



REPUBLIC OF EQUATORIAL GUINEA

REQUEST FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND SECOND REVIEW UNDER THE STAFF-MONITORED PROGRAM—PRESS RELEASE, STAFF REPORT, AND STATEMENT BY THE EXECUTIVE DIRECTOR

December 2019

In the context of the Request for an Extended Arrangement Under the Extended Fund Facility and Second Review Under the Staff-Monitored Program, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 18, 2019, following discussions that took place in Malabo during September 16–27 and in Washington, D.C., during October 15–20, 2019, with officials of the Republic of Equatorial Guinea on economic developments and policies underpinning the Extended Arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on November 27, 2019.
- A **Statement by the Executive Director** for the Republic of Equatorial Guinea.

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

Letter of Intent sent to the IMF by the authorities of the Republic of Equatorial Guinea*

Memorandum of Economic and Financial Policies by the authorities of the Republic of Equatorial Guinea*

Technical Memorandum of Understanding*

*Also included in Staff Report

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 Executive Board Approves US\$ 282.8 Million Three-Year Extended Fund Facility Arrangement for Equatorial Guinea

- *The IMF-supported program aims at maintaining macroeconomic and financial stability, while improving social protection, fostering economic diversification, strengthening governance and fighting corruption.*
- *The authorities' program builds on the country's efforts in recent years to reduce macroeconomic imbalances and address macro-critical governance and corruption challenges facing Equatorial Guinea.*
- *Executive Board decision allows an immediate disbursement of an amount equivalent to SDR29.287 million (about US\$ 40.4 million) to Equatorial Guinea.*

On December 18, 2019, the Executive Board of the International Monetary Fund (IMF) approved a three-year arrangement under the IMF's Extended Fund Facility (EFF) for Equatorial Guinea in an amount equivalent to SDR205.009 million (about US\$ 282.8 million, or 130 percent of Equatorial Guinea's quota in the Fund). The arrangement is intended to support the authorities' three-year economic program, which aims at further reducing macroeconomic imbalances and addressing financial sector vulnerabilities; improving social protection and human capital development; promoting economic diversification; and fostering good governance, increasing transparency and fighting corruption—all with the overarching aim of achieving sustainable and inclusive economic growth. Equatorial Guinea's Fund-supported program will also serve as a mechanism to catalyze additional external resources as well as contribute to rebuilding CEMAC regional reserves.

The IMF Executive Board's decision enables an immediate disbursement of SDR29.287 million, about US\$ 40.4 million. Disbursement of the remaining amount will be phased in over the duration of the program, subject to semi-annual reviews of the Fund-supported program by the Executive Board.

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Following the Executive Board's discussion on Equatorial Guinea, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, made the following statement:

“In recent years, the Equatoguinean economy has been impacted by a sharp decline in oil prices and a secular decline in hydrocarbon output, which led to large macroeconomic imbalances and negative economic growth. The economy has also been affected by longstanding governance and corruption problems. While the authorities have taken steps to address these challenges, a more comprehensive approach is needed to tackle them effectively and achieve sustainable and inclusive growth. Strict implementation of the authorities' commitments and adherence to a firm timetable is essential.

“Against this background, the authorities' program aims to: (i) preserve macroeconomic and financial stability; (ii) improve governance and fight corruption; (iii) support human capital development and improve social protection; and; (iv) promote economic diversification.

“Increasing transparency, improving governance and fighting corruption are critical to improve socio-economic outcomes. Priority should be given to: (i) strengthening the anti-corruption framework by addressing conflict of interests and adopting and enforcing a robust asset declaration regime for senior public officials; (ii) fostering hydrocarbon sector transparency, including the publication of all active oil and gas contracts, the audits of GEPetrol and SONAGAS and reports on hydrocarbon sector data and information as well as through EITI membership; (iii) further improving public financial management (PFM); and (iv) strengthening the rule of law and the AML/CFT framework. In support of the program, the Fund will also conduct a fiscal safeguard review in early 2020. Strict and full implementation of these measures is essential.

“Sustained fiscal consolidation is necessary to address the permanent decline in hydrocarbon revenue, maintain debt sustainability, and strengthen the external position. This requires further reducing low-efficiency capital expenditures, increasing non-hydrocarbon revenue and continued improvement in PFM. At the same time, the composition of expenditure needs to shift away from capital outlays to create space for higher social spending.

“Clearance of government domestic arrears will help reduce high non-performing loans and strengthen the banking system, boosting private confidence and allowing banks to support the recovery of the non-hydrocarbon sector. Early action is needed to address the issue of undercapitalized banks.

“Reforms to improve the business environment and promote economic diversification are also critical to support sustainable and inclusive economic growth.”

Annex

Recent Economic Developments

The Equatoguinean economy has been severely impacted by a sharp reduction in international oil prices and a secular decline in hydrocarbon output. Macroeconomic imbalances have narrowed in the last few years, supported by fiscal consolidation, including under a 2018 Staff-Monitored program (SMP), but the economic situation and outlook remain difficult. The economy is still contracting, driven by a continued strong decline in hydrocarbon output. Imputed net foreign assets (NFAs) at the BEAC turned positive in mid-2019 but remain low. The banking sector remains weak—with high non-performing loans related to government arrears—hindering the recovery of the non-oil sector.

Program Summary

Equatorial Guinea’s EFF-supported program aims to further reduce macroeconomic imbalances to preserve macroeconomic stability; improve social protection and support human capital development; address financial sector vulnerabilities; promote economic diversification; and foster good governance and transparency and fight corruption.

Board approval of the program required three key prior actions focusing on governance and transparency. These included the submission of an Extractive Industries Transparency Initiative (EITI) membership application, the operationalization of a system to adequately track and control government expenditures, and the publication of a [governance diagnostic report](#) and of the authorities’ “[good governance and anti-corruption action plan](#)” developed in consultation with Fund staff.

A key component of the program is the implementation of the governance and anti-corruption plan. The plan builds on the measures launched under the [Staff Monitored Program](#) and is informed by the governance diagnostic report prepared by Fund staff, which identified key governance weaknesses in Equatorial Guinea. The program also contains measures to strengthen the anti-corruption framework by dealing with conflict of interests, the implementation of a robust asset declaration regime for senior public officials, and enhancing enforcement and international cooperation; promote hydrocarbon sector transparency, including through EITI membership, conduct and publication of audits of the state-owned hydrocarbon companies, and publication of periodic data reports on the sector; improve the rule of law; upgrade the anti-money laundering framework and leverage it in the fight against corruption, including by reporting suspicious activities related to politically exposed persons and enhancing the transparency of companies by making the beneficial ownership information available.

The program also aims to support regional stabilization efforts, bolster investor confidence and catalyze resources from multilateral institutions and donors.

On the fiscal side, the program seeks to reduce low-efficiency expenditures and increase non-hydrocarbon revenues to reduce the non-hydrocarbon primary deficit and set public debt on a downward trend. To achieve these objectives, the authorities have adopted a new excise tax law on imported beverages, tobacco and vehicles. Among other measures, they also plan to continue their efforts to limit tax fraud and exemptions, strengthen large-taxpayer management, and improve customs enforcement. Additionally, they plan to continue rationalizing capital expenditure, including to allow for higher spending in the social sectors and human capital formation to support more inclusive economic growth, poverty reduction, and improved social outcomes in health and education.

The clearance of domestic arrears would allow to sharply reduce non-performing loans, improve bank liquidity and strengthen the banking sector, which is key to restart non-hydrocarbon growth. The program envisages the clearance of arrears through government bond issuance once the ongoing arrears audit is concluded, with sizeable amortization of these obligations during the arrangement period. The program also envisages clearance of external arrears to official creditors by the first review under the EFF-arrangement.

In addition to the positive impact of domestic arrears clearance, banking sector stability will be fostered by the recapitalization of banks with capital shortfalls. The authorities will also work closely with the COBAC to ensure that all banks fully meet COBAC regulations, particularly prudential, governance, and AML/CFT requirements. This includes permanently reducing BEAC short-term liquidity support to banks to levels consistent with COBAC norms.

Finally, structural reforms are expected to play a crucial role in supporting fiscal consolidation and improving growth prospects. The program comprises reforms to the business environment and other reforms to promote economic diversification and support the achievement of sustainable economic growth.

Program implementation remains subject to some downside risks, including volatility in hydrocarbon prices, and Public Financial Management (PFM), governance and corruption vulnerabilities. However, these risks are mitigated by the possibility of higher hydrocarbon output than envisaged in the program, and by the frontloading of key PFM, governance and anti-corruption measures, along with the authorities' strong commitment to reforms.

Background

Equatorial Guinea, which became a member of the IMF on December 22, 1969, has an IMF quota of SDR158 million.

For additional information on the IMF and the Republic of Equatorial Guinea, see

www.IMF.org/EquatorialGuinea.

Equatorial Guinea: Selected Economic and Financial Indicators, 2015–24

	2015	2016	2017	Est.	Program			Projections		
				2018	2019	2020	2021	2022	2023	2024
(Annual percentage change, unless otherwise specified)										
Production, prices, and money										
Real GDP	-9.1	-8.8	-4.7	-5.7	-5.9	-1.9	1.0	-4.7	-1.2	-1.4
Hydrocarbon sectors ¹	-9.4	-8.2	-5.6	-9.7	-10.4	-5.0	-0.6	-11.3	-5.5	-6.4
Non-hydrocarbon sectors	-8.8	-9.7	-3.4	0.0	0.0	1.7	2.9	2.2	2.8	2.7
GDP deflator	-20.2	-6.3	12.7	13.1	-3.2	0.4	-0.6	2.7	2.4	2.8
Hydrocarbon sectors	-36.5	-17.6	31.4	24.5	-9.8	-3.6	-5.5	-1.8	-0.9	-0.6
Non-hydrocarbon sectors	1.1	3.6	-0.4	1.6	1.0	2.0	2.0	2.1	2.2	2.2
Consumer prices (annual average)	1.7	1.4	0.7	1.3	0.9	1.7	1.7	1.8	1.9	1.9
Consumer prices (end of period)	1.6	2.0	-0.2	2.6	1.6	1.7	1.7	1.8	1.9	2.0
Monetary and exchange rate										
Broad money	-10.9	-16.4	1.0	-0.8	1.0	3.7	4.9	4.3	5.0	5.0
Nominal effective exchange rate (- = depreciation)	-6.9	2.7	2.2	...	...	...	...	...	...	...
Real effective exchange rate (- = depreciation)	-6.4	2.4	0.6	...	...	...	...	...	...	...
External sector										
Exports, f.o.b.	-46.1	-26.9	10.5	11.6	-19.2	-7.9	-6.1	-11.9	-4.6	-4.7
Hydrocarbon exports	-47.5	-25.9	9.6	12.4	-18.9	-8.6	-6.8	-13.0	-5.7	-6.0
Non-hydrocarbon exports	34.6	-49.4	39.6	-8.6	-27.9	14.9	13.5	11.9	12.1	12.7
Imports, f.o.b.	-23.1	-33.9	-13.2	9.5	-17.8	-3.3	-17.6	-12.5	-6.0	-1.7
Terms of trade	-34.7	-5.4	35.0	40.7	-15.2	-4.7	-5.5	-1.3	-0.7	0.5
Government finance										
Revenue	-20.2	-45.4	10.0	16.8	-14.3	-3.4	0.2	-3.2	1.0	1.2
Expenditure	-4.6	-42.8	-23.3	-1.0	-18.4	-2.2	-3.1	-7.1	2.0	0.8
(Percent of GDP, unless otherwise specified)										
Investment and savings										
Gross investment	24.7	16.7	12.6	12.0	12.2	13.1	11.7	12.2	12.3	12.4
Gross national savings	8.3	3.7	6.8	6.6	6.5	7.3	7.9	8.1	8.6	8.5
Government finance										
Revenue	26.5	16.9	17.3	19.0	17.8	17.5	17.5	17.3	17.3	17.2
<i>Of which:</i> hydrocarbon revenue	22.2	12.8	13.8	15.5	14.3	12.8	11.4	10.1	9.3	8.6
non-hydrocarbon revenue	4.3	4.1	3.5	3.5	3.5	4.7	6.1	7.1	7.9	8.6
Expenditure	41.6	27.8	19.9	18.5	16.5	16.4	15.8	15.0	15.2	15.1
Overall fiscal balance (Commitment basis)	-15.1	-10.9	-2.6	0.5	1.3	1.1	1.6	2.3	2.1	2.2
Overall fiscal balance (Cash basis) ²	-2.9	-7.9	-4.9	1.2	-0.6	-21.3	1.6	2.3	2.1	2.2
Non-hydrocarbon primary balance ³	-37.0	-23.5	-16.1	-14.4	-12.4	-10.6	-8.1	-6.2	-5.6	-4.9
Outstanding public debt ⁴	33.6	43.4	38.0	43.0	46.2	46.6	45.3	44.4	41.4	38.5
Change in domestic arrears	12.2	3.0	-2.3	0.7	-2.0	-22.4	0.0	0.0	0.0	0.0
External sector										
Current account balance (including official transfers: - = deficit)	-16.4	-13.0	-5.8	-5.4	-5.7	-5.7	-3.8	-4.1	-3.8	-3.9
Total external public debt	9.0	9.5	8.6	9.5	11.2	13.0	14.8	16.2	15.6	15.1
Debt service-to-exports ratio (percent)	3.6	5.8	3.3	3.3	4.3	6.3	6.7	9.6	9.8	10.1
External debt service/government revenue (%)	5.9	12.8	7.3	6.9	8.6	11.8	11.8	15.4	14.8	14.2
Memorandum items										
Reserve assets at the BEAC (months of next years' imports)	3.6	0.2	0.1	0.2	0.6	2.6	4.5	6.1	6.8	n.a.
CEMAC Foreign Reserves										
(US\$ billions, end-of-period)	10.3	5.0	5.8	6.6	8.3	10.5	12.5	13.9	15.2	n.a.
(in months of extra zone imports)	4.4	2.3	2.3	2.7	3.3	4.2	4.8	5.3	5.6	n.a.
Oil price (U.S. dollars a barrel) ⁵	47.0	39.0	51.4	67.2	59.7	56.7	54.3	53.7	53.9	54.5
Nominal GDP (billions of CFA francs)	7,795	6,661	7,152	7,624	6,950	6,842	6,875	6,726	6,806	6,898
Nominal GDP (millions of US dollars)	13,180	11,233	12,287	13,732	11,864	11,639	11,824	11,685	11,933	12,226
Non-hydrocarbon GDP (billions of CFA francs)	4,272	3,996	3,846	3,910	3,949	4,096	4,298	4,481	4,705	4,942
Hydrocarbon volume (barrels)										
Oil volume (crude + condensado)	133	122	115	104	92	87	89	79	74	70
Gas volume	88	75	64	57	53	50	43	37	34	31
Gas volume	44	47	51	46	39	37	46	41	40	39
Exchange rate (average; CFA francs/U.S. dollar)	591.4	593.0	582.1	555.2	585.8	587.8	581.4	575.6	570.4	564.2

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 2020.

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.



REPUBLIC OF EQUATORIAL GUINEA

REQUEST FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY AND SECOND REVIEW UNDER THE STAFF-MONITORED PROGRAM

EXECUTIVE SUMMARY-

Context. Macroeconomic imbalances have narrowed in the last few years, supported by fiscal consolidation. However, the economic situation and outlook remain difficult, with the economy still in deep recession. GDP is expected to contract for the sixth consecutive year in 2019, driven by a continued strong decline in hydrocarbon output and a stagnant non-oil sector. Imputed net foreign assets (NFAs) at the BEAC turned positive in mid-2019 but are very low. The banking sector remains weak, with high non-performing loans related to government arrears, hindering the recovery of the non-oil sector. The outlook is expected to improve over the medium term, with a gradual recovery of the non-hydrocarbon sector—helped by arrears clearance—and the coming on stream of new hydrocarbon projects, and a strengthening of the external position supported by fiscal consolidation. Risks to the outlook are broadly balanced, with the possibility of lower oil prices offset by upside on hydrocarbon output.

SMP Performance. The authorities implemented fiscal consolidation and important structural measures envisaged in the staff-monitored program (SMP). Performance under the program can be considered as broadly satisfactory, even if there have been delays in completing some key structural measures for the second review. All, but one, quantitative targets were met for the second review and three out of five structural benchmarks (SBs) were implemented. Overall, significant progress was made on structural initiatives included in the program, including the adoption of measures to foster transparency and address longstanding governance problems. SMP performance provided the basis for an Extended Fund Facility (EFF) arrangement. SBs that were not met under the SMP will be implemented ahead of Board consideration of the EFF arrangement.

Proposed EFF Arrangement. The authorities plan to leverage the EFF arrangement to support their efforts to stabilize the economy, spur non-oil sector growth and implement a broad agenda of structural reforms. The program contains a strong emphasis on

November 26, 2019

increasing transparency, strengthening governance and fighting corruption, with frontloading of key measures in these areas and the implementation of other important measures as early as feasible during the arrangement. The proposed program has the following key objectives: (i) further reducing macroeconomic imbalances to maintain public debt sustainability, rebuild NFAs and support the CEMAC strategy, (ii) promoting human capital development and improving social protection, including by mitigating the impact of adjustment on the poor; (iii) addressing financial sector vulnerabilities; (iv) fostering good governance and transparency and fighting corruption; and (v) promoting economic diversification. Proposed access under the three-year arrangement is equivalent to 130 percent of quota (205 million SDR), with uniform disbursements.

Key program elements include:

- Continued fiscal consolidation by containing low-efficiency expenditure and increasing non-hydrocarbon revenue.
- Reallocation of expenditure to create fiscal space for social spending to improve social protection and support human capital development.
- Regularization and repayment of domestic arrears, which is also crucial to stabilize and strengthen the banking sector.
- Stabilization and recapitalization of weak banks to preserve financial stability and support the recovery of the non-oil sector.
- Strengthening of public financial management (PFM) to support fiscal discipline and foster good governance.
- Implementation of a strategy to improve governance, increase transparency and support the fight against corruption.
- Improvement of the business climate and adoption of other structural reforms to foster non-hydrocarbon growth and support economic diversification.

Approved By
Zeine Zeidane (AFR)
and Nathan Porter
(SPR)

Discussions took place in Malabo during September 16–27 and in Washington, D. C. during October 15–20, 2019. The staff team included Lisandro Abrego (head), Federico Amui, Garth P. Nicholls, Miguel Pereira, Hector Perez-Saiz (all AFR), Brooks Evans (FAD), Christian Henn (Resident Representative), and Cornelio Miko Nzang (Economist at IMF Malabo Office). Mr. Eustaquiano Ondo Bile (OED) participated in the discussions. The mission met with President Teodoro Obiang Nguema Mbasogo; Prime Minister Francisco Pascual Obama Asue; Minister of Finance, Economy and Planning, César Mba Abogo; Minister of Mines and Hydrocarbons, Gabriel Obiang Lima; BEAC National Director, Genoveva Obiang; Vice Minister of Finance Economy and Planning, Valentin Ela Maye; Secretary of State for the Treasury, Milagrosa Obono Angue; other senior government officials; members of the diplomatic community; and representatives of the private sector and civil society. Ms. Adjahouinou and Mr. Ogaja provided assistance in the preparation of this report.

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BACKGROUND, RECENT DEVELOPMENTS, OUTLOOK AND RISKS

1. The authorities have requested an arrangement under the EFF to support their efforts to stabilize the economy and launch structural reforms. They had initially requested an EFF in 2017, but staff considered that an SMP was first needed to build a track record of adequate policy implementation. The SMP covered the period January–July 2018, but the authorities needed additional time to complete key structural measures. The SMP was used as a framework for implementing fiscal adjustment and setting the stage for launching structural reforms to address governance problems and support the fight against corruption, as well as to promote economic diversification. The program has also helped strengthen technical capacity, improve PFM and increase data generation and dissemination. The authorities plan to leverage the EFF arrangement to facilitate policy implementation and broaden and deepen reforms initiated under the SMP.

2. Macroeconomic imbalances have narrowed, but economic conditions remain challenging, with a continued deep economic contraction.

- In 2018, real GDP contracted for a fifth straight year, at an estimated pace of -5.7 percent, driven by a steep decline in hydrocarbon output (-9.7 percent). The non-hydrocarbon sector is estimated to have stabilized, after declining for the previous five years. However, the sector continues to be constrained by fiscal consolidation, weak private sector confidence, and anemic private credit growth as delays with regularizing government domestic arrears have weighed on banks' balance sheets and their intermediation capacity. Against this backdrop, inflation has remained subdued, at 1.3 percent year-on-year in 2019Q3.
- Fiscal balances improved in 2018 and have continued to strengthen through August 2019. The government generated an overall surplus of 0.5 percent of GDP in 2018, a significant improvement from a deficit of 2½ percent of GDP in 2017. The surplus reflected both increased hydrocarbon revenue due to higher oil prices and a stronger non-hydrocarbon primary balance (NHPB). The latter improved by 1.8 percent of non-hydrocarbon GDP in 2018, reflecting mainly lower capital spending. As a result, the external current account deficit shrunk to an estimated 5.4 percent of GDP in 2018. Fiscal balances improved strongly through August, driven by further reductions in capital spending. Non-hydrocarbon revenue growth has remained weak, reflecting continued problems with revenue administration and delays in adopting a new excise tax law. Domestic arrears (estimated at 23 percent of GDP at end-June 2019) declined through 2019Q3, after rising in 2018 as the government prioritized increasing deposits.
- Imputed NFAs at the BEAC turned positive in 2019Q2, after over two years in negative territory, and continued to recover in Q3. The recovery has been supported by fiscal consolidation and increased government deposits at the BEAC, including via the partial

repatriation in 2019H1 of deposits held abroad, and tighter FX controls. However, NFAs remain very low and are projected to remain below one month of imports by end-2019. Government deposits at the BEAC would also remain low, partly owing to delays in disbursements from donors.

3. The banking sector remains weak, weighed down by stress at a systemic bank

(Text Table 1). Non-performing loans (NPLs) increased through 2019H1, reflecting more rigorous loan classification by banks and a deterioration of their loan portfolios as non-hydrocarbon activity has remained depressed. Most of these NPLs originate from heavy lending to construction companies with government contracts during the oil boom; these companies became unable to service their loans when the government began accumulating arrears. In early 2019, in a bid to improve the health of a systemic bank and protect overall financial stability, the government securitized its arrears to a large construction company with overdue loans to this bank. However, because the loans that were securitized had not been classified as NPLs, the securitization only reduced gross loans and resulted in an increase in the NPL ratio for the bank and the system. The bank has been using the securities as collateral to borrow from its parent company, reducing reliance on BEAC funding. The reported capital adequacy ratio (CAR) by COBAC for the system stood at 27 percent in June, but this figure includes generic reserves of the systemic bank, which artificially boosts its Tier 1 capital and CAR. The bank plans to convert these reserves into capital in the coming months to cover capital shortfalls.¹ Liquidity remains tight at some banks, with continued reliance on BEAC funding by this systemic bank, although at significantly lower levels compared to 2018. Loan provisioning is low and needs to be increased in line with good international practices.²

Text Table 1. Financial Soundness Indicators

(Percent, unless otherwise indicated)

	2016		2017			2018			2019	
	Jul	Dec	Apr	June	Dec	Apr	Sept	Dec	Mar	Jun
Regulatory capital to risk-weighted assets ¹	28	27	28	28	31	34	36	29	26	27
NPLs: ratio to total loans	29	26	29	29	28	28	28	37	46	47
Provisions to non-performing loans	37	39	39	39	40	42	43	35	36	36
Profitability (ROA) ²	0.9	0.5	1.1	1.3	0.7	1.0	1.1	0.7	0.8	0.7
Liquidity ratio ³	185	158	144	147	171	161	170	170	173	156

1 CAR figures include generic reserves

2 Four-period moving average

3 Ratio of high liquid assets (<1 M), to short term obligations (<1 M)

Source: COBAC

¹ The bank is also in the process of improving its governance, which should inter alia reduce risks going forward.

² COBAC regulations do not require provisions for loans that are backed by government contracts.

Box 1. Recent Developments and Prospects in the Hydrocarbon Sector

New projects coming on stream have improved the hydrocarbon sector's short to medium term outlook, although they will not reverse its declining trend. Other projects have the potential to further reduce the sector's pace of decline over the medium term.

The coming on stream of several ongoing projects is expected to have a significant impact on hydrocarbon output in the short to medium term. Hydrocarbon output is now projected to decline by an average 6.3 percent over 2019–24, compared to a projected decline of 11 percent before, after considering the delay in implementing a large gas project (see below).

- **Gas backfilling project.** After a March 2019 final investment decision (FID), a \$170 million pipeline is being built that will transport previously-unutilized gas from Alen field to Punta Europa, near Malabo. During 2021–27, gas reserves to be monetized from this project are about 0.7 trillion cubic feet (tcf). Since their opening in 2007, the Punta Europa plant exclusively processed gas from the Alba field. Alba's rapid decline has resulted in excess capacity and the potential to process gas from other fields. The coming on stream of this project in 2021 will slow the rate of decline of gas production from an average 10 percent to 2 percent during 2019–24.
- **Oil sector.** In August 2019, Noble Energy announced the discovery of a new oil field in Block I. This field will allow the company to increase output by about 10,000 barrels/day by late 2019. Renovation works during 2019 in the Zafiro field (operated by Exxon) are expected to increase production by about 20 percent in the field during 2019–24, compared to previous estimates. These two projects would slow the pace of projected crude oil output decline to 9.6 percent during 2019–24 (compared to 11.6 percent projected previously).

New gas projects are expected to be developed over the medium term.

- Negotiations with Cameroon to extract and process gas from the Yoyo/Yolanda field (shared by the two countries), with gas reserves of 4 to 5 tcf, are advanced. The development of gas reserves from the Avestruz/Block EG-23 could also provide feed stock and expansion potential for the Punta Europa complex. Key to the sector's prospects in the coming years is the transformation of Punta Europa into a Gas-Mega-Hub, to which the backfilling project may be the start. The plant is located near the large gas reserves of Nigeria, Cameroon and Equatorial Guinea (Alen, Avestruz/Block EG-23).
- Block EG-27 contains proven gas reserves of 3.5 tcf. The block was operated by Ophir Energy PLC until December 2018. However, Ophir did not secure financing to monetize the gas and returned the license, which is being reauctioned in *EG Ronda 2019* (see below). First gas could be extracted over the next 3 to 5 years, with annual production in the range of 2.2–2.5 million tons per year. The delay in implementing this project will dampen other positive effects in the next few years but would result in higher gas output in the second half of the 2020s.

New exploration and licensing rounds are also being undertaken. In September 2019, the oil company Kosmos started a drilling campaign in block S, with initial promising results, and exploration in blocks W, EG-21 and EG-24 is planned for 2020–21. In 2019, the authorities launched a new hydrocarbon licensing round (*EG Ronda 2019*). Blocks EG-27 and EG-23 that contain proven reserves of oil and gas, along with more than 20 unexplored blocks, were available for bidding. The winners will be announced in late November 2019, with new contracts to be signed by early 2020.

4. The economic outlook remains difficult. Reflecting a continued decline in hydrocarbon output and weak non-oil growth, overall GDP is projected to decrease by 5.9 percent in 2019—the sixth consecutive annual contraction. However, the growth outlook has recently improved, with several medium-sized hydrocarbon projects coming on stream in the coming years, starting in late 2019 (Box 1). This would help further moderate the external current account deficit;³ continued fiscal consolidation would also exert a positive impact, with a large strengthening of NHPB during the program period. The non-hydrocarbon sector is expected to recover gradually as private sector confidence strengthens, financing constraints ease, and the business climate improves. Inflation should remain subdued, owing to weak domestic demand and low world inflation. While the external position is significantly weaker than warranted by fundamentals and desirable policies (Annex III), imputed NFAs would continue to rise, driven by fiscal consolidation, external budget support, and repatriation of “available” (i.e., not tied to collateralized debt obligations) government deposits abroad. However, NFAs would remain below one month of imports at end-2019, reaching three months of imports only in 2021 and the ARA metric for commodity exporters in 2022. This recovery would be supported by continued fiscal surpluses and higher government deposits at the BEAC.

5. Risks to the outlook are broadly balanced. On the positive side, higher oil prices could support private sector confidence and thereby activity in the non-hydrocarbon sector. It would also increase the government’s surplus, creating further space to reduce domestic arrears or accumulate deposits and NFAs. Similarly, hydrocarbon output might be higher than currently projected as new projects come on stream faster or reach full capacity earlier, leading to higher hydrocarbon revenues and stronger overall fiscal balances. On the downside, concerns still linger about the underlying health of the financial sector, along with capacity constraints and governance and corruption vulnerabilities that could delay implementation of fiscal and structural reforms, including measures to increase non-hydrocarbon tax revenues. Additional risks related to lower oil prices could weaken confidence, tighten financing constraints and negatively impact growth (Annex I).

PROGRAM IMPLEMENTATION UNDER THE SMP

6. All quantitative performance measures (PMs), except one, and indicative targets (ITs) set for the second SMP review (end-July 2018) were met (Text Table 2).

- **Fiscal targets.** The PM on non-hydrocarbon tax revenue was met by a small margin.⁴ However, the PM on the NHPB of the central government was missed by a large margin.⁵ This reflected the accumulation of capital expenditures in 2018H1 due to weaknesses in PFM,

³ Some larger hydrocarbon projects are projected to come on stream from the mid-2020s.

⁴ The terms non-hydrocarbon and non-resource are used interchangeable.

⁵ After incorporating data revisions, the PM on the NHPB for end-April 2018 (first review’s test date) was also missed, contrary to what was reported in the staff report for the first review (IMF Country Report 18/146).

notably the lack of coordination between the public investment agency and the Finance Ministry, which has since been remedied.

- **Debt targets.** The ceilings on contracting and guaranteeing new external debt and on new BEAC credit were both met, while no new external arrears were accumulated.
- **Indicative targets.** The targets on net domestic bank credit to the government and on social spending were both met.

Text Table 2. Quantitative Performance Measures and Indicative Targets for the Second SMP Review
(Billions of CFA Francs, cumulative for each quarter)

	End-July 2018		
	Prog.	Actual	Status
A. Quantitative performance criteria			
Floor on non-resource tax revenue of the central government	90	93	Met
Floor on non-resource primary balance of the central government	-540	-696	Not Met
Ceiling on external arrears accumulation (continuous)	0	0	Met
Ceiling on contracting and guaranteeing new external debt	100	100	Met
Ceiling on new BEAC credit to central government	0	0	Met
B. Indicative Targets			
Ceiling on net commercial bank credit to the government	-127	-204	Met
Floor on social spending (education and health)\1	60	74	Met

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

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

7. Progress was also made on advancing structural reforms, but at a slower pace than anticipated.

- **Structural benchmarks (SBs).** Three out of five SBs set for the second review were implemented, albeit some with substantial delays (Text Table 3). Congress ratified the UN convention against corruption in May 2018. Two additional structural benchmarks were implemented in 2019H1 through the hiring of firms to (i) audit the state-owned oil and gas companies (Gepetrol and Sonagas), and (ii) audit the domestic arrears. The benchmarks on (i) submitting a membership application to the Extractive Industries Transparency Initiative (EITI) and (ii) implementing a system to track and control expenditure commitments and strengthen treasury management were not met. These two measures were set as prior actions in the context of the EFF-arrangement request.

- **Other reforms.** The authorities also adopted measures to improve tax administration, modernize the PFM framework, increase transparency, and improve the business climate for non-oil investment to foster economic diversification (IMF Country Report 18/146, and ¶123–24). A governance diagnostic report was prepared, and the authorities have put in place important measures to increase transparency, promote good governance and limit the opportunities for corruption (IMF Country Report 18/146). They have also begun addressing banking sector vulnerabilities (¶13). However, progress in some of these areas, notably on increasing non-hydrocarbon revenue and adequately addressing financial sector weaknesses, fell short of the goals set under the SMP.

Text Table 3. Structural Measures for Second Review under the SMP

Measure	Target date	Macroeconomic objective	Government Unit / instrument	Status
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	Not met. Implemented with delay
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	Not met. Implemented with delay
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	Not met
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

Source: IMF staff.

EXTENDED FUND FACILITY AND POLICY DISCUSSIONS

8. The proposed EFF arrangement will broaden and deepen reforms launched under the SMP. As indicated in the authorities' memorandum of economic and financial policies (MEFP), the program will support policies to strengthen macroeconomic and financial stability, and reform the economy and the governance framework, with the overarching goal of promoting sustainable and inclusive economic growth. The objectives of the program are: (i) further reducing macroeconomic imbalances to rebuild buffers and support the CEMAC strategy; (ii) expanding the fiscal space to support human capital development and improve social protection, including by mitigating the impact of adjustment reforms on the poor; (iii) addressing financial sector vulnerabilities;

(iv) fostering good governance and transparency and fighting corruption, including by further strengthening the PFM framework; and (v) promoting economic diversification.

A. Fiscal Policy and Other Macroeconomic Issues

9. The authorities would continue to implement fiscal consolidation, given the declining trend in hydrocarbon revenue and the need to keep public debt manageable and rebuild other buffers. The proposed program targets a cumulative improvement in the non-hydrocarbon primary balance (NHPB) of 18.8 percent of non-hydrocarbon GDP (8.2 percent of total GDP) over 2019–22 (Text Table 4). This adjustment would be somewhat frontloaded, with the program targeting a reduction in the NHPB of 6.3 percent of non-hydrocarbon GDP in 2019. The program envisages moderate overall surpluses, reducing public debt to 44 percent of GDP by 2022 and placing it on a firm downward trend. It would allow for substantially raising government deposits and NFAs at the BEAC, supporting the regional strategy. The proposed adjustment derives from lower capital expenditures and higher non-hydrocarbon revenues, and entails a shift in the composition of spending toward the social sectors to foster inclusive growth.

	2019	2020	2021	2022	2019-22
Revenue	-1.1	-0.3	0.0	-0.2	-1.7
Hydrocarbon revenue	-1.1	-1.5	-1.4	-1.3	-5.3
Non-hydrocarbon revenue	0.0	1.2	1.3	1.1	3.6
<i>In percent of non-hydrocarbon GDP</i>	-0.7	1.7	1.8	1.0	3.8
<i>o/w Tax revenue</i>	0.5	1.1	1.2	0.8	3.6
Total Primary Expenditure	-2.0	-0.6	-1.1	-0.8	-4.5
Current primary expenditure	0.8	0.4	-0.4	-0.1	0.7
Wages	0.4	0.1	0.0	0.1	0.6
Goods and services	0.7	0.2	-0.2	-0.1	0.6
Subsidies and transfers	-0.3	0.1	-0.2	-0.1	-0.4
Capital expenditure	-2.8	-1.0	-0.7	-0.7	-5.2
Adjustment					
Overall fiscal balance	0.8	-0.2	0.5	0.6	1.7
Non-hydrocarbon primary balance	2.0	1.8	2.5	1.9	8.2
<i>In percent of non-hydrocarbon GDP</i>	6.3	4.2	4.7	3.6	18.8

Sources: Equatoguinean authorities; and IMF staff estimates and projections.

10. The authorities are committed to stepping up their efforts to raise revenues and improve spending efficiency. They have already taken steps to increase revenue mobilization, including by reducing exemptions, raising the withholding tax for non-resident foreign contractors

(which was very low) and introducing a tax on hotel occupancy. They are in the process of adopting new excise tax legislation. Implementation of the ASYCUDA system, which should help raise compliance at customs, is expected to resume in early 2020 after a standstill due to funding constraints. However, there remains ample scope for additional measures to increase non-hydrocarbon revenues. Similarly, there is room to raise hydrocarbon revenue through better administration of the existing fiscal regime. On the expenditure side, in the last few years, the authorities have sharply reduced capital spending, which was very high, had become unsustainable, and was not always efficient. To improve investment efficiency, there is a need to prioritize projects based on sectoral needs and subject new projects to independent cost-benefit analysis. This will require developing guidelines for project appraisal, selection, and investment planning, which could be supported by Fund technical assistance. Fiscal priorities under the program are:

- Expenditure** (MEFP, ¶13). The rationalization of capital expenditure will continue and will be accompanied by higher spending in the social sectors and human capital formation to support more inclusive economic growth, poverty reduction, and improved social outcomes in health and education. A modest increase in the wage bill (which is low by international standards) will also be required to accommodate higher social expenditures. EG spent heavily on public investment during the oil boom, creating a strong infrastructure base. This has reduced future capital spending needs while increasing the cost of infrastructure maintenance, which the proposed rise in expenditure on goods and services partly reflects. The authorities will also gradually reduce fuel subsidies,⁶ drawing on the successful experiences of other countries. In this context, the authorities will prepare a comprehensive strategy to introduce during the program period a more flexible domestic fuel pricing system that ensures a phased pass-through of international price changes. The strategy will include an effective communication campaign and a sequencing for the subsidy reduction informed by distributional considerations. It will also be accompanied by the development of a safety net to protect the poor and vulnerable, informed by a social spending strategic plan using the 2020 household budget survey and improved functional budget classification (¶15).
- Tax administration and policy measures** (MEFP, ¶11–12). In line with the Fund’s Fiscal Affairs Department (FAD) recommendations,⁷ the authorities will adopt excise taxes on imported beverages, tobacco and vehicles, and repeal the provisions of the 2017 tax amnesty law that forgave outstanding tax obligations (**structural benchmarks, end-December 2019**). They also plan to implement other FAD recommendations to increase non-hydrocarbon revenue.⁸ In particular, the authorities will continue their efforts to limit tax fraud and exemptions, strengthen large-taxpayer management, and improve enforcement at

⁶ Fuel subsidies declined sharply in the last few years, as the authorities did not adjust domestic prices to reflect lower international oil prices. They were 0.8 percent of GDP in 2018 and are projected to decline to 0.6 percent of GDP in 2019.

⁷ Technical Assistance reports *Medidas para Aumentar la Recaudación con Equidad y Eficiencia (volumes I and II)*. IMF Fiscal Affairs Department (January 2018).

⁸ Annex I of the MEFP presents a more comprehensive list of measures.

the border. The latter will involve full implementation of the ASYCUDA platform at all customs posts in the country, starting with the Bioko Island and Bata regions in 2020. The proposed program measures are estimated to increase non-hydrocarbon revenue by 3.6 percent of non-hydrocarbon GDP during the program period (Text Table 5). In addition, EG plans to become a member of the World Customs Organization (WCO) and will present a membership application in early 2020. WCO membership would help adhere consistently to international best practices on customs rules and the latest international proposals for the customs organization, and ultimately enhance capacity and governance of the customs. The authorities also plan to strengthen the administration of the hydrocarbon fiscal regime (including the effectiveness of tax audits in the sector), which could help increase hydrocarbon revenue relative to current projections.

	2019	2020	2021	2022	2019-22
<i>Improvement of tax administration:</i>					
Improved corporate income tax administration	0.2	0.3	0.1	0.1	0.7
Improved customs administration	0.1	0.2	0.4	0.2	0.9
Improved VAT administration	0.1	0.2	0.4	0.3	0.9
<i>Introduction of new taxes and rates:</i>					
Introduction of new excise taxes	0.0	0.2	0.2	0.2	0.7
Increase of income tax for non-residents	0.1	0.2	0.1	0.1	0.4
Total non-hydrocarbon tax revenue	0.5	1.1	1.2	0.8	3.6

Sources: IMF staff estimates and projections.

- **2020 budget.** The 2020 budget submitted to parliament in November (**prior action**) is consistent with the program targets (Text tables 4–5).
- **Domestic arrears.** The regularization and repayment of domestic arrears is key to strengthening the banking sector and supporting the recovery of the non-hydrocarbon economy. The arrears audit is expected to be concluded before year-end and will be followed by the clearance of validated arrears through securitization (**structural benchmark, end-March 2020**). The government bonds—which will become an asset to banks—will be interest-bearing and have terms comparable with issuance of public securities in the CEMAC region. The authorities have indicated that their goal is to fully repay these obligations over a maximum period of 10 years. The program envisages paying down 611 billion CFA (9 percent of GDP) of these debts during 2019–22.⁹ The authorities plan to

⁹ In 2022, the government will begin amortizing debt to BEAC, to be repaid in 10 years. Amortization payments will average about 1 percent of GDP in 2022–24.

use part of any oil revenue windfall and potential proceed from asset privatization (¶11) to amortize faster these securities and provide needed liquidity to the banking system.

- **External arrears.** In 2018, a Belgian construction company transferred claims on government arrears on service contracts (estimated at 34 billion CFA) to Belgium’s export credit agency (Credendo), which had insured the contracts. These claims are being audited as part of the ongoing domestic-arrears audit. Following an assessment by Fund staff, they were classified as official external arrears. In September 2019, Spain indicated that Equatorial Guinea was in arrears (10 billion CFA) on an expired debt swap agreement that was not implemented. EG has been in contact with both creditors to resolve these official arrears, which the authorities have agreed to clear by the time of the first program review. Staff has no reports of arrears to any other external creditors.
- **Program financing.** The program envisages financing from multilateral sources of US\$631 million over 2019–22. Total funding from the IMF amounts to about US\$284 million (SDR 205 million or 130 percent of quota). The remainder (US\$347 million) would come from the African Development Bank (AfDB). EG will continue to draw financing from the existing Chinese loan facility during the program period under loans already contracted, but will not contract new collateralized debt (¶12). Remaining financing needs will be filled mostly by rolling over existing short-term domestic-currency debt with local and regional banks. The program is fully financed.

11. The authorities plan to involve the private sector in the management of state-owned assets, including through privatization (MEFP, ¶18). The initiative draws on recommendations from the Third National Economic Conference (April/May 2018), during which options to improve management of state assets were discussed. The government envisages three modalities: (i) restructuring of autonomous agencies and public enterprises, (ii) concession of assets to the private sector; and (iii) sale of public assets to private operators (privatization). The authorities also plan to open to competition sectors where public enterprises operate, with the aim of limiting monopolistic practices and passing on efficiency gains to the rest of the economy. Based on these plans, they will present for approval to the Council of Ministers (CoM) a substantive list of state assets to be privatized, as well as a list of entities that will be restructured or placed under a concession regime with the private sector (**structural benchmark, end of June 2020**). Once the CoM approves this plan, the authorities will present during the second half of 2020 an action program for privatization. To generate revenue, they plan to prioritize privatization, with the proceeds going to pay down validated domestic arrears and rebuild EG’s NFAs at the BEAC. Sales and concessions will be carried out through open and transparent international tenders. The sale of the listed assets will be carried out during an appropriate time period so that their prices are not negatively affected.

12. The authorities plan to improve debt management practices (MEFP, ¶16). While the largest portion of the debt stock is related to domestic arrears, increasing external debt could create future vulnerabilities. At present, a collateralized loan facility with the Export-Import Bank of China

(Eximbank) is the largest external funding source for EG (IMF Country Report no.18/310, Annex III).¹⁰ The authorities will not contract new collateralized loans or new collateralized loan facilities during the program period. With IMF technical assistance, they will work on adopting debt management practices to minimize costs and increase flexibility while meeting their financing needs and keeping external debt under control, as envisaged in the program.

13. The authorities are committed to enforcing FX regulations (MEFP, ¶27). In support of regional efforts to rebuild CEMAC’s reserves, they will continue to work to ensure that FX regulations are observed, including that: (i) all public entities repatriate and surrender their forex receipts, (ii) “available” government deposits (i.e., deposits that are not encumbered) held abroad are repatriated; (iii) customs strictly enforce the domiciliation of all export transactions with a resident commercial bank, and (iv) all active oil and gas contracts are shared with the BEAC (the latter is a **structural benchmark for end-December 2019**). The local BEAC branch is also working with commercial banks to uphold the commitment to make available FX for documented external transactions within 2 business days.

B. Improving Social Protection and Fostering Human Capital Development

14. The program envisages further increasing the budget allocation to the social sectors (MEFP, ¶21). While recent data on socio-economic indicators are limited, available information suggests that the rapid economic growth following the discovery of oil in the 1990s has not been inclusive (Text Table 6), reflecting high inequality and inadequate levels of social spending. The authorities raised spending on health and education and other spending seeking to favor low-income groups during the SMP. The envisaged higher social spending would be financed mainly by reallocating resources from investment on hard infrastructure, which has been very high in recent years and where needs are now lower. The aim is to address pressing needs, provide adequate protection to low-income groups against the effects of macroeconomic adjustment, and reduce poverty. Moreover, the authorities will work with the Fund and WB staff and UN agencies to develop priorities for the reallocation of resources and more spending on low-income households.

Text Table 6. Socio-Economic Indicators Relative to Comparators for 2017

	GNI per capita (PPP US\$)	HDI rank 1/	Life expectancy at birth	Expected years of schooling
Equatorial Guinea	19,513	141	57.9	9.3
Medium HDI	6,849	131	69.1	12.0
Sub-Saharan Africa	3,399	155	60.7	10.1

Source: Human Development Indices and Indicators: 2018 Statistical Update, Equatorial Guinea, http://hdr.undp.org/sites/all/themes/hdr_theme/country-notes/GNQ.pdf.

1/ Out of 189 countries.

¹⁰ Collateralized debt amounted to CFA 664 billion (8.7 percent of GDP) at end-2018, or about 20 percent of total public debt.

15. The authorities will develop a strategy to guide social spending and are taking steps to improve information to assess interventions in the area. They have a national development strategy and will work on a more detailed strategic plan for guiding their actions on social spending (health, education and social assistance), strengthening social indicators, reducing poverty, and fostering human capital development. The plan will draw on social sector studies prepared by EG's development partners. The authorities also plan to conduct regular household budget surveys to improve data collection on living conditions and other social indicators, starting with the ongoing survey that will be concluded in 2020, with the aim of developing a social safety net and better assess their interventions. They also plan to adopt a functional classification of spending to improve efficiency and outcomes, starting with a partial functional classification in the 2020 budget.

C. Strengthening the Banking Sector and Fostering Financial Inclusion

16. The authorities will continue to work to implement their strategy to strengthen the banking sector, building on recent measures (¶3). The strategy has three key pillars (MEFP, ¶29):

- Clearing validated arrears to construction companies via securitization and cash payments. This will sharply reduce NPLs and will also help improve liquidity, especially through cash payments. The arrears securitization is expected to take place by end-March 2020 while the program also provides for cash payments during the year and for a sizable amortization of securitized obligations during the program period (¶10).
- Working with bank owners and the COBAC to recapitalize banks with capital shortfalls as early as feasible. This does not necessarily require the injection of new resources by bank owners as some banks can comfortably meet shortfalls by converting generic reserves into capital.
- Working closely with COBAC to ensure that all banks fully meet COBAC regulations, particularly prudential and governance requirements. This includes permanently reducing BEAC short-term liquidity support to banks to levels consistent with COBAC norms. Banks that still rely on substantial BEAC funding have developed plans to achieve this goal by end-2020, which will also be aided by the clearance of government domestic arrears.

17. The authorities are aware of the need to implement each of the components of this strategy as early as possible to stabilize and strengthen banks and limit risk to financial stability. They are also committed to consulting with staff in advance of any potential changes to this strategy, or the introduction of new measures in the banking sector.

18. Financial inclusion: Credit supply by local banks is mainly targeted to medium and large companies. The authorities plan to work on a strategy to promote financial inclusion so that small enterprises, entrepreneurs and consumers can benefit from better access to credit. They are studying the successful use of financial technologies (or FinTech) in other African countries with a view of making it part of their strategy to improve financial infrastructure. They are aware that financial inclusion could help diversify the economy, create employment, and reduce inequality. In addition, within the context of their roadmap to improve the business climate, the authorities have identified a number of specific areas for reform, including mechanism for resolving insolvencies

as contained in the Organization for the Harmonization of Commercial Law in Africa (OHADA), adoption of a regional uniform credit information law, and adoption of a legal framework to support electronic payments.

D. Strengthening Public Finance Management

19. The authorities adopted measures to improve the PFM in the context of the SMP.

These included tighter control over spending and the merger of the ministries of Economy and Finance. The new Finance Ministry has implemented specific procedures for expenditure 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.

20. Additional steps needed to modernize the PFM framework and make it more effective are being taken (prior action) (MEFP, ¶22).

The authorities are in the process of strengthening expenditure tracking and monitoring, especially for capital spending, through the adoption of a system to adequately track commitments, including within a multi-year framework. At the same time, the tracking of commitments on current spending has also been improved. These changes will help strengthen fiscal management and discipline and foster good governance. The new expenditure system will include: (i) maintaining an accurate record of all spending commitments (on a monthly frequency for the current year); (ii) ensuring full control of all spending approvals by the Minister of Finance; and (iii) documenting the key steps in the expenditure control chain (verification of the availability of appropriations and the level of expenditure commitment, certification of delivery of good/service, approval of payment, and payment instructions).

21. The authorities will transpose CEMAC Directive on PFM in 2020. The directive aims to reinforce the budgeting framework, decentralize budgeting functions across ministries over time, and strengthen audit functions, including through enhanced internal controls. Concrete requirements to strengthen the budgeting framework include inter alia addition of a medium-term fiscal framework and budget annexes informing about fiscal risks, debt, and the debt management strategy. Separately, the authorities also plan to increase the dissemination of fiscal information, including on domestic and external debt and any contingent liabilities.

E. Improving Governance and Transparency and Fighting Corruption

22. The government has devised a strategy to improve governance and transparency and fight corruption that will be implemented during the program.

The strategy aims to address weak governance outcomes (Figure 1), and contains a reform agenda that builds on the measures launched under the SMP and is informed by the governance diagnostic report prepared by Fund staff, which identified key governance weaknesses in EG (MEFP, ¶24).¹¹ The government will publish both the governance diagnostic report and the strategy (prior action). The full and effective

¹¹ See *Equatorial Guinea—Good Governance and Anti-Corruption Action Plan*. See also *Equatorial Guinea—Diagnostic Report on Transparency, Governance and Corruption*. IMF Report, November 2019.

implementation of this strategy will help address longstanding problems in this area and should support the goal of achieving sustainable and inclusive growth by improving the business climate, strengthening institutions and reducing legal uncertainty—all elements needed to make the non-hydrocarbon sector more attractive to investors and broaden the sources of growth. The program's key governance, anti-corruption and transparency measures are the following:

- **Anti-corruption framework:** Following the ratification of the United Nations anti-corruption convention in May 2018, the Parliament will adopt an anti-corruption law in line with international obligations under the UNCAC. This law will criminalize corruption offenses, enhance preventive measures, including those related to asset declaration for senior public officials, conflict of interests, and the access to public information, strengthen investigative and prosecutorial capacity and powers, enhance the role of courts specialized in anti-corruption and bolster channels of international cooperation (**structural benchmark, end-March 2020**). Furthermore, the authorities plan to upgrade the decree on asset declarations for senior public officials in line with the law and international best practices in 2020. The aim is to implement the asset declarations system during the program period. Moreover, the Accounts Tribunal will be made operational during the program period, by equipping it with adequate personnel and facilities
- **Hydrocarbon sector transparency:** The authorities will continue to take measures to increase transparency in the hydrocarbon sector. In November, they submitted a membership application to the EITI (**prior action**). The government expects the application to be considered by the EITI Board in the first half of 2020. The authorities will also publish the final audit and reconciliation reports of the state-owned companies GePetrol and Sonagas (**structural benchmark, end-June 2020**). Furthermore, they will draw up a plan to address issues arising from the audits' findings and have it approved by the CoM. At the same time, they will reassess revenue potential based on the audit's findings, with any additional resources allocated to boost NFAs at the BEAC and social spending. Moreover, the authorities plan to publish annual reports containing comprehensive hydrocarbon sector data and information (e.g., production, exports, government revenue, new contracts signed) in line with the EITI standard. The content of such reports will be agreed with Fund staff, and the first report, for 2019, is scheduled to be published by end-September 2020 (**structural benchmark**). Finally, the authorities will also publish all active oil and gas sector contracts by end-June 2020.
- **Rule of law:** The authorities plan to strengthen the rule of law through the effective implementation of existing legislation. They will also enhance public data access on laws, orders and judicial decisions. Against this background, they will set up a website for the Official Gazette and publish all laws, orders and decrees relevant to EG. As a first step, all laws, orders and decrees adopted since 2000 will be published in that website by end-June 2020 (**structural benchmark**). Their strategy to promote good governance also envisages the dissemination of relevant information on the judicial system's performance.
- **AML/CFT:** The authorities are committed to strengthening their AML/CFT framework and the enforcement of legislation in the area. Among other measures, EG plans to become a

member of the Egmont Group to improve the international exchange of information. A membership application will be submitted to Egmont by end-March 2020. Furthermore, the National Agency for Financial Investigations (ANIF) will develop guidance during 2020 to assist financial institutions to better identify and verify politically-exposed persons and beneficial owners.

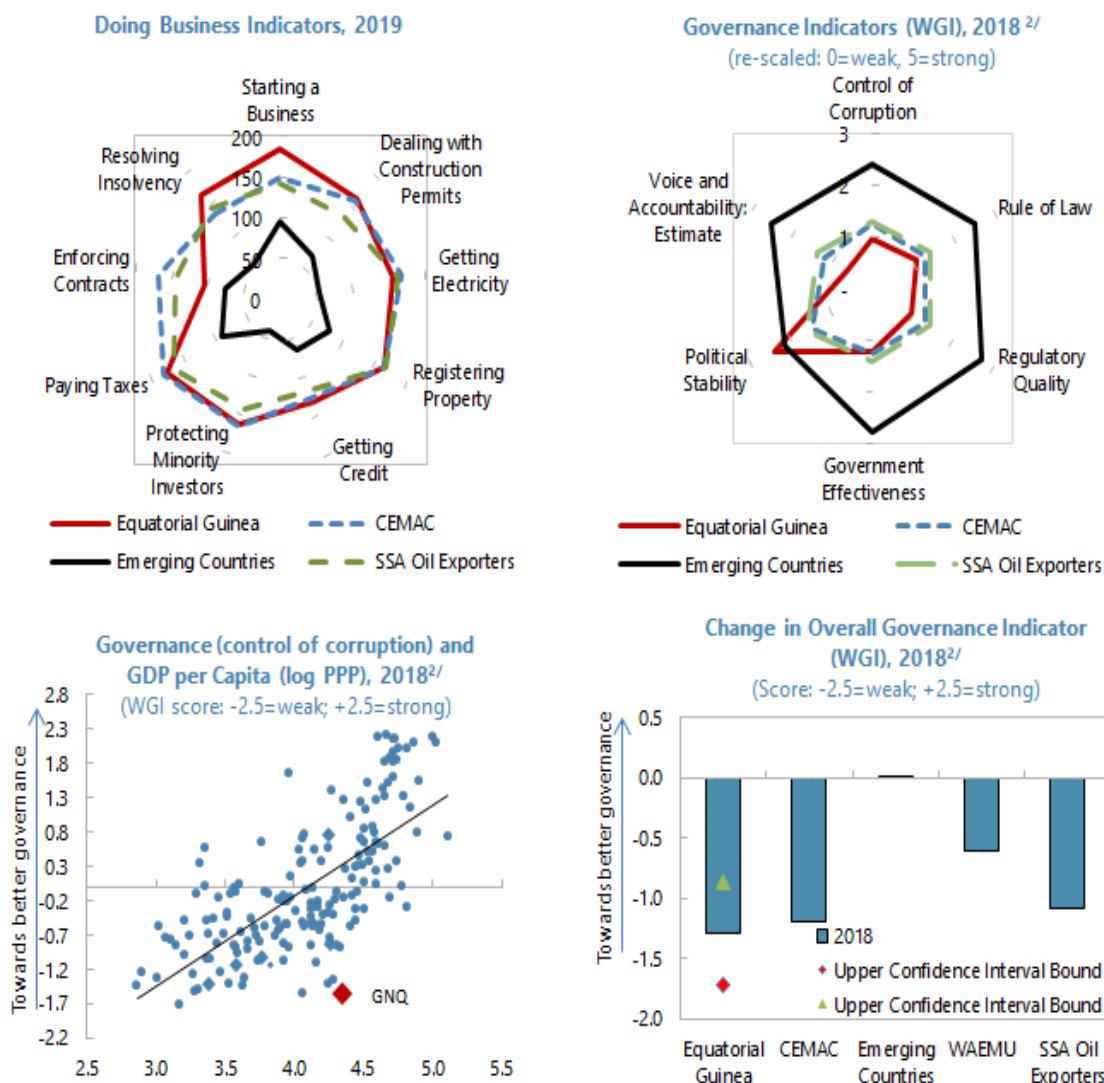
- **Fiscal safeguards review (FSR).** The EFF arrangement will require the conduct of an FSR by the Fund's FAD during its first year. The FSR will assess the treasury's framework, with a focus on controls and audit procedures, fiscal monitoring and reporting, and budget execution processes. The assessment will suggest measures to ensure that funds are spent on legally approved expenditures and all revenues are channeled through a single treasury account. Findings from the FSR will inform potential additional program measures. The program also envisages the preparation of a Fiscal Transparency Evaluation (FTE) by FAD.
- **Data dissemination.** The authorities are using the Finance Ministry website launched in 2018 to post historical fiscal data and other relevant information. They implemented the e-GDDS subscription and launched their national data summary page in May 2019. The authorities will use the websites of the Finance Ministry and National EITI Committee to disseminate more fiscal and hydrocarbon sector data (output, exports, prices) and information (including on fiscal legislation) on a monthly basis.

F. Structural Reforms to Boost Non-Hydrocarbon Growth

23. The authorities have begun taking steps to promote economic diversification to boost non-hydrocarbon growth (MEFP, ¶25).

- **Economic diversification strategy.** A national economic conference in April/May 2019 was a key stage in a still-ongoing process of revising the Horizonte 2020 development strategy. The conference was informed by background studies, some of them prepared by the WB. A key pillar of the proposed revised plan is the integration of the Sustainable Development Goals and environmental considerations into the economic strategy. With assistance from the Korean Development Institute, the authorities are drawing on the successful experiences of other countries to design their diversification strategy and make it operational. The revised strategy is expected to guide economic diversification and sectoral policies over the medium to long term. An economic-recovery agenda contains concrete actions planned for the next three years. It would create a pathway towards this longer-term strategy and is aligned with the EFF.
- **Business environment.** During the SMP the authorities took specific steps to improve the business environment. These included amending the foreign investment law by eliminating the requirement to have a local partner in the non-hydrocarbon sector, and creating and making operational a one-stop shop for establishing a firm (Box 2). In addition, in March 2019 the authorities launched an action plan for improving the business climate, based on business climate diagnostic studies prepared separately by the WB and the Singapore Corporation Enterprise.

Figure 1. Equatorial Guinea: Business Environment and Governance 1/



Sources: Doing Business Report 2019; Worldwide Governance Indicators (WGI), 2000-2018; WEO; and IMF staff estimates.

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

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

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

Box 2. Progress on Business Facilitation Reforms

The government has begun to roll out initiatives for kick starting the non-hydrocarbon economy. A key ingredient at this early stage is the improvement of the business environment.

The government has designed a comprehensive strategy to improve the business climate. This strategy is informed by the result of a high-level seminar on improving the business climate and the competitiveness of the economy in November 2018, which featured extensive and open consultation with the private sector and development partners. A key outcome of this seminar was the production of an action plan in March 2019 to improve the business climate. The plan 91 features concrete measures, including many recommendations of international partners particularly those of the World Bank.

The main achievement under the strategy thus far has been the operationalization of a one-stop shop (VUE) for the creation of new businesses. First opened in January 2019, the VUE facilitates the registration of companies by centralizing all the steps involved in the creation of a company. Agents of each relevant ministry are stationed in the VUE, and are authorized to sign off on applications, which previously had to be channeled through individual ministers. According to official statistics, since its creation, the VUE has registered more than 900 companies, and reduced the time for company registration to 7 days, in contrast to the 33 days recorded in the World Bank's latest Doing Business survey, resulting in a substantial cost reduction to businessmen. The VUE also facilitates firms that are renewing their registration, issuing them a new secure number for firm identification (NIF), which would also help tax filing. Finally, the VUE also allows registration and recognition of autonomous workers and entrepreneurs and provides advice to entrepreneurs.

In addition, in 2018, the authorities eliminated the local partner requirement for foreign investments outside the hydrocarbon sector. This measure would help increase attractiveness of the country for non-hydrocarbon investors and support economic diversification efforts. In addition, it could facilitate technology and knowledge transfer.

Implementation speed is expected to increase going forward, given the recent establishment of a special committee chaired by the Prime Minister to oversee the action plan. Ambitious implementation could bring much-needed improvements in many areas. This would involve measures to simplify taxes/tax filings; centralize and make transparent public procurement; simplify the construction permitting process; and establishment of a property registry and facilitation of property transactions, which, alongside other measures, should also help to ease access to credit. The action plan also envisages a general reform of labor laws. Cross-border transactions would be facilitated through full implementation of ASYCUDA, establishment of a single window for cross-border commerce and an investment promotion agency, as well as trade facilitation measures, including free issuance of certificates of origin and documentation requirements aimed at cutting red tape. Finally, various measures would strengthen contract enforcement, the court system, and application of regional corporate legislation (OHADA).

24. The authorities are aware of the need to further improve the business climate and implement other structural reforms to support economic diversification (MEFP, ¶26). They have integrated the financing requirements for the updated development plan into the medium-term fiscal framework underlying the program. They view the private sector’s role in the diversification strategy as key to boosting investment and productivity in the non-oil sector while lessening any financial burden on the state.

- **Non-hydrocarbon export sector development.** Staff stressed that successful economic diversification in EG hinges on promoting non-hydrocarbon exports in sectors where EG has a comparative advantage or where this could be developed over the medium term. The authorities plan to create an investment agency to support attracting foreign investment into the non-hydrocarbon sector, as well as a non-hydrocarbon export promotion agency. They continue to work on plans to foster the development of certain sectors (e.g., tourism, fisheries, agriculture) and are developing plans to facilitate issuance of special tourist and business visas.
- **Labor market reform.** The authorities plan to implement labor market reforms aimed at improving labor productivity and reducing longstanding labor market rigidities.¹² This strategy would be important for increasing competitiveness in the non-hydrocarbon sector and improving overall macroeconomic flexibility. Specific measures will address the high redundancy costs, training to address skill mismatches and support the development of certain sectors.
- **Business environment.** The authorities are aware that there is ample scope to improve the business climate to attract more investment into the non-hydrocarbon sector. Issues that they plan to address include streamlining and reducing the number of procedures, time and cost for various business transactions, broadening access to credit (financial inclusion) and improving the insolvency framework. In line with their commitment under the African Continental Free Trade Area (AfCFTA) agreement, the authorities will work on reducing barriers to trading across borders (time, cost and procedures), particularly with CEMAC partners. They are also working to improve telecommunications and reduce its cost to make the economy more competitive.

G. Capacity Building

25. The authorities are implementing their capacity building agenda and will need further support to implement the proposed program. During the period of the SMP, the Fund provided TA in areas of PFM, tax administration and policy, national account and external-sector statistics, while delivering training in macroeconomic analysis and forecasting for public officials. In October 2018, the Fund opened a resident representative office in Malabo. The authorities have requested resident advisors to support their plans to strengthen tax administration and PFM. They will need

¹² See WB’s Doing Business 2017 report, and IMF Country Report 15/260.

technical assistance in other areas, notably to strengthen debt management, improve investment efficiency, strengthen the administration of the hydrocarbon fiscal regime, introduce a more flexible system for pricing of fuel products, and increase fiscal transparency.

PROGRAM MODALITIES AND RISKS

26. Program modalities. A 36-month arrangement would provide an appropriate timeframe to support the implementation of the envisaged sizable fiscal consolidation and broad structural reform agenda. The arrangement would include structural benchmarks in several areas, semi-annual quantitative performance criteria (PC) and quarterly indicative targets (ITs) (MEFP, Table 1). A fuller list of policy measures and reforms contained in the program is presented in Annex I of the MEFP. Additional program features are as follows:

- **PCs and ITs.** The program would be monitored through PC on non-hydrocarbon tax revenue, the non-hydrocarbon primary balance, external arrears, contracting and guaranteeing external debt, and BEAC net claims on the central government (excluding the use of IMF credit).¹³ The program would also include ITs on net lending by domestic banks to the government, domestic arrears, and social spending. Except for the non-hydrocarbon revenue target and social spending, the program would be monitored from below the line.
- **Access, phasing and burden sharing.** The proposed access under the EFF arrangement is 130 percent of quota, or SDR 205 million, with a uniform disbursement schedule. Fund financing will help meet balance of payments needs arising from the depletion of its NFAs at the BEAC (which were close to US\$2.9 billion in 2014), following the large deterioration in the terms of trade over 2014-19 and the protracted decline in hydrocarbon production and exports. The program targets an accumulation of EG's NFAs of about 7 percent of GDP by 2022. The proposed access is also predicated on the strength of the fiscal adjustment, which targets an improvement in the NHPB of 18.8 percent of non-hydrocarbon GDP over 2019–22. The Fund will account for 45 percent of total program financing, with the remainder coming from the AfDB.
- **Capacity to repay the Fund.** EG has adequate capacity to repay the Fund, despite the existence of collateralized debt. The authorities will not contract new collateralized loans during the program (¶112 and MEFP, ¶116). EG currently has no IMF obligations (Table 8). While program financing would increase significantly external debt, it would be from a low base (10 percent of GDP in 2018) and external debt is projected to peak at 16 percent of GDP in 2022. Debt service indicators are within normal ranges. A DSA incorporating the economic policies and adjustment envisaged under the program shows sustainable public

¹³ The program includes adjustors for deviations of oil revenue and external financing from program levels (Technical Memorandum of Understanding, ¶116, ¶131).

(continued)

and external debt burdens (Annex I).¹⁴ There are downside risks around the current baseline (115 and below), which—were they to materialize—would weaken EG’s repayment capacity. However, there are also upside risks from potential higher hydrocarbon output from ongoing projects. This could help improve the growth outlook and lead to higher exports and government revenues, strengthening repayment capacity.

- **Program risks.** There are several important risks to the Fund from a program with EG, including risks related to EG’s governance problems. On the fiscal side, in addition to the risks to the outlook described in 115, recurring PFM weaknesses could result in expenditure overruns.
- **Dealing with risks.** The design of the program would help mitigate risks. To limit governance-related risks, the program contains a strong emphasis on increasing transparency, strengthening governance and fighting corruption, with frontloading of key measures in these areas and the implementation of other important measures as early as feasible during the arrangement. If warranted, further conditionality in these areas can be added as the program is implemented. On the fiscal side, the program contains strong safeguards, notably the operationalization of the expenditure tracking and monitoring system. The FSR and FTE might also identify weaknesses and propose recommendations to address them. To limit financial sector risks outlined in 115, the program envisages at an early stage the clearance of government arrears, which would sharply reduce NPLs. In addition, the authorities are committed to proactively working with COBAC to ensure an early recapitalization of banks with capital shortfalls. Beyond these factors, proactive adjustment of macroeconomic policy settings in consultation with staff and the authorities’ commitment to reforms would also be important.

27. The BEAC has provided an updated policy assurance on end-December 2019 and end-June 2020 NFAs in support of CEMAC countries’ Fund-supported programs. In its updated letter of policy support, the BEAC presented a revised NFA projections reflecting in part the strong performance through mid-2019. BEAC also reiterated its commitment to implement an adequately tight monetary policy, together with member states implementing fiscal adjustment agreed in the context of IMF-supported programs, to achieve the NFA projections. The regional assurances on regional NFAs are critical for the success of EG’s program and will help bolster the region’s external sustainability.

28. The BEAC continues to implement the remaining recommendations of the 2017 safeguards assessment. BEAC’s full transition to IFRS for FY 2019 is progressing broadly as planned, and efforts are being stepped up to accelerate the revisions to the secondary legal instruments for alignment with the BEAC Charter. The adoption of the revised secondary legislations was extended beyond the initial timeline (June 2018) to allow for further consultation with stakeholders, including IMF staff.

¹⁴ The DSA features a ten-year projection period given the declining trend in hydrocarbon output.

STAFF APPRAISAL

29. Macroeconomic imbalances have declined in recent years, but the economic situation remains challenging. Fiscal consolidation has helped move the government accounts into surplus and strengthen the external position. However, economic growth remains negative while EG's NFAs at the BEAC are very low. The overall growth outlook, while featuring a gradual recovery of the non-hydrocarbon sector, remains challenging, owing to declining hydrocarbon output. At the same time, the banking sector remains weak, weighed down by high NPLs and low capital. The authorities face the challenge of maintaining macroeconomic and financial stability while restoring non-oil growth, which has been affected by weak private sector confidence and financing constraints. EG also faces the challenge of diversifying the economy away from hydrocarbons and making economic growth sustainable and more inclusive, with a more equitable distribution of public resources.

30. The authorities' strong fiscal program is key to responding to current challenges. Fiscal adjustment is needed to address the secular decline in hydrocarbon output, maintain debt sustainability, strengthen the external position and help rebuild NFAs. The program would help diversify government receipts by substantially increasing non-hydrocarbon revenue, thereby creating space for spending on social protection and human capital development, which are needed for inclusive economic growth. Fiscal adjustment, multilateral financing, privatization and concession of public enterprises to the private sector will help address financing constraints, repay government domestic arrears, and bolster private confidence. These elements would, in turn, help restore growth in the non-hydrocarbon sector.

31. Public spending needs to shift from infrastructure to social spending. Following years of high expenditure on infrastructure, needs in the area are now lower and the marginal efficiency of this spending has declined. A structural shift is necessary in EG's budget to improve efficiency and better address the country's social needs. Resources released from infrastructure spending can be redirected towards spending on growth-enhancing human capital development and protecting the most vulnerable, with positive consequences for socio-economic outcomes. A stronger safety net will also support more inclusive and equitable growth.

32. Strengthening public financial management is critical to underpin the fiscal strategy. Steps to enhance expenditure tracking and monitoring, and to improve budget preparation and expenditure controls are welcome. Further efforts are needed to revamp the PFM framework, including by transposing the CEMAC directive. A fiscal safeguards review needs to be undertaken. This, together with a fiscal transparency evaluation, would feed into the authorities' PFM reform agenda. As envisaged by the authorities, it is important to increase the dissemination of fiscal information, including on domestic and external debt and any contingent liabilities.

33. Efforts are needed to address banking sector problems. Clearance of domestic arrears through securitization and cash payments is key to reducing NPLs and strengthening the banking sector, which is crucial to restoring non-oil growth. The authorities also need to ensure that banks with capital shortfalls are recapitalized as early as possible, while those heavily reliant on short-term

liquidity from the BEAC reduce this support to levels consistent with COBAC regulations. It is also important that they work with COBAC to ensure that banks strictly adhere to prudential and governance requirements.

34. The authorities' strategy to increase transparency, improve governance and fight corruption is welcome. The government's reform agenda in these areas builds on measures launched during the SMP and draws on a governance diagnostic report prepared by IMF staff. Priority should be given to: (i) strengthening the legal and institutional anti-corruption framework while putting in place a robust asset declaration regime for public officials; (ii) fostering transparency in the oil and gas sectors, including through EITI membership, publication of audits of national companies and periodic data reports on the hydrocarbon sector; and (iii) improving the rule of law and the AML/CFT framework. These reforms will address longstanding institutional issues, support the fiscal strategy, including resource mobilization and efficient and equitable use of public resources, and promote economic diversification by fostering a conducive business environment.

35. An ambitious reform agenda is needed to promote economic diversification. The authorities have already begun implementing reforms in this area, aiming to improve the business climate, a key element to boosting non-hydrocarbon domestic and foreign investment. It would be important to deepen these reforms to enable the private sector to play a leading role in the diversification of the economy. The authorities' plans to promote private investment and diversify exports are welcome as are plans to open to competition sectors where public enterprises currently operate. The plan to develop and implement a strategy for financial inclusion is key to ease access to finance, notably for micro and small enterprises thus supporting more inclusive growth. Reducing labor rigidities while addressing the skills mismatch would also help support job creation.

36. Staff supports the authorities' request for a program under the EFF with access equivalent to SDR 205 million (130 percent of quota). The Letter of Intent and Memorandum of Economic and Financial Policies set out appropriate policies to pursue the program's objectives, while the implementation of the regional policy assurances is adequate. The capacity to repay the Fund is also adequate, and risks to program implementation are manageable given program design and the authorities' commitment to reforms. Staff proposes that completion of the first review under the extended arrangement be conditional on the implementation of critical policy assurances at the union level, as established in the November 2019 union-wide background paper.

Table 1. Equatorial Guinea: Selected Economic and Financial Indicators, 2015–24

	2015	2016	2017	Est. 2018	2019	Program 2020	2021	2022	Projections	
									2023	2024
(Annual percentage change, unless otherwise specified)										
Production, prices, and money										
Real GDP	-9.1	-8.8	-4.7	-5.7	-5.9	-1.9	1.0	-4.7	-1.2	-1.4
Hydrocarbon sectors ¹	-9.4	-8.2	-5.6	-9.7	-10.4	-5.0	-0.6	-11.3	-5.5	-6.4
Non-hydrocarbon sectors	-8.8	-9.7	-3.4	0.0	0.0	1.7	2.9	2.2	2.8	2.7
GDP deflator	-20.2	-6.3	12.7	13.1	-3.2	0.4	-0.6	2.7	2.4	2.8
Hydrocarbon sectors	-36.5	-17.6	31.4	24.5	-9.8	-3.6	-5.5	-1.8	-0.9	-0.6
Non-hydrocarbon sectors	1.1	3.6	-0.4	1.6	1.0	2.0	2.0	2.1	2.2	2.2
Consumer prices (annual average)	1.7	1.4	0.7	1.3	0.9	1.7	1.7	1.8	1.9	1.9
Consumer prices (end of period)	1.6	2.0	-0.2	2.6	1.6	1.7	1.7	1.8	1.9	2.0
Monetary and exchange rate										
Broad money	-10.9	-16.4	1.0	-0.8	1.0	3.7	4.9	4.3	5.0	5.0
Nominal effective exchange rate (- = depreciation)	-6.9	2.7	2.2	...	...	...	...	...	...	...
Real effective exchange rate (- = depreciation)	-6.4	2.4	0.6	...	...	...	...	...	...	...
External sector										
Exports, f.o.b.	-46.1	-26.9	10.5	11.6	-19.2	-7.9	-6.1	-11.9	-4.6	-4.7
Hydrocarbon exports	-47.5	-25.9	9.6	12.4	-18.9	-8.6	-6.8	-13.0	-5.7	-6.0
Non-hydrocarbon exports	34.6	-49.4	39.6	-8.6	-27.9	14.9	13.5	11.9	12.1	12.7
Imports, f.o.b.	-23.1	-33.9	-13.2	9.5	-17.8	-3.3	-17.6	-12.5	-6.0	-1.7
Terms of trade	-34.7	-5.4	35.0	40.7	-15.2	-4.7	-5.5	-1.3	-0.7	0.5
Government finance										
Revenue	-20.2	-45.4	10.0	16.8	-14.3	-3.4	0.2	-3.2	1.0	1.2
Expenditure	-4.6	-42.8	-23.3	-1.0	-18.4	-2.2	-3.1	-7.1	2.0	0.8
(Percent of GDP, unless otherwise specified)										
Investment and savings										
Gross investment	24.7	16.7	12.6	12.0	12.2	13.1	11.7	12.2	12.3	12.4
Gross national savings	8.3	3.7	6.8	6.6	6.5	7.3	7.9	8.1	8.6	8.5
Government finance										
Revenue	26.5	16.9	17.3	19.0	17.8	17.5	17.5	17.3	17.3	17.2
Of which: hydrocarbon revenue	22.2	12.8	13.8	15.5	14.3	12.8	11.4	10.1	9.3	8.6
non-hydrocarbon revenue	4.3	4.1	3.5	3.5	3.5	4.7	6.1	7.1	7.9	8.6
Expenditure	41.6	27.8	19.9	18.5	16.5	16.4	15.8	15.0	15.2	15.1
Overall fiscal balance (Commitment basis)	-15.1	-10.9	-2.6	0.5	1.3	1.1	1.6	2.3	2.1	2.2
Overall fiscal balance (Cash basis) ²	-2.9	-7.9	-4.9	1.2	-0.6	-21.3	1.6	2.3	2.1	2.2
Non-hydrocarbon primary balance ³	-37.0	-23.5	-16.1	-14.4	-12.4	-10.6	-8.1	-6.2	-5.6	-4.9
Outstanding public debt ⁴	33.6	43.4	38.0	43.0	46.2	46.6	45.3	44.4	41.4	38.5
Change in domestic arrears	12.2	3.0	-2.3	0.7	-2.0	-22.4	0.0	0.0	0.0	0.0
External sector										
Current account balance (including official transfers; - = deficit)	-16.4	-13.0	-5.8	-5.4	-5.7	-5.7	-3.8	-4.1	-3.8	-3.9
Total external public debt	9.0	9.5	8.6	9.5	11.2	13.0	14.8	16.2	15.6	15.1
Debt service-to-exports ratio (percent)	3.6	5.8	3.3	3.3	4.3	6.3	6.7	9.6	9.8	10.1
External debt service/government revenue (percent)	5.9	12.8	7.3	6.9	8.6	11.8	11.8	15.4	14.8	14.2
Memorandum items										
Reserve assets at the BEAC (months of next years' imports)	3.6	0.2	0.1	0.2	0.6	2.6	4.5	6.1	6.8	n.a.
CEMAC Foreign Reserves										
(US\$ billions, end-of-period)	10.3	5.0	5.8	6.6	8.3	10.5	12.5	13.9	15.2	n.a.
(in months of extrazone imports)	4.4	2.3	2.3	2.7	3.3	4.2	4.8	5.3	5.6	n.a.
Oil price (U.S. dollars a barrel) ⁵	47.0	39.0	51.4	67.2	59.7	56.7	54.3	53.7	53.9	54.5
Nominal GDP (billions of CFA francs)	7,795	6,661	7,152	7,624	6,950	6,842	6,875	6,726	6,806	6,898
Nominal GDP (millions of US dollars)	13,180	11,233	12,287	13,732	11,864	11,639	11,824	11,685	11,933	12,226
Non-hydrocarbon GDP (billions of CFA francs)	4,272	3,996	3,846	3,910	3,949	4,096	4,298	4,481	4,705	4,942
Hydrocarbon volume (barrels)	133	122	115	104	92	87	89	79	74	70
Oil volume (crude + condensado)	88	75	64	57	53	50	43	37	34	31
Gas volume	44	47	51	46	39	37	46	41	40	39
Exchange rate (average: CFA francs/U.S. dollar)	591.4	593.0	582.1	555.2	585.8	587.8	581.4	575.6	570.4	564.2

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 2020.³ 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. Equatorial Guinea: Balance of Payments, 2015–24 /1

(Billions of CFA francs, unless otherwise specified)

	2015	2016	2017	Est.	Program				Projections	
				2018	2019	2020	2021	2022	2023	2024
Current account	-1281	-864	-412	-411	-397	-392	-264	-277	-257	-267
Trade balance	1286	1086	1527	1728	1379	1219	1263	1118	1066	984
Exports of goods, f.o.b.	3371	2464	2723	3037	2455	2260	2122	1869	1765	1664
Hydrocarbon exports	3223	2389	2618	2942	2386	2181	2032	1768	1653	1537
Crude oil	2457	1725	1738	1953	1692	1521	1234	1050	959	874
Liquefied natural gas	610	480	534	679	443	411	492	429	411	391
Liquefied petroleum gas	52	80	144	124	100	94	135	124	122	113
Methanol	104	104	202	187	150	156	170	165	162	159
Non-hydrocarbon exports	148	75	104	95	69	79	90	100	112	127
Imports of goods, f.o.b.	-2085	-1377	-1196	-1309	-1076	-1041	-858	-751	-699	-680
Petroleum sector	-271	-82	-51	-68	-107	-165	-83	-77	-62	-69
Petroleum products	-214	-200	-192	-245	-229	-222	-217	-217	-221	-228
Public sector equipment and construction	-756	-599	-511	-535	-397	-350	-299	-245	-223	-206
Other ²	-844	-496	-442	-462	-343	-303	-259	-212	-193	-178
Services (net)	-1202	-867	-793	-912	-730	-667	-637	-591	-557	-525
Income (net) ³	-1091	-828	-899	-996	-850	-753	-701	-618	-583	-545
Current transfers	-274	-256	-246	-232	-196	-192	-190	-185	-183	-182
Capital and financial account	327	168	429	414	447	531	363	336	321	341
Capital account	0	0	0	0	0	0	0	0	0	0
Financial account	327	168	429	414	447	531	363	336	321	341
Direct investment	702	190	312	309	240	347	370	355	306	309
Portfolio investment (net)	-1	0	0	-1	-1	-1	-1	-1	-1	-1
Other investment (net)	-374	-22	117	107	208	185	-6	-18	16	33
Medium- and long-term transactions	13	278	152	64	-37	49	14	-21	-14	-10
General government	-48	229	90	64	-37	49	14	-21	-14	-10
Of which : amortization	-106	-85	-76	-78	-87	-101	-86	-121	-114	-110
Other sectors	61	49	63	0	0	0	0	0	0	0
Short-term transactions	-387	-300	-35	43	245	136	-19	3	30	42
General government ⁴	-231	282	160	-109	66	131	0	0	0	0
Banks	-71	-20	45	41	71	1	1	-1	0	0
Other sectors	-84	-562	-240	111	108	4	-21	4	30	42
Errors and omissions	108	-16	-60	0	0	0	0	0	0	0
Overall balance	-846	-712	-43	3	50	139	99	59	64	73
Financing	846	712	43	-3	-50	-139	-99	-59	-64	-73
Change in gross international reserves ⁵ (- = increase)	846	712	43	-3	-74	-259	-218	-163	-64	-73
Financing gap	0	0	0	0	24	121	119	104	0	0
Program Financing				0	24	121	119	104	0	0
African Development Bank				0	0	73	72	57	0	0
IMF-EFF				0	24	48	47	47	0	0
Memorandum items:										
Growth of hydrocarbon exports (percent)	-56.1	-26.1	11.7	17.8	-23.1	-8.9	-5.8	-12.1	-5.7	-6.0
Growth of non-hydrocarbon exports (percent)	12.5	-49.5	42.3	-4.2	-31.6	14.5	14.8	13.0	13.1	13.9
Reserve assets at the BEAC (months of next years' imports)	3.6	0.2	0.1	0.2	0.648	2.6	4.5	6.1	6.8	5.2

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. Equatorial Guinea: Balance of Payments, 2015–24/1

(Billions of CFA francs, unless otherwise specified)

	2015	2016	2017	Est.	Program				Projections	
				2018	2019	2020	2021	2022	2023	2024
Current account	-16.4	-13.0	-5.8	-5.4	-5.7	-5.7	-3.8	-4.1	-3.8	-3.9
Trade balance	16.5	16.3	21.3	22.7	19.8	17.8	18.4	16.6	15.7	14.3
Exports of goods, f.o.b.	43.2	37.0	38.1	39.8	35.3	33.0	30.9	27.8	25.9	24.1
Hydrocarbon exports	41.3	35.9	36.6	38.6	34.3	31.9	29.6	26.3	24.3	22.3
Crude oil	31.5	25.9	24.3	25.6	24.4	22.2	18.0	15.6	14.1	12.7
Liquefied natural gas	7.8	7.2	7.5	8.9	6.4	6.0	7.2	6.4	6.0	5.7
Liquefied petroleum gas	0.7	1.2	2.0	1.6	1.4	1.4	2.0	1.8	1.8	1.6
Methanol	1.3	1.6	2.8	2.4	2.2	2.3	2.5	2.5	2.4	2.3
Non-hydrocarbon exports	1.9	1.1	1.5	1.2	1.0	1.2	1.3	1.5	1.7	1.8
Imports of goods, f.o.b.	-26.7	-20.7	-16.7	-17.2	-15.5	-15.2	-12.5	-11.2	-10.3	-9.9
Petroleum sector	-3.5	-1.2	-0.7	-0.9	-1.5	-2.4	-1.2	-1.1	-0.9	-1.0
Petroleum products	-2.7	-3.0	-2.7	-3.2	-3.3	-3.2	-3.2	-3.2	-3.3	-3.3
Public sector equipment and construction	-9.7	-9.0	-7.1	-7.0	-5.7	-5.1	-4.4	-3.6	-3.3	-3.0
Other ²	-10.8	-7.4	-6.2	-6.1	-4.9	-4.4	-3.8	-3.2	-2.8	-2.6
Services (net)	-15.4	-13.0	-11.1	-12.0	-10.5	-9.7	-9.3	-8.8	-8.2	-7.6
Income (net) ³	-14.0	-12.4	-12.6	-13.1	-12.2	-11.0	-10.2	-9.2	-8.6	-7.9
Current transfers	-3.5	-3.8	-3.4	-3.0	-2.8	-2.8	-2.8	-2.8	-2.7	-2.6
Capital and financial account	4.2	2.5	6.0	5.4	6.4	7.8	5.3	5.0	4.7	4.9
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	4.2	2.5	6.0	5.4	6.4	7.8	5.3	5.0	4.7	4.9
Direct investment	9.0	2.9	4.4	4.0	3.5	5.1	5.4	5.3	4.5	4.5
Portfolio investment (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment (net)	-4.8	-0.3	1.6	1.4	3.0	2.7	-0.1	-0.3	0.2	0.5
Medium- and long-term transactions	0.2	4.2	2.1	0.8	-0.5	0.7	0.2	-0.3	-0.2	-0.1
General government	-0.6	3.4	1.3	0.8	-0.5	0.7	0.2	-0.3	-0.2	-0.1
Of which : amortization	-1.4	-1.3	-1.1	-1.0	-1.2	-1.5	-1.3	-1.8	-1.7	-1.6
Banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other sectors	0.8	0.7	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term transactions	-5.0	-4.5	-0.5	0.6	3.5	2.0	-0.3	0.0	0.4	0.6
General government ⁴	-3.0	4.2	2.2	-1.4	0.9	1.9	0.0	0.0	0.0	0.0
Banks	-0.9	-0.3	0.6	0.5	1.0	0.0	0.0	0.0	0.0	0.0
Other sectors	-1.1	-8.4	-3.4	1.5	1.6	0.1	-0.3	0.1	0.4	0.6
Errors and omissions	1.4	-0.2	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-10.8	-10.7	-0.6	0.0	0.7	2.0	1.4	0.9	0.9	1.1
Financing	10.9	10.7	0.6	0.0	-0.7	-2.0	-1.4	-0.9	-0.9	-1.1
Change in gross international reserves ⁵ (- = increase)	10.9	10.7	0.6	0.0	-1.1	-3.8	-3.2	-2.4	-0.9	-1.1
Financing gap	0.0	0.0	0.0	0.0	0.3	1.8	1.7	1.5	0.0	0.0
Program financing					0.3	1.8	1.7	1.5	0.0	0.0
Memorandum items:										
Non-hydrocarbon current account	-26.4	-22.1	-17.5	-17.3	-14.5	-13.1	-11.6	-10.4	-9.3	-8.5
Current account without FLNG/Kosmos/YOYO/Avestruz projects				-5.2	-4.6	-4.0	-3.6	-3.9	-3.5	-3.5
Reserve assets at the BEAC (months of next years' imports)	3.6	0.2	0.1	0.2	0.6	2.6	4.5	6.1	6.8	5.2

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. Equatorial Guinea: Summary of Central government Financial Operations, 2016–20Q4
(Billions of CFA francs, unless otherwise specified)

	2016	2017	2018	2019				2020			
				Out.		Proj.		Prog.			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue	1,126	1,238	1,447	242	634	1,020	1,240	264	603	944	1,197
Hydrocarbon revenue	850	988	1,178	179	515	826	995	187	443	709	874
Tax revenue	246	273	262	35	216	358	384	26	131	235	253
Other revenue	604	715	917	144	300	469	612	161	312	474	622
Non-hydrocarbon revenue	276	250	268	63	118	194	245	77	160	235	323
Tax revenue	174	147	155	39	76	134	175	44	111	152	226
Other revenue	102	103	114	24	42	59	69	33	49	83	97
Expenditure	1,853	1,422	1,408	207	486	885	1,149	261	564	843	1,123
Expense	689	732	761	212	373	569	751	220	401	609	803
Expense (primary)	662	702	714	193	353	539	706	187	362	553	724
Compensation of employees	139	143	176	44	86	134	185	45	88	138	191
Purchase of goods and services	350	392	346	108	192	292	364	104	195	297	370
Subsidies and transfers ¹	173	168	192	41	75	113	157	38	78	117	163
Interest	27	30	48	19	20	30	44	33	39	56	78
Domestic	8	16	25	8	9	10	25	16	19	28	38
Foreign	19	14	23	10	10	20	20	17	20	29	40
Net acquisition of non-financial assets	1,164	689	647	-5	113	317	398	41	163	234	320
Net lending/borrowing (overall fiscal balance)	-727	-183	39	35	147	134	91	3	38	100	75
Net financial transactions	724	183	-39	-35	-147	-134	-115	-3	-62	-197	-195
Net change in domestic arrears ²	200	-165	56	-57	-77	-128	-136	-1,535	-1,535	-1,535	-1,535
Net acquisition of financial assets	540	285	-121	24	-87	0	26	17	-21	-70	-42
Domestic deposits	257	118	-32	-49	-146	-66	-40	-3	-51	-115	-174
Foreign deposits	282	167	-89	73	59	66	66	20	30	45	131
Net incurrence of liabilities	72	63	100	-18	-18	-6	19	1,515	1,539	1,453	1,442
Domestic ³	140	9	36	23	24	66	56	1,535	1,529	1,449	1,393
Foreign	-68	54	64	-41	-42	-72	-37	-20	9	4	49
Disbursements	17	130	142	0	0	15	50	30	60	105	150
Amortization (-)	-85	-76	-78	-41	-42	-87	-87	-50	-51	-101	-101
Net change in external arrears	0	0	0	0	0	0	44	0	-44	-44	-44
Other	-88	0	-74	16	34	0	-69	0	0	0	-15
Financing gap				0	0	0	24	0	24	97	121
Program financing				0	0	0	24	0	24	97	121
Residual gap				0	0	0	0	0	0	0	0
Memorandum items:											
Overall fiscal balance	-727	-183	39	35	147	134	91	3	38	100	75
<i>Percent of GDP</i>	-10.9	-2.6	0.5	0.5	2.1	1.9	1.3	0.1	0.6	1.5	1.1
Non-hydrocarbon primary balance ⁴	-1,567	-1,151	-1,100	-125	-350	-664	-861	-150	-367	-554	-723
<i>Percent of non-hydrocarbon GDP</i>	-39.2	-29.9	-28.1	-3.2	-8.9	-16.8	-21.8	-3.7	-9.0	-13.5	-17.6
Non-hydrocarbon revenue (percent non-hydro GDP)	6.9	6.5	6.9	1.6	3.0	4.9	6.2	1.9	3.9	5.7	7.9
<i>Of which: Tax revenue</i>	4.3	3.8	4.0	1.0	1.9	3.4	4.4	1.1	2.7	3.7	5.5
Outstanding public debt ⁵	43.4	38.0	43.0	46.2	45.9	45.4	46.2	45.9	46.2	46.5	46.6
Gross government deposits	761	543	684	659	770	684	658	642	679	728	701
Deposits with BEAC	177	113	156	185	322	176	196	199	247	311	370
<i>Of which: available</i>	91	18	61	90	227	81	101	104	152	216	274
Deposits abroad	553	392	501	427	442	435	436	416	406	391	304
<i>Of which: available</i>	248	112	196	123	138	131	131	111	101	86	0
Deposits with commercial banks (available)	32	37	27	47	6	73	27	27	27	27	27
Nominal GDP	6,661	7,152	7,624				6,950				6,842
Nominal non-hydrocarbon GDP	3,996	3,846	3,910				3,949				4,096

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 2020.

³ Statutory advances are assumed to be repayed in 10 years, starting in 2022.

⁴ Equal to the overall balance minus interest and hydrocarbon revenues.

⁵ Outstanding public debt includes domestic arrears.

Table 3b. Equatorial Guinea: Summary of Central Government Financial Operations, 2015–24
(Billions of CFA francs, unless otherwise specified)

	2015	2016	2017	Out.	Program				Projections	
				2018	2019	2020	2021	2022	2023	2024
Revenue	2,064	1,126	1,238	1,447	1,240	1,197	1,200	1,163	1,174	1,189
Hydrocarbon revenue	1,731	850	988	1,178	995	874	784	683	635	593
Tax revenue	662	246	273	262	384	253	222	199	185	176
Other revenue	1,069	604	715	917	612	622	562	483	450	417
Non-hydrocarbon revenue	333	276	250	268	245	323	416	480	539	596
Tax revenue	214	174	147	155	175	226	290	340	384	433
Other revenue	119	102	103	114	69	97	126	140	155	163
Expenditure	3,241	1,853	1,422	1,408	1,149	1,123	1,088	1,011	1,032	1,040
Expense	685	689	732	761	751	803	816	791	796	801
Expense (primary)	654	662	702	714	706	724	700	678	685	694
Compensation of employees	121	139	143	176	185	191	195	195	201	204
Purchase of goods and services	345	350	392	346	364	370	355	343	347	349
Subsidies and transfers ¹	188	173	168	192	157	163	150	140	137	141
Interest	30	27	30	48	44	78	116	113	111	107
Domestic	0	8	16	25	25	38	60	55	52	48
Foreign	30	19	14	23	20	40	56	58	60	59
Net acquisition of non-financial assets	2,556	1,164	689	647	398	320	272	220	236	239
Net lending/borrowing (overall fiscal balance)	-1,177	-727	-183	39	91	75	112	152	143	149
Net financial transactions	1,176	724	183	-39	-115	-195	-232	-255	-143	-149
Net change in domestic arrears ²	953	200	-165	56	-136	-1,535	0	0	0	0
Net acquisition of financial assets	-59	540	285	-121	26	-42	-51	-34	17	2
Domestic deposits	172	257	118	-32	-40	-174	-51	-34	17	2
Foreign deposits	-231	282	167	-89	66	131	0	0	0	0
Net incurrence of liabilities	275	72	63	100	19	1,442	-181	-222	-160	-152
Domestic ³	268	140	9	36	56	1,393	-194	-201	-146	-142
Foreign	7	-68	54	64	-37	49	14	-21	-14	-10
Disbursements	113	17	130	142	50	150	100	100	100	100
Amortization (-) ⁴	-106	-85	-76	-78	-87	-101	-86	-121	-114	-110
Net change in external arrears	0	0	0	0	44	-44	0	0	0	0
Other	8	-88	0	-74	-69	-15	0	0	0	0
Financing gap				0	24	121	119	104	0	0
Program financing				0	24	121	119	104	0	0
Residual gap				0	0	0	0	0	0	0
Memorandum items:										
Overall fiscal balance	-1,177	-727	-183	39	91	75	112	152	143	149
<i>Percent of GDP</i>	-15.1	-10.9	-2.6	0.5	1.3	1.1	1.6	2.3	2.1	2.2
Non-hydrocarbon primary balance ⁵	-2,885	-1,567	-1,151	-1,100	-861	-723	-557	-419	-383	-338
<i>Percent of non-hydrocarbon GDP</i>	-67.5	-39.2	-29.9	-28.1	-21.8	-17.6	-13.0	-9.4	-8.1	-6.8
Non-hydrocarbon revenue (percent non-hydro GDP)	7.8	6.9	6.5	6.9	6.2	7.9	9.7	10.7	11.5	12.1
<i>Of which: Tax revenue</i>	5.0	4.3	3.8	4.0	4.4	5.5	6.7	7.6	8.2	8.8
Outstanding public debt ⁶	33.6	43.4	38.0	43.0	46.2	46.6	45.3	44.4	41.4	38.5
Gross government deposits ⁷	1,218	761	543	684	658	701	752	785	769	766
Deposits with BEAC	323	177	113	156	196	370	421	454	438	435
<i>Of which: available</i>	57	91	18	61	101	274	325	359	342	340
Deposits abroad	835	553	392	501	436	304	304	304	304	304
<i>Of which: available</i>	544	248	112	196	131	0	0	0	0	0
Deposits with commercial banks (available)	60	32	37	27	27	27	27	27	27	27
Nominal GDP	7,795	6,661	7,152	7,624	6,950	6,842	6,875	6,726	6,806	6,898
Nominal non-hydrocarbon GDP	4,272	3,996	3,846	3,910	3,949	4,096	4,298	4,481	4,705	4,942

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 2020.

³ Statutory advances are assumed to be repayed in 10 years, starting in 2022. Includes amortization of advances in 2022–24, and payment of arrears in 2020–24.

⁴ Includes exceptional repayment of foreign debt for 2015.

⁵ Equal to the overall balance minus interest and hydrocarbon revenues.

⁶ Outstanding public debt includes domestic arrears.

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

Table 3c. Equatorial Guinea: Summary of Central Government Financial Operations, 2015–24

(Percent of GDP, unless otherwise specified)

	2015	2016	2017	Out.	Program				Projections	
				2018	2019	2020	2021	2022	2023	2024
Revenue	26.5	16.9	17.3	19.0	17.8	17.5	17.5	17.3	17.3	17.2
Hydrocarbon revenue	22.2	12.8	13.8	15.5	14.3	12.8	11.4	10.1	9.3	8.6
Tax revenue	8.5	3.7	3.8	3.4	5.5	3.7	3.2	3.0	2.7	2.6
Other revenue	13.7	9.1	10.0	12.0	8.8	9.1	8.2	7.2	6.6	6.0
Non-hydrocarbon revenue	4.3	4.1	3.5	3.5	3.5	4.7	6.1	7.1	7.9	8.6
Tax revenue	2.7	2.6	2.1	2.0	2.5	3.3	4.2	5.1	5.6	6.3
Other revenue	1.5	1.5	1.4	1.5	1.0	1.4	1.8	2.1	2.3	2.4
Expenditure	41.6	27.8	19.9	18.5	16.5	16.4	15.8	15.0	15.2	15.1
Expense	8.8	10.3	10.2	10.0	10.8	11.7	11.9	11.8	11.7	11.6
Expense (primary)	8.4	9.9	9.8	9.4	10.2	10.6	10.2	10.1	10.1	10.1
Compensation of employees	1.6	2.1	2.0	2.3	2.7	2.8	2.8	2.9	3.0	3.0
Purchase of goods and services	4.4	5.2	5.5	4.5	5.2	5.4	5.2	5.1	5.1	5.1
Subsidies and transfers ¹	2.4	2.6	2.3	2.5	2.3	2.4	2.2	2.1	2.0	2.0
Interest	0.4	0.4	0.4	0.6	0.6	1.1	1.7	1.7	1.6	1.6
Domestic	0.0	0.1	0.2	0.3	0.4	0.6	0.9	0.8	0.8	0.7
Foreign	0.4	0.3	0.2	0.3	0.3	0.6	0.8	0.9	0.9	0.9
Net acquisition of non-financial assets	32.8	17.5	9.6	8.5	5.7	4.7	4.0	3.3	3.5	3.5
Net lending/borrowing (overall fiscal balance)	-15.1	-10.9	-2.6	0.5	1.3	1.1	1.6	2.3	2.1	2.2
Net financial transactions	15.1	10.9	2.6	-0.5	-1.7	-2.9	-3.4	-3.8	-2.1	-2.2
Net change in domestic arrears ²	12.2	3.0	-2.3	0.7	-2.0	-22.4	0.0	0.0	0.0	0.0
Net acquisition of financial assets	-0.8	8.1	4.0	-1.6	0.4	-0.6	-0.7	-0.5	0.2	0.0
Domestic deposits	2.2	3.9	1.6	-0.4	-0.6	-2.5	-0.7	-0.5	0.2	0.0
Foreign deposits	-3.0	4.2	2.3	-1.2	0.9	1.9	0.0	0.0	0.0	0.0
Net incurrence of liabilities	3.5	1.1	0.9	1.3	0.3	21.1	-2.6	-3.3	-2.3	-2.2
Domestic ³	3.4	2.1	0.1	0.5	0.8	20.4	-2.8	-3.0	-2.1	-2.1
Foreign	0.1	-1.0	0.8	0.8	-0.5	0.7	0.2	-0.3	-0.2	-0.1
Loans	1.4	0.3	1.8	1.9	0.7	2.2	1.5	1.5	1.5	1.4
Amortization (-) ⁴	-1.4	-1.3	-1.1	-1.0	-1.2	-1.5	-1.3	-1.8	-1.7	-1.6
Net change in external arrears	0.0	0.0	0.0	0.0	0.6	-0.7	0.0	0.0	0.0	0.0
Other	0.1	-1.3	0.0	-1.0	-1.0	-0.2	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.3	1.8	1.7	1.5	0.0	0.0
Program financing	0.0	0.0	0.0	0.0	0.3	1.8	1.7	1.5	0.0	0.0
Residual gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Overall fiscal balance	-15.1	-10.9	-2.6	0.5	1.3	1.1	1.6	2.3	2.1	2.2
Non-hydrocarbon primary balance ⁵	-37.0	-23.5	-16.1	-14.4	-12.4	-10.6	-8.1	-6.2	-5.6	-4.9
Gross government deposits ⁶	15.6	11.4	7.6	9.0	9.5	10.2	10.9	11.7	11.3	11.1
Deposits with BEAC	4.1	2.7	1.6	2.0	2.8	5.4	6.1	6.8	6.4	6.3
Of which: available	0.7	1.4	0.3	0.8	1.4	4.0	4.7	5.3	5.0	4.9
Deposits abroad	10.7	8.3	5.5	6.6	6.3	4.4	4.4	4.5	4.5	4.4
Of which: available	7.0	3.7	1.6	2.6	1.9	0.0	0.0	0.0	0.0	0.0
Deposits with commercial banks (available)	0.8	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4

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 2020.³ 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 2020–24.⁴ Includes exceptional repayment of foreign debt for 2015.⁵ Equal to the overall balance minus interest and hydrocarbon revenues.⁶ It does not include deposits with commercial banks that are not available.

Table 4. Equatorial Guinea: Monetary Survey, 2015–24

(Billions of CFA francs, unless otherwise specified, end of period)

	2015	2016	2017	2018	Program				Projections	
					2019	2020	2021	2022	2023	2024
Net foreign assets	854	163	212	98	110	319	488	604	675	761
Bank of Central African States (BEAC)	700	-12	70	-30	52	262	432	548	619	704
Commercial banks	154	174	142	129	58	56	55	56	56	56
Net domestic assets	533	997	916	1,064	1,064	898	789	727	723	707
Domestic credit	938	1,403	1,342	1,529	1,458	1,325	1,330	1,284	1,301	1,306
Net claims on the public sector	-168	232	167	334	350	177	126	30	-16	-75
Net credit to the central government	-176	224	157	326	343	169	118	22	-23	-83
Central Bank	194	441	395	453	413	239	188	93	47	-12
Claims	517	618	611	609	609	609	609	547	485	423
Credit under statutory ceiling	517	618	611	609	609	609	609	547	485	423
Deposits	-323	-177	-216	-156	-196	-370	-421	-454	-438	-435
Commercial Banks	-370	-217	-172	-127	-71	-71	-71	-71	-71	-71
Claims on the Treasury	29	76	80	102	158	158	158	158	158	158
Deposits	-398	-293	-252	-228	-228	-228	-228	-228	-228	-228
Credit to public enterprises	8	8	7	8	8	8	8	8	8	8
Credit to financial institutions	1	19	21	16	16	16	16	16	16	16
Credit to the private sector	1,105	1,151	1,154	1,179	1,091	1,132	1,188	1,238	1,300	1,365
Credit to the economy 1/	1,113	1,178	1,183	1,203	1,116	1,156	1,212	1,262	1,324	1,389
Other items (net)	-405	-405	-448	-466	-394	-427	-540	-557	-578	-599
Broad money	1,387	1,160	1,130	1,162	1,173	1,217	1,277	1,331	1,398	1,468
Currency outside banks	222	175	145	166	171	183	192	201	211	221
Deposits	1,164	985	985	996	1,002	1,034	1,084	1,131	1,187	1,247
Of which: private deposits	1,100	918	939	934	939	968	1,016	1,059	1,113	1,170
<i>Memorandum items:</i>										
Contribution to the growth of broad money (percentage points)										
Net foreign assets	-49.8	-49.9	-14.2	2.0	1.0	17.8	13.9	9.1	5.3	6.1
Net domestic assets	38.8	33.5	1.4	-2.9	0.0	-14.1	-9.0	-4.9	-0.3	-1.1
Of which: net credit to the central government	28.4	28.8	7.4	-1.1	1.4	-14.8	-4.2	-7.5	-3.4	-4.3
Credit to the economy (annual percentage change)	13.8	5.8	-3.3	0.6	-7.2	3.6	4.8	4.2	4.9	4.9
Credit to the private sector										
Annual percentage change	14.1	4.2	-1.7	1.0	-7.4	3.7	4.9	4.2	5.0	5.0
In percent of GDP	14.2	17.3	16.1	15.5	15.7	16.5	17.3	18.4	19.1	19.8
Broad money (annual percentage change)	-10.9	-16.4	-12.6	-0.8	1.0	3.7	4.9	4.3	5.0	5.0
Currency outside banks	-20.7	-21.4	-12.1	1.0	2.7	7.3	4.9	4.3	5.0	5.0
Deposits	-8.8	-15.4	-12.7	-1.1	0.7	3.1	4.9	4.3	5.0	5.0
Velocity (GDP/ M2)	5.6	5.7	6.3	6.6	5.9	5.6	5.4	5.1	4.9	4.7

Source: Equatorial Guinea authorities and IMF staff estimates.

Table 5. Equatorial Guinea: Fiscal Financing Requirements, 2019–24

(Billions of CFA francs, unless otherwise specified)

	2019	2020	2021	2022	2023	2024
A. Overall fiscal deficit (commitment basis)	-91	-75	-112	-152	-143	-149
B. Other financing needs	223	1,779	281	322	260	252
Amortization	87	243	281	322	260	252
External	87	101	86	121	114	110
Domestic	0	142	194	201	146	142
Repayment of BEAC statutory advances	0	0	0	62	62	62
Repayment of other domestic debt	0	142	194	139	84	80
Repayment of domestic arrears (including through securitization)	136	1,535	0	0	0	0
C=A+B Total financing needs	131	1,704	168	170	117	102
D. Identified sources of financing	108	1,583	49	66	117	102
External disbursements	50	150	100	100	100	100
Net change in external arrears	44	-44	0	0	0	0
Deposits	26	-42	-51	-34	17	2
Domestic	-40	-174	-51	-34	17	2
Foreign	66	131	0	0	0	0
Bonds to securitize domestic arrears	0	1,535	0	0	0	0
Issuance of short-term domestic debt (net)	56	0	0	0	0	0
Other	-69	-15	0	0	0	0
E. Financing gap (C-D)	24	121	119	104	0	0
F. Program financing	24	121	119	104	0	0
African Development Bank	0	73	72	57	0	0
IMF-EFF	24	48	47	47	0	0
Residual (E-F)	0	0	0	0	0	0

Source: IMF staff estimates and projections.

Table 6. Equatorial Guinea: External Financing Requirements, 2015–24

(Millions of U.S. dollars, unless otherwise indicated)

	2015	2016	2017	Program					Projections	
				2018	2019	2020	2021	2022	2023	2024
1. Total financing requirements	914	400	764	887	952	1,280	978	974	763	798
Current account deficit	2,166	1,457	708	741	678	667	455	482	451	474
Debt amortization	178	143	131	140	148	173	148	210	200	194
Change in gross reserves (increase=+)	-1,431	-1,200	-75	5	126	441	375	282	112	130
2. Total financing sources	367	483	304	887	912	1,075	773	794	763	798
Capital transfers	0	0	0	0	0	0	0	0	0	0
Foreign direct investment (net)	1,186	321	536	556	410	590	636	617	537	548
Portfolio investment (net)	2	0	0	-2	-2	-2	-2	-2	-2	-2
Debt financing	200	612	392	256	85	255	172	174	175	177
Public sector	98	529	285	256	85	255	172	174	175	177
Non-public sector	103	83	107	0	0	0	0	0	0	0
Other net capital inflows	-1,022	-450	-624	77	418	232	-33	5	53	75
Errors and omissions	183	-27	-104	0	0	0	0	0	0	0
3. Financing gap	0	0	0	0	41	205	205	180	0	0
IMF	0	0	0	0	41	81	81	81	0	0
AFDB	0	0	0	0	0	124	124	99	0	0
Unidentified financing	0	0	0	0	0	0	0	0	0	0

Source: IMF staff estimates

Table 7. Equatorial Guinea: Purchases, and Timing of Reviews under the EFF Arrangement

Date of availability	Condition for purchases	Amount	Percentage of
		Million SDRs	Quota 1/
December 16, 2019	Approval of the extended arrangement under the EFF.	29.287	18.6
May 18, 2020	Observance of PCs for end-December 2019, continuous PCs, and completion of the first review.	29.287	18.6
November 18, 2020	Observance of PCs for end-June 2020, continuous PCs, and completion of the second review.	29.287	18.6
May 18, 2021	Observance of PCs for end-December 2020, continuous PCs, and completion of the third review.	29.287	18.6
November 18, 2021	Observance of PCs for end-June 2021, continuous PCs, and completion of the fourth review.	29.287	18.6
May 18, 2022	Observance of PCs for end-December 2021, continuous PCs, and completion of the fifth review.	29.287	18.6
November 18, 2022	Observance of PCs for end-June 2022, continuous PCs, and completion of the sixth review.	29.287	18.6
	Total	205.009	130.2

Source: IMF staff projections.

1/ Equatorial Guinea's quota is SDR157.5 million.

Table 8. Equatorial Guinea: Indicators of Capacity to Repay the Fund, 2019–32

	Projection													
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Fund obligations based on existing credit	(in millions of SDRs)													
Principal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Fund obligations based on existing and prospective credit	(in millions of SDRs)													
Principal	0.0	0.0	0.0	0.0	0.0	7.3	17.1	26.9	34.2	34.2	34.2	26.9	17.1	7.3
Charges and interest	0.2	1.1	2.1	3.2	3.7	3.7	3.5	3.2	2.7	2.1	1.5	0.9	0.4	0.2
Total obligations based on existing and prospective credit														
In millions of SDRs	0.2	1.1	2.1	3.2	3.7	11.0	20.6	30.0	36.8	36.2	35.6	27.7	17.5	7.5
In millions of U.S. dollars	0.2	1.5	3.0	4.4	5.1	15.5	29.1	42.4	52.1	51.2	50.3	39.2	24.8	10.6
In percent of exports of goods and services	0.0	0.0	0.1	0.1	0.1	0.5	1.1	1.6	2.0	1.9	1.8	0.9	0.6	0.2 ¹
In percent of debt service 1/	0.0	0.2	0.5	0.5	0.6	2.0	3.5	5.2	6.3	6.2	6.1	4.8	3.2	1.6 ¹
In percent of GDP	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.3	0.4	0.4	0.3	0.2	0.1	0.1 ¹
In percent of total government revenues	0.0	0.1	0.1	0.2	0.2	0.7	1.3	1.9	2.2	2.1	2.0	1.2	0.7	0.4 ¹
In percent of gross international reserves	0.1	0.2	0.3	0.3	0.4	1.0	1.7	2.4	2.7	2.4	2.1	1.5	0.9	0.4 ¹
In percent of quota	0.1	0.7	1.4	2.0	2.3	7.0	13.1	19.1	23.4	23.0	22.6	17.6	11.1	4.8
Outstanding Fund credit														
In millions of SDRs	29.3	87.9	146.4	205.0	205.0	197.7	180.6	153.8	119.6	85.4	51.3	24.4	7.3	0.0
In millions of U.S. dollars	40.5	121.2	203.1	286.0	287.5	279.3	255.2	217.3	169.0	120.7	72.4	34.5	10.3	0.0
In percent of exports of goods and services	0.9	2.9	5.1	8.0	8.4	8.5	9.2	8.3	6.6	4.5	2.5	0.8	0.2	0.0 ¹
In percent of debt service 1/	9.7	20.4	31.7	35.3	35.9	35.1	30.7	26.5	20.4	14.6	8.8	4.2	1.3	0.0 ¹
In percent of GDP	0.3	1.0	1.7	2.4	2.4	2.3	2.1	1.7	1.3	0.9	0.5	0.2	0.1	0.0 ¹
In percent of total government revenues	1.9	6.0	9.8	14.2	14.0	13.3	11.5	9.7	7.3	5.0	2.8	1.1	0.3	0.0 ¹
In percent of gross international reserves	23.1	19.8	20.5	22.3	20.4	18.0	15.3	12.1	8.6	5.7	3.0	1.3	0.4	0.0 ¹
In percent of quota	18.6	55.8	93.0	130.2	130.2	125.5	114.7	97.6	75.9	54.2	32.5	15.5	4.6	0.0
Net use of Fund credit	(in millions of SDRs)													
Disbursements	29.3	58.6	58.6	58.6	0.0	-7.3	-17.1	-26.8	-34.2	-34.2	-34.2	-26.8	-17.1	-7.3
Repayments	0.0	0.0	0.0	0.0	0.0	7.3	17.1	26.8	34.2	34.2	34.2	26.8	17.1	7.3
Memorandum items:	(in millions of U.S. dollars unless indicated otherwise)													
Exports of goods and services	4,490	4,150	3,964	3,576	3,432	3,295	2,763	2,613	2,553	2,663	2,847	4,247	4,279	4,295
Debt service	419	595	641	810	801	796	831	821	830	828	826	812	774	669
Nominal GDP	11,864	11,639	11,824	11,685	11,933	12,226	12,376	12,627	13,040	13,746	14,595	17,334	17,975	17,975 ¹
Total government revenues	2,117	2,037	2,064	2,020	2,059	2,107	2,221	2,245	2,315	2,413	2,554	3,135	3,333	2,626 ¹
Gross official reserves imputed to Equatorial Guinea	175	613	993	1,284	1,408	1,553	1,668	1,803	1,963	2,104	2,413	2,682	2,879	2,955 ¹
Quota (millions of SDRs)	158	158	158	158	158	158	158	158	158	158	158	158	158	158

Source: Fund staff estimates and projections.

1/ Total debt service includes IMF repayments.

Annex I. Risk Assessment Matrix¹

Sources of Risks	Relative/ Likelihood	Impact if Realized	Recommended Policy Responses
Domestic Risks			
Financial sector exposure to affected sectors in the non-hydrocarbon economy	Medium	Medium. Further increases in NPLs and weakening of other financial soundness indicators.	Ensure full compliance with prudential requirements. Take early actions to stabilize and restructure weak banks
Weak governance and weak capacity	High	High. Slow or stalled implementation of policy reforms, affecting program performance	Press ahead with governance and PFM reforms; provide technical assistance and training to raise capacity
External Risks			
Large swings in energy prices	Medium	High. Lower oil exports lead to lower government revenue and exports, and higher financing needs; higher oil exports would have the opposite effect.	Identify contingency fiscal adjustment measures and financing; save at least a portion of any additional revenue.
Rising protectionism and retreat from Multilateralism	High	High. Reversals in policy coordination could impede export market access and the development of the non-oil sector.	Take measures to facilitate trade with the CEMAC region and with other African CFTA countries. Implement the AfCFTA agreement.
Weaker-than-expected global growth: China	High	Medium. Could reduce project financing by China and oil prices, resulting in higher financing needs and lower fiscal revenues.	Diversify external financing sources and identify contingency fiscal measures to protect the program fiscal targets.
Intensification of geopolitical tensions and security risks	High	Medium. Regional political instability would affect economic activity limiting the potential to expand the non-hydrocarbon sector.	Enhance trade relations in the CEMAC and harmonize policies on security.

¹The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. We focus on risks that could materialize within 1 year to 3 years.

Annex II. Proposed Technical Assistance Under the Program, 2019–22

Area	TA Provider	Timeline
Expenditure Policy and administration		
Energy subsidy reforms and social safety net	IMF(FAD)	2020
Public Financial Management		
Fiscal reporting and transparency	IMF(FAD)	2020
Budget Execution and Control	IMF(FAD)	2020
Debt Management		
Institutional strengthening and debt strategy	IMF(MCM)	2019/2020
Economic statistics		
Government Finance Statistics implementation of the TOFE Directive (05/11-UEAC-190-CM-22)	IMF(STA)	Ongoing
GDP by Expenditure, National Income, and Saving	IMF(STA)	Ongoing
Balance of Payments Statistics	IMF(STA)	Ongoing

Source: IMF staff

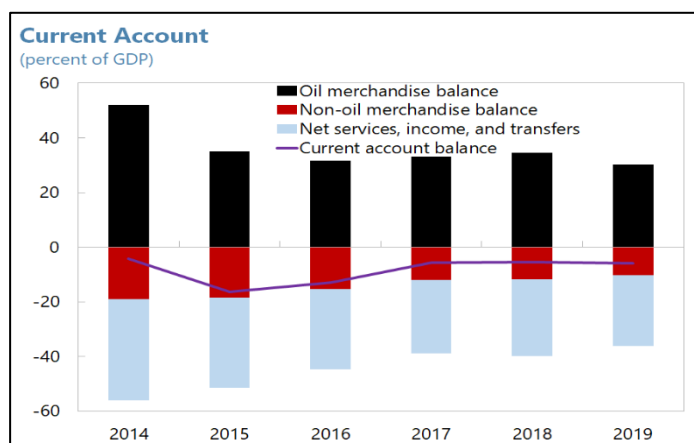
Annex III. External Sector Assessment

Various external sector analyses point to an external sector that is significantly weaker than warranted by medium-term fundamentals and desirable policies. Qualitatively, these results are similar to the last assessment, performed at the approval of Equatorial Guinea’s staff monitored program. However, the real exchange rate overvaluation is now more than previously estimated.

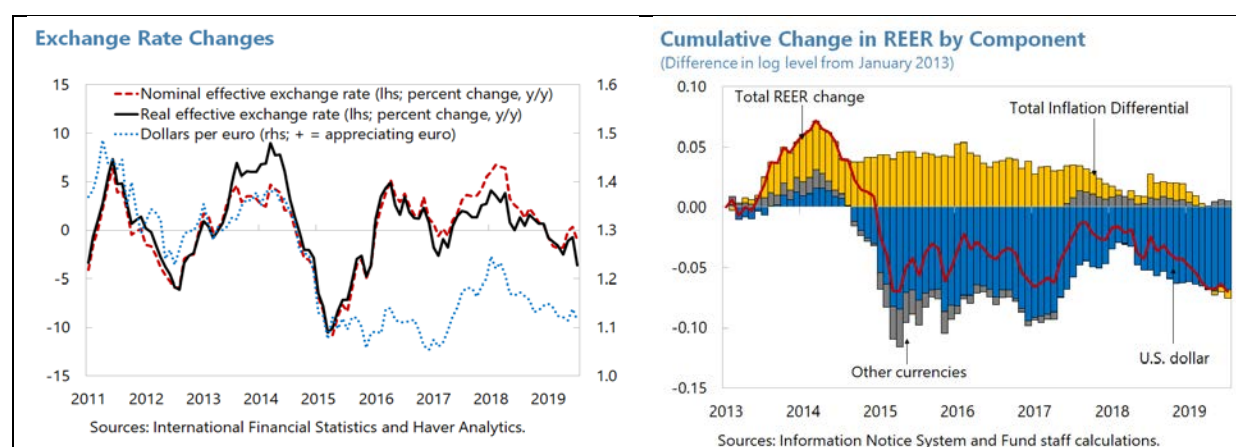
A. Background

1. The current account continues to be in deficit, though it has been narrowing. The narrowing reflects two broad trends.

First, the hydrocarbon-related components of the trade balance have stabilized as a rise in oil prices since the trough in 2016 has offset weakening production. Second, the non-hydrocarbon trade deficit has narrowed substantially, reflecting import compression in line with fiscal adjustment. Third, the services account has improved largely due to slower activity in the hydrocarbon sector. These



three factors have caused the current account deficit to narrow from 13 percent of GDP in 2016 to around 5.4 percent in 2018. This year, oil prices are expected to be a little weaker than last year, and hydrocarbon export volumes will continue to decrease as existing fields continue to wind down production. The non-hydrocarbon trade deficit should continue to narrow mainly as a result of continued fiscal adjustment. With limited diversification, non-hydrocarbon exports are expected to remain low.



2. Exchange rates are little changed from a year ago. As of July 2019, the nominal effective exchange rate depreciated about 1 percent below its year-earlier level, while the real effective exchange rate decreased about 3.6 percent (y/y). This depreciation mainly reflects the nominal depreciation of the euro (to which the CFA franc is pegged) against the U.S. dollar, which was partly reinforced by the inflation differential.

3. Net foreign assets (NFA) of Equatorial Guinea at the BEAC is projected to rise to CFAF 52 billion (US\$88 million), equivalent to less than one month of prospective imports of goods and services, by end-2019. Although FX inflows have been slowly improving, this has been on the back of more stringent enforcement of the existing regional FX regulations by the BEAC, and ongoing fiscal consolidation. With budget support from the IMF and the African Development Bank under the proposed Extended Arrangement, gross reserves are projected to reach CFAF 102 billion (US\$173 million) at end-2019, equivalent to 20percent of the IMF's ARA metric. Without such financing, reserves would amount to just 15 percent of the ARA metric at end-2019. Over the period of the Extended Arrangement, program financing would allow reserve adequacy to improve substantially, with gross reserves reaching 154 percent of the ARA metric by end-2022 (6.1 months of prospective imports), well above the threshold of 120 percent of the ARA metric more relevant for commodity exporters. By contrast, absent program financing, reserves would reach only 77 percent of the ARA metric by the end of the Extended Arrangement. Meanwhile, the net international investment position (NIIP) turned negative in 2017, and is expected to deteriorate further in 2019, but revert to positive territory from 2020.

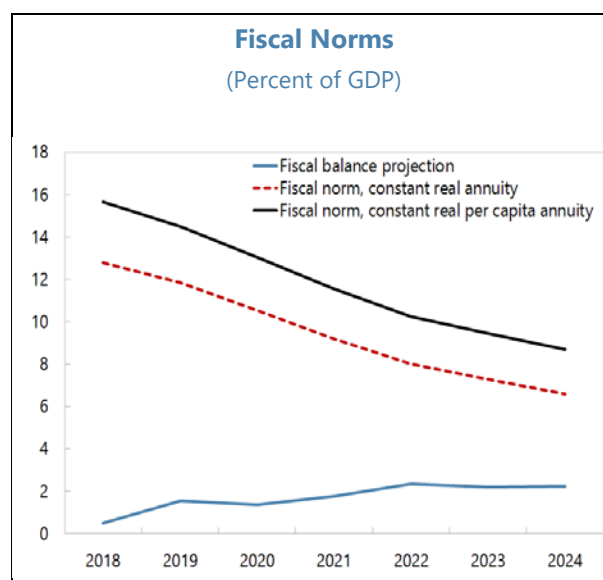
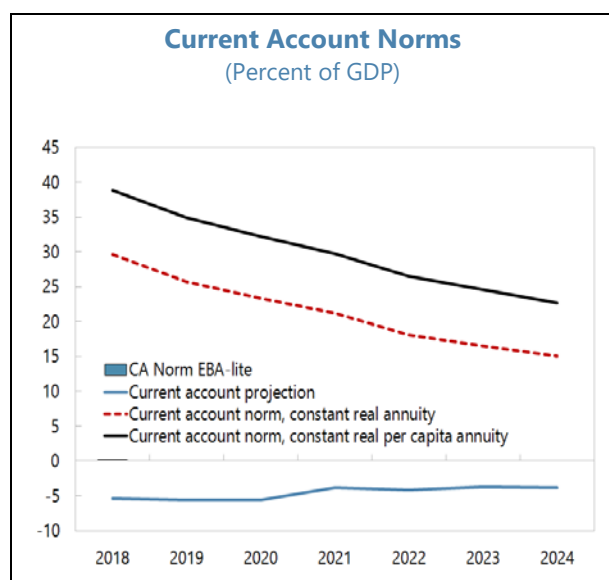
B. Assessment

4. Standardized exchange rate assessment techniques continue to assess that the REER is stronger than warranted based on fundamentals and desirable policies.

Prior-Methodology EBA-Lite Current Account Model Results for 2017		
(Percent of GDP, unless indicated otherwise)		
	SMP	Revised BOP
Projected current account balance	-1.3	-5.8
Cyclical components (model)	-2.2	-1.8
Cyclically-adjusted current account	0.9	-4.0
Current account norm		
No cyclical adjustment	4.1	4.2
Cyclically adjusted	6.3	6.0
Current account gap	-5.4	-10.0
Of which: policy gap	-2.5	-1.4
REER elasticity (units)	-0.3	-0.3
REER Gap (percent, + indicates overvaluation)	18.8	37.6

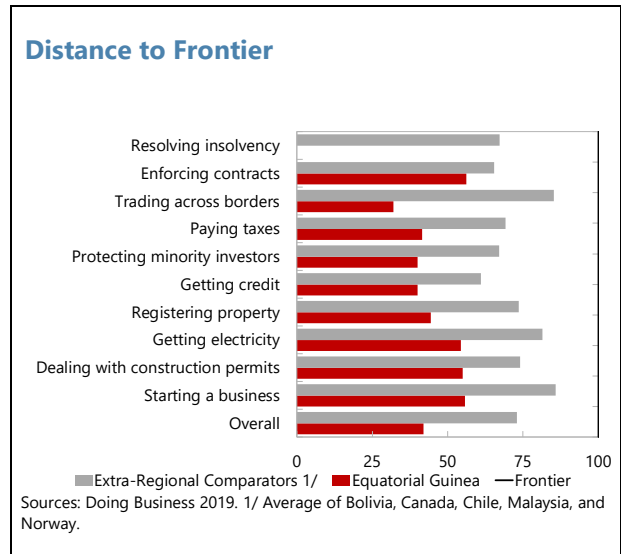
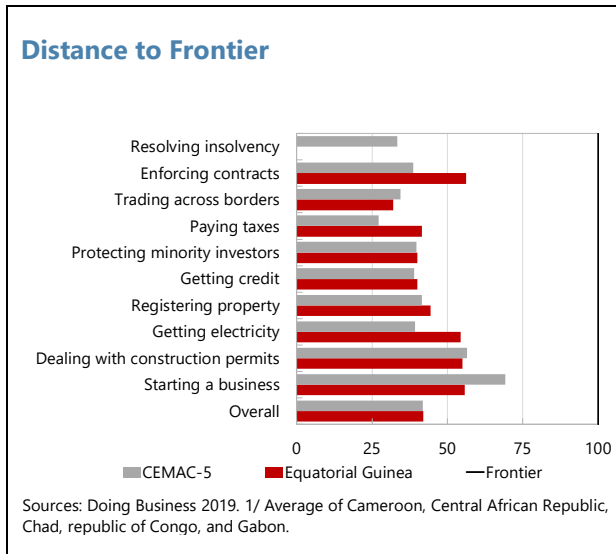
2018 EBA-Lite Current Account Model Results	
CA-Actual	-5.4%
Cyclical Contributions (from model)	2.9%
Cyclically adjusted CA	-8.3%
CA-Norm	8.8%
Cyclically adjusted CA Norm	5.8%
Multilaterally Consistent Cyclically adjusted CA Norm	6.3%
CA-Gap	-14.7%
of/which Policy gap	0.81%
Elasticity	-0.27
REER Gap	54%
CA-Fitted	9.6%
Residual	-0.15
Natural Disasters and Conflicts	0.1%

- EBA-lite current account model. The revised EBA-lite current account model, using the default levels for desirable policy settings except for reserve accumulation, shows an exchange rate overvaluation of around 54 percent. This estimate is substantially above the last assessment, prepared for the 2018 Staff Monitored Program. Although the methodology has changed, the main driver of the weaker assessment is the large revision to the current account balance, which, for instance, resulted in the current account being adjusted from -1.3 percent of GDP to -5.8 percent of GDP (causing the estimated exchange rate misalignment to rise from 19 percent to 38 percent).
- *Expenditure allocation rules.* These approaches interpret natural resource wealth as an annuity, from which consumption (and by extension) saving can be derived. In Equatorial Guinea’s case, because natural resource production is declining, the value of its resource wealth is expected to decrease over time. This implies a current account norm that is in surplus (e.g. higher saving), and well above what is currently projected for the medium-term (both overall and in real per capita terms). However, these gaps are distorted to a certain extent due to the large imports induced by major hydrocarbon projects that are projected for the later years of the forecast horizon. The fiscal savings norm is also positive, reflecting decreasing government wealth (also due to a lower present value of exhaustible hydrocarbon revenues, which are not offset by rising deposit assets), in contrast to the fiscal balance that is roughly in balance in the medium term.



5. There continues to be ample scope to enhance structural competitiveness through upgrading the business climate. Equatorial Guinea’s results in the World Bank’s *Doing Business 2019* report improved between 2018 and 2019, including based on a reform that improved contract

enforcement.² With these outcomes, Equatorial Guinea’s performance on the various sub-indices is about average for the CEMAC region. Nevertheless, there is still a substantial gap relative to extra-regional commodity producers of varying income levels, which have materially stronger business climate assessments. Thus, continued implementation of structural reforms—including those under the proposed EFF—is essential to creating an enabling environment for private sector development and economic diversification.



² The specific reform was adopting a law that regulates all aspects of mediation as an alternative dispute resolution mechanism. See World Bank, Doing Business 2019.

Annex IV. Debt Sustainability Analysis

After growing rapidly over 2013–16, public debt has stabilized around 43 percent of GDP at end-2018. Along with fiscal adjustment implemented to date, a rise in international petroleum prices from their troughs in 2015–16 has provided some relief. Still, continued adjustment and reforms envisaged under the EFF would be necessary, as petroleum reserves are set to be depleted in the coming years. With full implementation of the program's policies, staff assesses debt as sustainable. Public debt would remain broadly near current levels over the first three years, then decline over the remaining seven. Notwithstanding elevated gross financing needs in 2020, reflecting a transaction to securitize existing domestic arrears, it remains below the high-risk threshold. That said, a rising share of FX and non-resident debt constitutes an important risk, as does incomplete implementation of the necessary adjustment. Given the ongoing structural changes in Equatorial Guinea, the DSA analysis has been extended through 2029.

Public sector debt sustainability analysis

1. The rapid debt accumulation of recent years appears to have run its course. Recently, the only source of new borrowing for Equatorial Guinea is a collateralized loan facility with the Export-Import Bank of China (Eximbank). The other components of Equatorial Guinea's debt are no longer growing and will be gradually repaid. The largest debts are related to domestic arrears, which rose swiftly from 2014, when commodity prices crashed amid major infrastructure investment activities. Other debts include statutory advances from the BEAC, which have stopped, various bilateral and multilateral loans from official creditors other than China, and outstanding external arrears. The debt stock also includes a small amount of bilateral external arrears.

2. Debt is expected to rise, albeit slightly, in the next year and then start declining. While the authorities plan to tighten fiscal policies, leaving the primary balance in surplus, the still declining growth would partly offset this. In particular, the slow recovery in the nonhydrocarbon sector is insufficient to fully compensate the contraction in overall output associated with depleting petroleum reserves.¹ As a result, debt is expected to rise, albeit slightly, to 47 percent of GDP in 2020 from its current level of about 43 percent (2018), before falling to 21 percent at the end of the projection period in 2029. Nevertheless, this outcome, and by extension, staff's assessment of debt sustainability depends on the full implementation of the proposed adjustment and continued low effective borrowing costs.

3. Except for 2021 through 2023, this outlook is broadly in line with the DSA prepared for the May 2018 Staff Monitored Program request. The slightly stronger baseline for debt in those two years mainly reflects two factors. The non-hydrocarbon primary balance will be weaker and the authorities will contribute more to rebuilding the CEMAC region's pooled international reserves by accumulating further central bank deposits. The outlook for GFNs is weaker than in the

¹ Reflecting delays, a major hydrocarbon sector project (Fortuna FLNG) that was expected to begin extracting fuel in 2022 has been pushed back by one year, implying that its main macroeconomic effects to not appear until 2023 and after.

May 2018 DSA, as the level of arrears to be securitized (a one-off transaction) is above the MAC DSA high risk threshold of 15 percent. After this debt-neutral transaction is settled in 2020, GFNs reverts to below the 15 percent of GDP threshold thereafter. Partly offsetting these factors are a base effect from a historical national accounts revision, which showed that GDP was higher than previously estimated, and the substantially higher hydrocarbon-related revenues, in line with an improvement in the global fuel price outlook.

Text Table. Revisions to Baseline Debt Projections
(Percent of GDP, Fiscal Years)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Debt, current baseline	7.1	6.3	12.6	33.6	43.4	38.0	43.0	46.2	46.6	45.3	44.4	41.4
Debt, SMP request	7.1	6.3	12.7	36.4	47.9	42.6	43.5	46.0	46.4	47.2	45.3	42.5
Difference	0.0	0.0	-0.2	-2.8	-4.5	-4.6	-0.5	0.2	0.2	-1.9	-0.8	-1.1
Revision due to:	0.0	0.0	-0.2	-2.8	-4.5	-4.6	-0.5	0.2	0.2	-1.9	-0.8	-1.1
National accounts revision	0.0	0.0	-0.2	-2.8	-4.5	-4.6	-4.7	-5.0	-5.0	-5.1	-4.9	-4.6
Revisions to projections:	0.0	0.0	0.0	0.0	0.0	0.0	4.2	5.2	5.2	3.3	4.1	3.5
Growth and inflation	0.0	0.0	0.0	0.0	0.0	0.0	-2.9	-0.7	-0.3	0.1	2.9	4.8
Non-hydrocarbon primary balance	0.0	0.0	0.0	0.1	0.0	0.0	2.9	6.1	9.3	10.6	10.7	10.1
Resource revenue	0.0	0.0	0.0	0.0	0.2	0.1	-4.0	-8.5	-12.5	-16.0	-18.8	-20.5
Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.6	-0.8	-0.5	-0.3	-0.2
Other 1/	0.0	0.0	0.0	-0.1	-0.2	-0.2	8.2	8.9	9.5	8.9	9.6	9.3

Sources: National authorities and Fund staff estimates.

1/ Includes below-the-line transactions and other unspecified transactions.

Note: Sums may not exactly equal totals due to rounding errors.

4. Staff assess Equatorial Guinea's public debt as sustainable, reflecting a number of factors:

- At the core is the fiscal adjustment to bring the non-hydrocarbon primary deficit to sustainable levels.** The non-hydrocarbon primary deficit will decline from 21.8 percent of non-hydrocarbon GDP in 2019 to 17.6 percent in 2020, and further to about 9.4 percent of non-hydrocarbon GDP by 2022, and the overall balance surplus would increase from 1.6 percent of GDP to 2.3 percent in 2022. The proposed adjustment is ambitious but necessary—to put public debt on a sustainable path—and feasible, given the already substantial adjustment that the authorities have undertaken during 2014 and 2019, primarily through the reduction of capital spending that had bloated spending. While the adjustments are large in cross-country comparisons (the 3-year adjustment in the cyclically-adjusted primary balance, or CAPB, is in the top quartile), fiscal deficits remain relatively high (3-year average CAPB level has a percentile rank of 54 percent).
- The economic outlook is favorable.** After five consecutive years of negative growth averaging 6.6 percent during 2015 to 2019, average growth is projected to become less negative for the next ten years, starting in 2020 with -1.9 percent and averaging -0.1 percent from 2021 to 2029. This improved growth outlook is driven by new projects and output projections that could slow the pace of output decline in the hydrocarbon sector.

- **The financing package helps to maintain restore debt sustainability.** The total package of USD631 million—helps the authorities to commit to a sustainable plan for repaying high domestic payment arrears. As this financing is medium term, once the outstanding arrears are securitized in 2020, it would help Equatorial Guinea to keep GFN below the 15 percent of GDP threshold through 2029. GFNs, under some scenarios would exceed the 15 percent of GDP threshold during the projection horizon.
- **The authorities remain engaged with both domestic and external creditors to whom the government are in arrears.** The government plans to securitize validated domestic arrears, once an independent ongoing audit is concluded in late 2019. The securities are expected be issued at going market interest rates, with maturities of 10 to 15 years. With this transaction, construction companies would be able to reduce their non-performing loans with the banking system, and through this directly help to improve the financial stability indicators in the banking system. The government also plan to repay its external arrears (a small amount) using deposits during H1 2020.

5. **Nevertheless, Equatorial Guinea faces several debt vulnerabilities:**

- **External risks:** With highly limited options to issue CFA-franc denominated debt to local investors, the authorities have instead been using the Eximbank facility, and the current account deficit remains high. As a result, the shares of foreign-held debt, FX-denominated debt, and external financing needs are above lower early warning thresholds.
- **Secured lending:** Collateralization requirements limit scope for buffer accumulation, entailing less resilience to shocks. However, these risks are also mitigated by the absence of alternative funding sources and ready availability of the Eximbank facility, which has prevented further disruptive adjustments from financing constraints.

6. Other diagnostics highlight risks to the debt outlook. As a small, commodity-based, and open economy, Equatorial Guinea is subject to significant macroeconomic volatility—including from international fuel price movements—causing the fan charts to exhibit a wide range of potential debt outcomes. Additionally, this volatility has resulted in large past forecast errors for growth, inflation, and the primary balance, though not uniformly optimistic or pessimistic (Figure 2a). The fiscal adjustment to which the authorities have committed under the program is ambitious by cross-country experience, both in terms of the magnitude and the resulting level of the cyclically adjusted primary balance (Figure 2b). However, the risks to the fiscal projections illustrated by these comparisons are contained by the very large adjustment over 2016–18, which has put these targets within reach.

7. If adjustment measures are fully implemented, then the public debt trajectory would be stable and resilient to shocks envisaged under standard stress tests, and broadly so in the customized scenario. In the medium term, with total GDP still declining, positive real interest rates, and a need to accumulate deposit buffers, the expected reduction in debt will come mainly from the stronger primary fiscal balance (Figure 3). However, if the authorities do not maintain the

adjustment thus far, then public debt and GFNs would be on an upward path as illustrated by the divergence between the constant primary balance and historical scenarios (Figure 4). In contrast, under full program implementation, shocks would cause debt and GFN ratios to GDP to rise above baseline levels, though both would eventually stabilize in all but one of the standard stress test scenarios and one customized scenario and one customized scenario (Figure 5). The exception for the standardized test is the combined macro-fiscal shock, which is calibrated to include a sharp re-intensification of the economic contraction and much higher borrowing costs.² In the case of the customized scenario, which features a permanent -2 percent shock to both the baseline growth and baseline non-interest revenues to GDP, GFN ratio to GDP begins to rise at the end of the projection horizon towards the threshold.

External debt sustainability analysis

8. Reflecting the initial increased borrowing from external sources, Equatorial Guinea's external debt is expected to continue rising through 2022, though remain at relatively low levels, then start declining (Table 1). Under the baseline, which envisages a rise in the central government's external borrowing, external debt is set to increase at a gentle pace from about 9.5 percent of GDP in 2018 to around 16.2 percent of GDP by 2022. Henceforth, external debt declines to 10.4 percent by 2029. This debt path reflects the assumption that Equatorial Guinea will initially rely on external sources of financing, including the Fund and the Eximbank facility, then as its public finances as stabilized the debt would be repaid. Despite these revisions, external debt is expected to be broadly in line with what was expected at the time of the last external DSA prepared for the Staff Monitored Program request in May.

9. Stress scenarios show the greatest sensitivity to the non-interest current account, combined, and real depreciation shocks (Figure 6). Although external debt has a gentle downward trajectory under the baseline after 2022, it rises under the adverse scenarios. The shock that produces effects with the greatest magnitude is the non-interest current account shock, which reflects its historic wide volatility and causes a substantial accumulation of external debt. The inclusion of a somewhat lesser sized current account shock in the combined scenario also causes a notable increase in debt. The real depreciation and growth shocks produce, somewhat, modest effects, in each case raising external debt by about 4 percent of GDP by 2029.

² The scenario assumes a repeat of the large ex-post rise in real interest rates, which surged with the deflation induced by the commodity bust; nominal effective interest rates changed little.

Figure 1. Equatorial Guinea: Public DSA—Risk Assessment

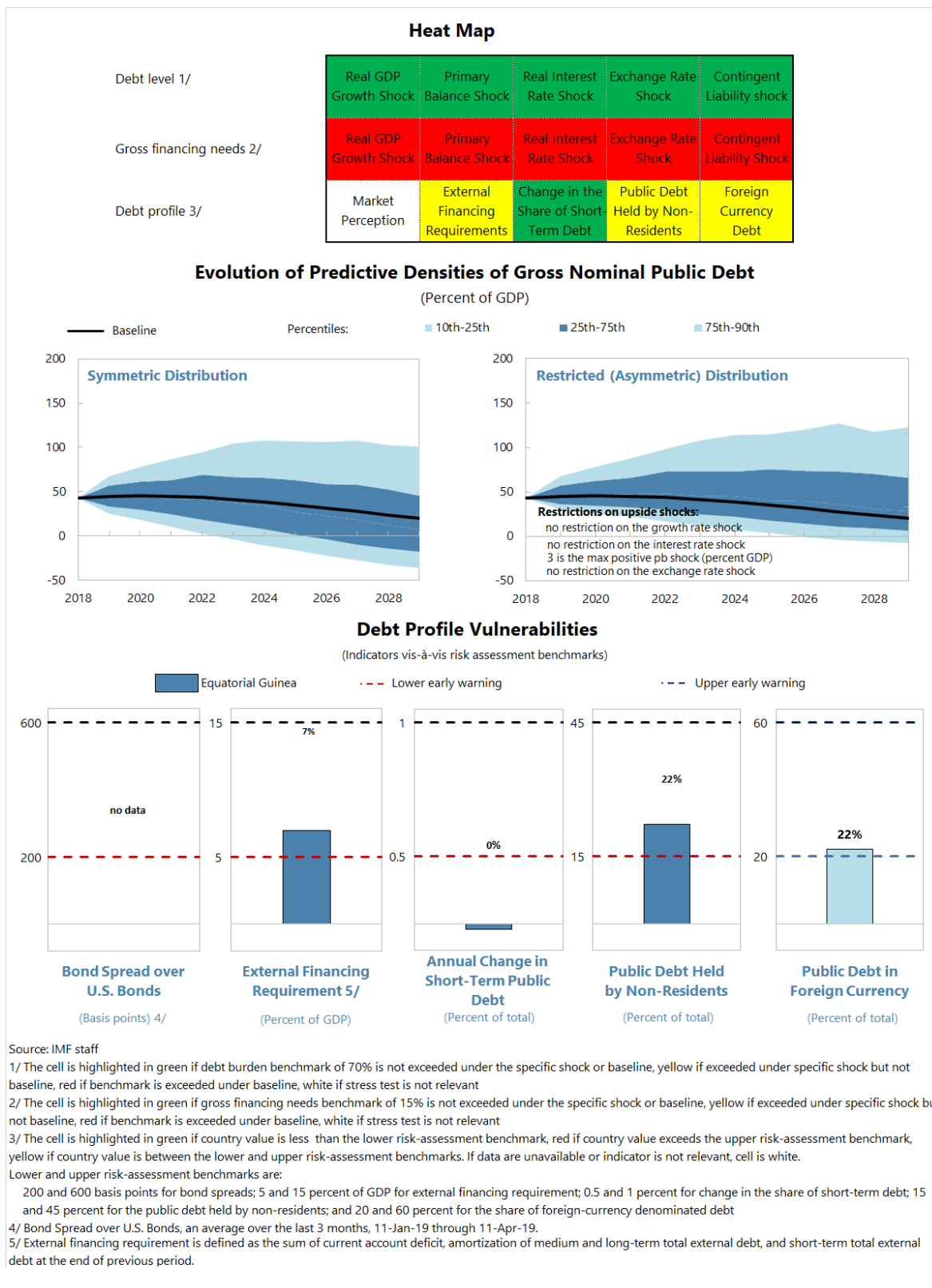
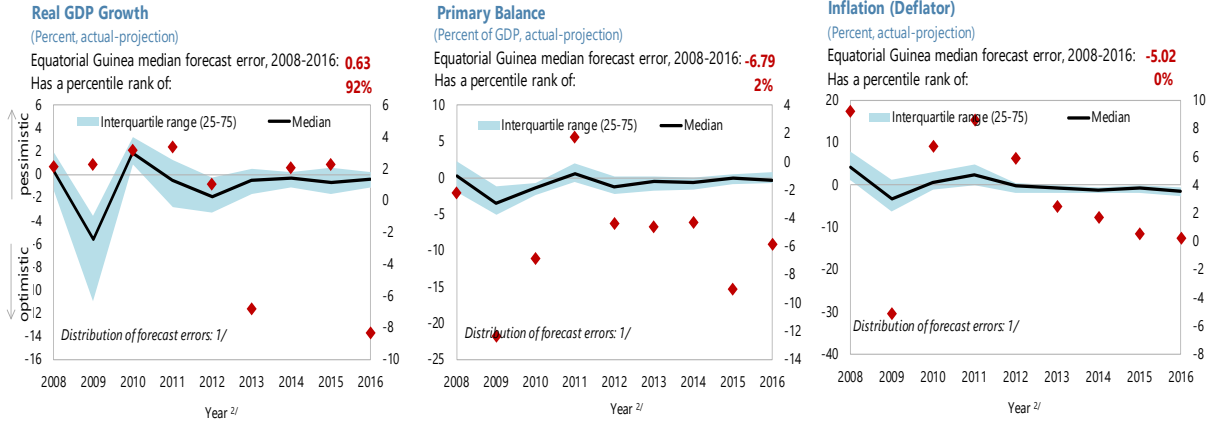


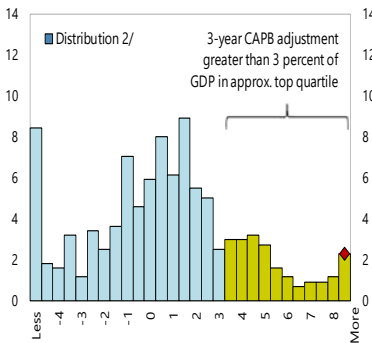
Figure 2. Equatorial Guinea: Public DSA—Realism of Baseline Assumptions

Forecast Track Record, versus program countries

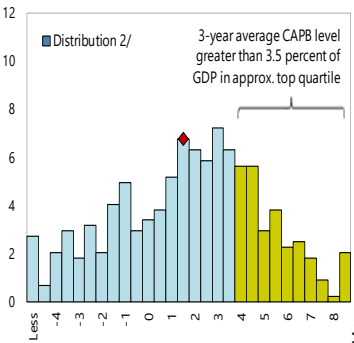


Assessing the Realism of Projected Fiscal Adjustment

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

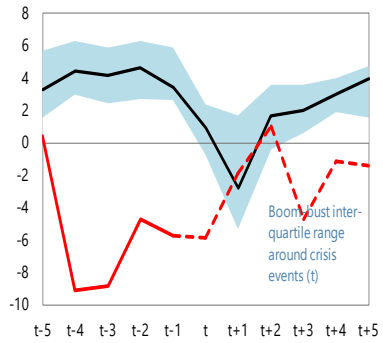


3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



Boom-Bust Analysis

Real GDP growth
(Percent)



Source : IMF staff

1/ Plotted distribution includes program countries, percentile rank refers to all countries. Projections made in the spring WEO vintage of the preceding year

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

Figure 2. Equatorial Guinea: Public DSA—Realism of Baseline Assumptions (Concluded)

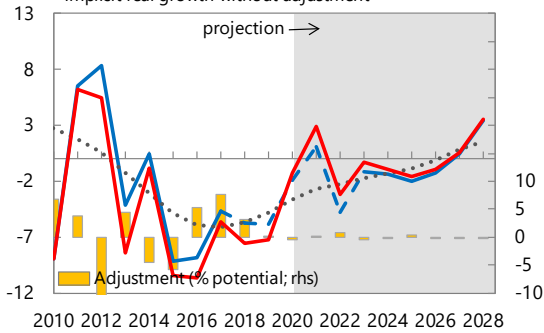
Growth and Level of Output in Absence of Fiscal Adjustment

Assumed multiplier of 0.2, persistence of 0.6

Real GDP Growth

(in percent)

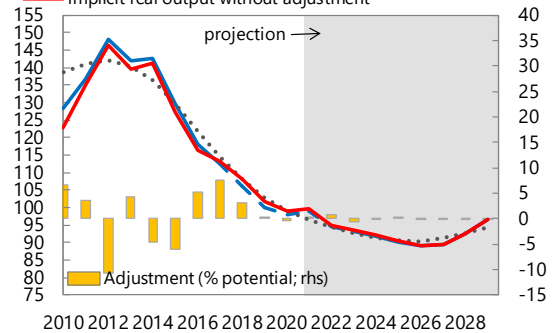
- Baseline real growth
- Baseline real potential growth
- Implicit real growth without adjustment



Real Output Level

(Baseline real output in 2019=100)

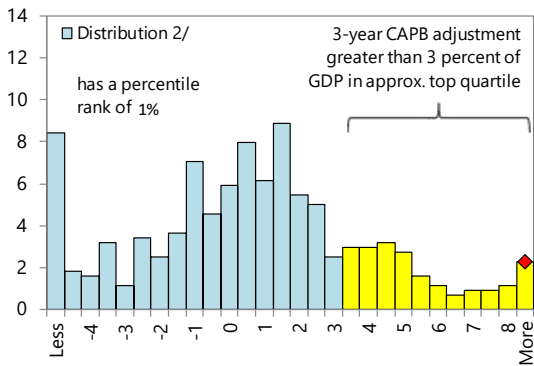
- Baseline real output
- Baseline real potential output
- Implicit real output without adjustment



Assessing the Realism of Projected Fiscal Adjustment

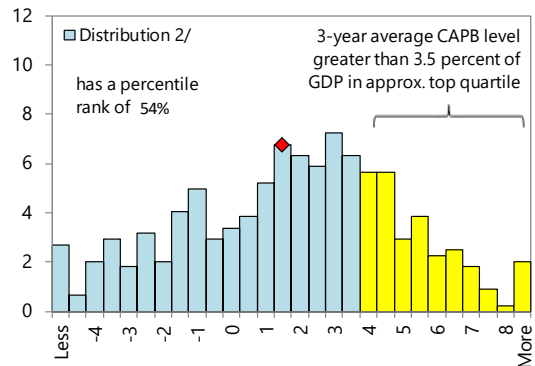
3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)

(Percent of GDP)



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

(Percent of GDP)



Source : IMF staff.

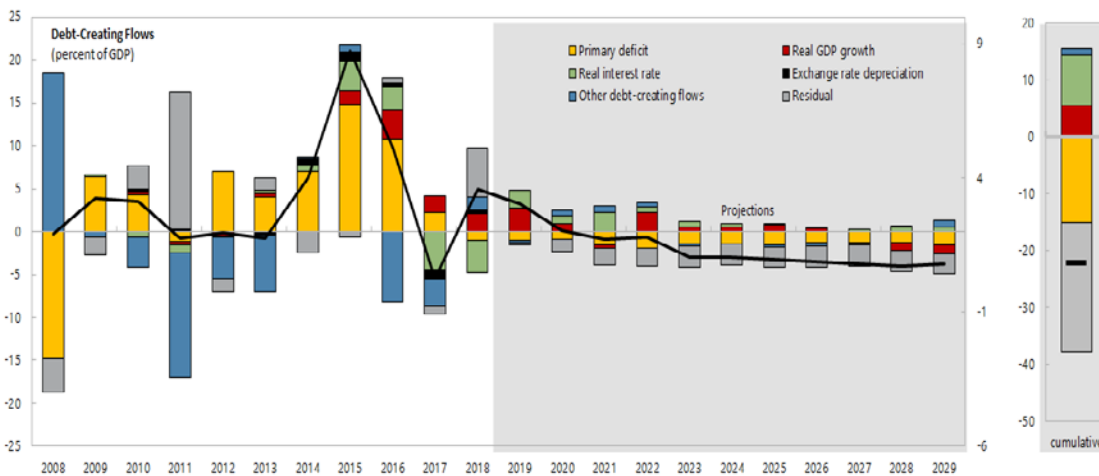
Figure 3. Equatorial Guinea: Public DSA—Baseline Scenario
(Percent of GDP, unless otherwise indicated)

Debt, Economic and Market Indicators 1/

	Actual			Projections										As of April 11, 2019			
	2008–2016 2/	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028				2029
Nominal gross public debt	13.6	30.0	43.0	46.2	46.3	45.4	44.7	41.7	38.0	35.5	32.0	28.2	24.2	20.5	Sovereign Spreads		
Public gross financing needs	5.7	5.0	1.5	3.5	23.9	5.3	5.2	4.3	3.9	5.0	3.8	3.7	2.7	2.2	EMBIG (bp) 3/		
Real GDP growth (percent)	0.4	-4.7	-5.7	-5.9	-1.9	1.0	-4.7	-1.2	-1.4	-2.0	-1.2	0.4	3.4	4.6	Ratings		
Inflation (GDP deflator, percent)	1.9	12.7	13.1	-3.2	0.4	-0.6	2.7	2.4	2.8	3.2	3.3	2.9	1.9	1.5	Moody's		
Nominal GDP growth (percent)	2.8	7.4	6.6	-8.9	-1.5	0.5	-2.2	1.2	1.3	1.2	2.0	3.3	5.4	6.2	S&P's		
Effective interest rate (percent) 4/	4.9	1.0	1.7	1.4	2.4	4.4	4.0	3.8	3.7	3.7	3.6	3.7	3.9	4.0	Fitch		

Contribution to Changes in Public Debt

	Actual			Projections										Cumulative	Debt-stabilizing primary balance 9/	
	2008–2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028			2029
Change in gross public sector debt	4.7	-5.4	5.0	3.2	0.1	-0.9	-0.7	-3.0	-2.9	-3.2	-3.6	-3.8	-4.0	-3.7	-22.5	0.2
Identified debt-creating flows	3.6	-4.5	-0.7	3.5	1.6	1.0	1.5	-0.5	-0.4	-0.9	-1.1	-1.3	-1.5	-1.3	0.5	
Primary deficit	4.3	2.3	-1.0	-1.0	-0.8	-1.5	-1.9	-1.5	-1.4	-1.5	-1.3	-1.3	-1.3	-1.5	-15.0	
Primary (noninterest) revenue and grants	27.0	17.2	18.9	16.9	16.1	15.6	15.2	15.0	14.9	15.5	15.3	15.3	15.1	15.1	170.1	
Primary (noninterest) expenditure	31.3	19.5	17.8	15.9	15.3	14.1	13.3	13.5	13.5	14.0	14.0	14.0	13.8	13.6	155.1	
Automatic debt dynamics 5/	1.4	-3.7	-1.3	4.8	1.8	1.8	2.9	1.2	1.0	1.0	0.6	0.1	-0.4	-0.5	14.2	
Interest rate/growth differential 6/	1.2	-2.6	-1.7	4.8	1.8	1.8	2.9	1.2	1.0	1.0	0.6	0.1	-0.4	-0.5	14.2	
Of which: real interest rate	0.6	-4.5	-3.8	2.0	0.9	2.3	0.7	0.7	0.4	0.2	0.1	0.3	0.5	0.6	8.7	
Of which: real GDP growth	0.5	1.9	2.0	2.8	0.9	-0.5	2.2	0.5	0.6	0.7	0.4	-0.1	-0.9	-1.0	5.6	
Exchange rate depreciation 7/	0.3	-1.1	0.4	...	...	...	...	...	...	...	...	...	...	...	...
Other identified debt-creating flows	-2.1	-3.2	1.6	-0.4	0.6	0.7	0.5	-0.2	0.0	-0.4	-0.3	-0.2	0.2	0.7	1.2	
Net privatization proceeds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other liabilities (bank recap. and PSI sweetener)	-2.1	-3.2	1.6	-0.4	0.6	0.7	0.5	-0.2	0.0	-0.4	-0.3	-0.2	0.2	0.7	1.2	
Residual, including asset changes 8/	1.1	-0.9	5.7	-0.2	-1.5	-1.9	-2.2	-2.4	-2.5	-2.3	-2.5	-2.5	-2.4	-2.4	-22.9	



Source: IMF staff

1/ Public sector is defined as general government

2/ Based on available data

3/ Bond Spread over U.S. Bonds

4/ Defined as interest payments divided by debt stock at the end of previous year

5/ Derived as $(1 - p)(1 - g) - g + ae[1 - (1 + g - p - gp)]$ times previous period debt ratio, with $r =$ interest rate; $p =$ growth rate of GDP deflator; $g =$ real GDP growth rate; $a =$ share of foreign-currency denominated debt; and $e =$ nominal exchange rate depreciation

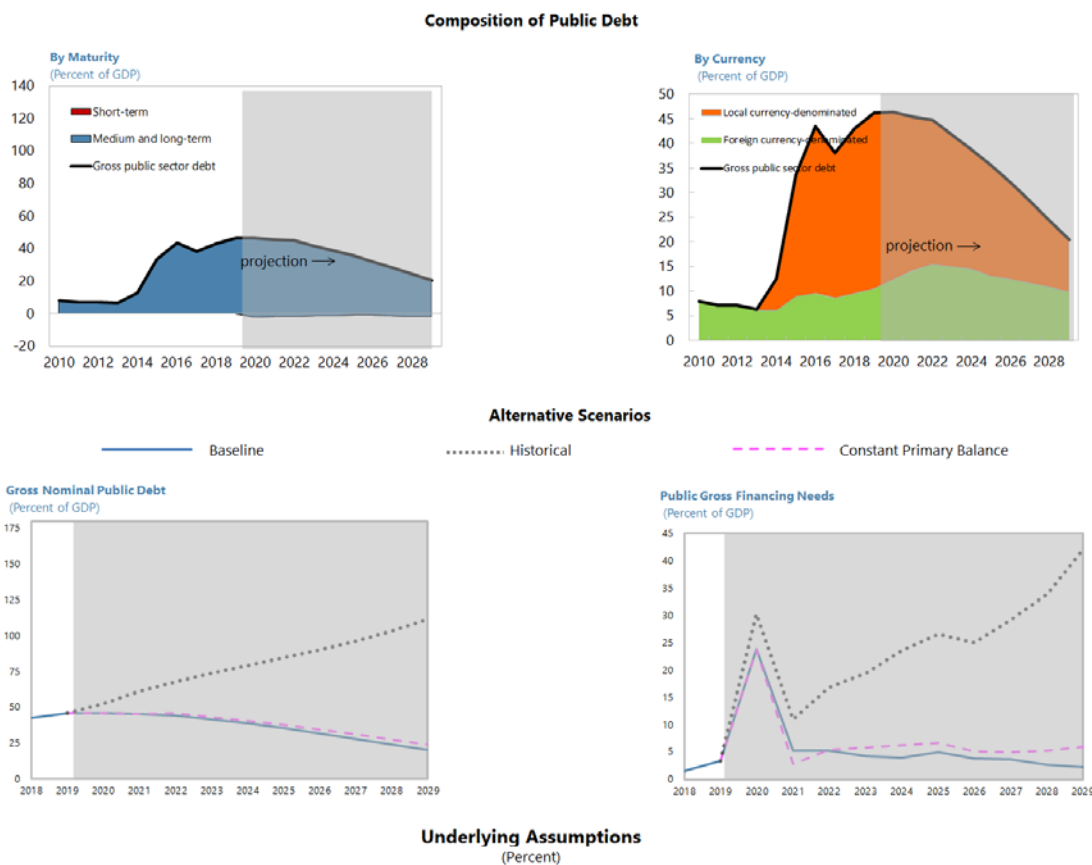
6/ The real interest rate contribution is derived from the denominator in footnote 4 as $r - \pi(1 - g)$ and the real growth contribution as g

7/ The exchange rate contribution is derived from the numerator in footnote 2/ as $ae[1 - \pi]$

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

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

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



	Baseline scenario											Historical scenario											
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028		2029	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	
Real GDP growth	-5.9	-1.9	1.0	-4.7	-1.2	-1.4	-2.0	-1.2	0.4	3.4	4.6	Real GDP growth	-5.9	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5
Inflation	-3.2	0.4	-0.6	2.7	2.4	2.8	3.2	3.3	2.9	1.9	1.5	Inflation	-3.2	0.4	-0.6	2.7	2.4	2.8	3.2	3.3	2.9	1.9	1.5
Primary balance	1.0	0.8	1.5	1.9	1.5	1.4	1.5	1.3	1.3	1.3	1.5	Primary balance	1.0	-5.5	-5.5	-5.5	-5.5	-5.5	-5.5	-5.5	-5.5	-5.5	-5.5
Effective interest rate	1.4	2.4	4.4	5.5	3.8	3.7	3.7	3.6	3.7	3.9	4.0	Effective interest rate	1.4	2.3	5.2	4.8	4.5	4.2	4.1	4.1	1.2	1.1	1.1
Constant primary balance scenario																							
Real GDP growth	-5.9	-1.9	1.0	-4.7	-1.2	-1.4	-2.0	-1.2	0.4	3.4	4.6												
Inflation	-3.2	0.4	-0.6	2.7	2.4	2.8	3.2	3.3	2.9	5.4	5.4												
Primary balance	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0												
Effective interest rate	1.4	2.3	4.3	4.0	3.7	3.5	3.4	3.4	3.5	3.7	3.7												

Source: IMF staff

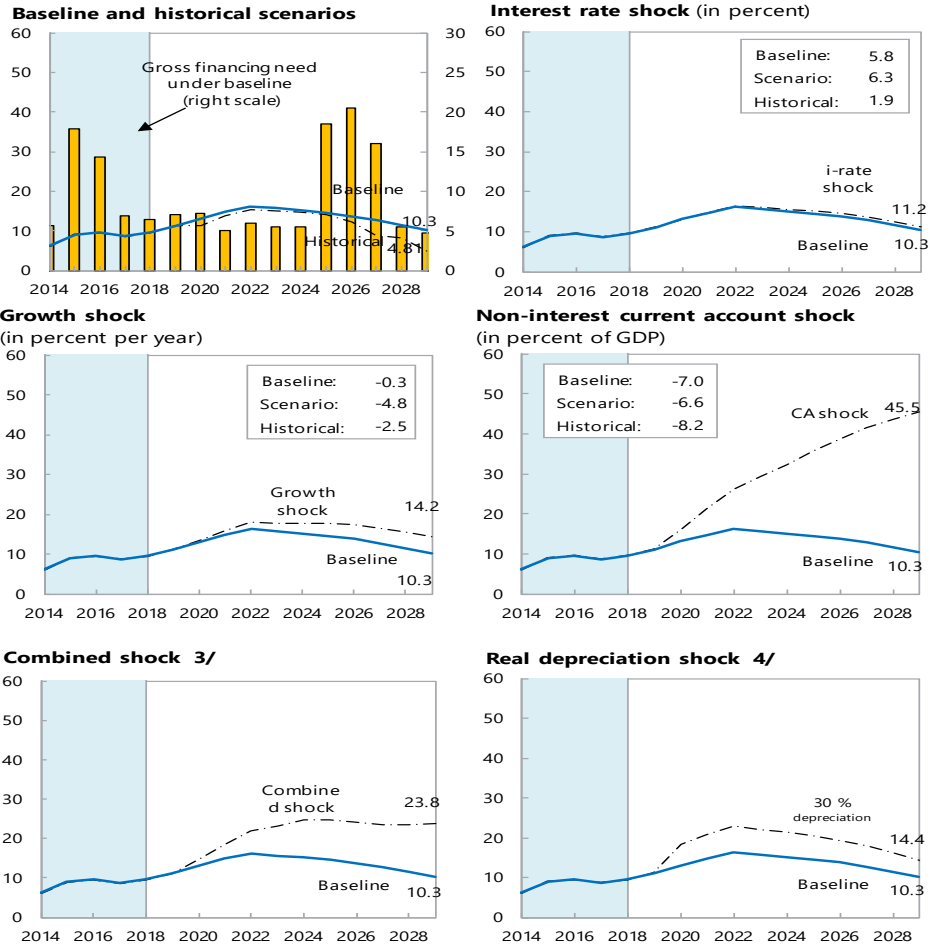
Figure 5. Equatorial Guinea: Public DSA—Stress Tests



Source: IMF staff

\1 The lower growth scenario depicts a permanent negative shock of -2 percent to the baseline projection for growth and non-interest revenues to GDP. By contrast the other shock are temporary shocks.

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



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2018.

Table 1. Equatorial Guinea: External Debt Sustainability Framework, 2014–29

(Percent of GDP, unless otherwise indicated)

	Actual					Projections										Debt-stabilizing non-interest current account 6/ -2.1		
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028		2029	
1 Baseline: External debt	6.1	9.0	9.5	8.6	9.5	11.2	13.0	14.8	16.2	15.6	15.1	14.5	13.8	12.7	11.5	10.3		
2 Change in external debt	0.1	2.9	0.5	-0.9	0.9	1.6	1.9	1.7	1.4	-0.6	-0.5	-0.6	-0.8	-1.0	-1.2	-1.2		
3 Identified external debt-creating flows (4+8+9)	-0.9	11.4	11.7	0.6	0.4	2.9	0.9	-1.7	-0.4	-0.5	-0.4	-0.2	0.6	1.2	-1.2	0.4		
4 Current account deficit, excluding interest payments	4.1	16.2	12.6	5.6	5.1	5.4	5.1	3.0	3.3	2.9	3.0	16.1	17.7	13.3	3.0	2.3		
5 Deficit in balance of goods and services	-17.3	-1.1	-3.3	-10.3	-10.7	-9.3	-8.1	-9.1	-7.8	-7.5	-6.7	6.5	8.5	4.7	-5.4	-6.0		
6 Exports	58.9	45.3	39.5	40.4	42.1	37.8	35.7	33.5	30.6	28.8	26.9	22.3	20.7	19.6	19.4	19.5		
7 Imports	41.6	44.3	36.2	30.2	31.4	28.5	27.6	24.4	22.8	21.3	20.3	28.8	29.2	24.2	13.9	13.5		
8 Net non-debt creating capital inflows (negative)	-5.2	-9.0	-2.9	-4.4	-4.0	-3.5	-5.1	-5.4	-5.3	-4.5	-4.5	-17.4	-18.1	-12.8	-4.4	-2.1		
9 Automatic debt dynamics 1/	0.2	4.1	1.9	-0.6	-0.6	0.9	0.8	0.7	1.6	1.1	1.1	1.1	1.0	0.7	0.3	0.2		
10 Contribution from nominal interest rate	0.1	0.2	0.4	0.2	0.3	0.3	0.6	0.8	0.9	0.9	0.9	0.8	0.8	0.8	0.7	0.7		
11 Contribution from real GDP growth	0.0	0.9	0.9	0.4	0.4	0.6	0.2	-0.1	0.7	0.2	0.2	0.3	0.2	-0.1	-0.4	-0.5		
12 Contribution from price and exchange rate changes 2/	0.1	3.0	0.6	-1.2	-1.4	...	...	...	...	...	...	...	...	...	...	...
13 Residual, incl. change in gross foreign assets (2-3) 3/	1.0	-8.4	-11.2	-1.5	0.5	-1.3	1.0	3.4	1.9	0.0	-0.1	-0.4	-1.4	-2.3	-0.1	-1.6		
External debt-to-exports ratio (in percent)	10.3	19.8	24.1	21.3	22.6	29.5	36.6	44.1	52.9	54.4	56.2	65.1	66.5	65.0	59.4	52.8		
Gross external financing need (in billions of US dollars) 4/	1242.2	2350.1	1601.7	839.7	881.4	826.6	839.8	602.9	691.4	650.1	668.5	2288.9	2581.7	2095.5	764.3	688.6		
in percent of GDP	5.7	17.8	14.3	6.8	6.4	7.0	7.2	5.1	5.9	5.4	5.5	18.5	20.4	16.1	5.6	4.7		
Scenario with key variables at their historical averages 5/						11.2	11.2	13.8	15.4	15.1	14.8	14.1	12.2	8.9	8.0	4.8	-9.4	
Key Macroeconomic Assumptions Underlying Baseline																		
						Historical Average											Standard Deviation	
hide Nominal GDP (US dollars)	21736.5	13180.2	11233.2	12286.9	13732.3		11863.9	11639.3	11824.1	11684.6	11933.0	12226.2	12376.1	12626.6	13040.2	13745.6	14594.7	
Real GDP growth (in percent)	0.4	-9.1	-8.8	-4.7	-5.7	-2.5	6.4	-5.9	-1.9	1.0	-4.7	-1.2	-1.4	-2.0	-1.2	0.4	3.4	4.6
hide Exchange rate appreciation (US dollar value of local currency)	-0.1	-16.4	-0.3	1.9	4.8	-1.9	6.7	-5.2	-0.4	1.1	1.0	0.9	1.1	0.0	0.0	0.0	0.0	0.0
hide GDP deflator (change in domestic currency)	-1.3	-20.2	-6.3	12.7	13.1	2.3	15.3	-3.2	0.4	-0.6	2.7	2.4	2.8	3.2	3.3	2.9	1.9	1.5
GDP deflator in US dollars (change in percent)	-1.3	-33.3	-6.5	14.8	18.6	0.8	18.9	-8.2	0.0	0.5	3.7	3.3	3.9	3.2	3.3	2.9	1.9	1.5
Nominal external interest rate (in percent)	2.1	2.0	3.4	2.2	3.6	1.9	1.2	2.6	5.1	6.3	5.8	5.5	5.6	5.6	5.7	5.8	6.0	6.1
Growth of exports (US dollar terms, in percent)	-10.0	-53.3	-25.8	12.0	16.3	-5.3	24.8	-22.3	-7.6	-4.5	-9.8	-4.0	-4.0	-16.1	-5.4	-2.3	4.3	6.9
Growth of imports (US dollar terms, in percent)	-198.3	-35.5	-30.3	-8.8	16.2	-23.5	64.5	-21.5	-5.1	-10.0	-7.8	-4.6	-2.4	43.9	3.4	-14.4	-39.5	3.2
Current account balance, excluding interest payments	-4.1	-16.2	-12.6	-5.6	-5.1	-8.2	6.3	-5.4	-5.1	-3.0	-3.3	-2.9	-3.0	-16.1	-17.7	-13.3	-3.0	-2.3
Net non-debt creating capital inflows	5.2	9.0	2.9	4.4	4.0	9.6	5.7	3.5	5.1	5.4	5.3	4.5	4.5	17.4	18.1	12.8	4.4	2.1

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

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

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

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

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

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

Appendix I. Letter of Intent

Malabo, Equatorial Guinea
November 22, 2019

Madame Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Madame Georgieva:

Since mid-2014, the Equatoguinean economy has been severely impacted by a sharp decline in international hydrocarbon prices and a secular decline in hydrocarbon output. In the last few years, we have made large efforts to address this situation and as a result have substantially reduced macroeconomic imbalances. However, the depth and duration of the hydrocarbon sector's twin shocks and the economy's continued dependence on the sector calls for additional efforts and reforms. Against this background, the government is committed to reforming further the economy to improve macroeconomic and financial stability. We will build on the significant progress made under the 2018-19 staff monitored program (SMP), including on structural reforms, and on the priorities identified during the Third National Economic Conference of Equatorial Guinea, held in April-May 2019, for the achievement of the Sustainable Development Goals.

The priorities and main goals of our economic program for the next three years are to (i) further reduce macroeconomic imbalances, (ii) improve social protection, mitigate the impact of reforms on the poor and vulnerable and supporting human capital development; (iii) address financial sector vulnerabilities; (iv) promote economic diversification; and (v) foster good governance and transparency and fight corruption. We believe that these objectives will help us attain our overarching goals of supporting an economic recovery and promoting sustainable and inclusive growth in our country. Our pursuits will be supported by our continued efforts to expand the tax base to increase non-hydrocarbon revenues, a reallocation of expenditures toward the social sectors, and reforms to further improve public financial management.

We are seeking the IMF's support in this ambitious, yet much-needed, policy and reform endeavors. Specifically, we are requesting a 36-month Extended Fund Facility (EFF) arrangement with the IMF with access equivalent to SDR 205 million (130 percent of quota or about US\$284 million). Our intention is to use the arrangement to facilitate the implementation of economic policies and structural reforms to achieve the above-mentioned objectives, as well as a mechanism to catalyze additional external resources and contribute to rebuilding CEMAC

regional reserves. We also request that program reviews be semi-annual. By maintaining our close engagement with the IMF, and with support from our other development partners, we expect to make important progress in achieving our macroeconomic and development goals.

Our Memorandum of Economic and Financial Policies (Attachment I) sets out our priorities. The government of Equatorial Guinea believes that the policies set forth therein are adequate to achieve the objectives of its program but stands ready to take any additional measures that may become appropriate for this purpose. We will consult with the Fund 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.

The government of Equatorial Guinea will provide the IMF with information on the implementation of the measures under the program and on program execution, as set out in the attached Technical Memorandum of Understanding (Attachment II), on the dates stipulated therein. Finally, the government authorizes the IMF to publish this letter, its attachments, and the staff report for this request for an EFF arrangement.

Please accept the assurances of our highest consideration and esteem.

/s/

Cesar Augusto Mba Abogo
Minister of Finance, Economy and Planning

Attachment I. Memorandum of Economic and Financial Policies

I. BACKGROUND AND RECENT DEVELOPMENTS

1. Since mid-2014 the Equatoguinean economy has been severely impacted by a fall in oil prices and a secular decline in oil output. Economic activity contracted, while export earnings and fiscal revenues declined sharply. As a result, the overall budget deficit widened and public debt in relation to GDP (including the level of arrears) increased rapidly between 2013 and 2018. At the same time, our imputed net foreign assets (NFA) at the BEAC became negative, while non-performing loans (NPLs) in the banking system rose sharply. In response, our government has made substantial efforts to adjust to the lower oil price and output, including by reducing the non-oil primary fiscal deficit. We have also successfully completed a Staff Monitored Program (SMP) that have helped us to build a track record in policy implementation, and technical capacity.

2. Economic conditions remain difficult, but macroeconomic stability is being safeguarded.

- **Economic growth.** Economic activity is projected to contract by 5.9 percent in 2019, for the sixth consecutive year, reflecting a decline in hydrocarbon output. Non-hydrocarbon output has stabilized after declining for several years, but the sector continues to be constrained by fiscal consolidation, weak private sector confidence, and lack new bank private credit to the private sector. Both the low confidence and the lack of credit growth reflect the large volume of domestic arrears by the government to construction companies, which in turn have overdue loans with banks.
- **Fiscal Position.** Fiscal balances improved in 2018 and have continued to strengthen in 2019. We generated an overall surplus of 0.5 percent of GDP in 2018, a significant improvement from a deficit of 2.6 percent of GDP in 2017. The surplus reflected both increased hydrocarbon revenue due to higher oil prices and a stronger non-hydrocarbon primary balance. The latter improved by 1.8 percent of non-hydrocarbon GDP, reflecting mainly lower capital spending. Fiscal balances improved strongly in 2019H1, driven by a sharp reduction in capital spending. That said, despite our efforts, non-hydrocarbon revenue growth remained weak.
- **Imputed NFA.** Imputed NFAs at the BEAC have continued to recover and turned positive in 2019Q2, after over two years in negative territory. Apart from our strong fiscal consolidation, the recovery in NFA reflects our deliberate policy to increase government deposits at the BEAC, including via the repatriation in 2019H1 of some deposits held abroad.

- **Financial stability.** Our banking sector has been adversely affected by deterioration of the public finances and the contraction of GDP since 2014, and balance sheets throughout the sector are weak. NPLs have increased and remain high. They derived mostly from the accumulation of government arrears to construction companies, which had contracted credits from banks. Loan provisions by banks are low, capital levels at some banks are below minimum requirements, while bank liquidity remains tight at some banks. As part of our commitment to preserve financial stability, in early 2019, we started the regularization of government payment arrears to construction companies, which has helped improve asset quality and liquidity in the banking system. Also, provisions are now being applied more rigorously.

3. Medium-term prospects are somewhat more positive, but there are important challenges to jumpstart growth, diversify the economy, improve governance, and reduce vulnerabilities. Recent hydrocarbon discoveries and projects that would come on stream over the next few years have given rise to renewed optimism that the pace of decline in the hydrocarbon sector could be slowed substantially over the medium term. In addition to a large liquid gas project that could come on stream in 2025, there are two large projects with substantial upside potential for increasing output. At the same time, we expect our strong reforms (Section II) to cause non-hydrocarbon sector growth to gradually accelerate over the medium term. This would offset the negative output effects from the hydrocarbon sector.

4. We are aware of downside risks and are taking action to mitigate them. A faster than expected decline in hydrocarbon output, including due to a failure to monetize recent oil and gas discoveries; lower hydrocarbon prices; or a shock to global growth could weaken confidence, tighten financing constraints and negatively impact overall growth. To mitigate these potential risks, we are redoubling our efforts towards implementing a credible arrears repayment plan and a modern macroeconomic governance framework. We are also enhancing public sector management capacity, improving transparency in public finances and the oil sector, and adopting strong measures to fight corruption. In addition, we are pressing ahead with our economic diversification strategy and aim to exploit the opportunities available within the African Continental Free Trade Area (AfCFTA). Finally, we are committed, at the highest level of government, to remain fully engaged with the IMF team on the evolution of the economy and the appropriate macroeconomic policy settings.

II. SECOND REVIEW OF THE STAFF-MONITORED PROGRAM

5. We have made progress in the implementation of macroeconomic policies to which we committed under the staff-monitored program (SMP). All performance measures (PMs) set for the second review of the SMP (end of July 2018) were met, with the exception of one, as well as all indicative targets (Text box 1).

- **Fiscal targets.** We met with the PM related to non-oil tax revenues, which we exceeded by a small margin. However, weaknesses in the public financial management system and

insufficient coordination between different government entities did not make it possible for us to meet the MD related to the non-oil primary balance of the central government.¹

- **Debt targets.** We met the target on contracting and guaranteeing new foreign debt, as well as the target on new credit from the BEAC to the government. In addition, no new external arrears were accumulated.
- **Indicative targets.** We also met the target on net credit of commercial banks to the government and the social spending target.

Text Table 1. Quantitative Performance Measures and Indicative Targets for the Second SMP Review
(Billions of CFA Francs, cumulative for each quarter)

	End-July 2018		
	Prog.	Actual	Status
A. Quantitative performance measures			
Floor on non-resource tax revenue of the central government	90	93	Met
Floor on non-resource Primary balance of the central government	-540	-696	Not met
Ceiling on external debt arrears accumulation ¹	0	0	Met
Ceiling on contracting and guaranteeing new external debt	100	100	Met
Ceiling on new BEAC credit to the government	0	0	Met
B. Indicative Targets			
Ceiling on net domestic bank credit to the government	-127	-204	Met
Floor on social spending (education and health) ²	60	74	Met

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

¹ Continuous quantitative measure.

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

6. Our agenda of structural reforms has also advanced.

- In particular, we have implemented three of five structural measures, although in some cases more slowly than we would have liked (Text Table 2). In May 2018, we ratified the United Nations Convention Against Corruption. Then, in the first half of 2019, we implemented two additional structural measures: (i) we hired an internationally renowned company to audit Gepetrol and Sonagas, our state oil and gas companies; (ii) a second

¹ Data revisions imply that the PM on the non-hydrocarbon primary balance for end-April 2018 (the test date for the first review) was also missed, contrary to what was reported in the staff report for the first review (IMF Country Report 18/146).

internationally renowned company was hired to audit government arrears. The arrears audit will be completed in December 2019, while the former would be completed in March-April 2020. Both audits are now being conducted and should provide important information that we are committed to using to strengthen our governance framework. The structural measures not met under the SMP were set as prior actions for purposes of the request for an Extended Fund Facility (EFF) arrangement. These refer to the implementation of a system to track and monitor expenditure commitments and to the presentation of a membership application before the Extractive Industries Transparency Initiative (EITI).

- We have also adopted measures to improve tax administration, modernize the PFM framework, increase transparency and improve the business climate for non-oil investment to promote economic diversification. In June 2018, we invited an IMF mission to prepare a governance diagnostic report. We have used this report to prepare a governance strategy that will be implemented as part of our EFF-supported program. In the financial sector, we began to implement a strategy to address the vulnerabilities of the banking sector. At the same time, we recognize that much more work is required in several areas, such as increasing non-oil revenues and addressing the weaknesses of the financial sector more fully. These areas of reform will be a priority under the EFF agreement.

Text Table 2. Equatorial Guinea: Structural Measures for Second Review under the SMP

Measure	Target date	Macroeconomic objective	Government Unit / instrument	Status
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	Not met. Implemented with delay
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	Not met. Implemented with delay
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	Not met
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

Source: IMF staff

III. PROGRAM OBJECTIVES AND STRATEGY UNDER THE EFF

ARRANGEMENT

7. This section describes the objectives of our economic program for 2019-22 that is being supported by the IMF under the Extended Fund Facility (EFF), as well as the economic and financial policies that we plan to implement to achieve them.

8. **The government is firmly committed to implementing policy reforms to fundamentally transform the Equatoguinean economy, enhance governance and transparency, reduce corruption and create the conditions for strong and sustained growth, while contributing to the CEMAC regional adjustment strategy.** The overarching objectives of this program are to strengthen macroeconomic and financial stability, reform the economy and the governance framework, with the goal of promoting inclusive economic growth. The program is organized around four central and interrelated pillars: (i) further reducing macroeconomic imbalances while promoting social spending outcomes for human capital development and mitigating the impact of reforms on low-income groups; (ii) addressing weaknesses in the financial sector; (iii) promoting economic diversification; and (iii) fostering good governance and transparency and fighting corruption, including by further strengthening the PFM framework.

9. **The program includes important measures to help soften any negative impact on the poor.** The contraction in activity is likely to have led to a significant increase in layoffs and unemployment. The most vulnerable social groups, with low levels of human capital, are most likely to have been affected by the decline in economic activity. Our program has been designed to ensure that the adjustment burden would continue to be effectively shared across society and economic agents, with those who are well-off carrying a greater share. Safeguards have been included to ensure that the social spending would continue to increase during the program and we plan to give special attention to improve its targeting.

IV. MACROECONOMIC PROGRAM

A. Fiscal Policy

10. **The government is committed to reducing the non-hydrocarbon primary deficit, reducing vulnerabilities, and maintaining public debt sustainability.** The public debt ratio is projected to decline slightly, from 46.2 percent of GDP to 44.4 percent during 2019–22. Henceforth, the public debt to GDP ratio is projected to continue to decline, reaching 38.5 percent of GDP in 2024. Consistent with these figures, the central government's non-hydrocarbon primary deficit would fall from 21.8 percent of GDP (non-hydrocarbon GDP) in 2019 to 17.6 percent in 2020 and 9.4 percent in 2022. Achieving these objectives requires a combination of spending (including improving spending efficiencies) and revenue measures, and

specific actions to improve revenue administration. The government is committed to implement a 2020 budget consistent with the program outlined below. The government believes that the measures outlined below will be sufficient to achieve these targets but is committed to take additional action to meet the target if needed.

11. Tax reform is a key pillar of our macroeconomic program. The goal is an efficient and broad-based tax system that applies equitably to all entities. Drawing on the FAD 2018 Technical Assistance report, we plan to reform the old 2004 Tax Code by harmonizing taxes with the rest of the region, streamlining deductions and adjusting other rates to more efficient levels. We will also implement other tax measures that will help generate additional non-hydrocarbon revenues. The tax policy and administration measures that we intend to implement will increase non-hydrocarbon tax revenue by 3.6 percent of GDP during the program period. Tax policy measures will include the adoption of new excise taxes on imported beverages, tobacco, vehicles and others (**structural benchmark, end-December 2019**). Likewise, we will maintain the higher personal income tax rate for non-residents introduced at the beginning of 2019. We estimate that these measures will increase tax revenue by 1.1 percent of non-hydrocarbon GDP.

12. A critical component of our strategy for raising non-hydrocarbon revenues is to strengthen tax and customs administration. During 2019-22, we anticipate that improved tax administration could increase revenues by 2.5 percentage points of non-hydrocarbon GDP. The measures contemplated under this heading are as follows:

- *Large taxpayer unit.* We plan to continue strengthening the management of the large and medium-size taxpayer units. In 2018, we 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 and are doing so.
- *Customs modernization.* We plan to resume implementation of the ASYCUDA system, after being at a stand-still for about one-year due to funding constraints. This is an important initiative that would help us to raise compliance at customs and through this more revenues. We plan to eventually roll this program out at all customs posts in the country, starting this year with Bioko island and Bata.
- *Exemptions and tax fraud.* We continue to implement the measures provided in the Decree 134 of 2015. We believe that by penalizing tax evasion and reducing exemptions we can substantially increase 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 also plan to work aggressively to limit opportunities for tax fraud through better enforcement.
- *Strengthening revenue administration and auditing capacity.* With technical assistance from the IMF, we plan to further 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 undertake credible tax audits, including of companies operating in the oil and gas sector. We also intend to better monitor compliance by these companies with their contractual obligations to the government of Equatorial Guinea (EG), 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 have requested assistance from the IMF in the form of tax resident advisor to support our efforts to implement the recommendations made in the IMF 2018 TA report.

- *Amendments to the 2017 Tax Amnesty Law.* Although on the books, this law has not yet been operationalized. We recognize that the law has shortcoming and we are therefore working with Parliament to secure approval of amendments to this law to make it consistent with EG'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-offs of tax liabilities spanning several years are replaced with provisions allowing negotiated payment arrangements for tax obligations covered by the amnesty law (**structural benchmark, end-December 2019**). This proposed amendment will help to protect the government's potential revenue and send a signal to economic agents about the need to comply with their tax obligations, including those that are overdue.
- *Training of tax administration personnel and encouraging tax compliance.* We have begun training human resources to create a specialized corps of tax inspectors. In addition, we plan to apply for membership in the World Customs Organization (WCO). This would help us to permit regular exposure of our customs officers to the international best practice on customs rules and the latest international proposals for the customs governance and administration.
- *More effective communications strategy.* We are also developing more efficient public campaigns and communication strategies to encourage tax compliance and expand the tax base.

13. We recognize that further streamlining and reprioritization of spending will also be needed. We have implemented the 2019 budget in line with the fiscal program agreed with the IMF. 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. In this context, we have submitted to parliament a 2020 budget consistent with our program targets (**prior action**), are working to secure its approval, and will rigorously implement it. The details of our expenditure program include:

- *Capital expenditure.* In the years leading to 2014, we undertook many capital projects that have helped our country build a strong and modern infrastructure, with the aim of

fostering growth and economic diversification. Following that strong effort, our public investment needs have declined and from 2014 to 2018 the government took the initiative to reduce capital spending, which became also necessary due to lower oil prices and production. We intend to further reduce capital expenditure to further lower the non-hydrocarbon primary balance, while 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. Moreover, we will improve expenditure tracking and monitoring to ensure that capital expenditure does not exceed budget allocations.

- *Current expenditure.* Against the background of lower hydrocarbon revenue, we will continue to explore avenues for reducing unproductive and inefficient spending. In this context, we plan to limit the growth of current expenditure through stricter control and prioritization while reducing the fuel subsidy during the program period. This reduction will be facilitated due to lower oil international prices expected in the coming years. To avoid social tensions and protect low-income groups, the subsidy reduction will occur gradually, and we will maintain the subsidy for certain fuels, at least until we introduce an adequate social safety net. Similarly, we will introduce gradually a more flexible fuel pricing system that ensures pass-through of international price changes to the local prices. The introduction of this system should be accompanied by the development of a social safety net to mitigate any negative impact on low-income groups. We will request technical assistance from the IMF and other development partners for the implementation of this new pricing system and for the design and implementation of the social safety net.

14. Domestic arrears. Given its critical importance to strengthening the banking sector and supporting the recovery of the non-hydrocarbon economy, we are committed to regularizing and repaying all legitimate domestic arrears. In May 2019, we hired an internationally recognized company to audit these arrears and this work will be completed in December. We will make cash payments on a portion of the validated arrears and exchange the remaining obligations for interest-bearing government bonds, which will have terms comparable with the issuance of public securities in the CEMAC region (**structural benchmark, March 2020**). We are currently engaged in discussions with the holders of the domestic arrears on the details of our clearance and repayment plan.

15. External arrears. In 2018, a Belgian construction company (Besix) transferred claims on government arrears on service contracts to Belgium's export credit agency (Credendo), which had insured the contracts. These arrears, which are currently estimated at 34 billion CFA, are being audited as part of the ongoing domestic arrears audit. In September 2019, Spain indicated that our government was in arrears for about 10 billion CFA on an expired debt swap agreement that was not implemented. We have engaged with both creditors with the aim of reaching a mutually satisfactory settlement of these obligations. Against this background, we have agreed

to clear any outstanding arrears to both by the time of the first program review (planned for May 2020).

16. Debt management. The government of EG is committed to containing the growth of public debt. Under our program public debt would peak at 46.6 percent of GDP in 2020, and then is expected to begin a gradual decline. This would be achieved by sustained fiscal discipline, and a prudent debt management strategy. In designing and implementing these undertakings, the government will seek to ensure sound public sector governance and public debt management. The debt management strategy will seek to reduce balance sheet vulnerabilities, rebuild financial buffers, and expand financing sources, including by further developing and deepening the domestic bond market. In this context, we plan to reduce the size of our external collateralized debt. In particular, we will not contract new collateralized loans or new collateralized loan facilities. Instead, we will increase our use of loans from multilateral and regional financial institutions. Additionally, and in preparation for our new debt management strategy, we are enhancing our debt management function, including through institutional strengthening, and training. We have asked the IMF for TA on modernizing our debt management function.

17. Program financing. In support of the economic program, the government envisages the need for financing from multilateral sources of US\$631 million over the next three years. Total funding from the IMF is expected to be SDR 205 million or 130 percent of quota (about US\$284 million). Program financing over the next three years from the AfDB are US\$347 million. In addition, we will continue to draw financing from the existing Chinese loan facility during the program period under loans that have already been contracted. Remaining financing needs will be filled by rolling over existing short-term domestic-currency debt with local and regional banks.

18. Privatization and other forms of private management of state assets. We will materialize the recommendations of the Third National Economic Conference, during which the three powers of the State, the Private Sector, Civil Society and development partners, including the IMF, discussed the options to ensure optimum exploitation of state assets, with three recommended modalities: (i) the restructuring of autonomous agencies and public companies of the state, (ii) the concession of public assets to the private sector and; (iii) the sale of public assets to private operators (privatization). Where possible, we will also open to competition the sectors where our public enterprises operate in order to minimize monopolistic practices. Against this background, the existing public company restructuring committee will be strengthened to assess the viability of entities and make recommendations on what to do with them. As part of this plan, we will present for approval to the Council of Ministers (CoM), in consultation with the National Parliament, a substantive list of state assets to be privatized and another of entities that will be restructured or placed under a concession regime with the sector private sector (**structural benchmark, end of June 2020**), without prejudice to the strategic interests of the State in each of the sectors of exploitation of public assets and companies listed.

19. In order to support the immediate generation of revenue, we will prioritize the privatization of assets. Once the CoM approves this plan, we will present during the second half of 2020 an action program for the sale of assets to the private sector. Under this program, sales and concessions will be carried out by the Government through open and transparent international tenders that also include national and subregional investors². The sale of the listed assets will be carried out for a defined period of time to maximize the potential financial value for the government and an effective communication campaign for citizens should be carried out. We will use the proceeds from any privatization to pay validated internal arrears and to rebuild net external assets, thus protecting the net worth of the State. It is expected that both the sale of public assets and other forms of private management will help create space for the private sector, improve the efficiency of the economy, generate non-oil growth and develop a larger local market and contain fiscal risks.

B. Structural Fiscal Reforms

Social Spending and Social Indicator Statistics

20. During the period of the SMP we increased spending on health and education. We have also increased social spending to create “urban districts”, where basic conveniences and public services are being brought to rural and poorer regions.

21. Under the EFF arrangement, we intend to further increase our budget allocation to the social sectors in an efficient and effective manner. The following are our priorities:

- *Social sector strategy.* We are working on a strategic plan for guiding our actions on social spending, strengthening social indicators, reducing poverty, and fostering human capital development. Our efforts in this area are being informed by inputs from several social sector studies prepared in conjunction with development partners. Moreover, to better plan, target and assess our interventions, we will conduct regular household budget surveys to improve data collection on living conditions and other social indicators, starting with the 2020 survey, which is already underway.³ At the same time, in addition to the budgetary classification, to help with the quick identification of spending allocations, we also plan to adopt a functional classification of government spending, starting with the 2020 budget.
- *Social and anti-poverty spending.* In the meantime, we will continue to reallocate spending towards the social sectors to address pressing needs, provide adequate protection to low-income groups against the effects of macroeconomic adjustment, and

² The Bata Port is already under a negotiation process for its eventual concession to Dubai Ports and will therefore be excluded from such a program.

³ Funding for the household survey and census of businesses was approved by the Inter-ministerial Council this month. It is expected that results from the survey will be available by late 2020.

reduce poverty. To support this, we have increased the floor on social spending in the program to 2.0 percent of GDP in 2020. With the aim of ensuring that increased resources are efficiently spent, we plan to work with the Fund and WB staff, and UN agencies to develop priorities to guide the reallocation of resources and to improve the allocation of social spending for low-income households.

- *Assessing interventions:* Going forward, we plan to more carefully document the impact and efficiency of social spending. We are particularly interested in measuring the impact of social spending on improving human capital, living conditions and protecting vulnerable groups against the effects of macroeconomic adjustment.

Strengthening Public Finance Management

22. We have taken measures to revamp and modernize the PFM framework. Reforms have been implemented in the following areas:

- *Institutional Arrangements:* A key reform was the merger of the ministries of Economy, Planning and Finance. This has facilitated tighter control over spending, with specific procedures for spending approvals and oversight for both current and capital spending. We will ensure that commitments on current spending are adequately tracked and monitored. The budget preparation process has also been revamped. All projects are now considered and reviewed by a budget committee in the context of the government's announced policy priorities.
- *Expenditure tracking and monitoring (prior action):* We are in the process of making operational an enhanced and modern system to track commitments on capital spending, including in a multi-year framework, to ensure tight fiscal management and discipline. This system will facilitate: (i) maintaining an accurate record of all spending commitments (on a monthly frequency for the current year); (ii) ensuring full control of all spending approvals by the Minister of Finance; and (iii) documenting the key steps in the expenditure control chain (verification of the availability of appropriations and the level of expenditure commitment, certification of delivery of good/service, approval of payment, and payment instructions). Once this system is in place, we plan to continue to fine tune it, by continuing training the technicians, updating procedures manuals, and computerizing the processes. Our PFM system has been improved to produce accurate expenditure data on a timely basis. This has involved the creation of a certifications committee, comprising technical staff and senior staff in the MEFP, that validates all claims for payment on investment projects monthly. Once payment claims are validated, they are speedily transmitted to the paymaster for payment. This, together with the tracking and control of expenditure commitments ex ante, will enable us to bolster fiscal discipline and avoid the accumulation of arrears. Furthermore, legislation has been put in place to grant the Minister of Finance sole responsibility for the approval of (current and capital) expenditure, and we will ensure that this legislation is adhered to in practice.

- *Transposition of the CEMAC Directives.* Due to subregional requirements, we will complete the transposition and implementation of the CEMAC Directives on the harmonization of the PFM. With these reforms, we plan to improve the programming and control of spending, and strengthen the recording of financial data.

23. To support these initiatives, we plan to bring further transparency to the operations of the government's finances. In this context, starting in 2020, we will publish on the MFEP website comprehensive data on internal and external debt, including contingent liabilities.

C. Structural Reforms to Improve Governance and Transparency and Fight Corruption

24. Consistent with our efforts to increase the effectiveness of macroeconomic policy, we have renewed our commitment to improving governance, enhancing transparency, and fighting corruption. Our strategy in this area is focused on the following:

- **Governance strategy.** During 2018-19, we worked with IMF staff to prepare a governance diagnostic report on EG. This report identified several weaknesses and areas for improvement. Using this report, we have designed, in collaboration with IMF staff, a strategy to enhance governance in EG. This strategy lays out our proposed steps for tackling governance weaknesses and generally modernize our approaches to governance, including in such areas as PFM. We will publish the governance diagnostic report and governance strategy (**prior action**), in line with our commitment to increase transparency in government operations and keep the various stakeholders well informed about our plans.
- **Anti-corruption framework:** Having ratified the UN anti-corruption convention in May 2018, we are now working to adopt an anti-corruption law (**structural benchmark, end-March 2020**). This law will criminalize corruption offences, strengthen our investigative and prosecutorial capacity and powers, enhance the role of our courts specialized in combatting corruption and bolster channels of international cooperation. We are also pressing ahead with updating the existing decree on asset declarations for senior public officials in line with the law and international best practices during 2020, and will endeavor to implement it by June 2021. Additionally, over the medium term our plan is to operationalize the Accounts Tribunal, by equipping it with adequate personnel and facilities.
- **Hydrocarbon sector transparency:** To enhance transparency in the hydrocarbon sector, we plan to become a full complying member of the EITI. To this end, in November 2019, we submitted to the EITI our membership application, which we expect it will be considered by the EITI Board in early 2020. We also plan to publish on the website of the Ministry of Mines the final audit and reconciliation reports of GEPetrol and Sonagas

- (structural benchmark, end-June 2020).** In addition, we will (i) have a plan approved by the Council of Ministers to address issues arising from the audit report's findings at these companies, and (ii) reassess revenue potential based on the audit's findings, with any additional resources allocated to boost NFAs at the BEAC and social spending.
- Moreover, to further entrench transparency in the sector, starting with 2019 results, we plan to publish annual reports of comprehensive hydrocarbon sector data and information (e.g., production, exports, prices, government revenue, new contracts signed) in line with the EITI standard (**structural benchmark, end-September 2020**). The content of these reports will be agreed with IMF staff. We also intend to publish all active oil and gas sector contracts by end-June 2020.
 - **Rule of law:** We are working to launch a website for the Official State Gazette where all existing GE laws, orders and decrees will be published. As a first step, we will publish on this website all the laws, orders and decrees in force since 2000 (**structural benchmark, end-June 2020**). We will keep this website updated and we will continue working so that it contains all the laws, orders and decrees in force in the country.
 - **AML/CFT:** We intend to continue strengthening our AML/CFT system. With this objective, we have adopted legal and institutional measures in this area, such as the transposition of the CEMAC directives on the subject and the creation of the financial information unit (ANIF). To better enforce the existing rules in this area we have mandated (ANIF) to develop better guidance to assist financial institutions to better identify politically exposed persons and beneficial owners.
 - **Fiscal safeguards review (FSR).** To demonstrate our commitment to good governance and facilitate the smooth operation of the program, we will request the IMF, as early as possible, to conduct an FSR by end-September 2020. This FSR will assess our treasury's framework, with a focus on controls and audit procedures, fiscal monitoring and reporting, and budget execution processes. We intend to fully implement all recommendations of this FSR. Further, to help with our push for enhanced transparency we will also request that the IMF conduct a Fiscal Transparency Evaluation (FTE) of EG fiscal operations. We intend to publish these reports on Ministry of Finance's website.
 - **Data dissemination.** We are using the Finance Ministry website launched in 2018 to post historical fiscal data and other relevant information. In May 2019, we completed e-GDDS subscription and posted our national data summary page. Going forward, we intend to use the websites of the Finance Ministry to disseminate more fiscal and hydrocarbon sector data and information (including on fiscal legislation) on a monthly basis.

D. Structural Reforms to Boost Non-Hydrocarbon Growth

25. We continue to take steps to promote economic diversification, and jump-start non-hydrocarbon growth. In April 2019, we celebrated a national economic conference to

launch the process of revising the Horizonte 2020 strategy. The revised strategy is expected to guide economic diversification and sectoral policies over the medium to long term; and to incorporate the sustainable development goals and environmental considerations as central themes. More generally, we have integrated this development plan with the short-term program for fiscal consolidation. We view this as the foundation upon which our development strategy would be built. Moreover, with the help of the Korean Development Institute we are drawing on the successful transformation experiences of other countries to finalize the strategy and make it truly concrete and actionable. With support from the WB and the Singapore Corporation Enterprise, we have designed a plan to improve the business climate in the country. Some measures to enhance the business environment, including operationalizing the one-stop shop for establishing firms, have already been implemented, in line with our action plan on the business environment of March 2019, to which we remain firmly committed.

26. Going forward, we plan to build on these initial efforts by fully embracing the private sector as a critical actor in our revised development strategy. In addition, we plan to clearly articulate the financing requirements for the updated development plan and fully integrate these requirements into the budget, so that it is consistent with our fiscal program. The government will pursue the following strategies:

- *Articulating a full-fledged strategy for non-hydrocarbon export sector development:* Our aim is to pursue activities in those sectors where EG has a comparative advantage or where this could be developed over the medium term. In this context, we plan to create investment promotion and export agencies to attract foreign investment and promote non-hydrocarbon exports.
- *Priority sectors.* We have identified four priority sectors as part of the economic diversification strategy: tourism, fishing, agriculture, financial services, and digital economy. In the area of tourism, we are working with stakeholders in the sector to draft a national tourism development plan. To provide stimulus to the sector, we plan soon to roll out a special tourist and business visas to make it easier to visit EG. On fishing, we are making advances in the development of a national fisheries industry, via the operationalization of a training institute for fisherfolk. This will allow us to move from artisanal fishing to semi-industrial and industrial fishing, capable of generating better quality and higher value-added products that could be exported. We also plan to develop special logistics and economic zones in the Bata region. Over the longer term, we seek to transform Malabo into a financial services center for Africa, drawing on its strategic location and the advantages offered by the African Continental Free Trade Agreement (AfCFTA). We are still working on firm proposals for the agriculture sector.
- *Labor market reform:* Conscious of the need for increasing export competitiveness of the non-hydrocarbon sector and improving overall macroeconomic flexibility, we plan to launch a comprehensive labor market reform strategy. This strategy would contain measures aimed at improving labor productivity and reducing long

standing labor market rigidities.⁴ Specific measures would seek to address high redundancy costs, training, and aligning wage growth with labor productivity.

- *Business environment.* Building on our ongoing initiatives in this area, we intend to take additional specific measures to streamline and reduce the number of procedures, time and cost for various business transactions, to increase access to credit (financial inclusion) and to improve the framework for resolving insolvencies. Moreover, in line with our commitments under the AfCFTA agreement, we are moving to reduce barriers to trading across borders (time, cost and procedures), particularly with our immediate neighbors within the CEMAC region. We are also working with internet and telecom providers to reduce their fees and improve the quality of service to make our economy more competitive.
- *Regional Integration.* We are committed to the African Union's Agenda 2063 and are positioning our economy to reap the benefits offered by the AfCFTA. In this spirit, we are exploring avenues for selling excess electricity produced in EG to neighboring countries. To this end we have recently signed an electricity grid inter-connectivity agreement with Cameroon and Gabon.

E. Foreign Exchange Policy

27. We continue to fully endorse and support regional efforts to strictly enforce existing FX regulations and contribute to the regional strategy to rebuild CEMAC's reserves. To this end we will ensure that:

- (i) All public entities repatriate and surrender their forex receipts and do not hold deposit accounts abroad which were not authorized by BEAC;⁵
- (ii) "Available" government deposits (i.e., deposits whose purpose is not guaranteeing debt payments) held abroad will be repatriated by December 2020.
- (iii) For accounts held abroad to guarantee loan payments, we will work together with BEAC and creditors to replace them for BEAC accounts with creditors by March 2020. In return, BEAC will keep in its balance sheet a liability with Equatorial Guinea;
- (iv) Our customs officers will strictly enforce the domiciliation of all export transactions with a resident commercial bank;
- (v) Report to the BEAC all exports licenses as required in the forex regulation;

⁴ See WB's Doing Business 2017 report, and Republic of Equatorial Guinea: 2015 Article IV Consultation. Staff report. IMF Country Report 15/260.

⁵ For those public entities which have such deposit accounts abroad authorized by the BEAC report regularly to the BEAC the balances of these accounts.

- (vi) all active oil and gas contracts will be shared with the BEAC (**structural benchmark, end-December 2019**);

Further, we will work closely with the local BEAC branch, including to uphold its commitment to make available FX for documented external transactions within 2 business days of the initial transaction request. We will also sensitize commercial banks on the need to expediently hand on applications for FX to BEAC, also within 2 business days.

28. Our goal is to start rebuilding EG's imputed NFA starting in 2019. Imputed NFA at the BEAC is projected to increase to 546 billion by 2022, owing largely to the strong fiscal consolidation, and the expected inflow of external budget support. This increase in NFA will provide solid support to the regional strategy and NFA rebuilding goals. These efforts will be complemented by any additional resources that may become available from higher hydrocarbon revenues than currently projected, as well by the proceeds from the privatization of state-owned assets.

F. Addressing Financial Sector Vulnerabilities

29. We will continue to work to strengthen the banking sector (13). Our strategy to stabilize and strengthen bank balance sheets consists mainly of three pillars:

- (i) clearing validated arrears to construction companies through cash payments and the exchange of the remaining overdue obligations for government bonds. This will help lower NPLs, increase capital, and improve bank liquidity.
- (ii) work with the owners of undercapitalized banks to recapitalize them through the conversion of existing generic provisions into capital and injection of new capital if necessary.
- (iii) work closely with COBAC to ensure that all banks are in full compliance with all COBAC regulations, particularly prudential regulations and governance requirements.

We initiated the exchange of overdue obligations with government bonds (first pillar) in early 2019, which has resulted in the improvement in the quality of assets of the banking sector. We have also cleared arrears through cash payments this year. These actions have helped improve bank liquidity and reduced reliance on short-term BEAC funding for banks that have been making use of this funding source to cover liquidity needs. We will continue to work with banks to further reduce BEAC funding to levels consistent with COBAC norms by end-2020. We will consult with IMF staff in case we are considering taking any action in the banking system that has not been included in this section.

30. Financial inclusion: As outlined in our national development strategy, we are aware of the critical importance of access to credit and financial services in supporting growth. In this area,

therefore, the government plan to implement a strategy to promote financial inclusion. This strategy would provide access to financial services and credit to small enterprises, entrepreneurs and consumers. In addition, we would endeavor to facilitate and promote the use of financial technologies (eg FinTech) and improve financial infrastructure in EG.

G. Capacity Building

31. We are implementing a capacity building agenda to support our economic reform program and we will need additional TA. During the period of the SMP, we received TA from the Fund in areas of PFM, tax administration and policy, national accounts and external-sector statistics, and organized training in macroeconomic analysis and forecasting for public officials. In October 2018, we welcomed the opening of an IMF resident representative office in Malabo. We will continue to discuss with the IMF team our TA needs to help support the timely implementation of our reform program. We have already requested resident advisors to support our plans to strengthen tax administration, PFM, and also technical assistance in other areas, including debt management, strengthening the hydrocarbon fiscal regime, introducing a more flexible system for pricing of fuel products, and increasing fiscal transparency. We anticipate that we will also need technical advice to strengthen our financial system and foster financial inclusion.

V. SAFEGUARDS ASSESSMENT

32. The 2017 Safeguards Assessment concluded that enough progress had been made by BEAC on governance reforms to end the safeguards rolling measures and replace them with a regular safeguards assessment every four years.

VI. PROGRAM MONITORING

33. The program will be monitored through semi-annual reviews, performance criteria, and structural benchmarks. Performance criteria and structural benchmarks are shown in Tables 1 and 2, respectively. The first and second reviews are tentatively planned for May 2020 and November 2020, based on quantitative targets for end-December 2019 and end-June 2020, respectively, and corresponding structural benchmarks.

Table 1. Equatorial Guinea: Quantitative Performance Criteria and Indicative Targets, 2019–20
(Billions of CFA Francs, cumulative for each quarter)

	Type of Criteria	End-Dec. 2019		End-Mar. 2020		End-Jun. 2020		End-Sept 2020		End-Dec. 2020	
		PC	IT	PC	IT	PC	IT	PC	IT	PC	IT
A. Quantitative performance criteria											
Floor on non-hydrocarbon tax revenue of the central government	PC	175		44		111		152		226	
Floor on non-hydrocarbon primary balance of the central government	PC	-861		-150		-367		-554		-723	
Ceiling on external arrears accumulation (continuous)	PC	0	0	0	0	0	0	0	0	0	0
Ceiling on contracting and guaranteeing new external debt ² ³	PC		0		39		39		39		39
Ceiling on net BEAC credit to central government ⁴	PC		413		410		362		298		239
B. Indicative Targets											
Ceiling on net accumulation of domestic arrears	IT	0	0	0	0	0	0	0	0	0	0
Ceiling on net commercial bank credit to the government	IT		-58		-58		-58		-58		-58
Floor on social spending ⁵	IT		114		35		70		105		140
Memorandum items:											
External budget support, excluding IMF			0		0		0		73		73
Hydrocarbon revenue			995		187		443		709		874
External Disbursements (project loans)			50		30		60		105		150
Social and human capital development spending			160		49		99		148		197

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

1/Quantitative Performance Criteria and Indicative targets are clearly defined in the TMU.

2/Cumulative ceiling, starting from the day of program approval (December 16, 2019).

3/Excluding all budgetary support identified in the program.

4/Excluding IMF financing.

5/As defined in the TMU. This definition is taken from the Board paper on social spending "A strategy for IMF engagement on social spending, June 2019."

<https://www.imf.org/en/Publications/Policy-Papers/Issues/2019/06/10/A-Strategy-for-IMF-Engagement-on-Social-Spending-46975>.

Table 2. Equatorial Guinea: Prior Actions and Structural Benchmarks, 2019–20

Measure	Target Date	Objective	Verification Indicators
Prior Actions			
Publish the governance diagnostic report and a governance strategy as developed in consultation with IMF staff	Five days before the Board date	Promote good governance and combat corruption	Publication of documents on the MF website
Submit a membership application to the EITI	Five days before the Board date	Increase transparency in the hydrocarbon sector	Share with the IMF the complete final folder sent to EITI; folder review by IMF technical staff
The Ministry of Finance, Economy and Planning to operationalize a system to track and control expenditure commitments (paragraph 22).	Five days before the Board date	Improve Public Financial Management and enhance budget execution	Verification by IMF staff
Submission to parliament of a 2020 budget consistent with the program targets	Five days before the Board date	Maintain fiscal discipline	Verification by IMF staff
Structural Benchmarks			
Share active oil and gas contracts with the BEAC	End-December 2019	Maintain fiscal discipline	Official transmission letter sent to BEAC
Congressional approval of legislation to implement excise taxes (paragraph 11).	End-December 2019	Increase non-hydrocarbon tax revenue and encourage tax compliance	Publication of the Law on the MF website
Congressional approval of amendments to the 2017 tax amnesty law (paragraph 12).	End-December 2019	Increase non-hydrocarbon tax revenue and encourage tax compliance	Publication of the Law on the MF website
Clear through its exchange with government bonds the domestic arrears validated through the audit (paragraph 14)	End-March 2020	Regularize all public debt, support banking sector stability	Verification by Fund staff
Congressional approval of an anti-corruption law in line with international obligations under the UNCAC	End-March 2020	Bring the domestic anti-corruption framework in line with best practices	Publication of the Law on the MFEP website

Publish the audits of GEPetrol and Sonagas on Hydrocarbon Ministry's website.	End-June 2020	Improve transparency in the hydrocarbon sector	Publication of the complete audit reports on the HM website
Set up a website for the Official Gazette and publish all laws, orders and decrees applicable in EG since 2000.	End-June 2020	Increase transparency and accountability in government	Share the website address with IMF staff; verification by IMF staff
In consultation with IMF staff, prepare a meaningful list of assets for privatization and a list of assets that will be subject to other forms of private management, and submit such lists to the Council of Ministers for approval (paragraph 18).	End-June 2020	Increase transparency and accountability in government; bolster deposits and NFAs and reduce arrears	Share lists with IMF staff
Publish a comprehensive hydrocarbon data and information report for 2019 (paragraph 25)	End-September 2020	Increase transparency in the hydrocarbon sector	Publication on the HM website; review by IMF staff
Source: IMF staff.			

Annex I. Key Policy Measures and Structural Reforms During 2019–22

A. Public Finance

Budget

- Submit to parliament a budget for 2020 that is consistent with the program's fiscal targets (prior action) and secure its approval.

Public Financial Management

- Adopt mechanisms to track and control expenditure commitments. In particular these mechanisms shall include, at a minimum, the following: (i) maintaining an accurate record of all spending commitments; (ii) ensuring full control of all spending approvals by the Minister of Finance; and (iii) documenting the key steps in the expenditure control chain, (verification of the availability of appropriations and the level of expenditure commitment, certification of delivery of good/service, approval of payment, and payment instructions), supported by internal procedures manuals. (Prior action)
- Adopt a medium-term fiscal framework to frame and strengthen budget preparation and coordination on public investment (end-December 2021).
- Establish a public accounting unit (end-December 2020).

Tax Policy and Administration

- Amend the 2017 tax amnesty law passed by parliament (structural benchmark, end-December 2019);
- Implement excise taxes on imported beverages, tobacco and vehicles as recommended by FAD (structural benchmark, end-December 2019);
- Introduce a computerized system for tax information in the tax administration drawing on the resources of the National Center for the Computerization of the Public Administration (June 2020).
- Improve tax compliance by strengthening enforcement of existing penalties for non-compliance with the tax rules (end-June 2020).
- Fully implement the provisions of Decree 134 of 2015 that specify the elimination of ad-hoc tax exemptions (end-June 2020)
- Launch a systematic program for fostering a tax-paying culture in Equatorial Guinea with the following components (end-March 2020):

- A public communication strategy;
 - Simplification of the tax system and ease of paying taxes;
 - Enforcement of sanctions for non-compliance with tax obligations.
- Rationalize the institutional structure of the DGIC and strengthen the management of large taxpayers (end-June 2020).
 - Improve corporate tax regulations for “permanent establishments” (end-December 2019).

Customs Administration

- Completely implement the ASYCUDA platform in Malabo (end-December 2019), the remainder of Bioko Island (end-March 2020), Bata (end-September 2020), and the remainder of the country (end-December 2021) to enhance capacity and governance of customs;
- Combine the implementation of ASYCUDA with a secure process for information gathering or declaration combined with a method for direct payments to the treasury (end-March 2020);
- Submit a membership application to the World Customs Organizations (WCO) (end-December 2019).

Expenditure Measures

- Establish a minimum floor for social spending (including health and education) and limit capital expenditure to realistic plans, focusing on high-priority projects (ongoing, for the program period);
- Rationalize capital spending to improve efficiency (ongoing, for the program period);
- Include all government spending in the national budget (continuous)
- Adopt a flexible domestic fuel pricing regime that ensures pass-through of international prices (during the program period). The introduction of the new scheme should be accompanied by a social safety net to protect the most vulnerable, discussions with stakeholders, and the development of a communication plan to implement the measure.
- Enforce existing legislation which gives the Ministry of Finance full control over all spending decisions (end-December 2019).

Domestic arrears

- Fully complete the audit of domestic arrears (end-December 2019).
- Clear validated arrears through securitization, with terms agreed with IMF staff (structural benchmark, end-March 2020).

Privatization

- Prepare a meaningful list of state-owned assets for privatization and submit to the Council of Ministers for approval (structural benchmark, end-June 2020).
- Design an asset-sales plan in 2020H2, under which sales would be done through open and transparent international tenders.

B. Monetary and Financial Policies

In support of regional efforts to rebuild CEMAC's reserves, ensure that:

- All public entities repatriate and surrender their forex receipts, and only keep open foreign accounts which have been authorized by BEAC¹;
- "Available" (i.e. non-encumbered) government deposits held abroad will be repatriated by end-December 2020;
- For accounts held abroad to guarantee loan payments, we will work together with BEAC and creditors to replace them (by March 2020) for BEAC accounts with creditors. In return, BEAC will keep in its balance sheet a liability with Equatorial Guinea;
- Customs strictly enforce the domiciliation of all export transactions with a resident commercial bank
- Report to BEAC all export licenses as required by foreign exchange regulation;
- All active contracts in extractive industries are shared with BEAC (structural benchmark, end-December 2019).

C. Banking sector

- Implement a strategy to recapitalize banks that have shortages of capital, reduce NPLs and improve banks' liquidity (continuous);

¹ All public entities that have foreign accounts authorized by BEAC will report regularly to the Bank the balance kept on these accounts.

- Continue to work with COBAC to strengthen bank regulation and supervision and ensure compliance with prudential and corporate governance regulation (continuous).

D. Social Policies

- Improve data on social indicators by conducting periodic surveys of household income and expenditure to collect better data on poverty and other social indicators (ongoing);
- Develop a strategic plan for guiding policy on social protection (including a safety net), reducing poverty and fostering human development (end-December 2020).

E. Business Climate/Economic Diversification Policies

- Ensure the implementation of the Road Map to improve the business climate.
- Develop a strategy for boosting non-hydrocarbon exports, including the creation of an agency to promote such exports (end-December 2020);
- Articulate the financing requirements for the revised development plan (ongoing);
- Create an investment agency to support policies to attract foreign investment in the non-hydrocarbon sector (end-June 2020);
- Implement specific measures to increase access to credit and to improve the framework for resolving insolvencies (end-December 2020).

F. Governance and Anti-corruption framework

- Publish the diagnostic report on governance and the governance strategy (prior action);
- Strengthen the management of resource-related funds by documenting their operating rules (including investment policies) as part of the general fiscal policy framework (ongoing);
- Conduct a fiscal safeguards review with technical assistance from the IMF (end-September 2020);
- Request the IMF to perform a fiscal Transparency Assessment (end-March 2020);
- Continue efforts towards strengthening the AML/CFT framework;
- ANIF to apply for Egmont membership. ANIF's membership in Egmont should enhance the international exchange of information (end-March 2020);

- ANIF to develop guidance to assist financial institutions in identifying domestic politically exposed persons (PEPs) and beneficial owners (both physical and legal persons) (end-September 2021);
- ANIF to develop and implement proper arrangements to facilitate cooperation and exchange of information between the ANIF and COBAC to improve the quality of inspections. Publication of annual reports by the ANIF (end-September 2021);
- Adopt an anti-corruption law in line with international obligations under the UNCAC (structural benchmark, end-March 2020);
- Operationalize the accounts tribunal (program period);
- Updating the existing decree on asset declarations for senior public officials in line with the law and international best practice during 2020, and aiming to implement it by June 2021.

G. Fiscal and Hydrocarbon Sector Transparency

- Submit a membership application to EITI (prior action);
- Publish a register of all SOEs including Statutes, and names of management on the government website (end-March 2020).
- Publish on the Finance Ministry's website the annual financial accounts for 2020 for all state-owned enterprises (end-June 2021) and continue with this practice yearly going forward.
- Publish on the website of the Ministry of Mines and Hydrocarbons the audit reports for the state-owned oil and gas companies and the reconciliation of oil and gas related financial flows with the government accounts (structural benchmark, end-June 2020).
- Publish on the Ministry of Finance and GE-Proyectos websites a table with all public investment projects administered by GE-Proyectos through 2019 (end-June 2020).
- Publish on the Finance Ministry's website the internal and external debts, natural resource concessions² winning construction bids awarded by GE-Proyectos, and financial obligations of the government (in line with the CEMAC Code of Transparency) for the past 3 years, and yearly going forward (end-December 2020).³

² These are three six-column tables with information on: the name of the concession holder; the mother company; the beneficial owner; the operator company; the commencement and expiry date of the concession

³ This is a seven-column table with information on: the value of the contract, the contractor parties, the amount paid out to date, the status of the project, whether an audit has been conducted and by what agency.

- Publish on the Ministry of Finance website all monthly fiscal data as well as monthly data on the hydrocarbons sector (exports, prices, production and government revenues) (continuous);
- Publish annual reports with data and information on the hydrocarbons sector, starting with a report for 2019 (structural benchmark, end-September 2020).
- Publish in a budget annex each year an estimate of the value of all exemptions granted during the previous year (starting with 2021 budget).
- Publish all oil active oil and gas contracts (end-June 2020).

H. Data Dissemination, Transparency of Information and Rule of Law

- Set up a website for each court and publish on the website for each court (judiciary) the number of serving judges and staff along with vacant positions, and for each work unit (prosecution) the number of prosecutors and staff, along with vacant positions (end-December 2020).
- Publish on the Courts' website all Supreme Court decisions and all corruption decisions, if any, and commercial decisions commencing December 2019 (end-December 2020).
- Set up a website for the Official Gazette and publish all laws, orders and decrees applicable in EG, starting with those in effect since 2000 (structural benchmark, June 2020).
- Publish on the Ministry of Finance's website, for each court, the number of corruption cases, AML/CFT cases, insolvency cases, foreclosure cases, and land cases for the past three years and every year thereafter, specifying how many have been closed, how many are pending, how many are new and how many are carried over from the previous year (end-December 2020).
- ANIF will publish an annual report on its activities, budget and resources, and main achievements. The report will include typology studies on laundering of proceeds of main corruption schemes (end-September 2021).

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 of the agreement under the Extended Fund Facility (EFF). 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 August 30, 2019, namely:

CFAF 594.3804 to USD 1;

CFAF 655.957 to EUR 1;

CFAF 83.245 to CNY 1;

CFAF 723.834 to GBP 1;

CFAF 1958.0965 to KWD 1; and

CFAF 813.315 to SDR 1.

Program exchange rates for any currency not mentioned above will be computed based on the official rates used by the Fund for August 30, 2019¹.

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 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.

¹ Published here: https://www.imf.org/external/np/fin/data/param_rms_mth.aspx

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 Non-Hydrocarbon 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),² less tax revenue from hydrocarbons.

8. **Hydrocarbon tax revenue** is defined as in Article 456.1 (on Oil and Gas Sector income tax) of the Tax Law of Equatorial Guinea, this is, 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 are 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 for Central Government Non-Hydrocarbon Primary Balance

² For 2019, a portion of non-hydrocarbon revenue (derived mainly from payments from public enterprises) will be recorded on an accrual basis. From 2020, all revenue will be recorded on a cash basis.

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 and hydrocarbon 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 from export duties; 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)).

12. Total government expenditure is defined as the sum of current expenditure on wages, goods and services, subsidies and transfers, interest payments (domestic and foreign), and capital or investment spending. All of 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 external grant for budget support to the government, the floor of the non-hydrocarbon primary balance shall be adjusted upwards by the full amount of the grant.

C. Ceiling on Net BEAC Credit to Central Government

15. Definition. Net BEAC credit to the government is defined as BEAC's gross lending to central government, less central government deposits at the BEAC as at the end of the reporting period.

16. Adjustor. The ceiling on net BEAC credit to the government shall be adjusted relative to the program target as follows:

(a) Upwards by:

- The shortfall, relative to program projections, in external program disbursements received by the central government;
- The shortfall, relative to program projections, in government bond issuances in the CEMAC zone;

(b) Downwards by:

- The excess, relative to program projections, of external program disbursements received by the central government;

- The excess, relative to program projections, in government bond issuances in the CEMAC zone;

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

D. Ceiling on Contracting or Guaranteeing New External Debt by the Central Government

18. **Definition.** For the purposes of the relevant assessment target, external debt is defined as debt borrowed or serviced in a currency other than the CFA franc. The debt expressed in foreign exchange shall be converted to CFA francs at the program exchange rate.

19. 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.

20. For purposes of this memorandum, the term **debt** is defined as follows:³

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

³ 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.

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

E. Ceiling on the Accumulation of External Arrears by the Central Government

22. Definition. External arrears are defined as any external debt obligation (as defined 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. Given that this performance measure is applied continuously, the authorities will report to IMF staff any external payment arrears immediately when they arise.

24. Coverage. This quantitative performance target covers external arrears resulting from debt contracted or guaranteed by the central government. The PC excludes arrears on external financial obligations of the government subject to debt rescheduling.

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

F. Accumulation of Domestic Arrears by the Central Government

25. Definition. Domestic arrears are defined as commitments owed to 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 definition does not include changes in domestic arrears that may arise from the ongoing audit review.

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 Commercial Bank Credit to the Government

27. Definition. Net commercial bank credit to the government is defined as the change in the government's net position vis-à-vis the local banking system since the end of the previous year, plus the net issuances of bonds (i.e., placements minus amortizations) during the current year in the sub-regional market (CEMAC). 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. Définition⁴ For program purposes, social spending is defined as the sum of central government expenditure on social programs and on spending targeted to the poor. Its goal is to support inclusive growth and protect the wellbeing of low-income households and the building of human capital, including through mitigation of vulnerabilities from adverse conditions arising from macroeconomic shocks and political economy reforms. For purposes of the EFF, social programs include health, education, and social safety nets. The definition includes the following categories: (i) social assistance to poor and vulnerable groups, such as cash transfers; (ii) basic public health assistance, including vaccination campaigns, HIV/AIDS programs, maternal and child health, assistance to low income people who are hospitalized or sick, financing of public health centers, as well as expenses to reduce noncommunicable diseases (e.g., parasites), tuberculosis, cervical cancer, malaria and other priority health needs; (iii) provision of basic education, defined as spending at the levels of preschool, primary, secondary, technical and vocational training, assistance to children in low-income households so that they can attend school, and teacher training; (iv) social security; and (v) expenses targeted to the poor in water and sanitation. The floor includes both current and capital budget items in these specific categories. Table 2 contains a detailed list of budget lines included in the definition.

I. Adjustor for Hydrocarbon Revenues

30. In the event hydrocarbon revenues are greater than expected under the program, the government shall use the difference as follows:

- 50 percent to increase its deposits at BEAC or to face payments of domestic arrears;
- 50 percent to increase social and other priority spending;

⁴ The definition is based on the IMF policy paper, *A Strategy for IMF Engagement on Social Spending*, June 2019. See <https://www.imf.org/en/Publications/Policy-Papers/Issues/2019/06/10/A-Strategy-for-IMF-Engagement-on-Social-Spending-46975>.

31. In the event hydrocarbon revenues are less than expected under the program, the government shall:

- Adjust upward the ceiling for net commercial bank credit to the government by 50 percent of the shortfall.
- Adjust upward the floor for the non-hydrocarbon primary balance by an amount equal to at least 50 percent of the shortfall. The expenditure cuts that might be needed will not affect the indicative target on social spending under the program.

IV. INFORMATION REQUIREMENTS

To facilitate the monitoring of program implementation, the government of Equatorial Guinea will prepare and send by email to the IMF data for the items that are shown in table 1 within 45 days after the end of the month.

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.
Government deposits at the BEAC.	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 in hydrocarbons sector 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.

Table 1. Reporting to the IMF

Data	Provided by	Frequency and target date
III. Domestic Debt		
Stock of domestic debt by category.	MFEP	Monthly, within 45 days from the end of the month.
Disbursements, bond issuances and services of domestic debt (interest and principal) by category.	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.

Table 2. Social Spending Categories

CONCEPT	BENEFICIARIES
EDUCATION	
INFRASTRUCTURE SUBSECTOR	
SCHOOLS AND TECHNICAL INSTITUTES	CONSTRUCTION AND URBANIZATION, FURNITURE, EQUIPMENT, AND MANAGEMENT OF THE FISHING TRAINING CENTER (BATA)
SCHOOLS AND TECHNICAL INSTITUTES	PAYMENT OF THE MONDONG BATA PUBLIC SCHOOL REHABILITATION AND CONDITIONING PROJECT
SCHOOLS OF TECHNICAL INSTITUTES	SCHOOL FURNITURE FOR THE NEW CENTER OF THE MONDONG NEIGHBORHOOD OF THE CITY OF BATA
SCHOOLS AND TECHNICAL INSTITUTES	FURNITURE AND COMPUTER EQUIPMENT OF 11 INTEGRATED CENTERS MORE THE 55 HOUSING FURNITURE FOR TEACHERS
SCHOOLS AND TECHNICAL INSTITUTES	Supply of informative material from 10 educational centers, 6 integrated centers and 5 secondary centers
NEW URBAN DISTRICTS	CONSTRUCTION OF 52 PUBLIC SCHOOLS IN THE NEW URBAN DISTRICTS
SCHOOLS	REHABILITATION OF SCHOOL CENTERS
EDUCATIONAL POLICIES	
PRODEGE	NATIONAL ENVIRONMENT EDUCATION PROJECT (INCLUDES TRAINER TRAINING, CURRICULUM DEVELOPMENT, SCHOOL MAP, ETC)
UNESCO	START OF THE WORK OF THE EDUCATIONAL PROGRAM AND OPENING OF A UNESCO ANTENNA
GRANTS TO EDUCATIONAL CENTERS	
SCHOOLS AND TECHNICAL INSTITUTES	TECHNICAL SCHOOL IN MALABO AND BATA IN VARIOUS AREAS (ELECTICITY, KITCHEN, HOSPITALITY, CARPENTRY, METALMECHANICS, ETC)
SCHOOLS AND TECHNICAL INSTITUTES	AGRICULTURAL TRAINING AND TRAINING SCHOOL
SCHOOLS AND TECHNICAL INSTITUTES	TECHNICAL SCHOOL TRAINING IN TELECOMMUNICATIONS
SCHOOLS AND TECHNICAL INSTITUTES	TECHNICAL SCHOOL FOR STUDIES IN MINES AND HYDROCARBONS
SCHOOLS AND TECHNICAL INSTITUTES	TECHNICAL SCHOOL FOR TRAINING JUDGES
SCHOOLS AND TECHNICAL INSTITUTES	TECHNICAL SCHOOL FOR TRAINING IN MANAGEMENT AND PUBLIC ADMINISTRATION
SCHOOLS AND TECHNICAL INSTITUTES	TRAINING (TEACHERS)
TEACHERS, TECHNICAL ASSISTANCE FOR TRAINING OF TRAINERS	
SALARY TEACHERS MINISTRY OF EDUCATION	TOTAL SALARY OF TEACHERS MINISTRY EDUCATION
AFDB PROJECT	MEDIUM AND SUPERIOR TABLES TRAINING
TRAINING	TRAINING IN VARIOUS MEDICAL SPECIALTIES IN SENEGAL
CUBAN TEAM TECHNICAL ASSISTANCE OF TEACHERS	TRAINING (TEACHERS) OF THE EDUCATIONAL TEAM IN THE NATIONAL FIELD
CUBAN TEAM TECHNICAL ASSISTANCE OF TEACHERS	CUBAN TEACHERS TEAM IN ANOBON
CUBAN TEAM TECHNICAL ASSISTANCE OF TEACHERS	11 TRAINING DOCTORS AT THE UNGE'S FACULTY OF MEDICINE IN BATA
CUBAN TEAM TECHNICAL ASSISTANCE OF TEACHERS	7 CUBAN TEACHERS AT UNGE MALABO VARIOUS FACULTIES
OTHER EXPENSES IN THE EDUCATION SECTOR	
SUBSIDIES	SCHOOL TEAM FOR STUDENTS FROM ALL GE CENTERS
SUBSIDIES	SCHOOL TRANSPORTATION
SCHOOLS	CAMAREMI-MALABO INTEGRAL SCHOOL CENTER
EDUCATIONAL EQUIPMENT AND MATERIAL	MONGOMO INTEGRATED CENTER
EDUCATIONAL EQUIPMENT AND MATERIAL	ACACIO MAÑE ELA SCHOOL
EDUCATIONAL EQUIPMENT AND MATERIAL	RIABA-LUBA (3 SCHOOLS)
EDUCATIONAL EQUIPMENT AND MATERIAL	SCHOOL UGANDA-INES, PRESCOLAR-JUZGADO MBINI
EDUCATIONAL EQUIPMENT AND MATERIAL	MONGOMO SCHOOL CENTER
EDUCATIONAL EQUIPMENT AND MATERIAL	HEALTH CENTER - GHANDI REBOLA COLLEGE
EDUCATIONAL EQUIPMENT AND MATERIAL	BIKUY'S FRIENDSHIP SCHOOL
EDUCATIONAL EQUIPMENT AND MATERIAL	PAPA BACOMBA SCHOOL
GRANT	CHILD REEDUCATION CENTER
GRANT	PROTECTION AND EDUCATION POLICIES FOR THE ECuatoguinean CHILD

Table 2. Social Spending Categories (concluded)

CONCEPT	BENEFICIARIES
SOCIAL EXPENDITURE IN THE HEALTH SECTOR	
HEALTH PERSONAL SALARY MASS	
MIN HEALTH MEDICAL STAFF	HEALTH PERSONAL TOTAL SALARY
CUBAN BRIEF TECHNICAL ASSISTANCE OF DOCTORS	CUBAN MEDICAL TEAM IN THE NATIONAL TERRITORY
SUBSIDY TO HEALTH CENTERS	
GRANT TO HOSPITALS AND HEALTH CENTERS IN THE NATIONAL FIELD	HEALTH SUPPORT FOR HOSPITALS IN MALABO
GRANT TO HOSPITALS AND HEALTH CENTERS IN THE NATIONAL FIELD	HEALTH SUPPORT FOR HOSPITALS IN BATA
GRANT TO HOSPITALS AND HEALTH CENTERS IN THE NATIONAL FIELD	SANBRE MALABO Y BATA TRANSFER CENTER
GRANT TO HOSPITALS AND HEALTH CENTERS IN THE NATIONAL FIELD	HEALTH SUPPORT FOR HOSPITALS IN CONTINENTAL REGION
GRANT TO HOSPITALS AND HEALTH CENTERS IN THE NATIONAL FIELD	SUBSIDIES FOR PATIENT CARE IN SAMPKA PSYCHIATRIC CENTER
GRANT TO HOSPITALS AND HEALTH CENTERS IN THE NATIONAL FIELD	HEALTH SUPPORT FOR OTHER BASIC CARE CENTERS
SUBSIDIES FOR SPECIALIZED MEDICAL TREATMENTS	
SUBSIDIES AND BENEFITS	ECONOMIC SUPPORTS FOR MEDICAL ASSESSMENT OF PATIENTS
SUBSIDIES FOR PURCHASE OF EQUIPMENT AND OTHER MEDICAL EQUIPMENT IN HEALTH CENTERS	
SUPPORT FOR SANITARY MATERIAL	BUY PHILIPS BRILLANCE CT G4 SCANNER WITH ACCESSORIES FOR BATA MEDICAL CENTER
SUPPORT FOR SANITARY MATERIAL	ACQUISITION OF MATERIALS AND HEALTH EQUIPMENT FOR LA PAZ DE BATA MEDICAL CENTER FOR EMERGENCY SERVICES, NEONATOLOGIES HOSPITAL PEDIATRIA, UCI AND LABORATORIES
SUPPORT FOR SANITARY MATERIAL	PURCHASE PAYMENT OF 5 GENEXERT DRESSERS FOR DIAGNOSIS OF MULTIDROGORESISTENT TUBERCULOSIS
SUPPORT FOR SANITARY MATERIAL	MALABO HOSPITAL HEALTH SUPPORT
SUPPORT FOR SANITARY MATERIAL	BATA HOSPITAL
SUPPORT FOR SANITARY MATERIAL	MALABO HOSPITAL
SUPPORT FOR SANITARY MATERIAL	MALABO HOSPITAL
SUPPORT FOR SANITARY MATERIAL	AKURENAM HOSPITAL
SUPPORT FOR SANITARY MATERIAL	AKONIBE HOSPITAL
SUPPORT FOR SANITARY MATERIAL	NSOK NSOMO HOSPITAL
SUPPORT FOR SANITARY MATERIAL	EVINAYONG HOSPITAL
SUPPORT FOR SANITARY MATERIAL	HOSPITAL MICOESENK
SUPPORT FOR SANITARY MATERIAL	NIEFANG HOSPITAL
SUPPORT FOR SANITARY MATERIAL	NSORK HOSPITAL
SUPPORT FOR SANITARY MATERIAL	KOGO HOSPITAL
SUPPORT FOR SANITARY MATERIAL	RIABA HOSPITAL
SUPPORT FOR SANITARY MATERIAL	BITIC HEALTH CENTER
HOSPITAL INFRASTRUCTURE	
HOSPITAL INFRASTRUCTURES	URBANIZATION AND EQUIPMENT HOSPITAL POLICLINICO IN OYALA
NEW URBAN DISTRICTS	CONSTRUCTION OF 52 HEALTH CENTERS IN THE NEW URBAN DISTRICTS
HOSPITAL INFRASTRUCTURES	Construction and equipment of 1 Health Center on Annobon Island including housing for Physicians
HOSPITAL INFRASTRUCTURES	INSTALLATION OF GYNECOLOGICAL UNIT AND ASSISTED REPRODUCTION IN OYALA
HOSPITAL INFRASTRUCTURES	PAYMENTS FOR THE REINFORCEMENT OF HEALTH INFRASTRUCTURES IN THE NATIONAL FIELD
DRUGS PURCHASE	
COMPARISON OF MEDICATIONS	RETROVIRAL MEDICINES
DRUG PURCHASE	SUPPLY OF MEDICINES FOR THE MALABO PUBLIC HOSPITAL
OTHER EXPENSES IN THE HEALTH SECTOR	
GRANT	SUPPORT FOR THE BLIND INSTITUTE
TRAINING OF TRAINERS	TRAINING IN HEALTH HABITS
GRANT	SUPPORT FOR THE SICK OF THE LEPROSIA OF MICOESENK
WELFARE AND SOCIAL PROTECTION	
GRANT	DAYCARE CENTER
TRAINING AND TRAINING OF MOTHERS FAMILY HEAD	
TRAINING OF TRAINERS	TRAINING AND AWARENESS IN NEW SOCIAL AWARENESS TECHNIQUES TO TRAINERS
TRAINING OF TRAINERS	UNICEF - TRAINING OF TRAINERS IN SUPPORT OF THE SOCIAL PROTECTION SYSTEM
TRAINING OF TRAINERS	SUPPORT AND TRAINING FOR FINANCIAL INCLUSION TO FARMING MOTHERS
BASIC WATER AND SANITATION	
NEW URBAN DISTRICTS	CONSTRUCTION OF DRINKING WATER TREATMENT PLANTS AND BASIC SANITATION IN THE 52 NEW URBAN DISTRICTS

Statement by Mr. Mohamed-Lemine Raghani, Executive Director for Equatorial Guinea, Mr. Facinet Sylla, Alternate Executive Director, and Mr. Eustaquiano Ondo Bile, Advisor to the Executive Director

December 18, 2019

1. We would like to express our gratitude to Executive Directors and Management, on behalf of our authorities, for the continued Fund's support to Equatorial Guinea in its efforts to stabilize the economy after being severely hit by the 2014 oil price shock. We also extend our appreciation to the staff for the policy advice and fruitful discussions held in Malabo and Washington DC during the second and last review of the 2018–19 Staff-Monitored Program (SMP).
2. The sharp drop in oil prices and the declining hydrocarbon output complicated the implementation of the authorities' ambitious development plan, Horizonte 2020. In response to those two shocks, the authorities implemented a strong fiscal consolidation program. However, they recognize that further reforms are required to ensure fiscal sustainability and boost sustainable and inclusive growth. Building on the significant progress made under the 2018–19 staff monitored program (SMP), including structural reforms, and on the priorities identified during the Third National Economic Conference of Equatorial Guinea held in April–May 2019, they are committed to improve macroeconomic and financial stability while supporting the CEMAC regional strategy agreed upon in 2016 to enhance internal and external stability of the union.
3. The authorities are requesting a three-year arrangement under the Extended Fund Facility (EFF) to support the implementation of their program of economic and financial policies. This program aims at: (i) further reducing macroeconomic imbalances, (ii) strengthening social protection, mitigating the impact of reforms on the poor and vulnerable, and supporting human capital development; (iii) addressing financial sector vulnerabilities; (iv) promoting economic diversification; and (v) fostering good governance and transparency. The authorities are confident that the arrangement will help catalyze additional external resources and contribute to rebuilding CEMAC regional reserves.

RECENT DEVELOPMENTS AND PERFORMANCE UNDER THE SMP

Recent Economic Developments

4. Macroeconomic performance is showing signs of improvement amid a challenging environment. While real GDP is projected to contract by 5.9 percent of GDP in 2019, reflecting a decline in hydrocarbon output, the non-hydrocarbon activity has stabilized following several years of decline. Inflation (y-o-y) is expected to reach 0.9 percent in 2019 from 1.3 percent in

2018, below the CEMAC convergence threshold of 3 percent. The overall fiscal balance has turned positive in 2018 attaining 0.5 percent of GDP. The surplus reflected both increased hydrocarbon revenue and a stronger non-hydrocarbon primary balance. Fiscal balance has continued to strengthen in 2019. On the external front, the current account deficit narrowed to 5.4 percent of GDP in 2018, compared to 5.8 percent registered the previous year, owing to positive developments in the oil sector and import compression from fiscal consolidation. The latter effort, along with the repatriation of deposits held abroad, also contributed to the recovery of Equatorial Guinea's imputed net financial assets at the central bank.

Performance Under the SMP

5. The SMP performance was overall satisfactory. All quantitative performance measures (PMs), except one, and indicative targets (ITs) at end-July 2018 were met. The PM on the non-hydrocarbon primary balance (NHPB) of the central government was missed due to capital expenditures in the first half of 2018. It is also worth noting that no new external arrears were accumulated during the period under review.

6. Progress has been made on advancing structural reforms albeit at a slower-than-anticipated pace. Three out of the five structural benchmarks (SBs) were implemented on time. These three SBs are the ratification by Congress of the UN convention against corruption in May 2018, the selection of a reputable firm to audit the state-owned oil and gas companies (Gepetrol and Sonagas) and the selection of an independent entity to audit domestic arrears. The remaining two benchmarks, on submitting a membership application to the Extractive Industries Transparency Initiative (EITI) and implementing a system to track and control expenditure commitments and bolster treasury management, were not met during the period under review but have since been implemented as prior actions to a Fund-supported program.

OUTLOOK AND RISKS

7. The growth prospects are improving on the back of medium-sized hydrocarbon projects for late 2019 onwards. This, coupled with the authorities' continued fiscal consolidation under the program, would help narrow the external current account deficit. The gradual revival of the non-hydrocarbon sector will also support the outlook.

8. The authorities share staff's assessment that risks to the outlook are broadly balanced. On the upside, private sector activity could benefit from higher oil prices while hydrocarbon output growth could be strengthened by the new projects aforementioned. On the downside, they recognize risks related to the health of the financial sector, capacity constraints and governance issues. To minimize these risks, the authorities will step up their fiscal consolidation efforts; address the financial sector vulnerabilities, in coordination with the regional supervisory body (COBAC); and enhance governance through the implementation of their Good Governance and Anti-Corruption Action Plan. They also continue to value capacity development assistance provided by the Fund and other development partners.

FISCAL POLICY AND REFORMS

9. The authorities target a non-hydrocarbon primary deficit—the main anchor of their quantitative program—of less than 5.0 percent of GDP by 2024 against 14.4 percent in 2018 and 37.0 percent in 2015. They will build on steps recently adopted to improve tax administration, modernize the public financial management (PFM) framework, and increase transparency, with a view to raising significantly revenues. In this vein, as early as 2020, the government is determined to implement a Parliament-approved budget consistent with the EFF’s objectives. The government believes that the measures outlined in their Memorandum of Economic and Financial Policies (MEFP) will be adequate to achieve their targets. However, it stands ready to take additional actions to meet the targets if needed.

10. The government’s fiscal reform agenda is mainly geared towards overhauling the tax system, which aims at achieving efficient, broad-based and equitable taxes. In this regard, the authorities plan to reform the old 2004 Tax Code by harmonizing taxes with the rest of the CEMAC region, streamlining deductions and adjusting other rates to more efficient levels. Additional measures will include the adoption by end-December 2019 of new excise taxes on imported beverages, tobacco, vehicles and other products. Likewise, they will maintain a higher personal income tax rate for non-residents, which was introduced at the beginning of 2019. On the expenditure side, more will be required to streamline capital outlays and gradually reduce fuel subsidies while increasing social spending.

11. Fiscal consolidation efforts over the medium term will help reinforce fiscal and debt sustainability, with the public debt-to-GDP ratio projected to decline gradually from about 46 percent of GDP to 44 percent over the period 2019–22, and to reach 38 percent by 2024.

FINANCIAL SECTOR POLICY

12. Building on the progress achieved thus far, the authorities will continue to implement measures to address the remaining vulnerabilities in the financial sector. To support this goal, they are implementing a strategy aimed at clearing the important arrears to construction companies and recapitalizing troubled banks while ensuring compliance with COBAC prudential regulations and governance norms. These steps will be instrumental in strengthening banks’ balance sheets and reducing the level of non-performing loans (NPLs).

13. The authorities are mindful of the need to deepen financial inclusion as part of their strategy to stimulate an inclusive growth. In this regard, they will facilitate greater access to lending by small enterprises and entrepreneurs. They are also considering the use financial technologies (FinTech) to develop financial infrastructure. Further to this, the authorities have identified a number of financial sector reforms, including (i) putting in place a mechanism for resolving insolvencies in line with the Organization for the Harmonization of Commercial Law in Africa (OHADA); and (ii) elaborating a regional uniform credit information law.

SUPPORT TO REGIONAL STRATEGY

14. The government of Equatorial Guinea remains committed to contributing to the success of the regional strategy to rebuild CEMAC's reserves and enhance the region's internal and external stability. In this view, steps will be taken to promote more rigorous compliance with the regional foreign exchange regulations, notably on repatriation by public entities of forex receipts and deposits held abroad, enforcing the domiciliation of export transactions with a resident commercial bank and ensuring that oil and gas contracts are shared with BEAC. Fiscal consolidation is also an integral part of regional efforts to accumulate net foreign assets (NFAs).

STRUCTURAL REFORMS

15. The authorities are stepping up their actions to promote economic diversification and boost non-hydrocarbon growth in the context of the Third National Economic Conference, with the support of the World Bank and other development partners. A key pillar of the authorities' revised strategy is the integration of the Sustainable Development Goals and environmental considerations.

16. Efforts are ongoing to ameliorate the business environment, building on the progress made in the context of the SMP. They have amended the foreign investment law by eliminating the requirement to have a local partner in the non-hydrocarbon sector and created and operationalized a one-stop shop for establishing a company in Equatorial Guinea. In addition, in March 2019 the authorities launched an action plan for improving the business climate, based on business climate diagnostic studies prepared separately by the World Bank and the Singapore Corporation Enterprise.

17. The authorities of Equatorial Guinea are mindful that advancing good governance and transparency and fighting corruption are essential prerequisites for fostering strong and inclusive growth. They are cognizant of the concerns that existing gaps in the country's institutional frameworks and human capacities can raise with development partners. In this regard, they reiterate their intention to implement steadfastly their Good Governance and Anti-Corruption Action Plan which contains, among others, measures to strengthen institutions, reduce legal uncertainties and reinforce the AML/CFT framework.

18. As a token for their strong commitment to governance reforms, the authorities stand ready to accelerate the pace of reforms agreed with Fund staff by bringing forward key measures set forth in their MEFP. First, they now plan to update the decree on asset declaration for senior public officials immediately following the enactment of the new anti-corruption law, with a view to starting the implementation of the decree in the second half of 2020. Second, the authorities intend to make Equatorial Guinea a member of the Extractive Industries Transparency Initiative (EITI) as swiftly as possible by taking all the necessary post-application actions to this end. Third, alongside the EITI process, the authorities will continue to implement the transparency measures laid out in the MEFP, notably the publication of all active oil and gas contracts (now planned to start in the first quarter of 2020), the publication of the audit of

GEPetrol and Sonagas (June 2020), and the publication of a report including the reconciliation of hydrocarbon revenue data (September 2020). Fourth, the authorities envision to request Fund's FAD to advance the fiscal safeguard review (FSR) to the first half of 2020, with a view to taking earlier actions to strengthen fiscal monitoring, buttress procedures for control and audits in public financial management and ensure that public funds are used properly.

19. The authorities will continue to strengthen the AML/CFT framework. In this regard, they will transpose CEMAC directives in this area. Furthermore, the National Agency for Financial Investigations (ANIF) has been mandated to develop guidance to assist financial institutions in identifying politically-exposed persons and beneficial owners.

CONCLUSION

20. Our Equato-Guinean authorities have made good progress in implementing the SMP and are committed to pursue key policies and reforms under a new EFF-supported program. They will sustain their efforts to buttress the fiscal position, improve governance and protect the most vulnerable population from the negative impact of fiscal adjustment. In view of the satisfactory SMP performance, the prior actions completed by the authorities, and their strong commitment to implement sound macroeconomic policies and reforms, we seek Directors' support to their request for a Fund Arrangement under the EFF.