IMF Country Report No. 24 /245

REPUBLIC OF EQUATORIAL GUINEA

STAFF-MONITORED PROGRAM—PRESS RELEASE; AND STAFF REPORT

July 2024

In the context of the Staff-Monitored Program, the following document has been released and is included in this package:

- A **Press release**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's information, following discussions that ended on April 17, 2024, with the officials of Republic of Equatorial Guinea on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 1, 2024

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IMF Management Approves a Staff Monitored Program for Equatorial Guinea

FOR IMMEDIATE RELEASE

Staff Monitored Programs (SMPs) are informal agreements between national authorities and IMF staff to monitor the authorities' economic program. As such, they do not entail endorsement by the IMF Executive Board. SMP staff reports are issued to the Board for information.

- *Management of the International Monetary Fund has approved a 12-month Staff Monitored Program (SMP) for Equatorial Guinea that aims to deliver stronger, sustainable, and more inclusive private sector-led growth.*
- *Key pillars of the SMP are reinforcing fiscal sustainability, restoring the soundness of the banking sector, implementing structural reforms to facilitate economic diversification, improving social outcomes, and promoting better governance.*
- *Successful implementation of reforms underlying the SMP will help the authorities establish a requisite policy implementation track record for a potential Fund financing arrangement.*

Washington, DC – July [17], 2024: Management of the International Monetary Fund (IMF) approved a 12-month non-financing Staff Monitored Program (SMP) for Equatorial Guinea on June 24, 2024.

Hydrocarbon production in Equatorial Guinea has fallen 56 percent since its peak in 2008 and is expected to fall a further 32 percent by 2029. Driven by a contraction in hydrocarbon production, Equatorial Guinea re-entered recession in 2023, with real GDP estimated to have contracted by 5.8 percent. The persistent decline in hydrocarbon production has put Equatorial Guinea's fiscal and external accounts under strain. The economy is expected to stagnate in the medium term, reinforcing the urgent need for economic diversification.

The objective of the SMP with Equatorial Guinea is to deliver stronger, sustainable, and more inclusive growth in the face of a contracting hydrocarbon sector. The key pillars of the SMP supporting this objective are ensuring fiscal sustainability, restoring the soundness of the banking sector, undertaking structural reforms to facilitate economic diversification, improving social outcomes, and promoting better governance.

To ensure fiscal sustainability, the authorities are targeting fiscal adjustment in 2024 and 2025 that is consistent with safeguarding public debt sustainability in the medium term. This adjustment is expected to be underpinned by phasing out fuel subsidies, rationalizing capital expenditure, and improving domestic revenue mobilization. Despite the adjustment, the authorities will prioritize social spending to improve social outcomes. They aim to increase current social spending, especially for healthcare and education.

To restore the soundness of the banking sector, the authorities are preparing a plan for clearing domestic arrears, including those to the banking sector, and will take steps to ensure the health of a systemic public bank. Structural reforms planned to facilitate economic diversification include improving the quality and cost of internet access.

The authorities have committed to a broad range of important reforms to promote better governance. They will approve implementing regulation for the anti-corruption commission, enabling the commission to begin carrying out its mandate, including overseeing the asset declaration regime. To foster transparency, the authorities will publish extractive sector contracts and expenditure audits. They will also prepare a national AML/CFT strategy to reinforce confidence in the financial system.

The SMP is designed to support the authorities' implementation of their home-grown reform strategy. Its successful implementation will help Equatorial Guinea rebuild a track record of policy implementation as a steppingstone to a potential Fund-supported financing arrangement.

REPUBLIC OF EQUATORIAL GUINEA

STAFF-MONITORED PROGRAM

July 1, 2024

EXECUTIVE SUMMARY

Context. A decade of steady decline in hydrocarbon production has put Equatorial Guinea's fiscal and external accounts under strain and brought the need for economic diversification to the fore. An Extended Fund Facility (EFF) arrangement (approved in 2019) expired in December 2022 without the completion of a single review.

Staff Monitored Program. The authorities requested a Staff-Monitored Program (SMP) to establish a requisite reform track record for a financing arrangement with the International Monetary Fund (IMF). The SMP will cover 12 months from the date of IMF Management's approval.

Outlook and risks. The economy is projected to broadly stagnate in the medium term as hydrocarbon production declines. The envisaged fiscal adjustment should ensure that public debt stabilizes below 40 percent of GDP. The main downside risks to the outlook stem from lower hydrocarbon production and slower implementation of key reforms, as well as lower hydrocarbon prices.

Program objectives and policies. The overarching objective of the authorities' program is delivering stronger, sustainable, and more inclusive private sector-led growth in the face of a contracting hydrocarbon sector. The key pillars of their reform strategy are (i) ensuring fiscal sustainability; (ii) restoring the soundness of the banking sector; (iii) structural reforms to facilitate economic diversification; (iv) improving social outcomes; and (v) promoting governance and fighting corruption. Reform efforts during the SMP will focus on substantial fiscal consolidation supported by fiscal structural reforms, additional actions to ensure the health of a systemic public bank, and diversification policies centered on improving access to internet and boosting the agricultural sector. The authorities will also operationalize the anticorruption commission and subsequently publish asset declarations of senior public officials as well as boost transparency in the hydrocarbon sector.

Approved By
Vitaliy Kramarenko (AFR) and Jarkko Turunen (SPR)

Discussions were held in Malabo on April 1–12, 2024, and in Washington, DC, on April 15–17, 2024. The staff team comprised Mr. Ricka (head), Ms. Fraser, Mr. Naitram and Ms. Reyes (all AFR), Mr. Bird (FAD), Mr. Florián (SPR), Mr. Marques (MCM), Ms. Shi (Resident Representative) and Mr. Miko Nzang (local economist). The mission held discussions with Minister of Finance and Budgets Mbo Nchama, Minister of Planning and Economic Diversification Mbega Obiang, Minister of Mines and Hydrocarbons Oburo Ondo, Minister of Health and Social Welfare Ondo'o Ayekaba, Delegate Minister of Treasury and State Heritage Obono Angue, National BEAC Director Andeme Obiang and other senior government officials.

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CONTEXT

1. Continued decline in oil production is exacerbating macroeconomic challenges facing Equatorial Guinea. Hydrocarbon production, which represents 42 percent of the country's output, has already fallen by 56 percent since its peak in 2008 and is expected to drop by an additional 32 percent by 2029. The decline is putting severe pressure on fiscal and external balances and fueling difficulties in the financial sector, with only a brief respite due to higher hydrocarbon prices in 2022. The COVID pandemic, the 7M[1] Bata explosion, and the Russian war in Ukraine further stressed the economy. The country's high import dependence and limited provision of healthcare amplified the effects of these three shocks, particularly for the most vulnerable. In response to the first two shocks, the Fund provided Equatorial Guinea with SDR 47.25 million (30 percent of quota) support in 2021 through the Rapid Financing Instrument (RFI).

2. The authorities recognize the urgent need for an appropriate policy response to these structural headwinds. While the authorities developed a reform agenda under an Extended Fund Facility (EFF) arrangement approved in 2019, implementation of this plan encountered significant difficulties and the arrangement lapsed at end-2022 without any reviews completed. However, they stepped up their reform efforts once the impact of the COVID pandemic and the Bata explosion abated and allowed them to refocus on economic policy measures. The authorities' main objective is to diversify the economy towards private sector-led non-hydrocarbon growth to generate more inclusive prosperity and counter the pressure on fiscal and external balances caused by the secular decline in hydrocarbon production.

3. The Staff Monitored Program (SMP) is an opportunity for the authorities to buttress their reform credentials. They requested a financing program from the International Monetary Fund (IMF) and are first engaging through an SMP to rebuild the requisite reform track record, as they focus on key measures across fiscal management, transparency and governance, and financial sector stability. The SMP is designed to support the authorities in the implementation of their home-grown reforms. This feature is key to deliver the strong ownership needed for a successful program.

RECENT DEVELOPMENTS

4. Equatorial Guinea is estimated to have returned into a recession driven by an oil output contraction in 2023 following a brief respite in 2022.

After experiencing growth of 3.7 percent in 2022, as high energy prices temporarily boosted hydrocarbon production, Equatorial Guinea re-entered recession in 2023, with real GDP estimated to have contracted by 5.8 percent. While growth momentum continued in the non-hydrocarbon sector,

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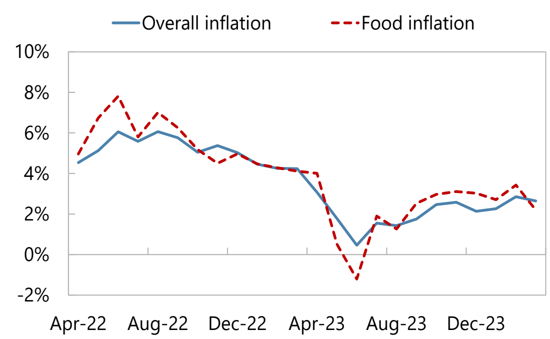
[1] 7M refers to the March 7th, 2021, accidental explosions in a military warehouse in the city of Bata, the largest city in the country. Initial direct losses from the accident amounted to 2.5 percent of GDP with authorities estimating a larger reach through indirect effects (2021 RFI).

hydrocarbon real GDP collapsed by 15.4 percent in 2023 due to the permanent dismantling of a production platform in the Zafiro field.

- In March 2024, year-on-year inflation slowed to 2.6 percent (against 4.2 percent in March 2023), in line with the decline in year-on-year food inflation to 2.2 percent in March 2024, down from 4.1 percent in March 2023. The latter was the result of a global decline in international food prices and the authorities' interventions to increase food supply.[2]

- The overall fiscal surplus fell from 11.9 percent of GDP in 2022 to 2.5 percent of GDP in 2023 on account of lower hydrocarbon revenue and higher current and capital expenditure. The latter was mainly due to the restart of stalled health and education projects. The non-hydrocarbon primary balance (NHPB) also deteriorated from -21.5 percent of non-hydrocarbon GDP (NHGDP) in 2022 to – 24.3 in 2023.

Figure 1. Overall and Food Inflation
(Percent, YoY)



Sources: Equatoguinean authorities and IMF staff calculations

- The decline in hydrocarbon production and exports in 2023—amplified by a fall in global energy prices—led to a deterioration in the current account, shifting from a surplus of 2.1 percent of GDP in 2022 to a deficit of - 0.7 percent of GDP. Additionally, FDI decreased to 1.2 percent of GDP in 2023 from 10.3 percent in 2022, primarily due to reduced reinvestment of earnings on direct investment. Despite the worsened trade and FDI outturns, the country still recorded a slight foreign reserve accumulation in 2023. Equatorial Guinea's external position remained significantly weaker than implied by medium-term fundamentals and desirable policies.

5. The banking sector remains under stress but shows signs of improvement. At end-December 2023, non-performing loans (NPLs) were 31 percent of total loans due to remaining domestic arrears, down from 55 percent a year earlier. A number of banks remain undercapitalized. Liquidity ratios have shown consistent and increasing improvements since 2022 due to an increase in government deposits and recent support by the government to a systemic bank that had earlier been structurally dependent on liquidity provision from the BEAC.

[2] An example of the authorities' interventions to increase domestic food supply is an agreement with Serbia on food imports.

OUTLOOK AND RISKS

6. Despite positive growth being projected for this year, the economy is expected to broadly stagnate in the medium-term as hydrocarbon production declines. Projections point to a growth rebound in 2024 to 5.1 percent, driven by strong hydrocarbon growth of 6.4 percent due to the operationalization of a new natural gas field. Medium-term projections indicate average growth of 0.1 percent per year from 2024 to 2029. Over the medium-term the NHPB is set to stabilize around -18.6 percent of NHGDP, while the current account deficit would rise to almost 4 percent of GDP. Debt is projected to temporarily decline as a share of GDP from 2024 to 2027 before returning closer to the end-2023 levels by end-2029 at 37.8 percent of GDP.[3] With successive projected current account deficits and significant decline in hydrocarbon sector FDI, the country's negative overall external balance would represent a drain on BEAC's reserves, effectively offsetting most of its substantial 2022 contribution by 2029.

7. The balance of risks to the medium-term outlook is tilted to the downside. More accelerated depletion of hydrocarbon reserves, and possible delays in addressing banking sector weaknesses and implementing key policy reforms could worsen the economic outlook, the fiscal and external balances, and sharply increase public debt. Global downside risks include lower hydrocarbon prices and another food price shock. Given the importance of the resource economy, lower hydrocarbon output can spill over to the non-hydrocarbon sector as well, potentially necessitating an adjustment in fiscal expenditures to compensate for a shortfall in non-hydrocarbon revenue. On the upside, stronger implementation of structural reforms than assumed in the baseline can help attenuate the continued stagnation due to the contraction of hydrocarbon production.

PROGRAM OBJECTIVES AND POLICIES

8. A 12-month SMP is a steppingstone towards key pillars of a reform strategy to deliver stronger, sustainable, and more inclusive private sector-led growth: (i) ensuring fiscal sustainability; (ii) restoring the soundness of the banking sector; (iii) fostering non-hydrocarbon growth and improving social outcomes; and (iv) promoting governance and fighting corruption.

A. Ensuring Fiscal Sustainability and Resource Mobilization

9. Consolidation of public finances is needed to safeguard public debt sustainability in the face of continued decline in hydrocarbon production. Fiscal policy should operationally target the nonhydrocarbon primary balance (NHPB) to avoid procyclicality. Gradual improvements in the NHPB need to compensate for permanently lower fiscal revenues from the hydrocarbon sector. Sufficient fiscal adjustment will require a combination of mobilizing nonhydrocarbon revenue and rationalization of expenditure that would also create space for additional social spending.

[3] The projected debt path is marginally lower than at the 2023 Article IV Consultation, and the overall assessment of debt sustainability remains in line with that publication (IMF Country Report No. 2024/025).

10. The authorities are targeting an adjustment to the NHPB of 3.1 percentage points of NHGDP in 2024. Two thirds of the adjustment rely on compression of non-hydrocarbon capital expenditure. The remainder will be delivered by restraint in current nonhydrocarbon expenditure, notably on goods and services, which will revert closer to its 2021–22 level as a share of NHGDP after a one-off spike in 2023. This can be achieved by maintaining goods and services spending broadly constant in nominal terms, focusing on savings on services, such as real estate rentals, maintenance, and financial services, while protecting social expenditure (see section D). This adjustment is modestly lower than that envisioned when the 2024 budget was approved (3.8 percentage points of NHGDP), driven mainly by a later implementation of the new tax law, now only expected in 2025, and a more gradual pace of fuel subsidy removal. An even slower-than-projected phasing out of fuel subsidies in 2024 would necessitate additional adjustment in spending on goods and services or in capital expenditures to deliver on the targeted fiscal adjustment. Any such further reduction in public investment would protect essential projects and maintain spending efficiency. The program will set fiscal **quantitative targets** on the floor on both the NHPB and nonhydrocarbon revenue to monitor fiscal adjustment in 2024.

Text Table 1. Equatorial Guinea: Summary of Fiscal Path

(Percent of non-hydrocarbon GDP, unless otherwise specified)

	2023	2024	2025
		Staff Projections	
Hydrocarbon revenue	**29.9**	**28.6**	**24.0**
Non-hydrocarbon primary revenue	**4.5**	**4.4**	**4.8**
of which, non-hydrocarbon tax revenue	3.1	3.1	3.6
Hydrocarbon expenditure	**0.2**	**1.4**	**1.3**
Non-hydrocarbon primary expenditure	**28.8**	**25.5**	**24.3**
Non-hydrocarbon current primary expenditure	18.3	17.1	16.1
of which, compensation of employees	4.9	4.7	4.6
of which, goods and services	8.5	7.6	7.5
of which, fuel subsidies	1.9	1.4	0.8
Non-hydrocarbon capital expenditure	10.5	8.4	8.2
Adjustment			
Non-hydrocarbon primary balance (in percent of non-hydrocarbon GDP)	**-24.3**	**-21.2**	**-19.5**
Overall fiscal balance (comittment basis, in percent of total GDP)	2.5	3.1	1.3
Total public debt (in percent of total GDP)	37.3	35.3	34.4

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

11. A comprehensive and time-bound medium-term plan is being prepared to clear domestic arrears. By end-2023 the authorities had cleared CFAF 799.7 billion through a combination of measures, including offsetting tax arrears, securitization, and negotiated write-offs, over half of an initial end-2019 stock of CFAF 1,382.5 billion (20.8 percent of GDP). To complete the clearance of the remaining domestic arrears in a timely and transparent manner, the authorities will develop a plan to clear domestic arrears (**structural benchmark**) with the assistance of an international consulting firm. The plan will take into account its impact on the financial situation of undercapitalized commercial banks. The SMP will set an **indicative target** on zero net accumulation of domestic arrears. Separately, Equatorial Guinea has recently cleared its external debt arrears with Spain.

12. Fiscal adjustment beyond 2024 requires bold measures to raise non-hydrocarbon revenue and rationalize expenditures. Additional gradual adjustment in 2025 and beyond will be needed to ensure public debt sustainability in the medium and the long run. This adjustment should combine a rationalization of expenditures (phasing out of fuel subsidies, optimized public investment but also higher social expenditure) and higher non-hydrocarbon revenues to compensate for the expected structural loss of hydrocarbon revenues in the medium-term. A 2025 budget (**structural benchmark**) consistent with the medium-term adjustment path will be part of this gradual process. Fiscal effort in 2025 will be anchored in additional non-hydrocarbon revenues stemming from the new tax law and lower fuel subsidies.

13. The authorities are implementing key structural fiscal reforms to support fiscal adjustment in the medium term and evaluating options for additional measures.

- **Tax policy:** The new tax law seeking to increase the base and modernize the system is expected to be approved in 2024 and implemented next year.[4] Planned IMF Capacity Development (CD) will better estimate the expected yield of the law's measures as well as identify and cost other possible tax policy reforms to boost nonhydrocarbon revenue.

- **Revenue administration:** The authorities are working with UNCTAD to continue implementing the ASYCUDA system across the country, including in the port of Bata by the end of 2024 (**structural benchmark**). The authorities are working with the AfDB to improve revenue mobilization capacity to fully leverage the new tax law. Priorities are on digitalization and training Ministry personnel to interpret and implement the new law. The authorities have also requested IMF CD to improve the operations of the large taxpayer unit.

- **Fuel subsidy reform:** The authorities are developing policy options for phasing out fuel subsidies that evaluate and mitigate the impact on the population and especially the vulnerable (**structural benchmark**).

- **Public financial management (PFM)**: Upcoming IMF CD will conduct a diagnostic of PFM practices and recommend concrete measures to address the significant challenges, including notably in the area of multi-annual capital expenditure. The government is also taking steps to implement the treasury single account.

[4] The new tax law is currently under consideration by parliament. It aims to modernize and simplify the tax system, expand the tax net through better compliance, incentivize foreign direct investment, and streamline and harmonize income tax regulations in line with CEMAC directives. Further details on this tax law are included in the Staff Report for the 2023 Article IV Consultation (Country Report No. 24/25).

B. Restoring the Soundness of the Banking Sector

14. The authorities have taken important steps to improve the health of the financial sector, but more work remains. They focused their recent efforts on improving the liquidity and solvency of a systemic public bank. The government has cleared all of its arrears linked to the bank's loans, accelerated the repayment schedule of some of the public debt held by the bank, and exchanged a substantial portion of the bank's NPLs for a government loan as part of a plan approved by the regional supervisor COBAC. At the same time, several private banks with a large stock of NPLs related to government arrears in the construction sector remain undercapitalized.

15. The authorities are committed to restoring confidence in Equatorial Guinea's banks and will continue addressing issues in the sector under the SMP. The end-2023 accounts of the systemic public bank will be audited by an international audit firm (**structural benchmark**). The authorities have established a high-level commission to recover distressed assets that the state acquired from the bank. The bank is not allowed to distribute dividends, which will enable it to boost its capital. The authorities are also taking measures to prepare for the sale of the bank to a strategic partner, including the preparation of its market valuation. Separately, the arrears clearance plan that is being prepared presents an opportunity to strengthen the financial position of the undercapitalized privately-owned banks.

16. Beyond 2024, the authorities will work to ensure the health of the entire banking sector and implement the National Financial Inclusion Strategy. Full compliance with capital adequacy requirements will need to be combined with profitability to generate internal capital capable of sustaining credit growth in the medium term. The authorities will also aim to enable expanded offering of commercial and easily accessible banking services. In particular, they will collaborate closely with banks to facilitate access to mobile banking platforms and electronic payment systems.

C. Diversifying the Economy

17. With hydrocarbon production in secular decline, economic diversification is critical to long-term growth and macroeconomic stability. Hydrocarbon production has already fallen by 56 percent since its peak in 2008 and is expected to drop an additional 32 percent between 2024–29. The authorities recognize the resulting urgency of reducing reliance on hydrocarbon production and remain committed to their diversification agenda. The main constraints to economic diversification and private sector-led growth include a difficult business environment, lack of financing, high levels of informality, and low human capital accumulation.

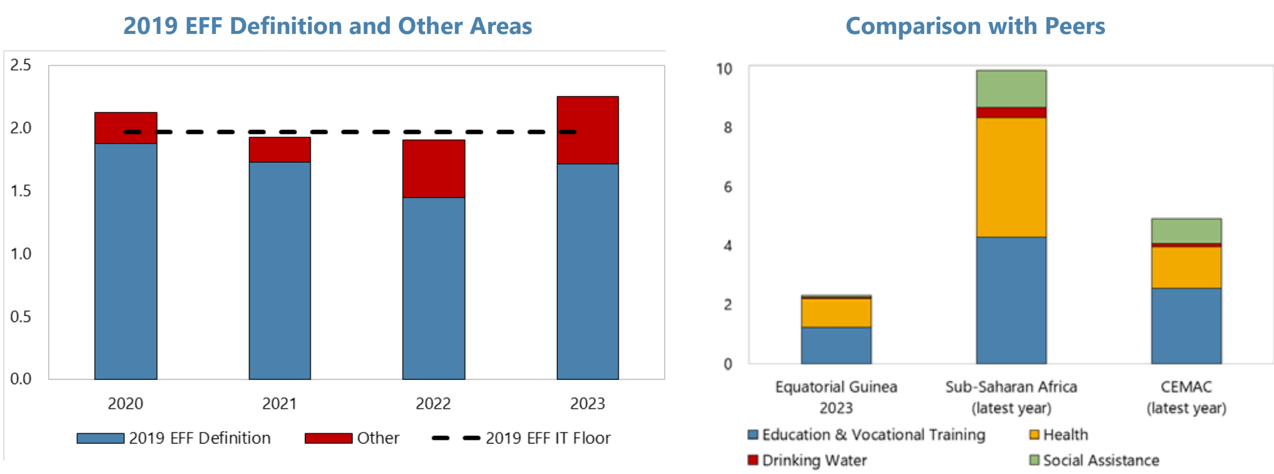
18. In 2024, the authorities will focus on targeted interventions in agriculture and internet service provision. They intend to reactivate an agricultural extension program, which will facilitate knowledge sharing among small-scale farmers to increase agricultural productivity and food security, while reducing reliance on food imports. The authorities also plan to enable industrialization in the agricultural sector by building food processing and inspection facilities to prepare and certify agricultural products for export. To improve both internet infrastructure and information access, the authorities have established a digitization strategy, led by the Ministry of Telecommunications. They recently decreased the end-user price of internet by 50 percent and are working to identify measures that will further reduce the price and increase the quality and reliability of internet infrastructure.

19. Successful diversification will require fundamental improvements to the country's business environment. In the short run, the authorities are addressing issues they identified in the operation of the recently established single point window for business registration to ensure its efficient functioning. They are working on a technological solution to interconnect the two commercial registries (Malabo and Bata) to facilitate real-time information sharing across them. In April they published the results of a recent business survey. Going forward, the diversification agenda should also include education spending measures that can increase the pool of domestic skilled workers to sustain long-term private sector growth.

D. Sharing the Prosperity

20. Government social spending as a share of GDP increased in 2023, but the country still performs below peers. Government social spending has gradually increased in real terms since 2020, though it declined as a share of GDP in 2021 and 2022. Recent increases in spending have been driven by the construction of the new university campus in Malabo and increases to the wage bill for doctors and teachers. Total government social spending was 2.3 percent of GDP (3.6 percent of NHGDP) in 2023, up from previous year but still well below averages of government spending in Sub-Saharan Africa (7.8 percent of GDP) and other CEMAC countries (4.8 percent of GDP).

Figure 2. Government Social Spending
(Percent of GDP)



Sources: Equatoguinean authorities; World Bank; WHO; and IMF staff calculations.

21. The authorities' social spending priorities during the SMP include increasing current spending, building social infrastructures, and improving socio-economic data collection.

The program is setting a floor on current social expenditure (**indicative target**), which remains a priority in the health and education sectors.[5] Lack of pharmaceuticals and equipment limit the ability to provide care to all those in need at the district level. Public schools in particular face shortages of trained teachers and classroom equipment. The Ministry of Education has identified priority schools in large urban and growing peri-urban areas that require rehabilitation and construction to address rising pupil-teacher ratios. The government plans to start conducting the second national Demography and Health Survey (DHS) to provide information on the evolution of health statistics. The results from the forthcoming household survey will be crucial to understand national poverty and human capital outcomes.

22. The authorities are weighing options for establishing a flagship social safety net (SSN) in the longer term. Working closely with development partners would allow the authorities to explore pilot schemes for an SSN that can eventually be scaled-up. Until the establishment of a large-scale program, the government could consider expanding other measures to support poor and vulnerable groups, such as free health services for low-income patients; or gradually introduce a free meal program for students, starting in areas with higher poverty rates.

E. Improving Governance and Transparency

23. Governance and transparency reforms need to address a large governance deficit. Equatorial Guinea continues to face serious macro critical governance vulnerabilities (see Box 1). The authorities are committed to improving governance, increase transparency and fight corruption in order to create an enabling environment for private investment and business creation.

24. Reforms under the SMP will focus on high impact measures across several dimensions of good governance:

- **Operationalization of the anti-corruption commission (ACC) and asset declaration regime:** The authorities will approve the implementing regulation of the ACC in line with earlier International Monetary Fund (IMF) Capacity Development (CD) (**structural benchmark**) and provide financial and material resources for its proper functioning. The ACC will be staffed and trained, including a division mandated to oversee the asset declaration regime, with the help of IMF CD. The ACC will then take over collecting asset declarations from the Ministry of Finance and begin publishing them by the end of the SMP (**structural benchmark**).

- **Fiscal governance**: The authorities will continue implementing the customs ASYCUDA IT system and a treasury single account (see paragraph 13).

- **Transparency:** The authorities are taking steps to enhance transparency in the hydrocarbon sector consistent with their goal of an eventual EITI membership.

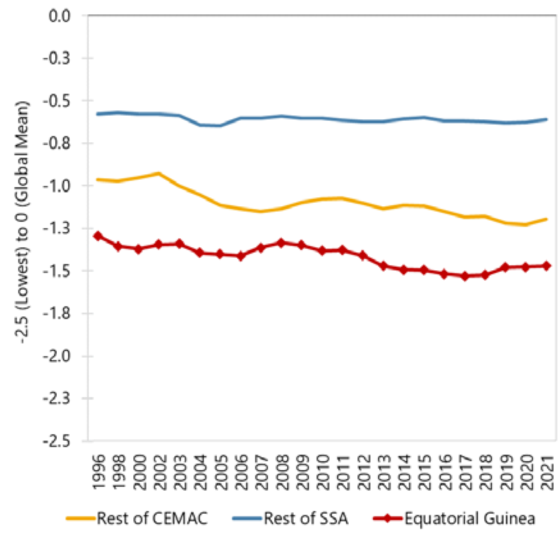
[5] The 2019 EFF arrangement adopted a definition of social spending by the central government that included both current and capital expenditures that were deemed as priority areas. The new definition includes all current social spending by the central government, except for scholarships and incentives for tertiary education.

During the SMP, they will publish contracts and licenses in the extractive industry (**structural benchmark**) and a report on the extractive sector including data on production and exports. Separately, the authorities will publish the Bata expenditures audit (**structural benchmark**) and the list of final beneficiaries of the COVID and Bata spending.

- **Rule of Law:** The authorities have published all laws and decrees issued since 2022 on the Official State Gazette website to enhance the transparency of the judicial system with a view to improve enforceability of contracts and property rights. They are now updating the website periodically as new legal documents are issued and will endeavor to gradually publish all laws and decrees issued before 2022.

- **AML/CFT:** The authorities recognize the importance of strengthening the AML/CFT framework to reinforce confidence in Equatorial Guinea's financial system. They will prepare and publish on a government website a comprehensive national AML/CFT strategy following international best practices to increase understanding of the key risks related to money laundering and terrorist financing in Equatorial Guinea and address such risks (**structural benchmark**). The strategy will build on the existing national risk assessment, as well as the outcome of the ongoing evaluation by GABAC, whose on-site mission took place in April.

Figure 3. Composite* Worldwide Governance Indicator[1] (-2.5 to 2.5 Scale)



*Simple average of five of the WGI indicators: Voice and Accountability, Government Effectiveness, Regulatory Quality, Control of Corruption and Rule of Law.
Source: Kaufmann and Kraay (2023). Worldwide Governance Indicators.

[1] The WGI is a perception-based indicator which aggregates data from more than 30 think tanks, international organizations, nongovernmental organizations, and private firms. The accuracy of perception-based indicators can be biased by experts' views. Non-IMF indicators provide qualitative information about corruption, they do not represent IMF's assessment of the level of corruption.

25. The authorities and staff will continue discussing governance reforms beyond 2024. The authorities will need to develop a medium-term plan that will prioritize addressing the most macro-critical governance gaps while considering their technical capacity to tackle them and the availability of external assistance, from the IMD or other institutions, to design and implement reforms. Substantively, the 2019 governance diagnostic combined with more recent and forthcoming CD, can help identify reform priorities across the various dimensions of governance, including fight against corruption, transparency, regulatory framework, and fiscal governance (including the implementation of CEMAC directives).

Box 1. Equatorial Guinea: Governance Vulnerabilities

The 2019 Governance Diagnostic identified three key persistent vulnerabilities – implementation, transparency, and capacity gaps – that the authorities are addressing in their reform efforts. There is a widespread legal framework implementation deficit, with normalized discretionary and uncoordinated actions. General lack of transparency is reflected in inadequate recording and disseminating of information. Finally, capacity constraints amplify the effect of the first two weaknesses manifesting in subpar outcomes including a loss of institutional memory, mismatched skill levels and lack of know-how.

- **Transparency and Accountability**: The coverage of the data disseminated on the National Summary Data Page remains incomplete with poor performance on timeliness and periodicity of updates. The country also exhibits low levels of public data availability according to the Transparency Index[1] but the authorities are working to improve it. The Ministry of Finance now publishes fiscal data (budget and execution) on its website, although with a lag. In the hydrocarbon sector, the authorities are preparing the country for a new application to the EITI, including training the population on the importance of resource wealth management and transparency. On accountability, the parliament is currently considering a bill for a special corps of public accountants and tax inspectors.
- **Rule of Law.** The standardized WGI Rule of Law score for Equatorial Guinea and the rest of CEMAC is 1.2 standard deviations below the world mean for 2021. The country has a deficit in the accessibility to laws and judicial decisions, as well as on the administration and efficiency of the Courts. Recent efforts include the online uploading of all new laws and decrees on the website of the Official Gazette since 2022.
- **Regulatory Framework**. As measured by the WGI Regulatory Quality score, in 2021 Equatorial Guinea was 1.7 standard deviations below the global standardized mean score of 0, a lower outcome than the average of CEMAC (-1.2). Authorities have recently focused on ensuring full operation of the single window for business registration to reduce the process to an average of 5 days.
- **Anti-Money Laundering (AML) Framework**. Recent statistics show a limited number of investigations. The AML framework has deficiencies limiting the prevention and deterrence of the laundering of proceeds of crimes, including the lack of information on ultimate beneficiaries of legal entities. To address this, ANIF is working on guidance for domestic financial institutions to conduct background verifications of clients on ultimate beneficiaries and politically exposed persons. ANIF submitted an application to the Egmont Group, membership of which would facilitate knowledge exchange on international best practices for AML/CFT monitoring and reporting, and just received a mutual evaluation mission from GABAC.
- **Anti-Corruption.** The country exhibits the weakest control of corruption score in the CEMAC region, with a 1.6 standard deviation below the global mean in 2021 (1.3 for CEMAC). While the new anti-corruption framework is not fully operational yet, the government is very active in pursuing corruption cases.
- **Fiscal Governance**. In 2021 Equatorial Guinea scored 1.2 standard deviations below the global mean of 0 in the WGI Government Effectiveness category, equivalent to the CEMAC average. Recent reform efforts include the establishment of procedures to track and control expenditures and of a committee that oversees alignment of spending with priorities. The authorities approved a decree establishing a Treasury Single Account. The government launched an online customs system in two ports (Malabo and Luba).

Source: 2023 Article IV Staff Report, 2019 Governance Diagnostic, 2019 Good Governance Action Plan, IMF Staff.
[1]The index is limited to measuring accessible public information.

PROGRAM ISSUES

26. SMP modalities. A twelve-month SMP is proposed to allow the authorities to formally establish a policy implementation track record for a potential IMF financing arrangement. The SMP agenda is closely integrated into the authorities' medium-term reform priorities. The medium-term macroeconomic framework indicates the presence of balance of payments gaps from 2025 onwards, as the country is projected to be a drain on BEAC's reserves while the overall level of those reserves is already expected to be below the adequacy level of five months of imports.

27. Conditionality. The SMP will be monitored through two reviews based on semiannual test dates for 5 quantitative targets and 3 indicative targets as well as 10 SBs. The test date for the first review will be June 30, 2024, and the review is expected to be completed by end-November 2024. The second test date will be December 31, 2024, and the review is expected to be completed by end-May 2025.

28. SMP implementation risks are manageable. The program implementation could face challenges but the authorities' active reform agenda during 2023 in the absence of an IMF-supported program gives evidence of increased support for reforms and ownership of the reform agenda. The authorities also recognize that the era of large oil windfalls is over, and implementation of deep structural reforms to improve the business environment and diversify the economy is now urgent.

29. Safeguards assessment. The 2022 safeguards assessment found that BEAC maintained strong governance and external audit arrangements while internal audit and risk management practices needed strengthening. A safeguards monitoring mission took place at end-2023 to follow up on the outstanding 2022 safeguards recommendations, an external quality assessment of internal audit, and the current implementation of the governance framework. The mission's preliminary recommendations include onboarding for new members of senior management and the Board and an enhanced delegation framework for executive decision-making.

30. Capacity Development and statistical issues. The authorities have requested a number of CD activities on fiscal topics. A PFM diagnostic mission and a comprehensive tax policy diagnosis are already scheduled to take place later this year, with additional requests being considered for CD on the large taxpayer unit. The anticorruption commission is expected to take advantage of IMF CD for its operationalization and, in particular, to prepare for the publication of asset declarations of senior public officials. Among statistical issues, in 2024 the authorities are taking advantage of IMF CD to focus on improving external sector statistics, including closing the discrepancies in exports and imports statistics between INEGE and BEAC, whose current methodologies differ considerably.

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31. The era of hydrocarbon production-driven growth and windfall revenues is coming to an end. Over 2014–21, real GDP fell by an average rate of -5 percent per year. After a brief respite in

2022 spurred by high oil prices, the downward trajectory returned in 2023 with a decline of 5.8 percent. Despite an increase in hydrocarbon production of 6.4 percent being projected in 2024, a decline in hydrocarbon production of 32 percent is expected from 2024–29. The long-lasting contraction, together with the corollary drop in hydrocarbon revenues, has created structural macroeconomic imbalances, straining fiscal and external accounts and contributing to accumulation of domestic arrears. The latter has in turn translated into weakness in the financial sector.

32. The authorities' reform strategy requires steadfast implementation to deliver strong inclusive nonhydrocarbon growth. Without resolute policy responses, all the gains in per capita income achieved over the last two decades are expected to fully unravel in the medium term. Nonhydrocarbon growth will have to replace the resource-focused expansion of the past. The authorities' agenda should enable nonhydrocarbon growth that is private sector-led and more inclusive, while at the same time ensuring fiscal sustainability, health of the financial sector and fundamentally improved governance.

33. Fiscal consolidation needs to compensate for the decline in hydrocarbon revenues to ensure continued sustainability while improving social outcomes. The envisaged fiscal adjustment in 2024 represents a welcome first step in rationalizing expenditure that can also create room for desirable higher social spending. Next year will also see the impact of a new tax law, which will launch an effort to boost nonhydrocarbon revenues and start replacing diminishing revenues related to hydrocarbon production.

34. Planned fiscal structural measures are key to enable and reinforce the adjustment. The authorities will facilitate this under the SMP by improvements in fiscal sustainability, fiscal governance and revenue administration. Fuel subsidies will be phased out once the authorities have evaluated the impact of the measure on the population and especially the vulnerable. The authorities will begin executing a systematic plan to clear a stock of accumulated domestic arrears, which is currently being prepared. Revenue administration measures, including implementation of the ASYCUDA customs IT system in Bata, will mobilize higher revenues. Better PFM practices will be identified and implemented after a comprehensive diagnostic. Finally, the authorities' commitment to increase priority social spending to better share prosperity in the country is welcome.

35. Further efforts are needed to ensure financial sector stability. The authorities have already taken significant steps to improve the liquidity and solvency at a systemic public bank. Going forward, they will need to ensure the bank's compliance with prudential requirements as well as facilitate strengthening of balance sheets of undercapitalized private banks.

36. Focused interventions can help advance economic diversification. Improvements to the business environment are essential to spur higher private sector-led growth. The authorities are rightly prioritizing improvements in the functioning of the single point business registration window and interconnecting the two separate commercial registries. Their efforts to improve the quality and lower the cost of internet are important both to improve the efficiency of operations of private businesses and advance the digitalization of the public sector. It is also welcome that the authorities are focusing their vertical support policies on the agricultural sector, whose development can support equitable job creation and improve the country's nonhydrocarbon trade balance.

37. Addressing Equatorial Guinea's large governance deficit is paramount to boosting nonhydrocarbon growth. Private businesses need to operate in a predictable and transparent environment with a reliable and efficient application of laws and regulations. The authorities recognize the importance of good governance and are committed to improving it, starting with a number of impactful measures to be implemented during the SMP. Their plan to operationalize the anti-corruption commission and start publishing asset declarations by senior public officials is very welcome, as are their efforts to improve transparency in the hydrocarbon sector and in the fiscal accounts. Their plan to prepare an AML/CFT strategy is important to reinforce confidence in the banking sector.

38. Staff supports the authorities' requests for International Monetary Fund CD. The authorities are keen to improve their capacity in tax policy and administration, and public financial management as well as preparation of external sector statistics. The anticorruption commission is expected to take advantage of IMF CD to prepare for the publication of asset declarations. Integrating IMF (and other partners') CD into the SMP reform agenda is essential for delivering successful reform implementation over the program period.

39. Staff supports the authorities' request for a 12-month SMP to anchor their reform efforts and provide an opportunity to formally establish a policy implementation track record.

Table 1. Equatorial Guinea: Selected Economic and Financial Indicators, 2022–29

	2022	2023	2024	2025	2026	2027	2028	2029
	Estimates		Projections					
	(Annual percentage change, unless otherwise specified)							
Production, prices, and money								
Real GDP	3.7	-5.8	5.1	-4.8	1.2	0.5	-4.0	2.9
Hydrocarbon GDP[1]	1.5	-15.4	6.4	-14.0	-2.0	-3.8	-16.0	1.8
Non-hydrocarbon GDP	6.1	4.0	4.0	3.0	3.5	3.5	3.5	3.5
GDP deflator	19.7	-8.4	1.9	7.2	2.4	2.0	3.1	2.2
Consumer prices (annual average)	4.9	2.5	4.0	2.8	2.6	2.1	2.0	2.1
Consumer prices (end of period)	5.0	2.1	3.6	2.2	2.2	2.0	2.0	2.0
Monetary and exchange rate								
Broad money	20.7	19.3	4.0	2.9	2.0	2.0	2.1	2.0
Nominal effective exchange rate (- = depreciation)	-4.4	3.9	...	...	...	...	...	...
Real effective exchange rate (- = depreciation)	-6.5	10.6	...	...	...	...	...	...
External sector								
Exports, f.o.b.	83.7	-45.6	6.4	-9.9	-5.6	-5.1	-15.6	-1.3
Hydrocarbon exports	87.9	-46.9	6.5	-10.5	-6.1	-5.6	-16.9	-1.8
Non-hydrocarbon exports	-3.1	0.4	3.6	3.9	3.6	3.7	3.8	4.1
Imports, f.o.b.	15.1	-12.1	8.1	3.6	6.3	2.0	0.2	0.4
Terms of trade	-18.8	-36.5	-5.4	13.5	-2.7	-4.5	-4.3	1.9
Government finance								
Revenue	117.1	-28.4	4.9	-6.5	-2.8	-4.9	-12.7	3.3
Expenditure	46.6	14.1	1.0	2.0	3.3	4.0	4.7	6.3
	(Percent of GDP, unless otherwise specified)							
Government finance								
Revenue	26.9	22.3	21.8	20.0	18.8	17.4	15.3	15.1
Hydrocarbon revenue	24.3	19.3	18.8	16.5	15.2	13.7	11.4	11.2
Non-hydrocarbon revenue	2.5	3.0	3.0	3.5	3.6	3.7	3.9	3.9
Expenditure	15.0	19.8	18.7	18.7	18.6	18.9	20.0	20.2
Overall fiscal balance (Commitment basis)	11.9	2.5	3.1	1.3	0.1	-1.5	-4.6	-5.1
Overall fiscal balance (Cash basis)	10.4	0.8	2.7	0.9	-0.3	-1.8	-5.0	-5.5
Non-hydrocarbon primary balance[2]	-11.4	-15.7	-13.9	-13.4	-13.3	-13.4	-14.4	-14.4
Non-hydrocarbon primary balance[2] (as percent of non-hydrocarbon GDP)	-21.5	-24.3	-21.2	-19.5	-18.9	-18.6	-18.6	-18.6
Change in domestic arrears	-1.5	-1.7	-0.6	-0.4	-0.4	-0.4	-0.4	-0.3
External sector								
Current account balance (including official transfers; - = deficit)	2.1	-0.7	-0.9	-2.5	-2.5	-2.6	-3.9	-3.9
Imputed Foreign Reserves (net), US$billion	1.1	1.2	1.2	1.1	1.0	0.8	0.5	0.3
Debt								
Total public debt	30.2	37.3	35.3	34.4	33.7	32.7	36.1	37.8
Domestic debt	21.5	26.7	24.4	22.8	22.3	22.6	26.2	28.8
External debt	8.7	10.5	10.9	11.5	11.4	10.1	9.9	9.1
External debt service-to-exports ratio (percent)	4.3	4.8	5.5	5.7	6.0	5.7	6.6	6.5
External debt service/government revenue (percent)	7.6	6.3	7.3	7.5	7.5	7.2	8.1	7.6
Memorandum items								
Oil price (U.S. dollars a barrel)[3]	99.0	82.3	80.6	75.6	72.6	70.8	69.9	69.7
Nominal GDP (billions of CFA francs)	8,413	7,263	7,779	7,937	8,228	8,439	8,348	8,778
Nominal GDP (millions of US dollars)	13,487	11,974	12,789	12,989	13,449	13,774	13,610	14,279
Hydrocarbon GDP (billions of CFA francs)	3,926	2,579	2,656	2,474	2,450	2,335	1,902	1,968
Non-hydrocarbon GDP (billions of CFA francs)	4,486	4,684	5,123	5,463	5,778	6,104	6,446	6,810
Government deposits (in percent of GDP)	18.6	19.3	19.4	19.4	18.9	17.4	16.5	14.7
Oil volume (crude + condensado, millions of barrels)	39.5	28.6	33.6	29.9	25.9	24.6	21.9	18.9
Gas volume (in millions of bbls of oil equivalent)	62.7	54.2	57.3	44.0	48.1	46.8	35.4	43.0
Total Hydrocarbon Volume (in millions of barrels of oil equivalent)	102.1	82.8	90.9	73.9	74.0	71.4	57.3	61.9

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

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

[2] Excluding hydrocarbon revenues, hydrocarbon expenditures, and interest earned and paid.

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

Table 2a. Equatorial Guinea: Balance of Payments, 2023–29[1]
(Billions of CFA francs, unless otherwise specified)

	Estimates	Projections					
	2023	2024	2025	2026	2027	2028	2029
Current account	-54	-70	-198	-204	-221	-327	-346
Trade balance	1224	1289	1032	852	732	440	416
Exports of goods, f.o.b.	2139	2282	2065	1951	1855	1566	1549
Hydrocarbon exports	2040	2179	1958	1841	1740	1447	1425
Non-hydrocarbon exports	99	103	107	111	115	119	124
Imports of goods, f.o.b.	-915	-992	-1033	-1099	-1123	-1126	-1133
Services (net)	-195	-203	-203	-198	-197	-191	-192
Income (net)[2]	-1022	-1045	-925	-756	-653	-475	-469
Current transfers	-61	-112	-101	-102	-102	-101	-101
Capital and financial account	76	118	151	98	99	179	203
Capital account	0	0	0	0	0	0	0
Financial account	76	118	151	98	99	179	203
Direct investment	86	78	62	52	160	183	206
Portfolio investment (net)	37	-55	37	39	41	41	44
Other investment (net)[3]	-47	95	52	7	-102	-45	-47
Errors and omissions	0	0	0	0	0	0	0
Overall balance	22	48	-47	-106	-122	-148	-144
Financing	-22	-48	47	106	122	148	144
Change in net international reserves[4] (- = increase)	-22	-45	47	106	122	148	144
Net change in external arrears	0	-3	0	0	0	0	0
Program financing	0	0	0	0	0	0	0
Memorandum items:							
Gross Reserve assets at the BEAC	913	952	882	758	632	481	334
Of which : government deposits at BEAC	658	768	797	811	724	637	550
Growth of hydrocarbon exports (percent)	-46.9	6.5	-10.5	-6.1	-5.6	-16.9	-1.8
Growth of non-hydrocarbon exports (percent)	3.2	3.3	3.4	3.5	3.6	3.7	3.8
Non-hydrocarbon current account	-582	-649	-662	-720	-683	-627	-612

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

[3] The SDR allocation is reflected via a neutral double entry of higher reserves and higher long-term liabilities.

[4] 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, 2023–29[1]

(Percent of GDP, unless otherwise specified)

	Estimates	Projections					
	2023	2024	2025	2026	2027	2028	2029
Current account	-0.7	-0.9	-2.5	-2.5	-2.6	-3.9	-3.9
Trade balance	16.9	16.6	13.0	10.4	8.7	5.3	4.7
Exports of goods, f.o.b.	29.4	29.3	26.0	23.7	22.0	18.8	17.6
Hydrocarbon exports	28.1	28.0	24.7	22.4	20.6	17.3	16.2
Non-hydrocarbon exports	1.4	1.3	1.3	1.3	1.4	1.4	1.4
Imports of goods, f.o.b.	-12.6	-12.8	-13.0	-13.4	-13.3	-13.5	-12.9
Services (net)	-2.7	-2.6	-2.6	-2.4	-2.3	-2.3	-2.2
Income (net)[2]	-14.1	-13.4	-11.7	-9.2	-7.7	-5.7	-5.3
Current transfers	-0.8	-1.4	-1.3	-1.2	-1.2	-1.2	-1.2
Capital and financial account	1.0	1.5	1.9	1.2	1.2	2.2	2.3
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	1.0	1.5	1.9	1.2	1.2	2.1	2.3
Direct investment	1.2	1.0	0.8	0.6	1.9	2.2	2.3
Portfolio investment (net)	0.5	-0.7	0.5	0.5	0.5	0.5	0.5
Other investment (net)[3]	-0.6	1.2	0.7	0.1	-1.2	-0.5	-0.5
Errors and omissions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	0.3	0.6	-0.6	-1.3	-1.4	-1.8	-1.6
Financing	-0.3	-0.6	0.6	1.3	1.4	1.8	1.6
Change in net international reserves[4] (- = increase)	-0.3	-0.6	0.6	1.3	1.4	1.8	1.6
Net change in external arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Program financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:							
Gross Reserve assets at the BEAC	12.8	12.2	11.1	9.2	7.5	5.8	3.8
Of which : government deposits at BEAC	9.3	9.8	10.0	9.9	8.6	7.6	6.3

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

[3] The SDR allocation is reflected via a neutral double entry of higher reserves and higher long-term liabilities

[4] 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, 2023–29
(Billions of CFA francs, unless otherwise specified)

	Estimates	Projections					
	2023	2024	2025	2026	2027	2028	2029
Revenue	1,619	1,698	1,589	1,544	1,468	1,281	1,324
Hydrocarbon revenue	1,399	1,463	1,313	1,247	1,156	954	980
Tax revenue	673	716	615	573	528	443	451
Other revenue	726	748	698	674	628	511	529
Non-hydrocarbon revenue	220	235	276	297	312	327	344
Primary non-hydrocarbon revenue	209	224	264	285	300	316	332
Tax revenue	147	159	195	211	222	232	243
Taxes on income, profits, and capital gains	47	51	82	92	97	103	109
Domestic taxes on goods and services	74	80	83	87	92	96	101
Taxes on international trade and transactions	24	27	28	30	30	31	31
Other taxes	2	2	2	2	2	2	2
Other revenue	62	69	74	79	84	89	95
Interest revenue	11	11	11	11	11	11	11
Expenditure	1,440	1,454	1,483	1,533	1,593	1,668	1,773
Hydrocarbon expenditure	11	73	69	69	68	59	61
Expense	11	13	13	14	15	16	17
Net acquisition of non-financial assets	0	60	56	55	53	43	44
Non-hydrocarbon expenditure	1,429	1,381	1,414	1,463	1,526	1,610	1,712
Expense	939	951	966	989	1,025	1,081	1,153
Compensation of employees	230	242	250	264	279	295	312
Purchase of goods and services	399	391	409	432	457	482	510
Subsidies and transfers	228	245	221	206	197	208	220
of which: fuel subisdy	88	70	45	20	0	0	0
Interest	81	73	86	86	92	96	113
Net acquisition of non-financial assets	490	430	448	474	501	529	558
Primary balance	249	306	180	86	-45	-303	-348
Net lending/borrowing (overall fiscal balance)	179	244	105	11	-126	-387	-449
Net financial transactions	204	244	105	11	-126	-387	-449
Net acquisition of financial assets	109	219	50	19	-169	-169	-169
Domestic	125	219	50	19	-169	-169	-169
External	-15	0	0	0	0	0	0
Net incurrence of liabilities	-94	-25	-55	7	-43	218	280
Domestic	-78	-86	-122	-15	44	247	311
of which: Other accounts payable	-121	-35	-35	-30	-30	-30	-30
External	-16	61	68	22	-87	-28	-30
Statistical discrepancy	25						
Memorandum items:							
Non-hydrocarbon primary balance[1]	-1,139	-1,084	-1,064	-1,092	-1,133	-1,198	-1,267
Outstanding public debt[2]	2,706	2,747	2,729	2,772	2,760	3,010	3,321
Gross government deposits	1,401	1,511	1,540	1,554	1,467	1,380	1,293
Deposits with BEAC	658	768	797	811	724	637	550
Deposits abroad	316	316	316	316	316	316	316
Deposits with commercial banks	427	427	427	427	427	427	427

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

[1] Equal to non-interest non-hydrocarbon revenue minus non-hydrocarbon non-interest expenditure.

[2] Outstanding public debt includes domestic arrears.

Table 3b. Equatorial Guinea: Summary of Central Government Financial Operations, 2023–29
(Percent of GDP, unless otherwise specified)

	Estimates	Projections					
	2023	2024	2025	2026	2027	2028	2029
Revenue	22.3	21.8	20.0	18.8	17.4	15.3	15.1
Hydrocarbon revenue	19.3	18.8	16.5	15.2	13.7	11.4	11.2
Tax revenue	9.3	9.2	7.8	7.0	6.3	5.3	5.1
Other revenue	10.0	9.6	8.8	8.2	7.4	6.1	6.0
Non-hydrocarbon revenue	3.0	3.0	3.5	3.6	3.7	3.9	3.9
Primary non-hydrocarbon revenue	2.9	2.9	3.3	3.5	3.6	3.8	3.8
Tax revenue	2.0	2.0	2.5	2.6	2.6	2.8	2.8
Taxes on income, profits, and capital gains	0.6	0.7	1.0	1.1	1.2	1.2	1.2
Domestic taxes on goods and services	1.0	1.0	1.1	1.1	1.1	1.2	1.2
Taxes on international trade and transactions	0.3	0.3	0.4	0.4	0.4	0.4	0.4
Other taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	0.9	0.9	0.9	1.0	1.0	1.1	1.1
Interest revenue	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Expenditure	19.8	18.7	18.7	18.6	18.9	20.0	20.2
Hydrocarbon expenditure	0.2	0.9	0.9	0.8	0.8	0.7	0.7
Expense	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Net acquisition of non-financial assets	0.0	0.8	0.7	0.7	0.6	0.5	0.5
Non-hydrocarbon expenditure	19.7	17.7	17.8	17.8	18.1	19.3	19.5
Expense	12.9	12.2	12.2	12.0	12.1	12.9	13.1
Compensation of employees	3.2	3.1	3.1	3.2	3.3	3.5	3.6
Purchase of goods and services	5.5	5.0	5.1	5.3	5.4	5.8	5.8
Subsidies and transfers	3.1	3.1	2.8	2.5	2.3	2.5	2.5
of which: fuel subisdy	1.2	0.9	0.6	0.2	0.0	0.0	0.0
Interest	1.1	0.9	1.1	1.0	1.1	1.1	1.3
Net acquisition of non-financial assets	6.7	5.5	5.6	5.8	5.9	6.3	6.4
Primary balance	3.4	3.9	2.3	1.0	-0.5	-3.6	-4.0
Net lending/borrowing (overall fiscal balance)	2.5	3.1	1.3	0.1	-1.5	-4.6	-5.1
Net financial transactions	2.8	3.1	1.3	0.1	-1.5	-4.6	-5.1
Net acquisition of financial assets	1.5	2.8	0.6	0.2	-2.0	-2.0	-1.9
Domestic	1.7	2.8	0.6	0.2	-2.0	-2.0	-1.9
External	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	-1.3	-0.3	-0.7	0.1	-0.5	2.6	3.2
Domestic	-1.1	-1.1	-1.5	-0.2	0.5	3.0	3.5
of which: Other accounts payable	-1.7	-0.4	-0.4	-0.4	-0.4	-0.4	-0.3
External	-0.2	0.8	0.9	0.3	-1.0	-0.3	-0.3
Statistical discrepancy	0.3						
Memorandum items:							
Non-hydrocarbon primary balance[1]	-15.7	-13.9	-13.4	-13.3	-13.4	-14.4	-14.4
Outstanding public debt[2]	37.3	35.3	34.4	33.7	32.7	36.1	37.8
Gross government deposits	19.3	19.4	19.4	18.9	17.4	16.5	14.7
Deposits with BEAC	9.1	9.9	10.0	9.9	8.6	7.6	6.3
Deposits abroad	4.4	4.1	4.0	3.8	3.7	3.8	3.6
Deposits with commercial banks	5.9	5.5	5.4	5.2	5.1	5.1	4.9

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

[1] Equal to non-interest non-hydrocarbon revenue minus non-hydrocarbon non-interest expenditure.

[2] Outstanding public debt includes domestic arrears.

Table 3c. Equatorial Guinea: Summary of Central Government Financial Operations, 2023–29

(Percent of Non-Hydrocarbon GDP, unless otherwise specified)

	Estimates	Projections					
	2023	2024	2025	2026	2027	2028	2029
Revenue	34.6	33.1	29.1	26.7	24.0	19.9	19.4
Hydrocarbon revenue	29.9	28.6	24.0	21.6	18.9	14.8	14.4
Tax revenue	14.4	14.0	11.3	9.9	8.6	6.9	6.6
Other revenue	15.5	14.6	12.8	11.7	10.3	7.9	7.8
Non-hydrocarbon revenue	4.7	4.6	5.0	5.1	5.1	5.1	5.0
Primary non-hydrocarbon revenue	4.5	4.4	4.8	4.9	4.9	4.9	4.9
Tax revenue	3.1	3.1	3.6	3.7	3.6	3.6	3.6
Taxes on income, profits, and capital gains	1.0	1.0	1.5	1.6	1.6	1.6	1.6
Domestic taxes on goods and services[1]	1.6	1.6	1.5	1.5	1.5	1.5	1.5
Taxes on international trade and transactions	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Other taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	1.3	1.4	1.4	1.4	1.4	1.4	1.4
Interest revenue	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	30.7	28.4	27.2	26.5	26.1	25.9	26.0
Hydrocarbon expenditure	0.2	1.4	1.3	1.2	1.1	0.9	0.9
Expense	0.2	0.3	0.2	0.2	0.2	0.2	0.2
Net acquisition of non-financial assets	0.0	1.2	1.0	1.0	0.9	0.7	0.7
Non-hydrocarbon expenditure	30.5	26.9	25.9	25.3	25.0	25.0	25.1
Expense	20.0	18.6	17.7	17.1	16.8	16.8	16.9
Compensation of employees	4.9	4.7	4.6	4.6	4.6	4.6	4.6
Purchase of goods and services	8.5	7.6	7.5	7.5	7.5	7.5	7.5
Subsidies and transfers	4.9	4.8	4.0	3.6	3.2	3.2	3.2
of which: fuel subisdy	1.9	1.4	0.8	0.3	0.0	0.0	0.0
Interest	1.7	1.4	1.6	1.5	1.5	1.5	1.7
Net acquisition of non-financial assets	10.5	8.4	8.2	8.2	8.2	8.2	8.2
Primary balance	5.3	6.0	3.3	1.5	-0.7	-4.7	-5.1
Net lending/borrowing (overall fiscal balance)	3.8	4.8	1.9	0.2	-2.1	-6.0	-6.6
Net financial transactions	4.4	4.8	1.9	0.2	-2.1	-6.0	-6.6
Net acquisition of financial assets	2.3	4.3	0.9	0.3	-2.8	-2.6	-2.5
Domestic	2.7	4.3	0.9	0.3	-2.8	-2.6	-2.5
External	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	-2.0	-0.5	-1.0	0.1	-0.7	3.4	4.1
Domestic	-1.7	-1.7	-2.2	-0.3	0.7	3.8	4.6
of which: Other accounts payable	-2.6	-0.7	-0.6	-0.5	-0.5	-0.5	-0.4
External	-0.3	1.2	1.2	0.4	-1.4	-0.4	-0.4
Statistical discrepancy	0.5						
Memorandum items:							
Non-hydrocarbon primary balance[1]	-24.3	-21.2	-19.5	-18.9	-18.6	-18.6	-18.6
Outstanding public debt[2]	57.8	53.6	49.9	48.0	45.2	46.7	48.8
Gross government deposits	29.9	29.5	28.2	26.9	24.0	21.4	19.0
Deposits with BEAC	14.0	15.0	14.6	14.0	11.9	9.9	8.1
Deposits abroad	6.8	6.2	5.8	5.5	5.2	4.9	4.6
Deposits with commercial banks	9.1	8.3	7.8	7.4	7.0	6.6	6.3

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

[1] Equal to non-interest non-hydrocarbon revenue minus non-hydrocarbon non-interest expenditure.

[2] Outstanding public debt includes domestic arrears.

Table 4. Equatorial Guinea: Monetary Survey, 2023–29
(Billions of CFA francs, unless otherwise specified, end of period)

	Estimates	Projections					
	2023	2024	2025	2026	2027	2028	2029
Net foreign assets	939	996	955	850	732	587	450
Bank of Central African States (BEAC)	705	750	703	596	475	327	184
Commercial banks	234	246	252	254	257	260	267
Net domestic assets	501	502	586	722	872	1,050	1,219
Domestic credit	749	527	392	409	614	847	1,088
Net claims on the public sector	104	-178	-361	-387	-227	-41	150
Net credit to the central government	85	-197	-379	-405	-244	-56	138
Central Bank	178	69	8	-34	40	114	187
Claims	836	837	805	777	764	751	737
Credit under statutory ceiling	609	609	599	590	580	570	561
Counterpart of IMF credit	61	53	30	12	8	4	0
Other	166	174	175	175	176	176	177
Deposits	-658	-768	-797	-811	-724	-637	-550
Commercial Banks	-93	-266	-386	-371	-283	-170	-49
Claims on the Treasury	319	256	156	176	181	213	252
Deposits	-412	-521	-542	-546	-464	-382	-300
Credit to public enterprises	19	19	18	18	17	15	12
Credit to financial institutions	0	0	0	0	0	0	0
Credit to the private sector	645	705	752	795	840	887	937
Other items (net)	-247	-25	195	313	258	203	131
Broad money	1,440	1,498	1,541	1,572	1,603	1,637	1,670
Currency outside banks	343	289	266	293	288	287	310
Deposits	1,096	1,209	1,275	1,279	1,315	1,350	1,360
Memorandum items:							
Contribution to the growth of broad money (percentage points)							
Net foreign assets	14.1	4.0	-2.7	-6.8	-7.5	-9.0	-8.4
Net domestic assets	5.3	0.0	5.6	8.8	9.5	11.1	10.4
Of which: net credit to the central government	*14.1*	*-19.6*	*-12.2*	*-1.7*	*10.2*	*11.6*	*11.7*
Credit to the economy (excluding CG, Billions CFAF)	664	724	770	813	857	903	950
Credit to the economy (annual percentage change)	-25.9	9.1	6.4	5.6	5.4	5.3	5.2
Credit to the private sector							
Annual percentage change	-26.7	9.4	6.6	5.8	5.6	5.6	5.6
In percent of GDP	8.9	9.1	9.5	9.7	10.0	10.6	10.7
Broad money (annual percentage change)	19.3	4.0	2.9	2.0	2.0	2.1	2.0
Currency outside banks (annual percentage change)	4.0	-15.7	-7.9	9.9	-1.6	-0.5	8.0
Deposits (annual percentage change)	25.1	10.3	5.5	0.3	2.8	2.6	0.7
Velocity (GDP/ M2)	5.0	5.2	5.1	5.2	5.3	5.1	5.3

Sources: Equatorial Guinea authorities and IMF staff estimates.

Table 5. Equatorial Guinea: Fiscal Financing Requirements, 2023–29
(Billion CFA francs, unless otherwise indicated)

	Estimates	Projections					
	2023	2024	2025	2026	2027	2028	2029
A. Overall fiscal deficit (commitment basis) (-=surplus)	-179	-244	-105	-11	126	387	449
B. Other financing needs	516	315	337	274	315	333	354
Amortization	395	270	303	239	285	303	324
External	94	116	107	123	130	145	147
Domestic	301	154	195	116	156	158	178
Repayment of domestic arrears	121	45	35	35	30	30	30
C= A+B Total financing needs	338	71	232	262	441	720	803
D. Identified sources of financing	312	71	232	262	441	720	803
External disbursements	78	177	175	145	43	116	116
Deposits/assets	-109	-219	-50	-19	169	169	169
Domestic	-125	-219	-50	-19	169	169	169
Foreign	15	0	0	0	0	0	0
Issuance of government securities	344	112	108	136	230	435	518

Source: Fund staff estimates and projections

Table 6. Equatorial Guinea: External Financing Requirements, 2023–29
(Millions of U.S dollars, unless otherwise indicated)

	Estimates	Projections					
	2023	2024	2025	2026	2027	2028	2029
1. Total financing requirements	255	385	423	361	373	528	569
Current account deficit	90	116	324	334	361	533	564
Debt amortization	155	191	176	201	211	236	239
Net change in external arrears (increase =-)	0	4	0	0	0	0	0
Net change in government deposits abroad (increase=+)	-25	0	0	0	0	0	0
Net change in net reserves (increase=+)	36	74	-77	-173	-198	-241	-234
2. Total financing sources	255	385	423	361	373	528	569
Capital transfers	0	0	0	0	0	0	0
Foreign direct investment (net)	142	128	101	85	262	299	335
Portfolio investment (net)	61	-90	60	64	67	67	72
Debt financing	224	386	382	332	165	285	285
Commercial banks' capital flows	-249	-80	-120	-120	-120	-120	-120
Other net capital inflows	78	40	0	0	0	-2	-2
Errors and omissions	0	0	0	0	0	0	0

Source: IMF staff estimates

Table 7. Equatorial Guinea: Financial Soundness Indicators for the Banking Sector, 2018–23
(Percent, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	
						Q2	Q4
Capital adequacy							
Total bank regulatory capital to risk-weighted assets[1]	29.5	-2.8	-1.6	-6.2	0.6	-1.5	-18.9
Total capital (net worth) to assets	12.8	-0.7	-0.2	-1.3	1.2	0.0	-6.4
Total assets (growth)	3.4	-10.3	-0.1	53.2	-30.2	7.9	3.8
Asset quality							
Non-performing loans (gross) to total loans (gross)	36.9	49.1	52.2	55.1	55.4	56.0	31.1
Earnings and profitability							
Return on equity[2]	3.7	-0.6	-3.9	-3.9	-2.0	3.3	-9.2
Return on assets	0.9	0.1	-0.6	-0.5	-0.2	0.5	-1.2
Non interest expense to gross income	67.8	81.7	115.1	106.3	97.2	91.9	151.2
Liquidity							
Liquid assets to total assets	30.3	20.2	19.9	12.7	21.9	32.1	36.3
Liquid assets to short-term liabilities	170.1	120.7	131.5	130.3	152.1	204.0	199.1
Total deposits to total (noninterbank) loans	98.1	104.0	98.5	102.6	115.9	136.3	153.1
Credit							
Gross loan (banks' book) - bn FCFA	1283	1021	1028	1059	988	992	1006
Gross loan - annualized growth rate	1.2	-20.5	0.7	3.0	-6.7	2.2	1.8
Other							
Foreign-currency-denominated loans to total loans	0.1	0.5	0.4	0.3	0.2	0.1	0.1
Foreign-currency-denominated liabilities to total liabilities	…	…	…	…	1.5	1.7	1.2

Source: Banking Commission of Central Africa (COBAC).

1. Calculated according to the Basel I guidance.

2. Return in ROE is calculated based on annualized net profit before tax.

Annex I. External Sector Assessment

Overall Assessment: The external position of Equatorial Guinea in 2023 is assessed to be substantially weaker than the level implied by medium-term fundamentals and desirable policies reflecting the decline in hydrocarbon production and delayed structural reforms to diversify the economy, which has led to a significant erosion of competitiveness. The country's external position remains evaluated as substantially weaker as in the assessments conducted in 2022, 2021 and 2019 indicating persistent significant external imbalances.

Potential Policy Responses: Structural and fiscal reforms aimed at bolstering national savings and stimulating productive private investment are imperative to address external sector imbalances. These policies should prioritize enhancing public savings and fostering medium-term competitiveness by increasing non-hydrocarbon productivity and promoting economic diversification. This entails implementing reforms across various sectors, including the business environment, governance, financial sector, and human capital, alongside ensuring the efficient allocation of government expenditures.

Foreign Assets and Liabilities: Position and Trajectory

Background. Net foreign assets (NFA) as a percentage of GDP rose from 9.9 percent in 2022 to an estimated 12.9 percent in 2023, with reserves held at BEAC accounting for 9.7 percent of GDP. The lower in NFA (as a share of GDP) at BEAC in 2023 can be attributed to the unwinding of the factors that drove the record accumulation of international reserves of US$1,391 million in 2022 to a much lower accumulation in 2023 of only US$36 million. Specifically, the decline in the exports from 48.1 percent to 29.4 percent of GDP and significantly lower FDI in the hydrocarbon sector, reaching 1.2 percent in 2023, compared to 10.3 percent of GDP in 2022, primarily due to reduced reinvested earnings on direct investment, contributed to the lower accumulation of NFA in 2023.

Assessment. In the coming years, Equatorial Guinea is expected to experience a reduction in the accumulation of international reserves. Projections indicate an average decrease of 1.0 percent of GDP from 2024 to 2029. It is anticipated that 2024 will mark the last year of accumulating reserves, estimated at around 0.6 percent of GDP. From 2025 onward, the dynamics of NFA will reflect the anticipated decline in hydrocarbon production and exports, as well as decreased inflows of FDI.

Current Account

Background. In 2023, Equatorial Guinea's current account balance recorded an estimated deficit of -0.7 percent of GDP, indicating a deterioration compared to the previous year's surplus of 2.1 percent of GDP. Despite the extraordinary hydrocarbon exports in 2022, which accounted for a substantial 47 percent of GDP, in 2023 these exports represented only 28.1 percent of GDP, even lower than pre-pandemic levels that averaged around 39 percent of GDP. The decline in hydrocarbon exports in 2023 was a contributing factor to the lower trade balance surplus of 17 percent of GDP (35 percent in 2022). Additionally, the recorded outflows account, stemming from lower repatriation of retained earnings compared to 2022, continued to offset the effects of the decreased trade balance surplus in the current account.

The global rebound from the pandemic-induced economic downturn in 2021 and 2022 significantly contributed to the positive trajectory of the current account, buoyed by improved oil and gas prices. After historically experiencing deficits, averaging -12.4 percent of GDP between 2015–19, the current account reversed course and achieved a surplus for two consecutive years. However, Equatorial Guinea's current account deficits are projected to average 2.7 percent of GDP from 2024–29, with a projected deficit of -3.9 percent of GDP in 2029. These deficits are primarily driven by the diminishing production and exports of hydrocarbons.

Equatorial Guinea: EBA-lite Model Results, 2023

	CA model 1/	**REER model** 1/
	(in percent of GDP)	
CA-Actual	**-0.7**	
Cyclical contributions (from model) (-)	0.6	
Natural disasters and conflicts (-)	-0.1	
Adjusted CA	**-1.3**	
CA Norm (from model) 2/	**4.3**	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	**4.3**	
CA Gap	**-5.5**	**-3.0**
o/w Relative policy gap	9.1	
Elasticity	-0.3	
REER Gap (in percent)	**21.2**	**11.5**

1/ Based on the EBA-lite 3.0 methodology

2/ Cyclically adjusted, including multilateral consistency adjustments.

Assessment. The staff assesses Equatorial Guinea’s external position for 2023 as substantially weaker than the level implied by medium-term fundamentals and desirable policies. The EBA-lite CA model is consistent with an estimated CA gap of –5.5 percent of GDP, representing a worsening with respect to the estimated CA gap of –4.5 percent of GDP estimated in the 2022 ESA. The decline in the estimated CA norm reflects lower hydrocarbon net exports for 2023 and lower expected growth. The CA gap is mainly driven by a negative unexplained residual component interpreted as reduced competitiveness relative to the rest of the world. Therefore, closing the CA gap mainly requires structural reforms that improve Equatorial Guinea's competitiveness. The assessment is done with preliminary/estimated 2023 BOP data.

Real Exchange Rate

Background. In 2023, the Real Effective Exchange Rate (REER) exhibited a notable appreciation of 0.6 percent, marking a significant increase compared to the -6.5 percent depreciation seen in 2022, despite the decline in the terms of trade. Similarly, the Nominal Effective Exchange Rate (NEER) experienced an appreciation of 3.9 percent in 2023, contrasting with the depreciation of 4.4 percent observed in 2022.

Assessment. The real effective exchange rate is assessed as overvalued in 2023. This result is derived from the estimated EBA-Lite CA gap using a trade semi-elasticity of -0.3 that suggests a REER gap (REER overvaluation) of 21.2 percent, which is higher than the 16.7 estimated overvaluation in 2022. Eliminating the estimated REER overvaluation requires structural reforms that improve competitiveness in the medium-term. The EBA-lite REER model estimates a lower REER overvaluation of 11.5 percent.

Capital and Financial Accounts: Flows and Policy Measures

Background. Similar to previous years, Equatorial Guinea's financial inflows in 2023 were primarily driven by FDI, particularly towards hydrocarbon projects, adding up to 1.2 percent of GDP. This figure represents a significant decrease from the record high of 10.3 percent of GDP observed in 2022, and it is explained by reduced reinvested earnings on direct investment.

It is anticipated that FDI inflows into the hydrocarbon sector will diminish over the coming decade due to the depletion of hydrocarbon resources and the potential decline in oil and gas prices.
With successive CA deficits projected, the expected decrease in FDI highlights an emerging structural external financing need. This underscores the importance of implementing proactive structural reforms aimed at boosting non-hydrocarbon GDP and facilitating significant economic diversification which could potentially attract FDI inflows into non-hydrocarbon sectors.

Assessment. In the medium term, Balance of Payments financing needs are anticipated to persist at elevated levels, requiring a strong commitment to implement structural and fiscal reforms.

Annex II. Timeline of Structural Governance Reforms

Table 1. Equatorial Guinea: Governance Reform Dimensions timeline

(a) Actions Met – Stages 1 through 4

(Color scheme: red = critical initial reforms; blue = ongoing reform progress; green = MT/LT goal)

REFORM DIMENSION	**Stage 1: 2018 SMP** *Initiation of International Monetary Fund (IMF)-Supported Governance Reforms*	**Stage 2: 2019 EFF** *First IMF-financed support of Governance Reforms amidst Steep Learning Curve, Limited Ownership and Multiple Shocks*	**Stage 3: 2021 RFI** *Emergency Lending and Retake of IMF-Supported Governance Agenda*	**Stage 4: Post-EFF and RFI** *Authorities continuing efforts on Governance Reforms during 2023*
Improve the Business Environment	Reform the foreign investment legislation by removing the local partner requirement			Operationalized the online visa platform Signed management contracts for the Malabo airport and Bata port.
Hydrocarbon Transparency	All oil and gas contracts were shared with IMF staff Hire an auditor for the state-owned hydrocarbon companies and reconcile hydrocarbon output with revenue data. (Met with delay)	Active oil and gas contracts shared with BEAC. Publication of comprehensive hydrocarbon data and information report for 2019. Publication of audits of GEPetrol and Sonagas (Met with delay)		
Rule of Law		Upload of first set of legal frameworks to the Official Gazette.	Issuing regulations to require beneficial ownership information of companies awarded contracts for COVID and Bata spending.	

Table 1. Equatorial Guinea: Governance Reform Dimensions timeline (continued)
(a) Actions Met – Stages 1 through 4

(Color scheme: red = critical initial reforms; blue = ongoing reform progress; green = MT/LT goal)

REFORM DIMENSION	**Stage 1: 2018 SMP** *Initiation of IMF-Supported Governance Reforms*	**Stage 2: 2019 EFF** *First IMF-financed support of Governance Reforms amidst Steep Learning Curve, Limited Ownership and Multiple Shocks*	**Stage 3: 2021 RFI** *Emergency Lending and Retake of IMF-Supported Governance Agenda*	**Stage 4: Post-EFF and RFI** *Authorities continuing efforts on Governance Reforms during 2023*
Fiscal Accountability and Transparency	Start publication of quarterly data on the central government accounts for 2015–17 Hire auditor to conduct audit of domestic arrears[1] (Met with delay)	The Ministry of Finance, Economy and Planning operationalized a system to track and control expenditure commitments.	Preparation of list of assets for privatization and list of assets that will be subject to other forms of private management	Passing of law limiting the recourse to non-competitive tender in the public procurement code
			Hire an international independent audit firm and start the audit of COVID-related expenditures.	Continued progress in the repayment of domestic arrears to construction companies.
			Hire an international independent firm to audit Bata emergency response expenditures.	Deployment of the IT customs system ASYCUDA in the Luba port (in addition to Malabo)
			Establish two escrow accounts at BEAC-one for COVID and one for Bata emergency spending.	Progress in advancing the new debt IT management system.
			Completion and Publication of COVID expenditures related audits	Passing of law establishing a Treasury Single Account
			Publication of procurement contracts and beneficial ownership information of awarded entities for COVID and Bata emergencies signed since the adoption of the new regulation.	
Anti-Corruption Framework	Ratify the UN Convention Against Corruption	Authorities published their Governance Strategy after Governance Diagnostic Report.	Conclusion of draft legislation for the asset declaration of public officials and the operation of the Anti-Corruption Commission with IMF-Supported TA	Funding allocation to the anti-corruption commission in the 2024 budget

[1] The audit was completed and is the basis of the ongoing preparation of an arrear's clearance plan.

Table 1. Equatorial Guinea: Governance Reform Dimensions timeline (concluded)

(b) Ongoing Policy Actions – Stages 5 and onwards

(Color scheme: red = critical initial reforms; blue = ongoing reform progress; green = MT/LT goal)

REFORM DIMENSION	Ongoing and Moving Forward	
	Stage 5: **SMP SB** *Showing traction in the reform agenda* During 2024	**Continuous Commitment to the Ongoing Reform Agenda** Medium to Long-Term
Improve the Business Environment		Legal, business, and regulatory frameworks facilitate the establishment and success of firms
Hydrocarbon Transparency	Publish the licenses and contracts in the extractive sector.	Enhanced transparency and accountability in the hydrocarbon sector comparable to the expectation of an EITI member country in good standing.
Rule of Law		Operationalization of archiving practices and referencing of legal frameworks. Application of existing legal frameworks.
Fiscal Accountability and Transparency	Publish the audit of Bata related expenditures Develop a comprehensive and time-bound plan to clear domestic arrears. Deploy ASYCUDA at Bata port	Substantial improvement in public finance management and revenue administration to better control expenditure as well as implement tax policy.
Anti-Corruption Framework	Approve the implementing regulation for the anti-corruption commission Begin publishing asset declarations of senior public officials	Full operationalization of the ACC and the asset declaration regime.
AML/CFT	Prepare and publish a comprehensive AML/CFT national strategy	Alignment with international best practices on guidelines and enforcement of AML/CFT

Annex III. Risk Assessment Matrix[1]

Risks	Relative Likelihood	Expected Impact if realized	Recommended Policy Responses
Conjunctural Risks			
Intensification of regional conflict(s). Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	High (↑)	High ST	As an oil and gas exporter, save windfall hydrocarbon earnings to rebuild macroeconomic buffers. Adopt temporary fiscal measures to protect food security for vulnerable population. Diversify non-traditional sectors. Vigilantly monitor financial sector developments in coordination with CEMAC.
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts, export restrictions, and OPEC+ decisions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, cross-border spillovers, and social and economic instability.	High (↑) (↓)	High ST	As an oil and gas exporter, save windfall hydrocarbon earnings to rebuild macroeconomic buffers. Provide temporary and targeted transfers to the vulnerable. Allow a gradual pass-through of international prices phasing out generalized subsidies.
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation causing sudden stops in EMDEs.	Medium (↓)	High ST, MT	Enhance competitiveness to support economic recovery. Diversify nontraditional revenues. Vigilantly monitor the financial sector development in coordination with CEMAC.
Domestic Risks			
Weak governance and capacity. Slow or stalled implementation of policy reforms, affecting business environment, investment, productivity, economic diversification, and inclusion.	High (↓)	High ST, MT	Press ahead with governance and PFM reforms; request technical assistance and training to raise capacity.
Banking sector weaknesses. Further delays in restoring the soundness of the banking sector would affect non-hydrocarbon growth and could worsen the fiscal and external balances.	High (↓)	High ST	Expedite the settlement of domestic arrears and take actions to restructure the largest systemic bank.

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

Appendix I. Letter of Intent

Malabo, June 27, 2024

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

Dear Madame Georgieva:

A steady decline in oil production since its peak in 2014 has led to a deterioration of macroeconomic conditions in Equatorial Guinea. Our economy has broadly been in recession over the past decade. Fiscal revenues and exports also decreased, straining the country's fiscal and external balances. This has limited our contributions to the regional reserves and led to elevated domestic arrears, which in turn translated into difficulties in the banking sector. While higher hydrocarbon prices in 2022 improved macroeconomic conditions, the respite proved temporary and our medium-term outlook remains challenging, with hydrocarbon production expected to contract by 32 percent between 2024 and 2029.

The Equatoguinean government has recently made progress on reforms to address these challenges despite significant headwinds, including the dual shocks of the COVID-19 pandemic and the Bata 7M explosions. We have been taking steps to help diversify the economy through improvements in the business environment and measures to improve governance to create conditions for private sector-led growth. We have been adjusting our fiscal policy to structurally lower hydrocarbon revenues through rationalized expenditure and efforts to improve our revenues. The government has also worked to ensure financial system stability not only through reducing domestic arrears but also by intervening to improve the situation of the large systemic bank. Likewise, we have also taken measures to support social development outcomes and works towards better sharing prosperity in our country.

The main objective of our economic program going forwards is to further adjust our economy to the effects of the secular decline in hydrocarbon production. This includes: (i) fostering economic diversification through additional structural policies to improve the business environment and continue reducing governance vulnerabilities in order to encourage private investment and generate stronger non-hydrocarbon growth; (ii) ensuring long-term fiscal sustainability in the face of structurally lower hydrocarbon revenues; (iii) restoring the soundness of our banking sector so that it can fully support private sector activity in the economy; and (iv) further improving social development indicators.

The government believes that the policies described in the attached MEFP are adequate measures to achieve this main objective of continuing to adjust the economy to the effects of the secular decline in hydrocarbon production. If necessary, the government stands ready to take any additional measures that may be required. The government will consult with the International Monetary Fund (IMF) on the adoption of these measures and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

The government of Equatorial Guinea is interested in a financing program supported by the IMF and considers the present staff-monitored program (SMP) as a necessary step to formalize our track record of achievement in reform implementation, with a duration of 12 months. The SMP agreed with the IMF would help us to build an adequate track record of policy implementation and pave the way towards the negotiation of a potential IMF financing arrangement. Given the various macroeconomic and structural challenges that we face, sustained multilateral engagement over the medium term is essential, including through the provision of technical assistance and capacity development in priority areas.

Program implementation will be monitored through reviews based on semi-annual test dates, with the first scheduled to be completed by end-November 2024. The structural benchmarks and quantitative and indicative targets under the program are set out in tables 1 and 2 of the attached MEFP. The government will also provide IMF staff with all the relevant information required (as established in the Technical Memorandum of Understanding) to complete program reviews and monitor performance.

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

Very truly yours,

/s/

Fortunato Ofa Mbo Nchama

Minister of Finance

Attachment I. Memorandum of Economic and Financial Policies

I. BACKGROUND AND RECENT DEVELOPMENTS

1. **After briefly exiting recession in 2022, the Equatoguinean economy is estimated to have contracted by 5.9 percent in 2023.** Windfall revenues from high hydrocarbon prices in 2022 offered brief respite to our economy after seven consecutive years of recession. Although we registered a fiscal surplus of 13.6 percent of GDP in 2022, revenue fell considerably in 2023 due to lower global oil prices and the permanent closure of a major oil production platform in the Zafiro field. Our current account surplus in 2022 was reversed in 2023 due to a sharp decline in the international price of oil. In response to high global food prices the government adopted measures that led to a reduction in inflation from 4.9 percent in 2022 to 2.5 percent in 2023, a level below the benchmark established by CEMAC.

2. **Our macroeconomic situation is expected to remain challenging over the medium term.** The secular decline in hydrocarbon production will increase pressure on our overall fiscal and external balances and affect our ability to support inclusive growth. Fundamental shifts in our economy and investment in human capital are needed to reduce our reliance on hydrocarbons through robust private sector-led non-hydrocarbon growth. We recognize that achieving these goals will require additional substantial policy effort and commitment to the reform agenda.

II. RECENT REFORM ACHIEVEMENTS

3. **We have made progress on structural reforms despite significant difficulties.** Our EFF program was signed in December of 2019. During the following two years, the country faced a series of external and domestic shocks, such as the COVID-19 pandemic, the March 2021 explosions in Bata and the invasion of Russia in Ukraine. These events forced the government to divert public resources to emergency response efforts. The international mobility restriction measures imposed to control the COVID-19 pandemic made it impossible to host in-person missions for the EFF program review. Even with these challenges, the Government has made progress in implementing important reform measures.

4. **We continued to improve public financial management as well as tax and customs administration.** We executed a 2023 budget that increased spending efficiency, prioritized health and education spending to boost human capital, and made significant advances on a new digital debt management system. We used the 2021 RFI disbursement to increase our reserves at BEAC and paid a total of CFAF 79.329 million to reduce domestic arrears in 2022 and 104.852 million in 2023, prioritizing the debt of the banking sector. We have established new procedures for the budget preparation process, as well as for expenditure approvals, tracking and monitoring. In 2023, we adopted a law to provide the legal framework for the Treasury Single Account. We have installed the digital customs platform (ASYCUDA) in Luba and Malabo and have adopted measures to revamp the

organization and functional structure of tax and customs services, in line with Fund advice. Besides the reforms described above, the Government issued the Decree Number 9/2024 on February 7 containing a series of measures to improve the management and health of public finances.

5. We have implemented measures to guarantee the stability of the financial system. We have focused specially on improving the situation of the large systemic bank. We have: (i) eliminated debt arrears related to loans issued by the bank; (ii) accelerated the payments of government bonds on the balance sheet of the bank to improve its liquidity; and (iii) absorbed a significant part of the non-performing loans of the bank in exchange for a loan issued by the bank to the government. The National Agency of Financial Investigations (ANIF, for its acronym in Spanish) has made progress in the area of Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT)

6. We reformed the legal framework to combat corruption and committed to its full implementation, while acknowledging the need for stronger capacity development (CD)
Our commitment to progress on our governance agenda has focused on the following areas:

- *Anti-corruption*. We approved an Anti-Corruption law in May 2021 with the goal of creating: (i) norms ruling the behavior of public servants; (ii) a system for asset declarations; (iii) the National Commission for Preventing and Fighting Corruption (the Anti-Corruption Commission–ACC) and (iv) protection framework for whistleblowers. In 2023 we continued to progress on the regulations for the asset declaration system and the ACC. In support of implementation, we also approved a budget allocation for the ACC in 2024.

- *Transparency*. In 2022 we conducted audits of COVID and Bata emergency spending to demonstrate accountability in procurement. The COVID audit is finalized and published, and we are currently discussing with the independent auditor on the last stages to publish the Bata audit. We began publishing the procurement contracts and beneficial ownership information for COVID expenditures. The publication for the procurement contracts of Bata related expenditures will follow the final clearance of the auditor. In September 2022 we published the independent audits of GEPETROL and SONAGAS on the Ministry of Finance and Budget website. Likewise, we have continued to pursue membership in the Extractive Industry Transparency Initiative (EITI) by reactivating the national preparatory group in 2023. In early 2024, we held informational sessions with private companies, civil society, local government officials, and students to discuss how they can participate in the EITI process.

7. We have taken steps to improve social conditions, notably in response to unexpected events. We stepped up our efforts to support our vulnerable population through initiatives to support victims of the Bata explosions and to subsidize food products in response to high global prices. We have continued with the construction, equipping and commissioning of new hospitals and we continue the implementation of *Distritos Sanitarios* to increase healthcare coverage. We took steps to expand education access by building education infrastructures across the country and focusing on growing urban and peri-urban areas. Currently, more than 2,000 children in private schools from vulnerable families benefit from scholarships. We produced a draft social protection law that establishes a framework for expanding social protection programs. We have made efforts to improve the reporting of social spending data and we are finalizing a household survey with support from the World Bank, which will help us develop better targeted social policies.

III. PROGRAM OBJECTIVES AND STRATEGY UNDER THE SMP

8. We are fully committed to implementing a structural reform agenda. We recognize that the era of windfall hydrocarbon revenues is over. It is critical that we enact measures to diversify our economy away from reliance on hydrocarbons and improve social outcomes for our population. The SMP will allow us to establish a reform track record through implementation of priority reforms of the Government in the short and medium terms. Our reform agenda will focus on (i) ensuring fiscal sustainability; (ii) restoring the soundness of our banking sector; (iii) fostering non-hydrocarbon growth and improving social outcomes; and (iv) improving governance.

9. Our economic program for 2024 focuses on measures to improve public financial management, strengthen our fiscal infrastructure, bolster our financial sector, and improve transparency and governance. Our priority reform areas are defined by our objective to stimulate private sector-led non-hydrocarbon growth. Our government recognizes that such growth requires continued progress on measures to improve the efficiency of public spending, restore confidence in the domestic financial system, and strengthen the rule of law.

IV. MACROECONOMIC PROGRAM

A. Fiscal Policy

10. We are committed to deliver a fiscal adjustment this year in line with the objective of the 2024 budget. Our goal is to improve the non-hydrocarbon primary balance (NHPB), our operational target, by 3.1 percentage points of non-hydrocarbon GDP relative to last year (**quantitative target**). Even though we expect that non-hydrocarbon revenues as a share of NHGDP will remain at the level of last year (**quantitative target**), we will implement measures to save on spending in several budget categories, including goods and services, capital and subsidies.

11. We will continue phasing out the costly and inefficient fuel subsidies to avoid an unnecessary burden to the Treasury. We recognize that the gradual phase-out must be performed in a way that protects vulnerable households. We will develop policy options for phasing out fuel subsidies that evaluate/mitigate the impact on the population and especially the vulnerable (**structural benchmark, end-July 2024**). We intend to begin implementing the selected reform option in 2024.

12. We will finalize a plan to clear domestic arrears. We recognize that the clearance of arrears is critical to long-term fiscal sustainability and to restoring confidence in the domestic financial system. Under the 2019 EFF program, we cleared almost half of the initial stock of domestic arrears, amounting to CFAF 572.2 billion (9.5 percentage points of GDP). We are developing a comprehensive and time-bound plan to clear audited domestic arrears (**structural benchmark,**

end-August 2024), amounting to CFAF 582.8 billion, that will take into account its impact on the financial position of the undercapitalized commercial banks. We also commit to zero net accumulation of domestic arrears (**indicative target**) under the SMP.

13. We recognize the need for additional adjustment beyond 2024 to ensure public debt and external sustainability. We will target further improvements in the NHPB. This will require a rationalization of expenditures, including the reduction of fuel subsidies, optimized public investment that will shift spending priorities towards productive investment and human capital accumulation, as well as more adequate and better-targeted social expenditure. The latter will aim to both provide a stronger social safety net and aim to increase the supply of skilled domestic labor to support private sector development. Fiscal adjustment will also require stronger non-hydrocarbon revenues to compensate for the expected structural loss of hydrocarbon revenues in the medium-term. To this end, we will seek CD to help us identify and calculate the yield of potential tax policy measures. We are committed to approve the new tax law this year and expect that it will substantially increase non-hydrocarbon revenue starting in 2025. This will contribute to the additional adjustment of the non-hydrocarbon primary balance in 2025 in line with public debt and external sustainability in the medium and long run. We commit to submitting to the Parliament a 2025 budget consistent with the objectives of the program (**structural benchmark, end-December 2024**).

B. Structural Fiscal Reforms

14. We aim to implement a comprehensive structural reform agenda to support the execution of our fiscal policy and reduce our reliance on hydrocarbon revenues.

- *Expenditures*. We aim to revamp our system of approving and tracking expenditures—which is already functioning for current expenditures— through a package of structural measures to ensure execution of expenditures in line with the budget and prevent accumulation of arrears. To achieve this objective we plan: (i) to adopt a new public procurement code in line with international practices and implement standard procedures that require approval by the Ministry of Finance and Budget for the acquisition and disposal of public property; (ii) to connect during this year all the ministries through the IT systems for expenditure tracking and treasury operations, in accordance with other efforts to digitize government processes; (iii) to ensure that investment spending is completely included in the system of spending tracking; and (iv) to guarantee that all investment spending is approved by the Ministry of Finance and Budget so that the execution is in line with the approved budget. This will facilitate the monitoring of budget execution and regular reporting of accounting and financial statements. We will continue implementing the treasury single account, including the identification of all government accounts. We are also planning to receive a diagnostic CD on public financial management this year that will help identify further areas for reform.

- *Revenues*. We will continue to implement measures to increase non-hydrocarbon revenues through the new tax law that is currently under Parliament’s consideration. We will also continue promoting effective tax collection and increasing the number of private businesses registered with the tax office. Likewise, we will also verify the current stock of tax arrears and develop a plan to reduce it through more effective enforcement of tax penalties. We aim to compile and quantify an inventory of tax exemptions and launch an inventory of public real estate. We are working with the African Development Bank to modernize our tax administration, focusing on digitalization and human resources training. These steps will support the strengthening of the large taxpayer unit jointly with potential CD from the IMF.

- *Customs Administration*. We will finish deploying ASYCUDA in Bata by the end of the year (**structural benchmark, end-December 2024)** and plan to gradually introduce it in all entry points afterwards with technical support from UNCTAD. Likewise, we plan to control and rationalize customs exemptions in line with CEMAC's customs code.

- *Social Spending.* Increasing social spending and protection of our vulnerable population are fundamental for promoting more inclusive growth. We commit to publish the results of the household survey this year. The results will allow us to better understand poverty dimensions and support the gradual introduction of social safety nets. We aim to adopt the social protection law, work to organize and operationalize social protection policies with the support of development partners, and to gradually increase social spending (**indicative target**). We are prioritizing the construction and remodeling of schools focusing on growing urban and peri-urban areas where there is lack of classrooms. We will start the second Demographic and Health Survey in 2024, to improve the collection of health information, and to inform the National Plan of Public Health Development (*Plan Nacional de Desarrollo Sanitario*) 2026–30.

C. Addressing Financial Sector Vulnerabilities

15. We recognize the need to continue strengthening the banking sector and prevent vulnerabilities that could weaken the financial system. The government recognizes that confidence in the domestic financial system is foundational to attracting private investment and fostering private sector led growth. It follows that restoring confidence in the domestic banking sector is of the utmost priority within the context of our broader macroeconomic reform program.

16. In line with this priority, the Government is taking necessary steps to complete the recovery plan for the large systemic bank. In this respect, the Government created a high-level commission to guarantee the recovery of the bank's portfolio. As next steps, we commit to:

i. Conduct an audit of the bank's accounts as of December 31st, 2023, by an international audit firm whose report will be shared with the IMF (**structural benchmark, end-July 2024**)

ii. Continue the efforts of recovering the banks' portfolio by the high-level commission.

iii. Freeze the distribution of dividends with the objective of strengthening own funds.

iv. Take actions to facilitate the selection of a strategic partner, including the preparation of an assessment of the market value of the bank.

17. Beyond 2024, we will work to ensure the health of the entire financial system and implement our National Financial Inclusion Strategy. The government recognizes that ensuring stability in the financial system is critical to providing an environment in which private investors and entrepreneurs can obtain financing and confidently hold their assets. We will continue working so that all private banks respect capital requirement regulations. Expanding the availability of commercial banking services with convenient access is critical for increasing financial inclusion under our broader national development agenda, improving tax collection, increasing the base of taxpayers, and reducing the informal economy. Determined to stimulate private sector growth, we will collaborate closely with domestic commercial banks to facilitate access to mobile banking platforms and electronic payment systems that will increase the efficiency of business processes and reduce costs.

D. Improving Governance and Transparency

18. Consistent with our efforts to increase the effectiveness of macroeconomic policy and create a favorable business environment, we remain committed to improving governance, enhancing transparency, and fighting corruption. Building on our progress under the 2019 EFF program, we intend to implement reforms that improve governance in service of our shared goals of reducing corruption and creating an attractive environment for private investment and business creation. We have identified five pillars of our governance reform agenda that address gaps in our domestic institutional framework:

- *Transparency and Accountability*. The government recognizes the critical importance of transparent management of public finances. We commit to finalize and publish on a governmental website the audit of Bata-related expenditures (**structural benchmark, end-August 2024**). Likewise, we commit to the publication of the final beneficiaries of COVID and Bata emergency spending on the Ministry of Finance website.

- *Rule of Law*. A strong and independent judiciary is critical to fostering an environment that is conducive to private investment. Private actors must have confidence that their contracts and property rights can be credibly enforced. With the aim of increasing transparency in the judicial system, we have published all laws and decrees issued since 2022 on the website of the Official Gazette, and we are updating this website periodically as new legal frameworks are issued. We will work as much as possible on progressively publishing all the laws and decrees issued prior to 2022.

- *Regulatory Framework*. We will work with the Chambers of Commerce and other representatives to improve data availability of private sector activities. This is important to enable targeted government support to the private sector and boost its resilience. The government will work on a technological solution to interconnect the two commercial registries (Malabo and Bata) to facilitate the exchange of real-time information on the private sector.

- *AML/CFT*. We understand that strengthening our domestic AML/CFT framework is critical to protecting our population, strengthening confidence in the domestic financial system, preserving the integrity of that system and the economy in general, increasing access to foreign direct investment, and mitigating corruption. ANIF will prepare and publish on a governmental website a comprehensive AML/CFT national strategy in line with international best practices that enhances the understanding of key money laundering and terrorism financing risks in Equatorial Guinea and addresses them (**structural benchmark, end-December 2024**). The strategy will also help correct specific deficiencies in the AML/CFT framework. Pending the outcome of our Egmont Group application (expected July 2024), we plan to continue to strengthen the capacity of ANIF to provide guidance to the domestic financial system on AML/CFT best practices and investigate cases of money laundering and financing of terrorism. ANIF will also provide guidance to the domestic financial sector on preventive measures under the AML/CFT framework with a focus on customer due diligence and reporting of suspicious transactions related to politically exposed persons and ultimate beneficial ownership requirements. We are also committed to conduct a mutual evaluation with the *Group d'Action contre le Blanchiment d'Argent* (GABAC) on the AML/CFT regime under the guidelines of the Financial Action Task Force (FATF). We received the mission *in situ* during April 2024.

- *Anti-corruption*. The government is committed to the continued implementation of the anti-corruption framework as a key component of creating an environment conducive to private sector led growth. It is essential that private investors and entrepreneurs have confidence that they can operate efficiently and will not incur losses due to corrupt activity. We will adopt the implementing regulation for the functioning of the Anti-Corruption Commission, consistent with past Fund TA advice from 2022 (**structural benchmark, end-September 2024**), and will provide the financing and other resources needed for its operations. It is intended that the Commission will request TA from the IMF with regard to operationalizing the asset declaration framework. Asset declarations collected from senior public officials will begin to be published by the Anti-Corruption Commission on a publicly accessible website pursuant to the anticorruption law, if needed with human and technological support from the Ministry of Finance and Budget (**structural benchmark, end-March 2025**). We also plan to update our Good Governance and Anti-Corruption Action Plan.

- *Hydrocarbon Sector Transparency*. We recognize that it is critical to increase transparency in the hydrocarbon sector to see that revenues from hydrocarbon extraction also benefit economic diversification, with the objective of eliminating hydrocarbon dependency. The government reiterates its interest in pursuing EITI membership. In the short run, we commit to enact some of the transparency mechanisms that are recommended under the EITI. We will publish on a governmental website the contracts and licenses in the extractive industry (**structural benchmark, end-July 2024**). We will also publish a report on the extractive sector including data on production and exports, based on information from 2023. We aim to develop a plan to implement the recommendations of the GEPetrol and SONAGAS audits, with particular focus on improving corporate governance structures, internal controls, and anti-corruption measures.

E. Structural Reforms to Boost Non-Hydrocarbon Growth

19. With hydrocarbon production in secular decline, we are at a critical turning point which requires a shift in the composition of our economy and a reduction in hydrocarbon dependency. Under the 2019 EFF program, we adopted a diversification strategy and initiated several reforms in service of our strategy. We established the single point window for business registration, with the aim of reducing the time necessary to register a business. The window serves the dual purposes of reducing informality and increasing the tax base. Recently, we reviewed the windows' operation to identify areas where efficiency can be improved.

20. In 2024 we plan to implement key measures to continue improving the business environment and facilitate private sector led growth. The government recognizes that affordable and reliable access to the internet is necessary to improve the efficiency of private business operations by facilitating the exchange of information and increasing access to electronic payment systems. Even though we have reduced prices by 50 percent we recognize that the cost of internet is still high. We commit to continue implementing our digital development plan to reduce the costs of internet access and improve the quality to the end user. Finally, we recognize that to better target public support to the private sector, we must increase the quality of data available about the private sector. As a first step, we just published the findings of the business surveys that was begun under the previous program.

21. We understand that the agricultural sector is a key component of the diversification agenda, and our broader economic development strategy. Agricultural sector development would help create employment, more inclusive growth, reduce reliance on imports, and stimulate the progress of the rural sector. In the short run, we will devise a plan to reactivate our previous agricultural extension program to provide CD and support to farmers on how to improve their production. We will request CD from international partners, including the World Bank, for the formulation of the plan and financing of its implementation. In the medium term, we see potential in the production of cocoa and coffee, traditionally grown in Equatorial Guinea. However, we first need to build an inspection facility that can certify these products for export to global markets, preserve food products and position exports in international markets. We commit to forming a plan for the long-term development and future industrialization of the agricultural sector as the cornerstone of our efforts to diversify our economy away from reliance on hydrocarbons and improve social outcomes for our rural population. As a first step, we will request CD on agriculture-supportive expenditure policy to underlie our efforts.

F. Statistics

22. We recognize the importance of improving our statistics to better understand the situation and development of our economy. In 2024 we will focus our efforts on improving external sector statistics, for example, in closing the discrepancies in exports and imports statistics between INEGE and BEAC as their methodologies differ considerably. We will seek additional CD to help us identify specific short-term actions to improve the compilation of balance-of-payments data.

G. Capacity Development

23. We remain committed to capacity building to support our economic program and strengthen our domestic institutions. We plan to continue our close collaboration with the IMF and other international partners on Capacity Development (CD) efforts. We will continue to discuss with the IMF team our CD needs to help support the timely implementation of our reform program in the context of the SMP as well as identify reform priorities in the years ahead. We believe that through these collaborations we will further strengthen our institutional framework and capacity for macroeconomic policymaking and execution.

V. PROGRAM MONITORING

24. The program will have semiannual reviews monitored by means of quantitative targets, indicative targets, and structural benchmarks. These components are summarized in Tables 1 and 2. The first review is expected to be completed based on a test date of end-June 2024 by end-November 2024, and the second review based on a test date of end-December 2024 by end-May 2025. The Equatoguinean government will provide detailed information and data necessary for program monitoring as stated in the Technical Memorandum of Understanding (TMU). The TMU also includes agreed definitions and reporting procedures.

25. To ensure that the program meets its targets, the government is committed to regular consultations with IMF staff on program implementation. We will establish a high-level committee, supported by the Minister of Finance and Budget. The government will monitor the SMP through that committee, which will meet at least once per month to review SMP implementation and the compliance of all relevant policy initiatives and program commitments.

Table 1. Equatorial Guinea: Quantitative Targets and Indicative Targets

(Billions CFA Francs, cumulative for each fiscal year)

	End-June 2024	End-Sept. 2024	End-Dec. 2024
	QT/IT	IT	QT/IT
A. Quantitative targets (QTs)			
Floor on non-hydrocarbon revenue of the central government[1]	89	134	224
Floor on non-hydrocarbon primary balance of the central government[1]	-651	-922	-1,084
Ceiling on external debt arrears accumulation by the central government[2]	0	0	0
Ceiling on contracting and guaranteeing new external debt by the central government	177	177	177
Ceiling on net BEAC credit to the central government	69	69	69
B. Indicative targets (IT)			
Ceiling on net accumulation of domestic arrears by the central government	0	0	0
Ceiling on net commercial bank credit to the central government	-134	-134	-134
Floor on social spending	53	79	132

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

[1]This quantitative target will apply cumulatively.

[2]This quantitative target will apply continuously.

Table 2. Equatorial Guinea: Structural Benchmarks, 2024–25

Measure	Purpose	Target Date
Governance, Anticorruption and AML/CFT		
Publish on a governmental website the licenses and contracts in the extractive sector	Increase transparency and public accountability.	End-July 2024
Publish on a governmental website the audit of Bata related expenditures	Increase transparency and public accountability.	End-August 2024
Develop a comprehensive and time-bound plan to clear domestic arrears.	Support the government in its financial soundness and debt management strategy geared towards medium-term growth sustainability.	End-August 2024
Adopt the implementing regulation for the functioning of the Anti-Corruption Commission, consistent with past Fund TA advice from 2022	Enhance the regulatory framework	End-September 2024
Deploy ASYCUDA in Bata	Improve fiscal goverancne and revenue administration	End-December 2024
Prepare and publish on a governmental website a comprehensive AML/CFT national strategy in line with international best practices that enhances the understanding of key money laundering and terrorism financing risks in Equatorial Guinea and addresses them	Fight corruption and improve AML/CFT.	End-December 2024
The Anti-Corruption Commission begins publishing asset declarations collected from senior public officials on a publicly accessible website pursuant to the anticorruption law, if needed with human and technological support from the Ministry of Finance and Budget	Increase transparency and public accountability.	End March, 2025
Fiscal Policy and Administrative Measures		
Develop policy options for phasing out fuel subsidies that evaluate and mitigate the impact on the population and especially the vulnerable	Ensure fiscal sustainability	End-July 2024
Submit to Parliament a 2025 budget consistent with program objectives.	Ensure fiscal sustainability	End-December 2024
Financial Sector		
Conduct an audit of the systemic public bank's accounts as of December 31, 2023 by an international auditing firm whose report will be shared with the IMF	Ensure financial soundness	End-July 2024

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 Staff Monitored Program (SMP). More specifically, it describes: (a) reporting procedures; (b) definitions and calculation methods; (c) quantitative and indicative targets (QTs and ITs); (d) adjustors for quantitative and indicative 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 March 28th, 2024, namely:

CFAF 606.75 to USD 1;

CFAF 655.96 to EUR 1;

CFAF 83.96 to CNY 1;

CFAF 481.07 to GBP 1; and

CFAF 802.99 to SDR 1.

3. Program exchange rates for any currency not mentioned above will be computed based on the official rates used by the IMF for March 28th, 2024.[1]

I. REPORTING TO THE INTERNATIONAL MONETARY FUND

4. Data on all the variables subject to quantitative targets shall be transmitted periodically to the International Monetary Fund (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.

II. QUANTITATIVE TARGETS: DEFINITION OF VARIABLES

5. 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

[1] Published here: Exchange Rate Report Wizard (imf.org)

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.

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

7. 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 Revenue

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

9. **Hydrocarbon revenue** is defined as the sum of hydrocarbon tax and hydrocarbon nontax revenue. Hydrocarbon tax revenue is defined as in Article 456.1 (on Hydrocarbon 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. Hydrocarbon non-tax revenue is defined as the sum of 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).

10. The authorities shall notify the IMF staff if changes in the fiscal regime for hydrocarbon production leads to fluctuations in revenue flows. Hydrocarbon revenues are recorded on a cash basis.

11. **Reporting.** The data shall be reported to the IMF no later than 75 days after the assessment date.

B. Cumulative Floor for Central Government Non-Hydrocarbon Primary Balance

12. **Definition.** The **non-hydrocarbon primary balance** is defined as non-hydrocarbon revenue (not including income from interest on government assets), less non-hydrocarbon primary government expenditure.

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

14. 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)).

15. Non-hydrocarbon primary government expenditure is defined as the sum of total expenditure of Central Government less interest payments (on domestic and foreign debt) and hydrocarbon-related expenditures made by GEPetrol on behalf of the Government.

16. Total central government expenditure is the sum of personnel expenses, current expenditures in goods and services of the government, transfers and subsidies, interest payment (national and foreign) and capital expense or investment. All these expenses are registered on an accrual basis, unless otherwise indicated. The definition of all the accounts is the observed in GFSM 2001 (paragraphs 6.1-6.88).

17. Reporting. Data shall be sent to the IMF no later than 75 days after the assessment date.

18. Adjuster. In the event of any additional external grant for budget support to the government as it relates to the reference projection (Table 1), the floor of the non-hydrocarbon primary balance shall be adjusted upwards by the full amount of the grant.

Table 1. Equatorial Guinea: External Grants for Budget Support
(Baseline Projection)

Cumulative flows from the beginning of the fiscal year	(in CFAF billions)
End-June 2024	0
End-September 2024	0
End-December 2024	0

C. Ceiling on Net BEAC Credit to the Central Government

19. 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.

20. Adjuster. 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 debt disbursements (Table 2).

(b) Downwards by the excess, relative to program projections, in external debt disbursements (Table 2).

Table 2. Equatorial Guinea: Central Government External Debt Disbursements
(Baseline Projection)

Cumulative flows from the beginning of the fiscal year	(in CFAF billions)
End-June 2024	177
End-September 2024	177
End-December 2024	177

21. Reporting. Data shall be reported to the IMF no later than 75 days after the assessment date.

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

22. Definition. For the purposes of the relevant assessment targets, 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.

23. 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.

24. For purposes of this memorandum, the term **debt** is defined as follows:[2]

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:

(a) **Loans,** are the 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).

[2] 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.

(b) **Suppliers' credits** are 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.

(c) **Leases,** i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property. For program purposes, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

(d) 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.

25. Reporting. Data shall be reported to the IMF no later than 75 days after the assessment date.

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

26. Definition. External arrears are defined as any external debt obligation (as defined in paragraph 22) 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.

27. Reporting. Given that this performance measure is applied continuously, the authorities will report to IMF staff any external payment arrears immediately when they arise.

28. Coverage. This quantitative performance target covers external arrears resulting from debt contracted or guaranteed by the central government. The QT excludes arrears on external financial obligations of the government subject to debt rescheduling. **Monitoring.** This performance criterion is applied on a continuous basis.

III. INDICATIVE TARGETS: DEFINITION OF VARIABLES

F. Net Accumulation of Domestic Arrears by the Central Government

29. 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.

30. Reporting. Data shall be reported to the IMF no later than 75 days after the assessment date.

G. Ceiling on Net Commercial Bank Credit to the Central Government

31. Definition. Net commercial bank credit to the central government is defined as the change in the government's net position vis-a-vis the local banking system since the end of the previous year, plus the net issuances of bonds (i.e., issuances minus amortizations) during the current year in the sub-regional market (CEMAC). The ceiling on net domestic financing is not applicable to new agreements on domestic debt restructuring and securitization of domestic arrears.

32. Reporting. Data shall be reported to the IMF no later than 75 days after the assessment date.

33. Adjuster.

(a) The ceiling on net commercial bank credit to the central government shall be adjusted upward, relative to program projections, by the shortfall in net BEAC credit to the central government (Table 3).

(b) The ceiling on net commercial bank credit to the central government shall be adjusted downwards, relative to program projections, by the excess in net BEAC credit to the central government (Table 3).

Table 3. Equatorial Guinea: Net BEAC Credit to Central Government
(Baseline Projection)

Cumulative flows from the beginning of the fiscal year	(in CFAF billions)
End-June 2024	69
End-September 2024	69
End-December 2024	69

H. Floor for Social Spending by the Central Government

34. Definition. For the SMP purposes, the floor for social spending includes current expenditures in education, health, social protection, and water and sanitation. Current expenditures include: (i) funding, maintenance and rehabilitation in education, health, social protection, and water and sanitation; (ii) technical assistance in education and sanitation; (iii) wage bill for education and sanitation; (iv) social sector institutional projects; (v) goods and services purchases; (vi) subsidies and transfers to social sectors; (vii) other subsidies. The definition excludes scholarships and incentives for tertiary education.

I. Adjustor for Hydrocarbon Revenues

35. In the event hydrocarbon revenues are greater than expected under the program (Table 4), 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;

36. In the event hydrocarbon revenues are less than expected under the program (Table 4), 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.

Table 4. Equatorial Guinea: Central Government Hydrocarbon Revenues
(Baseline Projection)

Cumulative flows from the beginning of the fiscal year	(in CFAF billions)
End-June 2024	732
End-September 2024	1,097
End-December 2024	1,463

IV. INFORMATION REQUIREMENTS

37. 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 5 within 75 days after the end of the month.

Table 5. Equatorial Guinea: Reporting to the International Monetary Fund

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 and Budget (MFB)	Monthly, within 75 days from the end of the month.
Foreign deposits by the central government, by type of foreign currency and bank.	MFB	Monthly, within 75 days from the end of the month.
External financing: detailed information on disbursements, amortization, interest, exceptional financing, zero coupon bonds, and accumulation of arrears.	MFB	Monthly, within 75 days from the end of the month.
Acquisition of financial interests in hydrocarbons sector projects.	MFEP	Monthly, within 75 days from the end of the month.
Central government budget execution, broken down by category (revenues, current and capital expenditures).	MFB	Quarterly, within 75 days from the end of the month.
Breakdown of tax revenue by type of tax	MFB	Quarterly, within 75 days from the end of the month.
Total income, broken down by category.	MFB	Quarterly, within 75 days from the end of the month.
Income from hydrocarbons, broken down by type (tax or nontax).	MFB	Quarterly, within 75 days from the end of the month.
Social spending (broken down by program, capital expenditure, and current expenditure).	MFB	Quarterly, within 75 days from the end of the month.
Subsidies and transfers broken down by category.	MFB	Quarterly, within 75 days from the end of the month.

Table 5. Equatorial Guinea: Reporting to the International Monetary Fund (concluded)

Data	***Provided by***	***Frequency and target date***
III. Domestic Debt		
Stock of domestic debt by category.	MFB	Monthly, within 45 days from the end of the month.
Disbursements, bond issuances and services of domestic debt (interest and principal) by category.	MFB	Monthly, within 45 days from the end of the month.
Stock of domestic arrears (including arrears on interest payments).	MFB	Quarterly, within 75 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.	MFB	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.	MFB	Monthly, within 45 days from the end of the month.
Accounting of arrears on the external debt by creditor (if any), with detailed explanations.	MFB	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.