

Gabon: 2005 Article IV Consultation, Third Review Under the Stand-By Arrangement, and Review of Financing Assurances—Staff Report; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for Gabon

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2005 Article IV consultation with Gabon, third review under the Stand-By Arrangement, and review of financing assurances, the following documents have been released and are included in this package:

- the staff report for the combined consultation and 2005 Article IV consultation, third review under the Stand-By Arrangement, and review of financing assurances, prepared by a staff team of the IMF, following discussions that ended on February 19, 2005, with the officials of Gabon on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 16, 2005. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a Public Information Notice (PIN) and Press Release, summarizing the views of the Executive Board as expressed during its March 28, 2005, discussion of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.
- a statement by the Executive Director for of Gabon.

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

Letter of Intent sent to the IMF by the authorities of Gabon*
Selected Issues Paper and Statistical Appendix
Technical Memorandum of Understanding*
*May also be included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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GABON

Staff Report for the 2005 Article IV Consultation, Third Review Under the Stand-By Arrangement, and Review of Financing Assurances

Prepared by the African Department
(in consultation with other departments)

Approved by David Nellor and Juha Kähkönen

March 16, 2005

- Discussions on the 2005 Article IV consultation and the third review under the Stand-By Arrangement were held in Libreville during February 5-19. The mission team comprised Mr. Nord (head), Mr. Melhado, Mr. Geiregat (all AFR), Mr. Di Bella (PDR), and Mr. Saadi (FAD). The mission was assisted by Mr. Randriamaholy, the Fund's Resident Representative in Gabon. Mr. Nguema-Affane (OED) attended most meetings. The mission met with President Bongo Ondimba; the Minister of State in Charge of Finance, Mr. Toungui; the Minister of State in charge of Planning, Mr. Oyé Mba; the Central Bank National Director, Mr. Andzembé; and other senior officials. It worked closely with World Bank and African Development Bank staff on forestry issues, private sector development, and the Poverty Reduction Strategy Paper (PRSP).
- In concluding the 2003 Article IV consultation, Executive Directors commended the Gabonese authorities for moving to break with their past uneven record and embarking on a program of prudent fiscal policies and far-reaching structural reforms. Directors emphasized that the expected progressive contraction of the oil sector and related government revenues lends urgency to the need to diversify the economy and bolster non-oil growth. Directors underscored that Gabon's medium-term prospects are subject to the risks posed by its heavy debt burden, requiring a strong program to stimulate growth and place debt on a more sustainable path.
- In support of the authorities' program, and following a staff-monitored program covering September-December 2003, the Executive Board approved a 14-month stand-by arrangement on May 28, 2004, in the amount of SDR 69.44 million (45 percent of quota). The first and second reviews were concluded on September 20 and December 22, 2004, respectively.
- In the attached letter dated March 14, 2005, the authorities report on developments under the program through end-2004 and formulate objectives and policies for 2005. In view of the strong balance of payments position, they declare that they will treat the arrangement as precautionary.
- Data provision is adequate for surveillance purposes. The database is fairly comprehensive, key information relevant for surveillance is generally compiled in accordance with international standards and is provided to the staff on a timely basis.
- Gabon has accepted the obligations of Article VIII and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

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EXECUTIVE SUMMARY

The 14-month stand-by arrangement approved in May 2004 remains broadly on track. All quantitative performance criteria for end-December 2004 were met, as were most structural benchmarks. However, there were delays in some areas, notably the introduction of the new civil service law, which promised a better structural grip on the wage bill, and in fiscal transparency. And while oil production remained level in 2004 – and is expected to remain so in 2005 – its steady medium-term decline is expected to resume.

The 2005 budget targets an ambitious reduction in the non-oil primary deficit of 2 percentage points of GDP. The targeted adjustment remains appropriate and is evenly divided between reducing expenditure (notably on wages) and raising non-oil revenue. However, there are risks on the revenue side, particularly if non-oil growth fails to pick up.

Gabon has so far saved the significant oil windfall revenue, using it to reduce debt levels, pay back domestic arrears, and increase government deposits, including in the Fund for Future Generations. The oil revenue windfall represents an opportunity to address decisively the legacy of past fiscal slippages and to place the public finances on a much sounder footing. The government should seize this opportunity to reduce debt levels and hence Gabon's vulnerability to future swings in oil prices.

The key medium-term challenge for Gabon is to diversify its economy and prepare for the post-oil era, while reducing its high external debt burden. To that end, the government has initiated a far-reaching structural reform program, including the privatization of key public enterprises. However, a significant agenda remains to create an attractive environment for private sector development and make progress in reducing poverty. Work is underway to prepare a full PRSP articulating the government's medium-term strategy, which should be ready by August 2005.

Preparing Gabon for the post-oil era requires strengthening the efficiency of the public sector and providing a framework for private sector development to raise the productivity of the Gabonese economy. In the public sector, improving expenditure management especially of public investment is essential. Private sector development requires acting on the many solid recommendations by the recent report by the World Bank Group's Foreign Investment Advisory Services. Key elements among these are streamlining the regulatory framework and improving the transparency and predictability of the legal environment. Gabon's adherence to the Extractive Industries Transparency Initiative (EITI) and its timetable for meeting its requirements in the coming months are welcome.

Gabon remains keen to seek a multi-year follow-up program after the expiration of the stand-by arrangement this coming June. The staff is open to such a request, provided performance under the stand-by arrangement remains satisfactory and the foundations for a medium-term program—articulated in a high-quality PRSP—are in place.

I. INTRODUCTION

1. **During the past ten years, Gabon's economic performance has been uneven.** Oil booms and political cycles resulted in a ratcheting up of public expenditure, followed by painful adjustment periods when oil prices fell. Poor public expenditure management led to the repeated accumulation of arrears, both domestic and foreign, and social indicators have remained poor despite Gabon's rich endowment in natural resources. Oil production has fallen by one third since 1997 as oil fields have matured, although progress in extraction technology and recent high oil prices have boosted investment in existing oil fields and stabilized production temporarily. Although per capita income is high by sub-Saharan African standards (US\$5,439 in 2004), available information suggests that income distribution remains highly uneven. Moreover, with oil production stagnant, real per capita income in CFA franc has declined each year since 1999.
2. **Against the background of declining prospects for the oil sector, the authorities put in place a far-reaching economic reform program in 2003.** Anchored by fiscal consolidation, notably strict control of the wage bill, and ambitious structural reforms aimed at boosting non-oil growth, the authorities' program received support from the Fund through a staff monitored program during September–December 2003 and a 14-month stand-by arrangement approved in May 2004 in an amount of SDR 69.4 million. Official bilateral creditors agreed to reschedule outstanding arrears and debt falling due during the period covered by the Fund arrangement, providing debt relief totaling US\$849 million (Paris Club).
3. **Past implementation of Fund policy advice has been mixed.** During the past decade, Gabon has had two Fund arrangements prior to the current one, an EFF (1995–98) and a stand-by arrangements (2000–01), both of which went off track (Box 1).
4. **Implementation of the government's current Fund-supported program has been satisfactory.** The first two reviews under the 2004–05 stand-by arrangement were completed and Gabon has made three equal purchases, for a total amount of SDR 41.7 million. In the letter of intent for the third review, the authorities describe progress in economic policy implementation so far and specify their policies for the remainder of the 2005 (Appendix I). Summaries of Gabon's relations with the Fund and World Bank appear in Appendices II and III. Appendices IV, V, and VI contain an assessment of external and public sector debt sustainability, a safeguard assessment for the Bank of Central African States (BEAC), and a summary of statistical issues, respectively.

Box 1. Policy Implementation Under Fund-Supported Programs—What Changed?

The current stand-by arrangement is the third arrangement supported by Fund resources in Gabon since 1995.

The EFF approved in November 1995 went off-track in the second half of 1997, after two reviews had been completed, primarily as a result of fiscal slippages in 1998 related to the electoral calendar, which amounted to over 16 percent of GDP. No further reviews were completed under the EFF. In October 2000, the authorities requested an 18-month stand-by arrangement. Significant steps were taken to correct the 1998 fiscal slippages, through strengthened expenditure control and monitoring, increased transparency in government financial operations, and changes in the government, including a reorganization of the Ministry of Finance. However, after completing the first and second reviews, with some delay, in July 2001, this program also went off-track as a result of repeated fiscal slippages in the face of a very high debt service burden.

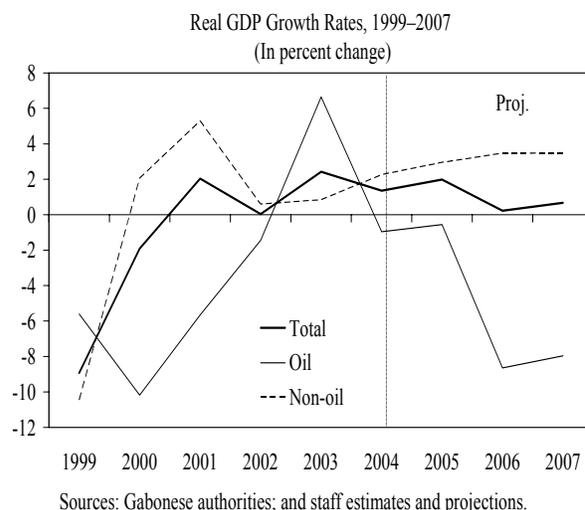
Gabon's poor track record led to some delay in putting in place the current stand-by arrangement, which was preceded by a four-month staff-monitored program from September-December 2003. Since the approval of the 14-month SBA in May 2004, two reviews have been completed and all quantitative performance criteria through end-December 2004 have been observed. Two key factors may have contributed to the improvement in performance:

- First, the decline in oil production, which started in 1997, starkly revealed the need for adjustment in Gabon. The current high levels of oil prices are perceived as a welcome, but temporary palliative to ease the adjustment path.
- Second, ownership of the reform program is strong at both the highest political levels and at the technical level. A particularly strong technical team that includes both the Presidency and the Ministry of Finance, is able to play a valuable coordinating role in implementing the far-reaching reform program and maintaining fiscal discipline despite significant windfall revenue from oil.

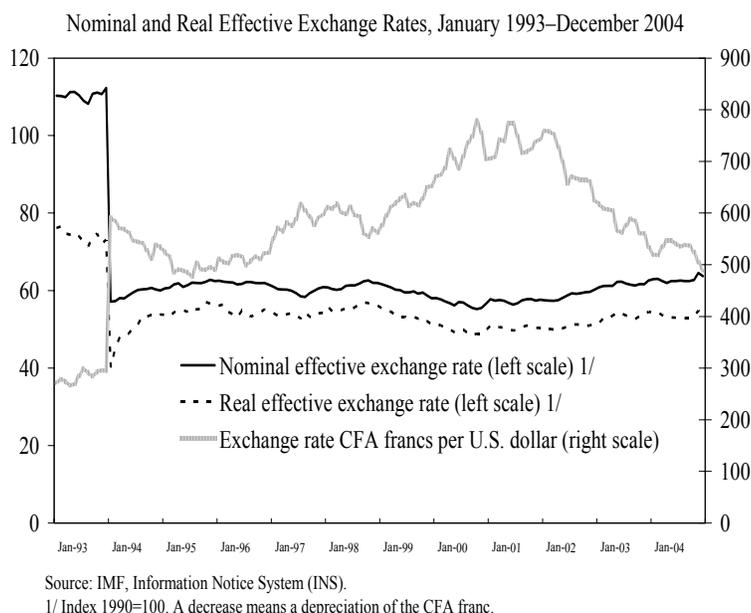
II. RECENT ECONOMIC DEVELOPMENTS AND PERFORMANCE UNDER THE STAND-BY ARRANGEMENT

5. **GDP growth is estimated to have reached 1½ percent in 2004** (Table 1, Chart 1). Non-oil growth of 2¼ percent benefited from rising output in manganese mining and timber processing, while activity in construction, electricity, and cement production has picked up in the second half of the year, spurred by the acceleration in the execution of public investment. However, despite a broadly unchanged level of oil production, a drop in refinery activity and oil exploration led to a decline of 1 percent in oil GDP. Moreover, prospects for the oil sector are for a resumption of a steady decline in output, although government revenues will continue to be buoyant while the current high prices prevail (Box 2).

6. **Inflation declined to ½ percent in 2004**, reflecting wage moderation and the monetary discipline imposed by the fixed exchange rate regime. The real exchange rate depreciated slightly in 2004, partly offsetting the sharp appreciation that took place in 2003 when the euro appreciated significantly against the U.S. dollar (Chart 2). However, competitiveness is estimated to have remained relatively strong, not least as a result of wage moderation (Box 3). The external position remained strong, the current account surplus reached 10½ percent of GDP, and Gabon’s contribution to the BEAC’s external assets more than doubled in 2004.



7. **Developments in monetary aggregates in 2004 were marked by the strength of the external accounts and a high level of domestic liquidity.** Broad money rose by 11½ percent in 2004. But despite this increase in liquidity, net domestic assets fell sharply, as a result of the programmed decline in net credit to government and further drop in credit to the private sector. Banks reduced their exposure to the domestic enterprise sector, reflecting both additional prudence by banks and more self-financing by enterprises whose financial positions were boosted by the government’s settlement of domestic arrears.¹



Banks were also constrained by the stricter prudential standards imposed by the COBAC, which caused non-performing loans to rise from 13.8 to 15.8 percent of banks’ portfolios, but banks remained adequately provisioned (Table 14).

¹ In the context of the Club de Libreville, the government agreed to reschedule CFAF 38.9 billion in domestic arrears in 2004. Suppliers were provided with negotiable securities in the amount of their claims, carrying an interest rate of 7 percent and a maturity of 18 months. However, several suppliers sold their securities to domestic banks (at a negotiated discount) providing them with immediate liquidity. The government rescheduled a further CFAF 17.4 billion in January 2005.

Box 2. The Oil Sector in Gabon

The Gabonese oil sector operates largely on mature oil fields. Technological advances and significant investments during the past years have helped maintain production in 2005 at an expected 98 million barrels. One oil company specializes in the operation of marginal fields that the larger companies no longer find attractive, which has also contributed to sustain overall production levels. Nevertheless, barring any new discoveries of oil, production is expected to decline gradually over the next decade to 59.4 million barrels in 2010 (based on projections made by the Direction Générale des Hydrocarbures).

Year	Production Millions of barrel	Oil Revenues CFAF Billion	Oil Revenues Percentage of GDP	Oil Price Average Brent
1998	138.1	498.3	18.8	12.7
1999	114.2	368.6	12.8	17.7
2000	99.4	814.7	22.5	28.3
2001	94.8	752.9	21.8	24.5
2002	91.7	609.0	17.7	25.0
2003	98.6	570.2	16.2	28.9
2004	99.5	600.0	15.7	38.3
2005	98.1	702.4	16.9	48.0
2006	88.7	618.5	15.5	45.3
2007	80.2	525.6	13.6	42.5
2008	70.1	440.7	11.7	41.3
2009	62.3	386.1	10.3	40.5
2010	59.4	335.3	9.0	40.0

Sources: Gabonese authorities, and IMF staff estimates.

Oil companies in Gabon work under two types of contracts: either concession agreements or production sharing agreements (*Contrats d'exploration et de partage de production, CEPP*). Under a concession agreement, the company pays royalties and income taxes on profits, and investment expenditures are put in cost through gradual amortization. The company obtains the title over the exploration and production, and government oversight is rather limited. In contrast, *CEPP* is designed as a partnership between the government and the oil company. The government retains ownership over the land and the installations, and is regularly informed about aspects of exploration, production and planning. The oil company does not pay income taxes; instead, net production (production after deducting royalties) is split into a "cost oil" and "profit oil" component. The cost oil component allows the oil company to recuperate operating costs and investment spending (up to a maximum percentage of the net production per period), and the profit oil component is shared among the partners, including the government and the oil company.

Box 3. Competitiveness and Non-Oil Growth in Gabon

Gabon's economy continues to face major challenges, including a secular decline in oil production, lack of economic diversification, and weak non-oil growth. In order to fully mobilize Gabon's growth potential and attract new investment, it is necessary to understand what the key constraints are for the non-oil sector to grow (See Chapter II in the accompanying Selected Economic Issues paper).

In spite of the recent appreciation of the CFA franc, the profitability for Gabon's traditional non-oil exports seems to have been preserved. The prices of the country's main non-oil export commodities have risen sharply since 2001, when expressed in U.S. dollars, more than offsetting the appreciation of the CFA franc vis-à-vis the U.S. dollar. Indeed, the profitability of these sectors has recently attracted a number of new, mainly foreign, investors.

However, the high levels of public sector employment and wages may be constraining the competitiveness of non-oil tradable sector. Average wages for Gabon's civil servants are high by regional standards, setting the reservation wage at a level that may hamper private sector development. Moreover, a significant share of the most qualified workers is absorbed by the government. More generally, the high public sector expenditure is translated into levels of effective fiscal pressure that results in elevated levels of informality. The activities that remain formal are those that seem to be most efficient. Indeed, during the last fifteen years, labor productivity growth in the formal private sector has been positive and unit labor costs have decreased in real terms.

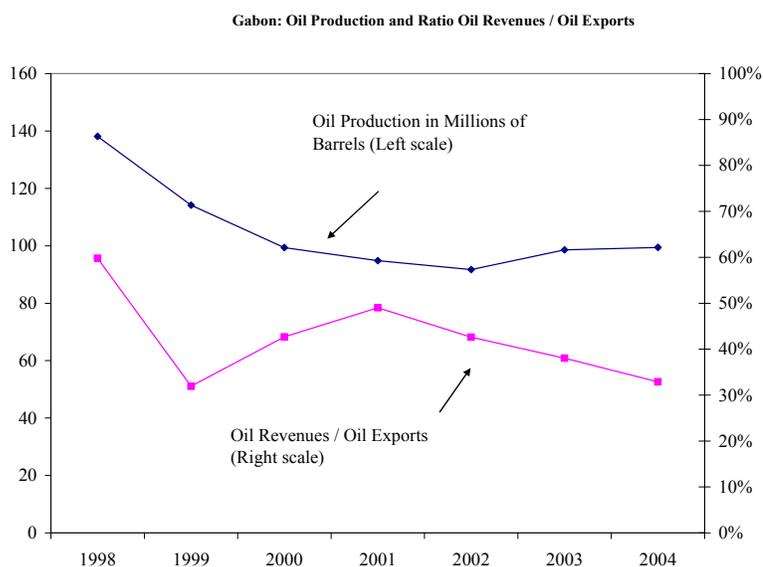
The composition of non-oil GDP and its growth indicate that, indeed, domestic relative prices may be discouraging tradable activities. The proportion of tradable activities in non-oil GDP has decreased from approximately one third in the early 1980s to one quarter in recent years. Moreover, non-oil export growth has been relatively modest (2.5 percent, on average, during 1990–2003), extremely volatile, and strongly concentrated in timber (80 percent of total non-oil exports) and manganese (15 percent).

This underscores the need of sustaining fiscal discipline and the structural reform effort in the medium term. Sustaining the current fiscal and structural reform efforts is essential to liberate resources for private sector development, reduce fiscal pressure, and change the current structure of price/cost incentives, all factors that are key to promoting non-oil growth. These efforts are even more relevant given the fixed peg of the CFA franc against the euro.

8. The fiscal stance in 2004 remained tight.

The overall budget surplus was maintained at 7½ percent of GDP, while the non-oil primary deficit fell by ½ percentage point to 7¾ percent of non-oil GDP in 2004, reflecting both an improvement in non-oil revenue and expenditure restraint, notably on wages and salaries. The government's share of oil revenues has declined in recent years as a result of the shift to production-sharing agreements that allow

oil companies to recoup investment costs more quickly (Chart). Nevertheless, high oil prices resulted in significant oil windfall revenue, which was used primarily to reduce foreign and domestic debt and increase deposits in the Fund for Future Generations (Text table, Box 4).



Gabon: Projected Uses of Oil Revenue Windfall, 2004-05
(In billions of CFA francs, unless otherwise indicated)

	2004		2005		
	Prog.	Prel.	Prog.	Rev. Prog.	Proj. 1/
World oil price (Brent, U.S. dollars per barrel)	30.0	38.2	27.0	44.2	48.1
Exchange Rate (CFAF/US)	532.6	528.3		530.9	488.4
Oil production (in million tons)	13.3	13.6	11.5	13.1	13.5
Oil government revenue	508.1	600.0	412.7	670.0	702.4
Projected oil revenue windfall	0.0	91.9	0.0	257.3	289.7
Uses	0.0	91.9	0.0	257.3	289.7
Government deposits	0.0	26.7	0.0	48.2	66.4
Fund for Future Generations 2/	0.0	-26.7	0.0	48.2	66.4
Other BEAC deposits	0.0	35.5	0.0	0.0	0.0
Commercial Bank deposits	0.0	17.9	0.0	0.0	0.0
Repayment of BEAC's statutory advances	0.0	17.2	0.0	74.6	102.2
Lower recourse to external debt rescheduling 3/	0.0	34.1	0.0	96.1	96.1
Reduction in arrears	0.0	10.0	0.0	38.4	25.0
Treasury float (exc. FER)	0.0	17.0	0.0	13.4	0.0
FER arrears	0.0	-3.8	0.0	25.0	25.0
Wages	0.0	-3.2	0.0	0.0	0.0
Others (net)	0.0	3.9	0.0	0.0	0.0

Sources: Authorities; and staff estimates and projections.

1/ Oil windfall projections for 2005 based on latest WEO oil price projections.

2/ For the 2004 preliminary, it represents a slower accumulation than targeted, not a decline in FFG deposits. For 2005 deposits reflect the application of the FFG law, which stipulates that 10 percent of the government oil revenues plus 50 percent of any windfall over the level projected in the government budget should go to the FFG.

3/ For 2004, this represents the agreement with Paris Club creditors to reduce the amount of rescheduled debt in case of an oil revenue windfall, net of any unsigned bilateral agreements. For 2005, it reflects the amount of debt service to Paris Club creditors in the second half of 2005.

**Box 4. Managing Oil Revenues in Gabon—
A Role for the Fund for Future Generations?**

Every country that has exhaustible natural resources faces specific macroeconomic challenges. In the short and medium term, fiscal revenues are often highly volatile and unpredictable, increasing the need for prudent planning and precautionary saving. A seemingly endless inflow of foreign exchange from the “enclave sector” may exacerbate governance problems and may put pressure on the exchange rate and prices, impeding the development of other sectors. Over the long term, issues of intergenerational equity must be addressed, especially when society is financing current spending from exhaustible oil wealth. Each generation must first decide how much of extracted oil wealth will be consumed and saved. This saving could be in the form of an increase in financial wealth (including productive investments), paying down debt, or both, and the proportions of each should optimally depend on risk-return characteristics.

Several economies with natural resource revenues have set up funds aimed at helping governments achieve stabilization or savings objectives. In 1998, the Gabonese authorities passed a law to set up a Fund for Future Generations (FFG). Under the law, the FFG should receive (1) 10 percent of projected oil revenues, (2) 50 percent of any windfall revenues, and (3) accumulated interest revenues, up to a minimum capital of CFAF 500 billion. Once the minimum capital is reached, contributions would continue from (1) half of any windfall revenue, and (2) 25 percent of the interest income. The FFG is held in a special account at the central bank (BEAC), and since January 2005 is remunerated at 1.7 percent.

In the accompanying selected economic issues paper, staff estimates the potential impact of a FFG on present and future generations, using different scenarios. Any FFG cannot be seen in isolation of other government operations—an accumulation of FFG deposits does not necessarily represent net government savings. However, if fiscal and debt sustainability criteria are met, an FFG would leave future generations better off than if oil revenues were immediately consumed or directed to unproductive investments. This holds even with a low return on the FFG. However, under current circumstances the 1998 law does not achieve intergenerational equity in Gabon: the consumption of present generations far exceeds a “permanent income” concept. Moreover, once it is taken into account that the effective interest rate on the stock of debt is higher than the current remuneration of the FFG, then future generations would be better off if priority were given to using oil revenues to pay off some debt obligations, at least the stock of advances from the BEAC.

9. **Performance under the stand-by arrangement remained broadly on track.** All quantitative performance criteria for end-December 2004 were observed. Most structural benchmarks at end-December were also met, although there are delays in some areas, notably

the introduction of the new civil service law, which promised a better structural grip on the wage bill, and in fiscal transparency (Table 2 attached to the LOI).²

10. **Looking ahead, the critical challenge facing Gabon is managing the transition from an economy highly dependent on oil—accounting for 45 percent of GDP, 80 percent of exports, and over half of government revenue in 2004—to a diversified economy that harnesses private sector initiative and makes progress in poverty reduction.** Compounding the difficulty of this task is Gabon's high level of external debt and its vulnerability to swings in oil prices. This will require maintaining the hard-won fiscal discipline—and indeed deepening the fiscal consolidation in preparation for a decline in oil revenues—while accelerating the structural reform program aimed at boosting private investment and economic diversification.

III. POLICY DISCUSSIONS

11. Against this background, discussions were structured around four broad themes: the macroeconomic outlook and policies for 2005, and prospects for the oil sector in particular; medium-term challenges for fiscal and debt sustainability; structural reforms to boost non-oil growth; and poverty reduction strategies.

A. Macroeconomic Outlook and Policies and Prospects for the Oil Sector

12. **In 2005, non-oil real GDP growth is expected to rise to 3 percent, and further to an average of 3½ percent during 2006–08.** The authorities noted that the non-oil sector is expected to benefit from a continued positive outlook for manganese, a further rise in timber processing, and recent investments in agro-processing. Oil production, on the other hand, is likely to stagnate at best. The authorities' conservative projections are for an unchanged level of production in 2005, followed by a average decline of 10 percent per year through 2010 (Box 2). Most private sector oil companies are slightly more optimistic and expect to be able to maintain production at current levels for maybe a few more years. But all agree that absent major new discoveries—which are not on the horizon—the decline in oil output in Gabon will resume.

13. **Against this background, macroeconomic policy has an important role to play in maintaining stability and preparing the economy for a post-oil environment.** Fiscal policy must take center stage. The 2005 budget is ambitious, targeting a reduction in the non-

² The government recently reached agreement with a large foreign mining company to extend certain tax and other privileges. While the agreement has not yet become effective, the authorities are discussing with staff the implications for the observance of the continuous benchmark limiting the granting of tax exemptions not provided for under the Mining Code.

oil primary deficit of 2 percentage points of non-oil GDP (para. 8 of the LOI).³ On the revenue side, non-oil revenue is projected to increase, principally as a result of better tax administration, including in collecting outstanding tax arrears.⁴ On the expenditure side, transfers are budgeted to decline mainly as a result of the progress in restructuring ailing public enterprises, including Gabon Poste and Air Gabon. Continued tight control of the wage bill, which was reduced in nominal terms in 2004 and is set to remain broadly unchanged in 2005, is a cornerstone of expenditure discipline.

14. **The mission expressed support for the fiscal adjustment targeted in 2005, but pointed to a number of fiscal risks.** Notably, the delay in the implementation of the new civil service reform has reduced the scope for a structural reform of the wage bill in 2005 (Box 5). On the revenue side, the reliance on primarily administrative measures, including the collection of significant amounts of tax arrears, raises concerns. The mission welcomed the formal establishment of the large tax payer unit (LTU), but urged the authorities to ensure that it becomes effective as soon as possible. The authorities shared the mission's view that the delay in the civil service reform is regrettable. To compensate for the delay, they identified a set of short-term measures to eliminate remaining distortions in civil service salaries (including notably further cleanup of payroll records and better management of fixed-term employees), which will maintain the wage bill at its 2004 level without incurring wage arrears. On the LTU, the authorities agreed to accelerate its effective operation by transferring some tasks to it during this fiscal year (para. 7 of the LOI).

15. **A comprehensive social security system and a trend toward political decentralization puts pressure on public finances.** A variety of benefits, including health care and retirement benefits, are provided to employees and the self-employed through a pay-as-you-go system to which both employers and employees contribute. However, both the National Social Security Fund (CNSS) and the National Social Guarantee Fund (CNGS) have been beset by financial difficulties, reflecting both inadequate contributions (especially by

³ All references are to paragraphs of the Letter of Intent of March 14, 2005, in Appendix I.

⁴ In 2004, the government introduced a major reform of forestry taxation with technical support from the World Bank and in close cooperation with the private sector. The main thrust of the reform was to reduce a cumbersome system to three main taxes: an export tax, an area tax, and a stumpage tax. The rate of export tax was reduced from 22 to 17 percent, while the rates for the area and stumpage taxes were raised. This resulted in a shift away from export taxes to domestically-based taxes, although total tax revenue from the forestry sector remained broadly unchanged in 2004. A further lowering of export taxes is possible with better domestic tax administration; currently, tax arrears remain significant both for the area tax and, especially, the stumpage tax, reaching CFAF 18.1 billion in 2004. As a result, the government is reinforcing its efforts to collect forestry taxes, including through mandatory withholding of a presumptive stumpage tax at the processing level and by threatening to revoke the forestry permits of those not paying the area tax.

Box 5. The Public Sector Wage Bill and the New Civil Service Law

The public sector comprises about 48,000 employees, of which 44,000 are civil servants (*fonctionnaires*) and the remainder are on contract. Average salaries are higher than in most other sub-Saharan African countries and the size of the wage bill, expressed as a ratio of non-oil GDP, places Gabon among African countries with the most expensive civil service.

Table: Wage Bill and Civil Service Salaries

	Gabon ^{1/}	Cameroon	Senegal	Ghana	Kenya	Namibia
Number of civil servants	48,113	165,972	67,429	324,494	429,810	85,000
Average salary (CFAF/month)	392,000	216,500	252,000	68,500	112,000	399,000
Wage bill (% of GDP)	6.2	5.8	5.5	8.7	6.9	14.7
Wage bill (% of non-oil GDP)	10.6	6.2	--	--	--	--

^{1/} Data for Gabon are for 2004, for other countries the data are for the last year available.

During 2004, the government prepared a new civil service law. Two key objectives were to reduce wage drift through a merit-based promotion system rather than automatic advancements and a better control of fixed-term employees in the public sector. However, Parliament introduced numerous amendments when the law was adopted in January. In particular, the law provides for the creation of five separate statutes (central government, local government, health care sector, education sector, and Parliament), raising concern that increased independence of parts of the public sector could reduce incentives for wage moderation. As a result, the government is reviewing the entire law to assess its budgetary impact before adopting the necessary implementing legislation. Key parts of the law are already effective, however, in particular the merit-based promotion system, meaning that civil servants currently at the top of their grade can no longer advance without a promotion decision.

public enterprise employers) and the high cost structure of the CNSS and the CNGS themselves. The government is providing financial assistance to both funds; in return, they have embarked on a comprehensive restructuring plan to reduce their costs (para. 9 of the LOI).⁵ The mission expressed support for the restructuring of the CNSS, but underscored that any fundamental reform would need to take into account its long-term viability, including by examining the levels of benefits (which, on paper, are quite generous by international standards). The political decentralization that was initiated in 1996 has led to an expansion in

⁵ In January 2005, the government assumed CFAF 20 billion of debt, primarily of parastatal enterprises, owed to the CNSS, and it is envisaged that it will assume a further CFAF 2 billion owed to the CNGS later this year. These debts will be repaid to the CNSS and the CNGS during 2005–06.

the scope and size of local governments. However, their revenue base remains narrow and many are in financial difficulties. Work is underway to put local authority finances on a sounder footing, including by strengthening the basis for assessing and collecting property tax. Progress has been made in Libreville and Port Gentil and the authorities intend to accelerate efforts to attribute permanent land titles, which has the dual benefit of broadening the tax base and promoting access to financial services for small and medium-sized enterprises (para. 10 of the LOI).

16. **Monetary and exchange rate policy are formulated at the level of the CEMAC zone.** Nevertheless, common policies have an impact at the national level. The authorities felt that the exchange rate peg, and the resulting appreciation of the exchange rate in recent years, had not had a negative impact on competitiveness. Other factors, notably high transport costs, lack of access to credit and a burdensome regulatory framework play a more important role in determining Gabon's competitiveness. By the same token, the authorities did not feel that the BEAC's relatively tight monetary stance had disproportionately constrained economic growth in Gabon. In fact, the high level of liquidity in the banking system in Gabon, as in the CEMAC zone more broadly, had limited the relevance of the BEAC's base rate. In their view, the reason for the banks' weak lending activity was the lack of lending opportunities rather than the interest rate environment. The mission agreed that the common monetary policy only had an indirect impact on the behavior of Gabonese banks. At the same time, it expressed concern about the sharp increase in liquidity and the risks that it posed. Both the BEAC and the COBAC, responsible for prudential supervision, need to remain vigilant in particular regarding the rapid accumulation by commercial banks of foreign assets held abroad.⁶

17. **The government continues to make good progress on external debt restructuring.** It has concluded bilateral agreements with the majority of Paris Club creditors in the context of the June 2004 debt rescheduling; remaining agreements are expected to be finalized before end-April. Outside of the Paris Club, Gabon is pursuing negotiations with Saudi Arabia, China and Libya. Finally, with respect to commercial creditors, the authorities indicated that a draft agreement has already been finalized with the London Club and should be signed in the coming weeks (para. 5 of the LOI).

B. Medium-Term Challenges

18. **Fiscal restraint coupled with high oil prices has improved Gabon's fiscal and debt sustainability** (Box 6 and Appendix IV). Under the current (conservative) assumptions for oil production that underlie the baseline scenario, Gabon faces no financing gaps in 2005 and 2006. But projections are very sensitive to oil price assumptions: a drop by 20 percent

⁶ The forthcoming regular discussions with the CEMAC authorities will address in depth the monetary and exchange rate policies at the level of the monetary union.

Box 6. Medium-Term Sustainability—Debt Burden and Fiscal Constraints

The medium-term outlook in Gabon is highly sensitive to the development in oil production and oil prices. Current projections by the Gabonese authorities are that after remaining flat in 2005, oil production will resume its decline, falling by an average of 10 percent per year through 2010.

Staff projections examine two broad scenarios: the baseline scenario is based on the authorities' conservative outlook for oil production and extends the average rate of decline through 2025. A second, more optimistic scenario assumes that oil production will remain at current levels until 2007 (reflecting the views of the major oil companies active in Gabon) and declines thereafter at the same rate as in the baseline.

Medium-term fiscal simulations illustrate the importance of saving the current windfall from oil revenue (see Chapter III of the accompanying Selected Economic Issues paper for details). Assuming the government continues to save the full windfall—defined as all revenue above US\$35 per barrel of Brent—and it exercises wage restraint, the fiscal scenarios are sustainable. However, should the full windfall be spent and/or wage restraint fail to be maintained, significant fiscal gaps begin to emerge.

The standard external debt sustainability analysis reveals similar conclusions (Appendix IV). The baseline yields a steadily declining debt-to-GDP ratio and no financing gaps through 2014. However, the stress tests reveal that Gabon's debt sustainability remains extremely sensitive to shocks to non-oil output growth, to changes in the production and the price of oil, and to the degree of fiscal discipline. Similarly, should the oil windfalls resulting from the current price levels be spent rather than saved, debt dynamics quickly turn unsustainable and require forceful fiscal adjustment measures. These results highlight the importance of prudent fiscal policies and of fostering the development of the non-oil economy by encouraging private sector development and the diversification of Gabon's economic base.

relative to the current outlook opens up significant unfinanced gaps starting in 2006. The scenarios illustrate that the current high oil prices represent an opportunity to reduce decisively Gabon's debt burden. For example, under baseline assumptions, if all oil windfall revenue is applied to debt reduction, the external debt/GDP ratio falls by half by 2010. If, on the other hand, windfall revenue is spent in its entirety, external debt/GDP remains broadly unchanged, financing gaps reemerge, and the government is faced with the need for severe fiscal measures to avoid accumulating debt-service arrears.

C. Structural Reforms to Boost Non-Oil Growth

19. Raising economic growth in the face of declining oil production requires structural reforms aimed at promoting investment and economic diversification.

Against this background, discussions focused on four key areas: financial sector reforms, including the development of microfinance institutions; measures to improve the investment

climate, including strengthening governance and transparency; public enterprise restructuring and privatization; and the ongoing reforms in two critical sectors, forestry and mining, in which the World Bank is becoming increasingly engaged.

20. **The 2002 Financial Sector Stability Assessment found that Gabon's financial sector was stable and profitable.**⁷ At the same time, it concluded that the financial sector remains under-developed compared to other countries with a similar economic structure. It also noted that banks are vulnerable to even small macroeconomic shocks. The authorities underscored that they had made progress in improving bank soundness (para. 15 of the LOI). The COBAC had tightened prudential standards, resulting in an increase in the proportion of loans classified as nonperforming. But it felt that provisions were adequate and no bank in Gabon was classified below "a good financial situation," the second-highest level. Microfinance institutions remain embryonic in Gabon compared to other countries in the region. But the authorities emphasized that they have encouraged their development and believe that they could play an important role, particularly in providing finance to small enterprises. They also intend to strengthen the role of the FODEX (Fund for the Development and Expansion of SMEs) to support the microfinance sector.

21. **The World Bank Group's Foreign Investment Advisory Services (FIAS) recently conducted a review of Gabon's investment climate.** Key constraints identified include the lack of sources of financing for small and medium-size enterprises; the high cost of utilities, harbor services, and transportation; a heavy regulatory environment, particularly for the establishment of new businesses; and a cumbersome judicial system, including for the settlement of commercial disputes. In February, the government organized a workshop with private sector participation to discuss the report (para. 17 of the LOI). Participants reinforced the conclusions of the report and agreed that a joint public-private action plan would be drawn up to implement some of the key recommendations. A follow-up study on streamlining the regulatory environment is envisaged. The mission welcomed the initiatives underway but suggested that this was not the time to design yet another grand strategy. Rather, the focus should be on measures that can be put in place relatively quickly and that would pay immediate dividends for private sector development, including by accelerating land titling, further strengthening governance and transparency, and ensuring that public sector investment provides the public goods necessary to catalyze private investment, including reliable infrastructure. Steps can also be taken immediately to improve the functioning of the Investment Promotion Agency (APIP) and focus it on the assistance to the small and medium-sized enterprise sector, which is truly in need of support.

22. **The government remains committed to increase transparency and strengthen governance.** In December 2004, the new anti-corruption commission released its first report (para. 13 of the LOI). The commission's work program for 2005 has two main components: promoting the observance of the financial disclosure rules that came into effect on

⁷ Gabon—Financial Sector Stability Assessment (Country Report No. 02/98, May 2002).

February 4, 2005, and continuing with its outreach effort within Gabon to make its mission better understood and accepted.⁸ The mission welcomed the steps taken to date and urged that the Commission move ahead and accelerate the implementation of the financial disclosure regime, with active support from the government. The Commission noted that its report will be published in the official gazette, and on its web site once it has been established, and welcomed further Fund support to strengthen its activities. The new public procurement code is beginning to play a positive role; however, its procedures are not always observed and the institutional capacity to enforce it remains weak. The mission underscored that the ongoing audits of the arrears of the Road Fund and of expenditures related to the independence celebrations (*fêtes tournantes*) will be important to strengthen public procurement procedures and, thereby, improve the quality of public spending (para. 12 of the LOI). The authorities underscored that they remained committed to increasing transparency in the extractive industries, notably the oil and mining sector. They have established a program that would allow them to introduce fully the EITI's principles of transparency and participation in the oil sector by September 2005 (see para. 14 of the letter of intent in Appendix I). Moreover, they plan to use the experience gained in the oil sector to extend the principles to the mining sector by 2006. The authorities expressed a strong commitment to strengthen accountability by reinforcing the role of the public procurement office (para. 12 of the LOI). They also requested that the Fund prepare a fiscal ROSC, with emphasis on revenue from natural resources, in the course of FY 2006.

23. **Public enterprise restructuring and privatization is proceeding** (para. 19 of the LOI). Significant progress has been made in recent months to prepare Gabon Télécom for sale, and the authorities are confident that a successful bidder can be chosen by the end of April 2005. Air Gabon, however, remains in a fragile financial state. Steps are underway to reduce its costs and prepare it for partial privatization; a tender is expected to be launched by September 2005.⁹

24. **Significant reforms are underway in the forestry sector** (para. 18 of the LOI). Following the decree issued in December abolishing the monopoly of the timber marketing board (SNBG), the government has formed a steering committee to prepare the transition to a new role and structure for the SNBG. The objective is to downsize the marketing board,

⁸ Financial disclosure of both income and wealth is required for the President, the government, and all civil servants in a position of financial decision making. By law, all persons required to disclose must do so within three months of February 4, 2005, or within three months of their appointment, should they have been more recently appointed, and every three years thereafter.

⁹ The 2005 budget provides for restructuring costs for Gabon Télécom of CFAF 11.9 billion, for Agrogabon of CFAF 6.8 billion, and for Gabon Poste of CFAF 1 billion. However, it does not provide for any cost related to Air Gabon given the uncertainty of its privatization timetable.

which has weighed heavily on the cost structure of the forestry sector, and instead give it a control function within the Ministry of Forestry. The authorities are expecting a report by an outside consultant to prepare for the final decision regarding the SNBG's future role. The mission welcomed the elimination of SNBG's monopoly as well as the recent publication of a full list of forestry permit holders. But it also emphasized that it will be important to ensure that the new agency does not reintroduce some of the costs that the restructuring aims to reduce. The World Bank is currently preparing a lending operation in this area. Its discussions with the government are ongoing, with an expectation to conclude in the third quarter of 2005. In the mining sector, steps to finalize the standard mining concession agreement are underway and are now expected to be completed by mid-2005.

D. Poverty Reduction Strategies

25. **Despite three decades of oil wealth, poverty remains wide spread.** The most recent information dates back to 1993 and suggests that over 60 percent of the population lives below the poverty line (Table 9). Other social indicators, including infant and maternal mortality, compare favorably to other countries in sub-Saharan Africa, although they remain weak in comparison by the standard of upper-middle income countries. In 2003, the Government of Gabon prepared an Interim Poverty Reduction Strategy Paper, which provided a basic framework for preparing a full PRSP.¹⁰ Work on the full PRSP is ongoing, starting with a poverty survey that will update available information on the incidence and structure of poverty in Gabon (para. 20 of the LOI). It is expected that the survey will be finished, and its results evaluated by June 2005, as a basis for preparing the sectoral poverty reduction strategies. The whole process is expected to be completed by August 2005. The mission welcomed the ongoing work and encouraged the authorities to continue their consultations throughout Gabon to ensure participation by the population in the preparation of the PRSP. At the same time, it noted the importance of ensuring that the PRSP provide a direct link to sectoral spending priorities to ensure that the 2006 investment budget is well targeted.

26. **The mission discussed with the authorities their desire for a follow-up arrangement with the Fund when the current stand-by arrangement expires.** The mission underscored that a successor arrangement would require continued satisfactory performance under the stand-by arrangement and the foundations for a medium-term economic program, articulated in a high-quality PRSP.

IV. STAFF APPRAISAL

27. **Since 2003, the Gabonese economy has recovered sharply from the stark financial imbalances of the early years of the decade.** The government introduced a far-reaching program of economic and structural reforms. Aided by high oil prices and external

¹⁰ Gabon—Interim Poverty Reduction Strategy Paper (www.imf.org).

debt rescheduling, the external position strengthened markedly. This in turn contributed to a sharp improvement in the fiscal accounts, helped also by better tax administration and expenditure discipline. Performance under the SBA, which supports the government's reform program has been broadly satisfactory.

28. **Gabon now faces a dual challenge.** First, to consolidate and extend the gains of macroeconomic stabilization. Second, and no less importantly, to reinforce the ongoing reform process aimed at building the foundations for the diversification of the Gabonese economy, raising the growth rate of the non-oil sector, and vigorously addressing poverty reduction efforts. In both areas, strengthening economic institutions, including financial management in the public sector, will need to play an important role in establishing a sound basis for future success.

29. **In the short term, oil prices are likely to remain close to historical highs providing both opportunities and risks for Gabon.** The revenue windfall for the government provides the opportunity to address decisively the legacy of past fiscal slippages and to place the public finances on a much sounder footing. Also, by applying the bulk of the additional oil revenue to reducing government debt—to external and domestic creditors, as well as to the BEAC—Gabon can set in motion a virtuous circle that significantly reduces the weight of debt service on public finances and the vulnerability of the economy to swings in oil prices. At the same time, high oil prices can present a risk of complacency and the misleading impression that financial constraints no longer apply. That would be regrettable. Even if oil prices remain buoyant for several years to come, the absence of new discoveries means that oil production will resume its decline.

30. **The 2005 budget is rightly ambitious,** aiming to reduce the non-oil primary deficit, including grants, by close to 2 percent to 5³/₄ percent of non-oil GDP. Importantly, it preserves the windfall revenue from oil to further reduce public debt and build up the Fund for Future Generations. It will be important that these objectives are met to ensure that Gabon remains on the path towards durable sustainability. However, there are several risks to the 2005 fiscal program. Control of the wage bill is a cornerstone of fiscal discipline in Gabon, and it is regrettable that the new civil service law has been delayed. While compensatory measures should help in the short term, it will be important that its final implementation ensure improved structural control of wage spending. On the revenue side, the reliance on administrative measures is also a concern. The authorities need to remain vigilant during 2005 to ensure that its hard-won fiscal discipline, which is essential for Gabon's medium-term sustainability, is not jeopardized.

31. **Preparing Gabon for the post-oil era requires reforms of both the public sector and of the environment for private sector development.** Gabon has a history of a strong public sector, facilitated not least by the availability of the means to sustain it. At the same time, the dominance of the public sector together with the abundance of oil resources, has inhibited the development of a vibrant private sector. Strengthening the efficiency of the public sector and providing a framework for private sector development are the cornerstones

for raising the productivity of the Gabonese economy. They are also prerequisites for making decisive progress in poverty reduction.

32. **Raising the quality of public expenditure is an essential element of public sector reform.** The PRSP which is currently under preparation will provide an opportunity for the government to determine its strategy for economic development and poverty reduction in Gabon. A high-quality PRSP is essential to provide a solid foundation for a medium-term economic program. But for the PRSP not to remain an empty document it needs to be anchored by a carefully-costed public expenditure framework. This requires progress in public expenditure management, including in budget preparation, budget execution, and maintaining sound public accounting practices. It also requires continued improvement in public sector transparency to provide incentives and accountability for good public sector management.

33. **Significant steps have been taken to improve the environment for private sector development, but an important agenda remains.** Gabon's competitiveness in its traditional sectors remain adequate, despite the sharp nominal appreciation in recent years of the euro to which the CFA franc is pegged. Nevertheless, the high costs of labor, transport, and utilities represent a drag on private investment. The government has made progress in recent years in introducing structural reforms to make the economy more productive and the environment for the private sector more attractive. But as confirmed by the study conducted by the World Bank's Foreign Investment Advisory Services, numerous constraints remain. This is not the time to formulate another grand strategy. Rather, what is needed is steady progress on several fronts where the needs are well-known, including accelerating land titling, further strengthening governance and transparency, including by adhering to the principles of the EITI, and by ensuring that public sector investment provides the public goods necessary to catalyze private investment, including reliable infrastructure. Finally, scope remains to strengthen the legal and regulatory framework, especially its consistent application. A comprehensive review will take time and a follow-up FIAS study would represent a valuable starting point. But meanwhile there are steps that can be taken immediately, including by improving the functioning of the Investment Promotion Agency (APIP) and focusing it on the assistance to the small and medium-sized enterprise sector, which is truly in need of support.

34. **Cross-border integration represents an opportunity to seize the potential offered by regional markets.** Work remains to be done, including through completing regional trade liberalization and dismantling the significant non-tariff barriers that remain in place. For Gabon, taking advantage of a larger regional market presents many benefits, and the increased pursuit of economic policy in a regional context needs to be a priority in years to come.

35. **Gabon has made significant progress toward improving its economic and financial health and preparing for the far-reaching adjustment that lies ahead.** Current high oil prices and the temporary surge in production represent an opportunity that must not

be squandered to put in place a durable base for economic development. This is the basis of the government's program supported by the Fund. Against that background:

- In view of the authorities' good faith efforts in negotiating with non-Paris Club and London Club creditors, and the substantial progress made in these negotiations, the staff recommends completion of the financing assurances review; and
- In view of the satisfactory performance through end-2004, observance of all quantitative performance criteria and progress in achieving the structural benchmarks for end-2004, the staff recommends that the third review of the stand-by arrangement be completed.

36. It is proposed that the next Article IV consultation take place on the 24-month cycle.

Table 2. Gabon: Fiscal Operations of the Central Government, 2003–05 (concluded)

(In billions of CFA francs, unless otherwise indicated)

	2003			2004			2005				
	Dec.	Mar.	Jun.	Dec.	Mar.	Jun.	Dec.	Mar.	Jun.		
	Prog.	Est.	Est.	Prog.	Est.	Est.	Prog.	Est.	Prog.		
Domestic (net)	-85.5	-94.2	-39.1	-96.7	-117.1	-148.9	-186.7	-78.4	-158.4	-221.4	-306.0
Banking system	7.1	15.8	-22.4	-61.4	-48.5	-48.6	-86.0	-40.9	-92.9	-129.3	-211.3
Bank of Central African States (BEAC)	20.5	15.8	-19.2	-38.4	-23.1	-32.7	-82.6	-37.5	-86.0	-118.9	-197.8
Commercial banks 4/	-13.4	0.0	-3.2	-23.0	-25.4	-16.0	-33.9	-3.5	-6.9	-10.4	-13.4
Nonbank sources	-92.6	-110.0	-16.7	-35.3	-68.6	-100.3	-100.1	-37.5	-65.5	-92.1	-94.7
Domestic debt	-62.2	-60.1	-15.5	-30.8	-44.8	-70.4	-68.8	-24.8	-44.5	-59.7	-80.7
Oil company advances (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt Accounting Department (DGCP)	-55.2	-55.3	-11.6	-22.8	-33.4	-50.4	-49.6	-15.5	-30.0	-44.0	-57.2
Securitized commercial agreements	-19.8	-19.8	-4.1	-7.5	-10.6	-16.3	-15.0	-5.2	-10.4	-15.6	-20.0
Other (divers) 3/	-35.4	-35.5	-7.5	-15.3	-22.8	-34.1	-33.3	-10.3	-19.6	-28.4	-37.3
Debt at the treasury ("Libreville Club")	0.0	0.0	-0.6	-2.3	-3.9	0.0	-3.4	-1.3	-2.5	-3.8	-4.9
Regularization of civil servants' salaries (rappels)	-7.0	-4.8	-3.4	-5.7	-7.6	-20.0	-20.0	-8.0	-12.0	-12.0	-18.6
Change in domestic arrears (on principal, - reduction)	-22.1	-11.6	-16.1	-13.0	-12.3	-13.6	-14.7	-1.2	-1.9	-1.9	-1.9
Restructuring cost 5/	-11.3	-7.8	-1.5	-4.5	-7.3	-14.5	-18.5	-5.9	-15.3	-18.7	-19.7
Social costs	-11.3	-7.8	-1.5	-4.5	-7.3	-14.5	-18.5	-5.9	-15.3	-18.7	-19.7
Domestic debt rescheduling/delerral	0.0	0.0	10.1	10.1	14.1	0.0	10.1	0.4	0.4	0.4	0.4
Privatization proceeds	1.0	1.0	0.0	0.0	0.0	11.9	1.7	0.0	0.0	0.0	18.2
Other	2.0	-31.5	6.3	2.9	-18.3	-13.7	-15.9	-6.0	-4.2	-12.2	-11.0
Treasury correspondents, incl. pensions	1.0	-6.2	-2.9	-1.9	-5.7	-5.0	-7.2	-6.9	-3.2	-5.5	-6.7
Local authorities 6/	1.0	-1.9	3.1	1.5	1.0	-1.0	-1.0	-1.5	-1.5	-1.5	-1.5
Cancellation of domestic debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Development Bank of Gabon (BGD)	...	-1.4	-0.5	-0.5	-0.7	-1.4	-2.0	-0.3	-0.6	-1.0	-1.4
Other, including transactions between local and central treasury	0.0	-13.5	1.1	-0.8	-7.2	-6.3	-6.3	-4.7	-1.0	-2.0	-4.0
Errors and omissions	0.0	-8.6	5.5	4.6	-5.7	0.0	0.0	-0.8	0.0	5.5	-0.1
Financing gap	156.2	0.0	0.0	0.0	0.0	471.5	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Primary fiscal balance, incl. grants (in percent of GDP)	10.9	11.4	3.0	5.9	8.5	10.3	12.5	3.4	6.6	10.5	13.8
Non-oil primary balance, incl. grants (in percent of non-oil GDP)	-8.2	-8.2	-1.5	-2.9	-5.4	-7.5	-7.6	-2.2	-3.5	-4.4	-5.8
Stock of unpaid payments orders at the treasury	77.1	84.7	62.4	44.8	48.0	58.8	41.8	36.7	26.7	31.7	33.2
Fund for Future Generations (balance)	...	30.0	16.5	51.5	55.0	81.7	142.1	81.7	108.4	135.1	162.6

Sources: Gabonese authorities; and Fund staff estimates and projections.

1/ The original program targets for end-September and end-December 2004 have been revised to take into account the planned uses of the oil windfall, and an upward adjustment in current spending (by CFAF 1 billion) for end-December.

2/ "Other float at the treasury" includes mainly variations in consignments and operations with autonomous bodies.

3/ Including old debt repayments to Société d'Eau et d'Énergie de Gabon (SEEG), National Social Security Fund (CNSS), and Office des Postes et Télécommunication (OPT), as well as debt service on new debt agreements with Gabon Télécom, Gabon Poste, Air Gabon's suppliers, and CNSS. During the last quarter of 2003, there was a deferral of debt obligations amounting to some CFAF 11 billion.

4/ The data excludes CFAF 7.8 billion of securitized commercial agreements bought by a local commercial bank from private nonbank creditors during the first nine months of 2004. It therefore differs from the monetary survey data.

5/ Restructuring costs refer to social costs of privatization and voluntary departures. During 2002, the government also took over suppliers' credit to Air Gabon and debt owed by public enterprises to CNSS, for CFAF 31 billion and CFAF 36 billion, respectively.

6/ Local authorities consist of variations in local entities' account balances with the treasury.

Table 3. Gabon: Fiscal Operations of the Central Government, 2000–07

	2000	2001	2002	2003	2004		2005	2006	2007
					Rev.	Prel.			
(In billions of CFA francs)									
Total revenue and grants	1,207.6	1,173.6	1,089.9	1,050.3	1,139.5	1,113.6	1,262.7	1,206.0	1,140.8
Revenue	1,207.6	1,173.6	1,088.0	1,049.1	1,131.6	1,111.5	1,257.7	1,200.8	1,135.3
Oil revenue	814.7	752.9	609.0	570.2	618.2	600.0	702.4	618.5	525.6
Non-oil revenue	392.9	420.8	479.0	478.9	513.4	511.5	555.4	582.3	609.6
Direct taxes	81.9	96.6	134.2	122.6	145.3	137.3	146.3	159.1	164.9
Indirect taxes	80.2	70.8	83.5	109.6	115.2	115.1	123.7	135.6	144.4
Taxes on international trade	214.7	218.4	210.0	200.3	217.5	200.5	216.6	239.6	252.1
Import taxes	186.7	187.8	180.9	171.2	185.5	172.9	184.3	207.4	217.2
<i>Of which</i>									
VAT	83.6	92.0	88.6	83.9	90.9	82.6	90.3	101.6	106.4
Export taxes	28.0	30.6	29.1	29.1	32.0	27.6	32.3	32.2	34.9
Other revenue	16.1	35.0	51.3	46.4	35.4	58.7	68.8	47.9	48.2
Foreign grants	0.0	0.0	1.9	1.2	7.9	2.1	5.0	5.2	5.5
Total expenditure (including net lending)	786.1	1,061.9	969.2	789.0	837.9	827.1	813.6	826.6	814.2
Total expenditure (excluding interest payments)	574.1	758.2	817.9	647.5	682.9	676.3	688.1	712.6	736.8
Current expenditure	674.8	860.4	687.4	613.5	627.4	627.8	599.6	602.1	579.3
Wages and salaries	216.6	219.6	220.6	229.0	226.0	226.3	225.0	226.9	228.5
Purchases of goods and services	128.3	177.0	156.7	124.8	125.5	125.1	131.1	137.5	143.9
Transfers	117.8	160.1	158.8	118.3	121.0	125.6	118.0	123.7	129.5
Interest payments	212.0	303.7	151.3	141.5	155.0	150.8	125.5	114.0	77.4
Domestic	27.8	34.3	33.7	30.4	28.7	31.4	23.6	15.9	11.4
External (excluding IMF)	184.2	269.4	117.6	111.1	126.2	119.4	101.9	98.2	66.0
Capital expenditure	105.1	163.6	136.6	130.7	162.5	160.0	165.0	173.1	181.1
Domestically financed investment	82.4	154.3	117.0	122.0	142.5	142.2	133.0	139.5	146.0
Foreign-financed investment	22.7	9.3	19.6	8.7	20.0	17.8	32.0	33.6	35.1
Net lending (including equity participation)	6.2	37.9	17.1	0.3	0.0	0.0	0.0	0.0	0.0
Restructuring cost of public enterprises 1/	0.0	0.0	67.5	0.0	0.0	0.0	0.0	0.0	0.0
Road Maintenance Fund (FER) and special funds 2/	...	...	60.5	44.5	48.0	39.3	49.0	51.4	53.8
Overall balance, incl. grants (on a payments order basis)	421.5	111.7	120.7	261.3	301.6	286.5	449.1	379.4	326.6
Primary balance, incl. grants (on a payments order basis)	633.5	415.4	272.0	402.8	456.6	437.3	574.6	493.4	404.0
Change in arrears	-276.1	54.7	1.1	-36.4	-198.1	-193.7	-53.5	0.0	0.0
External (on interest payments)	-201.3	26.2	81.1	32.4	-139.4	-140.4	0.0	0.0	0.0
Domestic	-74.9	28.5	-79.9	-68.8	-58.7	-53.3	-53.5	0.0	0.0
Overall balance (on a cash basis)	145.4	166.4	121.8	224.9	103.5	92.8	395.6	379.4	326.6
Financing	-145.4	-166.3	-121.8	-224.9	-103.5	-92.8	-395.5	-379.4	-323.9
External (net)	160.2	-213.1	-76.9	-130.7	95.2	93.9	-89.5	-179.7	-183.3
Drawings	22.7	9.3	17.7	8.7	65.0	59.9	32.0	33.6	35.1
Project financing	22.7	9.3	17.7	8.7	20.0	17.8	32.0	33.6	35.1
Program financing	0.0	0.0	0.0	0.0	45.0	42.1	0.0	0.0	0.0
Amortization	-242.1	-309.7	-243.6	-198.6	-204.8	-208.2	-200.8	-213.3	-218.4
Arrears (on principal)	-271.6	35.0	135.8	46.1	-186.6	-185.8	0.0	0.0	0.0
Foreign exchange effect on arrears	-9.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt rescheduling and deferral	649.5	29.4	1.3	2.0	421.7	425.4	76.6	0.0	0.0
Debt cancellation	17.0	17.0	11.9	11.1	0.0	2.6	2.6	0.0	0.0
Advance external debt payment	-5.9	5.9	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Domestic (net)	-305.7	46.8	-44.9	-94.2	-198.7	-186.7	-306.0	-199.7	-140.6
Banking system	-175.6	144.7	-51.5	15.8	-98.6	-86.0	-211.3	-143.1	-99.2
Bank of Central African States	-59.1	109.5	-92.9	15.8	-82.6	-52.1	-197.8	-137.0	-79.5
<i>Of which</i> : IMF	5.4	-8.1	-9.1	-11.8	19.1	17.6	-12.6	-3.5	-1.0
Repayment statutory advances	0.0	0.0	0.0	0.0	0.0	0.0	-77.7	-71.7	0.0
Commercial banks	-116.5	35.2	41.4	0.0	-16.0	-33.9	-13.4	-6.1	-19.7

Table 3. Gabon: Fiscal Operations of the Central Government, 2000–07 (concluded)

	2000	2001	2002	2003	2004		2005	2006	2007
					Rev.	Prel.			
(In billions of CFA francs)									
Nonbank sources	-130.1	-97.9	6.6	-110.0	-100.1	-100.7	-94.7	-56.6	-41.4
Domestic debt	-115.0	-80.7	-75.4	-60.1	-73.0	-68.8	-80.7	-44.4	-28.2
Oil company advances (net)	-36.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt Department (DGCP)	-72.1	-72.9	-69.1	-55.3	-49.6	-46.5	-57.2	-28.2	-28.2
Debt at treasury	0.0	0.0	0.0	0.0	-3.4	-5.5	-4.9	0.0	0.0
Regularization of civil servants' salaries (<i>rappels</i>)	-6.5	-7.8	-6.3	-4.8	-20.0	-16.8	-18.6	-16.2	--
Change in domestic arrears (on principal, – reduction)	-2.0	6.1	14.1	-11.6	-14.7	-15.4	-1.9	0.0	0.0
Restructuring cost	-5.5	-5.6	47.9	-7.8	-18.5	-15.2	-19.7	-10.6	-17.4
Debt rescheduling	0.0	0.0	39.6	0.0	10.1	10.1	0.4	0.0	0.0
Privatization proceeds	4.0	3.4	1.8	1.0	11.9	1.7	18.2	0.0	0.0
Other 3/	-11.6	-21.1	-21.4	-31.5	-15.9	-13.0	-11.0	-1.6	4.2
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-2.7
Memorandum items:									
(In percent of GDP, unless otherwise specified)									
Total revenue (excluding grants)	33.4	34.0	31.5	29.8	30.9	29.1	30.3	30.0	29.3
Oil revenue	22.5	21.8	17.7	16.2	16.9	15.7	16.9	15.5	13.6
Non-oil revenue	10.9	12.2	13.9	13.6	14.0	13.4	13.4	14.6	15.7
Total expenditure	21.7	30.8	28.1	22.4	22.8	21.7	19.6	20.7	21.0
Total expenditure, excluding interest	15.9	22.0	23.7	18.4	18.6	17.7	16.6	17.8	19.0
Current expenditure	18.7	25.0	19.9	17.4	17.1	16.4	14.4	15.1	15.0
Wage bill	6.0	6.4	6.4	6.5	6.2	5.9	5.4	5.7	5.9
Other current spending	6.8	9.8	9.1	6.9	6.7	6.6	6.0	6.5	7.1
Interest	5.9	8.8	4.4	4.0	4.2	3.9	3.0	2.9	2.0
Capital expenditure	2.9	4.7	4.0	3.7	4.4	4.2	4.0	4.3	4.7
Net lending	0.2	1.1	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Road fund and special funds	...	...	1.8	1.3	1.3	1.0	1.2	1.3	1.4
Defense expenditure 5/	1.8	1.9	1.9	1.8	1.7	1.7	1.4	1.5	1.5
Primary balance, incl. grants (on a payments order basis)	17.5	12.0	7.9	11.4	12.5	11.5	13.8	12.3	10.4
Overall balance, incl. grants (on a payments order basis)	11.6	3.2	3.5	7.4	8.2	7.5	10.8	9.5	8.4
Overall balance (on a cash basis)	4.0	4.8	3.5	6.4	2.8	2.4	9.5	9.5	8.4
(In percent of non-oil GDP)									
Non-oil revenue	21.2	21.1	23.9	23.6	24.2	24.3	25.3	25.3	25.3
Primary expenditure	30.9	37.9	40.8	31.9	32.2	32.2	31.3	30.9	30.5
Wage bill	11.7	11.0	11.0	11.3	10.6	10.8	10.2	9.8	9.5
Non-oil primary balance, incl. grants	-9.8	-16.9	-16.8	-8.2	-7.6	-7.7	-5.8	-5.4	-5.0
(In billions of CFA francs, unless otherwise indicated)									
Oil prices (in U.S. dollars/barrel) 6/	28.2	24.3	25.2	28.9	37.3	38.2	48.1	45.3	42.6
GDP at market prices	3,618	3,448	3,449	3,519	3,667	3,818	4,155	4,000	3,873
Non-oil GDP at market prices	1,857	1,998	2,006	2,033	2,123	2,102	2,199	2,305	2,413
Fund for Future Generations (stock)	...	...	70.4	30.0	142.1	55.0	162.6	224.5	302.9

Sources: Gabonese authorities; and Fund staff estimates and projections.

1/ Including Air Gabon's suppliers' debt and debt of public enterprises to National Social Security Fund (CNSS) taken over by the government during 2002.

2/ In the 2004 budget, outlays of the Road Maintenance Fund (FER) are in an annex to the budget. Other special funds are recorded off budget.

3/ Includes treasury correspondents, local governments, checks written but not yet cashed, and errors and omissions.

4/ Financing gaps during the program period are expected to be covered by debt rescheduling.

5/ Defense spending is partly included under current expenditure and partly under capital spending.

6/ The corresponding national oil prices are US\$1-2 lower.

Table 4. Gabon : Quarterly Monetary Survey, 2003-05

	2003				2004				2005			
	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
	Actual				Prog.				Rev.			
Net foreign assets	76.9	58.3	73.3	81.6	142.2	199.4	126.6	222.9	291.4	344.4	374.4	509.5
Central bank	62.3	36.1	61.8	66.9	87.8	119.0	111.9	130.3	165.2	215.2	240.2	373.3
Deposit money banks	14.6	22.2	11.6	14.6	54.4	80.3	14.6	92.6	126.2	129.2	134.2	136.2
Net domestic assets	524.6	537.0	503.2	510.2	449.6	425.7	498.9	389.7	369.3	333.3	311.4	181.4
Net domestic credit	617.5	649.3	645.6	623.0	585.6	549.7	611.7	560.8	492.0	456.0	434.1	304.1
Net credit to the public sector	173.2	187.0	223.2	210.2	183.9	145.7	159.9	167.9	117.5	76.5	24.6	-11.8
Net credit to the Government	200.8	216.4	253.5	231.9	209.5	170.6	181.6	191.3	151.5	110.5	58.6	-59.7
Central bank	128.9	167.3	171.5	146.5	127.3	108.1	110.1	123.4	94.3	56.8	8.3	-103.5
Deposit money banks 1/	71.9	49.0	82.0	85.4	82.2	62.4	71.5	67.8	57.2	53.7	50.3	43.8
Post office savings	3.3	1.5	1.3	6.2	6.6	6.6	6.2	6.4	4.1	4.1	4.1	4.1
Claims on public agencies, net	-30.9	-30.9	-31.6	-27.9	-32.2	-31.5	-27.9	-29.8	-38.2	-38.2	-38.2	-38.2
Credit to the economy	444.3	462.4	422.4	412.8	401.6	404.1	451.8	392.9	374.5	379.5	409.5	397.9
Other items, net	-92.9	-112.3	-142.4	-112.8	-136.0	-124.1	-112.8	-171.0	-122.7	-122.7	-122.7	-122.7
Broad money	601.5	595.3	576.6	591.8	591.8	625.0	625.5	612.7	660.6	677.6	685.7	690.9
Currency outside banks	119.1	117.2	120.1	124.2	113.4	116.6	118.9	120.2	130.7	145.7	133.8	145.0
Demand deposits	232.8	225.2	211.2	220.9	223.6	251.3	244.9	233.7	232.5	255.5	260.5	261.9
Time deposits	249.6	253.0	245.3	246.7	254.7	257.1	261.7	258.8	271.5	276.5	291.5	283.9
Memorandum items:	(Changes in percent of beginning-of-period broad money)											
Monetary survey	(Annual percent changes)											
Net foreign assets	6.8	3.7	6.2	7.6	10.2	19.9	7.6	23.9	9.5	8.0	12.6	33.0
Net domestic assets	-6.4	-4.3	-10.0	-8.8	-10.2	-14.3	-1.9	-20.4	-4.2	-5.4	-8.8	-28.4
Net domestic credit	-5.8	-0.5	-1.1	-4.9	-6.3	-12.4	-1.9	-10.5	-3.3	-5.4	-8.8	-28.4
Net credit to the government	-3.2	-0.6	5.6	2.0	-3.8	-10.4	-8.5	-6.9	-8.2	-6.2	-14.1	-32.0
Credit to the economy	-1.9	1.1	-5.5	-7.1	-1.9	-1.5	6.6	-3.4	4.9	0.8	5.3	3.5
Broad money	0.4	-0.6	-3.7	-1.2	--	5.6	5.7	3.5	5.3	2.6	3.8	4.6
Credit to the economy	10.0	6.1	-1.4	-9.4	-9.6	-12.6	6.9	-7.0	7.1	-9.3	1.3	6.3
Broad money	2.3	-2.2	-3.7	-1.2	-1.6	5.0	8.5	6.3	5.3	14.5	9.7	4.6

Sources: BEAC, and staff estimates and projections.

1/ The data for September 2004 differs from the one in the government finance table, which excludes CFAF 7.8 billion of securitized commercial agreements bought by a local commercial bank in 2004.

Table 5. Gabon: Monetary Survey, 2000–07

	2000	2001	2002	2003	2004		2005	2006	2007
				Est.	Prog.	Rev.	Projections		
(In billions of CFA francs)									
Stocks									
Net foreign assets	177.2	-8.1	36.1	81.6	137.7	291.4	509.5	660.0	753.1
Central bank	72.8	-46.0	46.0	66.9	123.0	165.2	373.3	518.8	588.9
Assets	136.5	9.9	90.1	104.9	181.3	216.2	411.8	553.8	622.9
Liabilities	-63.7	-56.0	-44.1	-38.0	-57.0	-51.1	-38.5	-35.0	-34.0
Deposit money banks	104.4	37.9	-9.9	14.6	14.6	126.2	136.2	141.2	164.2
Assets	169.0	98.5	72.5	86.6	86.6	193.7	203.7	208.7	231.7
Liabilities	-64.6	-60.6	-82.5	-71.9	-71.9	-67.5	-67.5	-67.5	-67.5
Net domestic assets	350.1	574.8	562.9	510.2	485.2	369.3	181.4	64.4	5.3
Net domestic credit	455.6	660.2	652.3	623.0	603.6	492.0	304.1	192.0	139.3
Net credit to the public sector	98.6	241.0	196.7	210.2	161.6	117.5	-93.8	-236.9	-336.1
Net credit to the government	125.0	271.3	219.8	231.9	183.3	151.5	-59.7	-202.9	-302.1
Central bank	114.2	223.6	130.7	146.5	113.8	94.3	-103.5	-240.5	-320.0
Claims	157.3	248.2	231.5	196.8	215.8	197.2	106.9	33.8	32.7
<i>Of which</i>									
Statutory advances	94.5	194.4	189.2	166.4	166.4	149.1	71.5	1.8	1.8
Use of IMF credit	62.8	53.8	42.2	30.4	49.4	48.0	35.5	32.0	31.0
Deposits	43.2	24.6	100.8	50.3	102.0	102.8	210.4	274.3	352.8
Deposit money banks	10.9	47.7	89.1	85.4	69.5	57.2	43.8	37.7	17.9
Post office savings	3.9	2.3	2.5	6.2	6.2	4.1	4.1	4.1	4.1
Claims on public agencies, net	-30.3	-32.6	-25.5	-27.9	-27.9	-38.2	-38.2	-38.2	-38.2
Credit to the economy	356.9	419.2	455.6	412.8	442.0	374.5	397.9	429.0	475.5
Other items, net	-105.4	-85.4	-89.4	-112.8	-118.4	-122.7	-122.7	-127.6	-134.0
Broad money	527.3	566.7	599.0	591.8	622.8	660.6	690.9	724.4	758.4
Currency outside banks	116.2	128.2	132.0	124.2	130.7	138.7	145.0	152.1	159.2
Demand deposits	204.3	204.0	214.7	220.9	232.5	250.5	261.9	274.6	287.5
Time deposits	206.9	234.5	252.3	246.7	259.6	271.5	283.9	297.7	311.7
(Changes in percent of beginning-of-period broad money)									
Net foreign assets	49.5	-35.1	7.8	7.6	9.5	35.5	33.0	21.8	12.9
Net domestic assets	-31.5	42.6	-2.1	-8.8	-4.2	-23.8	-28.4	-16.9	-8.2
Net domestic credit	-33.7	38.8	-1.4	-4.9	-3.3	-22.1	-28.4	-16.2	-7.3
Net credit to the government	-39.6	27.7	-9.1	2.0	-8.2	-13.6	-32.0	-20.7	-13.7
Credit to the economy	8.3	11.8	6.4	-7.1	4.9	-6.5	3.5	4.5	6.4
Broad money	18.0	7.5	5.7	-1.2	5.3	11.6	4.6	4.9	4.7
(Annual percent changes, unless otherwise indicated)									
Credit to the economy	11.7	17.4	8.7	-9.4	7.1	-9.3	6.3	7.8	10.8
Broad money	18.0	7.5	5.7	-1.2	5.3	11.6	4.6	4.9	4.7
<i>Of which</i> : currency outside of banks	10.4	10.3	3.0	-5.9	5.3	11.7	4.6	4.9	4.7
Memorandum items:									
Velocity									
Non-oil GDP	3.8	3.7	3.4	3.4	3.4	3.4	3.3	3.3	3.3
Total GDP	7.4	6.3	5.9	5.9	5.4	6.1	6.1	5.7	5.1
Non-oil GDP growth	5.1	7.6	0.4	1.4	5.3	3.4	4.6	4.9	4.7
Total GDP growth	26.0	-4.7	0.0	2.0	-3.9	8.5	8.8	-3.7	-3.2
Credit to the economy/non-oil GDP	19.2	21.0	22.7	20.3	20.7	17.8	18.1	18.6	19.7

Source: Bank of Central African States (BEAC).

Table 6. Gabon: Balance of Payments, 2001-07
(in billions of CFA francs unless otherwise indicated)

	2001	2002	2003	2004		2005	2006	2007
		Prel.		Prel.	Prel.		Proj.	
Current account (including transfers)	379.3	235.6	423.5	194.8	400.7	571.2	488.3	396.6
Exports, f.o.b.	1,916.0	1,781.2	1,847.1	1,800.6	2,244.7	2,556.2	2,331.8	2129.4
Oil sector	1,535.9	1,435.4	1,553.6	1,442.3	1,800.9	2,066.9	1,787.3	1538.8
Other sectors	380.1	345.8	293.4	358.3	443.7	489.2	544.5	590.6
Imports, f.o.b.	-621.2	-651.7	-605.9	-658.3	-722.5	-778.3	-776.9	-781.3
Oil sector	-214.1	-163.3	-124.3	-210.8	-216.3	-231.8	-200.5	-184.9
Non-oil private sector	-407.0	-488.3	-481.5	-447.5	-506.1	-546.4	-576.3	-596.3
Trade balance	1,294.8	1,129.5	1,241.2	1,142.2	1,522.1	1,777.8	1,554.9	1348.1
Services (net)	-858.1	-802.5	-712.6	-900.8	-1,019.9	-1,104.6	-975.6	-871.8
<i>Of which</i>								
Interest on public debt (gross) 1/ 3/ 4/	-263.0	-118.9	-114.7	-138.7	-122.1	-108.3	-99.1	-87.9
Profits (net)	-132.9	-201.3	-202.7	-230.7	-272.5	-335.9	-294.4	-259.4
Current Transfers (net)	-57.4	-91.4	-105.1	-46.6	-101.5	-102.1	-90.9	-79.6
Capital Account	-576.3	-374.1	-477.2	-282.8	-407.0	-440.9	-342.8	-326.7
Capital Transfers (net)	1.9	1.8	25.1	0.0	2.7	2.6	3.0	3.4
Medium- and long-term capital	-286.4	-213.7	-189.6	30.9	-67.6	-88.5	-96.1	-107.4
Public sector 3/ 4/	-268.3	-226.5	-190.4	-139.9	-154.9	-175.3	-181.0	-184.7
Drawings (gross)	9.3	17.7	15.4	65.0	59.9	32.0	38.0	40.0
Project	9.3	17.7	8.7	20.0	17.8	32.0	33.6	35.1
Other (excluding IMF)	0.0	0.0	6.7	45.0	42.1	0.0	4.4	4.9
Amortization (gross) 2/	-277.5	-244.1	-205.7	-204.9	-214.8	-207.3	-219.0	-224.7
Direct investment and portfolio investment (net)	-67.6	42.1	10.0	116.7	118.5	115.1	106.5	98.8
Other capital inflows (net)	49.4	-29.4	-9.2	54.1	-31.2	-28.2	-21.5	-21.5
Oil sector	22.4	-3.5	22.5	23.5	-8.4	-6.4	-3.0	-8.0
Non-oil sector	27.0	-25.8	-31.7	30.6	-22.8	-21.8	-18.5	-13.5
Short-term capital	-291.8	-162.2	-312.7	-313.7	-342.1	-355.0	-249.7	-222.7
Oil sector	-69.3	2.0	-55.2	-84.4	-104.3	-66.3	-67.4	-39.8
Non-oil sector	-138.1	-67.6	-162.5	-229.3	-237.8	-288.7	-182.2	-182.8
Errors and omissions	-84.3	-96.7	-95.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	-197.0	-138.5	-53.7	-88.0	-6.3	130.3	145.5	69.9
Financing	197.0	138.5	53.7	-383.4	6.3	-130.3	-145.5	-67.5
Central Bank, net foreign assets (- = increase)	119.1	-92.0	-20.9	-57.4	-97.7	-208.1	-145.5	-70.1
IMF Liabilities (- = increase)	-7.1	-13.5	-11.8	19.0	19.2	-12.6	-3.5	-5.1
Other net assets (- = increase)	126.1	-78.5	-9.0	-76.4	-116.9	-195.5	-142.0	-65.1
Debt rescheduling 4/	0.0	1.3	0.0	0.0	254.1	249.3	0.0	0.0
Debt cancellation (and other) 4/	17.0	11.9	11.1	0.0	2.7	2.6	0.0	2.6
Arrears net (- = reduction)	60.9	217.4	63.5	-326.0	-326.9	0.0	0.0	0.0
Other exceptional financing 4/ 5/	0.0	0.0	0.0	0.0	174.1	-174.1	0.0	0.0
Financing gap 6/	0.0	0.0	0.0	471.5	0.0	0.0	0.0	-2.4
Memorandum items:								
Current account (including official transfers)	11.0	6.8	12.0	5.8	10.5	13.7	12.2	10.2
Oil	27.2	26.2	34.3	21.6	27.7	29.7	27.5	24.5
Non-oil	-16.2	-19.4	-22.3	-15.9	-17.2	-15.9	-15.2	-14.2
Current account (excluding official transfers)	10.8	7.5	12.8	5.5	10.4	13.6	12.1	10.1
Capital account	-16.7	-10.8	-13.6	-8.4	-10.7	-10.6	-8.6	-8.4
Overall balance	-5.7	-4.0	-1.5	-2.6	-0.2	3.1	3.6	1.8
Gross official reserves (in billions of CFA francs)	9.9	90.1	104.9	181.3	104.9	300.4	442.4	507.4
In months of imports of GNFS	0.1	0.9	1.2	1.9	0.9	2.6	4.0	4.7
World oil price (U.S. dollars/barrel)	24.3	25.2	28.9	30.0	38.2	48.1	45.3	42.6
National oil price (U.S. dollars/barrel)	22.6	24.2	27.6	28.9	35.6	44.3	42.7	40.6
Oil production (in million tons)	13.0	12.6	13.5	13.3	13.6	13.5	12.1	11.0
Exchange rate CFA francs per U.S. dollar (average)	732.4	695.4	580.1	532.6	528.3	488.4	...	...

Sources: Gabonese authorities; and Fund staff estimates and projections.

1/ In 2004, it excludes late interest for approximately CFAF 4 billion that remains to be reconciled with the French Treasury

2/ In 2003, it includes (cumulated) debt cancellation by Agence Francaise de Developpement and Banque de France for 2004-13.

3/ It includes both direct and guaranteed debt.

4/ For 2004-06, it may change after bilateral agreements with Paris Club, Bilateral and London Club creditors will be concluded

5/ In 2004-05, it includes the deferral of 50 percent of arrears on principal and 35 percent of arrears on interest with Paris Club Creditors. The rescheduling of such arrears will only become effective provided the second review under the SBA is completed.

6/ The financing gap for the program period was covered in part by a debt rescheduling.

Table 7: Gabon: External Debt Outstanding and Scheduled Debt Service, 2001-07 1/

	2001	2002	2003	2004	2005	2006	2007
					Projections		
	(in billions of CFA francs)						
Total medium- and long-term debt	2,176.5	2,166.1	1,969.6	1,894.5	1,785.5	1,604.0	1,415.2
Debt Outstanding (as of December, 2004)	2,176.5	2,166.1	1,969.6	1,391.1	1,182.5	969.9	754.5
<i>Of which</i> arrears 2/	61.1	278.3	326.9	--	--	--	--
Multilateral	362.3	320.5	242.3	192.0	153.3	118.0	86.7
<i>Of which</i> non-IMF	308.5	276.2	210.6	174.9	148.8	116.9	86.7
Bilateral	1,697.9	1,711.2	1,636.3	1,169.3	1,006.7	835.8	653.0
Paris Club	1,646.8	1,669.3	1,594.5	1,136.8	976.4	808.1	628.0
Other bilateral	51.1	41.9	41.8	32.5	30.2	27.6	25.0
Debt diverse	83.7	86.9	41.5	29.8	22.5	16.2	14.8
London Club	26.8	21.1	18.6	--	--	--	--
Unpaid Interest on arrears (IDR) 3/	5.8	26.3	31.0	--	--	--	--
New Debt 4/	--	--	--	503.4	603.0	634.1	660.7
IMF	--	--	--	32.2	32.3	32.4	28.3
Project-Program	--	--	--	65.0	97.0	135.0	175.0
Paris Club VIII (2004)	--	--	--	398.7	473.8	473.8	473.8
London Club	--	--	--	--	-6.9	-11.9	-16.8
Other bilateral	--	--	--	7.5	6.8	4.8	2.8
Remaining gap financing	--	--	--	--	--	--	-2.5
Total debt service due (including IMF) 5/	548.4	403.2	318.8	347.5	325.6	318.6	314.2
<i>Of which</i> reschedulable	--	--	156.2	151.3	153.1	156.5	159.3
Principal	306.3	244.7	206.8	225.2	217.3	219.5	226.4
Interest	242.1	158.5	112.0	122.3	108.3	99.1	87.9
Multilateral	99.6	64.2	58.1	64.8	50.1	47.9	41.4
Non-IMF	88.7	51.8	49.0	51.2	37.0	44.1	40.2
IMF Outstanding	10.9	12.3	9.1	13.6	13.1	3.7	1.2
Bilateral	383.7	269.2	233.8	231.8	230.0	229.2	230.4
Paris Club	378.8	263.2	231.8	229.0	227.6	226.5	227.7
Paris Club pre-cutoff	272.4	184.2	180.4	178.3	186.8	194.4	201.5
Never rescheduled (NPRD)	8.8	5.2	1.8	1.8	1.7	0.8	0.8
Paris Club I	--	--	--	--	--	--	--
Paris Club II (1987)	--	--	--	--	--	--	--
Paris Club III (1988)	--	--	--	--	--	--	--
Paris Club IV (1989)	26.4	--	--	--	--	--	--
Paris Club V (1994)	100.0	91.4	90.9	88.0	93.5	95.8	97.1
Paris Club VI (1995)	152.8	52.8	52.7	54.4	55.5	57.2	58.8
Paris Club VII (2000)	44.1	27.2	35.1	34.1	36.2	40.6	44.9
Paris Club post-cutoff (PCOD)	67.4	48.2	51.4	50.7	40.8	32.1	26.3
Other bilateral (Non guaranteed credit)	4.9	6.0	2.1	2.9	2.4	2.7	2.7
Debt Diverse (Non PC creditors)	49.7	59.4	18.1	11.6	7.9	6.3	1.4
London Club	15.5	10.5	8.8	4.2	--	--	--
Interest on arrears (IDR) 3/	--	--	--	31.0	--	--	--
New debt (includes residual gap filling)	--	--	--	4.1	37.6	35.3	41.0
Principal	--	--	--	1.9	8.7	7.0	11.0
<i>Of which</i> Paris Club VIII (2004)	--	--	--	--	--	--	--
<i>Of which</i> IMF	--	--	--	--	--	--	4.0
Interest	--	--	--	2.1	28.9	28.3	30.1
<i>Of which</i> Paris Club VIII (2004)	--	--	--	1.5	23.8	21.6	21.6
<i>Of which</i> IMF	--	--	--	0.3	0.7	0.7	0.7

Table 7. Gabon: External Debt Outstanding and Scheduled Debt Service, 2001-07 1/ (concluded)

	2001	2002	2003	2004	2005	2006	2007
					Projections		
	(In billions of CFA francs)						
Debt cancellation 6/	34.0	23.8	19.1	--	--	--	--
Debt outstanding	17.0	11.9	11.1	--	--	--	--
Arrears	17.0	11.9	8.0	--	--	--	--
Change in arrears (=reduction)	95.4	354.4	95.9	-326.9	--	--	--
Principal	60.9	217.4	63.5	-186.6	--	--	--
Interest	34.5	137.1	32.4	-140.3	--	--	--
Other	--	--	-3.1	--	--	--	--
Debt rescheduling/deferral 6/	--	2.6	--	428.2	75.2	--	--
Debt service rescheduling	--	2.6	--	101.6	75.2	--	--
Principal	--	1.3	--	65.7	51.1	--	--
Interest	--	1.3	--	35.9	24.0	--	--
Arrears rescheduling	--	--	--	152.6	174.1	--	--
Principal	--	--	--	98.8	120.9	--	--
Interest	--	--	--	53.7	53.2	--	--
Deferred payments 9/	--	--	--	174.1	-174.1	--	--
Principal	--	--	--	120.9	-120.9	--	--
Interest	--	--	--	53.2	-53.2	--	--
Debt service paid (including IMF)	493.9	190.1	274.3	--	--	--	--
Principal	266.3	150.1	202.7	--	--	--	--
Interest	227.6	40.0	71.6	--	--	--	--
	(In percent)						
Memorandum items:							
External public debt/GDP							
Including IMF	63.1	62.8	56.0	49.6	43.0	40.1	36.5
Excluding IMF	54.2	54.8	50.0	44.2	38.6	36.4	33.6
External public debt/exports 7/ 6/							
Including IMF	106.7	117.7	103.3	82.2	68.3	67.1	64.6
Excluding IMF	91.6	102.6	92.2	73.2	61.3	60.8	59.4
Debt-service ratio 7/ 6/							
Due (before relief)	26.9	21.9	16.7	15.1	12.4	13.3	14.4
Principal	15.0	13.3	10.8	9.8	8.3	9.2	10.3
Interest	11.9	8.6	5.9	5.3	4.1	4.1	4.0
Paid	24.2	10.3	14.4	--	--	--	--
Principal	13.1	8.2	10.6	--	--	--	--
Interest	11.2	2.2	3.8	--	--	--	--
Debt service/government revenue 8/ 6/							
Due (before relief)	46.7	37.1	30.4	34.0	29.3	33.0	27.2
Paid	40.0	16.2	23.4	--	--	--	--
Debt service/non-oil GDP 6/							
Due (before relief)	27.4	20.1	15.7	16.5	14.8	13.8	13.0
Paid	24.7	9.5	13.5	--	--	--	--

Sources: Gabonese authorities; and staff estimates and projections.

1/ End-of-period data; public and publicly guaranteed debt.

2/ Arrears through end-2002 were due to multilateral and bilateral creditors, and to commercial banks. By end-2003, CFAF 321 billion correspond to reschedulable debt. The rest correspond to CFAF 4.8 billion of arrears on nonreschedulable debt that were cleared during the first quarter of 2004. It excludes possible arrears with Libya and Iran that are in the process to be reconciled.

3/ In 2003-04, it excludes late interest for approximately CFAF 4 billion that remains to be reconciled with the French Treasury

4/ Includes residual gap filling.

5/ Debt service is net of cancellation.

6/ For 2004-06 it may change after bilateral agreements with Paris Club, other Bilateral and London Club creditors will be concluded.

7/ In percent of exports of goods and services.

8/ Government revenue, excluding grants.

9/ Triggered after the successful completion of the second review under the SBA.

Table 8. Gabon: External Financing Requirements and Sources, 2003-07
(In billions of CFA francs)

	2003	2004	2005	2006	2007
	Est.		Projections		
1. Gross financing requirements	293.9	-270.4	153.4	121.6	101.7
External current account deficit (excl. official transfers)	449.9	398.6	566.2	483.1	391.1
Debt amortization	-198.6	-212.1	-204.7	-216.1	-219.3
Medium and long-term debt	-198.6	-212.1	-204.7	-216.1	-220.3
Public sector	-172.0	-196.3	-190.5	-204.8	-214.0
Multilateral 1/	-31.8	-34.7	-26.1	-31.9	-30.2
Bonds and notes	0.0	0.0	0.0	0.0	1.0
Bilateral	-140.2	-161.6	-164.4	-172.9	-184.8
Commercial banks	-8.5	-4.1	-6.9	-5.0	-5.0
Corporate private sector	-18.1	-11.6	-7.3	-6.3	-1.4
Short-term debt 2/	0.0	0.0	0.0	0.0	1.0
Repayment of arrears	63.5	-326.9	0.0	0.0	0.0
Gross reserves accumulation	-9.0	-116.9	-195.5	-142.0	-65.1
IMF repurchases and repayments	-11.8	-13.1	-12.6	-3.5	-5.1
2. Available financing	-406.8	270.4	-153.4	-121.6	-99.7
Foreign direct investment (net)	10.0	118.5	115.1	106.5	98.8
Debt financing from private creditors	-321.8	-373.3	-383.3	-271.2	-244.2
Medium- and long-term financing	-9.2	-31.2	-28.2	-21.5	-21.5
To public sector	0.0	0.0	0.0	0.0	0.0
<i>Of which: balance of payments financing 3/</i>	0.0	0.0	0.0	0.0	0.0
To commercial banks	0.0	0.0	0.0	0.0	0.0
To corporate private sector	-9.2	-31.2	-28.2	-21.5	-21.5
Short-term financing	-312.7	-342.1	-355.0	-249.7	-222.7
<i>Of which: balance of payments financing 3/</i>	0.0	0.0	0.0	0.0	1.0
Official creditors 4/	-11.1	62.0	37.0	43.2	45.5
Multilateral 1/	-0.4	50.1	14.8	19.9	21.1
<i>Of which: balance of payments financing 3/</i>	-3.9	42.9	2.0	6.5	7.1
Bilateral	-10.6	11.9	22.2	23.3	24.4
To public sector	-10.6	11.9	22.2	23.3	24.4
<i>Of which: balance of payments financing 3/</i>	-15.8	1.3	3.0	3.1	3.3
To private sector	0.0	0.0	0.0	0.0	1.0
IMF	0.0	32.2	0.0	0.0	0.0
Debt rescheduling, deferral and cancellation	11.1	430.9	77.8	0.0	2.6
Financing gap	0.0	0.0	0.0	0.0	-2.4
Other flows 5/	-95.0	0.0	0.0	0.0	0.0
Memorandum item:					
Total balance of payments financing 3/	-8.7	507.4	82.8	9.6	10.6

1/ Excluding the IMF.

2/ Original maturity of less than 1 year. Stock at the end of the previous period.

3/ Includes those transactions that are undertaken for the purpose of financing a balance of payments deficit or an increase in reserves.

4/ Includes both loans and grants.

5/ Includes all other net financial flows, and errors and omissions.

Table 9. Gabon: Income and Social Indicators, 1980–2002

	Gabon					Same Region/Income Group	
	1980–85	1990	2000	2001	2002	Sub-Saharan Africa	Upper-middle income
Population							
Total population, midyear (millions)	0.8	0.9	1.2	1.3	1.3	702.6	647.0
Growth rate (annual average, in percent)	3.3	3.0	2.3	2.2	2.2	2.6	1.3
Urban population (in percent of population)	65.2	68.1	81.5	82.0	82.9	34.0	76.0
Total fertility rate (births per woman)	4.5	4.8	4.5	4.2	4.1	5.3	2.7
Poverty (in percent of population)							
National head count index 1/	...	62.0 2/	...	...	...	...	...
Income							
GNP per capita (U.S. dollars)	3,900.0	4,470.0	3,327.7	3,100.0	3,060.0	450.0	5,407.0
Consumer price index (1995=100)	76.0	72.5	105.3	109.3	109.5	131.0	122.0
Food price index (1995=100)	76.0	72.5	104.8	...	...	130.5	...
Social indicators							
Public expenditure (in percent of GDP)							
Health	...	2.0	...	...	1.9	4.0	5.5
Education	5.0	...	...	...	2.4	4.1	5.0
Gross school enrollment rates (in percent of age group)							
Primary	172.0	168.0	...	151.0	150	78.0	107.0
Secondary	43.0	50.0	...	54.0	53	25.0	64.0
Tertiary	6.0	7.0	...	...	...	3.0	14.0
Access to improved water source (in percent of population)							
Total	58.0	60.0	77.2	86.0	...	58.2	...
Urban	75.0	77.0	93	...	...	...	...
Rural	34.0	33.0	35.2	...	...	...	...
Immunization rate (in percent of children under 12 months)							
Measles	58.0	78.0	...	55.0	55.0	57.0	78.0
DPT	24.0	76.0	...	37.0	38	59.0	75.0
Life expectancy at birth (years)							
Total	49.0	51.0	...	52.7	52.9	45.8	66.0
Male	47.0	49.0	...	51.0	...	46.0	65.0
Female	51.0	53.0	...	54.0	...	48.0	69.0
Mortality							
Infant (per 1,000 live births)	112.0	69.0	57.0	64.0	63.0	92.0	54.0
Under 5 (per 1,000 live births)	194.0	96.0	...	87.0	85.0	174.0	78.0
Adult (15-59)							
Male (per 1,000 population)	474.0	425.0	342.0	...	...	499.0	221.0
Female (per 1,000 population)	387.0	360.0	281.0	...	...	453.0	170.0
Maternal (per 100,000 live births)	600.0	500.0	519.0	420.0	...	917.0	...

Sources: World Bank, *World Development Indicators*, 2003; UN Statistics Division (2003); and Gabon's Demographic and Health Survey (2000).

1/ Defined as the share of the population with per capita consumption of less than two-thirds of the national average.

2/ As of 1993.

Table 10. Gabon: Millennium Development Goals

	1990	1995	2001	2002	2015 Target
Goal 1: Eradicate extreme poverty and hunger					
Target 1: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day.					
Population below \$1 a day (percent)	...	...	...	...	...
Poverty gap at \$1 a day (percent)	...	...	...	...	...
Percentage share of income or consumption held by poorest 20percent	...	...	...	...	...
Target 2: . Halve, between 1990 and 2015, the proportion of people who suffer from hunger.					
Prevalence of child malnutrition (percent of children under 5)	...	...	11.9	...	...
Population below minimum level of dietary energy consumption (percent)	11	9	7	...	5.5
Goal 2: Achieve universal primary education					
Target 3: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.					
Net primary enrollment ratio (percent of relevant age group)	...	...	78.3	...	...
Percentage of cohort reaching grade 5 (percent)	...	59.3	102.1	...	...
Youth literacy rate (percent ages 15-24)	...	...	...	...	...
Goal 3: Promote gender equality					
Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015.					
Ratio of girls to boys in primary and secondary education (percent)	102.6	96.2	96	...	100
Ratio of young literate females to males (percent ages 15-24)	...	...	...	...	...
Share of women employed in the nonagricultural sector (percent)	43.2	...	...	...	...
Proportion of seats held by women in national parliament (percent)	...	6	...	...	...
Goal 4: Reduce child mortality					
Target 5: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.					
Under 5 mortality rate (per 1,000)	96	91	87	85	32
Infant mortality rate (per 1,000 live births)	69	67	64	63	...
Immunization, measles (percent of children under 12 months)	76	57	55	55	...
Goal 5: Improve maternal health					
Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.					
Maternal mortality ratio (modeled estimate, per 100,000 live births)	500	...	420	...	125
Births attended by skilled health staff (percent of total)	...	...	85.5	...	...
Goal 6: Combat HIV/AIDS, malaria and other diseases					
Target 7: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS.					
Prevalence of HIV, female (percent ages 15-24)	...	...	4.7	...	...
Contraceptive prevalence rate (percent of women ages 15-49)	...	...	32.7	...	...
Number of children orphaned by HIV/AIDS	...	...	8600	...	...
Target 8: Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.					
Incidence of tuberculosis (per 100,000 people)	...	...	192	248.4	...
Tuberculosis cases detected under DOTS (percent)	...	...	...	72.9	...

Table 10. Gabon: Millennium Development Goals (concluded)

	1990	1995	2001	2002	2015 Target
Goal 7: Ensure environmental sustainability					
Targets 9: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources.					
Forest area (percent of total land area)	85.1	...	84.7	...	
Nationally protected areas (percent of total land area)	...	2.8	2.8	2.8	
GDP per unit of energy use (PPP \$ per kg oil equivalent)	3.7	4.2	4.7	...	
CO2 emissions (metric tons per capita)	7	3.4	2.8	...	
Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water.					
Access to an improved water source (percent of population)	60	...	86	...	93
Target 11: By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers.					
Access to improved sanitation (percent of population)	...	...	53	...	
Access to secure tenure (percent of population)	...	...	...	...
Goal 8: Develop a Global Partnership for Development					
Targets: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Address the Special Needs of the Least Developed Countries. Address the Special Needs of landlocked countries and small island developing states. Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term. In cooperation with developing countries, develop and implement strategies for decent and productive work for youth.					
In cooperation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries. In cooperation with the private sector, make available the benefits of new technologies, especially information and communications.					
Youth unemployment rate (percent of total labor force ages 15-24)	...	...	...	...
Fixed line and mobile telephones (per 1,000 people)	21.7	33.5	234	239.7	
Personal computers (per 1,000 people)	...	5.6	15.8	19.2	

Sources: World Bank; *World Development Indicators* 2004; and www.developmentgoals.org

Table 11. Gabon : Indicators of Financial Obligations to the Fund, 2000-09

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Outstanding use of Fund credit 1/							Projections			
In millions of SDRs	68.4	59.6	49.5	39.4	64.4	75.4	70.8	64.2	34.7	5.2
In billions of CFAF	63.6	53.8	44.3	31.7	48.5	56.8	53.3	48.3	26.1	3.9
In percent of government revenue and grants	5.3	4.6	4.1	3.0	4.4	4.5	4.4	4.2	2.4	0.4
In percent of exports of goods and nonfactor services (f.o.b.)	2.6	2.6	2.4	1.7	2.1	2.2	2.2	2.2	1.3	0.2
In percent of external public debt including the Fund	3.1	2.5	2.0	1.6	2.6	3.2	3.3	3.4	2.1	0.4
In percent of GDP	1.8	1.6	1.3	0.9	1.3	1.4	1.3	1.2	0.7	0.1
In percent of quota	44.3	38.7	32.1	25.6	41.7	48.9	45.9	41.6	22.5	3.4
Repurchases and charges due										
In millions of SDRs	10.4	11.7	11.8	11.2	18.2	19.4	7.1	9.0	31.5	30.5
In billions of CFAF	9.7	10.9	10.7	9.1	14.3	14.6	5.4	6.8	23.7	23.0
In percent of government revenue and grants	0.8	0.9	1.0	0.9	1.3	1.2	0.4	0.6	2.2	2.1
In percent of exports of goods and nonfactor services (f.o.b.)	0.4	0.5	0.6	0.5	0.6	0.6	0.2	0.3	1.2	1.2
In percent of external public debt including the Fund	0.5	0.5	0.5	0.5	0.8	0.8	0.3	0.5	1.9	2.2
In percent of GDP	0.3	0.3	0.3	0.3	0.4	0.4	0.1	0.2	0.6	0.6
In percent of quota	6.7	7.6	7.7	7.3	11.8	12.5	4.6	5.8	20.4	19.8
Net use of Fund credit (in millions of SDRs)	5.8	-8.7	-10.1	-10.1	24.9	11.1	-4.6	-6.6	-29.5	-29.5
Purchases	13.2	--	--	--	41.7	27.8	--	--	--	--
Repurchases	7.4	8.7	10.1	10.1	16.7	16.7	4.6	6.6	29.5	29.5

Sources: IMF, Finance Department, Gabonese authorities, and staff estimates and projections.

1/ At end of period; assuming drawings under the Stand-By Arrangement in 2004-05.

Table 12. Gabon: Indicators of External Vulnerability, 1999–2004

	1999	2000	2001	2002	2003	2004
Exports (percent change, 12-month basis in U.S. dollars)	31.2	33.1	-21.4	-2.1	24.3	33.4
Imports (percent change, 12-month basis in U.S. dollars)	-21.6	-12.2	6.0	10.5	11.4	30.9
Terms of trade (percent change, 12-month basis)	37.9	-1.6	-10.6	-1.5	24.7	1.6
Current account balance, incl. grants (in percent of GDP)	8.4	19.7	11.0	6.8	12.0	10.5
Gross official reserves (in millions of U.S. dollars)	22.8	191.2	13.8	136.9	194.1	214.4
Gross official reserves (in months of imports of goods and services of the following year) 1/	0.1	1.4	0.1	1.0	0.9	0.9
Gross reserves of the banking system (in millions of U.S. dollars) 1/	101.7	428.1	150.9	247.2	354.3	837.9
Gross reserves of the banking system (in months of imports of goods and services of the following year) 1/	0.6	3.2	1.1	1.8	1.7	3.5
Central bank short-term foreign liabilities (in millions of U.S. dollars) 1/	90.8	89.2	77.9	67.0	70.3	105.5
Official reserves/broad money (M2) (in percent) 1/	3.2	25.9	1.8	15.0	17.7	32.8
Total public and publicly guaranteed debt (in millions of U.S. dollars)	3717.1	2894.7	3029.6	3292.0	3644.3	3872.3
Total external debt to exports of goods and services (in percent)	130.4	82.9	106.7	117.7	103.3	82.2
External interest payments to exports of goods and services (in percent)	10.1	7.7	11.9	8.6	5.9	5.3
External amortization payments to exports of goods and services (in percent)	12.2	9.3	15.0	13.3	10.8	9.8
Exchange rate (per U.S. dollar, period average)	614.9	710.0	732.4	695.4	580.1	528.3
Exchange rate (per U.S. dollar, end of period)	619.5	713.5	718.4	658.0	540.5	489.2
Net foreign assets of commercial banks (in millions of U.S. dollars)	-3.1	146.3	52.8	-15.1	27.1	257.9

Sources: Gabonese authorities; and staff estimates.

1/ Gabon is a member of the Central African Economic and Monetary Community (CEMAC) and of its regional central bank (BEAC). Gross reserves in the table are BEAC's gross reserves imputed to Gabon.

Table 13. Gabon: Sources of Growth, 2003-08
(Annual percentage changes)

	Sectoral share of GDP (%) in 2003	2003 Est.	2004	2005	2006	2007	2008
			Projections				
Real GDP Growth	100.0	2.4	1.4	2.0	0.2	0.7	0.4
Oil sector	28.2	6.6	-1.0	-0.6	-8.6	-8.0	-10.3
Non-oil sector	71.8	0.8	2.3	3.0	3.5	3.5	3.5
<i>Of which</i>							
Agriculture, Fishing and Agro-Industry	8.7	1.5	2.0	2.8	4.7	5.0	4.0
Logging activities and Wood Industry	2.9	4.2	-0.1	4.9	5.6	5.6	5.6
Mining (excluding oil related activities)	1.4	3.6	22.9	12.5	11.1	8.0	7.0
Services, Transport and Commerce	30.9	1.2	1.4	3.1	3.2	3.7	4.9
Construction, Water, Electricity, and other industries	27.8	0.0	2.3	2.2	2.8	2.3	1.3
Contribution to Non-Oil GDP Growth	100	0.8	2.3	3.0	3.5	3.5	3.5
Agriculture, Fishing and Agro-Industry	12.1	0.2	0.2	0.3	0.6	0.6	0.5
Logging activities and Wood Industry	4.0	0.2	0.0	0.2	0.2	0.2	0.2
Mining (excluding Oil related activities)	2.0	0.1	0.5	0.3	0.3	0.2	0.2
Services, Transport and Commerce	43.1	0.5	0.7	1.3	1.3	1.5	2.0
Construction, water, electricity, and other industries	38.8	0.0	0.9	0.9	1.1	0.9	0.5

Sources: Gabonese authorities; and Fund staff estimates and projections.

Table 14. Gabon: Banking Sector Soundness Indicators, 1998-2004
(Ratios in percent)

	1998	1999	2000	2001	2002	2003	2004
Capital adequacy							
Regulatory capital to risk-weighted assets	24.5	23.0	13.2	17.2	17.6	19.9	17.8
Ratio of total loans larger than 15 percent of capital to eight times capital 1/	4.5	3.1	2.4	7.3	4.5	7.8	5.9
Assets quality							
NPLs to total gross loans	8.9	9.4	6.6	8.6	11.4	13.8	15.8
NPLs to total capital	32.3	36.7	35.0	35.2	52.9	59.4	66.8
NPLs provisions to total NPLs	37.2	36.1	64.7	63.0	66.5	78.8	78.4
Earnings and profitability							
Interest margin to gross income	184.7	182.6	159.8	173.8	187.1	206.0	...
Return on equity	28.8	31.2	60.2	36.8	35.3	30.9	...
Return on assets	5.6	5.4	6.2	5.6	5.2	4.7	...
Liquidity							
Liquid assets to short-term liabilities	127.0	134.6	125.4	128.8	134.0	185.3	219.5

Source: Bank of Central African States (BEAC).

1/ According to COBAC prudential regulations, the total of large loans (defined as those exceeding 15 percent of capital) should not exceed eight times banks' capital.

Libreville, March 14, 2005

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. de Rato:

1. This letter supplements the Memorandum of Economic and Financial Policies of May 6, 2004 as well as the pertinent letters of intent dated September 8 and December 10, 2004. It describes the next major steps in the implementation of our program for 2005.
2. The macroeconomic policies and structural reforms implemented by the government continue to bear fruit. Real economic growth reached 1.4 percent in 2004, while growth in non-oil GDP was 2.3 percent, reflecting an increase in activity in the mining sector (manganese), timber processing, and construction. Rising oil prices have stimulated oil production, which remained at the same level as in 2003. Wage restraint and monetary discipline attributable to the exchange regime contributed to a decline in inflation, which fell from 2.1 percent at end-2003 to 0.4 percent at end-2004. Budget performance was in line with the program, and the non-oil primary budget deficit decreased from 8.2 percent of non-oil GDP to 7.7 percent of non-oil GDP in 2004. The current account continued to register a large surplus. Activity in the export sectors was stimulated by the high prices of oil and manganese and Gabon's contribution to the BEAC's net foreign assets was more than double its level at end-2003.
3. Performance under the program supported by the Stand-By Arrangement remains satisfactory. All the quantitative and structural criteria for end-December 2004 were met. Five structural benchmarks were also met by the scheduled date. However, it has not been possible to integrate all the earmarked revenues into the 2005 budget law as anticipated: there are now plans for the special accounts of the National Housing Fund (FNH) and of the local governments to be integrated into the budget during through the year through a supplemental budget law. The new general civil service law was adopted, but the implementing decrees (structural benchmark) are still pending (see paragraph 8). The adoption of the implementing legislation for the Mining Code has also been delayed pending completion of work on a standard concession agreement for the mining sector, scheduled for the second quarter of 2005.

The macroeconomic framework for 2005

4. The macroeconomic outlook remains favorable for 2005, characterized by accelerating growth in the non-oil sector, a less-pronounced decline in oil production, and

continuing high price levels for oil and manganese. Non-oil real GDP is projected to increase by 3 percent in 2005, reflecting the continued investment in recently privatized sectors of agroindustry, the expanded timber processing capacities, the upturn in manganese production, and fresh initiatives in the housing sector. Oil production is expected to reach 13.5 million tons, significantly in excess of the initially anticipated level of 11.5 million. Thanks to a prudent fiscal policy, inflation is not expected to exceed 1 percent. Given the projected high prices for oil and manganese, the external position is expected to remain strong, with a current surplus amounting to 13.7 percent of GDP and rising foreign exchange reserves. Accordingly, the external debt/GDP ratio is anticipated to decline from 50 percent at end-2004 to 43 percent at end-2005. Of course, these projections will continue to be heavily dependent on oil prices.

5. Since the debt rescheduling agreement concluded with Paris Club creditors on June 11, 2004, negotiations of bilateral agreements have been completed with the majority of creditors and are continuing with the rest. To ensure that the latest agreements can be concluded, the Secretary General of the Paris Club has granted an extension through end-March 2005 on the signing date for bilateral agreements. With respect to its debt to non-Paris Club bilateral creditors, Gabon is pursuing negotiations with Saudi Arabia, China, and Libya. The agreement with the London Club of commercial creditors has been drafted and the convention is expected to be signed during the first semester of 2005.

Principal elements of the budget law for 2005

6. The 2005 budget law approved by Parliament in December is in line with the program supported by the Stand-By Arrangement. It aims to reduce the non-oil primary budget deficit by 2 percentage points to 5.8 percent of non-oil GDP. This adjustment will be based on an increase in non-oil revenues (by 1 percent of non-oil GDP) and a reduction in current expenditure (by 1 percent of non-oil GDP). As envisaged in the program, we have expedited the implementation of appropriations for the 2005 budget, which became effective on February 22 (structural benchmark).

7. Total budget revenues (including grants) are expected to reach CFAF 1,263 billion in 2005 (30.4 percent of GDP), of which CFAF 702.4 billion are oil revenues and CFAF 555.4 billion are non-oil revenues, including grants. Several measures are expected to boost non-oil revenues in 2005. In particular, these include the computerization of customs services, more effective tracking of the collection of tax arrears, and strengthened control of value-added tax (VAT) reimbursements. Furthermore, in the area of forestry taxation, we have introduced a withholding (*précompte*) system designed to boost stumpage tax collection. Finally, the new Large Enterprise Directorate (DGE) has been set up. Its contribution to tax collection should make itself felt as of FY 2006. In the meantime, it is expected that the DGE select thirty large companies and perform the tax assessment and calculations and notify the companies in question before end-September 2005.

8. The effort to control current expenditures—particularly the wage bill, which will be brought down to CFAF 225 billion in 2005 (5.4 percent of GDP)—is continuing. This

objective will be achieved primarily by pursuing strict management of the payroll, in particular, further cleanup of personnel records, better management of fixed-term employees, the non-establishment of the evaluation committees in order to postpone the process of merit advancement until the new civil service law is analyzed, the non-replacement of the fixed-term staff scheduled to retire, and a reduction in the number of daily workers. At the same time, any accumulation of wage arrears (other than those generated by normal delays in updating payroll records) will be avoided. The new civil service law, promulgated in early February, is being evaluated to determine its impact on the wage bill. In the meantime, steps have been taken to better control the wage bill during the preparation of the implementing decrees before end-2005. With regard to nonwage expenditure, the government is planning to make savings on several fronts. Sovereignty expenditures will be reduced by CFAF 2 billion relative to 2004, and subsidies for public enterprises will decline, particularly transfers to Gabon Poste and Air Gabon. The investment budget will be maintained at its level of around 4 percent of GDP in 2005.

9. The government and the social security administration (CNSS) have jointly taken steps to improve the financial situation of the CNSS. The government has assumed a portion of the debt of public enterprises vis-à-vis the CNSS thereby ensuring that many separated employees can receive their pension. Furthermore, the CNSS has embarked upon a restructuring program, in particular by reducing its wage bill. With the support of the AfDB, the CNSS has also launched an actuarial study to assure the long-term viability of the social security system in Gabon.

10. The action plan to improve the financial status of local governments is currently being prepared. The plan is focused on strengthening the tax base for the property tax, rigorous management of personnel costs, and an equitable mechanism for allocating transfers to the local authorities. In particular, property surveys in Libreville and Port-Gentil have helped determine the tax base and update property tax records. There are plans to expedite the process of registering permanent real estate titles in 2005, with the goal of doubling the number of permanent title deeds registered in Libreville and Port-Gentil by end-September 2005.

11. As a consequence of this fiscal policy and the rescheduling agreement with Paris Club creditors covering the first half of 2005, no deficit financing is envisaged for 2005.

Transparency and good governance

12. The government is continuing its efforts to enhance efficiency and transparency in fiscal management. Thus, the audit of expenditures for the independence celebrations (*fêtes tournantes*) will be completed by end-August 2005. With respect to the Road Maintenance Fund (FER), an audit of its arrears is expected to be finished by end-June. The results of this audit will also serve to enhance the management of the road maintenance expenditures envisaged in the second-generation FER, scheduled for establishment in 2005. The government confirms its intention to strictly enforce the public procurement code. In

particular, all public expenditures associated with the FER will be subject to the procedures set forth in the procurement code.

13. The government is committed to further strengthening governance and the fight against corruption. The National Commission Against Unlawful Enrichment (CNLEI) submitted its first annual report in December 2004, which will be published in the official gazette and on the Commission's website once it is established. In 2005, the Commission will continue its work on asset disclosure procedures and in other areas, surveys and education campaigns, for example. The government is grateful to the IMF for the technical assistance which the Fund has provided in this area, and trusts that this close cooperation will continue.

14. The government remains committed to transparency through its participation in the Extractive Industries Transparency Initiative (EITI). A working group comprising the Office of the President, the Office of the Prime Minister, the Ministry of Finance, the Ministry of Hydrocarbons, and the CNLEI has been established. This group has already begun the technical work required to reconcile the financial flows between the oil companies and the government. The working group will submit a report to the interest group, which comprises representatives of the oil companies and civil society, as well as the government. The interest group will be formed during the month of April and is expected to receive the first report from the working group before end-June 2005. This will be followed by an audit of the reconciliation by an independent audit firm by end-September 2005, which will assure its publication. The intention is for the independent audits to be carried out at least semiannually. On the basis of results achieved in the petroleum sector, the government plans to expand this initiative to the mining sector in 2006. The government requests the IMF's assistance in preparing an assessment of fiscal transparency, which could focus in particular on natural resource revenue transparency.

Financial sector

15. The banking sector will continue to face considerable excess liquidity in 2005, against the background of further balance of payments surpluses. The government anticipates an upturn in credit to the economy in 2005, resulting from the revival in the construction and public works sector and the initiative currently being prepared in the urban housing sector (the National Real Estate Company's project for 2000 medium-standard housing units in Libreville). The government believes that microfinance institutions can play an important role in developing private enterprise in Gabon. An association of microfinance institutions has been formed at the initiative of the private sector. For its part, the government intends to strengthen the role of the FODEX (Fund for the Development and Expansion of SMEs).

Structural reforms

16. The government is committed to building upon the current structural reforms, which are key to stimulating growth in the non-oil sector and encouraging diversification of the economy.

Investment climate

17. A workshop, held in Libreville in February 2005, examined the findings of a report by the Foreign Investment Advisory Service (FIAS) of the IFC. The government shares its main recommendations: (i) improve access to financing for SMEs; (ii) reduce factor costs, particularly the very high costs of port and transport operations; (iii) streamline the administrative procedures required to establish a new business, simplify taxation, and effectively eliminate parafiscal taxes; (iv) boost the supply of skilled labor by modernizing the vocational training centers; and (v) strengthen the administrative environment by improving the functioning of the courts and encouraging the use of arbitration to settle business disputes. On the basis of these recommendations, the government in the coming months intends to implement a package of measures aimed at minimizing regulatory and administrative requirements as the basis for an effective investment promotion policy.

Forestry reforms

18. The government has launched a major reform of the forestry sector. It has decided to end the monopoly of the timber marketing board (SNBG) effective January 1, 2006. A steering committee has been set up to examine and validate the conclusions of the study entrusted to an international private firm assisted by local experts, and monitor the restructuring measures during the transition period; its report is scheduled for end-March 2005. The government has initiated a policy of transparency in the forestry sector: publication as of February 21, 2005 of the list of holders of forest permits, the list of currently valid permits and those which have reverted to the government, and maps showing the distribution of forestry permits and national parks. Furthermore, the first awards of forestry permits by public auction are planned as soon as the current pilot project is completed.

Public enterprises

19. The government remains firmly committed to privatizing certain public enterprises. In the context of the privatization of Gabon Télécom, the government has adopted the regulatory framework for the Agence de Régulation des Télécommunications (ARTEL) and the conditions are in place for a successful bidder to be chosen by end-April 2005. The restructuring of Air Gabon is in progress, but its financial situation remains fragile. Steps have been taken to reduce expenditure, particularly outlays on personnel. A timetable for partial privatization is being prepared with the aid of a consultant hired to assist the government in privatizing the company. By end-April 2005, the consultant will submit a thorough diagnostic assessment of the economic and financial performance of Air Gabon, including the documentation to select pre-qualified bidders (structural benchmark); the tender for the partial privatization will be launched by end-September 2005. With respect to Gabon Poste, an analytical report is being prepared, to examine the measures that need to be taken in order to reduce costs and increase revenue, with the aim of reducing the annual budget subsidy and improving the quality of service.

PRSP preparation

20. The government is working in close collaboration with the main donors and with civil society to finalize the PRSP by end-August 2005. Accordingly, a flash survey (questionnaire on core welfare indicators—CWIQ) was launched in February 2005. Its results will become available in June and will help update poverty indicators as well as other social indicators. The review of the results of the General Population and Housing Census, undertaken with donor assistance, is currently in progress. Consultations with civil society and the private sector are currently being conducted with financial and administrative assistance from UNDP and the World Bank. The government is working in close conjunction with several donors to prepare a public expenditure framework compatible with the PRSP and which will provide an assessment and prioritization tool allowing the public investment program to be better designed in the preparation for the 2006 budget.

21. The government intends to treat the present arrangement as precautionary and will continue to keep appropriate balances in the SDR accounts that it holds with the IMF in order to allow for the programmed repayments.

Sincerely yours,

/s/

Paul Toungui
Minister of State, Minister of Economy, Finance,
Budget, and Privatization

Table 1. Gabon: Quantitative Performance Criteria and Indicative Targets Under the Stand-By Arrangement, 2004-05
(In billions of CFA Francs; end-period data, cumulative flows from January 1st 1/)

	2004				2005				Indicative		
	Mar. Act.	Jun. Act.	Sept. Act.	Prog. 11/	Dec. Prel.	Deviation	Mar. Prog.	Jun.		Sep.	Dec.
Performance criteria											
Ceiling on the net claims of the banking system on the central government 2/											
Adjusted target 2/											
Ceiling on the contracting or guaranteeing of new nonconcessional external debt with maturity of over 1 year by the central government 3/	-22.4	-61.4	-48.5		-98.6	-86.0	-1.2	-20.2	-92.9	-129.3	-211.3
Ceiling on outstanding stock external debt with original maturity of one year or less owed or guaranteed by the central government 4/	2.5	9.5	13.4		96.0	59.9	-36.1	32.0	32.0	32.0	32.0
Ceiling on the accumulation of external payments arrears by the central government 5/	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock of arrears on domestic debt of the central government 6/	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjusted target 6/	14.1	5.5	5.5		1.9	1.9	0.0	0.0	0.0	0.0	0.0
Floor on the primary fiscal balance of the central government, excl. grants and foreign-financed investment (on a payments order basis) 7/	0.0	0.0	0.0		1.9	1.9	0.0	0.0	0.0	0.0	0.0
Adjusted target 7/	116.6	233.6	339.6		468.7	450.5	453.0	2.5	137.2	285.9	453.2
601.6											
Indicative targets:											
Floor on non-oil central government revenue	124.5	245.3	362.0		513.4	511.5	-1.9	116.2	260.6	392.8	555.4
Ceiling on the central government wage bill on a payments order basis	55.4	110.1	168.3		226.0	226.3	0.3	56.2	112.5	168.7	225.0
Ceiling on total noninterest domestic expenditure of the central government, on a payments order basis 8/	154.5	296.2	462.0		662.9	658.5	-4.4	160.5	324.8	472.1	656.1
Floor on current expenditure for the sectors of education, health and social assistance.	7.2	17.2	25.8		33.1	35.2	2.1	8.0	20.0	30.0	40.0
Floor on the net reduction of unpaid payments orders at the treasury 9/	0.0	0.0	0.0		-74.1	-67.4	6.7	-39.3	-54.5	-60.8	-72.1
Memorandum items:											
Nonproject external financing disbursements (excluding IMF)	0.0	0.0	0.0		52.9	44.2	-8.7	0.8	2.0	3.8	5.0
External debt service due (excluding IMF)	83.6	147.4	244.2		331.1	327.6	-3.5	96.3	149.4	243.8	302.7
Domestic debt service due	9.6	36.7	57.5		83.1	83.4	-1.4	17.3	46.7	68.1	85.7
Oil revenue	146.6	284.5	439.7		618.2	600.0	-18.2	181.5	350.1	532.5	702.4
Rescheduling of external debt 10/	0.0	395.4	419.0		421.7	425.4	3.7	46.4	75.3	75.3	76.6
Privatization proceeds	0.0	0.0	0.0		1.9	1.7	-0.2	0.0	0.0	0.0	18.2

Sources: Gabonese authorities; and Fund staff estimates and projections.

1/ Indicative targets for end-March 2004, end June, end September, and end-December 2005. Targets for end-June, end-September, end-December 2004, and end-March 2005 are performance criteria under the SBA. 2/ The performance criterion will be adjusted upward/downward for any lower/higher oil revenues, larger/lower payment of external debt service (net of nonproject external financing disbursements), larger/smaller net reductions in domestic arrears, and smaller/larger privatization proceeds, relative to program targets. The performance criterion will be adjusted downward for unprogrammed rescheduling/deterioration on domestic debt.

3/ This performance criterion applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the IMF Executive Board on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. Excluded from this performance criterion are rescheduling arrangements and purchases from the Fund. For purposes of this performance criterion, the term "nonconcessional" means that the debt has a grant element of less than 35 percent, calculated on the basis of currency-specific discount rates that are based on the OECD commercial interest reference rates (CIRRs).

4/ Excluded from this performance criterion are rescheduling arrangements, purchases from the Fund, and normal import-related credits.

5/ The nonaccumulation of new external payments arrears will constitute a continuous performance criterion.

6/ As defined in paragraph 10 of the Technical Memorandum of Understanding (TMU). The ceiling on bank financing will be adjusted downward/upward for unprogrammed rescheduling/delays.

7/ The performance criterion on the primary fiscal balance will be adjusted upward/downward for any higher/lower-than-programmed oil revenue. For end-December 2004, the original program target has been revised to reflect the higher oil revenue and the upward adjustment in current spending by CFAF 1 billion.

8/ Noninterest spending excluding foreign-financed investment.

9/ Including the reduction of arrears on the wage bill and the payment of compensations for social violence.

10/ These amounts represent rescheduled end-April 2004 stock of arrears and the obligations falling due during May-December 2004 and January-June 2005, in line with the Paris Club agreed minutes of June 11, 2004.

11/ As revised in IMF Country Report No. 05/5.

Table 2. Gabon: Structural Performance Criteria and Benchmarks
Under Stand-By Arrangement, 2004–05

Measures	Implementation Period	Status of Implementation
Structural performance criteria		
<i>Forestry sector</i>		
Adoption of time-bound action plan to streamline SNBG, on the basis of World Bank-financed study.	End-November 2004	Done in early December.
Structural benchmarks		
<i>Civil service reform</i>		
Harmonization of the civil service and payroll rosters, based on the computerized civil service management system (ANITA).	End-December 2004	Met in November, with the introduction of a unified personnel roster (<i>fichier unique de référence – FUR</i>).
Adoption of implementing decrees on the new wage structure and promotion system, on the basis of the new law on the general civil service statute.	End-December 2004	Draft law approved by parliament in January 2005. Implementing decrees delayed until the law is assessed.
<i>Fiscal policy</i>		
Integration in the 2005 government budget of all special funds.	End-December 2004	Not met. Special accounts of the National Housing Fund and the local authorities will be integrated through a supplementary budget in 2005.
No granting of exemptions to any company beyond those already provided for under the mining, forestry, and investment code, and no renewal of existing exemptions.	Continuous benchmark	Met.

Table 2. Gabon: Structural Performance Criteria and Benchmarks
Under Stand-By Arrangement, 2004–05

Measures	Implementation Period	Status of Implementation
Finalization of taxable base for local real estate taxation for Libreville and Port-Gentil.	End-December 2004	Met.
Establishment of detailed budgetary appropriations for the investment expenditures, according to the budgetary classification, in the 2005 Budget Law submitted to parliament.	End-December 2004	Met.
Entry into effectiveness of budgetary credits for the 2005 budget before end-February 2005.	End-February 2005	Met.
Adoption of an action plan on scholarships based on additional recommendations by a commission chaired by the Deputy Prime Minister.	End-May 2005	
<i>Good governance</i>		
Preparation of the first report on the operations of the Commission Against Illicit Enrichment.	End-December 2004	Met.
Inclusion in the 2005 budget of an adequate operational budget for the National Commission Against Illicit Enrichment.	End-December 2004	Met.
<i>Development of the private sector</i>		
Selection of the successful bidder for Gabon Télécom.	End-September 2004	Has been delayed to March 2005, to accommodate newly interested investors.
Adoption of the implementation regulations for the mining code.	End-December 2004	Delayed to the second quarter of 2005.
No recourse to price control measures, and no widening of the list of products subject to the price surveillance regime at end-December 2003.	Continuous benchmark	Met.

Table 2. Gabon: Structural Performance Criteria and Benchmarks
Under Stand-By Arrangement, 2004–05

Measures	Implementation Period	Status of Implementation
<i>Public enterprises</i>		
Achievement of a surplus in 2004 in the operational results of Air Gabon, before depreciation.	End-December 2004	Operational result has improved, but surplus was not reached in 2004.
Preparation by the consultant in charge of the privatization of the documentation to select prequalified bidders.	End-April 2005	
<i>Trade reform</i>		
Removal of import surcharges on poultry and cigarettes.	End-December 2004	Met.

GABON

Technical Memorandum of Understanding

1. This memorandum spells out the understandings for the monitoring of program implementation, and the reporting requirements for the period May 2004–June 2005. In this context, it defines (a) the quantitative performance criteria; (b) the structural performance criteria and benchmarks; (c) the quantitative indicative targets; (d) the adjusters for the quantitative performance criteria; and (e) the key assumptions used in the formulation of the program for 2004-05 presented in the Memorandum for Economic and Financial Policies (MEFP) of the government of Gabon attached to the letter from the Minister of Economy, Finance, Budget, and Privatization to the Managing Director of the International Monetary Fund dated May 6, 2004. The key assumptions of the program, in particular those related to oil revenue, have been modified by the letter of the Minister of Economy, Finance, Budget, and Privatization of March 14, 2005.

A. Monitoring of Program Implementation

2. Monitoring of the implementation of the program will be made on the basis of (i) an assessment of the observance of quarterly quantitative performance criteria as well as of the structural performance criteria and benchmarks at specified dates; and (ii) observance of quarterly quantitative indicative targets.

B. Quantitative Performance Criteria, Quantitative Indicative Targets, and Adjusters

Quantitative performance criteria and indicative targets

3. The quantitative performance criteria are specified in Table 1 of the letter of the Minister of Finance of March 14, 2005. The quantitative performance criteria are the following:

- a ceiling on the net claims of the banking system on the central government;
- a ceiling on new nonconcessional external debt with original maturity of more than one year contracted or guaranteed by the central government;
- a ceiling on the outstanding stock of new nonconcessional external debt with original maturity of up to (and including) one year owed or guaranteed by the central government;
- a zero limit on the accumulation of external payments arrears by the central government (a continuous performance criterion);
- a ceiling on the stock of domestic payments arrears of the central government (as defined in paragraph 9) ; and

- a floor on the primary fiscal balance of the central government, on a payments order basis (excluding foreign-financed investment, FINEX, cumulative from January 1).
4. The program includes adjusters for the quantitative performance criteria as specified in paragraphs 19-21 below and in footnotes 2, 6, and 7 of Table 1 of the letter of the Minister of Finance of March 14, 2005.
5. The quantitative indicative targets (cumulative from January 1) are as follows:
- a floor on central government non-oil revenue;
 - a ceiling on the total central government wage bill, on a payments order basis;
 - a ceiling on total noninterest expenditure, on a payments order basis;
 - a floor on current expenditure for the sectors of education, health and social assistance, as defined in paragraph 16; and
 - a floor on the reduction of the float at the treasury, wage arrears (rappels) and obligations resulting from political violence.

Definitions and computation

6. The outstanding amount of the net claims of the banking system on the central government is measured in accordance with the accounting practice at the central bank, the BEAC, along the lines of the IMF format, excluding deposits of the postal checking account system¹¹ and net of the securitized commercial agreements bought by commercial banks in the context of the Libreville Club in 2004.¹² As of December 31, 2003, this outstanding amount was CFAF 231.9 billion, and its breakdown was as follows:

¹¹ The deposits of the postal checking account system are excluded since they are not at the disposal of the treasury.

¹² Total securitized debt bought by a local commercial bank amounted to CFAF 5.7 billion at end-2004.

Net Claims of the Banking System on the Central Government (In billions of CFA francs)	
Statutory advances from the BEAC	165.2
Plus: CFA franc counterpart of use of Fund resources	30.4
Plus: consolidated advances	1.2
Minus: deposits at the BEAC	50.3
<i>Of which: Account for Future Generations</i>	30.0
Plus: net borrowing from the commercial banks ¹	85.4
Total	231.9

1/ Excluding private nonbank claims on the government bought by commercial banks.

7. The **Account for the Fund for Future Generations (AFFG)** at the BEAC will be fed in 2005 by 10 percent of oil revenue and oil revenues in excess of the programmed levels (based on program baseline assumptions detailed in para. 23). The **AFFG** is part of the net claims of the banking system on the central government.

8. The performance criteria on nonconcessional external debt are ceilings on **new nonconcessional external debt**. The performance criterion on the contracting and guaranteeing of new nonconcessional debt with maturity over one year by the central government applies not only to debt as defined in point 9 of the *Guidelines on Performance Criteria with Respect to Foreign Debt*, adopted by the IMF on August 24, 2000, but also to commitments contracted or guaranteed for which no value has yet been received. Excluded from this performance criterion are rescheduling arrangements and purchases from the IMF. The performance criterion on the **outstanding stock of nonconcessional external debt,¹³ with an original maturity of up to one year** (one year included) excludes rescheduling arrangements, purchases from the IMF, and normal import-related credits. The concessionality of debts will be calculated on the basis of the reference interest rates for the specific currencies of denomination used, as established by the Organization for Economic Cooperation and Development (OECD). A debt is deemed to be on concessional terms if, at the time of the initial disbursement date, the ratio between the present value of the loan calculated on the basis of the reference interest rates, on the one hand, and the face (nominal) value of the loan, on the other hand, is less than 65 percent (i.e., a grant element of at least 35 percent).

¹³ The term “debt” has the meaning set forth in point 9 of the *Guidelines on Performance Criteria with Respect to Foreign Debt* (Decision number 12274-(00/85) August 24, 2000).

9. **The accumulation of external payments arrears** by the central government which is a continuous performance criterion with a zero limit, is calculated as the difference between (a) the gross amount of all the maturities falling due on account of contractual external debt-service obligations (interest and principal, including moratorium and late/penalty interest, where applicable); and (b) the amount of actual payments made during the period under consideration. Arrears resulting from the nonpayment of the debt service for which a rescheduling agreement is sought are excluded from this definition.

10. The **stock of domestic payments arrears of the central government** corresponds to the stock of payments arrears on: (i) interests on treasury debt, securitized commercial agreement, “other” debts, and bank debt; (ii) the principal on securitized commercial debt agreements and “other” debts.¹⁴ At end-December 2004, the stock of domestic payments arrears amounted to CFAF 1.9 billion.

11. **The treasury float** consists of the “payment orders at the treasury”, float at the Road Maintenance Fund (FER) and the “other treasury float.”¹⁵ The “payment orders at the treasury” corresponds to the difference between the cumulative payment orders (*ordonnancements*)¹⁶ and the cumulative actual payments (checks encashed—cash basis). At end-December 2003, the central government’s domestic payments arrears amounted to CFAF 94 billion, comprising CFAF 84,7 billion in outstanding treasury float and CFAF 9.3 billion in “other treasury float.” The net reduction of the treasury float is defined as the reduction in the float existing at end-2003, less the accumulation of new float during 2004.¹⁷ For 2005, the net reduction of the treasury float is defined as the reduction in the float existing at end-2004, less the accumulation of new float during 2005.

12. **Total central government revenue** is measured on a cash basis and includes offsetting revenue and expenditure operations, including private sector tax obligations offset against central government obligations to the private sector. Tax receipts are specified in the

¹⁴ The nonbank domestic debt includes the outstanding amounts of (a) securitized commercial agreements as validated by the Ministry of Economy, Finance, Budget, and Privatization as at end-December 2003; (b) the debt of the treasury; and (c) “other” debts, consisting of amounts due to the SEEG, CNSS, Gabon Telecom, Gabon Poste and Air Gabon’s supplier debt taken over by the government in 2001/2002.

¹⁵ The “other treasury float” includes the accounts on “subsidies,” “consignments,” “accounting agencies,” including “transfers between accounting offices” related to budgetary operations, and “installments to be allocated.”

¹⁶ As defined below in paragraph 13.

¹⁷ Under the program, payments for wage arrears (“*rappels*”) and compensation for political violence are considered as a reduction in the float at the treasury.

Table of central government financial operations (*Tableau des opérations financières de l'Etat-TOFE*), including all earmarked revenues (Road Fund and special funds).

13. **Total central government expenditure** include spending on payment order basis (*ordonnancements*), and treasury advances (*avances à régulariser*), and outlays on special funds and earmarked revenues. The quantitative indicative target on total noninterest expenditure excluding foreign-financed investment (FINEX) is calculated on the basis of this definition.

14. **The primary fiscal surplus**, on a payment order basis (*ordonnancements*), is defined as the difference between (a) total central government revenue (excluding grants) on a cash basis; and (b) total noninterest current expenditure plus investment expenditure (excluding foreign-financed investment), net lending, and outlays of the Road Fund and on earmarked revenues.

15. **The indicative target on the central government wage bill** is defined on a commitment basis (*engagements*) for all personnel (whether on a permanent or a temporary basis) of the civil service and the security and defense forces. The wage bill consists of all remunerations, including indemnities, social contributions, housing allowances, and other allowances.

16. **The wage arrears** (*rappels*) correspond to the unpaid financial impact of advancement promotion of civil servants at end-2002 (line 1281 of the budget).

17. **Expenditure for the education and health sectors correspond to spending on goods and services for education, health and social affairs services.** Under the quantitative indicative target for 2004, the following outlays will be monitored: (i) expenditures on goods and services for the Ministries of Education, Health, Social solidarity, social affairs and well-being, Family and child protection (title 5, chapters 81, 82, 84, 91, 93, and 94); and (ii) transfers and subsidies in favor of private education and social safety nets of the Ministries of National solidarity and Family (lines 6421 and 6511 under chapters 81, 93, and 94).

18. **The restructuring costs posted as “financing” represent the social costs relating to the public enterprises to be liquidated or privatized in the context of the central government’s divestiture of its productive sector holdings, the operating costs (consultants, etc.) of the Secretariat of the Privatization Committee, and the costs of voluntary departures in the context of the administrative reform. The other expenditures, intended in particular for maintaining the activity of the other public enterprises included in the privatization program, are posted under “transfers and subsidies.”**

19. The financial operations specified in the Table of central government financial operations (*Tableau des opérations financières de l'Etat-TOFE*) relating to treasury correspondents (*correspondants du Trésor*), local governments (*collectivités locales*), and other treasury operations correspond to the change from period to period in the balance of

these accounts. The government will provide information on the balance of all these accounts on a monthly basis to the IMF.

Adjustments to quantitative performance criteria and indicative targets

20. A specific contingency mechanism for oil revenue is established for 2004-05, given the importance of oil for the Gabonese economy and the uncertainties regarding oil prices and output. If oil revenue is above the baseline projections in a given quarter, the surplus will be deposited in the Account of the Fund for Future Generations with the BEAC, with a corresponding downward adjustment in the ceiling on net credit from the banking system to the central government and an upward adjustment in the floor for the primary fiscal balance. If oil revenue in CFA franc terms is lower than programmed (because actual oil prices, the exchange rate and/or output are lower than projected in the baseline scenario), the shortfall could be offset by additional net bank credit—with an upward adjustment in the ceiling on net credit from the banking system to the central government, and a downward adjustment in the floor on the primary fiscal balance. The cumulative ceilings to the adjustor are CFAF 17.0 billion for end-June, CFAF 25.5 billion for end-September, and CFAF 45.0 billion for end-December 2004. The cumulative ceilings to the adjustor are CFAF 50.0 billion for end-March 2005, and CFAF 100.0 billion for end-June 2005. If the oil revenue shortfall exceeds the maximum adjustor, the quarterly fiscal targets will be reassessed in consultation with Fund staff.

21. The program also includes (downward/upward) adjusters for the benchmarks on net credit from the banking system to the central government for (i) lower/higher-than programmed external debt service effectively paid¹⁸ (net of nonproject external financing disbursements); (ii) lower/higher-than-programmed net reduction of domestic arrears; and (iii) lower/higher-than-programmed net reduction in the float at the treasury.

22. The program also includes a symmetric (downward/upward) adjuster for the net bank credit to the central government for privatization proceeds higher/lower than projected in the program.¹⁹ The program's assumptions related to oil revenues, external and domestic debt service, disbursements on external nonproject financing, expected external debt rescheduling, and privatization proceeds are indicated in Table 2 of the letter of the Minister of Finance of March 14, 2005.

¹⁸ External debt service due minus any accumulation of external arrears minus debt relief obtained. The programmed amounts of debt service, payments arrears, debt relief, and nonproject external financing are calculated in CFA franc terms based on currency-specific exchange rates. The actual amounts are calculated in CFA franc terms based on the actual transactions in foreign currency and the exchange rates published by the Fund.

¹⁹ For end-March and end-June 2005, the adjuster will apply to privatization proceeds, net of the restructuring cost of public enterprises.

C. Structural Performance Criteria and Benchmarks

23. The structural performance criteria and benchmarks are specified in Table 2 of the MEFP attached to the letters of May 6, 2004, September 8, 2004, December 10, 2004, and March 14, 2005.

D. Key Assumptions of the 2004-05 Program

24. The main assumptions of the program are the following:

	2004	2005
World Brent oil prices (U.S. dollar per barrel)	39.2	48.1
Gabonese export oil prices (U.S. dollar per barrel)	36.9	44.3
Oil output (in millions of metric tons) ²⁰	13.6	13.5
Exchange rate (CFA francs per US\$1, annual average)	534.4	488.4
Government oil revenue (in billions of CFAF)	640.0	702.4

E. Reporting Requirements

25. To facilitate monitoring of program implementation, the Government of Gabon will prepare and send to the IMF monthly reports within four weeks following the end of the preceding month. In addition, the Technical Support Unit of the Interministerial Committee for Monitoring the Structural Adjustment Program will communicate to the IMF's African Department, within the four weeks following the end of period, by fax or by e-mail the data required to monitor the implementation of the program. Such data will include (but are not limited to) the following:

- (a) the comprehensive monetary survey, the central bank balance sheet, and the consolidated balance sheet of the commercial banks;
- (b) the net financial position of the central government with the BEAC (PNG) and net credit from the banking system to the central government, with a separate line for the Account of the Fund for Future Generations;
- (c) central government financial operations (*opérations financières de l'Etat*) on a payment order basis (*ordonnancements*), identifying any discrepancy between the fiscal deficit and changes in domestic and external arrears, on the one hand, and total net domestic bank/nonbank and net external financing, on the other;
- (d) the detailed breakdown of petroleum receipts by nature (royalties, profit tax, and other) and by company, and the underlying basis when available (e.g. production,

²⁰ The average conversion rate is 7.3 barrels per metric ton.

prices, turnover, costs, etc.), as well as the detailed breakdown of non-oil receipts (by type of tax) and nontax revenue;

(e) the detailed breakdown of total central government expenditure, on an adjusted commitment basis, adjusted payment order basis, and cash basis as presented in the *Tableau Intégré* produced by the Statistical Committee (*Comité statistique*).

(f) the details for domestic and external debt-service obligations, on a contractual and actual payments basis, respectively, with a breakdown into interest and principal and by creditor, as well as any possible accumulation of domestic or external arrears (electronic file);

(g) the details on the stock of external and domestic debt at the end of each month (electronic file);

(h) the details for the outstanding stock of domestic arrears (month to month) and the cumulative flows from January 1, 2004: the net accumulation of new arrears during 2004 as defined in paragraph 11 by the difference between payment orders (*ordonnancements*) and payments made (cash basis), as well as the repayment of pre-2004 arrears, with both items to be broken down by wages and salaries, goods and services, transfers and subsidies, interest, capital expenditure, and net lending; any stock-flow adjustment not consistent with flows should be explained (electronic file).

(i) the amount of new external debt contracted or guaranteed by the central government, with the detailed information (electronic file) on the original terms and conditions (currency of denomination, interest rate, grace period, and maturity);

(j) actual disbursements on nonproject-related external financing, including on newly contracted loans, and the amounts of debt relief granted to Gabon by external creditors (electronic file);

(k) monthly information on the oil sector: export prices, effective exchange rate, production per oil field, exports, based on data from the Direction Générale des Hydrocarbures (electronic file);

(l) indicators and other statistical data on recent economic developments, such as the household consumer price index, merchandise imports and exports (in value and volume terms) by major categories on the basis of customs data, log production and exports (in value and volume terms), as well as the quarterly reports on economic activity prepared by the General Directorate of the Economy and the Interinstitutional Committee on Statistics;

(m) a status report on the implementation of the structural reforms specified in Table 2 attached to the letter of March 14, 2005;

(n) quarterly data on the finances of local authorities; and

(o) Quarterly financial data of Air Gabon.

The Technical Support Unit of the Interministerial Committee for Monitoring the Structural Adjustment Program will provide the African Department of the IMF with any other information that the latter may deem necessary or that may be requested by the staff of the IMF for the effective monitoring of the program.

Gabon: Relations with the Fund

(As of January 31, 2005)

I. Membership Status: Joined: September 10, 1963; Article VIII

II. General Resources Account:	SDR Million	%Quota
Quota	154.30	100.00
Fund holdings of currency	216.83	140.53
Reserve position in Fund	0.18	0.12

III. SDR Department:	SDR Million	%Allocation
Net cumulative allocation	14.09	100.00
Holdings	2.38	16.89

IV. Outstanding Purchases and Loans:	SDR Million	%Quota
Extended arrangements	16.09	10.43
Stand-by arrangements	46.62	30.21

V. Latest Financial Arrangements:

<u>Type</u>	<u>Approval Date</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
Stand-by	May 28, 2004	June 30, 2005	69.44	41.66
Stand-by	Oct 23, 2000	Apr 22, 2002	92.58	13.22
EFF	Nov 8, 1995	Mar 7, 1999	110.30	60.67

VI. Projected Payments to Fund (Obligations Basis)

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming			
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Principal	15.07	4.60	6.59	20.83
Charges/Interest	<u>2.12</u>	<u>1.79</u>	<u>1.63</u>	<u>1.27</u>
Total	17.18	6.38	8.22	22.10

VII. Implementation of HIPC Initiative: Not Applicable

VIII. Safeguards Assessments:

Under the Fund's safeguards assessment policy, the Bank of Central African States (BEAC), of which Gabon is a member, is subject to periodic full safeguards assessments.

An updated safeguards assessment of the BEAC was completed on August 30, 2004 and found that the BEAC has implemented a number of measures to strengthen its safeguards framework since the 2001 safeguards assessment, but further progress needs to be made in key areas. A summary of the recommendations of the 2004 assessment were reported in Country Paper No. 05/3.

IX. Exchange Rate Arrangement:

Gabon's currency is the CFA franc, which is pegged to the euro at a fixed rate of CFAF 655.957= €1.

Gabon's exchange system is free of restrictions on payments and transfers for current international transactions.

X. Last Article IV Consultation:

- (a) Consultations with Gabon are on the 12-month cycle.
- (b) The last consultation was concluded by the Executive Board on November 7, 2003.

XI. FSAP Participation:

Gabon participated in the FSAP and, in this connection, a joint Fund/World Bank mission visited Libreville in June and July 2001. The FSSA report was discussed by the Executive Board in March 2002.

XII. Technical Assistance:

Department	Purpose	Time of Delivery
FAD	Budget management	March 2004
FAD	Tax policy and administration	November 2003
LEG	Law against illicit enrichment	June, July, and October 2003
FAD	Budgetary procedures and expenditure control	November 2000
STA	Multisector statistics mission	May 1998
FAD	Value-added tax administration issues	August 1997

XIII. Resident Representative:

The Fund maintains a resident representative office in Libreville. The current resident representative, Mr. Richard Randriamaholy, assumed his post in October 2003.

Gabon: Relations with the World Bank

(Updated as of February 28, 2005)

1. Gabon is a resource rich country with a small, highly urbanized population. As one of Africa's few IBRD countries, Gabon's GDP per capita is estimated at US\$4,675 in 2003, well above the sub-Saharan African (SSA) average. Oil is Gabon's key economic sector and the principal driving force of its economic growth. However, the country's oil revenues are projected to decline over the next few years, and the government has started exploring the country's potential for economic diversification. The Bank is working closely with the IMF team to support structural measures, particularly in improving the environment for the development of the private and forestry sectors, and is assisting in the development of the local private sector in urban areas.

The Bank Group strategy and lending operations

2. As of July 1, 2004, all Bank projects were completed. A Forestry and Environment Sector development and a follow-up to the Pilot Community Infrastructure Project are currently under preparation. The findings and recommendations of the diagnostic study on the business climate in Gabon, conducted by the FIAS in 2004, as well as follow-up work on improvement of the legal and regulatory environment in the mining sector, could serve as input for the preparation of a future Diversification and Private Sector Development operation. Future Bank assistance to Gabon will be more clearly defined within the context of a new Country Assistance Strategy (CAS) which will be presented to the Board in FY2005.

3. The two Bank Projects which closed on June 30, 2004 were (i) US\$5 million urban learning and innovation loan (LIL) which tested new procurement methods, supported the implementation of pilot urban works in poor urban neighborhoods, and conduct urban public expenditure reviews; and (ii) US\$10 million privatization and regulatory capacity-building technical assistance loan, expected to contribute to the growth of private investment and increase the participation of non-oil private sector in the country's economy.

IMF—World Bank collaboration

4. Overall, the IMF and World Bank staff maintain a close collaborative relationship in supporting reforms to foster economic diversification and in coordinating their policy advice to the Gabonese authorities. In view of the structural measures envisaged under the medium term program, successful implementation of the reform program hinges on complementary action by the World Bank, especially in the areas of business climate improvements, poverty reduction policies, and nonrenewable resource management, as well as the identification and development of sources of growth in the non-oil sector.

Table 1. Bank/Fund Collaboration

Area of Structural Reform	Lead Institution
1. Fiscal area	
Civil service reform	IMF
Expenditure monitoring and control	IMF
Priority Expenditure Tracking under PRSP	World Bank
Medium-term public expenditure review	World Bank
Tax administration	IMF
2. Governance	
Anticorruption law implementation	IMF
Code of ethics for government officials	IMF
Extractive Industries Transparency Initiative (EITI)	World Bank/IMF
4. Private sector development	
FIAS study of the business climate	World Bank/IFC
Diversification and non-oil sector development	World Bank
5. Other	
Price controls	IMF
Forestry and environment	World Bank
PRSP	World Bank/IMF
External trade	IMF
Transport	World Bank
Urban development	World Bank

IMF—World Bank collaboration in specific areas

Areas in which the World Bank leads and there is no direct IMF involvement

5. A Poverty Assessment (PA), initiated in late 1994, was finalized in March 1997 and discussed with a broad range of Gabonese stakeholders in July 1997. The main conclusion of the report is that the relative inefficiency and low quality of public expenditures, particularly in the social sectors, constitute major impediments to poverty alleviation. The Bank is supporting the preparation of the government's poverty reduction strategy, and in that context, will continue to provide support for strengthening the statistical capacity and assisting the NSO (National Statistical Office) to undertake key household surveys along the lines of the Core Welfare Indicators Questionnaire (CWIQ), and to update key social indicators to be monitored on an annual basis. The Bank also plans to assist the NSO in putting together a monitoring and evaluation system for the poverty reduction strategy.

Areas in which the World Bank leads and its analysis serves as input for the IMF

6. In June 2002 the Bank completed a US\$22.5 million ten-year project that aimed to improve the management and protection of Gabon's forestry and environmental resources. The project was to strengthen the planning and operational capacity of government institutions and local environmental nongovernmental organizations (NGOs). A new project in the same sector is being prepared for Board presentation in FY2006. This project builds on the lessons learned during the implementation of the previous project, focusing on transparency and law enforcement. It is suppose to help the Gabonese authorities design and implement governance reform programs and empowering local communities in managing their natural resources. The project outcomes are expected to be broaden to reaching a larger number of beneficiaries, attracting investments in the forestry, fishing and environment sectors, and thus assisting the government in its efforts to diversify the Gabonese economy and reduce its dependence on the oil sector.

7. The FIAS (a joint facility of the World Bank and International Finance Corporation) is providing advisory services to help improve the investment climate in Gabon. This technical assistance consists of three studies that would identify constraints to private investment, particularly foreign direct investment, and provide inputs to a governmental program of reforms aimed at alleviating impediments to private sector development. The diagnostic of the investment climate, including identification of priorities for reform and concrete recommendations, was presented in September. The second and third studies would consist of a more detailed review of administrative barriers to investment and an in-depth review of the tax and incentive regime with an objective of proposing additional and complementary concrete reforms. FIAS will confirm each study based on action on the previous one.

8. The Bank is also preparing an Infrastructure Framework Report (IFR), which will present a comprehensive overview of the country's general environment for private participation and the main opportunities for investment in infrastructure. The report will also outline recommendations and an action plan to assist the government in putting in place the laws, policies, and institutions needed to create an enabling environment for enhanced private-sector participation. This study covers transport infrastructure (railways, air transport, and maritime transport), telecommunications, water, and power.

9. Starting in July 2005 the Bank will also assist in carrying out a public expenditure review aimed at assessing expenditure effectiveness, particularly in the social sectors.

Areas of shared responsibility

10. While the Bank has taken the lead in privatization and in structural reforms impacting the environment for the private sector, the IMF has a strong interest in the same area from a macroeconomic perspective. The IMF's primary focus is on good governance, particularly in the fiscal area, and on the promotion of transparency in both the public and the private sectors. Additional concerns for the Bank include efficiency of the resulting market

structures and improved enterprise operation. The Bank and the IMF are also working closely together in the financial sector, for which a Financial Sector Assessment Program (FSAP) was jointly prepared by the two institutions during 2002. While the FSAP indicated that the financial sector in Gabon is overall profitable and stable, it also identified certain structural weaknesses and risks in Gabon's financial sector, including lack of bank portfolio diversification and underdevelopment of nonbank financial institutions.

11. **Areas where the Fund takes the lead role and its analysis serves as input into the World Bank-supported program** are in the dialogue on fiscal matters, which sets the overall envelope for public expenditures. The IMF is also providing technical assistance in the area of governance and anticorruption.

12. The IMF leads the dialogue on policies to contain various expenditures in the public sector. These include policies regarding the wage bill in the public sector and the definition of the ceiling for public investment expenditures. In these areas, the Bank takes into account the policy recommendations of the IMF and ensures that its own policy advice is consistent.

13. In addition, the IMF is monitoring the implementation of the Uniform Acts of the Organization for the Harmonization of Business Law in Africa (OHADA) and trade liberalization measures being taken at the CEMAC (regional) level. This supplements a significant on-going program of work by the Bank to support regional integration among CEMAC countries. These measures should improve the business climate and will complement work by the Bank (in conjunction with the IFC) in the area of facilitating investment.

14. **Areas in which the IMF leads and there is no direct World Bank involvement** relate to the dialogue on monetary policy, interest rates, the exchange rate, the balance of payments, and related statistical and measurement issues.

Gabon: Assessing External and Public Sector Debt Sustainability

This appendix updates the external and public sector debt sustainability analysis that was carried out for the second review of the current Stand-By. The baseline scenario has been updated to incorporate the latest oil production and price forecasts. In addition to the standard stress tests, this appendix also considers the effect of further shocks to the baseline scenario and their impact on external and public debt sustainability: higher oil production and exports; lower growth in non-oil GDP and non-oil exports; a lower oil price; a lower growth in timber-related exports; a higher public sector wage bill; spending rather than saving the oil windfall; and the combined effect of a higher wage bill and oil revenues.²¹ The baseline external sustainability scenario during the period 2005-2014 shows that the external debt-to-GDP ratio declines steadily and financing gaps disappear. Similarly, the results of the public sector debt baseline analysis indicate that virtually all outstanding domestic public debt, including the float at treasury and that with the regional central bank, will be eliminated by 2010. However, the stress tests reveal that Gabon's debt sustainability remains extremely sensitive to shocks to non-oil output growth, to changes in the production and the price of oil, and to the degree of fiscal discipline. These results highlight the importance of prudent fiscal policies and of fostering the development of the non-oil economy by encouraging private sector development and the diversification of Gabon's economic base.

External Public Debt Sustainability²²

1. The updated baseline debt sustainability analysis indicates that 2005-2007, the external debt-to-GDP ratio is projected to decrease by 13.1 percentage points to 36.5 percent of GDP (see Table 1 and Figure 1). Oil receipts are projected to remain significant, on account of high prices and a slower-than-anticipated decline in production), and continued fiscal discipline is expected to avoid the emergence of financing gaps.²³ After 2007, the baseline scenario projects a further decline in the external debt-to-GDP ratio to 14.1 percent by 2014, mainly reflecting (i) continued buoyant oil revenues; (ii) steady growth of non-oil output; (iii) debt amortization in excess of new borrowing; and (iv) continued fiscal

²¹ For a more detailed description of these alternative scenarios and their implications for fiscal policy and debt sustainability, see *Medium-term Fiscal Constraints in Gabon: A Scenario Approach*, Gabon – Selected Economic Issues (forthcoming).

²² The calculations in the DSA assume that, from 2005 on, the accumulation of deposits in the Fund For Future Generations is done according to the law (i.e., 10 percent of oil revenues plus 50 percent of excess oil revenues with respect to that in the budget).

²³ For the first half of 2005, approximately CFAF 75 billion of debt service with Paris Club creditors were rescheduled in the context of the agreement reached in June 2004.

discipline. Reflecting the repayment schedule under earlier rescheduling agreements, the debt-service ratios peak in 2009, reaching 18 percent for the debt service-to-exports ratio and 31.6 percent for the debt service-to-revenue ratio, and again in 2012, reaching 14.6 percent and 22.9 percent respectively. Financing gaps remain minor through 2014 and could easily be covered by drawing on government deposits at the regional central bank.²⁴

2. Gabon's vulnerability to external shocks remains high as shown by the standard sensitivity tests (Table 1, bottom panel and Figure 1).²⁵ In each of the tests, which assume extreme adverse shocks to each key parameter individually and jointly, the debt ratio rises faster and to higher levels than in the baseline:²⁶

- Setting real GDP growth rates and nominal interest rates at their historical averages results in a continuously decreasing debt-to-GDP ratio; the paths observed are similar to that in the baseline, although the ratio decreases in both cases at a slower pace.
- Should the U.S. dollar depreciate sharply, proxied by a temporary shock to the U.S. dollar deflator, the debt ratio rises sharply initially (32.1 percentage points by 2006), and decreases slowly thereafter to reach 66.3 percent of GDP by 2014.
- The long-term effects of a shock to the non-interest current account balance are significant in the medium-term (the debt ratio increases to 58.4 percent by 2006), but not so in the longer term, with the debt ratio decreasing to 32.9 percent by 2014.
- A combined shock leads to unsustainable external debt levels, as the result is dominated by the deflator shock (an increase in debt ratio by 66.2 percentage points by 2014).

4. The analysis includes four additional sensitivity tests, namely a temporary shock to oil production, a long-term shock to non-oil output growth, a long-term shock to Gabon's second export commodity, timber, and a long-term shock to the price of oil. Should oil production be higher than anticipated in 2006 and 2007—which is consistent with the view expressed by the largest oil companies that they would likely maintain production at current levels for the next few years – debt sustainability improves even more sharply; indeed,

²⁴ Financing gaps are assumed to be covered on commercial terms.

²⁵ The test that combines the effect of setting all key variables at their historical values is not presented, since the relatively large average non-interest current account surpluses are the dominating effect. Thus, the results obtained would not be realistic given the steady decreases in oil production projected in the baseline scenario.

²⁶ These sensibility analyses consider adverse shocks of one standard deviation, lasting two years (i.e., transitory shocks) for each key parameter.

external debt would be fully repaid by 2013. All other shocks lead to varying degrees of deterioration of the external current account. The negative effect of the lower oil price (25 percent lower than the baseline oil price over the medium term) leads to a steady increase of the debt ratio; similarly, the effect of lower growth in the tradable non-oil sector causes debt ratios to turn unsustainable. Clearly, given the still large size of oil exports, the effect of a lower oil price has a severe impact in the short-term whereas the effect of lower growth in the non-oil tradable sector is felt more in the medium to long-term. The impact of lower timber-related exports is reflected in a debt-to-GDP ratio that decreases at a slower pace than in the baseline. The unsustainable paths for the debt-to-GDP ratio in the cases of a lower oil price and lower non-oil tradable GDP growth underscore (i) the importance for Gabon to adopt macroeconomic policies that promote economic diversification, (ii) the strong dependence of the baseline scenario on the higher (expected) oil prices; and (iii) the need to maintain strong fiscal discipline.

Public Sector Debt Sustainability

5. Under the baseline projection, Gabon's total public sector-to-GDP ratio is projected to decrease from 61.9 percent in 2004 to 38.5 percent in 2007 and further to 19.3 percent in 2012, where it is assumed to be fully repaid.²⁷ The key assumptions underlying this result are (i) non-oil GDP growth rises to approximately 3.5 percent, on average, in 2005-2011; and (ii) the government maintains control of the wage bill; and (iii) the government is able to maintain its non-oil revenues constant as a proportion of non-oil GDP (see Table 2 and Figure 2).

6. Gabon's public debt sustainability vulnerabilities are underscored when considering the stress test that uses the primary balance as the shock variable. A one-standard deviation shock on the primary balance in 2005-06 results in a public debt-to-GDP that decreases only to about 40 percent by 2014. This is the result of lower domestic debt being retired and more foreign borrowing needed to cover the resulting financing gaps.

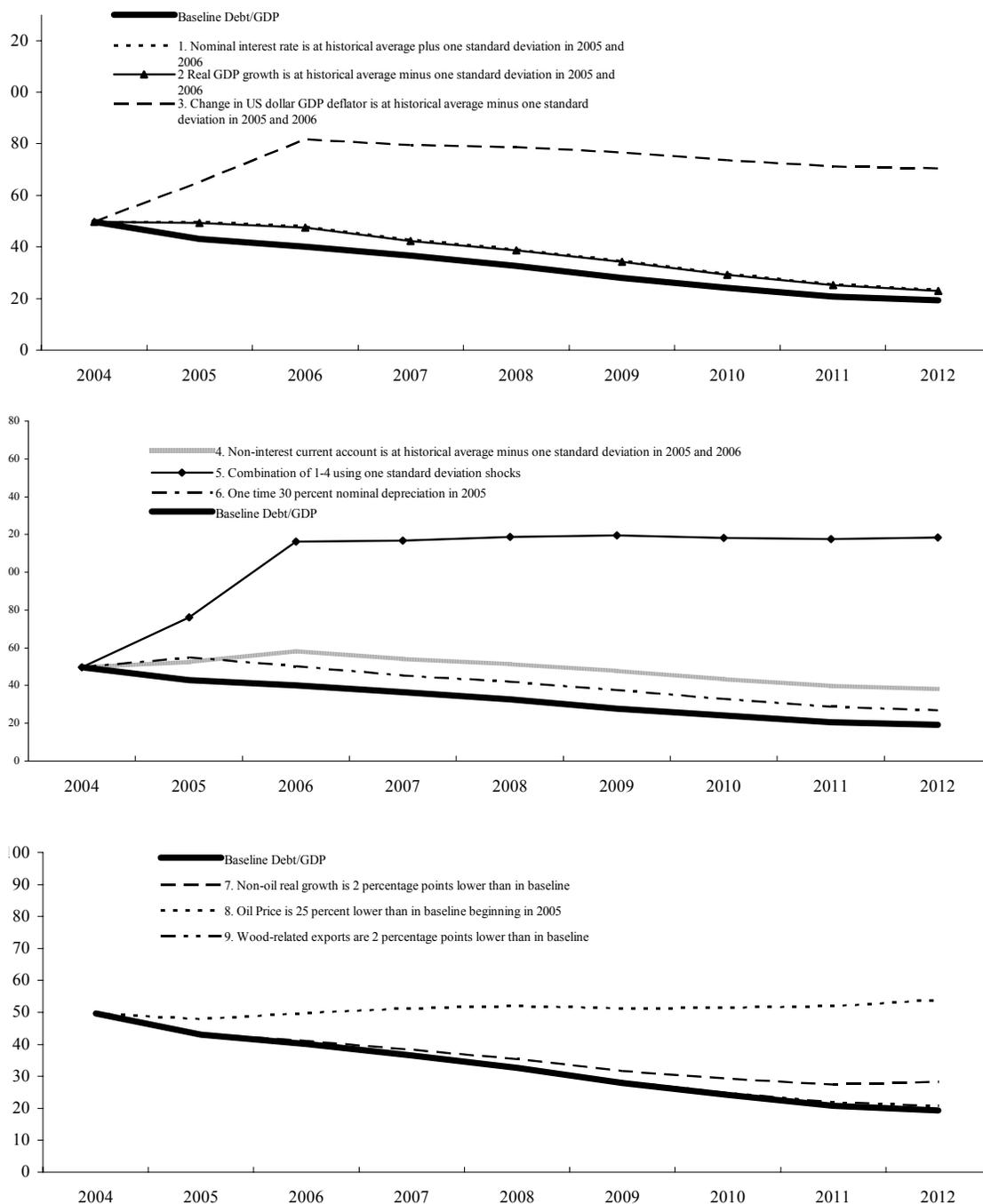
7. Not surprisingly, the results obtained for the sensitivity tests that consider temporary shocks to other key parameters (Table 2, bottom panel and Figure 2) resemble those described for the external debt.

²⁷ The domestic debt declines due to (i) the government's reimbursement of domestic debt to suppliers and public contractors; (ii) the repayment by the government of public enterprise debt to the social security system, wage bill arrears and to suppliers (assumed by the government in recent years in the context of the restructuring of such enterprises); (iii) the repayment to commercial banks of domestic debt; (iv) the repayment of virtually all unpaid float at the treasury; and (v) the repayment of statutory advances to the central government by the regional central bank. All these debts have relatively short maturities.

8. The public debt sustainability analysis includes three additional sensitivity tests, namely (i) a higher wage bill than in the baseline; (ii) a higher level of transfers financed by the oil windfall; and (iii) the combined effect of a higher wage bill and oil revenues. The first shock assumes that the wage bill remains constant as a percentage of non-oil GDP (instead of remaining constant, in real terms, at its 2005 level). Given the high oil prices, such a policy may be sustainable in the short to medium term, i.e. through 2014. In the long run, however, the higher wage bill generates unsustainable debt dynamics (see Chapter III of the accompanying Selected Economic Issues paper). The second shock assumes that the oil windfall is spent rather than saved, beginning in 2005.²⁸ The effect of this shock is immediate, and long-lasting: under this scenario, the public debt-to-GDP ratio would be approximately 40 percent by 2014. Moreover, the debt dynamics caused by the higher expenditures make public debt unsustainable. Finally, the third test considers both higher oil revenues (on account of higher oil production) and, at the same time, a wage bill that remains constant as percentage of non-oil GDP. Although the effect of the higher oil revenues dominates through 2014, the public debt-to-GDP ratio increases in the second half of the next decade. The implicit dynamics in this case also suggest that, if this wage bill policy is sustained, public debt would finally turn unsustainable. These results underscore that (i) a main factor in Gabon's debt sustainability is the ability to maintain fiscal discipline, even in the presence of higher oil production and prices; and (ii) the need to sustain steady growth in the non-oil sector through diversification and to translate this growth into higher non-oil fiscal revenues.

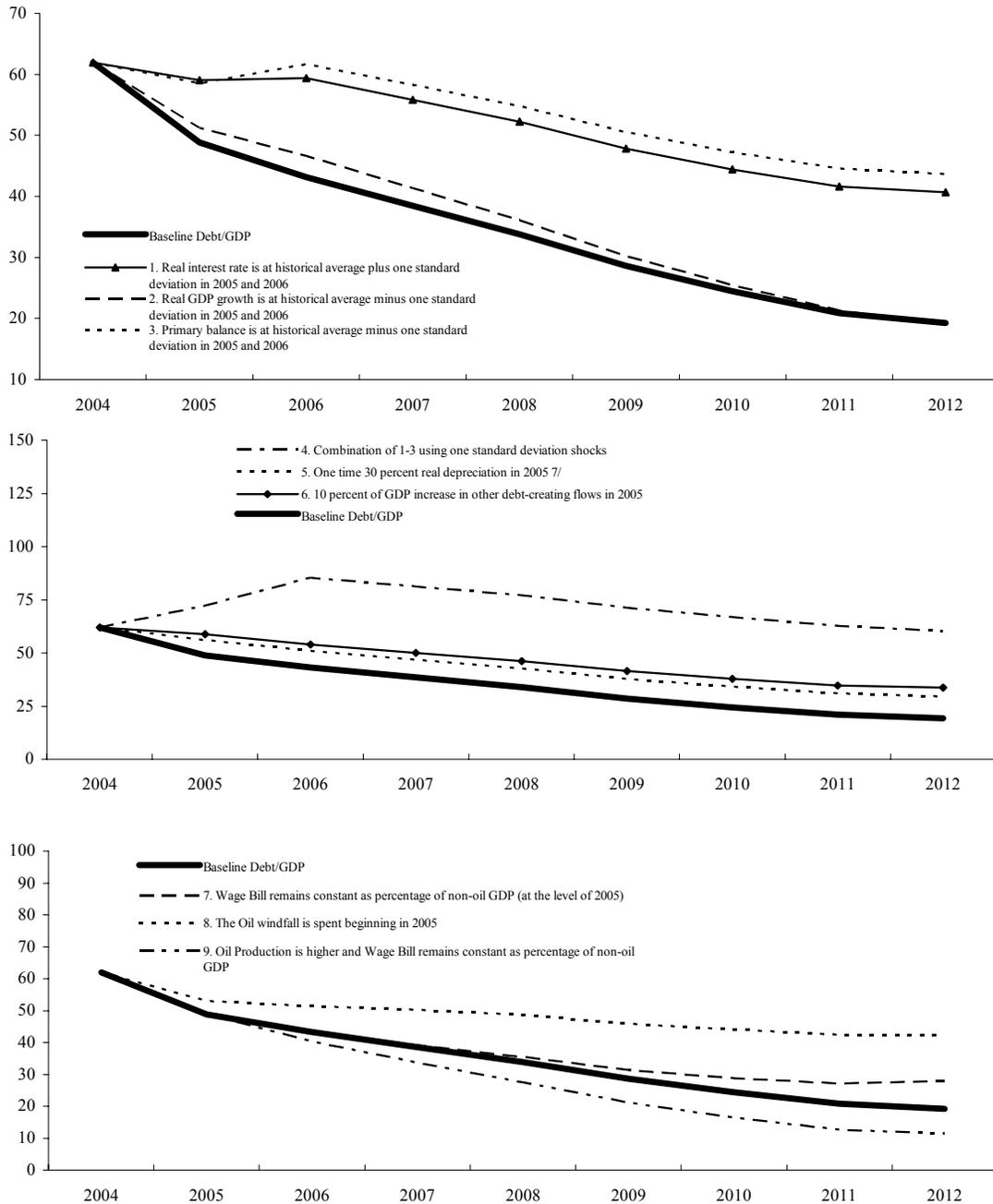
²⁸ The oil windfall is defined as the difference between fiscal revenues in the baseline scenario and the fiscal revenues that would result if Brent prices were US\$35 per barrel.

Figure 1. Gabon: External Public Debt Sustainability, 2004–2012
(In percent of GDP)



Source: IMF staff estimates and projections.

Figure 2. Gabon: Total Public Sector Debt Sustainability, 2004–2012
(In percent of GDP)



Source: IMF staff estimates and projections.

Table 2. Gabon: Public Sector Debt Sustainability Framework, 2000-2014
(In percent of GDP, unless otherwise indicated)

	Actual				Projections										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
I. Baseline Medium-Term Projections															
Public sector debt 1/	71.3	81.1	82.8	73.0	61.9	48.8	43.2	38.5	33.8	28.6	24.4	20.8	19.3	16.6	14.1
Change in public sector debt	-28.3	9.8	1.7	-9.8	-11.0	-13.2	-5.7	-4.7	-4.7	-5.2	-4.2	-3.5	-1.5	-2.7	-2.5
Identified debt-creating flows (4+7+12)	-29.7	0.4	-5.1	-12.2	-15.1	-15.8	-7.6	-6.9	-5.7	-5.4	-4.5	-3.7	-3.0	-2.6	-1.9
Primary deficit	-17.5	-12.0	-7.9	-11.4	-11.5	-13.8	-12.3	-10.4	-8.5	-7.2	-6.0	-4.8	-3.8	-3.0	-2.3
Revenue and grants	33.4	34.0	31.6	29.8	29.2	30.4	30.1	29.4	28.8	28.4	28.0	27.6	27.3	27.0	26.7
of which: Non-oil revenue	10.9	12.2	13.9	13.6	13.4	13.4	14.6	15.7	17.0	17.9	18.9	19.8	20.6	21.2	21.8
Primary (noninterest) expenditure	15.9	22.0	23.7	18.4	17.7	16.6	17.8	19.0	20.3	21.2	22.0	22.8	23.5	24.0	24.4
Automatic debt dynamics 2/	-12.0	12.5	2.8	-0.7	-3.2	-2.0	-4.7	3.5	2.8	1.8	1.4	1.1	0.8	0.4	0.4
Contribution from interest rate/growth differential 3/	-16.2	13.8	4.4	4.3	-0.9	-0.9	-4.8	3.8	2.9	2.2	1.8	1.4	1.1	0.8	0.4
Of which contribution from real interest rate	1.5	-1.5	0.0	-2.0	-0.9	-1.1	-0.1	-0.3	-0.1	-0.4	-0.4	-0.5	-0.5	-0.4	-0.4
Contribution from exchange rate depreciation 4/	2.7	0.1	-1.6	-3.0	-1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Denominator = $1 + r - \pi + g$	1.3	1.0	1.0	1.0	1.1	1.1	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Other identified debt-creating flows	-0.3	-0.1	0.0	0.0	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	-0.3	-0.1	0.0	0.0	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual, including asset changes (2-3)	1.5	9.4	6.8	2.4	4.1	2.7	1.9	2.2	1.0	0.2	0.3	0.2	1.5	-0.1	-0.5
Public sector debt-to-revenue ratio 1/	213.7	238.2	261.9	244.5	212.3	160.5	143.0	130.4	117.1	100.4	86.9	75.2	70.6	61.4	52.8
Gross financing need 5/	5.9	6.5	6.2	4.9	11.3	-1.0	-0.6	-0.7	1.0	1.9	-0.1	1.1	1.8	-0.7	-0.4
in billions of U.S. dollars	0.3	0.3	0.3	0.3	0.8	-0.1	-0.1	-0.1	0.1	0.1	0.0	0.1	0.1	-0.1	0.0
Key Macroeconomic and Fiscal Assumptions															
Real GDP growth (in percent)	-1.9	2.0	0.0	2.4	1.4	2.0	0.2	0.7	0.4	1.3	1.4	1.9	2.2	2.5	2.7
Average nominal interest rate on public debt (in percent) 6/	7.4	11.8	5.4	5.0	5.8	5.3	5.6	4.7	4.6	4.5	4.6	4.3	4.4	4.0	4.0
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-21.1	18.4	5.4	5.3	-1.2	-1.4	9.6	8.6	7.4	6.5	6.4	6.3	6.0	4.8	4.9
Exchange rate (local currency per U.S. dollar, end of period)	713.5	718.4	658.0	540.5	489.2	488.3	488.2	487.9	487.7	487.5	487.5	487.5	487.5	487.5	487.5
Nominal depreciation of local currency (CEA franc per dollar)	15.2	0.7	-8.4	-17.9	-9.5	-0.2	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GDP deflator (in percent)	28.5	-6.6	0.0	-0.4	7.0	6.7	-3.9	-3.8	-2.8	-2.0	-1.8	-2.0	-1.6	-0.8	-0.8
Growth of real primary spending (deflated by GDP deflator, in percent)	-23.4	41.4	7.9	-20.5	-2.4	-4.6	7.8	7.5	7.0	5.8	5.4	5.7	5.3	4.5	4.6
Non-Oil Primary Balance / Non-Oil GDP	-7.7	-5.8	-5.4	-5.0	-4.7	-4.3	-4.0	-3.7	-3.4	-3.1	-2.8	-2.8	-2.8	-2.8	-2.8
Non-Oil Primary Balance / GDP	-4.3	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1
II. Stress Tests for Public Debt Ratio															
1. Real interest rate is at historical average plus one standard deviation in 2005 and 2006	61.9	59.4	59.5	56.2	52.7	48.5	45.4	42.8	42.1	39.9	37.9	37.9	37.9	37.9	37.9
2. Real GDP growth is at historical average minus one standard deviation in 2005 and 2006	61.9	59.4	59.5	56.2	52.7	48.5	45.4	42.8	42.1	39.9	37.9	37.9	37.9	37.9	37.9
3. Primary balance is at historical average minus one standard deviation in 2005 and 2006	61.9	59.4	59.5	56.2	52.7	48.5	45.4	42.8	42.1	39.9	37.9	37.9	37.9	37.9	37.9
4. Combination of 1-3 using one standard deviation shocks	61.9	59.4	59.5	56.2	52.7	48.5	45.4	42.8	42.1	39.9	37.9	37.9	37.9	37.9	37.9
5. One time 30 percent real depreciation in 2005 7/	61.9	59.4	59.5	56.2	52.7	48.5	45.4	42.8	42.1	39.9	37.9	37.9	37.9	37.9	37.9
6. 10 percent of GDP increase in other debt-creating flows in 2005	61.9	59.4	59.5	56.2	52.7	48.5	45.4	42.8	42.1	39.9	37.9	37.9	37.9	37.9	37.9
7. Wage Bill remains constant as percentage of non-oil GDP (at the level of 2005)	61.9	59.4	59.5	56.2	52.7	48.5	45.4	42.8	42.1	39.9	37.9	37.9	37.9	37.9	37.9
8. The Oil windfall is spent beginning in 2005	61.9	59.4	59.5	56.2	52.7	48.5	45.4	42.8	42.1	39.9	37.9	37.9	37.9	37.9	37.9
9. Oil Production is higher and Wage Bill remains constant as percentage of non-oil GDP	61.9	59.4	59.5	56.2	52.7	48.5	45.4	42.8	42.1	39.9	37.9	37.9	37.9	37.9	37.9
Historical Statistics for Key Variables (past 10 years)															
	Historical Average	Standard Deviation	Average 2003-10												
Primary deficit	-8.3	6.2	-8.3												
Real GDP growth (in percent)	1.5	4.3	1.3												
Nominal interest rate (in percent) 6/	7.9	2.5	4.8												
Real interest rate (in percent)	-0.6	17.9	6.2												
Inflation rate (GDP deflator, in percent)	8.5	18.8	-1.4												
Revenue to GDP ratio	30.4	3.6	28.8												

1/ Public debt is defined as gross debt held by the general government.
 2/ Derived as $(1 - \pi - \pi(1+g) - g + \alpha \pi(1+r)) / (1 + r - \pi + g)$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt, and ϵ = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
 3/ The real interest rate contribution is derived from the numerator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as g .
 4/ The exchange rate contribution is derived from the denominator in footnote 2/ as $\alpha \pi(1+r)$.
 5/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
 6/ Derived as nominal interest expenditure divided by previous period debt stock.
 7/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table 3. Gabon: Baseline Debt Sustainability Analysis 2004-2023 1/
(In CFAF billion, unless otherwise noted)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2023	2003-2010	2011-2023	2003-2023
Total Stock of debt	1,969.6	1,894.5	1,785.5	1,604.0	1,415.2	1,233.6	1,045.4	900.7	773.6	723.5	633.0	360.7	1,481.1	457.2	907.2
Stock of outstanding (excluding arrears)	1,642.6	1,391.1	1,182.5	969.9	754.5	536.7	322.3	215.3	90.1	26.5	23.8	15.5	876.9	24.6	419.2
Stock of new borrowing	0.0	503.4	603.0	634.1	660.7	696.9	723.2	685.5	683.5	697.0	609.2	345.2	563.3	432.6	460.5
Stock of arrears 2/	326.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	326.9	0.0	302.6
Total Debt service	318.8	347.5	325.6	318.6	314.2	331.8	336.7	223.4	233.2	224.8	113.5	40.0	314.6	96.8	188.6
Debt service due outstanding debt	318.8	343.4	288.0	283.3	273.2	262.5	254.5	146.8	153.2	135.9	15.1	0.5	271.3	26.3	131.2
Debt service on new borrowing	0.0	4.1	37.6	35.3	41.0	69.2	82.2	76.5	80.0	89.0	98.4	39.5	43.2	70.5	57.4
Total Amortization	206.8	225.2	217.3	219.5	226.4	255.0	272.0	169.5	187.0	185.5	81.4	23.6	224.0	73.9	136.6
Amortization on current debt	206.8	223.2	208.6	212.6	215.4	217.8	223.7	127.0	140.1	130.2	13.2	0.5	204.4	24.5	100.3
Amortization due to new borrow	0.0	1.9	8.7	7.0	11.0	37.1	48.3	42.5	46.9	55.3	68.2	23.1	19.6	49.5	36.4
Total interest payments	112.0	122.3	108.3	99.1	87.9	76.8	64.7	53.9	46.1	39.3	32.2	16.4	90.6	22.9	52.0
interest payments on current debt	112.0	120.2	79.4	70.8	57.8	44.7	30.8	19.9	13.1	5.7	1.9	0.0	66.9	1.9	30.9
interest payments due to new borrow	0.0	2.1	28.9	28.3	30.1	32.1	33.9	34.0	33.1	33.6	30.2	16.3	23.7	21.0	21.0
DSA ratios:															
Ratio of total debt / GDP:															
ratio current debt/ GDP	56.0	49.6	43.0	40.1	36.5	32.7	27.9	24.1	20.7	19.3	16.6	6.8	38.7	11.0	23.5
ratio new debt & arrears clearance / GDP	46.7	36.4	28.5	24.2	19.5	14.2	8.6	5.8	2.4	0.7	0.6	0.3	23.0	0.6	11.2
	9.3	13.2	14.5	15.9	17.1	18.5	19.3	18.4	18.3	18.6	16.0	6.5	15.7	10.4	12.3
Ratio of total debt / exports of goods & NFS															
ratio current debt/exports	103.3	82.2	68.3	67.1	64.6	62.1	56.0	51.6	47.4	46.9	42.6	25.7	69.4	32.0	49.3
ratio new debt & arrears clearance / exports	86.1	60.4	45.2	40.6	34.5	27.0	17.3	12.3	5.5	1.7	1.6	1.1	40.4	1.7	20.2
	17.1	21.8	23.1	26.5	30.2	35.1	38.8	39.3	41.9	45.2	41.0	24.6	29.0	30.3	29.1
Ratio of total debt / revenues:															
ratio current debt/revenues	187.7	170.4	142.0	133.6	124.7	112.9	98.2	87.2	77.3	73.7	64.6	31.4	132.1	44.7	83.5
ratio new debt & arrears clearance / revenues	156.6	125.2	94.0	80.8	66.5	49.1	30.3	20.8	9.0	2.7	2.4	1.4	77.9	2.4	37.6
	31.2	45.3	47.9	52.8	58.2	63.8	67.9	66.3	68.3	71.0	62.2	30.1	54.2	42.3	45.9
Ratio debt service / exports:															
ratio current debt service / exports	16.7	15.1	12.4	13.3	14.4	16.7	18.0	12.8	14.3	14.6	7.6	2.8	14.9	6.7	10.3
ratio new debt service / exports	0.0	0.2	1.4	1.5	1.9	3.5	4.4	4.4	4.9	5.8	6.6	2.8	2.2	5.0	3.7
Ratio of total debt service / revenue:															
ratio current debt service/revenue	30.4	31.3	25.9	26.5	27.7	30.4	31.6	21.6	23.3	22.9	11.6	3.5	28.2	9.6	17.5
ratio new debt service / revenue	0.0	0.4	3.0	2.9	3.6	6.3	7.7	7.4	8.0	9.1	10.0	3.4	3.9	6.9	5.5
Memorandum items:															
Exports of goods and NFS	1,907.0	2,304.5	2,616.0	2,391.7	2,189.3	1,988.0	1,865.7	1,745.2	1,633.0	1,543.2	1,486.6	1,404.7	2,125.9	1,408.7	1,691.6
Exports of goods	2,244.7	2,556.2	2,331.8	2,129.4	1,928.2	1,805.8	1,685.3	1,573.2	1,483.3	1,426.7	1,369.9	1,374.0	2,031.8	1,333.5	1,607.8
Fiscal revenues excluding grants	1,049.1	1,111.5	1,257.7	1,200.8	1,135.3	1,092.8	1,065.0	1,033.5	1,000.7	981.2	979.8	1,146.8	1,118.2	1,036.4	1,068.6
Nominal GDP	3,518.9	3,818.0	4,154.8	3,999.9	3,872.5	3,777.1	3,750.6	3,734.3	3,730.7	3,755.2	3,819.0	5,329.9	3,828.3	4,337.9	4,112.2

Sources: Gabonese authorities and Fund staff estimates.

1/ Financing gaps are assumed to be covered by 8-year external debt with 3 years of grace and 5.5 annual interest rate.

2/ Out of the stock of arrears at end-2003, approximately CFAF 320 billions was in reschedulable debt.

Table 4. Gabon: Macroeconomic Projections for the Baseline DSA 2004-2023
(In CFAF billion unless otherwise specified)

Sector projections	2003-2023										Averages					
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2023	2003-2010	2011-2023	2003-2023	
1. Real Sector																
Real GDP growth rate	2.4	1.4	2.0	2.0	0.2	0.7	0.4	1.3	1.4	1.9	2.2	2.5	3.6	1.2	3.0	2.3
<i>of which: Non-oil GDP growth</i>	0.8	2.3	3.0	3.5	3.5	3.5	3.5	3.8	3.9	3.9	4.0	4.0	4.0	3.0	4.0	3.6
Nominal GDP growth rate	2.0	8.5	8.8	-3.7	-3.2	-2.5	-2.5	-0.7	-0.4	-0.1	0.7	1.7	4.3	1.1	2.8	2.1
Nominal GDP levels	3518.9	3818.0	4154.8	3999.9	3872.5	3777.1	3750.6	3734.3	3730.7	3755.2	3819.0	5329.9	3828.3	4337.9	4143.7	402.6
<i>of which: oil GDP</i>	1485.9	1715.5	1956.1	1694.6	1459.0	1237.5	1086.6	946.3	811.0	696.5	614.6	184.4	1447.7	1447.7	405.6	802.6
<i>non-oil GDP</i>	2033.0	2102.5	2198.7	2305.4	2413.5	2539.6	2664.0	2788.1	2919.7	3058.7	3204.5	5145.5	2380.6	3932.2	3341.1	3341.1
Oil production (million tons)	13.5	13.6	13.5	12.1	11.0	9.6	8.6	7.5	6.7	5.9	5.2	1.7	11.2	11.2	3.7	6.5
WEO oil prices (US dollar/barrel)	28.9	38.2	48.1	45.3	42.6	41.3	40.5	40.2	38.8	37.5	36.2	30.3	40.6	40.6	32.8	35.8
2. Balance of Payments																
Current Account (including transfers)																
Current Account in % of GDP	423.5	400.7	571.2	488.3	396.6	308.8	280.0	247.8	190.2	140.1	119.4	-40.2	389.6	34.4	169.7	169.7
Exports, f.o.b.	12.0	10.5	13.7	12.2	10.2	8.2	7.5	6.6	5.1	3.7	3.1	-0.8	10.1	1.0	4.5	4.5
Imports, f.o.b.	1847.1	2244.7	2556.2	2331.8	2129.4	1928.2	1805.8	1685.3	1573.2	1483.3	1426.7	1344.8	2066.0	1348.8	1622.0	1622.0
Trade balance	-605.9	-722.5	-778.3	-776.9	-781.3	-775.9	-771.3	-768.2	-783.8	-794.9	-805.1	-950.9	-747.5	-858.4	-816.2	-816.2
Services (net)	1241.2	1522.1	1777.8	1554.9	1348.1	1152.3	1034.5	917.1	789.3	688.5	621.6	393.9	1318.5	490.4	805.9	805.9
Transfers (net)	-712.6	-1019.9	-1104.6	-975.6	-871.8	-774.4	-696.3	-622.2	-563.0	-513.3	-468.1	-403.7	-847.2	-424.0	-585.2	-585.2
Capital account	-105.1	-101.5	-102.1	-90.9	-79.6	-69.1	-58.1	-47.1	-36.1	-35.1	-34.1	-30.4	-81.7	-32.1	-51.0	-51.0
Transfers (net)	-477.2	-407.0	-440.9	-342.8	-326.7	-252.5	-250.1	-167.7	-153.4	-128.5	-21.8	77.0	-333.1	16.1	-116.9	-116.9
Medium and Long term	25.1	2.7	2.6	3.0	3.4	3.4	2.7	2.0	2.4	3.0	0.0	0.0	5.6	0.4	2.4	2.4
<i>of which Government drawings</i>	-189.6	-67.6	-88.5	-96.1	-107.4	-125.6	-148.4	-148.4	-51.6	-61.9	-53.2	48.1	88.8	-109.3	43.6	-14.6
<i>Amortization</i>	15.4	59.9	32.0	38.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	38.2	40.0	39.3	40.0
Foreign Direct Investment	-205.7	-214.8	-207.3	-219.0	-224.7	-242.2	-262.6	-165.0	-179.7	-175.0	-63.9	16.4	-217.7	-44.5	-110.4	-110.4
Other Private Medium and Long Term	10.0	118.5	115.1	106.5	98.8	94.7	88.9	83.1	82.5	86.4	81.6	86.1	89.4	81.5	84.5	84.5
Short-term Flows (including E&O)	-9.2	-31.2	-28.2	-21.5	-21.5	-18.1	-14.6	-9.6	-4.6	-4.6	-9.6	-53.6	-19.3	-33.4	-28.0	-28.0
<i>Short-term Flows (including E&O)</i>	-312.7	-342.1	-355.0	-249.7	-222.7	-130.3	-104.5	-118.1	-93.9	-78.3	-69.9	-11.8	-229.4	-37.9	-104.7	-104.7
Overall balance	-53.7	-6.3	130.3	145.5	69.9	56.3	29.9	80.1	36.8	11.6	97.6	36.8	56.5	50.6	52.8	52.8
Memorandum items:																
Net IMF purchases (+ = net drawing)	-8.2	-12.6	-11.7	-3.5	-5.1	-16.1	-12.1	0.0	0.0	0.0	0.0	0.0	-8.7	0.0	-3.3	-3.3
Fiscal revenues excluding grants	1049.1	1111.5	1257.7	1200.8	1135.3	1092.8	1065.0	1033.5	1000.7	981.2	979.8	1146.8	1118.2	1036.4	1067.6	1067.6
Exports of GNFS	1907.0	2304.5	2616.0	2391.7	2189.3	1988.0	1865.7	1745.2	1633.0	1543.2	1486.6	1404.7	2125.9	1408.7	1681.9	1681.9
<i>of which non-oil</i>	350.0	500.3	545.8	601.0	647.1	681.6	717.9	752.6	787.7	822.4	856.1	1241.2	599.5	1003.1	849.4	849.4
Imports of GNFS	-1057.5	-1345.8	-1407.8	-1338.8	-1295.0	-1248.8	-1211.4	-1176.7	-1170.6	-1164.3	-1157.4	-1293.4	-1260.2	-1198.5	-1222.0	-1222.0
<i>of which non-oil</i>	-772.0	-875.4	-927.3	-955.0	-965.7	-969.6	-979.7	-990.7	-1002.0	-1012.4	-1020.6	-1236.8	-929.4	-1098.3	-1034.0	-1034.0
Growth Rates																
Exports of GNFS	3.6	20.8	13.5	-8.6	-8.5	-9.2	-6.2	-6.5	-6.4	-5.5	-3.7	1.8	-0.1	-1.6	-1.0	-1.0
<i>of which non-oil</i>	-12.8	42.9	9.1	10.1	7.7	5.3	5.3	4.8	4.7	4.4	4.1	3.8	9.1	3.9	5.9	5.9
Imports of GNFS	-10.4	27.3	4.6	-4.9	-3.3	-3.6	-3.0	-2.9	-0.5	-0.5	-0.6	2.0	0.5	0.7	0.6	0.6
<i>of which non-oil</i>	-6.1	13.4	5.9	3.0	1.1	0.4	1.0	1.1	1.1	1.0	0.8	2.4	2.5	1.7	2.0	2.0
Exports	3.7	21.5	13.9	-8.8	-8.7	-9.5	-6.3	-6.7	-6.7	-5.7	-3.8	1.9	-0.1	-1.7	-1.1	-1.1
<i>of which non-oil</i>	-15.1	51.2	10.3	11.3	8.5	5.8	5.8	5.2	5.1	4.7	4.4	4.0	10.4	4.2	6.5	6.5
Imports	-7.0	19.3	7.7	-0.2	0.6	-0.7	-0.6	-0.4	-0.4	-0.4	-0.4	2.0	1.9	2.3	1.7	1.7
<i>of which non-oil</i>	-1.4	5.1	8.0	5.5	3.5	2.5	2.8	2.9	2.9	2.8	2.6	2.6	3.6	2.6	3.0	3.0

Sources: Gabonese authorities and Fund staff estimates.

Bank of Central African States: Safeguards Assessments

The Bank of the Central African States (BEAC) is the regional central bank of the Central African States, of which Gabon is a member. A subsequent safeguards assessment of the BEAC completed on August 30, 2004 found that the BEAC has implemented a number of measures to strengthen its safeguards framework since the 2001 safeguards assessment, but further progress needs to be made in key areas.

The main recommendations of the assessment were reported in Country Report No. 05/5. Other priority recommendations of the assessment, but of a country specific nature, were: (i) the BEAC should clarify with its member countries that hold foreign reserves outside the BEAC the statutory basis and circumstances for doing so, to avoid an apparent conflict with the BEAC statutes and to ensure full transparency of reporting of reserves by the member country; (ii) the BEAC and its member states are encouraged to establish a mechanism to prevent IMF overdues and facilitate timely payments through advance acquisitions of SDRs and an authorization to debit the SDR account of the member; and (iii) the BEAC should cooperate with its members to reconcile and confirm the treasury balances to ensure that the balances reported by the BEAC in respect of credit to government as reflected in the accounts of the Treasuries are in agreement with the BEAC.

Gabon: Statistical Issues

1. Gabon's economic database is fairly comprehensive. While data are generally compiled in accordance with international standards, consistency between sectors is poor, raising questions about the quality of the data. Detailed economic and financial statistics, including long historical time series, are published in the *Tendances de l'Economie*, issued on a semiannual basis by the General Directorate of Statistics and Economic Studies (DGSEE) of the Ministry of Planning. More recent sectoral developments are described in detail in the *Tableau de Bord de l'Economie*, issued on a quarterly basis by the General Directorate for the Economy (DGE) of the Ministry of Economy, Finance, Budget, and Privatization.
2. Gabon is a participant in the General Data Dissemination System (GDDS). Metadata regarding Gabon's national statistical systems, including plans for improvement, were first posted to the Fund's Dissemination Standards Bulletin Board on October 1, 2002, but have not been updated. The authorities do not report any real sector statistics for publication in *International Financial Statistics (IFS)*, nor fiscal data for publication in the *IFS or Government Finance Statistics (GFS) Yearbook*.

National accounts

3. The base for the calculation of national accounts aggregates at constant prices was changed from 1989 to 1991. The coverage of developments in the oil and other key export sectors is based on a range of indicators that may not fully capture the profits generated by these sectors. Despite recent improvements in collecting and processing oil sector statistics, significant inconsistencies remain between national accounts and the balance of payments statistics. In addition, more frequent household surveys are required, to improve the quality and quantity of data available on income distribution and consumption. Efforts to establish a more consistent database need to be strengthened.

Employment and unemployment

4. Data on unemployment and the total labor force are not systematically available.

Prices

5. Monthly consumer price indices for low- and middle-income households are available only for the capital city of Libreville. Significant parts of the population live in other urban areas such as Port Gentil. These indices are based on an outdated family expenditure survey of 1975 and attach a large weight to prices of food and basic consumer goods.

Government accounts

6. A key shortcoming of macroeconomic statistics is the limited coverage of fiscal data, as no estimates of the consolidated general government are reported to STA. This hampers a full understanding of general government expenditure priorities. Moreover, the social

security operations are not yet included in government finances. In addition, the audited accounts of oil sector operations are not published with adequate periodicity (at least quarterly), which prevents adequate monitoring of key fiscal and activity indicators. Other needed improvements relate, inter alia, to the statistical treatment of oil companies' tax advances, recording in the budget accounts government investment financed by oil companies, and the recording of government domestic payment arrears.

Monetary statistics

7. Monthly monetary data for Gabon, as well as for the other members of the Central African Economic and Monetary Community (CEMAC), are reported on a regular basis, although with some delays. The data are reported in electronic form by the regional central bank (BEAC) and published in *IFS*. The institutional coverage of the monetary statistics is comprehensive, but accuracy is affected by cross-border movements of currency among CEMAC member countries. In the case of Gabon, however, the magnitude of imported notes is smaller than in other countries in the region. About 94 percent of notes in Gabon are nationally issued; the remaining are from Cameroon, the Republic of Congo, and Equatorial Guinea. Gabon exports about 18 percent of its notes, most of which go to Cameroon (12 percent) and to the Republic of Congo (4 percent).

8. The monetary and financial statistics mission that visited BEAC headquarters (May 2001) provided technical assistance in addressing the main shortcomings pertaining to coverage, methodology, compilation procedures, and timeliness of monetary statistics. The mission discussed an action plan for the implementation of the *Monetary and Financial Statistics Manual (MFSM)* and for the introduction of an area-wide page in *IFS* for CEMAC. Following the 2001 mission, a regional workshop on monetary and financial statistics was organized by the BEAC in Libreville (Gabon) in May 2002 to support the implementation of the *MFSM* in CEMAC countries. The new page for CEMAC was published in the January 2003 issue of *IFS*.

External public debt

9. There are comprehensive data on the outstanding stock of external public debt and its composition, together with detailed projections on debt service due. These data are provided (usually to Fund missions) by the General Directorate of Public Debt and Accounting (Direction générale de la comptabilité publique) of the Ministry of Economy, Finance, Budget, and Privatization.

Balance of payments and trade statistics

10. Balance of payments data are disseminated with considerable delays, and the most recent data refer to 2001. As in most other countries of CEMAC, balance of payments data are compiled and disseminated by the national agency of BEAC for Gabon. The compilation process involves a close cooperation between BEAC headquarters and the national agency for Gabon since BEAC headquarters calculates the national contribution in the international reserves it holds and manages on behalf of all six countries. The headquarters also validate

the draft results and run consistency checks against the guidelines adopted for the whole monetary union.

11. Since 1995, the dissemination of balance of payments statistics has been in accordance with the *Balance of Payments Manual (BPM5)*. Source data are primarily reported through (i) surveys of enterprises by the central bank (main source of data); (ii) reports from banks and the postal administration on foreign exchange transactions of other enterprises, retailers, and private individuals; and (iii) BEAC reports on banknotes issued by Gabon and returned by other BEAC countries.

12. External trade data are mostly based on estimates, which are not cross-checked with customs data. The reliability of other items of the current account is poor due to the low response rate to the enterprise surveys, in spite of partial correction through adjustments. Foreign direct investment in the financial account is likely to be underestimated owing to the insufficient detail of the oil sector survey. The overall magnitude and detailed breakdown of private capital flows, particularly those related to the short term, suffer from a lack of comprehensiveness.

Public enterprise sector

13. While a fairly good database exists on the operations of public enterprises, information is communicated to the staff on an ad hoc basis, notably during Fund missions. At present, data provided cover the wholly owned and mixed enterprises in which government equity participation is at least 25 percent.

GABON: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE
AS OF MARCH 8, 2005

	Date of latest observation	Date received	Frequency of Data ⁶	Frequency of Reporting ⁶	Frequency of publication ⁶
Exchange Rates	2/24/05	2/25/05	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	12/31/04	2/16/05	M	M	M
Reserve/Base Money	12/31/04	2/16/05	M	M	M
Broad Money	12/31/04	2/16/05	M	M	M
Central Bank Balance Sheet	12/31/04	2/16/05	M	M	M
Consolidated Balance Sheet of the Banking System	12/31/04	2/16/05	M	M	M
Interest Rates ²	12/31/04	2/16/05	M	M	M
Consumer Price Index	1/31/05	2/16/05	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	12/31/04	2/16/05	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	12/31/04	2/16/05	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	12/31/04	2/16/05	M	M	M
External Current Account Balance	12/31/04	2/16/05	A	I	A
Exports and Imports of Goods and Services	12/31/04	2/16/05	M	M	I
GDP/GNP	12/31/04	2/16/05	A	I	A
Gross External Debt	12/31/04	2/16/05	M	M	A

¹Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

²Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³Foreign, domestic bank, and domestic nonbank financing.

⁴The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵Including currency and maturity composition.

⁶Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).



INTERNATIONAL MONETARY FUND

Public Information Notice

EXTERNAL
RELATIONS
DEPARTMENT

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700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2005 Article IV Consultation with Gabon

On March 28, 2005, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Gabon.²⁹

Background

Since 2003, the Gabonese economy has recovered sharply from the financial imbalances of the early years of the decade. The government introduced a far-reaching program of economic and structural reforms. Aided by high oil prices and external debt rescheduling, the external position strengthened markedly. This in turn contributed to a sharp improvement in the fiscal accounts, helped also by better tax administration and expenditure discipline.

GDP growth is estimated to have reached 1½ percent in 2004. Non-oil growth of 2¼ percent benefited from rising output in manganese mining and timber processing, while activity in construction, electricity, and cement production picked up in the second half of the year, spurred by the acceleration in the execution of public investment. Meanwhile inflation declined to ½ percent, reflecting wage moderation and the monetary discipline imposed by the fixed exchange rate regime. The external position remained strong, with the current account surplus reaching 10½ percent of GDP and external

²⁹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

debt falling by 13 percentage points of GDP to under 50 percent of GDP at end-2004. The real exchange rate depreciated slightly in 2004, and competitiveness is estimated to have remained relatively strong, not least as a result of wage moderation.

The fiscal stance in 2004 remained tight. The overall budget surplus was maintained at 7½ percent of GDP, while the non-oil primary deficit fell by ½ percentage point to 7¾ percent of non-oil GDP in 2004, reflecting both an improvement in non-oil revenue and expenditure restraint, notably on wages and salaries. High oil prices resulted in significant oil windfall revenue, which was used primarily to reduce foreign and domestic debt and increase deposits in the Fund for Future Generations.

Structural reforms in recent years have aimed at improving the management of public resources and promoting private investment and economic diversification. The government has launched a comprehensive reform of the forestry sector, simplifying forestry taxation, improving transparency in the allocation of forestry permits, and announcing the elimination of the monopoly on the export of logs of the timber marketing board effective 2006. Progress has been made in the privatization and restructuring of public enterprises, reducing their drag on the public finances. Steps were taken to strengthen the public procurement process, with the objective of raising the quality of public spending. A diagnostic study of the constraints facing the investment climate is helping the Government formulate a reform program in this area. Steps are already underway to strengthen governance and transparency following the release of the first report of National Commission Against Illicit Enrichment and the formation of the Government Working Group to implement adherence to the Extractive Industries Transparency Initiative.

Looking ahead, the critical challenge facing Gabon is managing the transition from an economy highly dependent on oil—accounting for 45 percent of GDP, 80 percent of exports, and over half of government revenue in 2004—to a diversified economy that harnesses private sector initiative and makes progress in poverty reduction. Compounding the difficulty of this task is Gabon's still-high level of external debt and its vulnerability to swings in oil prices.

Executive Board Assessment

Executive Directors commended the Gabonese authorities for the progress in macroeconomic stabilization and the successful initiation of structural reforms under Gabon's economic program. These policies, aided by higher oil revenues, have resulted in positive growth, low inflation, and a significant strengthening of the fiscal and external positions. Nevertheless, Directors underscored that, with prospects for the oil sector continuing to decline, a high external debt burden, and widespread levels of poverty, Gabon faces a dual challenge going forward: first, to consolidate and extend the gains of macroeconomic stabilization in order to ensure a durable basis for future growth; and second, to reinforce the ongoing structural reform process so as to establish the foundations for the diversification of the Gabonese economy, raise the growth rate of the non-oil sector, and vigorously address poverty reduction efforts.

Directors welcomed the government's decision to save the 2004 oil revenue windfall. Directors noted that, by continuing to apply the bulk of the oil revenue windfall to paying down government debt, Gabon can set in motion a virtuous cycle that significantly reduces the weight of debt service on the public finances and the vulnerability of the economy to swings in oil prices. They urged the authorities to seize this opportunity to address the legacy of past fiscal slippages and to place the public finances on a much sounder footing.

Directors welcomed the successful execution of the 2004 budget, which reduced the non-oil primary deficit by raising non-oil revenue and, in particular, by controlling expenditure. They considered that the 2005 budget is rightly ambitious in targeting a further reduction in the non-oil primary deficit. In ensuring its successful implementation, Directors underscored the importance of steadfast implementation, notably through a strict control of the government wage bill, the cornerstone of fiscal discipline in Gabon. Strengthening the finances of the social security funds and local governments was regarded as another key component of expenditure restraint.

Directors noted several fiscal risks in 2005. Notably, they regretted that the new civil service law is delayed. While compensatory measures can help to maintain spending discipline in the short term, Directors urged the authorities to make progress in improving structural control of the wage bill. In this regard, several Directors urged the authorities to accelerate the review of the law and ensure its early implementation. The importance of wage restraint for boosting competitiveness in the non-oil sector was also noted. Directors expressed concern at the reliance on administrative revenue measures and encouraged the authorities to remain vigilant and ensure that the hard-won fiscal discipline, which is essential for Gabon's medium-term sustainability, is not jeopardized.

Directors welcomed progress in preparing a Poverty Reduction Strategy Paper (PRSP), which is an opportunity for the government to strengthen its strategy for economic development and poverty reduction. They underscored that a high-quality PRSP, which is well anchored in a carefully costed and prioritized public expenditure framework, will raise the quality of public expenditure and provide a solid foundation for a medium-term expenditure program. Directors noted that this requires progress in budget preparation and execution, as well as in maintaining sound public accounting practices and further improving public sector transparency.

Directors underscored that a vigorous implementation of the structural reform agenda is essential to stimulate higher private sector-led non-oil growth and to accelerate economic diversification. They noted that competitiveness remains satisfactory, but the high costs of labor, transport, and utilities represent a drag on private investment. Directors welcomed the authorities' intention to implement the recommendations of the Foreign Investment Advisory Services in order to strengthen the business environment. Directors attached particular importance to reinforcing governance and transparency, developing micro-finance institutions, and making progress in the privatization program. Directors also saw scope to strengthen the legal and regulatory framework, especially its consistent application.

Directors noted the progress made in the area of governance and transparency, notably the publication of the first report of the National Commission Against Illicit Enrichment. They encouraged the authorities to ensure that the Commission has the means to exercise its functions and that all concerned public officials comply with its rules. Directors welcomed Gabon's decision to adhere to the Extractive Industries Transparency Initiative (EITI), which will strengthen transparency and accountability in a critical sector of the economy, and supported the authorities' request for a report by IMF staff on fiscal transparency with a focus on resource revenue transparency.

Directors welcomed the progress in reforming the forestry sector. They expressed support for the authorities' decision to eliminate the export monopoly of the timber marketing board and restructure the company, so that it can operate in a fully competitive environment. Directors underscored the importance of persevering with the reform process, notably by pursuing sustainable forestry development, introducing pilot auctions for forestry concessions, and establishing greater overall transparency in forestry management.

Directors noted that cross-border integration represents an opportunity for Gabon to seize the benefits of a larger regional market. They urged the authorities to implement its regional commitments, notably by dismantling the significant non-tariff barriers that remain in place.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Gabon: Selected Economic Indicators, 2001-04

	2001	2002	2003	2004
	(Annual changes in percent)			
Domestic economy				
Real GDP growth rate	2.0	0.0	2.4	1.4
<i>Of which: oil</i>	-5.7	-1.4	6.6	-1.0
Non-oil	5.3	0.6	0.8	2.3
Consumer prices (annual average)	2.1	0.2	2.1	0.4
	(In percent of GDP)			
Gross fixed investment	25.8	24.4	24.0	24.3
Gross national savings	36.8	31.3	36.0	34.8
	(In millions of U.S. dollars, unless otherwise indicated)			
External sector				
Exports f.o.b.	2,616.2	2,561.5	3,183.8	4,248.6
Imports f.o.b.	-848.2	-937.2	1,044.3	1,367.6
Current account	517.9	338.8	730.0	758.5
Current account balance (in percent of GDP)	11.0	6.8	12.0	10.5
External public debt (in percent of GDP)	63.1	62.8	56.0	49.6
Real effective exchange rate (in percent change)	1.1	2.5	5.7	-1.0
	(In percent of GDP, unless otherwise indicated)			
Financial variables				
Central government revenues	34.0	31.5	29.8	29.1
<i>Of which: non-oil</i>	12.2	13.9	13.6	13.4
Total expenditure	30.8	28.1	22.4	21.7
Non-oil primary balance 1/	-16.9	-16.8	-8.2	-7.7
Overall balance (commitment basis)	3.2	3.4	7.4	7.4
Change in broad money (in percent)	7.5	5.7	-1.2	11.6

Source: Gabonese authorities.

1/ As a percent of non-oil GDP.



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Washington, D.C. 20431 USA

IMF Executive Board Completes Third Review and Financing Assurances Review Under Gabon's Stand-by Arrangement

The Executive Board of the International Monetary Fund (IMF) today concluded the third review of Gabon's economic performance under a 14-month SDR 69.4 million (about US\$104.9 million) Stand-By Arrangement to support the country's economic program ([see Press Release No. 04/277](#)). The Board also approved a review of the country's financing assurances.

Total drawings under the Stand-By Arrangement have amounted to SDR 41.7 million (about US\$ 63.0 million). Completion of the third review makes available an amount equivalent to SDR 13.9 million (about US\$ 21.0 million). However, because of a strong balance of payments position, the authorities are now treating the arrangement as precautionary and a disbursement is not contemplated at this time.

Following the Executive Board's discussion on March 29, 2005 on Gabon's economic performance, Ms. Anne O. Krueger, First Deputy Managing Director and Acting Chair, stated:

“Gabon's implementation of the program supported by the stand-by arrangement continues to be satisfactory. All quantitative performance criteria and the majority of structural benchmarks for end-December 2004 were met. The authorities' strong ownership of the program is welcome.

“With the economy still highly dependent on a declining oil sector and with continuing widespread poverty, Gabon now faces a dual challenge: first, to consolidate and extend the gains of macroeconomic stabilization in order to ensure a durable basis for future growth; and second, to reinforce the ongoing structural reform process so as to establish the foundations for the diversification of the Gabonese economy, raise the growth rate of the non-oil sector, and vigorously address poverty reduction.

“By continuing to apply part of the oil revenue windfall to paying down government debt, Gabon can set in motion a virtuous cycle that significantly reduces the weight of debt service on the public finances and the vulnerability of the economy to swings in oil prices. Gabon should seize this opportunity to address the legacy of past fiscal slippages and place the public finances on a permanently sounder footing.

“A vigorous implementation of the structural reform agenda is essential to stimulate private sector-led non-oil growth and accelerate economic diversification. With the aim of reinforcing competitiveness, it will be important to improve the investment climate. To this end, a key role falls to strengthening governance and transparency. The establishment of the National Commission Against Illicit Enrichment and Gabon’s adherence to the Extractive Industries Transparency Initiative (EITI) are welcome, and can make a valuable contribution to increasing transparency and accountability. These objectives are equally important in the far-reaching reforms in the forestry sector currently under way. Making progress in the privatization program, strengthening the legal and regulatory framework, and developing micro-finance institutions will also be essential for strengthening the business environment,” Ms. Krueger said.

A Stand-By Arrangement is a decision of the IMF by which a member is assured that it will be able to make purchases (drawings) from the General Resources Account up to a specified amount and during a specified period of time, normally between 12 and 18 months, provided that the member observes the terms of the arrangement.

**Statement by Damian Ondo Mañe, Executive Director for Gabon
March 28, 2005**

I would like to reiterate my authorities' appreciation to Management and staff for their continued support to Gabon in its adjustment efforts to address its daunting challenges namely the decline in oil production, high external debt and weak social indicators. Discussions held in Libreville between the Gabonese authorities and the staff have been useful and productive. The staff report is a good reflection of these discussions and describes well the progress achieved in the implementation of the authorities' program.

My authorities find the issues developed in the Selected Issues Paper (SIP) well targeted given their importance in the country's strategy. The findings in this paper support the authorities' views on the need to reduce the country's oil dependency through, notably the diversification of the economy, and improve the social conditions of its population. On the latter, the issue of the use – spending vs. saving in the Fund for Future Generations – of the oil windfall, which is an important element of discussion between the authorities and the staff, should be addressed against the important investment, in particular infrastructure, and social needs of the country. The finalization of the PRSP will be an important input to deepen this analysis.

Recent Economic Developments and Performance under the SBA

Macroeconomic performance at end-2004 has been broadly consistent with the projections made during the 2nd review of the program, thanks to continued strong policy implementation on the part of the authorities, the continued firmness of oil prices and increased output in manganese mining. For 2004, real GDP is estimated to have grown by 1.4 percent, as oil output was slightly higher than in 2003. It is to be noted that the increase in oil production is due mainly to higher investment in mature fields, made possible by the higher oil prices. Non-oil GDP growth is estimated to have reached 2.3 percent, mostly driven by a strong public demand. Inflation remained subdued, below target at ½ percent. As a result, performance under the SBA has been satisfactory with all quantitative and structural performance criteria for end-December 2004 observed.

The continued high level of oil prices in the last quarter of 2004 and improved expenditure management throughout the year enabled the **fiscal sector** to record a surplus above target. Oil revenues were lower than expected mainly because of the shift from concession to production-sharing agreements in the upstream sector, which allow for a quicker cost recovery. Expenditures, and particularly the wage bill, have been contained within limits. Non oil primary balance decreased from 8.2 percent to 7.7 percent of GDP. As programmed, oil revenues surpluses in 2004 were used to reduce foreign and domestic debt, and increase deposits in the Fund for Future Generations. An agreement has been reached with the regional central bank, effective since January 2005, to remunerate the fund at a rate of 1.7 percent par annum.

In the **external sector**, the current account surplus doubled from 5.5 percent of GDP in 2003 to 10.4 percent of GDP in 2004, which led to a significant increase in Gabon's contribution to the regional central bank NFAs in 2004. As envisaged, external debt declined from 56.0 percent of GDP at end-2003 to 49.6 percent at end-2004 and, should the oil prices remain firm, it is expected to decline further by end-2005. Following the Paris Club agreement in June 2004, most of the bilateral agreements have been completed. However, to ensure that the latest agreements can be concluded, the Secretary General of the Paris Club has granted an extension through end-March 2005 on the signing date for bilateral agreements. Discussions are still ongoing with non-Paris Club creditors and an agreement with the London Club is expected to be signed during the first semester of 2005.

There has also been progress in the implementation of **structural reforms** although the pace has been less than envisaged, resulting in the non-observance of some structural benchmarks. The new law on the general civil service statute has been adopted by the parliament in late 2004 but its content has been modified from its original draft by Parliament. As a result, the government decided to postpone the adoption of implementing decrees until the relevance and budgetary impact of these modifications are assessed. Moreover, the remaining special accounts to be integrated in the budget will be through a supplemental budget in 2005. The adoption of the implementation regulations for the mining code has been delayed pending the completion of work on a standard concession agreement for the mining sector, which is now scheduled for the second quarter of 2005.

In the **forestry sector**, where an important reform is being undertaken with the assistance of the World Bank, the government made public the list of holders of forest permits, the list of currently valid permits, the list of permits reverted to the government and the maps showing the distribution of forestry permits and national parks since February 2005³⁰. In addition, it launched the pilot project for public auction of forestry permits. No forestry permits will be awarded outside this pilot project and before its completion. As noted in the SIP, the reform of the forestry taxation in 2004 did not meet the expectations as tax arrears occurred despite the simplification of the tax structure. As a result, the government decided to introduce a withholding system to ensure a better tax collection and stop tax arrears accumulation. The government will withdraw forestry permits in case of non-payment of taxes.

The **anti-corruption commission** (CNLEI) released its first annual report in December 2004. The report will be published in the *Journal Officiel* and on the Commission's website once it is established. The Commission's working program for 2005 includes, among others, the promotion of the observance of the financial asset disclosure procedures and, surveys and educational campaigns on its mission.

Macroeconomic Outlook and Policies for 2005

³⁰ All these documents can be consulted on Internet at <http://www.finances.gouv.ga/fiscforet.htm>.

As indicated in my previous Buff statement, the outlook for 2005 remains positive; helped by the favorable environment in the oil sector, and an increased interest in investment in sectors such as mining, agro industries, wood processing and housing by foreign investors. Non-oil activity is therefore expected to grow by 3.0 percent in real terms. My authorities remain committed to their adjustment program as they consider the recent developments in the oil sector as transitory. Policies in 2005 will aim at pursuing the adjustment efforts with the strengthening of the public finance management and the promotion of the activity in non-oil sectors through the implementation of structural measures. The 2005 budget law approved by the Parliament last December is in line with the current Stand-By Arrangement.

More specifically, in the **fiscal sector**, the 2005 budget targets a reduction in the non-oil primary budget deficit by 2.0 percent of GDP through an increase of non-oil revenue and a reduction in primary expenditures. The increase in non-oil revenue is expected from a better tax administration through notably the computerization of customs services, improved collection of tax arrears and strengthened control of VAT reimbursements. My authorities will accelerate the implementation of the Large Enterprise Directorate (DGE) for its full operationalization in 2006.

On the expenditure side, efforts to contain non-essential current spending will be pursued. However, as noted above, delay in the application of the new civil service law reduces the scope for further contraction of the wage bill. My authorities will therefore continue to implement administrative measures to contain the wage bill. Nonwage expenditures such as transfers and subsidies to public enterprises are also expected to decline.

In addition, measures are underway to reduce pressures on public finances on many fronts. The restructuring plans of the two social security funds will be continued and will help to reduce their costs, notably their wage bills, and restore their financial viability. The action plan to strengthen the finances of local governments is being elaborated with a particular focus on developing new sources of revenues such as the property tax, and containing personnel costs. Likewise, an analytical report is under preparation to examine the measures needed to reduce costs and increase revenue in *Gabon Poste*.

The investment budget will be maintained at its level at around 4 percent of GDP in 2005. Nevertheless, my authorities will pursue their efforts to enhance efficiency and **transparency of the public investment spending** and it is expected that the audit of expenditures for the independence celebrations and that of the arrears of the Road Maintenance Fund (FER) will be completed by end-August and end-June respectively. In addition, the government intends to fully enforce the provisions of the public procurement code, in particular to the expenditures related to the FER.

Monetary policy will continue to be conducted at the regional level by the BEAC, consistent with the fixed exchange rate regime that has served the country well. Credit to the economy is projected to increase as new projects, notably in the housing sector, are expected to start in 2005. The monetary authorities recognize the risks posed by the high liquidity in the banking system; situation

that is also common to almost all countries in Central Africa. In collaboration with the regional banking commission COBAC, they will continue to monitor credit developments and strengthen the prudential supervision to ensure the well functioning of the financial sector.

My authorities intend to pursue the implementation of their **reform agenda** that aims at improving the business climate, promoting the private sector through economic diversification, as well as improving its competitiveness. In this regard, a workshop was held in Libreville in February 2005 to examine the findings of the FIAS report on the constraints to private sector investment in Gabon. On the basis of this report, my Gabonese authorities intend to implement a package of measures aimed at minimizing regulatory and administrative requirements as the basis for an effective investment promotion policy.

As regards the **privatization/restructuring** of public enterprises, my authorities adopted the regulatory framework for the *Agence de Régulation des Télécommunications* (ARTEL), which constituted the last obstacle to the selection of a successful bidder for Gabon Telecom. The selection process is expected to be completed by end-April of this year. Despite some technical problems related to its aircrafts, Air Gabon managed to improve its financial situation although no surplus has been reached in its operational results in 2004 as anticipated. In the context of its partial privatization, the consultant hired to assist the authorities in this process will submit a diagnostic assessment of the economic and financial performance of Air Gabon, including the documentation to select pre-qualified bidders by end-April 2005.

As regards transparency in the oil sector in the context of the **EITI**, a working group comprising the Office of President, the Office of the Prime Minister, the Ministry of Finance, the Ministry of Hydrocarbons, and the CNLEI has been established and has started the technical work required to reconcile the financial flows between the oil companies and the government. The report on this technical work will be transmitted by end-June 2005 to an interest group to be formed in April 2005 and which will comprise representatives of the oil companies, the civil society and the government. An independent audit firm will then conduct an audit of the reconciliation by end-September 2005. It is my authorities' intention to conduct such audits on a semiannual basis. In light of the results of this exercise in the oil sector, my authorities plan to expand the initiative to the mining sector in 2006. In conjunction with this exercise, my authorities are requesting that the Fund prepare a fiscal ROSC in the course of 2006, which will focus particularly on natural resource revenue transparency.

My authorities remain committed to finalize a high-quality **PRSP**, which will lay the foundations for its development strategy. To this end, they are implementing the needed actions to its finalization. It is worth noting that, following an internal review of the progress achieved in the preparation of this document in late 2004, several measures, including the appointment of a new team to conduct this process, have been taken to ensure that the document be ready as soon as possible. Since then, the acceleration of the process has been visible with notably the preparation of sectoral strategies and the conduct of regional consultations with the civil society and the private sector, in the context of participatory process. The finalization of the PRSP is pending the

completion of the ongoing poverty survey. Moreover, the government is working closely with several donors to prepare a public expenditure framework compatible with PRSP. This framework will help design the public investment program during the preparation of the 2006 budget.

Conclusion

My authorities have continued to demonstrate their commitment to and ownership of their adjustment program. As noted in my previous statements, my authorities are fully aware of the structural changes in the economy and the challenges this situation entails. It is their intention to pursue their adjustment policies to address these challenges, namely the decline in oil production, high external debt and weak social indicators.

In this context, my authorities reiterate their willingness to continue their close relationship with the Fund through a successor arrangement that will help the country achieve its economic and social objectives. I would like to recall that the initial request of my authorities was for an EFF. However, in order to build the necessary track record, my authorities agreed to an SMP, which was followed by the current SBA. Their understanding was always that, after the successful implementation of the SBA, it will be followed by a multiyear arrangement.

My authorities remain of the view that the SBA has helped to set the foundation for such a multi year arrangement, which is best suited to support the country's far-reaching structural reforms and the implementation of its poverty reduction strategy, especially in view of the expected decline in its oil production as of 2006, and its vulnerability to swings in oil prices. Therefore, they are requesting that the discussions on such an arrangement start as soon as possible. I would ask Directors for their support for my Gabonese authorities' request.