

International Monetary Fund

[Gabon](#) and the IMF

Gabon: Letter of Intent and Technical Memorandum of Understanding

Press Release:

[IMF Executive Board
Completes the Second
and Third Reviews
under Gabon's Stand-
By Arrangement](#)

March 4, 2009

February 17, 2009

[Country's Policy
Intentions Documents](#)

E-Mail Notification
[Subscribe](#) or [Modify](#)
your subscription

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

GABON: LETTER OF INTENT

Libreville, February 17, 2009

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C., 20431

Dear Mr. Strauss-Kahn:

1. This letter updates the letter of April 15, 2007 presenting the Stand-by Arrangement approved by the Executive Board of the International Monetary Fund on May 7, 2007, and the December 7, 2007 letter delivered under the first program review. The government hereby reiterates its commitment to pursuing the economic reforms and policies to ensure macroeconomic stability, achieve sustainable growth, and reduce poverty in Gabon. This letter reports on performance under the program since the first review and government policy intentions for 2009, including contingent measures in the event the global financial situation has a particularly adverse impact on Gabon.

2. Economic growth was robust in 2007 and the first half of 2008. Non-oil real GDP recorded growth of 6.2 percent in 2007 and the petroleum sector returned to growth (3.4 percent). Growth slowed down in the latter months of 2008, due primarily to the weakening global economy, which has hit our important manganese and timber sectors particularly hard. Non-oil real GDP increased 3.0 percent, while the petroleum sector declined by 1.2 percent, mainly due to delays in bringing new fields into production. Inflation rose to 5.9 percent at-end 2007 on an end period basis, under the combined effect of a 26 percent adjustment in fuel prices in March 2007, the increase in prices of imported foods, and the pressure of domestic demand. Inflation declined somewhat in 2008, with end-year inflation of 5.6 percent, as food price inflation remained high.

3. Gabon's external position has been strong and the BOP in surplus. However, Gabon's contribution to the BEAC's international reserves has fallen short of projections despite the surge in oil revenue. This situation reflects a larger-than-anticipated non-oil deficit and a reduction in net banking system credit to the government that fell well short of projections. In January 2008, Gabon retired the bulk of its debt to Paris Club member creditors. This repayment, which amounted to US\$1.6 billion, was financed by issues of eurobonds (US\$1 billion) and bonds on the CEMAC market (CFAF 81.5 billion), with the rest covered by the budget surplus (CFAF 215 billion).

4. The tightening of macroeconomic policies was not as substantial as anticipated in 2007 and 2008. The non-oil primary deficit moved from 18.0 percent of non-oil GDP in 2006 to 13.8 percent in 2008, but it is still 3.8 percent higher than the initial objective for 2008. This is primarily attributable to overruns in fourth quarter 2007 and 2008 in current

expenditure, a shortfall in non-oil revenue in late 2008, and a decision to accelerate spending on high priority capital projects. In particular, fuel price subsidies were significantly higher than planned as a result of the hike in international oil prices and the absence of adjustment in domestic prices since the increase in March 2007.

5. The decline in net bank credit to the government in 2007 fell well short of projections, if one excludes the amount of the Eurobond which was temporarily credited to an account in a bank in Gabon, prior to being used to finance the buyback of debt owed to Paris Club member creditors in January 2008. In addition to a lower-than-anticipated budget surplus, the smaller decline is attributable to significant payments on outstanding payment orders from the previous fiscal year, the assumption and repayment by the government of debts of public enterprises undergoing privatization or restructuring, as well as financing of deficits of local governments. However, the program ceilings on the stock of net bank credit to the government for March and June 2008 were met.

6. A major step forward was taken with the implementation of the oil revenue model in February 2008. The model is proving to be a very useful tool, enabling the government to more effectively manage the various flows of oil revenues, and to better assess the impact on government revenues resulting from new or renegotiated contracts with oil companies. The model is being continuously recalibrated in light of the outturns and evaluated on a regular basis.

7. Transparency in the management of oil and mining revenues has also been strengthened with the March 2008 publication of the 2006 report on the Extractive Industries Transparency Initiative (EITI). The report identifies and compares payments reported by the central government and the oil companies. The government has reconciled the oil revenues recorded in the fiscal reporting table (TOFE) and in the EITI report.

8. The efforts made to improve budget transparency and to strengthen the budget monitoring system are continuing. The functional classification of all central government expenditures is being completed and will be fully incorporated in the 2010 budget. To enhance the effectiveness and quality of government expenditure, the government raised the share of public contracts awarded on a competitive basis to 60 percent in 2007, compared to a target of 50 percent. A comprehensive PRSP-based medium-term expenditure framework (MTEF) was prepared and has enabled the government to improve the preparation of the current and capital budgets, although all sectoral frameworks are not yet available.

9. The government prepared by November 2008 an action plan which specifies the costs, the service levels, and the sources of financing for universal health insurance and social services. Health insurance outlays for lower-income Gabonese, estimated at 30.4 billion CFA in 2009, will be financed by the state, the costs being partially covered by a 10 percent turnover tax on mobile phone operators, initiated in 2008, and a tax on non-bank outbound money transfers starting in 2009. These taxes will be accounted as central

government revenues, and the government subsidies included in central government expenditures. Health insurance for the private sector and government employees will be fully funded by employers' contributions and wage contributions. We now recognize that the tax on outbound money transfers constitutes an exchange restriction. It was never our intent to introduce such a restriction. We will amend the tax in the context of our forthcoming budget amendment—which we intend to submit to Parliament by early 2009—to eliminate the exchange restriction, and will consult with the Fund staff regarding this tax amendment.

10. The list of projects selected for the 2008 Independence Day Celebration (*Fêtes tournantes*) as well as estimates of their cost were subject to budget procedures and have been published in June 2008 in the national press. The final audit report of the oil refinery, SOGARA, was completed only in August 2008.

11. Overall, the government has been faced with major difficulties in implementing the program during the period under review. The quantitative performance criteria (PC) on the non-oil primary deficit (NOPD) for end-December 2007 and end-March and end-June 2008 went unmet, as well as the end-June PC on the contracts of new external debt. In addition, two out of four structural criteria had not been observed: the criteria pertaining to the adjustment of petroleum product prices and to the implementation of the automatic mechanism for adjusting the prices of petroleum products (Tables 1 and 2). The government ran into difficulties in ensuring the timely implementation of other structural measures, as indicated in Table 2. Five of nine structural benchmarks were implemented late.

12. To prevent future delays and strengthen program implementation, the government has reactivated the interministerial monitoring committee chaired by the Minister of Finance, which will meet monthly to ensure that program implementation stays on track. After the committee's meetings, a report will be prepared and submitted to the Council of Ministers. The interministerial committee will be assisted by a technical committee chaired by a member of the office of the minister of finance, and whose other members will be the main officials in charge of revenue collection and of the execution of the budget. Each month, the technical committee will assess the consistency of the three-month rolling cash-flow budget with the program. The government accounts will reflect the major classes of revenue and types of expenditure; it will also include data tracking expenditures from commitments to disbursements. This plan, accompanied by a memorandum (*note de commentaire*), will be posted monthly on the Ministry of Finance website. Furthermore, the government will publish a monthly report on the execution of the budget within 60 days.

A. Macroeconomic Assumptions for 2009

13. The global financial crisis and resulting economic slowdown have severely impacted Gabon's economic prospects for 2009, with our three main industries—oil, manganese, and lumber—all experiencing either sharply falling prices or sharply declining output, or both. The macroeconomic framework for 2009 has been revised to take account of these

developments. In particular, growth in oil production was revised downward from our previous projection of 11.9 percent to 7.8 percent, to reflect likely delays in plans for bringing marginal oil fields on stream and boosting productivity in mature fields. Real non-oil GDP growth is expected to decelerate further to 2.3 percent, with manganese production expected to decline by 13 percent, and timber production by over 14 percent. The GDP deflator is expected to decline by 24 percent due to the fall in prices of crude oil and manganese. Annual average inflation is projected to decline to 3.5 percent.

B. The 2009 Budget

14. The government is mindful of the urgent need to press ahead with implementation of a strong economic program to make the economy less dependent on oil, ensure budget and debt sustainability, maintain high non-oil GDP growth, and reduce poverty. However, the rapid declines in global demand for our key export products have greatly complicated our budget process. Consistent with our program objectives, the government has passed a budget which aimed to bring the non-oil primary deficit from 13.8 percent of non-oil GDP in 2008 to 9.2 percent in 2009. However, this budget was drafted when oil prices were projected to average around US\$67 in 2009, and when prospects for manganese and timber looked more promising. The slowdown in timber and manganese is likely to increase our non-oil primary deficit to at least 11.8 percent of non-oil GDP.

15. We are reluctant to revise the budget so soon after its passage, and we do not want to respond to this slowdown in demand with contractionary fiscal measures. So for now, we will leave the budget unchanged, and accept the deterioration in the NOPD to 11.8 percent of non-oil GDP.

16. Key measures in the 2009 budget, designed to help achieve our deficit objective, include the improved valuation of manganese exports for tax purposes; reduced spending on goods and services; restraints on non-oil related subsidies; and the reduction of subsidies on oil products to CFA 8 billion (just under 0.3 percent of non-oil GDP). In early 2009, the risk of spreading social tensions, notably in the education sector, led the government to increase allowances for civil servants and hence the wage bill by the equivalent of 1 percent of non-oil GDP. To ensure that this does not increase our deficit, we have cut selected goods, services and transfers by 10 percent relative to the approved budget, and have cut capital spending by CFAF 10 billion. These revisions to the 2009 budget will be submitted to Parliament for formal endorsement very soon.

17. To ensure oil product subsidies do not increase, we have introduced an automatic fuel price adjustment mechanism, effective January 2009. This mechanism has been adopted by the Council of Ministers, and announced publicly. The government is undertaking extensive outreach, to ensure the public understands both the mechanism and its rationale. The mechanism involves monthly adjustment of ex-refinery prices for all domestic oil prices, intended to keep them in line with the three month moving average of import parity prices.

As a transition measure—to avoid prices increases that might be called for based on average import prices of the past three months, but which would not be justified based on today’s prices—for the first two months of 2009, we have adjusted prices in line with the current month’s import parity.

18. Except for two products that are particularly important for the poor— kerosene and butane—the monthly adjustments in ex-refinery prices will be fully reflected in adjustments of prices at the pump, and the current price structure will be maintained. We will subsidize the prices at the pump of kerosene and butane to avoid the full pass through of ex-refinery prices to the consumer. However, we will cap the subsidies at not more than the CFAF 8 billion we have budgeted, and that means retail prices of these products are likely to increase somewhat in 2009 as well. Indeed, on February 1 we increased the retail price of kerosene by 12 percent. Going forward, we will evaluate the retail prices of kerosene and butane on a monthly basis, in light of the three month moving average of their import parity, and adjust the prices as necessary to keep the annual subsidy in line with the budget. Starting with the 2010 budget, we will seek to eliminate these subsidies altogether and replace them by measures better-targeted to the poor. We aim to complete by September 2009 a detailed analysis of the impact on the poor based on the recent household survey and elaborate a strategy for the way forward.

19. In addition to fuel price subsidies, we have also traditionally given the refinery company, SOGARA, production subsidies, which have been necessitated by production inefficiencies of the company. Following an independent audit of SOGARA, the government is working with the other shareholders of SOGARA to develop a concrete program to restructure the company, enhance its efficiency and eliminate the need for production subsidies. In addition to the change of the management team, new investment may be necessary to make the refinery profitable, with a possible increase of shareholder capital. While these production subsidies will need to continue unchanged for 2009 and 2010, they will be significantly reduced in 2011 and eliminated thereafter.

20. The budget also incorporates the following policies:

- A renewal of the measures introduced in 2008 to help the vulnerable deal with the high costs of food (CFAF 28 billion excluding tax expenditures), and additional outlays of CFA 16 billion on social spending targeted to the most vulnerable, to offset the impact of rising energy prices in 2009 and declining employment as a result of the weakness, in particular, of the timber industry.
- More realistic appropriations for spending on certain current expenditures, especially public utility services, to avoid accumulation of arrears and debt.
- An increase in capital expenditures on high priority social projects and infrastructures.

C. Contingency Measures

21. As noted above, it now appears likely that oil and manganese prices, as well as manganese and timber volumes, will be significantly lower than assumed in the 2009 budget, and that this will likely increase our non-oil primary deficit to 11.8 percent of non-oil GDP. We are committed to keeping the non-oil primary deficit to not more than 11.8 percent of non-oil GDP. However, we recognize the very real prospect that even our current economic assumptions may prove too optimistic, particularly with regard to the price of oil. While we think it would be unwise to amend our budget now, on the basis of this possibility, we think it would be equally unwise not to prepare for that eventuality. Thus, we will monitor economic developments closely, and have begun to prepare contingency plans to be implemented in the event that the economic developments deteriorate significantly relative to our budget assumptions.

22. Specifically, we have instructed line ministries that, for the first six months of 2009, only 33 percent of their annual budgets will be made available. This compares to an average spending in recent years of 43 percent of the annual budget in that time period. We have also instructed them to identify additional possible expenditure cuts, equal to 10 percent of their revised 2009 budget allocation, which could be implemented if revenue developments warrant this.

23. As we implement any necessary expenditures cuts, we will ensure they are in line with our Poverty Reduction Strategy, as well as with our related Medium-Term Expenditure Framework and Priority Action Plan. We will look for cuts primarily in the areas of goods and services, transfers and subsidies. Cuts in investment plans will be a last resort, while we will seek to preserve poverty-related spending. We will monitor economic and revenue developments closely, and consult with Fund staff—not later than at the time of the fourth review of our SBA, but earlier if warranted—on measures to keep our budget in line with our objectives and the program target.

D. Medium Term Fiscal Plans

24. While the 2009 deficit will now be larger than we had previously planned, we remain committed to our target of achieving an NOPD of not more than 6 percent of non-oil GDP by 2011. To make that happen, efforts will be intensified to increase the efficiency of public expenditure. In particular, the Public Expenditure Management and Financial Accountability Review¹ (PEMFAR) suggestions to improve the efficiency of public spending will be taken into account. Further, the diversification commission will be urged to deliver a concrete and realistic roadmap to create opportunities in the non-primary tradable sectors.

¹ World Bank document, September 2006.

E. Reforms of public finance management

25. The government will continue to implement its program to reform public financial management, with a view to increasing budget coverage and strengthening revenue and expenditure management. On revenue management, the government will elaborate a medium-term action plan for implementing the recommendations of the September Fund TA mission on revenue and customs administration reforms. Our priorities will be to expand the tax base to better cover medium and small firms as well as the informal sector. Moreover, we will continue our efforts to improve the LTU and valuation of imports. Particular attention will be given to an adjustment of manganese mercurial values to international prices, as well as to ensuring that tax settlements related to any difference between the mercurial and actual transaction values are closely monitored and received on time. We will also seek to enhance control of and information about tax exemptions. By end-September 2009, we will complete a comprehensive review of all discretionary PIT and VAT exemptions, including a plan for the elimination of these exemptions. As the first stage of this plan, the 2010 budget will see a reduction in the CFAF value of specific exemptions accorded without legal basis by at least 30 percent.

26. Efforts will also continue to strengthen transparency and coverage in oil-revenue administration. In particular, the government will seek to reduce the discrepancies between different accounts of oil revenue. The model's estimates will be published on a regular basis. Efforts will also be made to show more details on oil receipts, such as profit oil received by the government in kind, in future EITI reports. The 2007 report is expected to be published by June 2009 and the 2008 report by December 2009. A reconciliation of the various accounts of oil revenue (TOFE, EITI, Model estimates) will also be provided at that time. In addition, starting with the first quarter of 2009, we aim to produce—with no more than a one quarter lag—a comparison and explanation of any differences between oil revenues as estimated by the model and those reported in the TOFE.

27. The list of projects selected for the 2008 Independence Day Celebration (*Fêtes tournantes*) as well as estimates of their cost were subject to budget procedures and have been published in June 2008 in the national press, and the list for the 2009 *Fêtes tournantes* has been published in January this year to ensure projects will be subject to regular budget procedures. To strengthen planning, we have identified the affected provinces through 2012 to allow identification of projects to be financed ahead of time. In addition, we intend to select, by end-April 2009, an external auditor to audit all government expenditures on the 2006, 2007, and 2008 *Fêtes tournantes*.

28. A medium-term expenditure framework (MTEF) including consistent sectoral programs will be developed by June 2009 and utilized to prepare the 2010 budget. Furthermore, 2008 has seen important progress toward a full functional classification of current and capital expenditure in preparation of the 2010 budget. The 2009 budget included a more thorough estimate of tax expenditures than was the case in 2008 and a summary

budget execution report for 2007. Monthly budget execution reports will be posted on the web, starting with the report for February 2009, with a lag of no more than one month. In addition, starting in 2010, we will reduce the share of single-source government contracts to below 30 percent of the total value of all contracts submitted to the public procurement office. Finally, building on our progress to date, we intend to reduce the Treasury payment period from 60 days to 30 days, by end-June 2009.

29. The government will reduce expenditures funded with budgetary advances or lacking prior authorization. Budget appropriations will be transferred in accordance with the procedures and limits specified by law. Any overrun justified by essential needs or any shortfall in revenues will be offset by reductions in specific budget line items. These changes will be reflected in the cash management plan and approved by the interministerial program monitoring committee. Moreover, we will continue the work on integrating the special accounts in the budget.

30. The government will enhance the transparency of financial relationships between the public entities and enterprises on the one hand, and the State on the other hand. We established in October 2008 a national committee on public debt (CNEP), chaired by the Minister of Finance. The committee is charged with elaborating a public debt strategy aligned with our PRSP, coordination of this policy with monetary and fiscal objectives, analysis of debt sustainability, and establishment of conforming ceilings on newly contracted debt. Starting in 2009, the CNEP will also monitor the assumption by the government of debts of public enterprises undergoing privatization or restructuring, and will ensure the coordination of related repayment schedules with budget objectives. The increase in government liabilities arising from debt assumptions will be explicitly recognized as capital transfers starting with the 2009 monthly TOFE and in the 2010 budget. In addition, the government will prepare by October 2009 an audit of cross-debts with these institutions and of cumulative arrears vis-à-vis third parties. The financing by the government of deficits of local governments will be explicitly recognized as additional transfers, again starting with the 2009 monthly TOFE and the 2010 budget. The financial statements of the public entities and enterprises as well as the budgets of local governments will be consolidated after their verification in order to ensure that the authorities can prepare a TOFE for the entire public sector by 2010.

31. The Central Deposit Holding Agency (*Agence centrale comptable de dépôts*, or ACCD), established within the Treasury in 2007, became operational in 2008. The ACCD is a senior accounting entity (*poste comptable principal*) of the Treasury, specializing in operations for the centralization and management of deposits of the central government and for making certain payments, including of salaries, pensions and stipends. Most government accounts with commercial banks have been closed and consolidated into one centralized Treasury account at the BEAC, which also includes the funds managed by the ACCD; the remaining accounts are in the process of being consolidated. To ensure transparency in central government financing, the government will keep the funds managed by the ACCD in

a sub-account at the BEAC. Starting with the December 2008 TOFE, treasury cash and deposits at the BEAC will be consolidated to include cash of the ACCD, as well as the outstanding amounts on the ACCD account.

32. Finally, while we had committed to start publishing monthly reports on our budget execution beginning January 2008, we have had problems designing an appropriate reporting format. With help from AFRITAC, we have now decided to start publishing consolidated monthly reports, beginning with February 2009. Based on the initial experience with these reports, we will review the format and level of detail in these reports later this year, and revise the reporting format as appropriate.

F. Growth-oriented reforms and other issues

33. Recognizing that accelerated and sustained growth in non-oil GDP is critical to Gabon's long-term economic progress, the government is accelerating its program to build the country's infrastructure and promote diversification. A new National Diversification Commission has been created to oversee this program, and the budget appropriations for capital spending have been raised from 8.9 percent of non-oil GDP in 2007 to 9.4 percent in 2008 and 10.1 percent in 2009.

34. The privatization program is continuing. The procedure for the final disposal of the State's majority holding in Gabon Telecom has been settled, and the audit of the 2006 financial statements showing that Gabon Telecom had incurred heavy losses was published on the internet site of the Ministry of Finance. To strengthen the financial situation of the new enterprise, the government has taken responsibility for the new restructuring plan (*plan social*) amounting to CFAF 27.5 billion. This amount is included in the TOFE under restructuring expenditures. The commission appointed to solve the problems pertaining to the concession with Société d'électricité et d'eaux du Gabon (SEEG) is continuing its work. Furthermore, following an agreement with SEEG, the electricity tariffs will be increased by 3 percent in January 2008, and a cumulative 15 percent during 2009. The price controls implemented in September 2007 on a limited number of products were lifted in March 2008.

35. We recognize that our privatization program, while successful in many respects, has not contributed meaningfully to increasing competition and efficiency in the Gabonese economy. During 2009, we will launch a comprehensive review of our privatization experience, seeking ways to enhance competition in our market place. Among other factors, we will consider gradually eliminating private monopolies, as well as import bans and licensing requirements, as soon as possible in line with our legal obligations.

36. The government will work to reduce the level of the CEMAC common external tariffs, and to eliminate the distortions encountered among the rates applied by the various countries in the zone which handicap the private sector. The negotiations on economic partnership agreements with the EU are continuing at the CEMAC level. The successful

conclusion of these negotiations would make it possible to reduce the import duties currently imposed on exports from Gabon (e.g., timber) to the EU.

37. The government will pursue its efforts to promote an enabling environment for the development of the financial sector. We will continue to support the regional supervisory authorities in their efforts to ensure that banks comply with prudential ratios. The authorities have worked with other CEMAC governments to bring about the abolition of BEAC statutory advances effective January 1, 2009, and will press ahead with the implementation of a regional Treasury bond market. In this context, authorities will work with other CEMAC countries to clarify the tax and prudential treatment of government bonds. At the same time, the government has eliminated the requirement that banks subscribe for development bond issues at a rate of 10 percent of their deposits.

38. We recognize the importance of strengthening our national statistics, and have launched a comprehensive effort to accomplish that. In particular, we are in the process of drafting a statistics law, and are committed to having the law adopted by the government and submitted to parliament before the end of 2009.

39. The government believes the policies described in this letter are adequate to achieve the program objectives. It is prepared, however, to take any additional measures that may be considered necessary, in consultation with IMF staff.

40. On the basis of the package of measures referred to above, which should serve to correct the difficulties encountered in implementing the program, the government is requesting waivers for nonobservance of performance criteria and is also asking for the combined completion of the second and third program review. The attached tables indicate the quantitative and structural criteria for 2009. We request that the end-March and end-June 2009 targets be established as performance criteria; that the fourth review be conducted in August 2009 on the basis of our end-June performance, and that the fifth and final review be conducted in February 2010 on the basis of our end-December performance. In addition, we propose that, in the context of the fourth review, the government engage the Fund in a comprehensive review of the 2009 budget, in light of global and domestic economic developments in the first half of 2009. The government intends to continue to treat the arrangement as precautionary and to make no drawings.

Sincerely yours,

/s/

Blaise Louembé
Minister of Finance, Budget, and Privatization

Table 1. Gabon: Quantitative Performance Criteria for the SBA, end-2007 and March and June, 2008

(Billions of CFA francs; end-period data)

| | 2007 | | | | | 2008 | | | | | | | | | |
|---|--|------|--------|--------|---------|--------|-------|-------|---------|--------|--------|--------|---------|--------|--------|
| | | | Dec. | | | Mar. | | | | | Jun. | | | | |
| | Prog. | Adj. | Prog. | Actual | Status | Prog. | Adj. | Prog. | Actual | Status | Prog. | Adj. | Prog. | Actual | Status |
| Performance criteria ¹ | (Cumulative flows from January 1st of each year, unless otherwise noted) | | | | | | | | | | | | | | |
| Floor on the primary fiscal balance, excluding oil revenue and restructuring costs (on a payments order basis) ² | -314.1 | | -319.7 | -368.8 | not met | -68.9 | -68.9 | -97.0 | not met | -117.5 | -117.5 | -158.6 | not met | | |
| Ceiling on the stock of net claims of the banking system on the central government ³ | -191.1 | | -176.6 | -491.0 | met | -260.2 | 360.0 | 73.6 | met | -385.1 | 198.1 | -59.0 | met | | |
| Ceiling on the contracting or guaranteeing of new external debt by the central government ⁴ | 165.2 | | 610.4 | 521.2 | met | 190.3 | 190.3 | 58.0 | met | 247.7 | 247.7 | 311.1 | not met | | |
| Ceiling on the accumulation of external payment arrears by the central government ⁵ | 0.0 | | 0.0 | 0.0 | met | 0.0 | 0.0 | 0.0 | met | 0.0 | 0.0 | 0.0 | met | | |
| Ceiling on the accumulation of new payment arrears on domestic liabilities by the central government | 0.0 | | 0.0 | 0.0 | met | 0.0 | 0.0 | 0.0 | met | 0.0 | 0.0 | 0.0 | met | | |

Sources: Gabonese authorities and IMF staff estimates and projections.

¹ Detailed definitions of the performance criteria are provided in the Technical Memorandum of Understanding in Country Report 07/174.

² The performance criterion will be adjusted upward or downward for any lower or higher execution of foreign-financed investment. The downward adjustment is capped at CFAF 25 billion.

³ The performance criterion will be adjusted upward or downward for any lower or higher than programmed oil revenue and lower or higher than programmed privatization receipts. It will also be adjusted upward or downward for any higher or lower payments of external debt service, payments of domestic debt service, public enterprises restructuring costs, reduction of unpaid payment orders at the treasury, reduction of wage arrears related to the reconstruction of government employees' careers (*rappels de la solde*). Upward adjustments for domestic debt service, restructuring costs, reductions in unpaid orders at the treasury and reductions in *rappels de la solde* are limited to CFAF 5 billion beyond the programmed levels. Finally, the performance criterion will be adjusted upward for any increase in commercial bank credit to the government reflecting new purchases by commercial banks of existing government domestic debt owed to non-banks (*rachat des créances*).

⁴ This performance criterion 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 Executive Board on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. The performance criterion will be adjusted upward to include external loans contracted during a debt buyback that could be concluded with Gabon's bilateral creditors.

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

Table 1 (Cont.). Gabon: Quantitative Performance Criteria and Indicative Targets for the SBA, end-2008 and 2009

(Billions of CFA francs; end-period data)

| | 2008 | 2009 | | | |
|--|--------------------|---|-----------------|---------------------------|---------------------------|
| | Dec. Projection | Mar. Program | Jun. Program | Sep. Indicative target | Dec. Indicative target |
| Performance criteria ¹ | | (Cumulative flows from January 1st, unless otherwise noted) | | | |
| Floor on the primary fiscal balance, excluding oil revenue, restructuring costs, and capital transfers arising from assumption of obligations of public enterprises undergoing privatization or liquidation (on a payments order basis) ² | -432.0 | -93.6 | -163.9 | -273.9 | -367.6 |
| Ceiling on the stock of net claims of the banking system on the central government ³ | -270.0 | -199.6 | -202.7 | -191.4 | -192.6 |
| Ceiling on the contracting or guaranteeing of new external debt by the central government ⁴ | 345.9 | 222.9 | 284.2 | 300.0 | 334.4 |
| Ceiling on the accumulation of external payment arrears by the central government ⁵ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Ceiling on the accumulation of new payment arrears on domestic liabilities by the central government | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Sources: Gabonese authorities and IMF staff estimates and projections.

¹ Detailed definitions of the performance criteria are provided in the attached Technical Memorandum of Understanding.

² The performance criterion will be adjusted upward or downward for any lower or higher execution of foreign-financed investment. The downward adjustment is capped at CFAF 25 billion.

³ The performance criterion will be adjusted upward or downward for any lower or higher than programmed oil revenue and lower or higher than programmed privatization receipts. It will also be adjusted upward or downward for any higher or lower payments of external debt service net of new external debt issues, payments of domestic debt service net of new domestic debt issues and financing received on account of the float or accounts at the Agence Comptable Centrale des Depots, public enterprises restructuring costs, reduction of unpaid payment orders at the treasury, reduction of wage arrears related to the reconstruction of government employees' careers (*rappels de la solde*). Upward adjustments for domestic debt service, restructuring costs, reductions in unpaid orders at the treasury and reductions in *rappels de la solde* are limited to CFAF 5 billion beyond the programmed levels. Finally, the performance criterion will be adjusted upward for any increase in commercial bank credit to the government reflecting new purchases by commercial banks of existing government domestic debt owed to non-banks (*rachat des créances*) and government bonds issued on the CEMAC market.

⁴ This performance criterion 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 Executive Board on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. The performance criterion will be adjusted upward to include external loans contracted during a debt buyback that could be concluded with Gabon's bilateral creditors.

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

Table 2. Gabon: Structural Measures under the SBA

| Test date ¹ | Actions | Current situation | PC or Benchmark |
|---------------------------------|---|---|----------------------|
| Second and Third Reviews | | | |
| Dec-07 | Present to parliament a 2008 budget that includes in the accompanying economic and financial report, (i) summary budget execution reports for 2005-06 and estimates for 2007; and (ii) an annex with estimates of all tax expenditures by type of tax. | Observed , although further clarifications needed on tax expenditure estimates | PC |
| | Subject all 2007 capital spending for the <i>fêtes tournantes</i> to regular budgetary procedures. | Observed | Continuous PC |
| Feb-08 | Make operational the oil-revenue projection model that links oil revenue to production, prices, costs, and physical parameters on a contract-by-contract basis, apply it to evaluate oil revenue payments collected by the Treasury in 2007, and identify reasons for discrepancies in realized oil revenues. | Observed , although reasons for differences between actual and estimated revenue in 2007 need further clarification. | PC |
| Mar-08 | Adjust ex-refinery fuel product prices to reflect the changes in import parity prices, as calculated for the purpose of the automatic adjustment formula, since September 2007. | Not observed | PC |
| | Starting in April 2008, apply each month the automatic adjustment formula to ex-refinery fuel product prices to reflect changes in international prices. | Not observed | Continuous PC |
| Dec-07 | Publish the list of projects of the 2008 <i>fêtes tournantes</i> in the national press. | Observed with delay. The list was published end June. | Benchmark |
| Dec-07 | Prepare a comprehensive government asset and liability management strategy. | Partially met end-May. The strategy provided by the authorities is too general and lacks specifics. | Benchmark |
| Dec-07 | Develop a three-year, rolling medium-term expenditure framework including consistent sectoral programs for 2008-10. | Not observed. A global framework has been developed but consistent sectoral frameworks are not yet ready. | Benchmark |
| Dec-07 | Reduce the Treasury payment period to 60 days and announce it on the Treasury Web site. | Observed | Benchmark |
| Dec-07 | Prepare monthly budget execution reports with a maximum lag of two months. | Not observed | Benchmark |
| Dec-07 | Reduce the proportion of government procurement contracts awarded on a single-source basis on exceptional grounds to below 50 percent of the total value of contracts submitted to the public procurement office. | Observed | Benchmark |
| Dec-07 | Publish the Official Gazette on the Internet. | Observed with delay. The contents of the Official Gazette were published in June. | Benchmark |
| Apr-08 | Complete the audit of SOGARA. | Observed with delay. A preliminary audit report was made available in August. | Benchmark |
| Apr-08 | Prepare an action plan and a cost estimate for implementing the health insurance and social security system. | Observed with delay. Documents prepared end June. | Benchmark |

*(continued on next page)*¹ Unless otherwise specified, all dates refer to the end of the month.

Table 2 (Cont.). Gabon: Structural Measures under the SBA

| Test date ¹ | Actions | Current situation | Objective | PC or Benchmark |
|------------------------|--|-------------------|--|----------------------|
| | Apply each month the automatic adjustment formula to ex-refinery fuel product prices to reflect changes in international prices. | | Ensure fuel price subsidies do not increase | Continuous PC |
| | Subject all capital spending for the <i>fêtes tournantes</i> to regular budgetary procedures. | | | Continuous PC |
| Fourth Review | | | | |
| Mar-09 | Publish the list of projects of the 2009 <i>fêtes tournantes</i> in the national press. | | Promote transparency and good governance | Benchmark |
| Apr-09 | Select an external auditor to audit the government spending on the 2006, 2007, and 2008 <i>fêtes tournantes</i> . | | Promote transparency and good governance | Benchmark |
| Jun-09 | Reduce Treasury payment period to 30 days. | | Promote efficiency and effectiveness | Benchmark |
| Jun-09 | Publish quarterly reports (starting with the first quarter 2009 with 1 quarter lag) of oil revenue outturns as estimated by the oil revenue model and as shown in the TOFE, including explanations of discrepancies between these estimates. | | Promote transparency and good governance | Benchmark |
| Fifth Review | | | | |
| Sep-09 | Prepare a comprehensive review of all VAT and PIT tax exemptions, with the objective of curtailing their scope significantly. | | Broaden the tax base, and reduce distortions | Benchmark |
| Dec-09 | Reduce the amount of tax exemptions in the 2010 budget by 25 percent. | | Broaden the tax base, and reduce distortions | Benchmark |
| Dec-09 | Reduce the proportion of single-source government procurement contracts awarded on a single-source basis on exceptional grounds to below 30 percent of the total value of contracts submitted to the public procurement office. | | Promote transparency and competition | Benchmark |
| Dec-09 | Adopt a statistics law by the government and submit it to parliament. | | Strengthening national accounts statistics | Benchmark |

¹ Unless otherwise specified, all dates refer to the end of the month.

GABON: TECHNICAL MEMORANDUM OF UNDERSTANDING

1. This memorandum supplements the letter of the Minister of Finance, Budget, and Privatization dated February 17, 2009 (the “February 2009 Letter”). The memorandum updates and replaces the technical memorandum of understanding included in the IMF Board document for the May 2007 Stand-by Arrangement (Country Report 07/174). It spells out the understandings for the monitoring of program implementation, and the reporting requirements for the period January 2009–March 2010. In this context, it defines (a) the quantitative performance criteria; (b) the structural performance criteria and benchmarks; (c) the adjusters for the quantitative performance criteria; and (d) the key assumptions used in the formulation of the program for 2009–10 presented in the February 2009 Letter.

A. Monitoring of Program Implementation

2. Monitoring of the implementation of the program will be made on the basis of an assessment of the observance of quarterly quantitative performance criteria as well as of the structural performance criteria and benchmarks at specified dates.

B. Quantitative and Structural Performance Criteria, Definition, Computation and Adjusters

Quantitative performance criteria

3. The quantitative performance criteria are specified in Table 1 of the MEFP. The quantitative performance criteria are the following:

- a floor on the primary fiscal balance of the central government on a payments order basis, excluding: (i) oil revenue; (ii) restructuring costs posted as “financing”; (iii) capital transfers arising from assumption of obligations of public enterprises undergoing privatization or liquidation;
- a ceiling on the net claims of the banking system on the central government;
- a zero limit on the accumulation of external payments arrears by the central government (a continuous performance criterion);
- a zero limit on the accumulation of arrears on central government domestic liabilities;
- a ceiling on new external debt contracted or guaranteed by the government with original maturities of more than one year;

4. The program includes adjusters for the quantitative performance criteria as specified in paragraph 16 below and summarized in footnotes 2, 3 and 4 of Table 1 of the letter of intent.

Definitions and computation

5. For the purpose of this TMU, the term “central government” covers all agencies, institutions, and special funds (including the Road Fund), the operations of which fall under the definition of 'Central Government' in the IMF's Government Finance Statistics Manual, 2001, paragraphs 2.48-50. The authorities will inform the Fund staff of any new funds, or other special budgetary and extra-budgetary programs that may be created during the program period to carry out operations of a fiscal nature and will ensure that these will be incorporated within the definition of central government.

6. **The non-oil primary fiscal balance**, on a payment order basis (*ordonnancements*), is defined as the difference between (a) total central government revenue on a cash basis (excluding oil revenue); and (b) total central government expenditure on a payment order basis (*ordonnancements*) excluding interest payments.

7. **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 Table of central government financial operations (*Tableau des opérations financières de l'Etat-TOFE*), including all earmarked revenues (Road Fund and special funds). Oil revenue includes payments received in cash and in crude. Oil revenue under PID (*provisions pour investissements diversifiés*) and PIH (*provisions pour investissement en hydrocarbures*), which have so far been excluded from reporting in budget documents will be included once they become available. Revenue received by the treasury will be registered after encashment, which will be at most 7 days after the date of receipt; oil revenue received in kind will be recorded at transaction value on the day of sale.

8. **Total central government expenditure** includes spending on a payment order basis (*ordonnancements*), and treasury advances (*avances à régulariser*), and outlays on special funds and from earmarked revenues. Starting with the January 2009 TOFE, the following types of government expenditures would be recognized in the TOFE presentation (in addition to existing expenditure categories): (i) capital transfers arising from assumption of obligations of public enterprises undergoing privatization or liquidation; (ii) capital transfers arising from assumption of obligations of private enterprises; (iii) capital grants arising from assumption of obligations of other general government units; and (iv) current transfers at the end of the fiscal year used for financing of the deficits on accounts (as defined in paragraph 10 below) at the Treasury of Treasury correspondents (*Correspondant du Trésor*) and local governments (*Collectivités locales*).² It excludes restructuring costs for public enterprises as defined in paragraph 9; and other financial treasury operations as described in paragraph 10.

² The recognition of debts by the central government to private enterprises for provision of services in previous fiscal years (utility bills in excess of budgeted allocations in the case of SEEG and Gabon Telecom, and unpaid
(continued)

9. **The restructuring costs** excluded from total government expenditure and posted as “financing” represent the redundancy 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 administrative and legal costs arising from legal challenges related to these divestment operations. The restructuring costs to be classified as financing in 2009 are capped at CFAF 10 billion.

10. **The financial operations specified in the TOFE** relating to treasury correspondents (*correspondants du Trésor*), local governments (*collectivités locales*), and other treasury operations (*autres opérations de trésorerie*) correspond to the change from period to period in the balance of these accounts. In the case of financial operations on accounts at the Treasury of treasury correspondents (*correspondants du Trésor*) and local governments (*collectivités locales*), a debit (i.e., negative) entry for the whole fiscal year, representing a reduction in the balance of such accounts, can not exceed the balance of the account at the start of the fiscal year. If for a given account, a debit entry for the whole fiscal year exceeds the balance on this account at the start of the fiscal year,³ the central government financing of the deficit ran by the treasury correspondent or local government will be recorded in the TOFE as non-bank financing (a credit (i.e., positive) entry under “Assumption of end-fiscal year deficits on accounts at the Treasury of Treasury correspondents and local governments”) and as a corresponding increase of the same magnitude of current transfers.

11. **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 (“IMF format”), excluding deposits of the postal checking account system.⁴ Effective December 31, 2008, the treasury deposits at the BEAC and treasury cash will be consolidated to include the deposits at the BEAC and cash of the *Central Deposit Holding Agency (Agence Comptable Centrale des Depots, ACCD)*.⁵ As of October 31, 2008, this outstanding amount was CFAF -166.3 billion, and its breakdown was as follows:

subsidies in the case of SMAG, the local flour producer) will be recorded in the TOFE as a decrease in arrears in the fiscal year when the debt agreements are signed with a corresponding increase in the central government debt to private enterprises.

³ If the starting balance on the account was negative then the entire drawdown over the fiscal year constitutes an overdraft.

⁴ The deposits of the postal checking account system are excluded since they are not at the disposal of the treasury

⁵ The Treasury set up the Central Deposit Holding Agency (ACCD) in 2007 to manage all government deposits and payments. Eventually, all Treasury correspondents would transfer their accounts at commercial banks to the ACCD, where they would receive payments from the Treasury. ACCD became operational in 2008. It is a

(continued)

Net Claims of the Banking System on the Central Government as of October 31, 2008
(CFAF billions)

| | |
|--|--------|
| Statutory advances from the BEAC | 61.6 |
| Plus: CFA franc counterpart of use of Fund resources | 1.3 |
| Plus: consolidated advances | 0.4 |
| Minus: treasury deposits at the BEAC and treasury cash | 243.2 |
| <i>Of which:</i> Account for Future Generations | 171.5 |
| ACCD cash and deposits at the BEAC | ... |
| Plus: Commercial banks claims on government | 70.3 |
| <i>Of which:</i> Bons d'équipements | 47.3 |
| Government bonds | 19.2 |
| Minus: government deposits with commercial banks | 56.6 |
| Total | -166.3 |

12. **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 amount of each maturity falling due on account of contractual external debt-service obligations (interest and/or principal, including moratorium and late/penalty interest, where applicable); and (b) the amount of actual payments made for each debt service payment due 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.

13. **The total stock of central government domestic liabilities** is defined as the stock of government's outstanding liabilities to bank and non-bank domestic creditors scheduled to be extinguished in the future. Domestic non-bank liabilities include all the domestic debt registered at the National Debt Office (DGCP), all other documented domestic liabilities registered at the treasury, which have not been accounted for at the DGCP and the stock of wage arrears,⁶ and the outstanding amounts on accounts at the Central Deposit Holding Agency (ACCD). It also includes public enterprise domestic debt taken over by the government in the context of restructuring operations. This definition excludes intragovernmental debt, and the treasury float. The outstanding stock of domestic debt at end-December 2007 was CFAF 460 billion and the stock of domestic non-bank liabilities was CFAF 233 as shown in the following summary table:

department of the Treasury and ACCD cash and deposits at the BEAC will be consolidated with other Treasury accounts in monetary statistics starting in December 2008.

⁶ The wage arrears (*rappels de la solde*) correspond to the unpaid salary component resulting from delayed regularization of automatic promotions (*avancements*) of civil servants.

Table 1. Gabon: Stock of Domestic Government Liabilities, 2006-08¹

(Billions of CFA francs, end-of-period)

| | 2006 | | 2007 | | 2008 | | |
|--|--------|---------------------|------------------------|--------------------|---------------------|------------------------|--------------------|
| | Actual | Estimate | | Projection | | | |
| | Stock | Principle repayment | Assumption of new debt | Stock | Principle repayment | Assumption of new debt | Stock |
| Stock of domestic debt | 472.5 | ... | ... | 460.4 | ... | ... | 323.6 |
| Liabilities to the domestic banking system | 178.3 | ... | ... | 227.2 | ... | ... | 92.3 |
| BEAC | 89.9 | ... | ... | 110.4 | ... | ... | 39.6 |
| of which, Statutory advances | 60.9 | ... | ... | 98.9 | ... | ... | 39.6 |
| Commercial banks | 88.3 | ... | ... | 116.8 | ... | ... | 52.7 |
| of which, Equipment bonds | 70.4 | ... | ... | 82.9 | ... | ... | n.a. |
| Non-bank domestic government debt | 294.3 | 145.6 | 107.6 | 233.2 | 103.5 | 112.1 | 231.4 |
| Registered at the National Debt Office (DGCP) | 75.5 | 60.0 | 106.0 ⁶ | 121.5 | 78.5 | 112.1 ⁶ | 144.7 ⁷ |
| Debt under moratorium (<i>moratoire</i>) | 14.3 | 16.3 | 9.5 | 7.5 | 25.6 | 18.2 | 0.0 |
| Other obligations (<i>divers</i>) | 61.2 | 43.7 | 96.6 | 114.1 | 52.9 | 31.5 | 92.7 |
| Regional bond ² | ... | ... | ... | ... | 10.4 | 62.4 | 52.0 |
| Registered at the Treasury | 218.8 | 85.6 | 1.6 | 111.7 ⁷ | 25.0 | 0.0 | 86.7 ⁷ |
| "Club de Libreville" agreements ³ | 17.9 | 38.3 | 1.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| Arrears on salary adjustments (<i>rappels de la solde</i>) ⁴ | 112.1 | 23.4 | 0.0 | 88.7 | 20.0 | 0.0 | 68.7 |
| Other debt and arrears ⁵ | 88.9 | 23.9 | 0.0 | 23.0 | 5.0 | 0.0 | 18.0 |
| Amount owed on accounts at the Agence Comptable Centrale des Depots (ACCD) | ... | ... | ... | ... | ... | ... | 16.4 |

Source: Gabonese authorities, and IMF staff estimates.

¹ Domestic non-bank liabilities include all domestic debt registered at the National Debt Office (DGCP) and all other documented domestic liabilities registered at the Treasury. Not included in this definition are intragovernmental debt, treasury float (*instances du Trésor*), and social plans and restructuring costs for public enterprises undergoing privatization or liquidation.

² CEMAC bond issued in January 2008 to finance the early repayment of Paris Club external debt. Only the initial subscription and related payments to Gabonese non-bank residents and banks in other CEMAC countries are recorded.

³ Since 2004, the government has been regularizing domestic arrears by seeking agreements with supplier and other private-sector enterprises. The process is known as "Club de Libreville".

⁴ Unpaid salary adjustments result from delayed regularization of automatic promotions of civil servants. Requests for regularization, typically made by retiring civil servants, are subject to verification by court before payments can be made. Given the backlog of court cases the stock of related debt items is not yet final.

⁵ Includes two types of treasury arrears and other debt. The first type of arrears, regularized in the first quarter of 2007, included arrears to SOGARA and other arrears that were later regularized under the Club de Libreville III and IV umbrellas. The second type includes arrears accumulated on behalf of the Fonds d'entretien routier (FER) and the state's obligation to compensate citizens for the damage caused by the political upheaval during the mid-1990s. There are still audits outstanding, implying that the stock of related debt items is not yet final. Other treasury debt included government debt to SOGARA from regularization of arrears arising from unpaid fuel subsidies (gross sum of CFAF 47 billion from which 23.2 billion of Sogara tax arrears were netted out) assumed with a letter of the Finance Minister to Sogara on January 25, 2007.

⁶ The new debt (of all types) assumed by DGCP is imputed as the difference between the reported end-year debt stocks in two consecutive years minus reported principle repayments over the period.

⁷ For all types of debt registered at the Treasury and DGCP, stocks from 2007 onward are estimated by adding to the end-2006 stocks the reported new assumption of obligations and subtracting principle payments.

14. **The treasury float** consists of the "payment orders at the treasury" and the "other treasury float." The "payment orders at the treasury" corresponds to the difference between the cumulative payment orders (*ordonnancements*) and the cumulative actual payments on a cash basis (cashed checks, bank transfers or cash payment). 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." For 2009, the net reduction of the treasury float is defined as the reduction in the float existing at end-2008, less the accumulation of new float during 2009.

15. **The performance criterion on the contracting and guaranteeing of new external debt** with maturity of 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.

Adjustments to quantitative performance criteria

16. The quarterly performance criteria will be adjusted as follows:

- The primary non-oil fiscal balance of the central government will be adjusted to reflect **expenditure related to the inclusion of PID and PIH oil revenue** into the budget reporting.
- The floor on the non-oil primary fiscal balance of the central government will be adjusted downward for higher-than-programmed external financing up to the equivalent of CFAF 25 billion per year.
- With the objective of shielding fiscal objectives from **uncertainties regarding oil prices and output**, the ceiling on the net claims of the banking system will be adjusted upward/downward if oil revenue is below/above the baseline projections in a given quarter. If the Brent oil price projections as reported by the IMF-WEO decline by more than 30 percent from the baseline program projection for 2007 (US\$60.75 per barrel), then a consultation between the IMF and the government is required;
- The ceiling on net credit from the banking system to the central government will be adjusted upward/downward for higher/lower-than programmed **external debt service** effectively paid⁷ net of any amount raised through new external debt issues;
- The ceiling on net claims from the banking system to the central government will be adjusted upward/downward for higher/lower-than programmed **domestic debt service payments** net of any amount raised through new domestic debt issues⁸ and financing received on account of the float on accounts at the *Agence Comptable Centrale des Depots (ACCD)*. The upward adjustment is limited to CFAF 5 billions;
- The ceiling on net claims from the banking system to the central government will be adjusted upward/downward for lower/higher-than-programmed net **reduction in the treasury float**. The upward adjustment is limited to CFAF 5 billions;
- The ceiling on net claims from the banking system to the central government will be adjusted downward for lower-than-programmed restructuring costs as defined in paragraph 8;

⁷ 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 non-project external financing are calculated in CFA franc terms based on end 2006 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.

⁸ Regional bond issues in CFA francs are considered domestic debt issues regardless of the residency of buyers.

- The ceiling on net claims from the banking system to the central government will be adjusted upward to reflect any purchase by commercial banks of outstanding contractual government credit (*rachat de créances*) and government bonds issued on the CEMAC market held by non-bank private sector creditors as of end-2008.
- The ceiling on net claims from the banking system to the central government will be adjusted downward/upward for higher/lower-than-programmed privatizations receipts.
- The ceiling on the contracting or guaranteeing by the government of new external debt will be adjusted to reflect new debt that could be contracted in the context of an external debt buy-back/restructuring operation that would result in a net present value reduction of Gabon external public debt .

17. The structural performance criteria and benchmarks are specified in Table 2 of the MEFP attached to the letter of April 15, 2007. The relevant definitions are described in paragraphs 18–20.

18. **The fuel price subsidy** is defined as the sum of the fuel price subsidy to the refinery (SOGARA) and the direct fuel price subsidy at the pump. The fuel price subsidy to SOGARA is defined as the transfer by the government to the refinery—including through the delivery of crude oil to be valued at the official sale price (*prix de cession officiel*)—to compensate it for differences between import parity prices (PPI) and government controlled ex-refinery fuel prices. PPI are calculated on the basis of the formula detailed in government decree No. 01217/PR/MFEBPP of September 25 1998. Ex-ante, the subsidy is projected as the difference between the expected PPI and ex-SOGARA price for each fuel product, multiplied by the expected sale volumes. Ex-post, the subsidy equals the difference between the actual PPI and ex-SOGARA prices, multiplied by the actual sale volumes, as illustrated in the following table:

Example: Calculation of Fuel Price Subsidy, June 2005

| | Super gasoline | Lighting kerosene | Jet kerosene | Diesel | Butane | Fuel oil | Asphalt |
|---|-------------------|----------------------|-----------------|---------|---------|----------|---------|
| Import parity price, PPI (in CFAF/M3 or T) ¹ | 288,424 | 269,293 | 321,021 | 277,369 | 229,663 | 181,701 | 200,432 |
| Actual ex-refinery price (in CFAF/M3 or T) | 214,404 | 145,693 | 197,693 | 172,313 | 155,717 | 142,348 | 146,857 |
| Difference (in CFAF/M3 or T) | 74,020 | 123,600 | 123,328 | 105,056 | 73,946 | 39,353 | 53,575 |
| Quantity sold on domestic market (M3 or T) ¹ | 4,735 | 3,707 | 5,959 | 31,609 | 2,098 | 8,897 | 122 |
| Fuel price subsidy for the month (million CFAF) | 350.5 | 458.2 | 734.9 | 3,320.7 | 155.1 | 350.1 | 6.5 |

¹ Asphalt, butane, and fuel oil quantities are expressed in metric tones (T). The remaining products are expressed in cubic meters (M3).

The fuel price subsidy at the pump is defined as the subsidy that results from government changes in the stabilization factor (or other government-controlled factors) from the normal level in the retail price structure (see below). Ex-post, the subsidy at the pump equals the difference between the actual stabilization factor and the normal level, multiplied by the actual sale volumes.

19. The price adjustment mechanism for fuel products will be applied as follows. In January and February 2009, on the first of each month, ex-refinery SOGARA prices for all fuel products (gasoil, super, lampant, butane, bitumen and jet fuel) will be set equal to the PPI for the current month; starting in March 1 2009, on the first of each month, ex-refinery SOGARA prices will be set equal to the 3-month moving average PPI. Effective March 1 2009, retail prices of super, gasoil, butane, and lampant will be calculated based on the ex-refinery SOGARA and the price structure as illustrated below; for butane and lampant, retail prices can be subsidized through the adjustment of the stabilization factor, provided that the total subsidy for these two products over the whole of 2009 does not exceed the amount in the budget (i.e., 8 billions CFA). The stabilization factor will be adjusted as necessary to keep the retail price of butane constant in January and February 2009, to keep the retail price of lampant constant during January, and to raise the retail price of lampant from CFAF 245 to CFAF 275 on February 1. The stabilization factor for super and gasoil during January and February can be adjusted to the extent it is needed to offset the subsidy for butane and super. Effective January 1 the retail prices of bitumen and jet fuel will be liberalized.

Retail price structure for oil products
(CFAF per liter)

| | Super gasoline | Gasoil | Lampant | Butane |
|--|----------------|--------|---------|--------|
| Ex-refinery price (CFAF/liter) | 100.0 | 100.0 | 100.0 | 100.0 |
| VAT on ex-refinery price | 18.0 | 18.0 | 18.0 | 18.0 |
| After-VAT ex-refinery price (FCFA/liter) | 118.0 | 118.0 | 118.0 | 118.0 |
| Equalization fee | 51.6 | 43.9 | 26.4 | 26.4 |
| Consumption price | 169.6 | 161.9 | 144.4 | 144.4 |
| Stabilization fee (cross subsidy) | 44.8 | 6.7 | -40.6 | -40.6 |
| Interior consumption tax (TCI) | 53.2 | 47.1 | 24.5 | 24.5 |
| Special tax (TS) | 0.0 | 0.0 | 0.0 | 0.0 |
| Security stock (SS) | 2.0 | 2.0 | 2.0 | 2.0 |
| Municipal tax (TM) | 5.5 | 2.1 | 0.0 | 0.0 |
| Distributor's margin | 33.1 | 33.1 | 33.0 | 33.0 |
| VAT on distributor's margin | 6.0 | 6.0 | 5.9 | 5.9 |
| Transport delivery city | 6.2 | 6.2 | 6.2 | 6.2 |
| VAT on transport delivery city | 1.1 | 1.1 | 1.1 | 1.1 |
| Wholesale price (FCFA/litre) | 321.6 | 266.3 | 176.7 | 176.7 |
| Margin of retailer | 15.6 | 15.6 | 15.6 | 15.6 |
| VAT on retailer margin | 2.8 | 2.8 | 2.8 | 2.8 |
| Retail price (all taxes included) | 340.0 | 284.7 | 195.1 | 195.1 |

Source: Gabonese authorities, and IMF staff calculations.

20. **The treasury payment period** consists of the time-lag between the date in which the budget general direction (DGB) certify the payment order (*visa de la journée comptable*) and the date the payment is effectively made by the Treasury.

C. Reporting Requirements

21. To facilitate monitoring of program implementation, the government of Gabon will prepare and send to the IMF by e-mail or by fax data and monthly reports within six weeks

following the end of the preceding month. 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 (electronic file);
- (b) the net financial position of the central government (PNG) with the BEAC and the banking system, with separate lines for (i) the balance on the account of the Fund for Future Generations and (ii) the outstanding amount of government securitized domestic debt purchased by the banks from commercial creditors (electronic file);
- (c) the 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 and in the treasury float, on the one hand, and total net domestic bank/nonbank and net external financing, on the other (electronic file);
- (d) the detailed breakdown of oil revenue by type of revenue (royalties, profit tax, dividends, boni and other) and by company/type of contract, and the underlying information when available (e.g. production, prices, turnover, costs, etc.), as well as the detailed breakdown of non-oil tax revenue (by type of tax) and nontax revenue (electronic file);
- (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*) (electronic file);
- (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 quarter prepared by the DGCP. The external debt stock is to be evaluated at end-of-quarter exchange rates (electronic file);
- (h) the details for the outstanding stock of the treasury float (month to month) and the cumulative flows from January 1, 2007; the net accumulation of new float during 2007, defined in paragraph 6 as the difference between payment orders (*ordonnancements*) and payments made (cash basis), as well as the repayment of pre-2007 float, 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) information on the balance of the accounts relating to treasury correspondents (*correspondants du Trésor*), local governments (*collectivités locales*), and other treasury financial operations specified in the TOFE.
 - (j) the amount of new external debt contracted or guaranteed by the central government, with the detailed information on the original terms and conditions (currency of denomination, interest rate, grace period, and maturity) and the envisaged path of disbursement;
 - (k) actual disbursements on external debt, including on newly contracted loans, by creditors and by projects/programs and the amounts of debt relief, if any, granted to Gabon by external creditors (electronic file);
 - (l) monthly information on the oil sector: export prices, effective exchange rate, production per oil field, volume of exports and volumes provided to SOGARA based on data from the Direction Générale des Hydrocarbures (electronic file);
 - (m) quarterly information on number of forestry permits with tax arrears returned to the public domain, number of outstanding forestry permits with tax arrears, forestry tax arrears recovered and forestry tax arrears outstanding;
 - (n) quarterly report on numbers and value of procurement contracts treated by the Direction Générale des Marchés Publics (DGMP) by type of contracting;
 - (o) 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, timber production and exports by categories (in value and volume terms), as well as the quarterly reports on economic activity prepared by the General Directorate of the Economy (DGE) and six-monthly report of the balance of payments by the BEAC;
 - (p) quarterly data on the finances of local authorities; and
 - (q) a status report on the implementation of the structural reforms specified in Table 2 attached to the letter of April 15, 2007.
22. 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.