.	End-Dec.
	Prog.	Actual	Status	Prog.	Proj.	Proj.
A. Quantitative performance measures						
Floor on non-resource tax revenue of the central government	37	49	Met	90	140	180
Floor on non-resource Primary balance of the central government	-300	-273	Met	-540	-569	-882
Ceiling on external debt arrears accumulation[1,2]	0	0	Not met	0	0	0
Ceiling on contracting and guaranteeing new external debt	80	70	Met	100	110	140
Ceiling on new BEAC credit to the government	0	0	Met	0	0	0
B. Indicative Targets						
Ceiling on net domestic bank credit to the government	-127	-127	Met	-127	-127	-122
Floor on social spending (education and health)[3]	30	30	Met	60	80	150

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

[1] This quantitative measure will apply continuously.

[2] As of April 30th 2018, there is an external arrear of 160,000 USD with the Russian Federation.

[3] The floor for social spending is based on SMP definition of social spending.

Table 2. Prior Measures and Structural Measures for 2018

Measure	Target date	Macroeconomic objective	Government Unit / instrument	Status
Prior Measures				
Secure congressional approval of a 2018 budget consistent with targets under the SMP	Before submitting first Review of SMP to management	Improve macro-fiscal management	Ministry of Finance and Economy	Met
Structural Measures				
Secure congressional approval of a 2018 budget consistent with targets under the SMP	End-April 2018	Improve macro-fiscal management	Ministry of Finance and Economy	Not met
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	To be assessed
Hire an independent entity to conduct an audit of domestic arrears accumulated through end-2017	End-July 2018	Improve public financing management	Ministry of Finance and Economy / submission of document to Fund staff	To be assessed
Adopt mechanisms to track and control expenditure commitments and strengthen treasury cash management	End-July 2018	Improve public financial management	Ministry of Finance and Economy	To be assessed
Submit a membership application to the Extractive Industries transparency Initiative (EITI)	End-July 2018	Increased transparency of the oil sector	Ministry of Finance and Economy / submission of document to Fund staff	Not met
Ratify the United Nations Convention Against Corruption	End-July 2018	Foster good governance	Ministry of Finance and Economy publication on official website	Met

Sources: IMF 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 (prior measure, before submitting the first Review of the SMP to management).

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-July 2018).[1]

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).

[1] 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-July 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:[1] 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).

[1] 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.

- **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.

- **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.** External arrears are defined as any debt obligation (based on the definition of external debt in paragraph 17) 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.

H. Floor for Social Spending by the Central Government

29. 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. Treatment of Hydrocarbon Revenues in Excess of the Program level

30. In the event revenues from hydrocarbons are greater than expected under the program, the government shall use the difference to reduce the deficit targeted under the program and accumulate deposits at the BEAC. If this revenue is less than expected under the program, the government shall take fiscal measures to maintain the budget deficit envisaged under the program.

31. Adjustor. Revenues from oil shipments used to guarantee external borrowing up to the ceiling on external borrowing in the program, under the framework agreement with the Chinese government, is excluded from this requirement.

J. Structural Benchmarks

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

Table 1. Reporting to the IMF

Data	***Provided by***	***Frequency and target date***
I. Monetary Data		
Monetary survey.	BEAC	Monthly, within 45 days from the end of the month.
II. Fiscal Data		
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.
III. Domestic Debt		
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
IV. External Debt		
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.
V. External Sector Data		
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.
VI. Real Sector Data		
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.