

International Monetary Fund

[Equatorial Guinea](#) and the IMF

Equatorial Guinea: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

May 11, 2018

The following item is a Letter of Intent of the government of Equatorial Guinea, which describes the policies that Equatorial Guinea intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Equatorial Guinea, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

Letter of Intent

Malabo, May 11, 2018

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

Dear Madame Lagarde:

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

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

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

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

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

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

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

Very truly yours,

/s/

Lucas Abaga Nchama
Minister of Finance, Economy and Planning

Attachments

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

Attachment I. Memorandum on Economic and Financial Policies

BACKGROUND AND PROGRAM OBJECTIVES

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

strategy is based on continuing the strong fiscal consolidation started by the government, decreasing public sector payment arrears and, through these measures, reducing banking sector vulnerability. From a structural point of view, the program is intended to support fiscal consolidation efforts, promote economic diversification, contribute to the improvement of social indicators, and strengthen governance mechanisms in the country.

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

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

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

POLICY OBJECTIVES OF THE PROGRAM¹

8. The economic program that the government of Equatorial Guinea will implement from January 1 to July 30, 2018 will also include a technical assistance component. We believe that a seven-month SMP with good performance is a fitting complement to a financial assistance program under a potential Fund-supported program. The proposed program would entail a fiscal adjustment (measured by the change in the non-hydrocarbon primary balance) of 4.0 percent of GDP in 2018, with a 15 percent cut in expenditure in nominal terms. This would also prevent further weakening of the banking sector as it would stop the accumulation of domestic arrears. Furthermore, the government will make every effort to focus economic policy

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

on poverty reduction in order to protect vulnerable groups from the negative effects of the fiscal adjustment. Finally, the government is committed to fostering economic diversification, strengthening governance (including in public financial management) and improving the legal framework for combating corruption.

A. Fiscal Policy

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

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

- **Large taxpayer unit.** We plan to activate the large and medium-size taxpayer units, and introduce a single taxpayer identification number, streamline tax returns, and transfer tax collection from the Treasury to the tax and customs administrations.
- **Customs.** We intend to reorganize the customs service and implement modern procedures based on the ASYCUDA program.
- **Exemptions.** We have started to implement the measures provided in the Decree 134 of 2015. These measures are focused on penalizing tax evasion, reducing exemptions, and increasing nontax revenue. We are also considering including information on fiscal spending costs in budget reporting documents in the future.
- **Compliance with the 2004 tax law.** We are negotiating with companies in the oil and gas sector to have their tax obligations regulated by the 2004 tax law and not by the 1986 law. We anticipate that the success of these negotiations will generate additional tax revenue for the State.
- **Strengthening revenue administration and auditing capacity.** With technical assistance from the IMF, we plan to strengthen our tax administration and our management of the tax regime in the oil and gas sector with the aim of increasing government revenue. This will require us to develop our capacity to carry out tax audits, including of companies operating in the oil and gas sector. We are also seeking to better monitor compliance by these companies with their contractual obligations to the government of Equatorial Guinea, including their tax obligations, by conducting the relevant audits.

- **Revision to the 2017 Tax Amnesty Law.** In the coming months, and during the period of the SMP, we plan to work with Parliament to secure approval of amendments to the 2017 Tax Amnesty Law to make it consistent with Equatorial Guinea's tax administration capacity, and regional and international best practices in this area. In particular, we will work with Parliament so that existing provisions for a write-off of tax liabilities spanning several years are replaced with provisions allowing negotiated payment arrangements for tax obligations covered by the amnesty law. This proposed amendment will help to protect the government's potential revenue, and send a signal to economic agents of the need to comply with their tax obligations, including those that are overdue.
- **Revision of tax legislation.** With technical assistance from the IMF, we are reviewing the current tax laws. We plan to use the results of this review to reduce exemptions and implement concrete measures to increase non-hydrocarbon tax revenue, including the short-term measures identified in the report prepared by the November 2017 mission from the IMF's Fiscal Affairs Department (FAD).
- **Computerization of the tax administration.** We plan to begin computerizing the tax departments to facilitate voluntary filing, streamline procedures, and network them with the rest of the economy.
- **Training of tax administration personnel.** We have begun training human resources to create a specialized corps of tax inspectors.
- **Use of the single card.** We plan to introduce a single card for goods imports, which would simplify customs procedures and allow for customs duties to be paid into the banks, in order to improve revenue collection.
- **Startup of the one-stop facility.** Having completed almost all the procedures for funding the proposed one-stop shop, we plan to implement it as soon as possible, thereby reducing red tape and improving revenue collection.

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

- **Capital expenditure.** From 2014 to 2017, the government took the initiative to reduce capital spending by 74 percent, reprogrammed or prioritized its investments executing only the top priorities, and demonstrated its willingness to continue making efforts in that area. We intend to decrease capital expenditure by 2.8 percent of GDP in 2018, taking into account the volume of projects that are underway but not completed, their economic impact, and our

commitment to diversify the economy. We will achieve this by establishing new priorities for public investment. The projects given priority are in the areas of education, health, housing, roads, and waterworks. Based on these priorities, we will ensure that capital expenditure does not exceed the government's resources.

- **Current expenditure.** Our country is facing a number of exogenous factors that have a strong impact on our economy, in general, and on public finances, in particular. These factors include the decline in raw material prices since 2014 and sub-regional threats since December 2017, such as terrorism, mercenaries, and other security problems, which have placed our government defense and security forces on maximum alert. This second factor has put upward pressure on public spending by creating additional financing needs. To limit the growth of current expenditure and create more room for expanding social programs, we will limit the fuel subsidy to its 2017 level (CFAF 23.3 billion). This subsidy mainly benefits the low-income population.

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

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

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

C. Financing

14. In spite of the revenue and expenditure measures that have been announced, there will be a financing gap in 2018. As these measures do not cover all of our government's financing needs, it is imperative that we have a financial assistance program. We have redoubled our negotiation efforts with the World Bank (WB) and the African Development Bank (AfDB) to obtain that financing. The negotiations, in combination with the present program, will lay the basis for obtaining financial support from these institutions under a possible future IMF-supported program. In any event, the government intends to continue using the existing line of credit from China to support priority investment projects. We propose to issue short-term debt instruments with one-year maturities on the national and regional markets and to apply a proportion of available deposits to offset the public sector's financing requirements. Consistent with the regional strategy, the advances received from BEAC in recent years have been converted into a long-term loan to be repaid over 10 years starting in 2022.

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

D. Financial Sector Policies

16. Our program includes measures to strengthen the banks and manage potential risks. To that end, we will continue to support the work of COBAC and BEAC with respect to compliance with prudential standards—provisioning standards, in particular—stricter banking supervision and monitoring of the operations of systemic banks, money laundering and terrorism financing, greater financial inclusion, and the implementation of monetary policy reform. Recognizing COBAC's independence, we will ask the Commission to conduct a quality assessment of the banking system's assets² 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.

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.

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

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

This agenda includes the following items:

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

F. Improved Governance and Transparency

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

- **Governance diagnostics and strategy.** We will work with the IMF to prepare a diagnostic study on governance in Equatorial Guinea. We propose to use the results of that study to address deficiencies in governance, ramp up anticorruption efforts, and prepare a governance strategy. When the strategy is completed, we plan to adopt and publish it within the framework of an IMF-supported program.
- **Governance and corruption.** We are committed to continuing our efforts to improve governance and strengthen anticorruption measures. This involves the following steps: (i) making operational the Audit Court, which will conduct annual audits of budget execution and publish its findings in an annual report released to the public; and (ii) ratifying the United Nations Convention Against Corruption (structural measure, end-July 2018).
- **Hydrocarbon sector transparency.** To enhance transparency in the hydrocarbon sector, we: (i) have begun the process to apply for membership in the EITI (structural measure, end-July 2018); (ii) shared all existing oil and gas contracts with the IMF staff (prior measure).³ We also have plans to hire an internationally recognized firm to audit the accounts of state enterprises in the oil and gas sector for 2016-2017 and to conduct a detailed exercise to reconcile gross production of oil and gas in Equatorial Guinea with the oil and gas revenue recorded in the budget (structural measure, end-July 2018). The terms of reference will be worked out in collaboration with the IMF staff. We intend to complete this audit before the end of 2018.
- **Public financial management.** We are implementing the measures recommended by the recent IMF technical assistance mission on public financial management. Our efforts to make improvements in this area were guided by a number of goals:
 - (i) to assign both capital and current expenditure to a single authority, the Ministry of Finance, Economy and Planning;
 - (ii) to include all capital expenditure in the national budget and ensure that it is covered in full by the available budgetary resources;
 - (iii) to improve coordination between the entities involved in preparing and executing the investment budget;

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.

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

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

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

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

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

- **Data dissemination.** We are committed to providing the data necessary for program monitoring in a timely manner, including complete fiscal accounts reconciled with the monetary data on net credit to the government. Starting in 2018, we plan to publish the national budget on the website of the Ministry of Finance, Economy, and Planning. We also plan to start online publication of quarterly data on central government budget performance for the period 2015–17 (prior measure), and to regularly report existing economic data to the IMF Statistics Department. Lastly, we will share foreign deposit contracts, including those pertaining to the line of credit provided by China, with the IMF technical staff.

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

G. Capacity Building

20. We are committed to capacity building and institutional development in the public sector. For some time now, we have been developing human capital, within the framework of public financial management, through training programs in the IMF and other institutions, and we plan to continue our training efforts through these programs. To that end, we intend to ask the IMF for additional financial support for training, which will cover public financial management (PFM), tax reform, fiscal and economic data, revenue administration, and capacity building for

macroeconomic analysis and policymaking. We are very interested in receiving practical training from resident experts, wherever possible. We believe that by adopting this strategy we will further strengthen our institutional framework for policymaking and economic analysis and, therefore, our ability to fully implement the requirements of this agreement.

H. Program Monitoring

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

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

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

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

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

¹ This quantitative measure will apply continuously.

² The floor for social spending is based on SMP definition of social spending.

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

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

Appendix I. Key Policies and Structural Reform Program During 2018

A. Public Finance

Budget

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

Tax Policy and Administration

- Ensure that the Large and Medium Taxpayers Unit is fully operational (end-July 2018).
- Introduce a single taxpayer identification number (end-July 2018).
- To increase non-hydrocarbon tax revenue, review the existing tax legislation with a view to implementing the short-term measures identified by the November 2017 IMF technical assistance mission (end-April 2018).⁴

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).

⁴ See the technical assistance report *Medidas para Aumentar la Recaudación con Equidad y Eficiencia, volumen I – Política Tributaria*. IMF, Fiscal Affairs Department (January 2018).

Arrears

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

B. Social Policies

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

C. Financial Sector

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

D. Business Climate/Economic Diversification Policies

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

E. Measures to Improve Governance and Reinforce the Anticorruption Framework

- Apply for membership in the EITI (structural measure, end-July 2018) then work towards continued compliance with standards, with a view to increasing transparency in the oil and gas sector.
- Ratify the United Nations Convention Against Corruption (structural measure, end-July 2018).

- Begin operating the Audit Court, which will conduct annual audits of budget execution and publish its findings in an annual report that is available to the public (2018).
- Strengthen the management of resource-related funds by documenting their operating rules (including investment policies) as part of the general fiscal policy framework (2018).
- Carry out a diagnostic study of governance and adopt a governance strategy (2018).
- Conduct a fiscal safeguards assessment with technical assistance from the IMF (2018).
- Ask the IMF to perform a Fiscal Transparency Assessment (2018).

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

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

Attachment II. Technical Memorandum of Understanding

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

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

I. 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.

II. 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).
- **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

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.

the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

- Under the definition of debt set out above, penalties and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt give rise to debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

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

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

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

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

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

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

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

F. Accumulation of Domestic Arrears by Central Government

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

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

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

III. QUANTITATIVE INDICATIVE TARGETS: DEFINITION OF VARIABLES

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

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

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

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

H. Floor for Social Spending by the Central Government

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

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

I. Structural Benchmarks

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

Table 1: Reporting to the IMF

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.