

Gabon: Letter of Intent

April 3, 2020

Madame Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, DC 20431
United States of America

Subject: Letter of Intent on Economic and Financial Policies

Madame Managing Director:

1. On March 12, 2020, Gabon reported its first case of the coronavirus (COVID-19), and since then other cases have been identified. The government has reacted rapidly to meet the medical needs of the people affected by this virus, which has already claimed lives around the world. Our response was immediate and comprehensive, with drastic measures, including the closing of borders, schools, bars and restaurants, and the suspension of international flights. We have also taken economic measures, including price controls on certain medicines and health-care products.
2. At the same time, Gabon has been hit by the collapse of international oil prices. This shock, combined with the COVID-19 pandemic, will have a major negative impact on Gabon's economy. We anticipate a significant slowdown in growth and a deterioration in the external position and public finances. Oil production is expected to decline, primarily as a result of lower global demand, but also due to a reduction in maintenance investments by oil companies. Non-oil sector output is also expected to suffer from the direct impact of COVID-19 on the population, and containment measures and restrictions imposed on the movement of goods and commodities in particular. The balance of payments will be affected notably by the collapse in exports and foreign direct investment.
3. The slowdown in oil exports and economic activity will have a negative impact on fiscal revenues, while expenditure will increase, in particular to meet health-care needs and to support the most vulnerable segments of the population. To cope with the pandemic, the government has begun to tighten control over spending in order to free up room for the funding of expenditures related to COVID-19. In addition, in a context of a sharp decline in oil prices and our revenues, we will be rescheduling the completion of a number of projects for a total amount of around CFAF 92 billion. Despite these measures, we expect the overall fiscal balance to deteriorate by about

4.3 percentage points of GDP (from a surplus 1.4 percent to a deficit of 2.9 percent of GDP) in 2020. The non-oil primary fiscal deficit is expected to increase by 1.5 percentage points of non-oil GDP.

4. Against this backdrop, the government of Gabon would like to request financial assistance from the IMF under the regular window of the Rapid Financing Instrument (RFI) in order to avoid immediate and severe economic disruption. The assistance would be in the amount equivalent to SDR 108 million, which corresponds to 50 percent of Gabon's quota with the Fund. This financial support from the IMF would help to ease the pressure on our balance of payments while providing the fiscal space necessary to fight the spread of the virus and meet the needs of the population. We have been holding extensive and coordinated discussions with our other development partners, including the World Bank, the African Development Bank, and the French Development Agency, regarding possible financial support to close the additional financing gap. We are confident to be able to close the funding gap in 2020 with the help of our development partners. If this does not materialized, or if the economic impact of the virus were greater than expected, we will redefine the priorities that were set in the 2020 budget, in particular domestically financed capital expenditures, in order to free up the additional fiscal space needed to respond to the COVID-19. We could also resort to domestic financing. We have already identified an additional list of projects worth CFAF 40 billion, which could be postponed. A revised budget law would be adopted as soon as possible.

5. As you know, the macroeconomic outlook is challenging, but we remain committed to maintaining macroeconomic stability, boosting competitiveness and growth, and reducing poverty. Strict fiscal discipline remains a priority, even in times of crisis, and if necessary, we would implement additional revenue and expenditure measures to ensure fiscal sustainability and avoid the creation of new arrears. We recognize that the decline in oil prices would require more adjustment than previously anticipated in order to maintain debt sustainability and contribute to the external stability of CEMAC. In this context, we will redouble our efforts, in particular in mobilizing non-oil revenues. We will also continue to improve spending efficiency and protect social spending. We are also committed to enhance debt management and rely more on semi-concessional loans, including from multilateral and bilateral partners. We remain firmly committed to implementing key remaining structural benchmarks under the Extended Fund Facility (EFF) arrangement, in particular the submission of Gabon's application for membership in the Extractive Industries Transparency Initiative (EITI).

6. The government will continue to publish information on revenue and expenditure performance on a regular basis, and to provide a separate reporting mechanism for COVID-19 expenditures in order to assure transparent accounting of all the funding received to combat the pandemic. We commit to report quarterly on the spending of emergency funds and to commission an independent, third-party audit of this spending within six months of disbursement and publish the results. The published results will include the full text of all related procurement contracts, along with the beneficial ownership information for the companies receiving those contracts. In addition, the authorities are committed to continuing to adhere to the best fiscal management practices put into

place with the support of IMF technical assistance. We will continue fiscal consolidation, with a view to return the public debt-to-GDP ratio to a downward path by 2021.

7. We value our cooperation with the IMF and do not intend to introduce measures or policies that would exacerbate balance of payments difficulties, including not to introduce or intensify exchange and trade restrictions and other measures or policies that would compound these difficulties. The Gabonese government will continue to maintain a constructive dialogue with the IMF and to respect the commitments made within the framework of this arrangement. We will continue to provide Fund staff with all the data and information necessary to evaluate our policies, including those concerning the Special Fund to Combat COVID-19 established under the *Caisse des Dépôts et Consignation* (Deposit and Consignment Fund). We further agree to cooperate with the IMF in relation to any update safeguards assessment of the BEAC to be carried out by the IMF.

The government authorizes the IMF to publish this letter and the forthcoming staff report for the request of the RFI.

Sincerely yours,

/s/

Mr. Jean-Marie Ogandaga
Minister of Economy and Finance