

Gabon: 2006 Article IV Consultation—Staff Report; Staff Statement; Public Information Notice 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 the 2006 Article IV consultation with Gabon, the following documents have been released and are included in this package:

- the staff report for the 2006 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on March 9, 2006, 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 May 17, 2006. 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 staff statement of June 5, 2006 updating information on recent developments.
- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its June 5, 2006 discussion of the staff report that concluded the Article IV consultation.
- a statement by the Executive Director for Gabon.

The document listed below has been or will be separately released.

Selected Issues Paper

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GABON

Staff Report for the 2006 Article IV Consultation

Prepared by the Staff Representative for the 2006 Consultation with Gabon

Approved by David Nellor and Adrienne Cheasty

May 17, 2006

- Discussions on the 2006 Article IV consultation were held in Libreville during February 25–March 9, 2006. The mission team comprised Messrs. Nord (head), Melhado, Olters (all AFR), Op de Beke (PDR), Leigh (FAD), and Randriamaholy (Resident Representative). Mr. Nguema-Affane (OED) attended most meetings. The mission worked closely with the World Bank and the African Development Bank on forestry issues, private-sector development, and the Growth and Poverty Reduction Strategy Paper (GPRSP).
- The mission met with Prime Minister Eyeghé Ndong, Finance Minister Toungui, Planning Minister Oyé Mba, the BEAC National Director Andzembé, other senior officials, and key representatives of the Senate, the National Assembly, the private sector and the donor community. At mission’s end, staff left the authorities with a concluding statement and issued a press statement.
- In concluding the 2005 Article IV consultation, Executive Directors commended the Gabonese authorities for the progress in macroeconomic stabilization and the successful initiation of structural reforms, but underscored that a vigorous implementation of the structural reform agenda is essential to stimulate private sector-led non-oil growth and accelerate economic diversification. 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.
- Gabon has subscribed to the General Data Dissemination System (GDDS). Data provision for surveillance purposes is adequate overall, albeit with some room for improvement in the quality, timeliness, and public availability of statistical data.
- 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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KEY ISSUES FOR DISCUSSION

In 2005, Gabon continued to enjoy record high oil prices, buoying both exports and government revenues. Benefiting from high prices for other primary commodities, and the macroeconomic discipline established in the context of the 2004–05 Stand-By Arrangement, non-oil growth also accelerated while inflation remained moderate, resulting in the first increase in per-capita GDP since 1999. The elimination of external and domestic arrears and the lowering of external debt provided a welcome boost to confidence, complementing the far-reaching structural reforms initiated since 2004. However, the elections in late-2005 were accompanied by large fiscal slippages and delays in structural reforms. Gabon now stands at a critical juncture. The anticipated depletion of oil reserves requires decisive action to place economic policies on a sustainable basis. The challenge is to seize the opportunity to decisively lower debt levels, thereby reducing Gabon's historical vulnerability to oil price swings, while also addressing the country's pressing social and infrastructural needs.

How do Directors assess the choice facing the Gabonese authorities between saving or spending part of the oil windfall?

Do Directors agree with staff that the anticipated depletion of Gabon's oil reserves over the next 30 years requires a sharp fiscal adjustment, i.e. a substantial increase in public savings? Do Directors agree that to reestablish credibility after the end-2005 slippages and reduce Gabon's vulnerability to oil price swings the bulk of the fiscal adjustment should be front-loaded? Do Directors agree that debt and reserve management take on additional importance to optimize the use of government savings?

How do Directors assess the challenge of managing the transition from oil-dependence to a more diversified economic structure?

Do Directors agree with staff that public financial management, including oil revenue management, needs significant strengthening to raise the quality of public spending? Do Directors agree that a significant structural reform agenda remains, notably to improve the business climate and foster private sector-led growth?

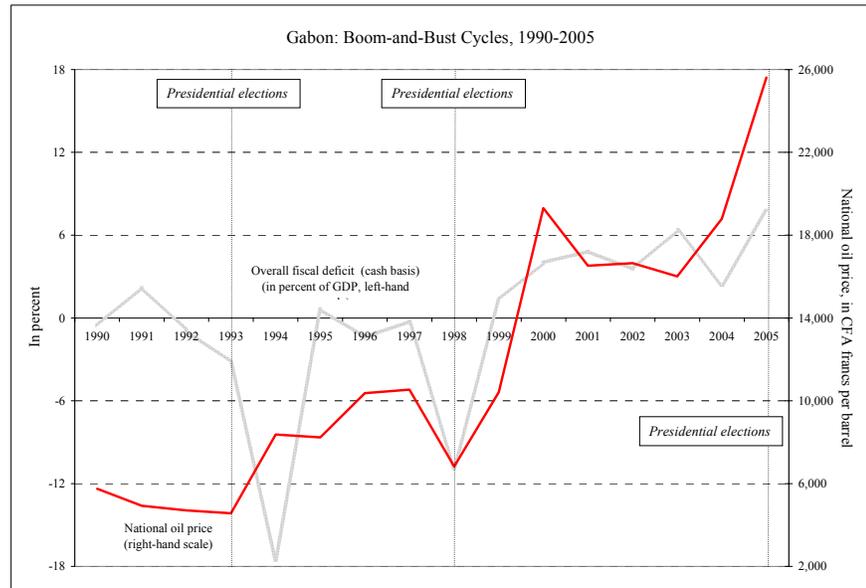
How do Directors assess the need for more transparency to bolster accountability and good governance?

Do Directors agree with staff that significant scope remains to increase oil revenue transparency, including under the EITI? Do Directors agree that improving access to regular and accurate information can play an important role in strengthening accountability and creating a better business climate?

I. BACKGROUND

1. **Gabon has a history of boom-and-bust cycles.** Over the last three decades, oil booms and political cycles resulted in a ratcheting up of public expenditure, followed by painful adjustment periods when oil prices fell. After rapid economic growth in the 1960s and 1970s, making Gabon one of the wealthiest countries in Africa, per capita GDP has stagnated over the past 25 years. And despite its income level, Gabon's social indicators remain poor and its infrastructure, for the most part, underdeveloped and ill-maintained.¹

2. **The authorities' economic program, supported by a 14-month Stand-By Arrangement during 2004–05, represented a break from past practices.** During the past decade, Gabon embarked on several Fund-supported programs but their implementation was mixed.² The 2004–05 SBA, which expired in July 2005, was more successful: all performance criteria were met and all reviews were completed. The program restored macroeconomic stability, rescheduled or eliminated most external and domestic payment arrears, and introduced far-reaching structural reforms to foster non-oil growth. The program also took first steps to revitalize the forestry sector, which the World Bank has since supported with a development policy loan,³ and to strengthen governance and transparency.



¹A recent comprehensive poverty survey defined a poverty line at about 14 percent of average income, with about one-third of the population below the line. An estimated Gini coefficient of 0.437 confirmed strong income inequality.

²See Box 1 in the 2005 Article IV consultation staff report (Country Report 05/149).

³The Development Policy Loan of US\$15 million, complemented by a US\$10 million grant from the Global Environment Facility Trust Fund, aims at strengthening the management of natural resources in Gabon by reinforcing the policy and institutional framework for the management of natural resources in the forestry, fisheries, and mining sectors, notably by reinforcing governance and transparency (World Bank Reports No. 33786-GA of 10/19/05 and 34714-GA of 3/6/06).

3. **However, the second half of 2005 was marked by fiscal slippages and a loss of momentum in the structural reform process.** The 2006 Article IV consultation discussions examined the causes for these slippages and reviewed the government's economic policies going forward with the objective of restoring macroeconomic stability and resuming growth-enhancing structural reforms.

A. Recent Economic Developments

4. **In 2005, economic growth accelerated and inflation remained low.** Real GDP grew by 3 percent in 2005, led by stronger non-oil growth of 4½ percent notably in timber processing, manganese production, and the services sector. High oil prices continued to stimulate investment and exploration, keeping oil production slightly lower at 13¼ million tons. Meanwhile, consumer price inflation was close to zero and per-capita GDP rose for the first time in five years.⁴ The real effective exchange rate depreciated by about 5¼ percent, reflecting primarily the weakening of the euro to which's Gabon's currency is pegged, and Gabon's price competitiveness remained broadly unchanged in 2005. (Figure 1).⁵

5. **Continued buoyant international oil prices led to further large balance of payments and fiscal surpluses.** The average export price of Gabonese crude oil rose by 41 percent in 2005 to US\$49 per barrel.⁶ As a result, the overall balance of payments surplus rose by 5½ percentage points to 16 percent of GDP in 2005, allowing a further reduction in external debt to 39 percent of GDP at end-2005. Public savings rose by less and, with the government saving about half of the oil revenue windfalls, the overall fiscal surplus reached 9¾ percent of GDP. (Box 1).

6. **The presidential elections in late 2005 were accompanied by large fiscal slippages.** The non-oil primary deficit reached 12 percent of non-oil GDP, compared with a target of 8½ percent in the government's supplementary budget. The bulk of the slippages reflected additional non-interest current expenditure, which exceeded the indicative target by 4 percent of non-oil GDP. In addition, non-oil revenue fell short of the indicative target by about 1½ percentage points of non-oil GDP reflecting, in particular, lower recovery of tax arrears and a larger impact of personal income tax exemptions than originally anticipated.

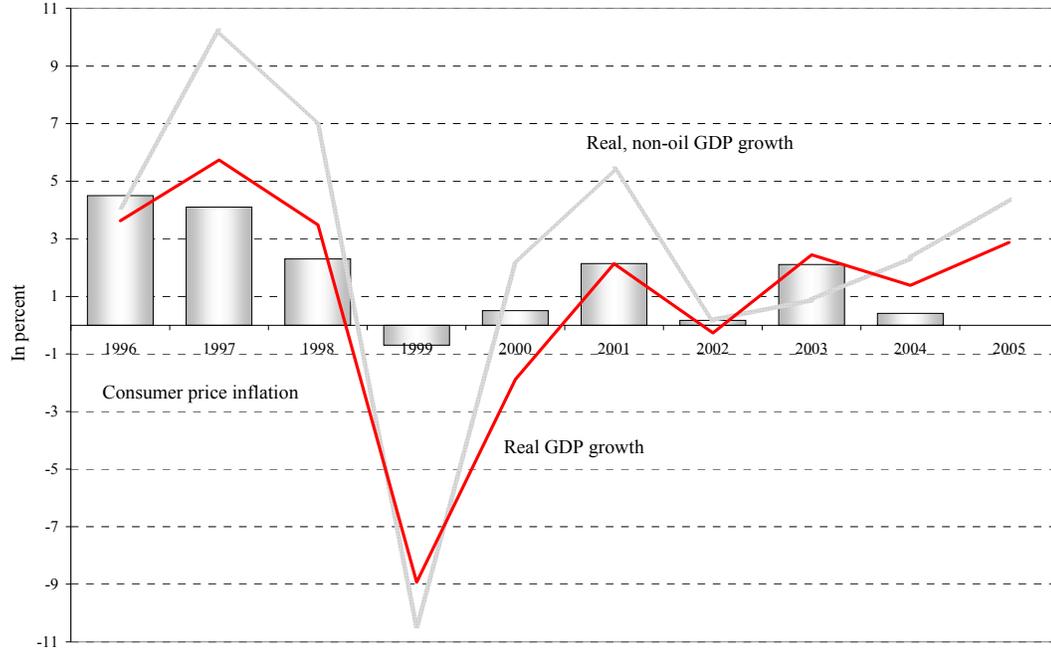
⁴ However, consumer price inflation may be moderately underestimated as the consumption basket, established in 1975, largely excludes non-tradables, where inflation is likely to have been somewhat higher. A revision of the index is under way.

⁵See *Competitiveness and Growth in Gabon—Selected Issues* (Country Report 05/147).

⁶Gabon's oil exports are predominantly light crude. On average in 2005, Gabon's oil traded at a discount of US\$5 per barrel relative to its Brent benchmark.

Figure 1. Recent Economic Developments

Non-oil GDP growth has accelerated in an environment of price stability, ...



..., while rising oil prices have improved the overall fiscal and external balances.

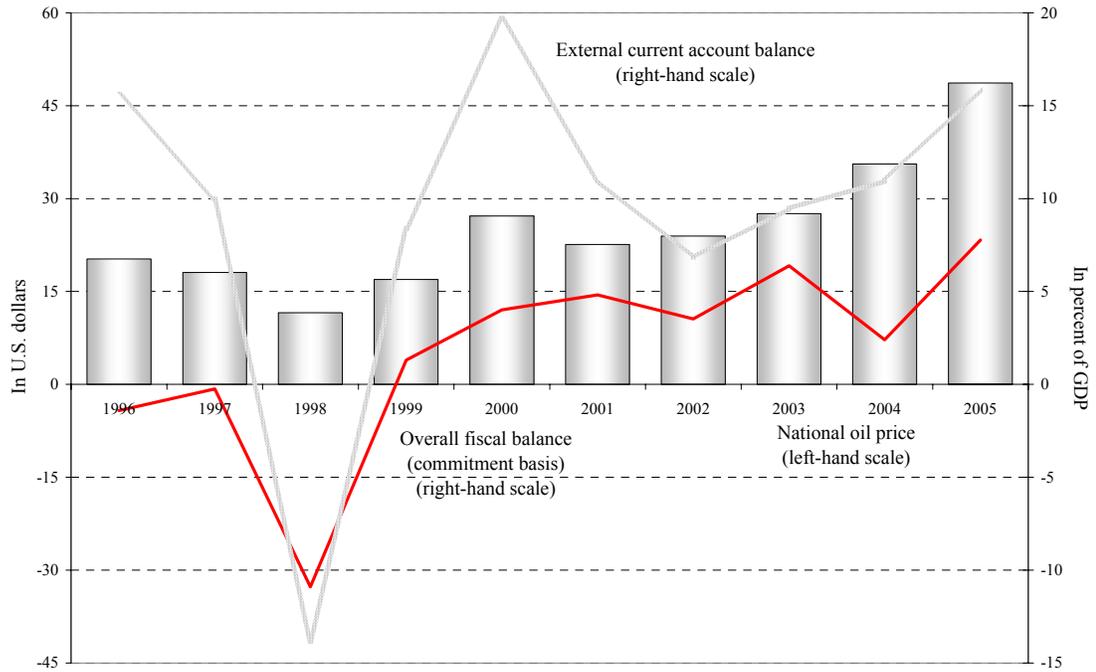
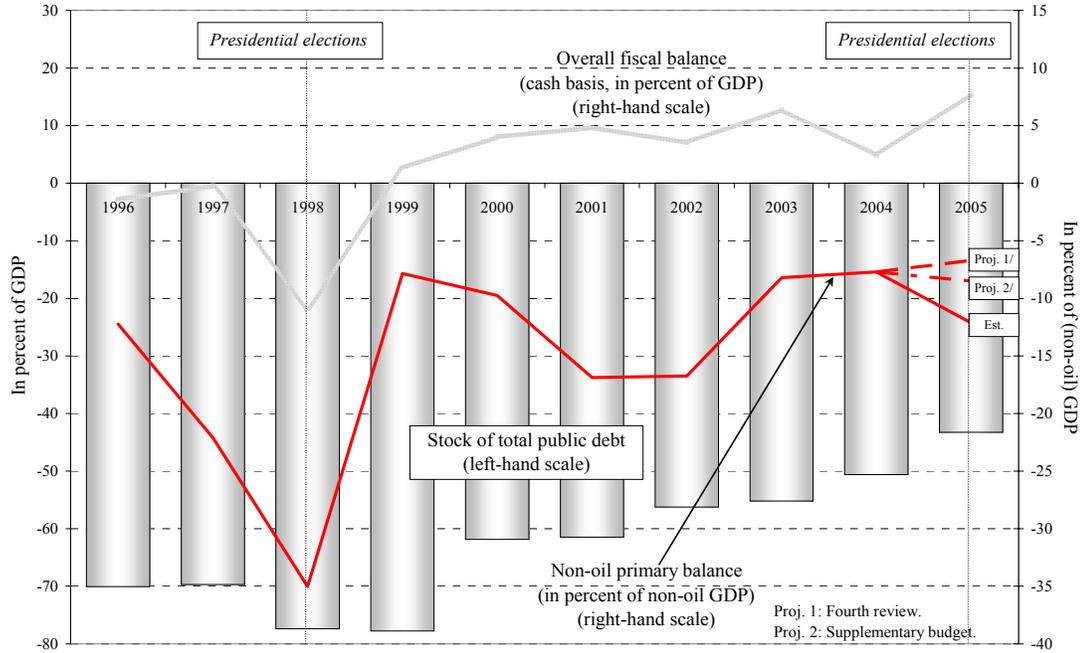
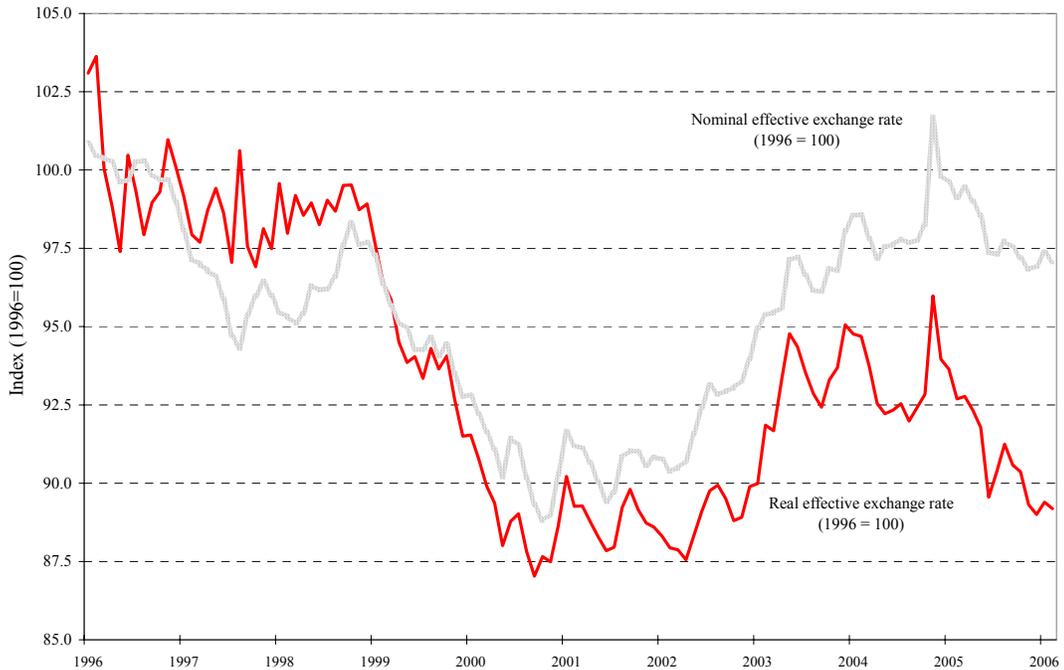


Figure 1. Gabon: Recent Economic Developments (concluded)

But presidential elections were accompanied by large fiscal slippages, ...



..., while the real effective exchange rate depreciated by about 2½ percent in 2005.



Box 1. Use of Additional Oil Resources

The public and private sectors in Gabon saved the bulk of the additional oil GDP that resulted from the sharp increases in prices during 2003–05. Average oil GDP in 2003–05 increased by 14½ percentage points of non-oil GDP relative to 2002. Tight fiscal policy in 2003–04 and a contraction in private-sector spending by 9 percentage points of non-oil GDP resulted in imports rising at a slower pace than the additional income. Net exports increased by 162 percent of additional oil GDP.

Selected Oil Exporters: Use of Additional Oil-GDP, 2003-05
(Base year=2002; in percent)

	Additional Oil GDP ¹	Use ²					
		Net exports	Investment			Consumption	
			Public Investment	Private Investment	Changes in Inventories	Public Consumption	Private ³ Consumption
Gabon <i>(in percent of additional oil GDP)</i>	14.5	23.5 <i>161.9</i>	1.1 <i>7.7</i>	1.1 <i>7.7</i>	-1.0 <i>-6.9</i>	-1.8 <i>-12.5</i>	-8.4 <i>-57.8</i>
MCD oil exporters ⁴ <i>(in percent of additional oil GDP)</i>	20.6	17.6 <i>85.5</i>	1.3 <i>6.4</i>	4.4 <i>21.1</i>	0.3 <i>1.5</i>	-0.6 <i>-2.8</i>	-1.6 <i>-7.6</i>

Source: IMF staff estimates and projections.

¹ The additional oil-GDP is defined as the difference between the ratio of oil-GDP to non-oil GDP in 2003-05 and the value of this ratio in the base year.

² The use is defined as the difference between the ratio of use to non-oil GDP in 2003-05 and the value of this ratio in the base year.

³ Residual, including errors.

⁴ Source: Table 2.1 in MCD September 2005 *Regional Economic Outlook*, p. 19.

The election-related slippages notwithstanding, the government still saved about one-half of additional oil revenues in 2005. Against the backdrop of export prices increasing by 41 percent, oil revenues—with stagnant production—rose by 44 percent (CFAF 279 billion). Of that amount, the government spent a total of CFAF 140 billion, i.e., 50.3 percent of additional oil revenue.

Gabon: Use of Additional Oil Revenue
(In billions of CFA francs; unless otherwise indicated)

	2004	2005	Difference	In percent of add'l oil revenue
Oil revenue	628.2	907.2	279.0	100.0
Total spending	870.5	1,010.8	140.2	50.3
Total, budgetary spending	855.3	1,002.7	147.4	52.8
Primary spending	704.5	873.5	169.0	60.6
<i>Of which: transfers and subsidies</i>	125.6	207.2	81.7	29.3
Interest	150.8	129.2	-21.6	-7.8
Below-the-line spending ¹	15.2	8.1	-7.1	-2.5
Total saving	...	...	138.7	49.7

¹ Privatization-related restructuring costs (social plans).

7. **The structural reform agenda stalled in the second half of 2005.** In particular, the restructuring and privatization of Air Gabon and Gabon Télécom experienced significant delays.⁷ After a strong start in 2004, delays also continued to plague the reform of the forestry sector.⁸ Notably, sizeable tax arrears persist, with collection of the area tax reaching only 22 percent of the target in 2005 and total forestry tax arrears of nearly CFAF 15 billion at end-2005. However, transparency in the natural resources sector was boosted by the publication of Gabon's first report under the Extractive Industries Transparency Initiative in December 2005 (Box 2).

Box 2. Oil Revenue Transparency

Careful monitoring and proper accounting are critical to ensuring that the government receives all oil revenue it is owed and that those revenues are reported in the budget. Gabon joined the Extractive Industries Transparency Initiative (EITI) to bolster the credibility of its oil revenue collection efforts and published its first EITI report for 2004 in December 2005 (www.finances.gouv.ga/eiti.htm). The core of the EITI report was prepared by an international accounting firm hired as independent administrator (IA) of the EITI process.

The EITI report compares 2004 payments reported by companies with receipts reported by the government. It notes a discrepancy of CFAF 17 billion (US\$33 million) for the oil revenue streams that were covered, roughly 5 percent of the total, and the IA finds no evidence of serious anomalies. The authorities are in the process of examining the reasons for the discrepancy.

The coverage of the first EITI report is incomplete. The IA could not include profit oil – the share of crude oil accruing to the government under the production sharing arrangements – in the 2004 revenue streams. Profit oil accounts for about half of government revenue from the oil sector. The main reason for excluding profit oil cited in the report is the inability of the government to provide a detailed breakdown for 2004 to the IA. The authorities have declared that the next EITI report will include profit oil.

Follow-up to the first EITI report has been limited. There has been no attempt to date to explain the discrepancy between government and company reporting and a planned publicity campaign has not yet taken place. The 2004 oil revenue reported to the IA by the government exceeds earlier revenue estimates provided to staff by CFAF 22 billion (US\$42 million); the authorities have not yet explained these differences.

⁷A tender for 51 percent of Gabon Télécom was finally launched in early December with the aim of completing the sale by mid-2006. The government announced the liquidation of Air Gabon in February 2006 and the creation of a new airline, *Air Gabon International*, in which Royal Air Maroc will hold majority stake.

⁸Timber is Gabon's second-largest export after oil. In 2004, the authorities simplified forestry taxation by reducing the number of taxes from over 20 to 3; disclosed the list of the holders of forestry permits and imposed a moratorium on the allocation of new licenses; and announced the elimination of the monopoly of the *Société nationale des bois du Gabon* (SNBG) on the export of logs.

B. The Regional Context

8. **Gabon is one of Africa's major oil producers.** With proven reserves of about 2 billion barrels and production in 2005 of 268,000 barrels per day, Gabon ranked third behind Nigeria and Angola in sub-Saharan Africa (Figure 2). Oil dominates the economy: in 2005, it accounted for more than 50 percent of GDP, 63 percent of government revenue, and over 80 percent of total exports. With a relatively small population estimated at about 1.4 million, the exploitation of oil reserves led to rapid increases in per-capita income in 1960-80, making Gabon one of the few middle-income countries in sub-Saharan Africa. However, per-capita GDP has declined since 1980, partly reflecting the impact of repeated economic crises. Moreover, socio-economic development has lagged significantly, and human development indicators—while moderately superior to the other CEMAC countries and African oil exporters—compare unfavorably with countries at similar income levels (see table below).

Selected Social and Governance Indicators

	Gabon	Averages					
		CEMAC 1/		SSA oil exporters 2/		Middle income countries 2/	
		simple	by pop.	simple	by pop.	simple	by pop.
Human Development Index 2005 4/	0.635	0.499	0.448	0.505	0.454	0.751	0.751
Per capita GDP (PPP US\$)	6,397	5,260	2,042	4,838	1,362	6,447	6,672
Life expectancy at birth (years)	54.5	46.4	45.5	46.2	43.7	67.9	69.5
Adult literacy rate (percent)	71.0	63.3	56.3	66.4	65.1	89.4	85.5
Gross enrolment rate (percent)	74.0	51.7	47.7	53.3	58.5	74.3	70.4
Mortality rate, under 5 (2004, per 1,000) 5/	91.0	157.6	140.0	172.7	195.3	39.0	35.2
Corruption Perception Index 2005 6/	2.9	2.2	1.9	2.1	1.9	3.1	3.2

1/ Cameroon, Central African Republic, Chad, Rep. of Congo, Equatorial Guinea, Gabon.

2/ Angola, Cameroon, Chad, Congo, Equatorial Guinea, Gabon, Nigeria.

3/ Countries with a comparable level of per capita real income, defined as a per capita GDP in US\$ PPP of US\$6,400 ± US\$600 (source: see footnote 4), i.e., Algeria, Belarus, Belize, Bosnia-Herzegovina, Colombia, Dominican Republic, Fiji, Gabon, Iran, Kazakhstan, FYR Macedonia, Namibia, Panama, Samoa (Western), St. Vincent and the Grenadines, Tonga, Turkey, and Turkmenistan.

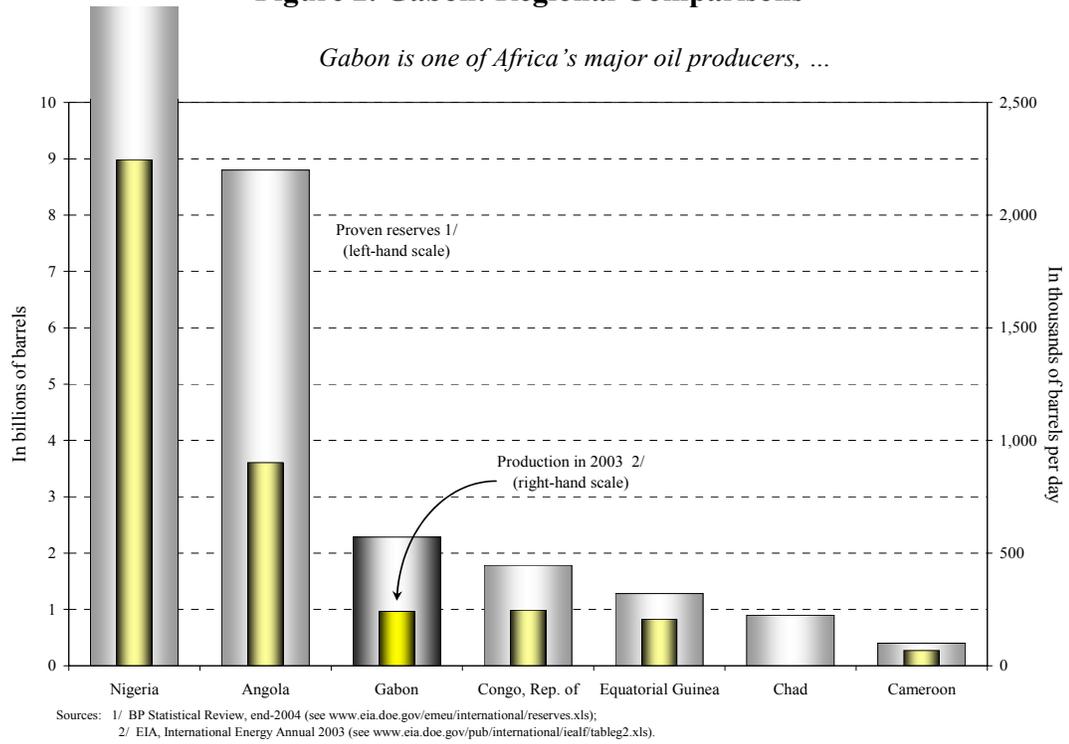
4/ UNDP, 2005 Human Development Report.

5/ World Bank, World Development Indicators

6/ Transparency International, 2005 Corruption Perception Index.

Figure 2. Gabon: Regional Comparisons

Gabon is one of Africa's major oil producers, ...



..., with one of the highest income levels.

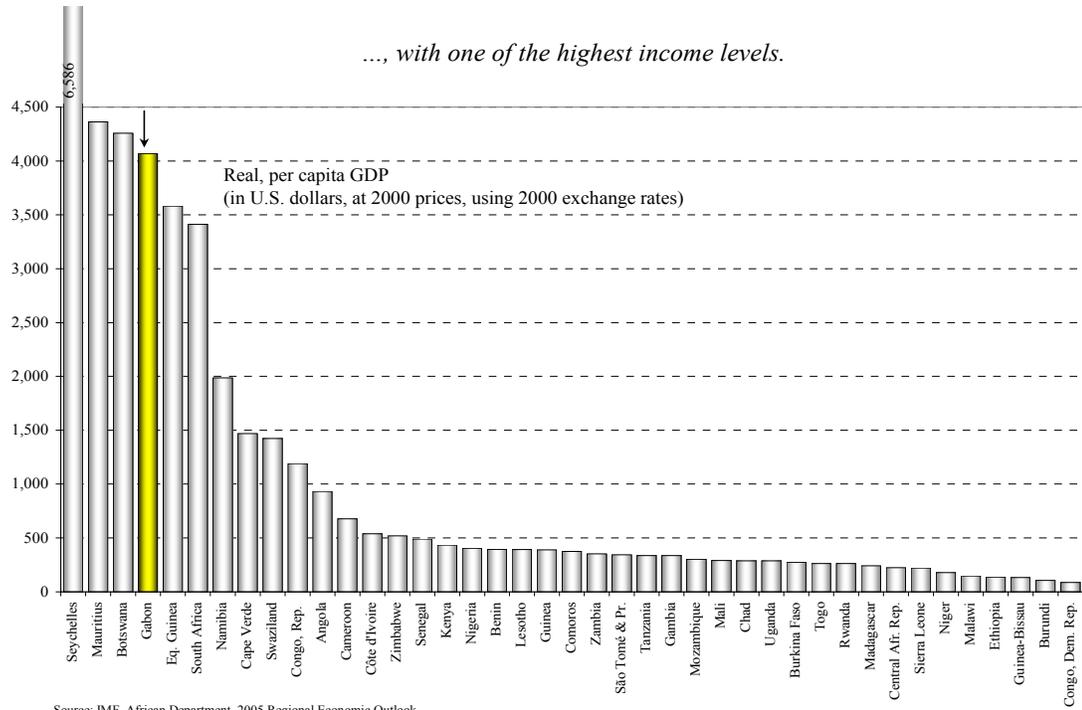
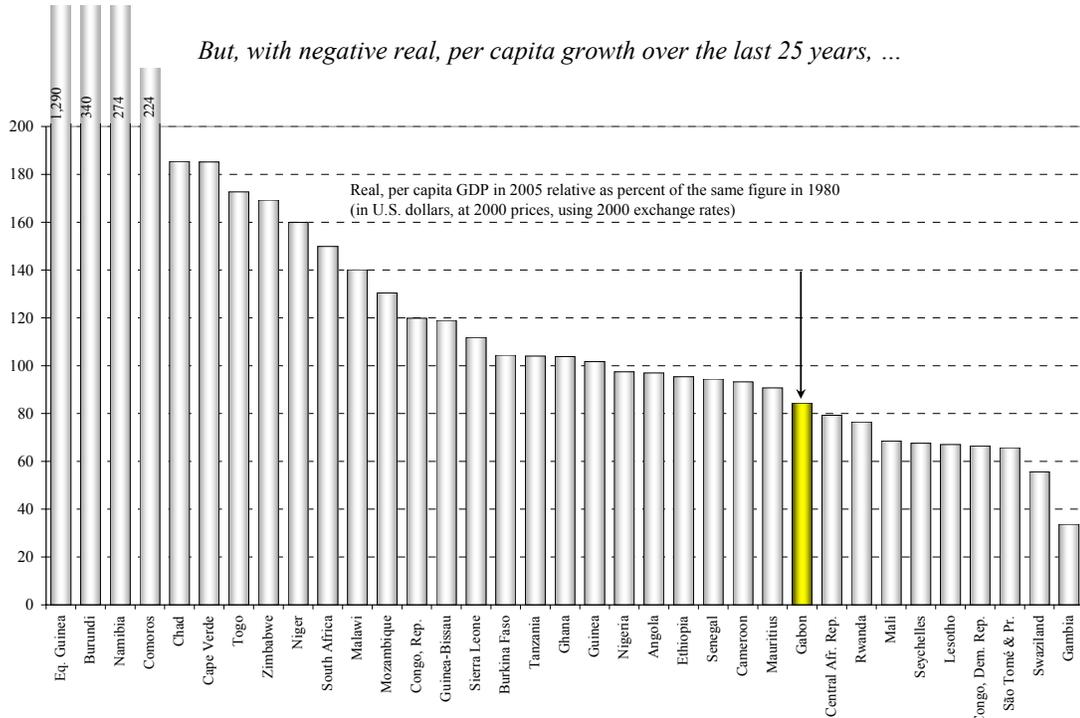
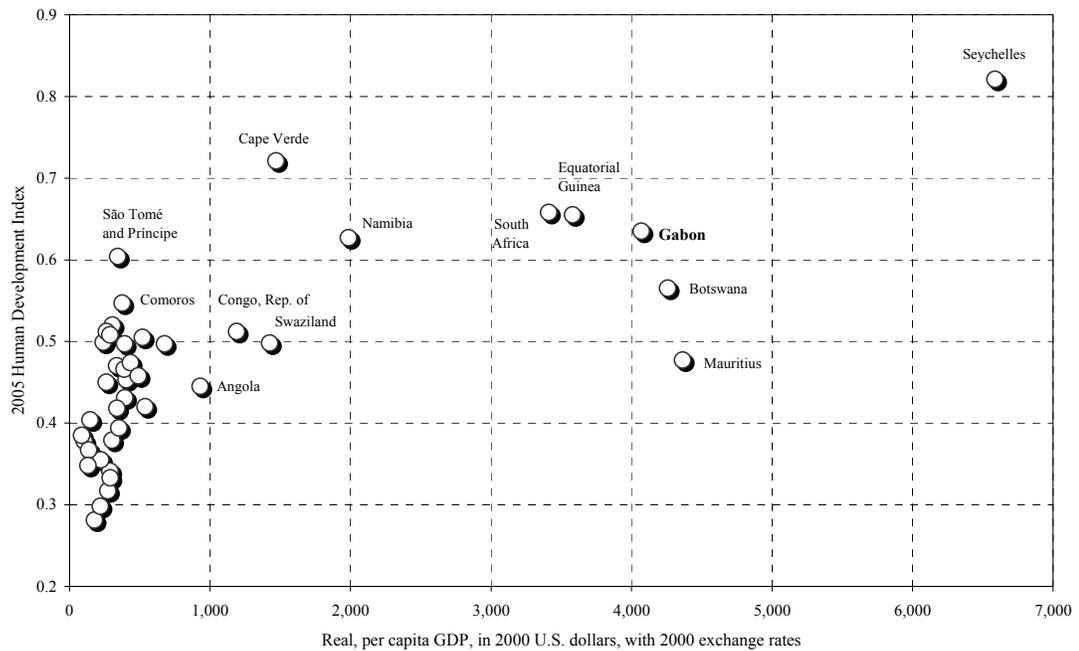


Figure 2. Gabon: Regional Comparisons (concluded)



Source: IMF, African Department, 2005 Regional Economic Outlook (for Benin, Botswana, Côte d'Ivoire, Kenya, Madagascar, Uganda, and Zambia, there are no figures for 1980).

..., social development indicators are not much higher than those of other SSA countries.



Sources: UNDP (2005 Human Development Index) and IMF, African Department (Regional Economic Outlook).

II. POLICY DISCUSSIONS

9. **The critical medium-term challenge facing Gabon is managing the transition from an economy highly dependent on oil to a diversified one that harnesses private sector initiative and makes decisive progress in poverty reduction.** The next few years are likely to be marked by moderate economic growth and continued large fiscal and balance of payments surpluses. Against this background, discussions centered on sustainable economic policies in the context of exhaustible oil reserves, the challenges for fiscal policy and public expenditure management, and the need for structural reform policies to foster economic diversification.

A. Sustainable Policies in the Context of Exhaustible Oil Reserves

10. **High oil prices represent both a challenge and an opportunity for Gabon.** The large balance of payments and fiscal surpluses provide an opportunity to lower debt levels decisively, thereby reducing a major source of Gabon's past vulnerability to shocks, and build up savings to smooth consumption for future generations after oil resources are exhausted. The debt sustainability analysis shows that, assuming continued high oil prices and a resumption of fiscal restraint, total public debt would fall from 44 percent of GDP at end-2005 to 23 percent by 2008 and further to 10 percent by 2011 (Appendix IV).

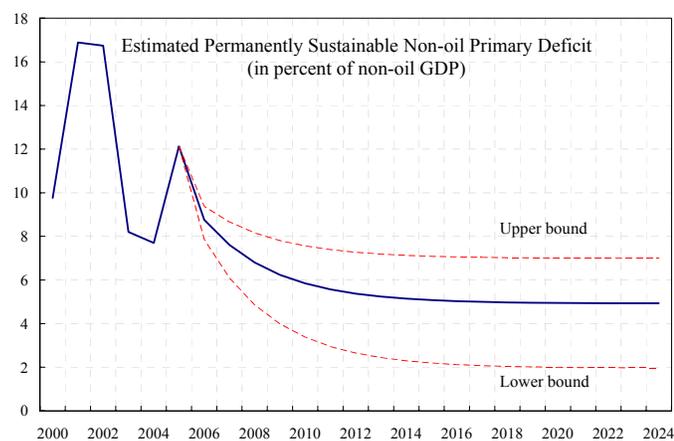
11. **Addressing pressing socio-economic development challenges must be balanced by maintaining macroeconomic stability and medium-term sustainability.** The needs for infrastructure improvements and strengthened social services are very large and higher government revenue will allow Gabon to address these needs. At the same time, the mission underlined the importance of balancing such expenditure pressures with appropriate attention to the sustainability of public spending and the absorptive capacity of the economy. It suggested that an appropriate anchor for fiscal policy would be the permanently sustainable non-oil primary deficit, which it estimated at about 5 percent of non-oil GDP.⁹ The objective should be to reach the sustainable level over about three to five years (Box 3). Against the background of continued price stability within a fixed exchange-rate environment, staff considers such a fiscal policy stance consistent with overall macroeconomic stability.

⁹The medium-term sustainable level of the non-oil primary deficit is a function, inter alia, of the projected level of oil prices, which have risen further since the consultation discussions. At current prices, the medium-term sustainable non-oil primary deficit would be about 5½ percent of non-oil GDP.

Box 3. Exhaustible Oil Reserves, Habits, and Sustainable Fiscal Policy

Gabon’s oil revenue currently accounts for 60 percent of all government revenue, but oil reserves are expected to be depleted within 30 years. Ensuring that fiscal policy is on a sustainable path is therefore a high priority. The analysis presented in an accompanying selected issues paper estimates the sustainable long-run non-oil primary deficit and the optimal adjustment path towards that level. The analysis is based on a model of intertemporal optimization with adjustment costs in the form of habit formation and differential rates on

sovereign debt and financial assets, where “habits” reflect the notion that consumers become addicted to the level of consumption enjoyed in previous periods. The following three main conclusions emerge from the analysis:



sovereign debt and financial assets, where “habits” reflect the notion that consumers become addicted to the level of consumption enjoyed in previous periods. The following three main conclusions emerge from the analysis:

- (i) **The current stance of fiscal policy is not sustainable.** The permanently sustainable non-oil primary deficit, estimated at 5 percent of non-oil GDP, is well below the 2005 level of 12 percent of non-oil GDP.
- (ii) **Due to habit formation and the existence of adjustment costs, the optimal policy involves spreading the bulk of the adjustment over a period of three to five years** rather than conducting the single, abrupt adjustment that standard permanent-income models without habits would prescribe.
- (iii) **Given the uncertainty regarding future economic conditions, precautionary motives would suggest front-loading the fiscal adjustment and targeting a smaller long-run deficit.** For example, a decline in real oil prices to 30 US dollars per barrel would reduce the permanently sustainable primary deficit to 3¾ percent of non-oil GDP. In addition, the existence of an interest rate spread between sovereign debt and financial assets creates a further incentive for faster adjustment to pay off net debt.

12. **The authorities agreed with the need to reduce poverty and prepare Gabon for the post-oil era**, while accepting that medium-term fiscal adjustment is needed to ensure fiscal sustainability in the face of declining government revenue from oil. In seeking the right balance between the required speed of fiscal adjustment and achieving their socio-economic development objectives, the authorities emphasized the urgency to provide a strong basis for economic growth and employment creation, which in their view would have the greatest impact on poverty (see text table below). In particular, they pointed to severe infrastructural bottlenecks in the transportation, health, and education sectors that need to be addressed. Against that background, they noted that the government’s GPRSP, finalized in early 2006, rests on four pillars: raising growth as a pre-requisite for poverty reduction; improving infrastructure; improving access to essential services, including education and health; and strengthening governance. (Appendix III).

Gabon. Macroeconomic Framework, 2005-08

	2005	2006	2007	2008
	Prel.	Proj.		
Real GDP growth (in percent changes)	2.9	3.0	1.8	3.3
Oil	-1.1	1.2	-4.8	0.1
Non-oil	4.4	3.6	4.1	4.3
CPI (annual average)	0.0	1.0	1.2	1.4
External current account balance (in percent of GDP)	15.9	19.6	19.1	18.3
Non-oil primary balance (in percent of non-oil GDP)	-12.1	-8.9	-7.7	-6.6
Overall balance, commitment basis (in percent of GDP)	9.3	11.1	11.6	10.7
Total public debt (in percent of GDP)	44.2	33.5	28.5	22.9

Sources: Gabonese authorities; and staff projections.

B. Fiscal Policy and Public Expenditure Management

13. **There was agreement that the large slippages in 2005 warranted a substantial fiscal adjustment.** While high international oil prices produce growing fiscal surpluses now, Gabon's oil reserves are estimated to be exhausted within about 30 years and there is a need to put public finances on a permanently-sustainable basis. Moreover, Gabon's fiscal and external positions remain very vulnerable to swings in oil prices, suggesting the need for additional fiscal prudence.

14. **Discussions focused on the pace of fiscal adjustment.** The mission recommended sharply reducing the non-oil primary deficit from 12 percent of non-oil GDP in 2005 to 7¼ percent of non-oil GDP in 2006, arguing notably that most of the fiscal slippage in 2005 was of a one-off nature and, hence, reversible. The authorities preferred a more gradual pace, especially with parliamentary elections scheduled for November. In particular, the authorities believed that the target for 2006 should take into account (i) continued temporary subsidies to Air Gabon during the six-month transition period (paragraph 24); and (ii) additional public investment in line with expectations among the population generated by the finalization of the GPRSP and promises of large infrastructure projects made by the authorities in the last quarter of 2005. The authorities considered appropriate a fiscal framework for 2006–08 that would result in a non-oil primary deficit of about 9 percent of non-oil GDP in 2006 and a 2008 target of 6½ percent.¹⁰

15. **Irrespective of the speed of adjustment, achieving a sustainable fiscal path will require decisive action on the expenditure side.** In particular, the mission emphasized the need to regain control of current expenditure by reining in transfers and subsidies. The successor airline to Air Gabon should be managed on a fully commercial basis, without further budgetary support. Spending from the security and sovereignty fund, which does not follow

¹⁰The 2006 budget, approved by Parliament in November 2005, was based on a provisional fiscal framework. In particular, it did not take into account spending related to the GPRSP, which had not yet been completed at that time. A supplementary budget based on a new fiscal framework is expected to be approved by Parliament before end-June 2006.

ordinary budgetary procedures, should be kept to a strict minimum. And spending on pensions, which overshot the 2005 budget allocation by 50 percent, represents a growing threat for budgetary stability and requires a fundamental reassessment of the capacity of the public finances to deal with the wave of retirement in the public sector. The mission saw scope for raising productive public investment, but cautioned that the quality of public investment needed to be improved if it is to have an lasting impact on economic growth.¹¹

16. **Debt and reserve management take on additional importance in an environment characterized by ambitious fiscal objectives.** Easing the transition to the post-oil era by saving the bulk of the current windfall revenue over many years requires optimizing the use of the government's savings. In the short term, accelerating the reduction in public debt—including pre-paying external debt owed to Paris Club creditors—is likely to yield significant benefits by reducing Gabon's annual interest bill, lowering its vulnerability to future shocks, and increasing the fiscal space for GPRSP investments. Eliminating the costly *bons d'équipement*, on which the government is paying 7½ percent interest, should be an immediate priority.¹² Beyond the short term, it will be important to ensure that Gabon has the ability to invest its windfall surplus in an optimal manner. This will mean replacing the current *Fonds pour les générations futures* (FFG), on which the BEAC currently pays a nominal rate of 1½ percent, by a more effective institutional framework for accumulating long-term financial assets.

17. **Petroleum price subsidies are a growing burden on public finances.** The freeze in domestic retail prices since 2002 combined with sharp increases in international oil prices has led to large and growing implicit subsidies, reaching 3¼ percent of non-oil GDP in 2005. At current oil prices, the cost of the subsidies could rise to 4½ percent of non-oil GDP (Box 4). Moreover, a Poverty and Social Impact Analysis (PSIA) carried out by staff in an accompanying selected issues paper suggests that the bulk of the subsidies accrues to the rich rather than the poor. The mission proposed that the authorities consider the following options: (i) reflect both the foregone revenue and the implicit subsidies transparently in the budget; (ii) gradually raise the ex-refinery prices of petroleum products to import-parity levels with the objective of eliminating the subsidy over a three-year period; and (iii) offset the impact of price increases by raising targeted subsidies to the poor and GPRSP spending. The authorities appreciated the analysis provided by the mission. They noted the importance of transport costs for the Gabonese economy given the size of the sparsely populated country, but recognized the rising cost of the subsidies, and are considering options to reduce them.¹³

¹¹See *Gabon: Assessing the Quality of Public Investment*, Gabon: 2006 Article IV Consultation—Selected Issues (Country Report 06/232).

¹²The government should also continue to reduce its outstanding advances from the BEAC, which carry an interest rate of 5½ percent. A discussion is currently underway at the level of the CEMAC to replace the advances by tradable Treasury Bills (see forthcoming staff report on the annual discussions with the CEMAC authorities).

¹³On March 15, the retail prices of three petroleum products were increased by 7 percent in response to a negotiated increase in retailer margins (ex-refinery prices remained unchanged).

Box 4. Implicit Fuel Price Subsidies in Gabon

At the core of the implicit fuel price subsidies in Gabon are the ex-refinery prices of 7 petroleum products that have been frozen since August 2002. The sole supplier of these products to the domestic market is the majority-privately-owned refinery SOGARA. The refinery purchases the crude oil required for its operations at a price that has increased with world crude oil prices. But because domestic fuel prices are frozen, the refinery sustains a loss when it sells the refined products. To quantify the loss, i.e. the value of the fuel price subsidy due to the price freeze, a reference import parity price (IPP) is computed every month by SOGARA based on international market prices, local taxes, costs, fees, and margins. The difference between the IPP and the frozen ex-refinery price multiplied by the quantity sold equals the monthly loss to the refinery for which it is compensated fully by the government. Payment is made in the form of crude oil delivered free of charge to SOGARA. These subsidies are not reported explicitly in the fiscal accounts but are instead netted against oil revenue, i.e. they are implicit.

The total fiscal cost of the subsidies implied by the ex-refinery price freeze is estimated to have reached 3.2 percent of non-oil GDP in 2005 and could increase to 4.5 percent in 2006, as compared to an estimated subsidy cost equivalent to less than 1 percent of annual non-oil GDP in 2003. The bulk of the cost of the subsidies corresponds to diesel which is used mainly by heavy industry and for transportation. For comparison, total public spending on health and education comprised 2.2 and 3.1 percent of non-oil GDP in 2005, respectively. Reflecting the implicit subsidies in the budget would have raised the non-oil primary deficit from 12 percent to 15¾ percent of non-oil GDP in 2005.

The size of the fiscal cost of the fuel price subsidy in Gabon is not unusual for an oil-exporting country. In Gabon, the cost of the subsidies is likely to have reached 1.6 percent of overall GDP in 2005. The size of implicit subsidies in eight countries for which data were available are estimated to range from 0.3 percent of GDP (Cameroon) to 9.9 percent (Azerbaijan), with a median of 2.0 percent of GDP.

In line with the experience of other countries, it is mostly higher-income households that benefit from the subsidy. Based on the 2004 Gabon *EGEP* household survey dataset, staff estimates that the top 10 percent of households receive about one-third of the total subsidy. Meanwhile, the bottom 30 percent of individuals are estimated to receive only 13 percent of the subsidy, highlighting that fuel price subsidies are a very costly way to protect the real incomes of the poor.

Gabon: Cost of Implicit Fuel Price Subsidies, 2005-08

	2005	2006	2007	2008
		Projections ^{1/}		
Total cost (billions of CFAF)	71.9	107.4	115.0	111.2
(percent of GDP)	1.6	2.0	2.2	2.2
(percent of non-oil GDP)	3.2	4.5	4.6	4.2
<i>Memo items</i>				
Total public education expenditure (billions of CFAF) ^{2/}	70.0			
Total public health expenditure (billions of CFAF) ^{2/}	50.3			

Source: Gabonese authorities and IMF staff calculations and projections.

^{1/} Projections for 2006-08 are based on the assumption that ex-refinery prices remain unchanged, international fuel prices evolve following WEO projections, and domestic fuel consumption expands at the rate of real non-oil GDP growth.

^{2/} Total appropriations in the 2005 supplementary budget on wages and salaries, goods and services, transfers, and domestically-financed investment spending, in the education and health sectors, respectively.

18. **Gabon public finances are characterized by severe weaknesses in the planning and monitoring of public expenditure.** Close to half of current expenditure is devoted to the public sector wage bill and interest payments, while there are insufficient provisions for goods and services and maintenance. Public investment has averaged 5 percent of GDP over the past five years, but the return on this investment is estimated to have been very low or even negative. Large infrastructure projects are often not subjected to rigorous cost-benefit analysis. Notably, public investment in the context of the *fêtes tournantes* (the rotating regional independence day celebrations) is notoriously unproductive, as confirmed by a recent audit that revealed very serious weaknesses in control over procurement, execution, quality, and prices.

19. **Improving public expenditure management is critical to raising the quality of public investment and preventing a repetition of the 2005 slippages.** A recent fiscal ROSC mission and a World Bank public expenditure review both examined Gabon's fiscal institutional framework (Box 5). Key expenditure management recommendations include: (i) establishing a hierarchy of priorities for investment projects in the Public Investment Program to ensure a coherent selection system;¹⁴ (ii) ensuring that the functional expenditure classification is finalized and implemented with the 2007 budget; (iii) subjecting expenditure related to the *fêtes tournantes* to standard budgetary procedures and to the scrutiny of regular published audits; (iv) streamlining budget execution and monitoring procedures to avoid slippages; and (v) reporting spending on implicit fuel-price subsidies in the budget.

20. **Increasing the room for high-quality spending will require reversing the erosion of non-oil revenue and enhancing the efficiency of public revenue management.** The large tax-payer unit (LTU) still needs to become fully operational. The tax system remains subject to frequent discretionary modifications that are not reflected in the tax code. In addition, the proliferation of tax exemptions has narrowed the tax base, notably for the VAT, and non-transparent special tax regimes deter foreign direct investment. Key revenue management recommendations reiterated in the recent ROSC include: (i) revising the tax code to reflect all modifications; (ii) estimating the cost of tax expenditures and reporting them in the budget documentation; and (iii) reinforcing oil revenue administration, including by replacing the current annual projection model with a detailed monthly model. Problems also persist in forestry taxation, where the lack of enforcement has had a negative impact on tax payer compliance, and the mission urged the authorities to proceed rapidly with the return to the public domain of forestry permits that cannot meet their tax obligations. The mission raised concerns regarding a proposed law, currently with parliament, that would earmark—if implemented—a large share of existing taxes (and possibly numerous new taxes and fees) for a National Forestry Fund. The mission underlined that the proposed law is at odds with good budgetary practice and would risk weakening governance in this important sector.

¹⁴This recommendation would imply, for example, that the presidential projects promised in late 2005 should be appropriately prioritized and allowed to compete with other programs for scarce resources.

Box 5. Preliminary Conclusions of the 2006 Fiscal ROSC

Although the legal framework for fiscal management is well defined, implementation falls short of best practice in several areas. The existence of two separate budgets, one for recurrent and one for investment expenditures, prepared by two different ministries poses severe coordination problems. Budget execution is subject to cumbersome procedures and ineffective compliance controls and the lack of an effective financial information system precludes the production of regular and accurate reports. Budget documentation is incomplete, excluding information on implicit subsidies and fiscal risks. The tax system is subject to frequent discretionary modifications that are not reflected in the tax code.

The principal ROSC recommendations include the following:

- **Streamline fiscal policy formulation.** Ensure the consistency of macroeconomic projections across different ministries and departments. Prepare the 2007 budget in the context of a medium-term expenditure framework for 2007–09. Establish a hierarchy of priorities for investment projects in the Public Investment Program to ensure a coherent selection system.
- **Improve natural resource revenue transparency.** To ensure that all oil revenues due to the government—including those paid in kind—are collected by the Treasury, replace the current annual projection model with a detailed monthly model. Extend coverage of the EITI report to include profit oil (about half of oil revenues) and revenue streams in the mining sector.
- **Enhance budget transparency and presentation.** Report revenue and expenditure that is currently excluded, such as in-kind oil revenue that implicitly subsidizes fuel prices. Ensure that the functional expenditure classification is finalized and implemented with the 2007 budget. Make the budget documentation easier to understand by including summary tables for revenues and expenditures, information on previous budgets, including their outturns, and estimates for the next two fiscal years. Submit an updated tax code to parliament.
- **Develop a systematic fiscal risk-management strategy.** Include a fiscal sustainability analysis that accounts for the decline of oil revenue and an evaluation of the potential future liabilities of the social security and pension funds in the budgetary documentation. Estimate and report the cost of tax expenditures.
- **Streamline budget execution and monitoring procedures to avoid slippages.** Prepare a monthly limit for program appropriations and make the budget appropriations available from the beginning of the fiscal year. Publish monthly execution reports. Reduce the treasury's current 120-day payment period to one month. Subject expenditure related to the *fêtes tournantes* to standard budgetary procedures and to the scrutiny of regular published audits. Strictly enforce the decisions of the public tender control office, report any slippages and, when appropriate, apply sanctions.

C. Structural Policies for Economic Diversification

21. **An uninviting business climate remains the country's Achilles' heel.** To diversify its economy, Gabon needs to attract private-sector investment to increase total factor productivity and the country's non-oil growth potential. The authorities need to accelerate their structural reform agenda in the areas of the financial and labor markets, its trade regime, and—in particular—governance.

22. **Financial sector stability has improved since the 2002 Financial Sector Stability Assessment (FSAP), but important structural challenges remain.**^{15, 16} Gabon's financial sector remains shallow even by regional standards, and banks appear to be withdrawing further from lending activities. Credit to the private sector declined from a peak of over 13 percent of GDP in 2002 to 9 percent in 2005, likely reflecting the effects of administratively determined interest rate floors and ceilings as well as the difficulties faced by banks to effectively monitor the quality of their loan portfolios (Box 6). In the absence of domestic lending opportunities, or any other financial instruments, commercial banks have sharply increased their holdings of foreign assets. At the same time, banks curtail their domestic activities by enforcing restrictions on minimum deposits and/or depositors' minimum income as a means to limiting financial services to a few trusted enterprises, public-sector employees, and expatriates. Small and medium-sized enterprises, in particular, have little access to the banking system. The authorities agreed with staff's analysis. They noted that underdevelopment of the financial sector is partly a reflection of the nature of the Gabonese economy in which the dominant oil sector is financed largely from abroad. But they agreed that it is crucial to improve private sector access to the financial sector, including to micro-financing.

23. **Fostering diversification and Gabon's integration in the global economy requires trade liberalization, including at the regional level, and further flexibility of its labor markets.**¹⁷ The mission urged the authorities to play a lead role in regional discussions within the CEMAC to foster progress in this area. In particular, the relatively high common external tariff (CET), which affects about 22 percent of taxable imports, hampers private sector development. Further liberalization, coupled with trade-enabling investments in infrastructure and enhanced governance, would improve Gabon's competitiveness and result in welfare gains. The authorities agreed with the mission's assessment, but noted that trade policy is determined at a regional rather than a national level. They also expressed concern about the

¹⁵See Gabon—Financial System Stability Assessment (Country Report 02/98) and the forthcoming reports in the context of the regional FSAP for the *Communauté Economique et Monétaire de l'Afrique Centrale* (CEMAC).

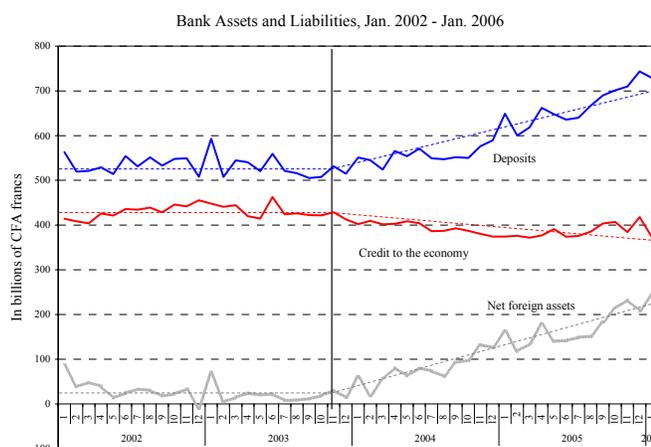
¹⁶Discussions focused on financial sector development and vulnerability. The forthcoming regional consultation with the CEMAC, tentatively scheduled for Board discussion in early July, will address in depth the monetary and exchange rate policies at the level of the monetary union.

¹⁷See *Regional Economic Outlook – Sub-Saharan Africa* (IMF, May 2005) and *Regional Trade Arrangements in Africa*, by Yongzheng Yang and Sanjeev Gupta (IMF, 2005).

fiscal implications of lowering the CET and its possible impact on the nascent agro-industries that have begun to produce for the domestic market.¹⁸ Rigid labor markets are an additional obstacle to increased private-sector activity, with deeply entrenched protection clauses—both explicit and implicit—that make dismissals very difficult and costly.

Box 6. Insufficient Private-Sector Access to Credit

Gabon’s financial sector is shallow even by regional standards, and banks appear to be withdrawing further from lending activities. High international oil prices resulted in an increased availability of funds. However, credit to the private sector—already only about one-half the average of countries in sub-Saharan Africa—continued to decline, from a peak of 13.2 percent of GDP in 2002 to 9.0 percent in 2005 (or, respectively, from 22.6 to 19.0 percent of non-oil GDP). Meanwhile, despite regional prudential regulations, excess liquidity has been transferred to correspondent banks outside the CEMAC zone, improving the net foreign asset position of commercial banks from –0.3 percent of GDP in 2002 to 4.4 percent in 2005. At the same time, banks continue to limit their liabilities by enforcing restrictions on minimum deposits and/or depositors’ minimum income.



A successful growth and poverty reduction strategy will require a more active financial sector. In particular, it requires banks that are both willing and able to increase access to credit by the private sector, possibly at rates lower than currently prevailing. An accompanying selected issues paper, which models banks as profit maximizers over costly monitoring, points to two principal constraints. It concludes that reforms in this area should aim at (i) reducing the minimum rate on deposits (if not fully liberalize it); and (ii) overcoming structural obstacles that have prevented banks thus far from assessing and monitoring effectively the credit risk of potential clients’ investment proposals. Such a reform agenda needs to include measures to (i) strengthen the legal environment for commercial matters; (ii) facilitate the registration of collateral and accelerate their collection; (iii) reinforce creditor rights; and (iv) improve corporate accounting practices.

24. **Concluding rapidly the privatizations of Gabon Télécom and Air Gabon will contribute to strengthening productivity while reducing the drain on the budget.** The mission welcomed the tender for a majority share in Gabon Télécom. It will now be important that the remaining steps are taken to ensure a successful and transparent sale by mid-year, as envisaged by the government’s timetable. The liquidation of Air Gabon is an important recognition that the public sector is ill-placed to manage a commercial airline. The objective

¹⁸Preliminary staff estimates suggest that the revenue loss from lowering the maximum tariff rate from 30 to 20 percent would be about ¾ percent of non-oil GDP.

should now be to allow the liquidator to complete its task as fast as possible, and without undue interference. The mission welcomed the agreement to establish a new airline, Air Gabon International (AGI), in which Royal Air Maroc (RAM) would have a majority stake; however, it expressed regret that until AGI becomes operational the government will continue to bear part of the financial burden of operating several routes deemed important, at a cost estimated at over CFAF 2 billion. This sends a mixed signal regarding the government's commitment to withdrawal from the airline business, and it will need to make it clear that its financial involvement will end when AGI becomes operational.

25. **Improving governance and containing corruption are critical to improving the business climate.** The 2004 governance indicators published by the World Bank rank Gabon in the bottom third on the control of corruption.¹⁹ On Transparency International's Corruption Perception Index, Gabon slipped from the 74th place in 2004 (with a score of 3.3) to 88th place in 2005 (with a score of 2.9). Recent initiatives to improve governance have yet to show their effectiveness. The 2004 diagnosis of Gabon's investment climate by the World Bank's Foreign Investment Advisory Service (FIAS) has not yet been translated into a comprehensive action plan. The National Commission Against Illicit Enrichment has taken important first steps, but challenges remain to enforce its asset declaration system. According to the Commission's Annual Report 2005, about one-third of senior officials had filed their income and wealth statements by end-June 2005 (with the number having increased to about one-half by year's end). The mission urged the Commission to move ahead and accelerate the implementation of the financial disclosure regime and to move forward in other areas, including investigations.

26. **Significant scope remains to increase transparency and improve the availability of economic information in Gabon.** Over the past few years, several important audits and reports have been prepared, highlighting the problems faced by various public institutions. Some have been published, including the list of forestry permit holders, but many documents are not regularly published or are very difficult to access. The mission urged the authorities to make further progress in transparency and publish key documents on the government's internet site, including the reports of the supreme audit office (*cour des comptes*) on budget execution in 2003 and 2004, the supplementary budget laws for 2004 and 2005, the recent audits of the *fêtes tournantes* and the road maintenance fund (FER), as well as the annual reports of the National Commission Against Illicit Enrichment. In addition, progress needs to be made to establish a system of regular public reporting of economic statistics consistent with the GDDS framework, including timely and comprehensive reports on public finances. Rapid adoption of a new statistics law and a boost in the resources of the Statistics Directorate should therefore be a priority. The authorities underscored their commitment to raising transparency and to making available to a larger audience several reports.

¹⁹<http://info.worldbank.org/governance/kkz2004/>

27. **Transparency in the oil sector received a welcome boost with the publication of Gabon's first EITI report.** The mission encouraged the authorities to increase further the transparency of oil sector operations by broadening the coverage of the next report. The authorities noted that they are in the process of drawing lessons from their first EITI report and hope to be able to broaden the coverage of the next report, scheduled for the third quarter of 2006, to include profit oil (the share of crude oil accruing to the government under the production sharing arrangements). They also plan to extend the report to the mining sector.

III. STAFF APPRAISAL

28. **In 2005, Gabon continued to enjoy record high oil prices, buoying both exports and government revenues.** Benefiting from high prices for other primary commodities, and the macroeconomic discipline established in the context of the 2004–05 Stand-By Arrangement, non-oil growth also accelerated while inflation remained moderate, resulting in the first increase in per-capita GDP since 1999. The elimination of external and domestic arrears and the lowering of external debt provided a welcome boost to confidence, complementing the far-reaching structural reforms initiated since 2004. However, the presidential elections in late-2005 were accompanied by large fiscal slippages and delays in structural reforms, and the parliamentary elections scheduled for late 2006 pose a further risk for financial stability. The key short-term priority must therefore be to re-establish fiscal discipline and re-invigorate the structural reform program.

29. **The critical medium-term challenge facing Gabon is managing the transition from an economy highly dependent on oil to a diversified economy that harnesses private sector initiative and makes decisive progress in poverty reduction.** The current high levels of oil prices represent an opportunity to lower debt levels decisively, thereby reducing a major source of Gabon's past vulnerability to shocks. They also allow the government to address some of the pressing social and infrastructural needs facing the country. The challenge for policy is to strike a judicious balance between the pressures for public spending to address these needs and raising public savings to prepare for the inevitable exhaustion of oil reserves and the decline in the government's main revenue source. But without macroeconomic stability and effective public financial management, sharp increases in public spending are unlikely to be effective nor sustainable. For both these reasons, it will be critical to save the bulk of the oil windfall in the coming years.

30. **The fiscal policy stance in 2006 requires significant tightening.** The end-2005 slippages have pushed the non-oil primary deficit well above sustainable levels. Both sustainability and vulnerability concerns suggest that the slippages should be fully reversed in 2006. A full assessment of the fiscal stance also requires taking into account the fast-growing implicit subsidies on petroleum products, which under the current regime could reach 4½ of non-oil GDP in 2006. These subsidies are benefiting primarily higher income households and it will be important to adjust retail prices to import parity levels. The social and economic impact of such an adjustment can be mitigated by doing so gradually and by raising targeted subsidies to the poor. In any case, to increase transparency and accountability, the foregone revenue and implicit subsidies should be reflected fully in the budget.

31. **Improving public expenditure management is critical to strengthening expenditure control and raising the quality of public investment.** The recent fiscal transparency ROSC revealed significant shortcomings in the planning, monitoring, and ex-post control of public expenditure, as well as in revenue administration. Key measures required include a more effective prioritization of the public investment program; strengthening budget execution and monitoring; improving the transparency of the budget, notably of oil revenue; and improving the efficiency of the tax system by broadening the non-oil revenue base. Efforts should be made to address these issues with urgency, at the latest in the context of the 2007 budget.

32. **Raising economic growth and reducing poverty necessitate the acceleration of the structural reform agenda.** The GPRSP needs to be made operational by formulating concrete poverty-reducing programs. There is also a need to improve the investment climate to foster private sector development. The problems are well known and include legal and regulatory uncertainty, the absence of a dynamic financial sector, rigid labor markets, and continued weaknesses in governance. Notably, the rapid conclusion of the privatization of Air Gabon and Gabon Télécom will contribute to strengthening the productivity of Gabon's economy. Going forward, it will be important to ensure that the successor airline to Air Gabon no longer represents a drain on public resources.

33. **Fostering transparency is a key ingredient to strengthening governance and accountability.** Progress has been made and the recent publication of Gabon's first EITI report represents a further important step. Nevertheless, significant scope remains to reinforce transparency. There is a need to improve access to information, including through the regular publication of timely and accurate economic statistics and the broader dissemination of government reports. The work of the National Commission Against Illicit Enrichment should be accelerated, including in the area of investigations. Work on the EITI needs to continue, with the objective of making its next report more comprehensive, notably by including revenue streams related to profit oil. And reforms in the forestry sector, which had a strong start in 2004, should resume, notably by dealing decisively with the holders of forestry permits that have tax arrears and ensuring that its financing remains within the government budget.

34. **Gabon is at a crucial juncture.** The current high oil prices are an opportunity to decisively lower debt levels, thereby reducing Gabon's historical vulnerability to oil price swings, and address the country's pressing social and infrastructural needs. This will require maintaining sound economic policies and, in particular, raising the quality of public spending. But high oil prices and temporarily higher government revenue do not change the reality that oil resources are finite and will eventually run out. Policies must be sustainable and provide an environment in which both the public and the private sectors can contribute to tackling the great challenges facing Gabon: ensuring sustained, broad-based growth and prosperity for all future generations.

Table 1. Gabon: Selected Economic Indicators, 2001–08

	2001	2002	2003	2004	2005 Prel.	2006 Proj.	2007 Proj.	2008
	(Annual percent change)							
GDP at constant prices	2.0	0.0	2.4	1.4	2.9	3.0	1.8	3.3
Oil	-5.7	-1.4	6.6	-1.0	-1.1	1.2	-4.8	0.1
Non-oil	5.3	0.6	0.8	2.3	4.4	3.6	4.1	4.3
GDP at current prices	-4.7	0.0	2.0	8.5	18.9	10.1	0.2	4.2
GDP deflator	-6.6	0.0	-0.4	7.0	15.6	6.9	-1.5	0.9
Oil	-12.7	1.0	-3.4	16.6	34.4	12.3	1.7	2.9
Non-oil	2.2	-0.2	0.5	1.1	2.7	2.8	-0.1	1.2
Consumer prices								
Yearly average	2.1	0.2	2.1	0.4	0.0	1.0	1.2	1.4
End of period	0.9	0.4	3.5	-0.6	-0.5	1.0	1.2	1.4
External sector								
Exports, f.o.b. (CFA francs)	-19.0	-7.0	3.7	21.5	26.1	9.0	-3.6	1.2
<i>Of which:</i> oil	-19.6	-6.5	8.2	15.9	31.9	8.6	-7.8	-0.3
Imports, f.o.b. (CFA francs)	9.3	4.9	-7.0	19.3	7.0	6.2	5.7	8.3
Export volume	-13.9	-1.8	-4.1	29.1	14.1	6.2	-3.3	1.1
Import volume	3.8	9.2	7.1	28.8	5.4	0.6	5.3	6.5
Terms of trade (deterioration -)	-10.6	-1.5	24.7	1.6	34.3	5.7	2.8	1.2
Nominal effective exchange rate (- = depreciation)	1.9	4.5	4.0	1.8	-2.9	...	...	...
Real effective exchange rate (- = depreciation)	1.1	2.5	5.7	-1.0	-5.3	...	...	...
Central government finance								
Total revenue	-2.8	-7.3	-3.6	6.0	25.7	9.4	2.9	-1.8
Oil revenue	-7.6	-19.1	-6.4	5.2	44.4	10.0	2.0	-5.8
Non-oil revenue	7.1	13.8	0.0	6.8	2.6	8.4	4.6	5.0
Total expenditure	35.1	-8.7	-18.6	4.8	17.2	0.4	2.0	-0.9
Current	27.5	-20.1	-10.7	2.3	14.3	-9.8	1.6	-1.3
Capital	55.7	-16.5	-4.4	22.4	-3.1	29.0	1.0	1.5
	(In percent of beginning-of-period broad money, unless otherwise indicated)							
Money and credit								
Net domestic assets	42.6	-2.1	-8.8	-23.8	-14.4	-44.2	-46.4	-40.7
Domestic credit	38.8	-1.4	-4.9	-22.1	-11.3	-25.9	-30.8	-23.8
Central government	27.7	-9.1	2.0	-13.6	-16.7	-29.1	-33.5	-27.4
Credit to the economy (annual percentage change)	11.8	6.4	-7.1	-6.5	6.6	3.8	2.6	3.8
Broad money	17.4	8.7	-9.4	-9.3	11.6	7.5	5.6	8.3
Broad money	7.5	5.7	-1.2	11.6	26.0	14.5	8.2	13.6
Velocity of broad money (non-oil GDP) 1/	3.7	3.4	3.4	3.4	3.1	2.7	2.5	2.4
	(In percent of GDP, unless otherwise indicated)							
Gross national savings	36.8	31.3	36.0	34.8	37.6	40.7	41.4	41.1
Government	8.0	7.5	11.1	11.7	12.8	16.1	16.7	15.9
Private sector	28.8	23.8	24.9	23.1	27.1	26.4	26.3	26.5
Gross domestic savings	51.8	43.6	48.1	49.4	58.4	56.9	55.9	54.4
Government	15.9	10.9	8.0	9.3	15.6	18.2	18.9	17.7
Private sector	35.9	32.7	40.1	40.1	42.8	38.7	37.0	36.7
Gross fixed investment	25.8	24.4	24.0	24.3	21.7	21.1	22.3	22.7
Government	4.7	4.0	3.7	4.2	3.4	4.0	4.0	3.9
Private sector	21.0	20.5	20.2	20.1	18.4	17.1	18.3	18.8
Nominal GDP (in billions of CFA francs)	3,448.5	3,455.9	3,526.9	3,864.3	4,593.7	5,056.6	5,068.7	5,283.4
Central government								
Primary budget balance (commitment basis)	12.0	7.9	11.4	11.3	12.2	13.4	14.0	12.8
Non-oil primary balance (in percent of non-oil GDP)	-16.9	-16.7	-8.2	-7.7	-12.1	-8.9	-7.7	-6.6
Overall balance (commitment basis, excl. grants)	3.2	3.4	7.4	7.4	9.3	11.1	11.6	10.7
Overall balance (cash basis)	4.8	3.5	6.4	2.4	7.8	10.1	10.9	10.1
Domestic bank financing	4.2	-1.5	0.5	-2.3	-2.4	-4.8	-6.3	-5.3
Net external financing	-6.2	-2.2	-3.7	2.5	-2.8	-3.7	-3.9	-4.4
External current account balance (incl. official transfers)	11.0	6.8	12.0	10.5	15.9	19.6	19.1	18.3
External public debt (including the Fund)	63.1	62.8	55.9	49.6	39.2	31.8	27.8	22.6
Total public debt (including the Fund) 2/	81.1	82.8	73.0	61.9	44.2	33.5	28.5	22.9

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

1/ Velocity is projected to decline as result of a financial sector reform, aimed at increasing intermediation.

2/ Domestic debt does not include statutory advances from the BEAC.

Table 2. Gabon: Fiscal Operations of the Central Government Summary, 2001-08

	2001	2002	2003	2004	2005 Prel.	2006 Proj.	2007 Proj.	2008
(In billions of CFA francs)								
Total revenue and grants	1173.6	1089.9	1050.3	1113.6	1434.2	1572.4	1618.6	1589.5
Oil revenue	752.9	609.0	583.9	628.2	907.2	997.8	1018.0	959.2
On budget	752.9	609.0	570.2	600.0	835.2	890.4	903.0	848.0
Sogara transfer	0.0	0.0	13.7	28.2	71.9	107.4	115.0	111.2
Non-oil revenue	420.8	479.0	478.9	511.5	525.0	569.3	595.3	625.0
Direct taxes	96.6	134.2	122.6	137.3	138.6	145.5	152.1	159.7
Indirect taxes	70.8	83.5	109.6	115.1	113.7	126.2	132.0	138.6
VAT	61.7	64.4	80.3	82.6	80.5	90.4	94.5	99.2
Taxes on international trade	218.4	210.0	200.3	200.5	215.3	228.9	239.4	251.3
Import taxes	187.8	180.9	171.2	172.9	179.6	191.0	199.7	209.6
Export taxes	30.6	29.1	29.1	27.6	35.7	38.0	39.7	41.7
Other revenue	35.0	51.3	46.4	58.7	57.4	68.7	71.8	75.4
Foreign grants	0.0	1.9	1.2	2.1	2.0	5.3	5.3	5.3
Total expenditure (including net lending)	1061.9	969.2	802.7	855.3	1002.7	1006.5	1026.3	1017.0
Current expenditure	860.4	687.4	613.5	627.8	717.4	647.1	657.3	648.8
Wages and salaries	219.6	220.6	229.0	226.3	227.8	231.7	232.0	235.0
Goods and services	177.0	156.7	124.8	125.1	153.2	164.4	169.9	174.4
Transfers and subsidies	160.1	158.8	118.3	125.6	207.2	141.7	138.0	138.0
Interest payments	303.7	151.3	141.5	150.8	129.2	109.3	117.4	101.4
Domestic	34.3	33.7	30.4	31.4	29.3	10.5	36.8	33.9
External (excluding IMF)	269.4	117.6	111.1	119.4	99.9	98.8	80.6	67.5
Petroleum product price subsidies	0.0	0.0	13.7	28.2	71.9	107.4	115.0	111.2
Capital expenditure and net lending	163.6	136.6	130.7	160.0	155.0	200.0	202.0	205.0
Domestically financed	154.3	117.0	122.0	142.2	146.1	190.5	192.1	194.6
Independence day investment	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Other investment	104.3	67.0	72.0	92.2	96.1	140.5	142.1	144.6
Foreign-financed investment	9.3	19.6	8.7	17.8	8.9	9.5	9.9	10.4
Net lending (including equity participation)	37.9	17.1	0.3	0.0	5.0	0.0	0.0	0.0
Road Fund (FER) and special funds	0.0	60.5	44.5	39.3	53.4	52.0	52.0	52.0
Overall balance (payment order basis)	111.7	120.7	261.3	286.5	431.5	565.9	592.3	572.5
Change in arrears (including float)	54.7	1.1	-36.4	-193.7	-74.7	-54.0	-40.0	-40.0
Overall balance (cash basis)	166.4	121.8	224.9	92.9	356.7	511.9	552.3	532.5
Financing	-166.3	-121.8	-224.9	-92.9	-356.7	-511.9	-552.3	-532.5
External (net)	-213.1	-76.9	-130.7	93.9	-130.8	-187.3	-199.9	-230.0
Domestic (net)	46.8	-44.9	-94.2	-186.8	-225.9	-324.5	-352.5	-302.5
Banking system	144.7	-51.5	15.8	-86.0	-110.6	-242.4	-319.1	-282.5
Nonbank sources	-97.9	6.6	-110.0	-100.7	-115.3	-82.2	-33.4	-20.0
Memorandum items	(In percent of GDP)							
Total revenue and grants	34.0	31.5	29.8	28.8	31.2	31.1	31.9	30.1
Total expenditure	30.8	28.0	22.8	22.1	21.8	19.9	20.2	19.2
Overall balance (payment order basis)	3.2	3.5	7.4	7.4	9.4	11.2	11.7	10.8
(In percent of non-oil GDP)								
Non-oil revenue	21.1	23.8	23.5	24.2	23.2	23.6	23.7	23.6
Primary expenditure	37.9	40.6	32.4	33.4	38.6	37.2	36.2	34.6
Wage bill	11.0	11.0	11.2	10.7	10.1	9.6	9.2	8.9
Non-oil primary balance 1/	-16.9	-16.7	-8.2	-7.7	-12.1	-8.9	-7.7	-6.6
Restructuring costs 2/	0.3	1.0	0.4	0.7	0.4	1.6	0.0	0.0
Implicit fuel price subsidies 3/	...	...	0.7	1.3	3.2	4.5	4.6	4.2
Augmented non-oil primary balance 4/	-17.2	-17.7	-9.3	-9.8	-15.7	-15.0	-12.3	-10.8

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

1/ Non-oil revenue (including grants) minus primary spending (excluding fuel price subsidies).

2/ Includes the social plans and debt assumptions for Gabon Telecom, Air Gabon, AgroGabon, Gabon Poste, SNBG, and CNGS.

3/ The value of crude oil provided free to the refinery (SOGARA) to compensate it for the difference between import parity fuel prices and the controlled ex-SOGARA price. These subsidies are not reported in the government budget.

4/ The augmented balance includes the restructuring costs and assumes continued fuel price subsidies.

Table 3. Gabon: Fiscal Operations of the Central Government, 2001–08

	2001	2002	2003	2004	2005	2006	2007	2008
					Prel.		Proj.	
(In billions of CFA francs)								
Total revenue and grants	1,173.6	1,089.9	1,050.3	1,113.6	1,434.2	1,572.4	1,618.6	1,589.5
Revenue	1,173.6	1,088.0	1,049.1	1,111.5	1,432.2	1,567.1	1,613.3	1,584.2
Oil revenue	752.9	609.0	583.9	628.2	907.2	997.8	1,018.0	959.2
On budget	752.9	609.0	570.2	600.0	835.2	890.4	903.0	848.0
SOGARA transfer	0.0	0.0	13.7	28.2	71.9	107.4	115.0	111.2
Non-oil revenue	420.8	479.0	478.9	511.5	525.0	569.3	595.3	625.0
Direct taxes	96.6	134.2	122.6	137.3	138.6	145.5	152.1	159.7
Indirect taxes	70.8	83.5	109.6	115.1	113.7	126.2	132.0	138.6
VAT on domestic goods and services	61.7	64.4	80.3	82.6	80.5	90.4	94.5	99.2
Taxes on international trade	218.4	210.0	200.3	200.5	215.3	228.9	239.4	251.3
Import taxes	187.8	180.9	171.2	172.9	179.6	191.0	199.7	209.6
Export taxes	30.6	29.1	29.1	27.6	35.7	38.0	39.7	41.7
Other revenue	35.0	51.3	46.4	58.7	57.4	68.7	71.8	75.4
Foreign grants	0.0	1.9	1.2	2.1	2.0	5.3	5.3	5.3
Total expenditure (including net lending)	1,061.9	969.2	802.7	855.3	1,002.7	1,006.5	1,026.3	1,017.0
Total expenditure (excluding interest payments)	758.2	817.9	661.2	704.5	873.5	897.2	908.9	915.6
Current expenditure	860.4	687.4	613.5	627.8	717.4	647.1	657.3	648.8
Wages and salaries	219.6	220.6	229.0	226.3	227.8	231.7	232.0	235.0
Purchases of goods and services	177.0	156.7	124.8	125.1	153.2	164.4	169.9	174.4
Transfers and subsidies	160.1	158.8	118.3	125.6	207.2	141.7	138.0	138.0
Subsidies	0.0	0.0	18.1	14.5	29.5	17.2	10.4	10.1
Of which: Gabon Poste	0.0	0.0	0.0	8.4	6.8	6.0	5.8	5.7
Air Gabon	18.0	51.0	0.0	0.0	18.0	6.5	0.0	0.0
Other transfers	...	...	100.1	88.0	109.7	91.6	95.5	96.6
Security and sovereignty funds	...	...	...	23.1	68.0	32.9	32.1	31.2
Interest payments	303.7	151.3	141.5	150.8	129.2	109.3	117.4	101.4
Domestic	34.3	33.7	30.4	31.4	29.3	10.5	36.8	33.9
External	269.4	117.6	111.1	119.4	99.9	98.8	80.6	67.5
Petroleum product price subsidies	0.0	0.0	13.7	28.2	71.9	107.4	115.0	111.2
Capital expenditure	163.6	136.6	130.7	160.0	155.0	200.0	202.0	205.0
Domestically financed investment	154.3	117.0	122.0	142.2	146.1	190.5	192.1	194.6
Independence day investment	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Other investment	104.3	67.0	72.0	92.2	96.1	140.5	142.1	144.6
Foreign-financed investment	9.3	19.6	8.7	17.8	8.9	9.5	9.9	10.4
Net lending	37.9	17.1	0.3	0.0	5.0	0.0	0.0	0.0
Road Maintenance Fund (FER) and special funds	0.0	60.5	44.5	39.3	53.4	52.0	52.0	52.0
Primary balance, incl. grants (on a payment order basis)	415.4	272.0	402.8	437.3	560.6	675.2	709.7	673.9
Overall balance, incl. grants (on a payment order basis)	111.7	120.7	261.3	286.5	431.5	565.9	592.3	572.5
Change in arrears	54.7	1.1	-36.4	-193.7	-74.7	-54.0	-40.0	-40.0
External (on interest payments)	26.2	81.1	32.4	-140.4	-2.9	0.0	0.0	0.0
Domestic	28.5	-79.9	-68.8	-53.3	-71.9	-54.0	-40.0	-40.0
Overall balance (on a cash basis)	166.4	121.8	224.9	92.8	356.7	511.9	552.3	532.5
Financing	-166.3	-121.8	-224.9	-92.8	-356.7	-511.9	-552.3	-532.5
External (net)	-213.1	-76.9	-130.7	93.9	-130.8	-187.3	-199.9	-230.0
Drawings	9.3	17.7	8.7	59.9	8.9	26.0	26.0	26.0
Project financing	9.3	17.7	8.7	17.8	8.9	26.0	26.0	26.0
Amortization	-309.7	-243.6	-198.6	-208.2	-219.4	-213.3	-225.9	-256.0
Arrears (on principal, reduction = -)	35.0	135.8	46.1	-185.8	0.0	0.0	0.0	0.0
Debt rescheduling and deferral	29.4	1.3	2.0	425.4	77.3	0.0	0.0	0.0
Debt cancellation	17.0	11.9	11.1	2.6	2.4	0.0	0.0	0.0
Domestic (net)	46.8	-44.9	-94.2	-186.7	-225.9	-324.5	-352.5	-302.5
Banking system	144.7	-51.5	15.8	-86.0	-110.6	-242.4	-319.1	-282.5
Bank of Central African States	109.5	-92.9	15.8	-52.1	-65.6	-236.3	-299.4	-267.5
Commercial banks	35.2	41.4	0.0	-33.9	-45.0	-6.1	-19.7	-15.0

Table 3. Gabon: Fiscal Operations of the Central Government, 2001–08 (concluded)

	2001	2002	2003	2004	2005 Prel.	2006	2007 Proj.	2008
(In billions of CFA francs)								
Nonbank sources	-97.9	6.6	-110.0	-100.7	-115.3	-82.2	-33.4	-20.0
Domestic debt	-80.7	-75.4	-60.1	-68.8	-99.8	-58.4	-33.1	-20.0
Debt department and other debt (DGCP)	-72.9	-69.1	-55.3	-52.0	-79.7	-42.2	-33.1	-20.0
Debt at the treasury (Clubs de Libreville 1 & 2)	0.0	0.0	0.0	-5.5	-4.7	0.0	0.0	0.0
Regularization of civil servants' salaries (arrieres de solde)	-7.8	-6.3	-4.8	-16.8	-20.0	-16.2	0.0	0.0
Change in domestic arrears (on principal, - = reduction)	6.1	14.1	-11.6	-15.4	-0.9	0.0	0.0	0.0
Restructuring costs (incl. redundancies)	-5.6	47.9	-7.8	-15.2	-8.1	-39.0	0.0	0.0
Redundancies and social plan	0.0	0.0	-7.8	-7.4	-8.1	-39.0	0.0	0.0
Debt rescheduling and cancellation	0.0	39.6	0.0	10.1	20.1	0.0	0.0	0.0
Privatization proceeds (cession actifs)	3.4	1.8	1.0	1.7	0.0	18.2	0.0	0.0
Other 2/	-21.1	-21.4	-31.5	-13.0	-26.6	-3.0	-0.3	0.0
(In percent of GDP)								
Memorandum items:								
Total revenue (excluding grants)	34.0	31.5	29.7	28.8	31.2	31.0	31.8	30.0
Oil revenue	21.8	17.6	16.6	16.3	19.7	19.7	20.1	18.2
On budget	21.8	17.6	16.2	15.5	18.2	17.6	17.8	16.1
SOGARA transfer	0.0	0.0	0.4	0.7	1.6	2.1	2.3	2.1
Non-oil revenue	12.2	13.9	13.6	13.2	11.4	11.3	11.7	11.8
Total expenditure	30.8	28.0	22.8	22.1	21.8	19.9	20.2	19.2
Total expenditure, excluding interest payments	22.0	23.7	18.7	18.2	19.0	17.7	17.9	17.3
Current expenditure	25.0	19.9	17.4	16.2	15.6	12.8	13.0	12.3
Wages and salaries	6.4	6.4	6.5	5.9	5.0	4.6	4.6	4.4
Purchases of goods and services	5.1	4.5	3.5	3.2	3.3	3.3	3.4	3.3
Transfers and subsidies	4.6	4.6	3.4	3.2	4.5	2.8	2.7	2.6
Interest payments	8.8	4.4	4.0	3.9	2.8	2.2	2.3	1.9
Petroleum product price subsidies	0.0	0.0	0.4	0.7	1.6	2.1	2.3	2.1
Capital expenditure	4.7	4.0	3.7	4.1	3.4	4.0	4.0	3.9
Net lending	1.1	0.5	0.0	0.0	0.1	0.0	0.0	0.0
FER and special funds	0.0	1.8	1.3	1.0	1.2	1.0	1.0	1.0
Overall balance (on a cash basis)	4.8	3.5	6.4	2.4	7.8	10.1	10.9	10.1
(In percent of non-oil GDP)								
Non-oil revenue	21.1	23.8	23.5	24.2	23.2	23.6	23.7	23.6
Primary expenditure	37.9	40.6	32.4	33.4	38.6	37.2	36.2	34.6
Wages and salaries	11.0	11.0	11.2	10.7	10.1	9.6	9.2	8.9
Non-oil primary balance 4/	-16.9	-16.7	-8.2	-7.7	-12.1	-8.9	-7.7	-6.6
Restructuring costs 5/	0.3	1.0	0.4	0.7	0.4	1.6	0.0	0.0
Implicit fuel price subsidies 6/	0.0	0.0	0.7	1.3	3.2	4.5	4.6	4.2
Augmented non-oil primary balance 7/	-17.2	-17.7	-9.3	-9.8	-15.7	-15.0	-12.3	-10.8
Oil prices (in U.S. dollars/barrel)	24.3	25.0	28.9	37.8	53.4	56.0	55.0	55.0
GDP at market prices (in billions of CFAF)	3,448.5	3,455.9	3,526.9	3,864.3	4,593.7	5,056.6	5,068.7	5,283.4
Non-oil GDP at market prices (in billions of CFAF)	1,998.4	2,012.8	2,041.0	2,112.3	2,264.9	2,412.1	2,508.2	2,646.8
Fund for Future Generations (stock, in billions of CFAF)	...	70.4	30.0	55.0	84.0	181.4	473.4	724.2

Sources: Gabonese authorities; and Fund staff estimates and projections

1/ 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.

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

3/ The corresponding national oil prices are US\$1-4 lower.

4/ Non-oil revenue (including grants) minus primary spending (excluding fuel price subsidies).

5/ Includes the social plans and debt assumptions for Gabon Telecom, Air Gabon, AgroGabon, Gabon Poste, SNBG, and CNGS.

6/ The value of crude oil provided free to the refinery (SOGARA) to compensate it for the difference between import parity fuel prices and the controlled ex-SOGARA price. These subsidies are not reported in the government budget.

7/ The augmented balance includes the restructuring costs and assumes continued fuel price subsidies.

Table 4. Gabon: Monetary Survey, 2001–08

	2001	2002	2003	2004	2005 Prel.	2006	2007 Proj.	2008
(In billions of CFA francs)								
Stocks								
Net foreign assets	-8.1	36.1	81.6	291.4	541.9	1,047.6	1,568.7	2,128.1
Central bank	-46.0	46.0	66.9	165.2	334.0	746.8	1,214.1	1,753.0
Assets	9.9	90.1	104.9	216.2	375.4	788.2	1,255.5	1,794.4
Liabilities	-56.0	-44.1	-38.0	-51.1	-41.4	-41.4	-41.4	-41.4
Deposit money banks	37.9	-9.9	14.6	126.2	208.0	300.8	354.6	375.2
Assets	98.5	72.5	86.6	193.7	265.3	358.1	411.9	432.5
Liabilities	-60.6	-82.5	-71.9	-67.5	-57.3	-57.3	-57.3	-57.3
Net domestic assets	574.8	562.9	510.2	369.3	273.8	-93.9	-536.9	-956.3
Net domestic credit	660.2	652.3	623.0	496.1	421.4	206.0	-88.1	-333.2
Net credit to the public sector	241.0	196.7	210.2	121.6	3.5	-243.1	-562.3	-846.7
Net credit to the government	271.3	219.8	231.9	151.5	40.9	-201.4	-520.5	-803.0
Central bank	223.6	130.7	146.5	94.3	28.7	-207.5	-506.9	-774.4
Claims	248.2	231.5	196.8	197.2	171.7	32.8	25.5	8.7
<i>Of which</i>								
Statutory advances	194.4	189.2	166.4	149.1	136.2	0.9	0.9	0.9
Use of IMF credit	53.8	42.2	30.4	48.0	35.5	32.0	24.6	7.9
Deposits	24.6	100.8	50.3	102.8	142.9	240.4	532.4	783.1
Deposit money banks	47.7	89.1	85.4	57.2	12.2	6.1	-13.6	-28.6
Post office savings	2.3	2.5	6.2	4.1	4.0	4.0	4.0	4.0
Claims on public agencies, net	-32.6	-25.5	-27.9	-34.1	-41.4	-45.6	-45.7	-47.6
Credit to the economy	419.2	455.6	412.8	374.5	417.9	449.1	474.2	513.5
Other items, net	-85.4	-89.4	-112.8	-126.8	-147.5	-198.8	-350.4	-561.7
Broad money	566.7	599.0	591.8	660.6	832.6	953.7	1,031.8	1,171.8
Currency outside banks	128.2	132.0	124.2	138.7	190.2	206.9	210.6	237.2
Demand deposits	204.0	214.7	220.9	250.5	330.3	383.9	422.2	480.5
Time deposits	234.5	252.3	246.7	271.5	312.1	362.8	399.0	454.1
(Changes in percent of beginning-of-period broad money)								
Net foreign assets	-35.1	7.8	7.6	35.5	37.9	60.7	54.6	54.2
Net domestic assets	42.6	-2.1	-8.8	-23.8	-14.4	-44.2	-46.4	-40.7
Net domestic credit	38.8	-1.4	-4.9	-21.4	-11.3	-25.9	-30.8	-23.8
Net credit to the government	27.7	-9.1	2.0	-13.6	-16.7	-29.1	-33.5	-27.4
Credit to the economy	11.8	6.4	-7.1	-6.5	6.6	3.8	2.6	3.8
Broad money	7.5	5.7	-1.2	11.6	26.0	14.5	8.2	13.6
(Annual percent changes, unless otherwise indicated)								
Credit to the economy	17.4	8.7	-9.4	-9.3	11.6	7.5	5.6	8.3
Broad money	7.5	5.7	-1.2	11.6	26.0	14.5	8.2	13.6
<i>Of which</i> : currency outside of banks	10.3	3.0	-5.9	11.7	37.1	8.8	1.8	12.6
Memorandum items:								
Velocity								
Non-oil GDP	3.7	3.4	3.4	3.4	3.1	2.7	2.5	2.4
Total GDP	6.3	5.9	5.9	5.8	5.5	5.3	4.9	4.5
Non-oil GDP growth	7.6	0.4	1.4	3.5	7.2	6.5	4.0	5.5
Total GDP growth	-4.7	0.0	2.0	9.6	18.9	10.1	0.2	4.2
Credit to the economy/non-oil GDP	21.0	22.7	20.3	17.7	18.5	18.6	18.9	19.4

Source: Bank of Central African States (BEAC).

Table 5. Gabon: Balance of Payments, 2001–08
(in billions of CFA francs unless otherwise indicated)

	2001	2002	2003	2004	2005	2006	2007	2008
					Prel.	Proj.		
Current account (including transfers)	379.3	235.6	423.5	400.7	729.9	991.4	965.9	969.0
Exports, f.o.b.	1,916.0	1,781.2	1,847.1	2,244.7	2,819.6	3,072.4	2,961.0	2,996.4
Oil sector	1,535.9	1,435.4	1,553.6	1,800.9	2,371.9	2,575.2	2,375.6	2,367.8
Other sectors	380.1	345.8	293.4	443.7	447.7	497.2	585.4	628.5
Imports, f.o.b.	-621.2	-651.7	-605.9	-722.5	-694.9	-738.2	-780.2	-845.1
Oil sector	-214.1	-163.3	-124.3	-216.3	-163.7	-299.8	-258.2	-274.4
Non-oil private sector	-407.0	-488.3	-481.5	-506.1	-531.1	-438.2	-521.9	-570.5
Trade balance	1,294.8	1,129.5	1,241.2	1,522.1	2,124.8	2,334.2	2,180.8	2,151.3
Services (net)	-858.1	-802.5	-712.6	-1,019.9	-1,294.8	-1,238.3	-1,165.8	-1,144.3
<i>Of which</i>								
Interest on public debt (gross)	-263.0	-118.9	-114.7	-122.1	-99.7	-90.6	-90.7	-79.3
Profits (net)	-132.9	-201.3	-202.7	-272.5	-494.1	-457.1	-490.7	-483.5
Current Transfers (net)	-57.4	-91.4	-105.1	-101.5	-100.1	-104.4	-49.0	-38.0
Capital Account	-576.3	-374.1	-477.2	-407.0	-630.5	-575.1	-491.2	-413.4
Capital Transfers (net)	1.9	1.8	25.1	2.7	3.5	3.5	0.0	0.0
Medium- and long-term capital	-286.4	-213.7	-189.6	-67.6	-197.7	-110.4	-64.6	-89.7
Public sector	-268.3	-226.5	-190.4	-154.9	-274.1	-176.5	-185.9	-216.0
Drawings (gross)	9.3	17.7	15.4	59.9	7.1	38.0	40.0	40.0
Project	9.3	17.7	8.7	17.8	10.0	0.0	26.0	26.0
Other (excluding IMF)	0.0	0.0	6.7	42.1	-2.9	38.0	14.0	14.0
Amortization (gross)	-277.5	-244.1	-205.7	-214.8	-281.2	-214.5	-225.9	-256.0
Direct investment and portfolio investment (net)	-67.6	42.1	10.0	118.5	114.3	104.2	142.8	144.5
Other capital inflows (net)	49.4	-29.4	-9.2	-31.2	-37.9	-38.1	-21.5	-18.1
Oil sector	22.4	-3.5	22.5	-8.4	-18.0	-17.6	-8.0	-9.6
Non-oil sector	27.0	-25.8	-31.7	-22.8	-19.9	-20.5	-13.5	-8.5
Short-term capital	-291.8	-162.2	-312.7	-342.1	-436.4	-468.2	-426.6	-323.7
Oil sector	-69.3	2.0	-55.2	-104.3	-262.2	-276.4	-232.8	-222.2
Non-oil sector	-138.1	-67.6	-162.5	-237.8	-182.9	-191.9	-193.8	-101.6
Errors and omissions	-84.3	-96.7	-95.0	0.0	8.7	0.0	0.0	0.0
Overall Balance	-197.0	-138.5	-53.7	-6.3	99.4	416.3	474.7	555.6
Financing	197.0	138.5	53.7	6.3	-99.4	-416.3	-474.7	-555.6
Central Bank, net foreign								
assets (- = increase)	119.1	-92.0	-20.9	-97.7	-168.9	-416.3	-474.7	-555.6
IMF Liabilities (- = decrease)	-7.1	-13.5	-11.8	19.2	-9.7	-3.5	-7.4	-16.7
Other net assets (- = increase)	126.1	-78.5	-9.0	-116.9	-159.2	-412.8	-467.3	-538.9
Debt rescheduling	0.0	1.3	0.0	254.1	72.6	0.0	0.0	0.0
Debt cancellation (and other)	17.0	11.9	11.1	2.7	0.0	0.0	0.0	0.0
Arrears net (- = reduction)	60.9	217.4	63.5	-326.9	-3.1	0.0	0.0	0.0
Other exceptional financing	0.0	0.0	0.0	174.1	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Current account (including official transfers)	11.0	6.8	12.0	10.5	15.9	19.6	19.1	18.3
Oil	27.2	26.2	34.3	27.7	31.8	25.6	27.9	26.6
Non-oil	-16.2	-19.4	-22.3	-17.2	-16.0	-6.0	-8.8	-8.2
Capital account	-16.7	-10.8	-13.6	-10.7	-13.7	-11.4	-9.7	-7.8
Overall balance	-5.7	-4.0	-1.5	-0.2	2.2	8.2	9.4	10.5
Gross official reserves (in billions of CFA francs)	9.9	90.1	104.9	216.2	375.4	788.2	1,255.5	1,794.4
In months of imports of GNFS	0.1	0.9	1.2	1.9	3.7	7.0	11.1	15.2
World oil price (U.S. dollars/barrel)	24.3	25.0	28.9	37.8	53.4	56.0	55.0	55.0
National oil price (U.S. dollars/barrel)	22.6	24.2	27.6	35.6	48.7	50.3	50.4	50.3
Oil production (in million tons)	13.0	12.6	13.5	13.6	13.3	13.5	12.6	12.6
Exchange rate CFA francs per U.S. dollar (average)	732.4	695.4	580.1	528.3	526.6	547.0	540.0	540.0

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

Table 6. 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 7. 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 7. 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 8. Gabon: Indicators of External Vulnerability, 2001–05

	2001	2002	2003	2004	2005
Exports (percent change, 12-month basis in U.S. dollars)	-21.4	-2.1	24.3	33.1	26.3
Imports (percent change, 12-month basis in U.S. dollars)	6.0	10.5	11.4	17.8	7.2
Terms of trade (percent change, 12-month basis)	-10.6	-1.5	24.7	1.6	34.3
Current account balance, incl. grants (in percent of GDP)	11.0	6.8	12.0	10.5	15.9
Gross official reserves (in millions of U.S. dollars)	13.8	136.9	194.1	442.0	678.5
Gross official reserves (in months of imports of goods and services of the following year) 1/	0.1	1.0	0.9	2.3	3.1
Gross reserves of the banking system (in millions of U.S. dollars) 1/	150.9	247.2	354.3	837.9	1158.0
Gross reserves of the banking system (in months of imports of goods and services of the following year) 1/	1.1	1.8	1.7	4.3	5.2
Central bank short-term foreign liabilities (in millions of U.S. dollars) 1/	77.9	67.0	70.3	104.4	74.9
Official reserves/broad money (M2) (in percent) 1/	1.8	15.0	17.7	32.7	45.1
Total public and publicly guaranteed debt (in millions of U.S. dollars)	3029.6	3292.7	3646.6	3920.7	3257.9
Total external debt to exports of goods and services (in percent)	148.6	178.8	187.3	168.3	111.9
External interest payments to exports of goods and services (in percent)	11.9	8.6	5.9	5.1	3.4
External amortization payments to exports of goods and services (in percent)	15.0	13.3	10.8	8.9	7.5
Exchange rate (per U.S. dollar, end of period)	718.4	658.0	540.5	489.2	553.3
Net foreign assets of commercial banks (in millions of U.S. dollars)	52.8	-15.1	27.1	257.9	375.9

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

	Sectoral share of GDP (%) in 2003	2003	2004	2005	2006	2007	2008
					Projections		
Real GDP growth	100.0	2.4	1.4	2.9	3.0	1.8	3.3
Oil sector	42.1	6.6	-1.0	-1.1	1.2	-4.8	0.1
Non-oil sector	57.9	0.8	2.3	4.4	3.6	4.1	4.3
Agriculture, fishing and agro-industry	4.3	1.5	2.0	4.0	3.7	3.9	4.2
Logging activities and wood industry	1.7	4.2	-0.1	5.6	6.8	6.8	6.4
Mining (excluding oil related activities)	1.5	3.6	22.9	11.9	10.0	10.0	8.0
Services, transport, and commerce	35.0	1.2	1.4	5.1	4.5	4.6	5.0
Construction, water, electricity, and other industries	15.4	0.0	2.3	3.1	2.0	2.9	3.1
Contribution to non-oil GDP Growth	100.0	0.8	2.3	4.4	3.6	4.1	4.3
Agriculture, fishing and agro-industry	7.4	0.2	0.2	0.5	0.4	0.5	0.5
Logging activities and wood industry	2.9	0.2	0.0	0.2	0.3	0.3	0.3
Mining (excluding oil related activities)	2.6	0.1	0.5	0.3	0.3	0.3	0.2
Services, transport, and commerce	60.4	0.5	0.7	2.2	1.9	1.9	2.1
Construction, water, electricity, and other industries	26.6	0.0	0.9	1.2	0.7	1.1	1.2

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

Table 10. Gabon: Banking Sector Soundness Indicators, 2000-05
(Ratios in percent)

	2000	2001	2002	2003	2004	2005 Aug.
Capital adequacy						
Regulatory capital to risk-weighted assets	13.2	17.2	17.6	19.9	17.8	24.0
Ratio of total loans larger than 15 percent of capital to eight times capital 1/	2.4	7.3	4.5	7.8	5.9	10.2
Assets quality						
NPLs to total gross loans	6.6	8.6	11.4	13.8	15.8	15.1
NPLs to total capital	35.0	35.2	52.9	59.4	59.8	58.3
NPLs provisions to total NPLs	64.7	63.0	66.5	78.8	78.4	80.7
Earnings and profitability						
Interest margin to gross income	159.8	173.8	187.1	206.0	219.4	...
Return on equity	60.2	15.4	11.8	14.4	17.1	...
Return on assets	6.2	2.4	1.8	0.7	2.7	...
Liquidity						
Liquid assets to short-term liabilities	125.4	128.8	134.0	185.3	219.5	235.1

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.

Gabon: Relations with the Fund

(As of March 31, 2006)

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	201.73	130.74
Reserve position in Fund	0.22	0.14

III. SDR Department:	SDR Million	%Allocation
Net cumulative allocation	14.09	100.00
Holdings	0.20	1.45

IV. Outstanding Purchases and Loans:	SDR Million	%Quota
Extended arrangements	5.98	3.87
Stand-By Arrangements	41.66	27.00

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	July 31, 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):

	<u>Forthcoming</u>			
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Principal	4.60	6.59	20.83	15.62
Charges/Interest	<u>1.97</u>	<u>2.47</u>	<u>1.95</u>	<u>0.99</u>
Total	6.57	9.06	22.78	16.61

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 Report 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 March 28, 2005.

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 May 8, 2006)

1. Gabon is a resource rich country with a small, highly urbanized population. As one of Africa's few IBRD countries, Gabon's GNI per capita is estimated at US\$4,130 in 2004, 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 for the development of the private and forestry sectors, to assist in the development of the local private sector in urban areas; and to support the preparation of the Government's Poverty Reduction Strategy.

The Bank Group strategy and lending operations

2. The Gabon Country Assistance Strategy (CAS) was approved by the Board of Directors on May 24, 2005. The strategy is articulated around two pillars: (1) strengthening the management of public resources (both natural and financial) for improved social outcomes; and (2) improving the investment climate to foster sustainable, private sector led non-oil growth. Cross-cutting themes are developing capacity in Government and civil society, and improving governance and participation.

3. The Bank is presently in a base-case assistance program which includes three lending operations in the urban, natural resources, and infrastructure sectors: a US\$15 million Natural Resources Management Development Policy Loan was approved in November 2005, a US\$25 million Public Investment Program for Local Infrastructure Development Project is planned for Bank Board in March 2006, and a US\$25 million Infrastructure Project is planned in FY08. Each operation places emphasis on improving transparency and efficiency in the use of public resources, including natural resources, and on improving the environment for greater participation of the private sector.

4. Currently IFC has an exposure of US\$32.5 million in the oil and gas sector, and the World Bank Group's Foreign Investment Advisory Services (FIAS) has recently completed a diagnostic study of the investment climate. A US\$61 million MIGA guarantee facility for rehabilitation and modernization of a professional training institute was approved by the Board in May 2005. This project is MIGA's first in the education sector.

IMF—World Bank collaboration

5. Overall, the IMF and World Bank staff maintain a close collaboration 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, effective and efficient public resources management, poverty reduction policies, and nonrenewable resource

management, as well as the identification and development of sources of growth in the non-oil sector.

Bank/Fund Collaboration

Area of Structural Reform	Lead Institution
Fiscal area	
Civil service reform	IMF
Expenditure monitoring and control	IMF
Public Financial Management review	World Bank
Tax administration & Fiscal ROSC	IMF
Governance	
Anticorruption law implementation	IMF
Code of ethics for government officials	IMF
Extractive Industries Transparency Initiative (EITI)	World Bank/IMF
Private sector development	
FIAS study of the business climate	World Bank/IFC
Diversification and non-oil sector development	World Bank
Other	
Price controls	IMF
Forestry, environment, fisheries, mining/oil	World Bank/IMF
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

6. 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). In summer of 2005, the Bank provided financial and technical assistance to undertake key household surveys (using a Core Welfare Indicators Questionnaire (CWIQ)) to update key social indicators to be monitored on an annual basis. Results of the CWIQ household survey are now available and had been used in finalizing the I-PRSP. The Bank also plans to assist the NSO in putting together a monitoring and evaluation system for

the poverty reduction strategy. A new Poverty Assessment based on the expenditure module of the CWIQ survey has been completed by the Bank in December, 2005. This assessment will provide the basis for regular monitoring of the poverty trends in Gabon. Together with the programs and sectoral strategies developed under the GPRSP, it will provide a stronger foundation for directing resources to poverty alleviation in the longer-term.

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

7. Forest and other natural resources. In November 2005, the Bank's board approved a \$15 million Natural Resources Management Development Policy Loan which covers the forest, environment, fisheries, and mining/oil sectors. In the oil sector, this DPL is limited to supporting the implementation of the EITI. In March 2006, the Board also approved a \$10 million grant from the Global Environment Facility for Gabon's national parks. The DPL focuses on improving transparency, law enforcement, and removing policy distortions. It is also designed to help the Gabonese authorities implement reform programs and empower civil society organizations and local communities in managing natural resources. The project outcomes are expected to broaden the number of beneficiaries and raise social and environmental standards in the forestry, fishing and mining sectors, and thus assisting the government in its efforts to diversify the Gabonese economy and reduce its dependence on the oil sector.

8. In June 2004, the Bank completed a US\$ 7 million Pilot Community Infrastructure Development Project (Learning and Innovation Loan) designed to test new methods for building community-based infrastructure and providing support for local contractors. The goal was to improve living conditions in selected poor urban neighborhoods in a sustainable way and with substantial community participation. The project also aimed at building local capacity to undertake a larger program of community-based public works. Based on this successful initiative, the Bank approved on March 14, 2006 a US\$25 million loan to (i) increase access of the population living in low-income settlements to basic services; and (ii) sustain access of local SMEs to civil works and construction contracts with the public sector. The project is likely to increase access of the poor to infrastructure and services, strengthen the role of SMESs, and improve the quality of public works through increased transparency, and efficient procurement and contract management."

9. A combined Public Expenditure Review/Country Financial Accountability Assessment/Country Procurement and Audit Review, is under preparation and is planned for completion in FY06. The aim of this activity is to improve public expenditure management and control systems, ensuring that allocated funds are used for the purposes they were intended and that they achieve the expected results.

10. 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. Under this program, a diagnostic of the investment climate, including identification of priorities for reform and concrete recommendations, was completed in September 2004. The authorities held a validation workshop in February, 2005 to discuss the recommendations and establish an action plan for their implementation. Two further studies were envisioned to identify constraints to private investment and to provide an action plan to remedy impediments to private sector

growth, including a detailed review of administrative barriers to investment and an in-depth review of the tax and incentive regime (also with an objective of proposing concrete reforms/changes), respectively. Each study is to be confirmed based on action taken on the previous one.

11. 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.

Areas of shared responsibility

12. While the Bank has taken the lead 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 non-bank financial institutions.

13. **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.

14. 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.

15. 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.

16. **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.

The Growth and Poverty-Reduction Strategy Paper²⁰

The GPRSP must permit the implementation of programs and structural reforms that create wealth and employment, by developing sectors other than oil to accelerate the growth of the national economy.

—Government of Gabon

INTRODUCTION

1. Against the background of depleting oil reserves and a currently favorable price environment, the Gabonese authorities—in consultation with civil society and the donor community—have prepared a comprehensive socio-economic development strategy. With its implementation, Gabon seeks to take full advantage of its natural resources and competitive advantages. In early 2006, the government publicly presented its Growth and Poverty-Reduction Strategy Paper (GPRSP), locally referred to as the *Document de stratégie de croissance et de réduction de la pauvreté*.

2. **In January 2002, Gabon started the process of developing a national development plan.** A preliminary strategy, contained in the 2004 interim PRSP, was subsequently discussed with stakeholders to deepen the participatory process, update the poverty profile, develop sectoral strategies, and place the development strategy within a macroeconomic framework. Over the course of a year, between July 2004 and June 2005, the authorities, supported by multilateral development partners, organized regional, multi-day consultations with employers' organizations, civil society, NGOs, the Economic and Social Council, and Parliament. In parallel, they established sectoral working groups on (i) poverty analysis; (ii) growth promotion; (iii) infrastructure development; (iv) access to social services; (v) improvement of governance and the business climate; (vi) the macroeconomic framework; and (vii) monitoring and evaluation.

DEVELOPMENT CHALLENGES: POVERTY

3. **The GPRSP rests on an in-depth poverty diagnostic.** A detailed analysis of the poverty profile draws on comprehensive surveys undertaken by the government over the previous five years, including the Core Welfare Indicators Survey (CWIQ), the National Participatory Poverty Assessment, and the Health and Demographic Survey. The poverty analysis fills important gaps in the comprehension of poverty.

4. **The GPRSP recognizes that poverty in Gabon is severe and widespread, despite being one of the richest countries in Africa.** Gabon is highly urbanized, with 80 percent

²⁰ This appendix was prepared in consultation with the World Bank country team.

of the population living in cities. Defining the poverty line, on a national average, as income of less than CFAF 429,336 (US\$818), that is at a level of about 13 percent of per capita GDP in 2005, about one-third of Gabonese are considered poor. The poverty survey dissects poverty according to a number of regional, professional, social, and educational criteria. It documents large income inequalities, with a Gini coefficient of 0.437, and provides a plethora of detailed social indicators that will facilitate the development, implementation, and evaluation of sectoral strategies. The poverty section does not, however, include a gender analysis, which could take into account the differences in (i) opportunities and constraints that women and men encounter; and (ii) access to, and control over, resources and public services.

OBJECTIVES OF THE GPRSP

5. **The GPRSP aims at developing a policy program and structural reforms to improve employment opportunities by fostering growth in the non-oil sectors.** The document stresses the importance of combining efforts of both the public and private sectors in order to create favorable conditions that would help to provide (i) an educational system that is adapted to the needs in these sectors; (ii) adequate public infrastructure in transport, energy, and telecommunications; (iii) an efficient health system prepared to treat, especially, malaria and HIV/AIDS; and (iv) a transparent and efficient public administration and judicial system.
6. **To achieve these overriding objectives, the GPRSP defines four central pillars on which the strategy rests, viz.,**
 - (i) ***the creation of a growth-promoting environment*** by improving the overall business climate, accelerating regional integration, increasing competitiveness, and diversifying the economy;
 - (ii) ***the strengthening of public infrastructure*** in order to improve the country as a site to do business by reducing the private sector's cost of production and increasing its competitiveness;
 - (iii) ***the broadening the access to basic public services*** to improve the well-being of the Gabonese population and increase its human capital; and
 - (iv) ***the improvement in overall governance*** by reinforcing the rule of law, opening the political system, increasing accountability and transparency, and citizen's participation.

The GPRSP's sectoral priorities are generally specific and well-developed in their objectives, but remaining shortcomings need to be addressed in subsequent documents.

ASSESSMENT

A. The Macroeconomic Framework

7. **The macroeconomic framework does not take into account the fiscal challenges stemming from the anticipated decline in oil production.** Gabon's oil revenues currently comprise 60 percent of government revenue, but oil reserves are expected to be exhausted within three decades. Ensuring that fiscal policy is on a sustainable path is therefore a high priority to prevent a situation, in which the government would need to rapidly adjust fiscal policy in tandem with declining oil production. Given the existence of exhaustible natural resources and volatile international prices, the macroeconomic framework needs to include a discussion of long-term fiscal sustainability, especially as sharp adjustments to public expenditure are likely to have a disproportionate impact on the most disadvantaged segments in society.

8. **The GPRSP needs to be complemented by a full-fledged, medium-term expenditure framework (MTEF).** The GPRSP presents three macroeconomic scenarios. However, for two scenarios, growth rates are derived on the basis of a *given* policy outcome, with public investments closing the model—resulting in very rapid growth rates in public investment. While the annex on sectoral action plans and financial programming shows some costing, the document contains inconsistencies relative to the envisaged investment path. The projected continuous decline in current expenditure, for instance, suggests an insufficient costing of required future maintenance expenditures. To achieve this consistency between the strategy and the annual budgets, the authorities would have to present the costing of individual projects and their recurrent budgetary implications in the context of a full-fledged (three-year) MTEF. This would help to prioritize projects across and within sectors and define financing needs and resource availability.

B. Creation of a Growth-Promoting Environment

9. **Gabon's development strategy underplays the importance of providing a business climate that is conducive to attracting foreign direct investment (FDI).** Gabon needs to attract FDI of the scale and scope to increase overall factor productivity. While the GPRSP correctly defines as objectives the implementation of a large range of reforms aimed at providing the private sector with an attractive environment, a long-term planning horizon, the capacity to protect contracts and property rights in the courts of law, and to reduce the microeconomic costs of doing business, the strategy remains relatively vague on corresponding measures. The GPRSP only touches on issues related to the insufficient supply of bank credit to the private sector, without offering a strategy to overcome the principal structural obstacles that have, thus far, prevented more dynamism in the private sector. The GPRSP mentions, but does not fully explore, the potential for a closer cooperation between the public and private sectors in Gabon. The GPRSP largely de-emphasizes the important tertiary sectors (in particular, banking and telecommunications).

10. **The forestry and environmental strategy is well-developed.** However, several issues (e.g., law enforcement, state disengagement, and rural livelihoods) are missing from this section. Reform measures contained in the Letter of Sector Policy and supported by the recently-approved World Bank Natural Resources Development Policy Loan are not fully reflected in the GPRSP.

C. The Government's Role in Socio-Economic Development

11. **The GPRSP provides a candid assessment of the key issues confronting the transport sector.** The GPRSP includes very ambitious road development projects, including the construction of 1,500 kilometers of new roads, at a cost of more than CFAF 460 billion (the equivalent of about 10 percent of GDP in 2005), with associated maintenance costs estimated at CFAF 20 billion a year. Similar investment projects, such as the construction of deep-sea harbors and airports, also contain very high investment and subsequent maintenance costs. Not all have immediate budgetary implications, but the document does not fully explore alternative options, including public-private partnerships, which could pose challenges in terms of transparency and fiscal risk.

12. **The GPRSP does not clearly define criteria according to which public investment projects are prioritized.** Implicitly, the strategy requires public investments to crowd in private investments, but the GPRSP does not contain a comprehensive discussion on the mechanisms by which proposed capital expenditures will create positive externalities in production.

13. **The GPRSP highlights the challenges in strengthening public institutions and enhancing transparency—a precondition for improved policy outcomes.** The quality of a country's institutional framework represents a critical factor in foreign companies' decisions on whether or not to invest on the scale and scope to increase overall factor productivity in Gabon. The GPRSP identified a number of cross-cutting issues that are critical for poverty reduction, including governance. The GPRSP does not fully reflect the steps already taken, in particular, (i) the creation of the National Commission Against Illicit Enrichment (CNCEI); (ii) the establishment of the Department of Public Procurement (DGMP), which started its operation with an audit of the Road Maintenance Fund (FER); and (iii) the first publication of a report under the principles of the Extractive Industries Transparency Initiative (EITI), including the recruitment of an independent auditor charged to identify oil-related payment streams on the basis of information provided by the government and the oil companies. Follow-up documents could reinforce related sections by including a discussion on the key issues and recommendations of the Public Expenditure Management and Financial Accountability (PEMFAR) and the Report on Standards and Codes (ROSC) reviews.

IMPLEMENTATION RISKS AND FOLLOW-UP

14. **High oil prices and the highly decentralized government represent the principal risks to an ultimately successful implementation of Gabon's socio-economic development strategy.** The preparation of the GPRSP revealed a weak coordination between the responsible Technical Secretariat in the Planning Ministry and the newly created Ministry for Poverty Reduction. More generally, with currently 49 ministries,²¹ there is a divergence in interests and, hence, a non-uniform degree of ownership of the objectives spelt out in the GPRSP. In addition, the currently favorable environment increases the probability to additional pressures for unbudgeted, non-GPRSP spending, jeopardizing the implementation of a longer term GPRSP investment strategy. However, general ownership of the socio-economic development strategy has been reinforced through the consultative process during its conception. With a sufficient emphasis on ensuring the adequate capacity and participation of the line ministries in priority sectors (including health, education, and infrastructure), paired with an increased degree of public awareness and participation and a closer cooperation among the government, civil society, and development partners, Gabon should be able to implement successfully its socio-economic development strategy.

15. **An effective monitoring and evaluating process necessitates the development of observable targets.** The intermediate outcome indicators defined by the Gabonese authorities mark a significant first step towards a comprehensive system of monitoring and evaluation, which will allow the government, the legislative, the public, and the external development partners to fine-tune the implementation of Gabon's socio-economic development strategy. However, the identification of broad outcome indicators—that is, measurable objectives and targets—will require additional work and improved coordination within the government.

²¹ Three Ministries are charged with various aspects of budgetary implementation, viz., the Ministries of Economy, Finance, Budget, and Privatization (non-oil revenue and recurrent expenditure), Planning (capital expenditure), and Mining and Oil (oil revenue).

Gabon: Assessing External and Public Sector Debt Sustainability

- 1. Staff analyzed the sustainability of Gabon’s external and public sector debt using the agreed debt sustainability framework (DSF) for market-access countries.** This framework focuses on debt-to-GDP ratios as an indicator of solvency. Stable or declining ratios are taken as evidence that the current account or budgetary surpluses are adequate to cover future debt service, and thus the solvency condition is met. The analysis undertaken compared base-line projections with an “unbiased” scenario where all variables are assumed to evolve in line with historical averages. Furthermore, it subjected the results of the baseline scenario to a number of stress tests.
- 2. The analysis demonstrates that Gabon’s debt stocks do not present sustainability problems if the favorable assumptions underlying the baseline materialize.** Despite relatively high debt stocks—39 percent of GDP for external debt and 44 percent for total public sector debt—the buoyant outlook for the oil sector permits the amortization of this debt without the need for new borrowing. For both categories of debt, the ratio to GDP drops under the baseline scenario to about 10 percent by 2011. (Tables 1 and 2). In addition to debt reduction, the baseline envisages the rapid accumulation of foreign reserves, to about 90 percent of GDP by 2011 (explaining the large residual in the external DSA table). Thus, asset management should soon be more important than liability management in Gabon.
- 3. The conclusions of the baseline scenarios are confirmed by the “historical averages” scenarios.** The projections under the historical scenarios differ from the baseline in two respects mainly: a lower average annual GDP growth of 1.1 percent and a lower current account surplus reflecting past oil prices rather than the much higher level they attained in 2005. With oil prices likely to stay high—the baseline is based on WEO projections—the latter assumption appears unrealistic. Despite more conservative assumptions (unrealistically so, given WEO oil projections) the public sector debt ratio would continue to drop, while for external debt it climbs slightly, underlining the importance of debt reduction. However, it remains below the critical range of 40-60 percent above which the probability of a crisis typically mounts.
- 4. Stress tests confirm the absence of sustainability problems.** The effect of the growth shock is mild and debt ratios would continue to decline. On the other hand, under the current account shock—i.e., much lower oil prices—the debt ratio would remain constant. The depreciation scenario boosts external debt ratios (valuation effects), but public-sector-debt-to-GDP stress tests show that, despite a significant upward effect, debt ratios would continue to decline (Figure 2).

Table 1. Gabon: External Debt Sustainability Framework, 2000-2011
(In percent of GDP, unless otherwise indicated)

	Actual										Projections					Debt-stabilizing non-interest current account 6/ -2.2
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011					
1 Baseline: External debt	63.1	62.7	55.9	49.6	39.2	31.8	27.8	22.6	17.5	14.2	10.5					
2 Change in external debt	6.0	-0.4	-6.8	-6.2	-10.4	-7.5	-4.0	-5.1	-5.1	-3.3	-3.7					
3 Identified external debt-creating flows (4+8+9)	-4.3	-11.4	-25.4	-24.9	-26.3	-22.8	-22.4	-22.0	-26.2	-25.4	-24.8					
4 Current account deficit, excluding interest payments	-18.9	-10.3	-12.9	-14.4	-17.7	-21.6	-20.7	-19.6	-23.8	-23.0	-22.4					
5 Deficit in balance of goods and services	-26.0	-19.1	-24.2	-28.8	-36.7	-35.8	-33.6	-31.7	-36.0	-34.3	-33.0					
6 Exports	59.1	53.3	55.2	60.3	63.4	62.6	60.2	58.5	61.5	60.3	59.8					
7 Imports	33.1	34.2	31.0	31.5	26.7	26.8	26.7	26.8	25.5	25.9	26.9					
8 Net non-debt creating capital inflows (negative)	2.0	-1.2	-4.4	-4.5	-2.5	-2.1	-2.8	-2.7	-2.7	-2.6	-2.6					
9 Automatic debt dynamics 1/	12.6	0.2	-8.0	-6.1	-6.2	0.9	1.1	0.4	0.3	0.2	0.1					
10 Contribution from nominal interest rate	7.9	3.5	3.5	3.4	1.8	2.0	1.6	1.3	0.9	0.7	0.5					
11 Contribution from real GDP growth	-1.3	0.2	-1.3	-0.6	-1.2	-1.1	-0.6	-0.9	-0.6	-0.5	-0.4					
12 Contribution from price and exchange rate changes 2/	6.0	-3.5	-10.2	-8.9	-6.8	...	...	...	...	...	...
13 Residual, incl. change in gross foreign assets (2-3) 3/	10.4	10.9	18.5	18.7	15.9	15.3	18.4	16.8	21.2	22.1	21.1					
External debt-to-exports ratio (in percent)	106.7	117.7	101.2	82.4	61.9	50.8	46.1	38.7	28.5	23.6	17.6					
Gross external financing need (in billions of US dollars) 4/	-0.1	0.0	-0.2	-0.4	-1.0	-1.4	-1.4	-1.3	-1.8	-1.9	-1.8					
in percent of GDP	-1.8	0.5	-3.6	-5.1	-11.8	-15.1	-14.5	-13.2	-17.7	-18.7	-17.3					
Scenario with key variables at their historical averages 5/						31.8	32.7	32.1	34.5	36.4	36.2				-2.1	
Key Macroeconomic Assumptions Underlying Baseline																
Real GDP growth (in percent)	2.1	-0.3	2.4	1.4	2.9	3.0	1.8	3.3	2.7	2.8	2.9					
GDP deflator in US dollars (change in percent)	-9.5	5.8	19.4	18.8	15.8	2.9	-0.2	0.9	0.1	-1.9	-2.9					
Nominal external interest rate (in percent)	12.7	5.8	6.7	7.4	4.3	5.4	5.2	4.9	4.3	4.0	3.8					
Growth of exports (US dollar terms, in percent)	-20.6	-4.9	26.8	31.5	25.3	4.6	-2.3	1.2	8.2	-1.3	-0.8					
Growth of imports (US dollar terms, in percent)	-6.1	8.9	11.1	22.2	1.2	6.1	1.2	4.6	-2.0	2.4	3.5					
Current account balance, excluding interest payments	18.9	10.3	12.9	14.4	17.7	21.6	20.7	19.6	23.8	23.0	22.4					
Net non-debt creating capital inflows	-2.0	1.2	4.4	4.5	2.5	2.1	2.8	2.7	2.7	2.6	2.6					

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

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

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

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

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

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

Table 2. Gabon: Public Sector Debt Sustainability Framework, 2000-2011
(In percent of GDP, unless otherwise indicated)

	Actual				Projections							Debt-stabilizing primary balance 9/
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	
1 Baseline: Public sector debt 1/ o/w foreign-currency denominated	81.1	82.8	73.0	61.9	44.2	33.5	28.5	22.9	17.5	14.2	10.5	0.9
2 Change in public sector debt	17.4	16.3	14.9	12.8	8.8	6.7	5.7	4.6	3.5	2.8	2.1	
3 Identified debt-creating flows (4+7+12)	9.8	1.7	-9.8	-11.1	-17.7	-10.7	-5.0	-5.6	-5.4	-3.3	-3.7	
4 Primary deficit	0.3	-5.3	-11.8	-14.5	-17.7	-15.6	-11.8	-12.0	-16.4	-10.3	-9.8	
5 Revenue and grants	-12.0	-7.9	-11.0	-10.6	-12.2	-13.4	-14.0	-12.8	-17.1	-11.7	-11.0	
6 Primary (noninterest) expenditure	34.0	31.5	29.8	28.8	31.2	31.1	31.9	30.1	33.5	28.7	28.8	
7 Automatic debt dynamics 2/	22.0	23.7	18.7	18.2	19.0	17.7	17.9	17.3	16.4	17.0	17.8	
8 Contribution from interest rate/growth differential 3/	12.5	2.7	-0.7	-3.8	-5.5	-1.9	2.2	0.8	0.8	1.3	1.3	
9 Of which contribution from real interest rate	12.3	4.2	2.3	-2.5	-7.0	-1.9	2.2	0.8	0.8	1.3	1.3	
10 Of which contribution from real GDP growth	13.9	4.0	4.3	-1.5	-5.5	-0.7	2.8	1.7	1.4	1.8	1.7	
11 Contribution from exchange rate depreciation 4/	-1.6	0.2	-2.0	-0.9	-1.5	-1.2	-0.6	-0.9	-0.6	-0.5	-0.4	
12 Other identified debt-creating flows	0.1	-1.5	-3.0	-1.4	1.5	...	...	...	...	...	...
13 Privatization receipts (negative)	-0.1	-0.1	0.0	0.0	0.0	-0.4	0.0	0.0	0.0	0.0	0.0	
14 Recognition of implicit or contingent liabilities	-0.1	-0.1	0.0	0.0	0.0	-0.4	0.0	0.0	0.0	0.0	0.0	
15 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	
16 Residual, including asset changes (2-3) 5/	9.4	7.0	2.0	3.4	0.0	4.9	6.7	6.4	10.9	7.0	6.0	
Public sector debt-to-revenue ratio 1/	238.2	262.5	245.1	214.8	141.5	107.9	89.3	76.3	52.3	49.7	36.5	
Gross financing need 6/ in billions of U.S. dollars	6.3	5.5	0.8	4.3	-1.3	-5.1	-5.8	-4.9	-10.4	-6.6	-5.3	
Scenario with key variables at their historical averages 7/	0.3	0.3	0.1	0.3	-0.1	-0.5	-0.5	-0.5	-1.0	-0.7	-0.5	
Scenario with no policy change (constant primary balance) in 2005-2010						33.5	31.3	28.9	31.4	29.9	27.4	-0.1
Key Macroeconomic and Fiscal Assumptions Underlying Baseline						33.5	29.2	23.0	21.4	16.7	10.9	1.0
Real GDP growth (in percent)	2.1	-0.3	2.4	1.4	2.9	3.0	1.8	3.3	2.7	2.8	2.9	
Average nominal interest rate on public debt (in percent) 8/	11.8	5.4	4.9	5.9	5.4	5.4	6.9	7.0	8.1	8.3	8.5	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	18.5	4.9	5.3	-2.2	-10.2	-1.5	8.4	6.1	6.3	10.4	11.5	
Nominal appreciation (increase in US dollar value of local currency, in percent)	-0.7	9.2	21.7	10.5	-11.6	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	-6.7	0.5	-0.4	8.1	15.6	6.9	-1.5	0.9	1.8	-2.1	-3.0	
Growth of real primary spending (deflated by GDP deflator, in percent)	41.5	7.4	-18.8	-1.4	7.3	-3.9	2.8	-0.2	-2.7	6.6	7.7	
Primary deficit	-12.0	-7.9	-11.0	-10.6	-12.2	-13.4	-14.0	-12.8	-17.1	-11.7	-11.0	

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.

2/ Derived as $[(r - \pi(1+g) - g + \alpha\epsilon(1+r)] / (1+g+\pi-r\pi)$ 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 denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as $-g$.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\epsilon(1+r)$.

5/ For projections, this line includes exchange rate changes.

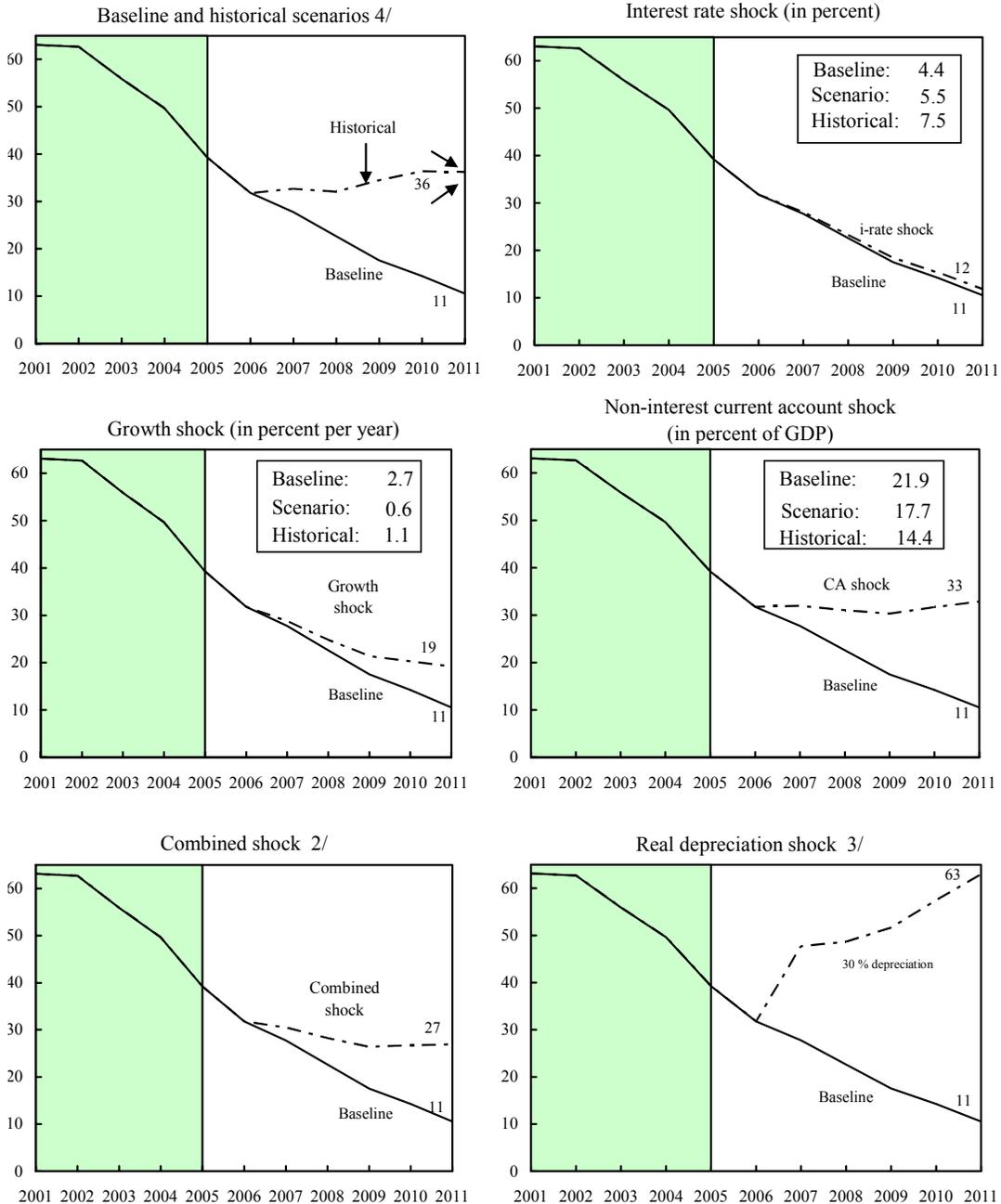
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

8/ Derived as nominal interest expenditure divided by previous period debt stock.

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

Figure 1. Gabon: External Debt Sustainability: Bound Tests 1/
(External debt in percent of GDP)



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

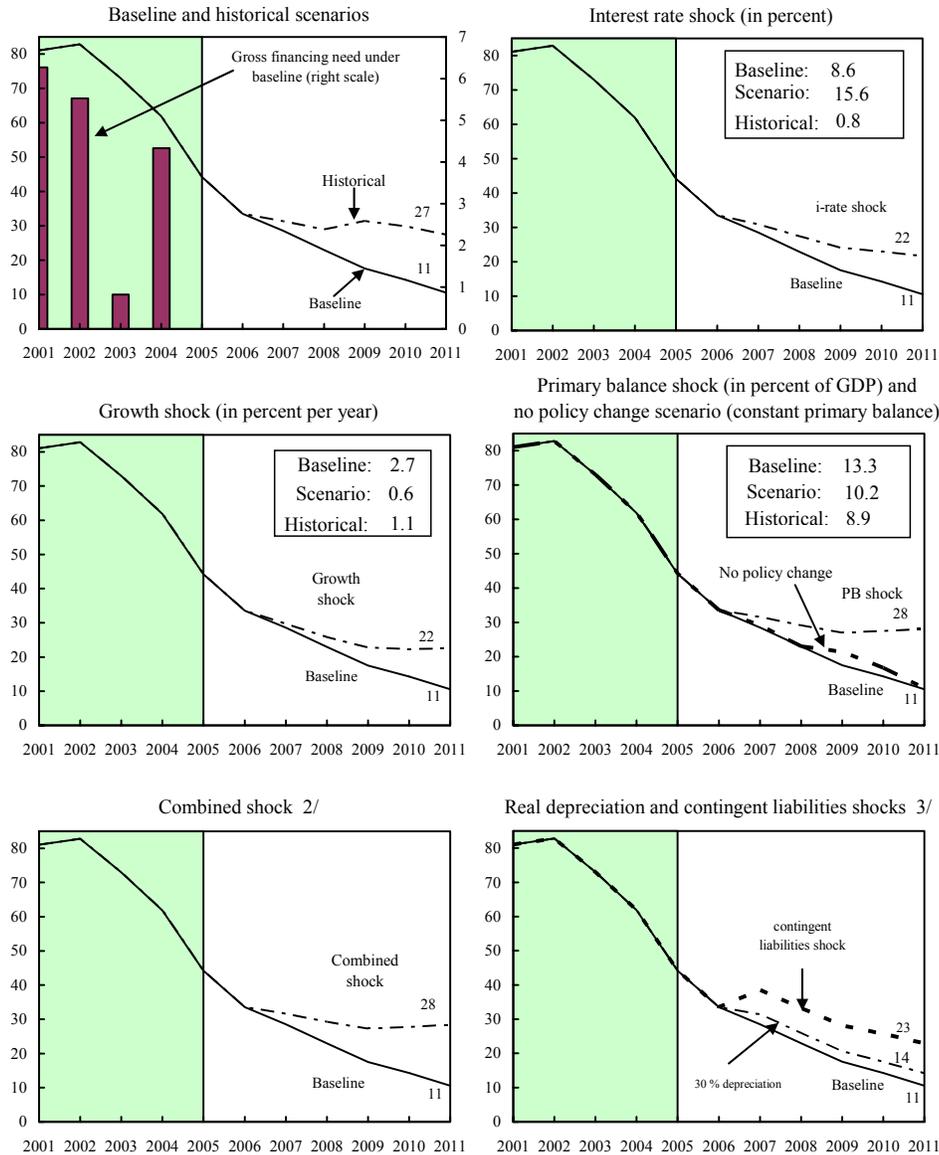
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

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

3/ One-time real depreciation of 30 percent occurs in 2006.

4/ Gross financing needs were/are negative for the period shown.

Figure 2. Gabon: Public Debt Sustainability: Bound Tests 1/
(Public debt in percent of GDP)



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

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks.

Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.

3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2006, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

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'Économie*, 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'Économie*, 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 posted to the Fund's Dissemination Standards Bulletin Board on October 1, 2002, but have not been updated since then. The authorities do not report any real sector statistics for publication in *International Financial Statistics (IFS)*, nor any 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. Coverage of developments in 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 expenditure survey from 1975 and attach a large weight to food and basic consumer goods prices.

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 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), preventing 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.

7. 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.

Monetary statistics

8. 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 delay. 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 95 percent of notes in Gabon are nationally issued; the remaining are from Cameroon, the Republic of Congo, and Equatorial Guinea. Gabon exports about 17 percent of its notes, most of which go to Cameroon (11 percent) and to the Republic of Congo (4 percent).

9. 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

10. 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

11. Balance of payments data are usually disseminated with considerable delays, although some progress has been made recently with the transmission of data up to 2003. 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 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.

12. 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.

13. 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.

Gabon: Table of Common Indicators Required for Surveillance

As of April 24, 2006

	Date of latest observation	Date received	Frequency of Data ⁶	Frequency of Reporting ⁶	Frequency of publication ⁶
Exchange rates	4/20/06	4/10/06	D	D	D
International reserve assets and reserve liabilities of the monetary authorities ¹	2/28/06	4/05/06	M	M	M
Reserve/base money	2/28/06	4/05/06	M	M	M
Broad money	2/28/06	4/05/06	M	M	M
Central bank balance sheet	2/28/06	4/05/06	M	M	M
Consolidated balance sheet of the banking system	2/28/06	4/05/06	M	M	M
Interest rates ²	7/30/05	9/17/05	M	M	M
Consumer price index	1/28/06	3/10/06	M	M	M
Revenue, expenditure, balance and composition of financing ³ – general government ⁴	1/28/06	4/20/06	M	M	M
Revenue, expenditure, balance and composition of financing ³ – central government	1/28/06	4/20/06	M	M	M
Stocks of central government and central government-guaranteed debt ⁵	6/30/05	1/12/06	M	M	M
External current account balance	12/31/05	2/25/06	A	I	A
Exports and imports of goods and services	12/31/05	2/25/06	M	M	I
GDP/GNP	12/31/05	2/25/06	A	I	A
Gross external debt	12/31/05	2/25/06	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).

Statement by the IMF Staff Representative
June 5, 2006

1. This statement provides additional information that has become available since the circulation of the staff report. It does not alter the thrust of the staff appraisal.
2. **Preliminary data for the first quarter of 2006 suggest that economic activity has remained buoyant.** A slowdown in oil and manganese production, due to temporary rather than permanent factors, was more than offset by continued strong growth in commerce, services, and construction. The authorities' projection of 3½ percent growth in non-oil GDP in 2006 remains well within reach.
3. **Inflation picked up in April 2006 from very low levels, reaching 1.8 percent year-on-year.** The main source of the increase is imported food products.
4. **Preliminary fiscal data for the first quarter of 2006 indicate that the fiscal slippages of 2005 have not yet been fully reversed.** The non-oil primary deficit reached 2½ percent of projected non-oil GDP by end-March, reflecting continued high levels of expenditures on transfers and goods and services, confirming that significant fiscal adjustment is needed to return to a sustainable medium-term path.



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June 13, 2006

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

IMF Executive Board Concludes 2006 Article IV Consultation with Gabon

On June 5, 2006, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Gabon.¹

Background

In 2005, economic growth picked up to 3 percent while inflation remained low. Non-oil growth reached 4 ½ percent, led by rising timber processing, manganese production, and the services sector. Meanwhile, buoyant international oil prices continued to stimulate investment and exploration in the oil sector. As a result, both the balance of payments and the fiscal accounts registered large surpluses, allowing a reduction in external debt to 39 percent of GDP at end-2005.

The presidential elections in late 2005 were accompanied by large fiscal slippages. The non-oil primary deficit reached 12 percent of non-oil GDP, compared with a target of 8½ percent in the government's supplementary budget. The bulk of the slippages reflected additional non-interest current expenditure, lower recovery of tax arrears, and a larger impact of personal income tax exemptions than originally anticipated.

The structural reform agenda stalled in the second half of 2005. In particular, the restructuring and privatization of Air Gabon and Gabon Télécom experienced significant delays. After a

¹ 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.

strong start in 2004, delays continued to plague the reforms of the forestry sector, reflected in the persistence of large forestry tax arrears and uncertainty regarding the future allocation of forestry permits. However, reforms in the natural resources sector were boosted by the publication of Gabon's first report under the Extractive Industries Transparency Initiative in December 2005. A tender for 51 percent of Gabon Télécom was finally launched in early December with the aim of completing the sale by mid-2006. The government announced the liquidation of Air Gabon in February 2006 and the creation of a new airline, *Air Gabon International*, in which Royal Air Maroc will hold majority stake.

Looking ahead, the critical challenge facing Gabon is to seize the opportunity provided by high oil prices to place macroeconomic policies on a long-term sustainable path while fostering economic diversification and preparing Gabon for the post-oil era.

Executive Board Assessment

Directors welcomed the acceleration in economic activity and the authorities' success in restoring macroeconomic stability in 2004–05, with the support of a Stand-By Arrangement. Directors noted that Gabon's key policy challenge is to strike a judicious balance between preparing for the inevitable exhaustion of oil reserves by raising public savings and dealing with continued pressures for public spending. They emphasized that the current high levels of oil prices provide an opportunity to lower debt to manageable levels, thereby reducing a major source of Gabon's vulnerability to shocks, while addressing the country's pressing social and infrastructural needs.

Directors underlined that fiscal discipline is critical for macroeconomic stability and expressed concern about the large fiscal slippages that occurred in late-2005. Most Directors called for a front-loaded tightening in 2006 through a reversal of the recent fiscal slippages to facilitate rapid progress toward a sustainable medium-term fiscal position. They also pointed out that costly implicit subsidies on petroleum products that benefited primarily higher-income households were growing rapidly, and encouraged the authorities to reflect these subsidies fully in the government budget, and embark on a gradual adjustment of retail prices toward import parity levels with well-targeted assistance to the poor. Some Directors saw merit in a more gradual approach to fiscal adjustment, but emphasized the need to maintain discipline and keep the non-oil deficit on a declining path.

Directors underlined the importance of strengthening public expenditure management to avoid a recurrence of unplanned spending and raise the quality of public investment. In this context, they urged the authorities to implement the recommendations of the recent fiscal transparency ROSC as soon as possible, including a more effective prioritization of the public investment program, strengthening budget execution and monitoring, improving the transparency of the budget—notably of oil revenue—and enhancing the efficiency of the tax system by broadening the non-oil revenue base. Directors also called for an urgent agreement among CEMAC (Communauté Économique et Monétaire de l'Afrique Centrale) stakeholders on an appropriate level of remuneration of international reserves.

Directors commended the authorities for their Growth and Poverty Reduction Strategy Paper, which represents an important step toward promoting economic diversification and reducing poverty. They underscored the need to make the strategy operational by formulating concrete poverty-reducing programs and to accelerate the structural reform agenda to stimulate higher growth. In this context, Directors emphasized the importance of improving the investment climate to foster private sector development, pointing to the need to address legal and regulatory uncertainty, rigid labor markets, and continued weaknesses in governance. Directors also noted that economic diversification will require a deepening of financial intermediation and improved access to financial services, including to micro-financing. They also urged the authorities to conclude expeditiously the privatization of Air Gabon and Gabon Télécom, which will contribute to strengthening the productivity of Gabon's economy. Directors underscored that it will be important to ensure that the successor airline to Air Gabon no longer represents a drain on public resources.

Directors welcomed the progress made in strengthening governance and increasing transparency, notably through the publication of Gabon's first Extractive Industries Transparency Initiative (EITI) report. At the same time, they emphasized that there remains substantial scope for further progress. Directors attached particular importance to improving access to information, including through the regular publication of timely and accurate economic statistics and the broader dissemination of government reports. They underscored that the work of the National Commission Against Illicit Enrichment should be accelerated, including in the area of investigations. Directors also considered that work on the EITI needs to continue, with the objective of making the next report more comprehensive. They encouraged the authorities to resume reforms in the forestry sector, notably by ensuring that its financing remains within the government budget and dealing decisively with the holders of forestry permits that have tax arrears.

Directors noted that further trade liberalization would contribute to improving Gabon's competitiveness and result in welfare gains. They urged the authorities to take a lead role in regional discussions within the CEMAC to foster progress in this area, notably in the reduction of the relatively high common external tariff.

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 2003–06

	2003	2004	2005 Prel.	2006 Proj.
	(Annual changes in percent)			
GDP and prices				
Real GDP growth rate	2.4	1.4	2.9	3.0
Of which: oil	6.6	-1.0	-1.1	1.2
non-oil	0.8	2.3	4.4	3.6
Consumer prices (annual average)	2.1	0.4	0.0	1.0
	(In percent of GDP, unless otherwise indicated)			
Government operations				
Non-oil primary balance (in percent of non-oil GDP)	-8.2	-7.7	-12.1	-8.9
Overall balance (commitment basis, excluding grants)	7.4	7.4	9.3	11.1
External public debt	55.9	49.6	39.2	31.8
Total public debt	73.0	61.9	44.2	33.5
External and monetary sectors				
External current account balance	12.0	10.5	15.9	19.6
Credit to the economy (annual percentage change)	-9.4	-9.3	11.6	7.5
Broad money (annual percentage change)	-1.2	11.6	26.0	14.5

Source: Gabonese authorities and IMF staff estimates and projections.

**Statement by Damian Ondo Mañe, Executive Director for Gabon
June 5, 2006**

On behalf of my Gabonese authorities, I would like to thank staff for the constructive policy discussions and for their set of papers, in particular the Selected Issues Paper which provides useful analysis of topical issues and can make a valuable contribution to the on-going discussions within the country. My authorities very much appreciated the presentations of staff's findings in Libreville during the mission, as they enabled an useful exchange of views.

We have noted that the staff report features an innovative introduction of "issues for discussion", which I think can be helpful in gathering Directors' guidance on the main issues. However, we are of the view that the new feature should present issues of importance not only for the staff but also for the authorities. In the case of Gabon, the issue of whether spending or saving oil windfall is important for my authorities and is well highlighted.

We would like, at the outset, to note that my Gabonese authorities have embarked, since mid-2002, on a fiscal adjustment and reform program, with Fund support, aimed at coping with the depletion of the oil reserves, and the deterioration of social indicators. These efforts are bearing fruits as macroeconomic stability has been restored and far-reaching reforms were completed, as was recognized by Directors during Board meetings on Gabon since 2002. My authorities would agree that the high level of oil prices since 2004 has favored the implementation of this program. In particular, the windfall revenue made possible the elimination of external debt arrears, and enabled the saving of resources for future generations. In addition, the high oil prices has boosted oil exploration and development of marginal oil fields, which led to the stabilization of the oil production over the past three years. However, my authorities are aware that the high level of oil prices are temporary, and that they will need to pursue steadily their fiscal adjustment efforts. In addition, they consider that there is still a long way to go as regards the improvement of the living conditions of most of the population. Accordingly, they will continue to implement policies towards increasing growth, raising the competitiveness of the economy, reducing the cost of doing business in Gabon, diversifying the economy and reducing poverty.

The government has already adopted a growth and poverty reduction strategy paper (DSCR), which should permit the implementation of programs and structural reforms that create wealth and employment, by developing sectors other than oil to accelerate the growth of the national economy. Although my authorities recognize that this document still needs some improvement, they are of the view that it can serve as an anchor for policy implementation over the medium-term.

Recent Economic Developments

Economic performance in Gabon has been better than expected in 2005 with real economic growth of 3 percent, low inflation and large fiscal and external surpluses. While developments in the oil sector helped achieve this performance, the non-oil sector also contributed with an impressive 4½ percent growth in 2005 thanks to better performance in

timber processing, manganese production and the services sector. As a result, GDP per capita rose for the first-time in five years. Continued high oil prices led to sizeable balance of payments surplus that allowed for a further reduction in external debt to 39 percent of GDP in 2005.

On the fiscal front, while oil revenue increased in line with oil prices, non oil revenue fell short of the objective by about 1½ percent of non-oil GDP, reflecting in particular lower recovery of tax arrears and a larger impact of personal income tax exemptions than originally anticipated. In addition, expenditures exceeded the supplementary budget by 3½ percent of non-oil GDP on account of higher outlays, including unforeseen security-related spending that occurred in November 2005, to ensure that elections take place in a safe environment. As a result, the non-oil primary deficit reached 12 percent of non oil GDP, compared with a target 8½ percent in the government's supplementary budget. Despite these slippages, the government managed to save half of additional oil revenues in 2005.

After some delays, implementation of structural reform measures accelerated in December 2005 in various sectors. Regarding the privatization process, the timetable established in October 2005 for the sale of 51% of the Gabon Telecom is on track. The tender has been launched in December 2005 and the selection of bidder is expected in July this year. The government is restructuring the postal company, which has been an important drain of the fiscal resources since 2003. The government announced the liquidation of the national airline company *Air Gabon* in February 2006, and the creation of a new airline company Air Gabon International with Royal Air Maroc (RAM) as a partner holding a majority stake. In the forestry sector, the restructuring undertaken by the new management of the *Société Nationale des Bois du Gabon* (SNBG) is bearing fruit with the company recording profits in 2005. The elimination of the monopoly of the SNBG appears not to have affected the profitability of the enterprise.

On transparency, Gabon published its first report under the EITI in December. This report compares 2004 payments reported by oil companies with receipts reported by the government. Despite a small discrepancy, which my authorities are in the process of examining, the Independent Administrator of the EITI process finds no evidence of serious anomalies. For statistical reasons, the profit oil has not been included in the coverage of this report. For the next report, my authorities intend not only to broaden the coverage to include profit oil but also to extend the initiative to the mining sector.

Policies over the Medium-Term

Over the medium term, my authorities remain committed to implementing sound policies that will help achieve their social and economic objectives along the four pillars of the DSCR that are (i) raising growth as a prerequisite for poverty reduction, (ii) improving infrastructure, (iii) improving access to essential services and (iv) strengthening governance. In that context, policies in 2006 are aimed at restoring fiscal discipline and maintaining the momentum of reforms to improve the business climate and promote private sector development, while addressing pressing socio-economic needs. It is my authorities' intention

to request Fund support for their adjustment program under a multi-year arrangement. Discussions on which are expected to start soon with staff.

There is broad agreement that **fiscal policy** has to be tightened, and that measures will have to be taken to put the public finances on a permanently sustainable basis, especially in view of the fact that the country faces declining revenue from oil over the medium- to long-term. However, it should be pointed out that given the large social and infrastructure needs of the country, a right balance has to be struck between satisfying those needs and the speed of adjustment. Accordingly, my authorities are of the view that the fiscal adjustment process should be more gradual. In this context, they envisage a three-year span to reverse fully the slippages that occurred in 2005 and achieve fiscal sustainability. The DCSRП has generated high expectations and the proposed gradual, but front-loaded adjustment pace is a reflection of higher spending in infrastructure, health and education to satisfy these social demands, as set out in the DCSRП. At the same time, my authorities view these investments in the health and education sectors and infrastructure as strengthening the economic foundations of the country and contributing to raising the growth potential of the country.

For 2006, measures are being taken that should help to reduce the non-oil primary deficit from 12 percent of non-oil GDP in 2005 to 9 percent in 2006.

My authorities will continue their prudent **use of the oil windfall**. Part of this windfall will be used to finance spending related to the DCSRП, with the remainder being saved. My authorities are not opposed to the suggestion of using the oil windfall for debt reduction, but they are looking at all the options and intend to use the oil revenue windfall most effectively.

Despite the slippages last year, **control of expenditure** has improved over the last years, especially since the creation of the department of public procurement. In the context of improving governance and transparency, several audits have been launched whose reports have highlighted weaknesses in public expenditure management. In light of the findings of these reports and the recommendations of the recently completed 2006 fiscal ROSC, the authorities will develop an action plan to strengthen the public financial management. In the short-term, they will focus on improving efficiency of certain capital outlays, including those related to Independence Day spending for 2006 and 2007. On this issue, it is to be noted that Independence Day is celebrated each year in a different region, and the government takes this opportunity to undertake infrastructure and social spending in that region. In addition, my authorities will continue to reduce unnecessary current expenditures.

On the implicit **petroleum subsidies**, my Gabonese authorities acknowledge that they need to be addressed. They appreciate the analysis from the staff on the issue, especially the finding that the subsidies are benefiting primarily the wealthiest. They are considering ways not only to reduce the subsidies but also to better target the poor population.

On **fiscal reforms**, efforts will continue with regard to the reform of the tax and customs administration, with the view to increase non-oil revenues. In this context, a thorough update of the tax code has been completed. The updated tax code now integrates the various changes in the tax code that have occurred over time and will ensure the overall consistency of the tax

legislation and structure. It will be circulated to technical administration for comments before being officially presented to the government for approval. In the same vein, the LTU is expected to start its operations later this year as the training of new personnel is completed. My authorities would, however, highlight the fact that these important reforms will not translate into higher non oil revenues in the short-term as some time will be needed for them to become effective.

My authorities fully share the staff's assessment on the **financial sector**, in particular regarding the issue of credit access. They would like to point out that this particular issue has been repeatedly raised by SMEs and individual entrepreneurs during the DSCRCP consultative process throughout the country and further highlighted in the World bank's FIAS report on the business environment in Gabon. Efforts to promote the microfinance will be pursued to allow low income people to have access to credit. They are studying ways for the FODEX (Fund for the Development and Expansion of SMEs) to extend its operations to microfinancing. They took a decisive action in this regard in removing and jailing the management of this institution for embezzlement. On the declining trend in the private sector credit, banks usually flag the absence of bankable projects and the difficulties to recover assets. Nevertheless, my authorities also note that this decline could also reflect strengthened domestic debt management by the government, which helped improve liquidity situation in enterprises, and hence limit their recourse to banks for cash management purposes.

On other **structural reforms**, my authorities are confident that the privatization of Gabon Telecom will be completed on time during the third quarter of this year. Regarding the new airline company Air Gabon International, my authorities reiterate that it will be managed on a fully commercial basis. My authorities will reinvigorate the reform in the forestry sector.

My authorities will continue their efforts to strengthen **governance and transparency** in order to improve accountability and the business climate. In particular, publication of key documents and reports including that of the EITI is increasing.

Conclusion

My Gabonese authorities are strongly committed to the adjustment process and determined to restructure the economy, and to make it less oil-dependent. However, as I indicated in previous meetings, these are long-lasting efforts, which require the assistance of the international community. My authorities still believe that a multi-year arrangement with the Fund is the best framework to consolidate the gains and maintain the momentum of reforms in the country. They welcome the negotiations on such an arrangement in the coming weeks.