

Gabon: First Review Under the Stand-By Arrangement—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Gabon

In the context of the first review under the Stand-By Arrangement, the following documents have been released and are included in this package:

- the staff report for the first review under the Stand-By Arrangement, prepared by a staff team of the IMF, following discussions that ended on August 6, 2004, 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 September 10, 2004. 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 Press Release summarizing the views of the Executive Board as expressed during its September 20, 2004 discussion of the staff report that completed the review.
- a statement by the Executive Director for Gabon.

The document(s) listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Gabon*
Memorandum of Economic and Financial Policies by the authorities of Gabon*
Technical Memorandum of Understanding*

*May also be included in Staff Report

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

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GABON

First Review Under the Stand-By Arrangement

Prepared by the African Department
in Consultation with Other Departments

Approved by David Nellor and Juha Kähkönen

September 10, 2004

- **Mission.** Discussions on the first review under the Stand-By Arrangement (SBA) were held in Libreville during July 26–August 6. The mission comprised Messrs. Sacerdoti (Head), Ntamatungiro, Melhado (all AFR), Di Bella (PDR), Ms. Bhattacharya (FAD), and was assisted by Mr. Randriamaholy (Resident Representative). Mr. Nguema-Affane (OED) attended most meetings. The mission met with the Minister of State in Charge of Economy and Finance, Mr. Toungui, Central Bank National Director, Mr. Andzembé, and other senior officials. The mission worked in close contact with a World Bank team, which was in the field. The Managing Director visited Libreville during August 3-5, and met with President Bongo Ondimba to discuss program implementation on August 3. Messrs. Bio-Tchané, Tiwari, and Sacerdoti (all AFR) also participated in the meeting.
- **Stand-By Arrangement.** In support of the authorities' program, a 14-month arrangement was approved by the Executive Board on May 28, 2004, in the amount of SDR 69.44 million (45 percent of quota), together with the first disbursement of SDR 13.89 million. The authorities' program for 2004–05 aims at promoting non-oil GDP growth with adequate structural reforms, while sustaining fiscal adjustment and improving public expenditure management.
- **Letter of Intent.** In the attached letter dated September 8, 2004, the authorities indicate developments under the program in the first half of 2004 and policies and objectives for the remainder of the year.
- **Performance under the program is satisfactory.** All performance criteria for end-June were met; all indicative targets for that date were also met, with the exception of a small slippage for non-oil revenue. Structural reforms are proceeding on schedule.
- **World Bank coordination.** The World Bank is currently assisting in the preparation of the Poverty Reduction Strategy Paper (PRSP), private sector development, forestry reforms, and urban infrastructure.
- **Elections.** The next presidential election is scheduled for late 2005. President Bongo Ondimba, who has been in power since 1967, is expected to run again.

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EXECUTIVE SUMMARY

- **Owing to weak economic and financial management of public resources in the past, Gabon's economy faces difficult challenges, despite abundant oil resources.** The economy is little diversified and heavily dependent on oil production, which is on a downward trend, the debt burden is high, and social indicators are weak.
- **The program supported by the 14-month Stand-By Arrangement (SBA) aims at promoting non-oil GDP growth through wide-ranging structural reforms, while sustaining fiscal adjustment and improving public expenditure management.** The non-oil primary deficit is to be reduced from 8.2 percent of non-oil GDP in 2003 to 7.5 percent in 2004 and 5.7 percent in 2005. The structural reform agenda centers on the forestry sector, the economic and social infrastructure, the efficiency of the public investment program, the financial sector, governance, and private sector development.
- **Performance under the SBA has been satisfactory.** The non-oil budget deficit at end-June 2004 was smaller than programmed, as investment spending was lower than projected. As a result, all performance criteria and indicative targets for end-June 2004 were observed, with the exception of a small slippage in the indicative target for non-oil revenue. Progress has been made on the structural front, notably in the forestry sector and in the areas of privatization and budgetary management. It is expected that all the structural performance criteria and almost all the structural benchmarks for rest of the year will be met.
- **The macroeconomic environment is characterized by weaker-than-expected activity in the non-oil sector, and considerably higher oil prices.** On the basis of developments in the first half of 2004, non-oil real GDP is projected to grow during the year by only 2.3 percent, compared with 3 percent envisaged in the program. Oil prices for the Brent crude in 2004-05 are currently projected to exceed program projections by over US\$7 a barrel. The authorities envisage using the excess oil revenue associated with the higher oil prices to lower the external debt; to reduce the float at the treasury; and to increase savings in the Fund for Future Generations (FFG). The authorities request and the staff supports related modifications to the performance criteria on net bank credit to government and the reduction of domestic arrears of the central government. Should the current oil price level be sustained over the medium term, the external current account surplus and international reserve position would strengthen significantly, and the debt-to-GDP ratio would decline rapidly. However, given the high volatility of oil prices, large uncertainty surrounds this scenario.
- **Despite the weaker activity in the non-oil sector, the authorities are committed to reaching the program's fiscal key objectives for 2004.** However, in view of the lower non-oil GDP and a slight upward adjustment in transparency-enhancing outlays, the authorities' request, and the staff supports, an upward modification of the performance criterion for the primary budget balance to reflect higher spending by CFAF 1 billion (0.03 percent of GDP).

I. INTRODUCTION

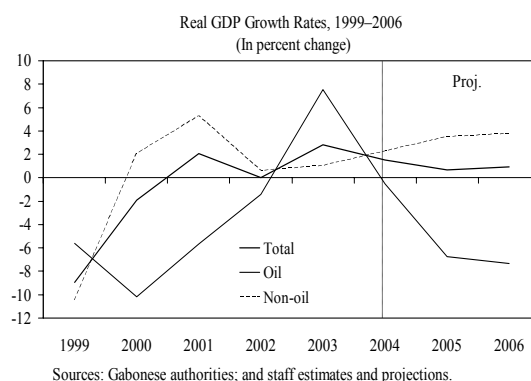
1. **Owing to weak economic and financial management in the past, despite abundant oil resources, Gabon's economy faces difficult challenges; the economy is little diversified and heavily dependent on oil production, which is on a downward trend, the debt burden is high, and the social indicators are weak.** Over the last decade, efforts at fiscal consolidation were not sustained, and the program under the previous 18-month Stand-By Arrangement (SBA) (October 2000–April 2002) went off track during the second half of 2001.

2. **Since mid-2002, the authorities have shown a renewed commitment to adjustment and reform, strengthening fiscal management, improving governance, and accelerating the privatization process.** Performance under the September-December 2003 staff-monitored program (SMP) was broadly satisfactory. Fiscal performance through end-March 2004 was in line with the program, and all the prior actions for Board consideration of a new SBA were met. On May 28, the Executive Board approved a 14-month SBA in an amount equivalent to SDR 69.44 million (45 percent of quota) in support of the authorities' efforts. The program aims at fostering non-oil sector growth and promoting the diversification of the economy through sustained fiscal adjustment and comprehensive structural and social reforms. At end-July 2004, Gabon's outstanding use of Fund resources amounted to SDR 43.3 million, or 28.07 percent of quota.

II. PERFORMANCE IN THE FIRST HALF OF 2004

3. **Macroeconomic performance has improved and implementation of the SBA is on track, although non-oil growth was lower than expected.** Overall GDP growth in 2004 is now expected to be somewhat below program projections, at 1.5 percent compared with 2 percent, on account of lower non-oil GDP.

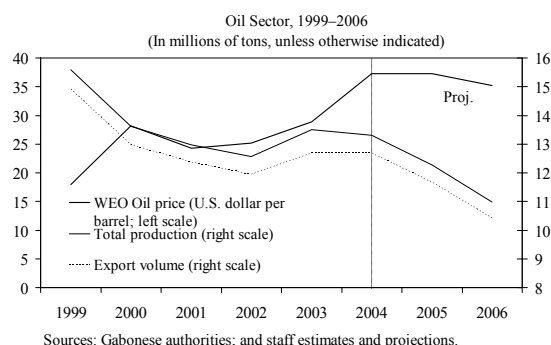
- **During the first semester of 2004, non-oil real GDP growth picked up, but over the full year the growth is estimated to be somewhat below the program projection (Table 1).** The strongest performance was recorded in mining and timber processing. Manganese extraction rose by 31 percent in the first half of 2004 compared with the same period in 2003, spurred by favorable international prices.¹ In the forestry sector, performance was mixed;



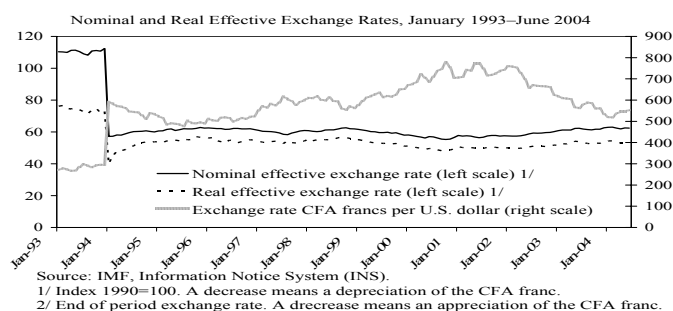
¹ At present, manganese is extracted by only one company (COMILOG), but recently a Brazilian company has been granted a license to extract manganese in the southeast of the country, which will increase substantially Gabon's production.

the volume of okoumé cut and exported declined sharply, but was offset by higher logging of other species; over the full year, timber production is projected to remain at the same level as in 2003. Timber processing activity continued to grow at a sustained pace. Activity in other sectors, such as electricity, cement, and consumer-good production was sluggish, reflecting relatively weak private consumption and employment. Despite some expected pickup in the second half of the year, non-oil GDP growth is now projected at 2.3 percent for the year as a whole, compared with 3 percent under the program.

- **Oil production during the first semester of 2004 was 2 percent below the level achieved in 2003** (measured on an annual basis), in line with program projections, as investments to upgrade existing fields continued, stimulated by favorable oil prices. Thus, for the year as a whole, oil production is likely to reach the 13.3 million tons envisaged under the program.



- **Inflation is on a downward trend**, as consumer prices in June 2004 rose by 1.7 percent year-on-year, lower than the 2 percent envisaged under the program. After appreciating by 3.4 percent in 2003 because of the nominal depreciation of the U.S. dollar vis-à-vis the euro, the real effective exchange rate stabilized in early 2004.



- **The external current account was much more favorable than expected**, on account of higher exports of oil in value terms and manganese in both volume and value,² as a result, at end-June 2004, Gabon's contribution to the regional central bank's (Bank of Central African States, BEAC) net foreign assets (NFA) was almost double its level at end-2003.
- **Fiscal performance remained on track.** All performance criteria and indicative targets for end-June were observed, with the exception of a small slippage in the indicative target for non-oil revenue (Tables 2 and 3). Owing to higher prices, oil

² The export price of manganese in the first semester of 2004 was 25 percent higher than in 2003.

revenue exceeded program projections by one percentage point of GDP. As provided under the program, the excess was used to increase government deposits in the banking system and to accelerate the repayment of the treasury float.³ The non-oil budget deficit was smaller than programmed, as investment spending was less than projected, owing to a slow start in the execution of the investment budget. The implementation of the new procurement code is also contributing to lower spending. On the revenue side, collection of forestry taxes was lower than expected, but accelerated in July when payments of back taxes for 2002-03 began.

- **The wage bill was kept within the indicative target**, as a result of the measures taken in April. These included limiting the size of ministers' cabinets, monitoring contractual staff actually in service, controlling that allowances for managerial responsibilities are paid only to those entitled to them, limiting the payments of air service allowances, cutting the special foreign exchange allowances currently paid to personnel training abroad, and enforcing the retirement age.
- **Developments in the monetary sector to end-June 2004 have been marked by an expansion of NFA and a decline in net credit to government.** Broad money increased by 5.0 percent year-on-year, in line with the expected nominal growth of non-oil GDP (Tables 4 and 5). Credit to the economy declined by 12.6 percent year-on-year, as the government's payment of domestic arrears led to repayment of bank credit; also banks remained cautious about extending credit to foresters. Nonperforming loans (NPL) increased to 17.6 percent of total loans from 13.8 percent at end-2003, reflecting reclassification of loans by the regional bank commission, COBAC, in particular pertaining to one foreign-owned bank; however COBAC's view is that provisioning remains adequate, and the banking system is sufficiently capitalized.
- **Progress has been made on structural reforms.** In the forestry sector, a letter of development policy was adopted by the council of ministers in mid-May 2004, incorporating key principles agreed with the World Bank, that is a moratorium on the granting of new forestry concessions and launching a pilot project for the auctioning of new concessions. A decree to implement these provisions was signed on August 9 (LOI, paragraph 38). The study to redefine the role of the timber marketing board, SNBG, is progressing on schedule. Progress in other areas is also satisfactory, and it is expected that the structural performance criteria and the structural benchmarks for the rest of the year will be met, with the possible exception of two benchmarks in the area of enterprise restructuring and privatization (Table 8).
- **At the Paris Club meeting held on June 11, 2004, creditors provided rescheduling of external arrears at end-April 2004 of an amount lower than**

³ The float is defined as the difference between payment orders at the treasury and the cash payments.

envisaged under the program (by CFAF 45 billion), because of the higher oil revenues collected during the first six months of the year (about CFAF 37 billion) and lower-than-programmed interest obligations (Tables 6 and 7). Rescheduling was also granted on current maturities for the period May 2004–June 2005, as envisaged under the program.⁴ The Paris Club rescheduling provides for a repayment period of 14 years, with three years of grace; half of the arrears eligible for rescheduling was rescheduled on these terms, while the other half was deferred to March 1, 2005; their rescheduling will enter into effect only if the second review of the SBA is completed before this date. Rescheduling negotiations have been initiated with non-Paris Club bilateral creditors.

- **The authorities are at an advanced stage in the discussions with the London Club banks to reschedule, on terms comparable to those granted by the Paris Club, obligations in arrears and current maturities totaling CFAF 19 billion or 1 percent of the total external debt.**

III. POLICY DISCUSSIONS

4. **The authorities agreed that to address Gabon’s key economic challenges, it was essential to continue to implement a strategy based on three interlinked pillars:**⁵ (i) sustained fiscal adjustment, which will contribute to the reduction of the debt burden; (ii) improved public expenditure management; and (iii) comprehensive structural reforms, so as to further improve the investment climate, promote non-oil growth, and secure poverty reduction.

5. **The discussions focused on the monitoring of the three-pillar strategy.** The mission also updated the macroeconomic framework for 2004–05, and reviewed the prospects for a pickup of economic activity in the non-oil sector and the outlook for oil production for the remainder of the year and for 2005. Discussions also focused on the Poverty Reduction Strategy Paper (PRSP) preparation process.

A. Macroeconomic Framework

6. **Policy discussions were conducted against the background of a weaker-than-expected activity in the non-oil sector, and oil prices considerably higher than envisaged under the program**, as indicated in the tables below.

⁴ The program envisaged a rescheduling of end-April 2004 arrears to the Paris Club amounting to about CFAF 345 billion and current maturities falling due in May–December 2004 (about CFAF 102 billion), and in January–June 2005 (about CFAF 75 billion).

⁵ See paragraph 15 of Country Report No. 04/168.

Key Macroeconomic Indicators, 2004–05

(In percentage change, unless otherwise indicated)

	2004		2005	
	Prog.	Rev.	Prog.	Rev.
Real GDP growth	2.0	1.5	-0.7	0.7
Oil	-0.6	-0.5	-11.7	-6.7
Non-oil	3.0	2.3	3.5	3.5
Nominal GDP (in CFAF billions)	3,382.3	3,667.1	3,300.5	3,597.9
Oil	1,242.4	1,543.8	1,047.9	1,358.4
Non-oil	2,139.9	2,123.3	2,252.6	2,239.5
CPI (annual average)	2.0	2.0	2.0	2.0
Current account balance (in percent of GDP)	5.8	11.6	1.5	10.9
Non-oil budgetary primary deficit (in percent of non-oil GDP)	-7.5	-7.6	-5.7	-5.7

Sources: Authorities; and staff estimates and projections.

7. **The authorities concurred with the staff that the period of high petroleum prices was likely to be short-lived, and that this favorable window of opportunity should be used for fiscal consolidation.** Thus, they envisage using the additional fiscal resources mainly for (i) repaying external debt, in line with the last Paris Club agreed minutes, and to contain the external financing gap in 2005, so as to reduce the high debt burden; (ii) reducing government overdue obligations to the private sector, including the float at the treasury, in order to improve government credibility and provide the necessary resources for private sector development; and (iii) increasing allocations to the Fund for Future Generations (FFG), so as to preserve assets for the future. They also reiterated their commitment to deepening reforms aimed at improving the transparency and efficiency of public spending.

8. **With higher oil prices projected by the staff for 2004 (see text table below), oil revenue could exceed original program projections by CFAF 110 billion (3 percent of GDP), including CFAF 73 billion during the second half of the year.**⁶ Slightly less than half of the windfall will be used for payment of external debt in excess of program

⁶ At the time of the Paris Club meeting, the excess oil revenue for 2004 was projected at CFAF 70 billion, based on a price for the Brent crude of US\$34 a barrel on average for the year.

projections in line with June 2004 Paris Club agreement; the remainder is to be directed in part to increasing deposits in the FFG at the BEAC, and in part to reducing the float at the treasury in excess of the original program targets, in order to bolster the confidence of the private sector.⁷

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

	2004		2005	
	Prog.	Revised	Prog.	Revised
World oil price (U.S. dollars per barrel)	30.0	37.3	27.0	37.3
Oil production (in million tons)	13.3	13.3	11.5	12.3
Oil government revenue	508.1	618.2	412.7	603.3
Projected oil revenue windfall	0.0	110.1	0.0	190.6
Projected uses	0.0	110.1	0.0	190.6
Deposits in the Fund for Future Generations	0.0	50.0	0.0	44.2
Financing gap 1/	0.0	43.1	0.0	83.8
Reduction of the float at the treasury	0.0	17.0	0.0	13.4
Clearance of FER arrears	0.0	0.0	0.0	25.0
Repayment of BEAC's statutory advances	0.0	0.0	0.0	24.2

Sources: Authorities and staff estimates.

1/ Essentially cash payments on external debt in excess of original program projections.

9. **In 2005, a part of the projected windfall, now estimated at CFAF 190 billion (5.3 percent of GDP), is to be used to pay reschedulable debt obligations falling due in the second half of the year, thus reducing the financing gap.** The remainder will be used for faster reduction of domestic debt and to increase savings in the FFG. While the revised program for 2005 includes as a new baseline the higher oil revenue presently projected, it should be noted that this projection is subject to great uncertainty, and will have to be reassessed in the course of future program reviews.

⁷ New deposits in the FFG in 2004 will amount to CFAF 101 billion, and are the sum of two components: (i) the statutory requirement of depositing 10 percent of the budgeted revenue (CFAF 51 billion); and (ii) the share of the windfall in oil revenue (CFAF 50 billion). In 2005, the projected deposits in the FFG (CFAF 96 billion) would exceed the required 10 percent of projected oil revenue in order to make up for the withdrawals from the FFG in 2003, which were used to repay external arrears.

10. **Given the current high oil prices and the prospect of declining only gradually in 2005-06, the medium-term macroeconomic environment is projected to improve considerably**, with a sharp improvement of the external current account and international reserves, and a decline in external debt. The high international prices have stimulated investments to upgrade existing oil fields with new technology, leading to an upward revision in the projected oil production over the next few years, as discussed in section D below. An updated debt sustainability analysis presented below indicates that, given the high oil price projections over the medium term, the profile of the debt-to-GDP ratio is becoming more favorable, but the debt ratio remains vulnerable to economic shocks.

B. Fiscal Policy and Public Expenditure Management for the Remainder of 2004

11. **The authorities request a slight modification of the non-oil primary deficit by CFAF 1 billion (0.03 percent of GDP) to carry out transparency-enhancing audits of the arrears of the Road Fund and the regional investment expenditures, and to complete a comprehensive revision of the budget nomenclatures.** The staff concurs with this request, since this spending will strengthen budgetary management. The staff had wondered why this outlays could not be accommodated within the original program, but the authorities underscored that the current expenditure budget was very tight, and that it would be inappropriate to curtail investment outlays. With the downward revision of projected nominal non-oil GDP in 2004, the non-oil primary deficit as a share of non-oil GDP is likely to reach 7.6 percent of non-oil GDP, 0.1 percentage point above the original program target.

12. **The authorities are committed to maintaining expenditures within the program limits for the year, with the exception indicated above.** In particular, they are confident that the measures adopted in April (LOI, paragraph 20) will help contain the wage bill within the program limit (CFAF 226 billion). With regard to the university scholarship program, a study to identify how to improve its efficiency is under way, and it is expected to be completed before end-October 2004, as envisaged under the program. The study will be submitted to the World Bank for review.

13. **The authorities have indicated that improvements in budget management are under way.** The recently established Directorate General of Public Procurement is reviewing all contracts above the CFAF 30 million threshold, and has blocked a number of contracts because of noncompliance with the regulations. The status of execution of projects will be reviewed in the 2005 budget discussions. Also, measures are being taken to ensure that the execution of the budget starts at the beginning of the year (LOI, paragraph 30). A public expenditure review (PER) of key sectors will start in October, with assistance from the World Bank and other donors. All these actions should contribute significantly to enhancing public expenditure management.

14. **The PER exercise will provide the opportunity to analyze the cost of the priority programs that are likely to be included in the PRSP, and their possible financing.** In this context, the authorities noted that it may be necessary to widen somewhat in 2005 the non-oil primary budget deficit, relative to the original target. In particular, they pointed out that the health map and the education statistics recently completed by the ministries of health and education with external technical assistance have identified significant needs in the health

and education sectors. The staff indicated that these issues would be examined in the context of the second review, which will provide the opportunity for an in-depth discussion of the draft budget for 2005 and of the expenditure for the key priority sectors, both in the context of the medium-term macroeconomic framework.

15. **On the revenue side, efforts will focus on the collection of company income taxes and value-added tax (VAT) arrears.** The collection of forestry taxes, particularly back taxes for 2003, is also expected to accelerate during the second half of the year. The status of implementation of the structural reforms in the fiscal area is reported in paragraphs 15-18 of the LOI and in Table 8. In particular, (i) the decree establishing the Large Enterprise Directorate (DGE) has been prepared and is expected to be adopted in September as programmed (performance criterion), so that the DGE can become operational in early 2005; and (ii) the preparation of the land registry for Libreville and Port-Gentil is under way, and the establishment of the taxable base for real estate taxation is expected to be finalized before end-December 2004, as envisaged under the program.

16. **Tax administration is being strengthened through enhanced training of the tax department staff and the streamlining of collection procedures.** The collection of forestry taxes will be secured through the strict enforcement of the joint liability of the permit holder, the logger, and the timber merchant, as provided for in the 2004 finance law. Moreover, to ensure proper recovery of forestry taxes, notably with regard to the accurate identification of the species of logs, the collaboration between the tax department, the Ministry of Forestry, and customs will be reinforced. Improved performance in collecting the area tax and stumpage fee should allow a further reduction in the export tax for logs in the 2005 budget law.

17. **The mission urged the authorities to rescind the 25 percent VAT rate applicable to luxury goods that was introduced in the 2004 budget law in the context of the implementation of the 2003 social truce.**⁸ The authorities concurred with the staff's analysis that such a high rate could be detrimental to the development of services such as telecommunications that have been expanded considerably over recent years, and banking operations, which are key to economic diversification. They also agreed that the taxation of luxury goods would be more effectively achieved through an appropriate excise tax. As a result, the government will consider the possibility of reducing the higher rate to 18 percent in the 2005 budget, after conducting an impact analysis.

18. **Civil service reform is progressing.** The authorities have indicated that the harmonization of the civil service and the payroll rosters is well advanced, and should be completed before year-end, as planned. However, for technical reasons, the computerized civil service management project (ANITA) will be operational only in 2005 (LOI, paragraph 23). The draft laws organizing government services and governing the general civil servants' statutes are now with the National Assembly, after having been examined by the Senate; they are expected to be approved by parliament during the September-December

⁸ See paragraph 25 of Country Report No. 04/168, (05/17/2004).

2004 session. These new statutes highlight the role of the merit-based promotions; they would also enable rationalization of the regime for contractual workers, thus securing savings for the 2005 budget. The audit of the stock-of-wage arrears is under way, and should be completed as planned before end-September.

19. **The authorities are taking steps to strengthen the finances of local authorities and social security agencies** (LOI, paragraphs 31-33). The commission set up by the government to identify the measures needed to ensure the financial viability of local authorities is well advanced and is expected to provide its report before end-October as envisaged under the program. With regard to the social security agencies, the government has initiated actions aimed at addressing the financial difficulties of the National Social Insurance Fund (CNGS), which provides insurance for government's contractual staff. These include (i) the provision of budgetary support in the context of the revised 2004 budget; (ii) the preparation of a performance contract—to reduce operating costs and to improve the fund's efficiency—expected to be signed by end-September as planned; and (iii) the launching of a study before year-end on revising the payroll tax paid by the government, and the applicable salary base, so as to ensure the long-term financial viability of the CNGS. To improve transparency, the CNGS accounts will be presented in an annex to the government budget as of FY 2005. With regard to the National Social Security Fund (CNSS), the actuarial study carried out by the International Labor Organization (ILO) is expected to be completed in the first quarter of 2005.

C. Monetary and Financial Sector Policies

20. **Monetary policy will continue to be conducted at the regional level by the BEAC, consistent with the fixed exchange rate regime.** The rapid expansion of NFA is expected to be offset by a sharp decline in net credit to the government; thus broad money is envisaged to grow by about 4.4 percent during 2004. The slowdown in credit to the economy observed in the first half of the year is expected to be reversed in the second half of 2004, as economic activity is projected to pick up.

21. **The authorities are committed to strengthening microfinance;** to that end they are studying the possibility of revising the status of the Development and Expansion Fund (FODEX), in line with the directives of the regional banking commission on microfinance, so that it could engage in such activities.

22. **Housing finance is also a key priority in view of the serious shortage of residential housing in the main cities.**⁹ To that end, financing arrangements are being finalized with domestic and foreign private banks to support new housing developments, and subsequent purchases by households. The ample liquidity of the banking system and the existence of adequate and collectible collateral should contribute to the success of these

⁹ At present, land development is mainly carried out by the government agency, National Housing Fund.

operations. To promote increased housing construction, with adequate bank financing, procedures for issuing land titles are being speeded up (LOI, paragraph 15).

D. External Sector and Debt Sustainability Analysis

23. **The external financial position is expected to improve significantly during 2004 and 2005, mainly on account of higher-than-expected oil prices.** The financing gap for 2004 is fully covered by the rescheduling already obtained from the Paris Club creditors. The accumulation of NFA is also projected to be higher than originally programmed by 1.8 percent of GDP. For 2005, the large financing gap originally projected (CFAF 163 billion) is now reduced to about CFAF 10 billion, on account of debt rescheduling already obtained up to end-June 2005 and the oil revenue windfall. International reserves would also rise by substantially more (CFAF 85 billions, or over 2.4 percent of GDP) than envisaged under the program.

24. **The medium-term external outlook has also improved, not only on account of higher oil prices, but also because of a stronger expected performance of oil and non-oil exports.** Investment is already in place to improve oil recovery in a number of fields, including Rabi, and this would contribute to improving the oil production profile over the medium term—although maintaining a downward trend. Manganese exports are expected to increase substantially, as a consequence of new foreign investment. These developments would contribute to a higher-than-envisaged accumulation of international reserves attributable to Gabon in the regional central bank, as well as lower financing gaps. The latter could be covered by additional debt rescheduling of a relatively small magnitude in 2006-10.

25. **The new baseline scenario (accounting for the better-than-expected terms of trade) used in the debt sustainability analysis (DSA) indicates that both the public debt-to-GDP and external public debt-to-GDP ratios would steadily decline over the medium term** (Appendix IV, Tables 1-4). However, given that the budgetary primary surplus will be used up to 2007 to retire domestic debt, the public debt-to-GDP ratio is expected to decrease faster than the external public debt-to-GDP ratio. The lower debt ratios are due to both higher-than-expected nominal GDP (mainly on account of higher oil prices and production) and to lower financing gaps over the medium term. The external debt-service ratios, both in terms of exports and government revenue, would rise until 2009 before showing a declining trend as the weight of the rising non-oil sector in the overall economy increases.

26. **A number of sensitivity analyses performed under the DSA exercise indicates that the risks to achieving a sustainable debt path are substantial.** External debt becomes unsustainable when the relevant variables are set during 2004-08 at their 1993-2003 average, which would entail a more pessimistic scenario than under the baseline. Other stress testing, based on past current account deficits and exchange rate depreciations, would result in debt ratios peaking in 2005-06, but still exhibiting a declining path thereafter. However, two sensitivity tests, one assuming a long-term shock to non-oil real growth and the other a long-term shock to the price of oil, would result in the external debt-to-GDP ratio rising

continuously and becoming unsustainable.¹⁰ These results underscore (i) the critical importance of diversifying Gabon's economic base, by boosting non-oil growth, for the success of the authorities' program, and (ii) the strong dependence of the results of the baseline scenario on the higher oil prices presently projected by the staff.

27. **The government remains committed to price and trade liberalization.** Following the abolition of the General Directorate of Price Controls in December 2003, a new General Directorate of Competition has been established by decree in early 2004, with the task of ensuring market competition and the protection of consumer rights. The authorities are committed to reinstating in the coming months the mechanism of automatic adjustment of the domestic retail prices for petroleum products, in line with international oil prices (LOI, paragraph 43). With regard to foreign trade, the authorities are determined to remove the import surcharges on the import of eggs and cigarettes before end-December 2004, in line with the program. The authorities are aware of the need to open up the sugar sector, which has been protected through quantitative restrictions, but have expressed concern about similar restrictions in other Central African Economic and Monetary Community (CEMAC) countries. To liberalize this sector, in a coordinated manner, they have decided to initiate in the coming weeks regional consultations with other CEMAC members.

E. Other Structural Reforms

28. **Progress is being made in the implementation of the comprehensive set of structural reforms designed to promote the diversification of the economy and stimulate non-oil growth,** including improving the investment climate, reforming the forestry sector, restructuring and privatizing public enterprises, and improving governance. Although economic activity was relatively weak in the first half of the year, the authorities are confident that the privatizations underway, particularly in the telecommunication sector, and the reforms in the forestry, mining, and housing sectors will contribute to an acceleration of growth in the later part of 2004 and in 2005. The staff underscored that for growth to pick up, the efforts in structural reforms must be pursued vigorously and fiscal consolidation maintained.

29. **A World Bank team conducted in May 2004 the first phase of a diagnostic study on the investment climate.** The report will be ready in a few weeks and will be circulated for discussion to the authorities; an action plan for implementation will then be finalized, in consultation with the Fund staff.

30. **A comprehensive reform of the forestry sector is under way.** The authorities have expressed their commitment to implementing the key recommendations of the letter of development policy (LOI, paragraph 38), including the establishment of a pilot auction system to allocate forestry concessions, and the publication of a list of the existing forestry permits. The World Bank is in close consultation with the authorities in order to ensure the

¹⁰ For the sensitivity test that assumes a lower non-oil growth, the debt ratio slightly decreases until 2009 and then increases continuously.

appropriate implementation of these measures. The study to redefine the role of the timber marketing board (SNBG) is to be concluded, as programmed, in October, and will be followed by the adoption of a time-bound action plan based on the recommendations of the study.

31. **The privatization of Gabon Telecom is in its final phase.** The authorities informed the mission that in view of the strong interest expressed by investors in recent weeks, they are considering reopening the list of prequalified bidders (LOI, paragraph 40) and increasing the share of the company offered for sale from the initial 35 percent to more than 50 percent. The World Bank staff is confident that the new strategy will improve the prospects for a successful sale, and that it will be possible to select the winner of the tender by end-January 2005, with a delay of about four months relative to the original target.

32. **The authorities have announced their intention to privatize Air Gabon,** and to that end contacts have been initiated with potential investors, including Royal Air Maroc. However, the possibility of establishing a regional airline with the participation of all CEMAC countries is also under study by the member governments, which would entail the liquidation of Air Gabon. A final decision between these two alternatives will require a few months. In the meantime, the new director general of the company, appointed in May, has implemented cost-cutting measures, including the redeployment of the fleet, that have improved the monthly cash flow and reduced somewhat short-term debts to suppliers; these remain however large, after disappointing operating results in 2003 (LOI, paragraph 41). Despite these improvements, the target for the operating surplus (before depreciation) in 2004 appears difficult to achieve; however, it should still be possible to achieve such a surplus in 2005.

33. **As discussed above, a number of initiatives have been taken to improve governance, in particular in public expenditure management.** The National Commission Against Illicit Enrichment is preparing an action plan to initiate its investigative and educational activity, and its first annual report will be issued before end-year. The commission continues to benefit from technical assistance from the Legal Department of the Fund. As mentioned in the LOI, paragraph 46, progress is being made in the implementation of the Extractive Industry Transparency Initiative (EITI), to which the country became an associate member in May 2004. The staff transmitted to the authorities a full set of templates to be completed in the coming months; technical assistance needs will be determined during this exercise. Upon completion of these steps, the authorities will proceed to the next stage, under which they will be eligible to full membership status; this will entail compliance with a comprehensive set of transparency requirements.

F. PRSP Preparation

34. **The preparation of the PRSP is gaining speed** (See LOI, paragraphs 26-27).¹¹ A number of seminars with civil society participation have taken place, and more are scheduled for the coming weeks in all the provinces; the quantitative survey to update poverty and social indicators was launched at end-August, with donor support. The substantial progress made by the health and education ministries in identifying areas where needs are more acute will facilitate the finalization of master plans for these sectors. These will provide the basis for the establishment of the 2005 investment budget and the public investment program for 2005-07 for these sectors, to be presented to parliament in October.

35. **In meeting with the staff, civil society representatives underscored their view of the PRSP process as a key instrument to increase the role of civil society in identifying public spending priorities and monitoring the execution of the budgets**, thus helping to make the government more accountable.

IV. STAFF APPRAISAL

36. **In the first half of 2004, Gabon's performance under the program supported by the SBA was satisfactory.** Economic activity in the non-oil sector showed signs of some acceleration, budgetary performance was in line with program objectives, and all quantitative performance criteria for end-June were met. Quantitative indicative targets were also met, with the exception of a very small slippage on non-oil revenue. Structural reforms in the fiscal area, which started in the second half of 2002, also continued at a satisfactory pace.

37. **Despite this promising start, there is no room for complacency, and it is essential that Gabon seizes the opportunity of the favorable commodity prices, including petroleum, to pursue steadfastly the fiscal consolidation and the structural reform agenda aimed at promoting economic diversification.** This is all the more important since in 2004 non-oil growth is expected to be somewhat lower than envisaged under the program.

38. **It is also commendable that the oil revenue windfall that accrued in the first half of 2004 was used as envisaged under the program, namely for domestic debt repayment and for reducing bank credit to the government.** The understandings reached on the use of the oil windfall in the second half of the year ensure an appropriate balance between reduction in external arrears, further reduction in government domestic arrears, and accumulation of deposits in the FFG at the regional central bank.

39. **The staff welcomes that, following the June 11, 2004 Paris Club agreement, rescheduling negotiations on comparable terms with the London Club banks are at an**

¹¹ As Gabon is not a PRGF country, a PRSP is not a formal requirement. However, the authorities have decided in 2000 that they would prepare such a document, as they recognize the benefit of the process and the documentation.

advanced stage. The staff notes that progress is being made in obtaining rescheduling from non-Paris Club bilateral creditors on comparable terms with those from Paris Club creditors.

40. **In the public finance area**, it is welcome that the measures adopted to contain the government wage bill are being implemented with determination. This is essential to free resources for priority sectors and to stimulate the diversification of the economy. The staff encourages the authorities to make further progress in this area, in particular with regard to the implementation of the merit-based promotion system, and the rationalization of the statutes of contractual workers. Progress was also made in tax administration reforms, in particular with regard to the establishment of the new large enterprise tax unit. The staff encourages the authorities to eliminate the highest VAT rate of 25 percent, which is likely to discourage the development of key economic sectors.

41. **The staff concurs with the authorities' request that the target for the non-oil primary budget deficit be increased by CFAF 1 billion (0.03 percent of GDP) to permit outlays to conduct priority audits and complete the work on the budget nomenclature**, as these actions would help promote transparency in the budget execution process.

42. **The strengthening of social security for contractual government employees, administered by the CNGS**, is essential to ensure that contractual obligations are respected, and that the social security system is viable; to that end, the analysis of needed reforms of the payroll tax scheme will have to be undertaken without delay.

43. **Further improvement in the monitoring of the investment budget execution is needed, in order to strengthen overall public resource management and provide a sound basis for preparing the budget in a medium-term framework.** The initial efforts made by the planning ministry to review the status of investment execution are welcome, but they should be carried out on a regular basis. In this context, it is welcome that understandings have been reached between the planning ministry and the World Bank and other donors and lenders for a public expenditure review in the priority sectors, to be conducted in the coming months.

44. **It is encouraging that the preparation of the PRSP is gaining speed**, and that the participatory process will cover all the regions of the country, with a wide participation of civil society.

45. **It is welcome that the first phase of the World Bank Foreign Investment Advisory Service diagnostic study has been completed, with a report to be issued soon; this will provide the opportunity for in-depth analysis and the preparation of an action plan for reforms.** The larger interest expressed by potential investors in the privatization of Gabon Télécom is a positive sign; it is now important to conclude the sale with appropriate speed, and in a transparent manner. The decision of the government to seek private sector participation in Air Gabon is also appropriate; it is essential that the new measures taken to improve operating results be carried out with determination and utmost rigor, so as to ensure the company's financial viability.

46. **Reforms in the forestry sector are essential in order to ensure that the principles of sustainable development are attained.** To that end, it is important that the policies formulated in the letter of development for the forestry sector adopted in mid-May be implemented, in close cooperation with the World Bank. The adoption of the presidential decree of August 9, which starts the process of implementation of the envisaged reforms, is a positive first step, which needs to be followed by adequate actions.

47. **Efforts to strengthen governance at all levels must be pursued without wavering.** The staff welcomes Gabon's decision to adhere to the EITI, and that steps are being taken to meet the information requirements of the initiative. The National Commission Against Illicit Enrichment has started its work in the area of investigation and prevention, and it will need the full support of the various branches of government.

48. **The upward revision in the oil price projections for the next few years and the improved prospects for oil production have led to a revision of the debt sustainability analysis.** While under the new baseline scenario the debt-GDP ratio is now declining quickly to below 40 percent by 2009, large uncertainty surrounds this scenario, which hinges critically on the oil price projections. Should the oil price decline rapidly to below US\$30 per barrel, the debt burden would remain very worrisome. It is therefore important that the budget for 2005, which will be discussed during the next review, be consistent with the fiscal adjustment envisaged under the program.

49. In view of the satisfactory performance in the first half of 2004, and observance of all quantitative performance criteria, and progress in achieving the structural performance criteria envisaged for the remainder of the year, **the staff recommends that the first review of the SBA be completed.** It also concurs with the authorities' request for modifying the performance criterion for end-December 2004 on the primary budget balance, adjusted for excess oil revenue, and the criteria for end-September and end-December 2004 on net bank credit to the government and the stock of domestic arrears of the central government, resulting from the use of the oil windfall revenue.

Table 1. Gabon: Selected Economic Indicators, 2000–06

	2000	2001	2002	2003	2004		2005	2006
				Est.	Prog.	Rev.	Projections	
(Annual percent change)								
GDP at constant prices	-1.9	2.0	0.0	2.8	2.0	1.5	0.7	0.9
Oil	-10.2	-5.7	-1.4	7.6	-0.6	-0.5	-6.7	-7.3
Non-oil	2.1	5.3	0.6	1.0	3.0	2.3	3.5	3.8
GDP at current prices	26.0	-4.7	0.0	2.1	-3.9	4.2	-1.9	-2.4
GDP deflator	28.5	-6.6	0.0	-0.7	-5.8	2.6	-2.5	-3.3
Oil	77.5	-12.7	1.0	-4.2	-16.0	4.3	-5.7	-8.7
Non-oil	3.0	2.2	-0.2	0.3	2.2	2.1	1.9	1.6
Consumer prices								
Yearly average	0.4	2.1	0.2	2.1	2.0	2.0	2.0	2.0
End of period	1.8	1.0	0.4	3.5	2.0	2.0	2.0	2.0
External sector								
Exports, f.o.b. (CFA francs)	53.7	-19.0	-5.7	4.2	-4.3	19.1	-3.6	-10.4
<i>Of which:</i> oil	65.4	-19.6	-6.9	4.8	-3.8	20.8	-7.6	-15.6
Imports, f.o.b. (CFA francs)	1.4	9.3	7.1	-5.4	4.6	10.0	5.1	1.4
Export volume	32.8	-13.9	-0.4	-3.7	0.3	12.8	-3.7	-9.4
Import volume	-13.9	3.8	11.4	9.0	11.5	17.0	3.2	-0.1
Terms of trade (deterioration -)	-1.6	-10.6	-1.5	24.7	-4.7	12.4	-1.8	-2.6
Nominal effective exchange rate (= depreciation)	-5.5	1.4	2.3	3.3	...	...	...	...
Real effective exchange rate (= depreciation)	-6.9	1.7	0.7	3.4	...	...	...	...
Central government finance								
Total revenue	48.4	-2.8	-7.3	-3.6	-2.6	7.9	2.2	-7.0
Oil revenue	121.0	-7.6	-19.1	-6.4	-10.9	8.4	-2.4	-18.0
Non-oil revenue	-11.7	7.1	13.8	0.0	7.2	7.2	7.8	5.1
Total expenditure	0.8	35.1	-8.7	-18.6	7.2	6.2	-3.3	-1.2
Current	2.1	27.5	-20.1	-10.7	3.5	2.3	-5.4	-1.7
Capital	-11.6	55.7	-16.5	-4.4	24.3	24.3	3.4	0.6
(In percent of beginning-of-period broad money, unless otherwise indicated)								
Money and credit								
Net domestic assets	-31.5	42.6	-2.1	-8.8	-4.2	-16.2	-16.0	-8.3
Domestic credit	-33.7	38.8	-1.4	-4.9	-3.3	-15.8	-15.1	-7.9
Central government	-39.6	27.7	-9.1	2.0	-8.2	-16.7	-20.4	-13.6
Credit to the economy	8.3	11.8	6.4	-7.1	4.9	1.4	5.3	5.7
(annual percentage change)	11.7	17.4	8.7	-9.4	7.1	2.0	7.8	8.2
Broad money	18.0	7.5	5.7	-1.2	5.3	4.4	5.5	5.5
Velocity of broad money (non-oil GDP)	3.5	3.5	3.3	3.4	3.4	3.4	3.4	3.4
(In percent of GDP, unless otherwise indicated)								
Gross national savings	41.5	36.8	29.6	33.5	31.5	37.0	36.4	33.3
Government	14.6	8.0	7.5	11.1	10.3	12.7	14.4	12.8
Private sector	27.0	28.8	22.1	22.4	21.1	24.3	21.9	20.5
Gross domestic savings	58.1	52.1	44.2	46.3	49.1	52.6	50.9	46.2
Government	19.7	15.9	10.9	8.0	7.4	10.1	12.0	10.6
Private sector	38.4	36.2	33.2	38.4	41.6	42.5	38.8	35.6
Gross fixed investment	21.8	25.8	24.4	23.9	25.7	25.4	25.5	25.5
Government	2.9	4.7	4.0	3.7	4.8	4.4	4.7	4.8
Private sector	18.9	21.0	20.5	20.2	20.9	21.0	20.8	20.6
Nominal GDP (in billions of CFA francs)	3,618.3	3,448.5	3,448.9	3,520.5	3,382.3	3,667.1	3,597.9	3,511.8
Central government								
Primary budget balance (payments order basis)	17.5	12.0	7.9	11.4	10.3	12.5	13.2	11.2
Overall balance (payments order basis, incl. grants)	11.6	3.2	3.5	7.4	5.4	8.2	9.8	8.0
Overall balance (payments order basis, excl. grants)	11.6	3.2	3.4	7.4	5.2	8.0	9.6	7.8
Overall balance (cash basis)	4.0	4.8	3.5	6.4	0.1	2.8	7.9	8.0
Domestic bank financing	-4.9	4.2	-1.5	0.4	-1.4	-2.7	-3.5	-2.5
Net external financing	4.4	-6.2	-2.2	-3.7	-9.6	2.6	-2.8	-4.9
Financing gap	0.0	0.0	0.0	0.0	13.9	0.0	0.3	1.1
External current account balance (including official transfers)	19.7	11.0	5.2	9.6	5.8	11.6	10.9	7.8
External current account balance (excluding official transfers)	20.0	10.8	5.0	9.5	5.5	11.4	10.8	7.7
External debt service paid (percent of government revenue) 1/	20.1	41.0	13.3	23.4	20.1	...	...	...
External public debt (including the Fund and gap financing)	57.1	63.1	62.8	55.9	58.6	52.1	50.8	48.1
Total public debt (including the Fund and gap financing)	65.8	74.7	76.1	67.6	67.9	59.3	53.6	48.1

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

1/ Including the Fund.

Table 2. Gabon: Fiscal Operations of the Central Government, 2002-04
(In billions of CFA francs, unless otherwise indicated)

	2002		2003				2004									
	Budget law 6/7/02	Est.	Mar.		Sept.		Jun.		Mar.		Sep.					
			Est.	Prog.	Est.	Prog.	Est.	Prog.	Est.	Prog.	Est.	Prog.				
Total revenue and grants	999.6	1 089.9	283.4	575.6	763.0	791.2	1 034.1	1 050.3	244.3	271.1	496.2	529.8	727.9	802.9	1 029.4	1 139.5
Revenue	997.7	1 088.0	283.4	575.6	761.1	790.7	1 030.2	1 049.1	243.1	271.1	493.0	529.8	722.0	797.0	1 021.5	1 131.6
Oil revenue	510.0	609.0	171.8	337.8	393.7	441.7	526.6	570.2	134.7	146.6	247.3	284.5	357.3	432.3	508.1	618.2
Non-oil revenue	487.7	479.0	111.6	237.7	367.5	349.0	503.6	478.9	108.5	124.5	245.7	245.3	364.7	364.7	513.4	513.4
Direct taxes	131.3	134.2	33.0	70.0	105.1	88.8	136.5	122.6	33.4	43.1	82.8	77.8	106.8	106.8	145.3	145.3
Indirect taxes	99.1	83.5	27.9	60.3	69.3	82.5	113.8	109.6	26.0	23.4	55.0	53.6	77.2	77.2	115.2	115.2
Taxes on international trade	225.0	210.0	40.3	86.6	156.1	145.5	204.0	200.3	42.0	42.9	92.0	89.2	157.0	157.0	217.5	217.5
Import taxes	192.0	180.9	33.1	74.1	136.7	123.4	176.7	171.2	38.0	37.3	82.0	77.2	135.4	135.4	185.5	185.5
Export taxes	33.0	29.1	7.2	12.5	19.4	22.1	27.3	29.1	4.0	5.6	10.0	12.0	21.6	21.6	32.0	32.0
Other revenue	32.3	51.3	10.4	20.8	37.0	32.2	49.3	46.4	7.1	15.1	15.9	24.7	23.7	23.7	35.4	35.4
Foreign grants	1.9	1.9	0.0	0.0	1.9	0.5	3.9	1.2	1.2	0.0	3.2	0.0	5.9	5.9	7.9	7.9
Total expenditure and net lending	843.2	969.2	152.6	349.1	568.5	550.0	815.8	789.0	192.5	186.7	372.9	361.0	597.1	585.0	845.6	837.9
Total expenditure, excluding interest payments	685.4	817.9	111.0	278.9	463.2	440.9	678.7	647.5	161.6	156.9	319.5	305.7	484.1	484.1	681.9	682.9
Current expenditure	650.3	687.4	136.7	284.9	430.8	443.5	603.8	613.5	148.0	143.7	280.7	283.3	460.5	448.4	635.1	627.4
Wages and salaries	217.0	220.6	58.6	112.4	162.4	170.4	223.0	229.0	58.8	55.4	111.9	110.1	168.6	168.6	226.0	226.0
Purchases of goods and services	148.6	156.7	18.5	55.3	90.0	89.9	126.8	124.8	28.6	27.9	56.0	55.2	89.6	89.6	124.5	125.5
Water and electricity	10.2	14.6	2.7	5.4	8.5	7.2	11.2	10.8	2.8	2.7	5.6	5.4	8.5	8.5	11.2	11.2
Telephone services I/	32.3	32.5	3.4	5.1	7.2	7.3	9.5	9.5	2.4	2.1	4.7	4.2	7.2	7.2	9.5	9.5
Other (petrol, transport, travel, etc.)	106.1	109.6	12.4	44.8	74.3	74.5	106.1	104.5	23.4	23.1	45.6	45.6	73.9	73.9	103.7	104.7
Transfers	126.9	158.8	18.0	47.1	116.9	118.3	116.9	118.3	29.8	30.7	59.5	62.7	89.3	89.3	121.0	121.0
Public enterprises	30.6	38.3	3.9	8.5	12.9	12.4	18.5	18.1	4.1	4.7	8.3	7.6	12.4	12.4	16.6	16.6
Other	96.3	120.5	14.1	38.5	60.2	61.7	98.4	100.1	25.6	26.0	51.2	55.1	76.8	76.8	104.5	104.5
Interest payments	157.8	151.3	41.6	70.2	105.3	109.1	137.8	141.5	30.9	29.7	53.4	55.4	113.0	100.9	163.6	155.0
Domestic	29.3	33.7	7.0	13.6	21.0	22.2	27.1	30.4	6.9	6.2	9.8	11.7	20.5	20.2	26.9	28.7
External	128.5	117.6	34.6	56.6	84.3	86.9	110.1	111.1	24.0	23.5	43.5	43.7	92.5	80.7	136.7	126.2
Capital expenditure	161.9	136.6	3.6	43.2	100.7	72.8	155.0	130.7	32.5	31.6	68.1	57.8	100.6	100.6	162.5	162.5
Net lending (including equity participation)	31.0	17.1	0.0	0.3	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Restructuring cost of public enterprises	0.0	67.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Air Gabon (suppliers debt taken over)	0.0	31.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
National Social Security Fund (CNSS) (debt to CNSS taken over)	0.0	36.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Road Maintenance Fund (FER) and special funds	0.0	60.5	12.3	20.7	37.1	33.5	57.0	44.5	12.0	11.4	24.0	19.9	36.0	36.0	48.0	48.0
Overall balance, incl. grants (on a payments order basis)	156.4	120.7	130.8	226.5	194.5	241.2	218.3	261.3	51.8	84.4	123.3	168.8	130.8	217.9	183.8	301.6
Primary balance, incl. grants (on a payments order basis)	314.2	272.0	172.4	296.7	299.8	350.3	355.4	402.8	82.7	114.1	176.7	224.2	243.8	318.8	347.4	456.6
Change in payments arrears	-76.4	1.1	-46.6	-66.5	-69.6	-60.3	-83.4	-36.4	-10.9	-17.5	-155.3	-186.9	-161.2	-194.3	-181.1	-198.1
External (on interest payments)	-28.9	81.1	18.3	6.6	-2.6	20.2	-25.5	32.4	-0.9	11.7	-139.4	-139.4	-139.4	-139.4	-139.4	-139.4
Domestic	-47.5	-79.9	-64.9	-73.1	-43.3	-80.6	-57.9	-68.8	-10.0	-29.2	-15.9	-47.5	-21.8	-54.9	-41.7	-58.7
Arrears on interest on domestic debt	-2.3	1.5	0.9	1.5	-2.5	2.7	-3.3	1.3	-2.0	-3.2	-2.6	-3.2	-3.0	-3.0	-4.6	-4.6
Float (unpaid payment orders at the treasury)	-45.2	-53.8	-59.5	-72.8	-37.5	-64.3	-46.7	-42.6	-8.0	-22.3	-12.0	-39.9	-12.8	-45.9	-25.9	-42.9
Float at the Road Maintenance Fund (FER)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-8.3	0.0	0.0	0.0	0.0	-3.0	-3.0	-6.0	-6.0
Other float at the treasury 2/	0.0	-22.5	-5.7	-0.2	0.0	-16.5	-2.9	-14.0	0.0	-2.8	0.0	-2.2	0.0	0.0	0.0	0.0
Compensation for political violence	0.0	-5.1	-0.6	-1.7	-3.3	-2.5	-5.0	-5.2	0.0	-0.9	-1.3	-2.2	-3.0	-3.0	-5.2	-5.2
Overall balance (on a cash basis)	80.0	121.8	84.1	160.0	124.9	180.9	134.9	224.9	40.9	66.9	-31.9	-18.1	-30.4	23.6	2.7	103.5
Financing	-270.0	-121.8	-84.1	-160.0	-250.3	-180.9	-291.1	-224.9	-82.8	-66.9	-359.5	18.1	-406.3	-23.6	-474.2	-103.5

Table 2. Gabon: Fiscal Operations of the Central Government, 2002-04
(In billions of CFA francs, unless otherwise indicated)

	2002		2003				2004				2004				
	Budget 6/7/02	Est.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sep.	Dec.	2004				
											Est.	Prog.	Est.	Prog.	
External (net)	-219.4	-76.9	-57.1	-105.0	-187.6	-122.2	-130.7	-62.2	-27.7	-284.5	114.8	-294.4	70.8	-325.3	95.2
Drawings	40.0	17.7	0.9	0.9	27.4	2.1	32.5	2.6	2.5	6.8	9.5	55.3	10.3	65.0	65.0
Project financing	40.0	17.7	0.9	0.9	27.4	2.1	32.5	2.6	2.5	6.8	9.5	55.3	10.3	65.0	65.0
Program financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	45.0	0.0	45.0	45.0
Amortization	-228.4	-243.6	-52.3	-100.1	-146.8	-154.8	-191.7	-60.7	-60.1	-102.7	-103.7	-161.1	-165.2	-201.6	-204.8
Arrears on principal (reduction -)	-31.0	135.8	-5.7	-5.8	-68.2	25.4	-56.5	46.1	29.9	-186.6	-186.6	-186.6	-186.6	-186.6	-186.6
Foreign exchange effect on arrears/unexplained external debt payments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt rescheduling and deferral	0.0	1.3	0.0	0.0	0.0	0.0	2.0	2.0	0.0	-2.0	395.3	-2.0	412.2	-2.0	421.7
Debt cancellation	0.0	11.9	0.0	0.0	0.0	5.1	8.0	11.1	0.0	0.0	0.3	0.0	0.0	0.0	0.0
Advance external debt payments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic (net)	-50.6	-44.9	-27.1	-55.0	-62.7	-58.7	-85.5	-94.2	-39.1	-75.0	-96.7	-111.9	-94.3	-148.9	-198.7
Banking system	-34.1	-51.5	-17.2	-4.4	8.8	32.5	7.1	15.8	6.2	-27.0	-61.4	-35.3	-21.2	-48.6	-98.6
Bank of Central African States (BEAC)	-25.6	-92.9	-1.7	36.7	18.8	40.7	20.5	15.8	13.3	-19.2	-38.4	-21.4	-7.2	-32.7	-82.6
Commercial banks	-8.5	41.4	-15.5	-41.1	-10.0	-8.2	-13.4	0.0	-7.1	-3.2	-10.5	-23.0	-13.9	-16.0	-16.0
Nonbank sources	-16.5	6.6	-9.8	-50.6	-71.5	-91.2	-92.6	-110.0	-26.7	-16.7	-48.0	-35.3	-76.6	-73.2	-100.3
Domestic debt	-59.2	-75.4	-19.3	-40.1	-57.6	-55.5	-62.2	-60.1	-13.3	-15.0	-28.5	-49.1	-48.6	-70.4	-73.0
Oil company advances (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt Accounting Department (DGCP)	-54.2	-69.1	-19.3	-39.6	-56.7	-52.4	-55.2	-55.3	-12.4	-11.6	-22.8	-39.1	-36.9	-50.4	-49.6
Securitized commercial agreements	-36.5	-36.0	-5.5	-11.0	-15.4	-15.4	-19.8	-19.8	-4.1	-8.1	-7.5	-12.2	-12.2	-16.3	-16.3
Other (divers)/	-17.7	-33.1	-13.8	-28.7	-41.3	-37.0	-35.4	-35.5	-8.4	-7.5	-15.3	-26.9	-24.7	-34.1	-33.3
Debt at the treasury ("Libreville Club")	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Regularization of civil servants' salaries (<i>rappels</i>)	-5.0	-6.3	0.0	-0.5	-1.0	-3.1	-7.0	-4.8	-0.9	-3.4	-3.0	-5.7	-10.0	-10.0	-20.0
Change in domestic arrears (on principal, - reduction)	-10.2	14.1	0.7	5.4	-16.6	7.9	-22.1	-11.6	-5.0	-14.0	-5.5	-12.5	-10.9	-13.6	-14.7
Restructuring cost 4/	-36.0	47.9	-1.9	-2.0	-2.5	-3.7	-11.3	-7.8	-2.5	-1.5	-4.5	-4.5	-9.8	-9.8	-18.5
Social costs	-16.7	-17.6	-1.9	-2.0	-2.5	-3.7	-11.3	-7.8	-2.5	-1.5	-4.5	-4.5	-9.8	-9.8	-18.5
Public enterprise debt	-19.3	65.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Air Gabon	0.0	31.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CNSS	-10.0	36.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	-9.3	-2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt rescheduling/deferred	0.0	39.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10.1	0.0	10.1	0.0	10.1
Sales of assets (shares, etc.) to be determined	94.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization proceeds	0.0	1.8	1.0	1.0	1.0	1.0	1.0	1.0	0.0	1.4	0.0	10.0	0.0	11.9	11.9
Other	-5.0	-21.4	9.7	-14.8	4.2	-40.9	2.0	-31.5	-5.9	3.7	-7.8	0.2	-16.9	-14.0	-15.9
Treasury correspondents, incl. pensions	0.0	1.4	-5.4	-12.6	1.2	-22.5	1.0	-6.2	-2.2	-2.9	-3.0	-1.9	-10.0	-7.1	-5.0
Local authorities 5/	0.0	-7.9	2.3	2.6	3.0	-4.7	1.0	-1.9	-0.3	3.1	1.5	-1.0	1.5	-1.0	-1.0
Cancellation of domestic debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Development Bank of Gabon (BGD)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other, including transactions between local and central treasury	0.0	0.0	-0.1	-0.6	0.0	-0.8	0.0	-1.4	-0.5	-0.5	-0.8	-0.5	-1.1	-1.1	-1.4
Errors and omissions	-5.0	-14.9	12.9	-4.2	0.0	-3.6	0.0	-8.6	0.0	2.8	0.0	1.9	0.0	0.0	0.0
Financing gap	190.0	0.0	0.0	0.0	125.5	0.0	156.2	0.0	41.8	0.0	391.4	0.0	436.7	0.0	471.5
Memorandum items:															
Primary fiscal balance, incl. grants (in percent of GDP)	9.5	7.9	4.9	8.4	8.5	9.9	10.9	11.4	2.4	3.1	6.1	7.2	8.7	10.3	12.5
Non-oil primary balance, incl. grants (in percent of non-oil GDP)	-9.4	-16.8	0.0	-2.0	-4.6	-4.5	-8.2	-8.2	-2.4	-1.5	-2.8	-5.3	-5.3	-7.5	-7.6
Stock of unpaid payments orders at the treasury	104.3	123.8	64.3	51.0	86.3	59.5	77.1	84.7	76.7	62.4	72.7	44.8	71.9	38.8	58.8
Fund for Future Generations (balance)	...	70.4	...	9.3	...	20.0	...	30.0	16.8	16.5	51.5	60.0	55.0	81.7	131.7

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

1/ The 2002 budget column includes CFAF 16.5 billion for telephone bills relating to 2001, which the authorities had classified under domestic debt repayment in the draft budget.

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

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

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

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

Table 3. Gabon: Fiscal Operations of the Central Government, 2001–06

	2001	2002	2003	2004		2005		2006	
				Prog.	Proj.	Prog.	Proj.	Proj.	Rev. Proj.
(In billions of CFA francs)									
Total revenue and grants	1,173.6	1,089.9	1,050.3	1,029.4	1,139.5	971.0	1,161.5	915.2	1,080.8
Revenue	1,173.6	1,088.0	1,049.1	1,021.5	1,131.6	966.0	1,156.5	910.2	1,075.8
Oil revenue	752.9	609.0	570.2	508.1	618.2	412.7	603.3	328.8	494.5
Non-oil revenue	420.8	479.0	478.9	513.4	513.4	553.3	553.3	581.3	581.3
Direct taxes	96.6	134.2	122.6	145.3	145.3	149.2	149.2	158.1	158.1
Indirect taxes	70.8	83.5	109.6	115.2	115.2	128.5	128.5	135.6	135.6
Taxes on international trade	218.4	210.0	200.3	217.5	217.5	230.2	230.2	239.6	239.6
Import taxes	187.8	180.9	171.2	185.5	185.5	199.6	199.6	207.4	207.4
<i>Of which</i>									
VAT	92.0	88.6	83.9	90.9	90.9	97.8	97.8	101.6	101.6
Export taxes	30.6	29.1	29.1	32.0	32.0	30.6	30.6	32.2	32.2
Other revenue	35.0	51.3	46.4	35.4	35.4	45.3	45.3	47.9	47.9
Foreign grants	0.0	1.9	1.2	7.9	7.9	5.0	5.0	5.0	5.0
Total expenditure (including net lending)	1,061.9	969.2	789.0	845.6	837.9	817.3	810.6	813.9	801.2
Total expenditure (excluding interest payments)	758.2	817.9	647.5	681.9	682.9	686.6	686.6	686.1	686.1
Current expenditure	860.4	687.4	613.5	635.1	627.4	600.3	593.5	595.9	583.2
Wages and salaries	219.6	220.6	229.0	226.0	226.0	224.0	224.0	221.0	221.0
Purchases of goods and services	177.0	156.7	124.8	124.5	125.5	126.6	126.6	129.1	129.1
Transfers	160.1	158.8	118.3	121.0	121.0	119.0	119.0	118.0	118.0
Interest payments	303.7	151.3	141.5	163.6	155.0	130.7	123.9	127.8	115.1
Domestic	34.3	33.7	30.4	26.9	28.7	16.5	17.3	14.5	15.9
External (excluding IMF)	269.4	117.6	111.1	136.7	126.2	114.2	106.7	113.3	99.3
Capital expenditure	163.6	136.6	130.7	162.5	162.5	168.0	168.0	169.0	169.0
Domestically financed investment	154.3	117.0	122.0	142.5	142.5	133.0	133.0	131.0	131.0
Foreign-financed investment	9.3	19.6	8.7	20.0	20.0	35.0	35.0	38.0	38.0
Net lending (including equity participation)	37.9	17.1	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Restructuring cost of public enterprises 1/	0.0	67.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Road Maintenance Fund (FER) and special funds 2/	...	60.5	44.5	48.0	48.0	49.0	49.0	49.0	49.0
Overall balance, incl. grants (on a payments order basis)	111.7	120.7	261.3	183.8	301.6	153.7	351.0	101.3	279.5
Primary balance, incl. grants (on a payments order basis)	415.4	272.0	402.8	347.4	456.6	284.3	474.9	229.1	394.7
Change in arrears	54.7	1.1	-36.4	-181.1	-198.1	-28.5	-66.9	0.0	0.0
External (on interest payments)	26.2	81.1	32.4	-139.4	-139.4	0.0	0.0	0.0	0.0
Domestic	28.5	-79.9	-68.8	-41.7	-58.7	-28.5	-66.9	0.0	0.0
Overall balance (on a cash basis)	166.4	121.8	224.9	2.7	103.5	125.2	284.1	101.3	279.5
Financing 4/	-166.3	-121.8	-224.9	-474.2	-103.5	-288.0	-294.1	-261.3	-319.6
External (net)	-213.1	-76.9	-130.7	-325.3	95.2	-161.3	-99.3	-161.7	-172.7
Drawings	9.3	17.7	8.7	65.0	65.0	35.0	35.0	38.0	38.0
Project financing	9.3	17.7	8.7	20.0	20.0	35.0	35.0	38.0	38.0
Program financing	0.0	0.0	0.0	45.0	45.0	0.0	0.0	0.0	0.0
Amortization	-309.7	-243.6	-198.6	-201.6	-204.8	-196.3	-211.6	-199.7	-210.7
Arrears (on principal)	35.0	135.8	46.1	-186.6	-186.6	0.0	0.0	0.0	0.0
Foreign exchange effect on arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt rescheduling and deferral	29.4	1.3	2.0	-2.0	421.7	0.0	77.4	0.0	0.0
Debt cancellation	17.0	11.9	11.1	0.0	0.0	0.0	0.0	0.0	0.0
Advance external debt payment	5.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic (net)	46.8	-44.9	-94.2	-148.9	-198.7	-126.7	-194.8	-99.6	-146.9
Banking system	144.7	-51.5	15.8	-48.6	-98.6	-58.1	-126.2	-41.6	-88.9
Bank of Central African States	109.5	-92.9	15.8	-32.7	-82.6	-45.4	-113.6	-35.5	-82.8
<i>Of which: IMF</i>	-8.1	-9.1	-11.8	19.0	19.1	8.2	8.4	-3.7	-3.6
Repayment statutory advances	0.0	0.0	0.0	0.0	0.0	-1.8	-26.0	-2.0	-22.0
Commercial banks	35.2	41.4	0.0	-16.0	-16.0	-12.6	-12.6	-6.1	-6.1

Table 3. Gabon: Fiscal Operations of the Central Government, 2001–06

	2001	2002	2003	2004		2005		2006	
				Prog.	Proj.	Prog.	Proj.	Proj.	Rev. Proj.
(In billions of CFA francs)									
Nonbank sources	-97.9	6.6	-110.0	-100.3	-100.1	-68.7	-68.7	-58.0	-58.0
Domestic debt	-80.7	-75.4	-60.1	-70.4	-73.0	-58.0	-58.0	-44.4	-44.4
Oil company advances (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt Department (DGCP)	-72.9	-69.1	-55.3	-50.4	-49.6	-38.0	-38.0	-28.2	-28.2
Debt at treasury	0.0	0.0	0.0	0.0	-3.4	0.0	0.0	0.0	0.0
Regularization of civil servants' salaries (rappels)	-7.8	-6.3	-4.8	-20.0	-20.0	-20.0	-20.0	-16.2	-16.2
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in domestic arrears (on principal, – reduction)	6.1	14.1	-11.6	-13.6	-14.7	0.0	0.0	0.0	0.0
Restructuring cost	-5.6	47.9	-7.8	-14.5	-18.5	-11.8	-11.8	-10.6	-10.6
Debt rescheduling	0.0	39.6	0.0	0.0	10.1	0.0	0.0	0.0	0.0
Privatization proceeds	3.4	1.8	1.0	11.9	11.9	8.7	8.7	0.0	0.0
Other 3/	-21.1	-21.4	-31.5	-13.7	-15.9	-7.5	-7.5	-3.0	-3.0
Financing gap 4/	0.0	0.0	0.0	471.5	0.0	162.8	10.0	160.0	40.0
Memorandum items: (In percent of GDP, unless otherwise specified)									
Cumulative variation in net bank credit to the government from January 1, 2000 (in billions CFA francs)	-30.9	...	...	...	...	...	...	...	...
Total revenue (excluding grants)	34.0	31.5	29.8	30.2	30.9	29.3	32.1	27.9	30.6
Oil revenue	21.8	17.7	16.2	15.0	16.9	12.5	16.8	10.1	14.1
Non-oil revenue	12.2	13.9	13.6	15.2	14.0	16.8	15.4	17.8	16.6
Total expenditure	30.8	28.1	22.4	25.0	22.8	24.8	22.5	25.0	22.8
Total expenditure, excluding interest	22.0	23.7	18.4	20.2	18.6	20.8	19.1	21.1	19.5
Current expenditure	25.0	19.9	17.4	18.8	17.1	18.2	16.5	18.3	16.6
Wage bill	6.4	6.4	6.5	6.7	6.2	6.8	6.2	6.8	6.3
Other current spending	9.8	9.1	6.9	7.3	6.7	7.4	6.8	7.6	7.0
Interest	8.8	4.4	4.0	4.8	4.2	4.0	3.4	3.9	3.3
Capital expenditure	4.7	4.0	3.7	4.8	4.4	5.1	4.7	5.2	4.8
Net lending	1.1	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Restructuring cost of public enterprises	0.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Road fund and special funds	...	1.8	1.3	1.4	1.3	1.5	1.4	1.5	1.4
Defense expenditure 5/	1.9	1.9	1.8	1.9	1.7	1.8	1.7	1.8	1.7
Primary balance, incl. grants (on a payments order basis)	12.0	7.9	11.4	10.3	12.5	8.6	13.2	7.0	11.2
Overall balance, incl. grants (on a payments order basis)	3.2	3.5	7.4	5.4	8.2	4.7	9.8	3.1	8.0
Overall balance (on a cash basis)	4.8	3.5	6.4	0.1	2.8	3.8	7.9	3.1	8.0
(In percent of non-oil GDP)									
Non-oil revenue	21.1	23.9	23.6	24.0	24.2	24.6	24.7	24.5	24.6
Primary expenditure	37.9	40.8	31.8	31.9	32.2	30.5	30.7	28.9	29.0
Wage bill	11.0	11.0	11.3	10.6	10.6	9.9	10.0	9.3	9.4
Non-oil primary balance, incl. grants	-16.9	-16.8	-8.2	-7.5	-7.6	-5.7	-5.7	-4.2	-4.2
(In billions of CFA francs, unless otherwise indicated)									
Oil prices (in U.S. dollars/barrel) 6/	24.3	25.2	28.9	30.0	37.3	27.0	37.3	26.0	35.3
GDP at market prices	3,448	3,449	3,520	3,382	3,667	3,301	3,598	3,258	3,512
Non-oil GDP at market prices	1,998	2,006	2,033	2,140	2,123	2,253	2,239	2,376	2,362
Fund for Future Generations (stock)	...	70.4	30.0	81.7	131.7	133.6	227.7	163.4	284.9

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

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

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

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

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

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

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

Table 4. Gabon : Quarterly Monetary Survey, 2002-04

	2002				2003				2004							
	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Actual	Dec.	Mar.	Jun.	Pre.	Prog.	Rev.	Dec.	Prog.	Rev.
	Actual				Actual				Actual				Prog.			
(In billions of CFA francs)																
Net foreign assets	35.1	22.8	45.6	36.1	76.9	58.3	73.3	81.6	142.2	136.0	199.4	126.6	138.3	154.0	203.5	
Central bank	-13.2	-1.8	27.9	46.0	62.3	36.1	61.8	66.9	87.8	121.3	119.0	111.9	111.9	139.3	189.2	
Deposit money banks	48.3	24.6	17.7	-9.9	14.6	22.2	11.6	14.6	54.4	14.6	80.3	14.6	26.3	14.6	14.3	
Net domestic assets	552.8	585.8	553.4	562.9	524.6	537.0	503.2	510.2	449.6	487.2	425.7	498.9	484.9	464.0	414.5	
Net domestic credit	650.1	678.5	649.8	652.3	617.5	649.3	645.6	623.0	585.6	600.0	549.7	611.7	600.0	582.4	529.5	
Net credit to the public sector	246.4	242.6	221.4	196.7	173.2	187.0	223.2	210.2	183.9	158.2	145.7	159.9	185.9	146.4	108.4	
Net credit to the Government	278.8	262.2	246.1	219.8	200.8	216.4	253.5	231.9	209.5	179.9	170.6	181.6	210.8	168.1	133.3	
Central bank	213.8	204.0	170.1	130.7	128.9	167.3	171.5	146.5	127.3	105.0	108.1	110.1	139.3	98.7	63.8	
Deposit money banks	65.0	58.2	76.1	89.1	71.9	49.0	82.0	85.4	82.2	74.9	62.4	71.5	71.5	69.5	69.5	
Post office savings	2.1	5.0	3.2	2.5	3.3	1.5	1.3	6.2	6.6	6.2	6.6	6.2	6.6	6.2	6.6	
Claims on public agencies, net	-34.5	-24.6	-28.0	-25.5	-30.9	-30.9	-31.6	-27.9	-32.2	-27.9	-31.5	-27.9	-31.5	-27.9	-31.5	
Credit to the economy	403.8	435.9	428.5	455.6	444.3	462.4	422.4	412.8	401.6	441.8	404.1	451.8	414.1	436.0	421.1	
Other items, net	-97.4	-92.7	-96.4	-89.4	-92.9	-112.3	-142.4	-112.8	-136.0	-112.8	-124.1	-112.8	-115.1	-118.4	-115.0	
Broad money	587.9	608.5	599.0	599.0	601.5	595.3	576.6	591.8	591.8	623.2	625.0	625.5	623.2	618.0	618.0	
Currency outside banks	123.0	124.8	123.9	132.0	119.1	117.2	120.1	124.2	113.4	134.6	116.6	118.9	79.8	129.7	129.7	
Demand deposits	215.9	236.5	231.3	214.7	232.8	225.2	211.2	220.9	223.6	229.9	251.3	244.9	271.3	230.7	230.7	
Time deposits	249.0	247.3	243.8	252.3	249.6	253.0	245.3	246.7	254.7	258.7	257.1	261.7	272.1	257.6	257.6	
Memorandum items:	(Changes in percent of beginning-of-period broad money)															
Monetary survey																
Net foreign assets	7.6	5.5	9.5	7.8	6.8	3.7	6.2	7.6	10.9	13.0	23.7	9.2	11.3	12.2	20.6	
Net domestic assets	-3.9	1.9	-3.8	-2.1	-6.4	-4.3	-10.0	-8.8	-12.5	-8.4	-18.7	-0.8	-3.2	-7.8	-16.2	
Net domestic credit	-1.8	3.2	-1.8	-1.4	-5.8	-0.5	-1.1	-4.9	-5.3	-8.3	-16.7	-5.9	-7.9	-6.9	-15.8	
Net credit to the government	1.3	-1.6	-4.4	-9.1	-3.2	-0.6	5.6	2.0	1.5	-6.1	-7.7	-12.5	-7.4	-10.8	-16.7	
Credit to the economy	-2.7	3.0	1.6	6.4	-1.9	1.1	-5.5	-7.1	-7.1	-3.5	-9.8	5.1	-1.5	3.9	1.4	
Broad money	3.7	7.4	5.7	5.7	0.4	-0.6	-3.7	-1.2	-1.6	4.7	5.0	8.5	8.1	4.4	4.4	
Credit to the economy	13.9	8.5	12.4	8.7	10.0	6.1	-1.4	-9.4	-9.6	-4.4	-12.6	6.9	-2.0	5.6	2.0	
Broad money	5.6	4.5	11.7	5.7	2.3	-2.2	-3.7	-1.2	-1.6	4.7	5.0	8.5	8.1	4.4	4.4	

Sources: BEAC; and Fund staff estimates and projections.

Table 5. Gabon: Monetary Survey, 2000–06

	2000	2001	2002	2003 Est.	2004 Prog.	2004	2005	2006
						Projections		
Stocks								
(In billions of CFA francs)								
Net foreign assets	177.2	-8.1	36.1	81.6	137.7	203.5	336.4	426.0
Central bank	72.8	-46.0	46.0	66.9	123.0	189.2	322.1	411.7
Assets	136.5	9.9	90.1	104.9	181.3	246.2	387.5	473.5
Liabilities	-63.7	-56.0	-44.1	-38.0	-57.0	-57.0	-65.4	-61.8
Deposit money banks	104.4	37.9	-9.9	14.6	14.6	14.3	14.3	14.3
Assets	169.0	98.5	72.5	86.6	86.6	85.5	85.5	85.5
Liabilities	-64.6	-60.6	-82.5	-71.9	-71.9	-71.1	-71.1	-71.1
Net domestic assets	350.1	574.8	562.9	510.2	485.2	414.5	315.4	261.4
Net domestic credit	455.6	660.2	652.3	623.0	603.6	529.5	436.2	384.6
Net credit to the public sector	98.6	241.0	196.7	210.2	161.6	108.4	-17.8	-106.7
Net credit to the government	125.0	271.3	219.8	231.9	183.3	133.3	7.1	-81.8
Central bank	114.2	223.6	130.7	146.5	113.8	63.8	-49.7	-132.5
Claims	157.3	248.2	231.5	196.8	215.8	215.8	198.2	172.6
<i>Of which</i>								
Statutory advances	94.5	194.4	189.2	166.4	166.4	166.4	140.4	118.4
Use of IMF credit	62.8	53.8	42.2	30.4	49.4	49.5	57.9	54.2
Deposits	43.2	24.6	100.8	50.3	102.0	152.0	247.9	305.1
Deposit money banks	10.9	47.7	89.1	85.4	69.5	69.5	56.8	50.7
Post office savings	3.9	2.3	2.5	6.2	6.2	6.6	6.6	6.6
Claims on public agencies, net	-30.3	-32.6	-25.5	-27.9	-27.9	-31.5	-31.5	-31.5
Credit to the economy	356.9	419.2	455.6	412.8	442.0	421.1	453.9	491.3
Other items, net	-105.4	-85.4	-89.4	-112.8	-118.4	-115.0	-120.8	-123.2
Broad money	527.3	566.7	599.0	591.8	622.8	618.0	651.8	687.5
Currency outside banks	116.2	128.2	132.0	124.2	130.7	129.7	136.8	144.3
Demand deposits	204.3	204.0	214.7	220.9	232.5	230.7	243.3	256.6
Time deposits	206.9	234.5	252.3	246.7	259.6	257.6	271.7	286.6
(Changes in percent of beginning-of-period broad money)								
Net foreign assets	49.5	-35.1	7.8	7.6	9.5	20.6	21.5	13.7
Net domestic assets	-31.5	42.6	-2.1	-8.8	-4.2	-16.2	-16.0	-8.3
Net domestic credit	-33.7	38.8	-1.4	-4.9	-3.3	-15.8	-15.1	-7.9
Net credit to the government	-39.6	27.7	-9.1	2.0	-8.2	-16.7	-20.4	-13.6
Credit to the economy	8.3	11.8	6.4	-7.1	4.9	1.4	5.3	5.7
Broad money	18.0	7.5	5.7	-1.2	5.3	4.4	5.5	5.5
(Annual percent changes, unless otherwise indicated)								
Credit to the economy	11.7	17.4	8.7	-9.4	7.1	2.0	7.8	8.2
Broad money	18.0	7.5	5.7	-1.2	5.3	4.4	5.5	5.5
<i>Of which</i> : currency outside of banks	10.4	10.3	3.0	-5.9	5.3	4.4	5.5	5.5
Memorandum items:								
Velocity								
Non-oil GDP	3.5	3.5	3.3	3.4	3.4	3.4	3.4	3.4
Total GDP	6.9	6.1	5.8	5.9	5.4	5.9	5.5	5.1
Non-oil GDP growth	5.1	7.6	0.4	1.4	5.3	4.4	5.5	5.5
Total GDP growth	26.0	-4.7	0.0	2.1	-3.9	4.2	-1.9	-2.4
Credit to the economy/non-oil GDP	19.2	21.0	22.7	20.3	20.7	19.8	20.3	20.8

Source: Bank of Central African States (BEAC).

Table 6. Gabon: Balance of Payments, 2001–06
(In billions of CFA francs, unless otherwise indicated)

	2001	2002	2003 Prel. Est.	2004		2005		2006	
				Prog.	Proj.	Prog.	Proj.	Prog.	Proj.
				Overall Balance	-197.0	-138.5	-36.9	-88.0	26.8	-116.7	45.6	-115.9	49.6
Financing	197.0	138.5	36.9	-383.4	-26.8	-46.1	-55.6	-44.1	-89.6
Central Bank, net foreign assets (- = increase)	119.1	-92.0	-20.9	-57.4	-122.3	-46.1	-132.9	-44.1	-89.6
IMF Liabilities (- = increase)	-7.1	-13.5	-6.1	19.0	19.1	8.2	8.4	-3.7	-3.6
Purchases (gross)	0.0	0.0	0.0	32.2	32.2	21.5	21.5	0.0	0.0
Repurchases (gross)	-7.1	-13.5	-6.1	-13.3	-13.2	-13.3	-13.2	-3.7	-3.6
Other net assets (- = increase)	126.1	-78.5	-14.8	-76.4	-141.4	-54.3	-141.3	-40.4	-86.0
Debt rescheduling	0.0	1.3	2.0	0.0	273.0	0.0	226.0	0.0	0.0
Debt cancellation (and other)	17.0	11.9	8.0	0.0	0.0	0.0	0.0	0.0	0.0
Arrears net (- = reduction)	60.9	217.3	47.8	-326.0	-326.0	0.0	0.0	0.0	0.0
Other exceptional financing	0.0	0.0	0.0	0.0	148.6	0.0	-148.6	0.0	0.0
Financing gap 3/	0.0	0.0	0.0	471.5	0.0	162.8	9.9	160.0	40.0
Memorandum items:									
Current account (including official transfers)	11.0	5.2	9.6	5.8	11.6	1.5	10.9	-0.5	7.8
Oil	27.2	20.0	22.5	21.6	24.6	16.6	22.5	14.4	19.1
Non-oil	-16.2	-14.9	-12.9	-15.9	-13.0	-15.1	-11.7	-14.9	-11.3
Current account (excluding official transfers)	10.8	5.0	9.5	5.5	11.4	1.4	10.8	-0.7	7.7
Capital account	-16.7	-9.2	-10.6	-8.4	-10.9	-5.1	-9.6	-3.0	-6.4
Overall balance	-5.7	-4.0	-1.0	-2.6	0.7	-3.5	1.3	-3.6	1.4
Gross official reserves (in billions of CFA francs)	9.9	90.1	104.9	181.3	246.3	235.6	387.6	276.0	473.6
In months of imports of GNFS	0.1	0.9	1.0	1.9	2.2	2.6	3.4	3.1	4.3
World oil price (U.S. dollars/barrel)	24.3	25.2	28.9	30.0	37.3	27.0	37.3	26.0	35.3
National oil price (U.S. dollars/barrel)	22.6	24.2	27.6	28.9	36.1	25.8	36.1	24.9	34.1
Oil production (in million tons)	13.0	12.6	13.5	13.3	13.3	11.5	12.3	10.2	11.0
GDP (in billions of CFA francs)	3,448.5	3,448.9	3,520.5	3,382.3	3,667.1	3,300.5	3,597.9	3,257.6	3,511.8
Exchange rate CFA francs per U.S. dollar (average)	732.4	695.4	580.1	532.6	536.2	...	...	...	...

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

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

2/ It includes both direct and guaranteed debt.

3/ The financing gap for the program period is expected to be covered by debt rescheduling.

Table 7: Gabon: External Debt Outstanding and Scheduled Debt Service, 2000-06 1/

	2000	2001	2002	2003	2004	2005	2006
(In billions of CFA francs)							
Total medium- and long-term debt	2,065.4	2,176.2	2,164.8	1,967.1	1,911.9	1,827.4	1,687.7
Debt outstanding (as of December 2003)	2,065.4	2,176.2	2,164.8	1,967.1	1,394.7	1,176.5	963.7
<i>Of which:</i> arrears 2/	--	61.1	278.3	326.0	--	--	--
Multilateral	400.0	362.3	320.5	242.3	195.9	149.8	114.2
<i>Of which:</i> non-IMF	336.5	308.5	276.2	210.6	177.7	145.0	113.1
Bilateral	1,587.7	1,697.9	1,711.2	1,635.4	1,169.1	1,004.2	833.3
Paris Club	1,561.9	1,646.8	1,669.3	1,593.6	1,136.6	974.0	805.7
Other bilateral	25.8	51.1	41.9	41.8	32.5	30.2	27.6
Debt Diverse	39.5	83.7	86.9	41.5	29.7	22.4	16.2
London Club	38.2	26.8	21.1	18.6	--	--	--
Unpaid interest on arrears (IDR)	--	5.5	25.0	29.4	--	--	--
New debt 3/	--	--	--	--	517.1	651.0	724.0
IMF	--	--	--	--	32.2	53.8	53.9
Project-program	--	--	--	--	65.0	100.0	138.0
Paris Club VIII (2004)	--	--	--	--	399.1	476.5	476.5
London Club	--	--	--	--	16.5	10.6	5.6
Other bilateral	--	--	--	--	4.3	0.1	--
Remaining gap financing	--	--	--	--	--	9.9	49.9
Total debt service due (including IMF) 4/	424.4	548.4	403.2	318.8	348.8	337.2	319.0
<i>Of which:</i> Reschedulable	--	--	--	156.2	151.3	153.4	156.5
Principal	231.9	306.3	244.7	206.8	220.7	228.1	217.7
Interest	192.6	242.1	158.5	112.0	128.1	109.1	101.3
Multilateral	75.3	99.6	64.2	58.1	60.5	60.7	48.0
Non-IMF	65.6	88.7	51.8	49.0	46.8	47.0	44.1
IMF outstanding	9.7	10.9	12.3	9.1	13.8	13.7	3.9
Bilateral	315.3	383.7	269.2	233.8	231.1	233.1	229.2
Paris Club	311.1	378.8	263.2	231.8	228.3	230.7	226.5
Paris Club pre-cuttoff	227.0	272.4	184.2	180.4	177.5	188.0	194.4
Never rescheduled (NPRD)	2.1	8.8	5.2	1.8	1.8	1.7	0.8
Paris Club I	--	--	--	--	--	--	--
Paris Club II (1987)	--	--	--	--	--	--	--
Paris Club III (1988)	0.3	--	--	--	--	--	--
Paris Club IV (1989)	50.3	26.4	--	--	--	--	--
Paris Club V (1994)	88.5	100.0	91.4	90.9	88.0	93.9	95.8
Paris Club VI (1995)	63.1	152.8	52.8	52.7	54.4	55.5	57.2
Paris Club VII (2000)	7.5	44.1	27.2	35.1	33.3	37.0	40.6
Paris Club post-cuttoff (PCOD)	61.8	67.4	48.2	51.4	50.8	42.7	32.1
Other bilateral (nonguaranteed credit)	4.2	4.9	6.0	2.1	2.9	2.4	2.7
Debt Diverse (non PC Creditors)	18.4	49.7	59.4	18.1	11.7	7.3	6.3
London Club	15.4	15.5	10.5	8.8	4.2	--	--
Interest on arrears (IDR)	--	--	--	--	29.4	--	--
New Debt (includes residual gap filling)	--	--	--	--	11.8	36.1	35.5
Principal	--	--	--	--	--	10.1	5.0
<i>Of which:</i> Paris Club VIII (2004)	--	--	--	--	--	--	--
<i>Of which:</i> IMF	--	--	--	--	--	--	--
Interest	--	--	--	--	11.8	26.1	30.6
<i>Of which:</i> Paris Club VIII (2004)	--	--	--	--	9.9	20.1	21.6
<i>Of which:</i> IMF	--	--	--	--	0.3	1.1	1.2

Table 7: Gabon: External Debt Outstanding and Scheduled Debt Service, 2000-06 1/

	2000	2001	2002	2003	2004	2005	2006
	(in billions of CFA francs)						
Debt cancellation	17.0	17.0	11.9	8.0	--	--	--
Debt outstanding	17.0	17.0	11.9	8.0	--	--	--
Arrears	--	--	--	--	--	--	--
Change in arrears (=reduction)	-483.5	60.9	217.3	47.8	-326.0	--	--
Principal	-274.7	34.5	136.5	15.7	-186.6	--	--
Interest	-208.7	26.5	80.8	32.1	-139.4	--	--
Other	--	--	--	--	--	--	--
Debt rescheduling/deferral	649.1	--	1.3	2.0	421.6	77.4	--
Debt service rescheduling	277.3	--	1.3	2.0	103.6	77.4	--
Principal	142.2	--	1.3	2.0	67.7	53.3	--
Interest	135.1	--	--	--	35.9	24.1	--
Arrears rescheduling	371.8	--	--	--	169.4	148.6	--
Principal	214.4	--	--	--	115.2	97.1	--
Interest	157.5	--	--	--	54.2	51.5	--
Deferred payments 5/	--	--	--	--	148.6	-148.6	--
Principal	--	--	--	--	97.1	-97.1	--
Interest	--	--	--	--	51.5	-51.5	--
Debt service paid (including IMF)	242.4	493.9	190.1	274.3	--	--	--
Principal	155.9	266.3	150.1	202.7	--	--	--
Interest	86.5	227.6	40.0	71.6	--	--	--
	(In percent)						
Memorandum items:							
External public debt/GDP							
Including IMF	57.1	63.1	62.8	55.9	52.1	50.8	48.1
Excluding IMF	47.8	54.2	54.8	49.9	46.4	45.3	43.3
External public debt/exports 6/							
Including IMF	82.9	106.7	112.0	98.0	80.8	80.0	81.9
Excluding IMF	69.4	91.6	97.7	87.5	71.9	71.3	73.8
Debt-service ratio 6/							
Due (before relief)	17.0	26.9	20.9	15.9	14.7	14.8	15.5
Principal	9.3	15.0	12.7	10.3	9.3	10.0	10.6
Interest	7.7	11.9	8.2	5.6	5.4	4.8	4.9
Paid	9.7	24.2	9.8	13.7	--	--	--
Principal	6.3	13.1	7.8	10.1	--	--	--
Interest	3.5	11.2	2.1	3.6	--	--	--
Debt service/government revenue 7/							
Due (before relief)	35.1	46.7	37.1	30.4	34.1	29.8	33.0
Paid	20.1	40.0	16.2	23.4	--	--	--
Debt service/non-oil GDP							
Due (before relief)	22.9	27.4	20.1	15.7	16.4	15.1	13.5
Paid	13.1	24.7	9.5	13.5	--	--	--

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

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

2/ Arrears through end-2002 were due to multilateral and bilateral creditors, and to commercial banks. By end-2003, CFAF 321 billions correspond to reschedulable debt. The rest correspond to CFAF 4.8 billions of arrears on nonreschedulable debt that were cleared during the first quarter of 2004

3/ Includes residual gap filling.

4/ Debt service is net of cancellation.

5/ Assuming second review under the SBA is completed successfully.

6/ In percent of exports of goods and services.

7/ Government revenue, excluding grants.

Table 8. Gabon: Structural Performance Criteria and Benchmarks
Under Stand-By Arrangement, 2004–05

Measures	Implementation Period	Status of Implementation
Structural performance criteria		
<i>Fiscal policy/Development of the private sector</i>		
Adoption of a decree establishing the large enterprise tax unit within the tax administration department, which covers all enterprises with annual turnover over CFAF 1 billion.	End-September 2004	Expected to be met. Draft decree has been prepared.
<i>Forestry sector</i>		
Adoption of time-bound action plan to streamline SNBG, on the basis of World Bank-financed study.	End-November 2004	Expected to be met. Study under way by an international consultant.
Structural benchmarks		
<i>Civil service reform</i>		
Harmonization of the civil service and payroll rosters, based on the computerized civil service management system (ANITA).	End-December 2004	Expected to be met.
Adoption of implementing decrees on the new wage structure and promotion system, on the basis of the new law on the general civil service statute.	End-December 2004	Expected to be met. Draft law with the National Assembly.
<i>Fiscal policy</i>		
Integration in the 2005 government budget of all special funds.	End-December 2004	Expected to be met.
No granting of exemptions to any company beyond those already provided for under the mining, forestry, and investment code, and no renewal of existing exemptions.	Continuous benchmark	Met.
Completion of assessment of stock of wage arrears.	End-September 2004	Expected to be met.
Finalization of taxable base for local real estate taxation for Libreville and Port-Gentil.	End-December 2004	Expected to be met.

Table 8. Gabon: Structural Performance Criteria and Benchmarks
Under Stand-By Arrangement, 2004–05

Measures	Implementation Period	Status of Implementation
Establishment of detailed budgetary appropriations for the investment expenditures, according to the budgetary classification, in the 2005 Budget Law submitted to parliament.	End-December 2004	Expected to be met.
Entry into effectiveness of budgetary credits for the 2005 budget before end-February 2005.	End-February 2005	Expected to be met.
Establishment of a performance contract with the National Social Guarantee Fund, CNGS.	End-September 2004	Expected to be met.
Issuance of interministerial report on local authorities' finances.	End-October 2004	Expected to be met.
Preparation of a study with recommendations to prioritize the university scholarship system.	End-October 2004	Expected to be met.
<i>Good governance</i>		
Preparation of the first report on the operations of the Commission Against Illicit Enrichment.	End-December 2004	Expected to be met.
Inclusion in the 2005 budget of an adequate operational budget for the National Commission Against Illicit Enrichment.	End-December 2004	Expected to be met.
<i>Development of the private sector</i>		
Selection of the successful bidder for Gabon Télécom.	End-September 2004	Will be delayed to accommodate newly interested investors.
Adoption of the implementation regulations for the mining code.	End-December 2004	Expected to be met.
No recourse to price control measures, and no widening of the list of products subject to the price surveillance regime at end-December 2003.	Continuous benchmark	Met.

Table 8. Gabon: Structural Performance Criteria and Benchmarks
Under Stand-By Arrangement, 2004–05

Measures	Implementation Period	Status of Implementation
<i>Public enterprises</i>		
Achievement of a surplus in 2004 in the operational results of Air Gabon, before depreciation.	End December 2004	Operational results will improve, but surplus cannot be reached.
<i>Trade reform</i>		
Removal of import surcharges on poultry and cigarettes.	End-December 2004	Expected to be met.

Table 9. Gabon: External Financing Requirements and Sources, 2003-06
(In billions of CFA francs)

	2003	2004	2005	2006
	Est.	Projections		
Gross financing requirements	163.9	-270.0	17.5	-34.8
External current account deficit (exc. official transfers)	335.7	418.2	386.9	268.9
Debt amortization	-198.6	-207.5	-214.9	-214.1
Medium-and long-term debt	-198.6	-207.5	-214.9	-214.1
Public sector	-172.0	-191.7	-201.8	-202.8
Multilateral 1/	-31.8	-31.9	-32.7	-31.9
Bonds and notes	0.0	0.0	0.0	0.0
Bilateral	-140.2	-159.8	-169.1	-170.9
Commercial banks	-8.5	-4.1	-5.9	-5.0
Corporate private sector	-18.1	-11.7	-7.3	-6.3
Short-term debt 2/	0.0	0.0	0.0	0.0
Repayment of arrears	47.8	-326.0	0.0	0.0
Gross reserves accumulation	-14.8	-141.4	-141.3	-86.0
IMF repurchases and repayments	-6.1	-13.2	-13.2	-3.6
Available financing	-163.9	270.0	-17.5	34.8
Foreign direct investment (net)	51.4	164.0	183.4	163.7
Debt financing from private creditors	-241.9	-420.7	-349.8	-211.9
Medium- and long-term financing	39.1	29.1	32.1	38.8
To public sector	0.0	0.0	0.0	0.0
<i>Of which: balance of payments financing 3/</i>	0.0	0.0	0.0	0.0
To commercial banks	0.0	0.0	0.0	0.0
To corporate private sector	39.1	29.1	32.1	38.8
Short-term financing	-281.0	-449.8	-381.8	-250.7
<i>Of which: balance of payments financing 3/</i>	0.0	0.0	0.0	0.0
Official creditors 4/	16.6	72.9	40.0	43.0
Multilateral 1/	10.6	56.2	16.0	17.2
<i>Of which: balance of payments financing 3/</i>	7.1	48.2	2.0	2.0
Bilateral	5.9	16.7	24.0	25.8
To public sector	5.9	16.7	24.0	25.8
<i>Of which: balance of payments financing 3/</i>	0.7	4.7	3.0	3.0
To private sector	0.0	0.0	0.0	0.0
IMF	0.0	32.2	21.5	0.0
Accumulation of arrears (incl. debt rescheduling/deferral/cancellation)	10.0	421.6	77.4	0.0
Financing gap	0.0	0.0	9.9	40.0
Other flows 5/	0.0	0.0	0.0	0.0
Memorandum item:				
Total balance of payments financing 3/	17.8	506.7	113.8	45.0

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

1/ Excluding the IMF.

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

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

4/ Includes both loans and grants.

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

Table 10. Gabon: Income and Social Indicators, 1970–2001

	Gabon				Same Region/Income Group	
	1970–75	1980–85	1993–2000	2001	Sub-Saharan Africa	Upper-middle income
Population						
Total population, midyear (millions)	0.6	0.8	1.2	1.3	659.0	647.0
Growth rate (annual average, in percent)	3.3	3.3	2.4	2.0	2.6	1.3
Urban population (in percent of population)	40.0	5.2	81.0	82.0	34.0	76.0
Total fertility rate (births per woman)	4.3	4.5	5.1	5.0	5.3	2.7
Poverty (in percent of population)						
National head count index 1/	66.0 2/	...	62.0	...	...	...
Income						
GNP per capita (U.S. dollars)	3,100.0	3,900.0	3,877.0	3,160.0	538.0	5,407.0
Consumer price index (1995=100)	26.0	76.0	107.5	109.3	131.0	122.0
Food price index (1995=100)	...	76.0	107.0	...	130.5	...
Social indicators						
Public expenditure (in percent of GDP)						
Health	...	...	3.1	3.0	4.0	5.5
Education	2.1	5.0	2.9	...	4.1	5.0
Gross school enrollment rates (in percent of age group)						
Primary	...	172.0	162.3	151.0	78.0	107.0
Secondary	...	43.0	56.2	54.0	25.0	64.0
Tertiary	...	6.0	8.0	...	3.0	14.0
Access to safe water (in percent of population)						
Total	...	58.0	67.0	70.0	...	...
Urban	...	75.0	80.0	73.0	...	...
Rural	...	34.0	30.0	55.0	...	...
Immunization rate (in percent of children under 12 months)						
Measles	...	58.0	30.0	55.0	57.0	78.0
DPT	...	24.0	31.0	37.0	59.0	75.0
Life expectancy at birth (years)						
Total	45.0	49.0	53.0	53.0	47.0	66.0
Male	43.0	47.0	51.0	51.0	46.0	65.0
Female	47.0	51.0	54.0	54.0	48.0	69.0
Mortality						
Infant (per 1,000 live births)	132.0	112.0	84.0	58.0	92.0	54.0
Under 5 (per 1,000 live births)	232.0	194.0	...	89.0	161.0	78.0
Adult (15-59)						
Male (per 1,000 population)	521.0	474.0	386.0	...	499.0	221.0
Female (per 1,000 population)	421.0	387.0	344.0	...	453.0	170.0
Maternal (per 100,000 live births)	...	600.0	...	620.0	...	...

Source: World Bank, *World Development Indicators*, 2003.

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

2/ As of 1960.

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

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
							Projections			
Outstanding use of Fund credit ^{1/}										
In millions of SDRs	68.4	59.6	49.5	39.4	64.4	75.4	70.8	64.2	34.7	5.2
In billions of CFAF	63.6	53.8	44.3	31.7	51.4	60.2	56.5	51.2	27.6	4.2
In percent of government revenue and grants	5.3	4.6	4.1	3.0	4.5	5.2	5.2	4.9	2.7	0.4
In percent of exports of goods and nonfactor services (f.o.b.)	2.6	2.6	2.3	1.6	2.2	2.6	2.7	2.6	1.5	0.2
In percent of external public debt including the Fund	3.1	2.5	2.0	1.6	2.7	3.3	3.3	3.2	1.9	0.3
In percent of GDP	1.8	1.6	1.3	0.9	1.4	1.7	1.6	1.4	0.8	0.1
In percent of quota	44.3	38.7	32.1	25.6	41.7	48.9	45.9	41.6	22.5	3.4
Repurchases and charges due										
In millions of SDRs	10.4	11.7	11.8	11.2	18.2	19.4	7.1	9.0	31.5	30.5
In billions of CFAF	9.7	10.9	10.7	9.1	14.4	15.2	5.6	7.1	24.8	24.0
In percent of government revenue and grants	0.8	0.9	1.0	0.9	1.3	1.3	0.5	0.7	2.4	2.3
In percent of exports of goods and nonfactor services (f.o.b.)	0.4	0.5	0.6	0.5	0.6	0.7	0.3	0.4	1.4	1.4
In percent of external public debt including the Fund	0.5	0.5	0.5	0.5	0.8	0.8	0.3	0.4	1.7	1.8
In percent of GDP	0.3	0.3	0.3	0.3	0.4	0.4	0.2	0.2	0.7	0.7
In percent of quota	6.7	7.6	7.7	7.3	11.8	12.5	4.6	5.8	20.4	19.8
Net use of Fund credit (in millions of SDRs)	5.8	-8.7	-10.1	-10.1	25.0	11.1	-4.6	-6.6	-29.5	-29.5
Purchases	13.2	--	--	--	41.7	27.8	--	--	--	--
Repurchases	7.4	8.7	10.1	10.1	16.7	16.7	4.6	6.6	29.5	29.5

Sources: IMF, Treasurer's Department; Gabonese authorities; and Fund staff estimates and projections.

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

Table 12. Gabon: Fund Position During the Period of the Proposed Stand-By Arrangement, 2004–07

	2004											
	Fund Position Jul. 31	2004		2005		2006		2007		2007		
		Aug.-Dec.	Jan.-Jun.	Jul.-Dec.	Jan.-Jun.	Jul.-Dec.	Jan.-Jun.	Jul.-Dec.	Jan.-Jun.	Jul.-Dec.	Jan.-Jun.	Jul.-Dec.
Purchases (GRA)												
Stand-By Arrangement (SBA)	...	27.8	27.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases (GRA)	...	6.7	8.4	8.4	3.2	1.4	1.4	1.4	1.4	1.4	5.2	1.7
<i>Of which:</i> drawings on new SBA	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.7
Charges and interest	...	0.9	1.4	1.3	1.3	1.2	1.2	1.2	1.2	1.2	1.2	1.2
<i>Of which:</i> drawings on new SBA	...	0.2	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Total Fund credit outstanding (end of period)	43.3	64.4	83.8	75.4	72.2	70.8	70.8	69.4	69.4	69.4	64.2	64.2
<i>Of which:</i> new SBA	13.9	41.7	69.4	69.4	69.4	69.4	69.4	69.4	69.4	69.4	64.2	64.2
Total Fund credit outstanding (end of period)	28.1	41.7	54.3	48.9	46.8	45.9	45.9	45.0	45.0	45.0	41.6	41.6
SBA purchases	...	18.0	18.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases	...	4.3	5.4	5.4	2.1	0.9	0.9	0.9	0.9	0.9	3.4	3.4
Charges and interest	...	0.6	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8

Sources: Finance Department; and Fund staff projections.

1/ Gabon's quota is SDR 154.3 million.

Table 13. Gabon: Sources of Growth, 2003-08

(Annual percentage changes)

	Sectoral share of GDP (%) in 2003	2003 Est.	2004	2005	2006	2007	2008
			Projections				
Real GDP growth	100.0	2.8	1.5	0.7	0.9	1.8	2.1
Oil sector	28.4	7.6	-0.5	-6.7	-7.3	-4.7	-4.1
Non-oil sector	71.6	1.0	2.3	3.5	3.8	3.8	3.8
<i>Of which</i>							
Agriculture, fishing, and agro-industry	8.7	1.5	2.0	3.4	4.4	4.1	4.1
Logging activities and wood industry	2.9	4.5	5.3	11.5	10.6	8.9	9.1
Mining (excluding oil-related activities)	1.4	3.6	20.0	15.0	4.6	5.1	4.9
Services, transport, and commerce	30.8	1.1	1.8	3.2	5.1	5.1	4.6
Contribution to non-oil GDP growth		1.0	2.3	3.5	3.8	3.8	3.8
Agriculture, fishing, and agro-industry		0.2	0.2	0.4	0.5	0.5	0.5
Logging activities and wood industry		0.2	0.2	0.5	0.5	0.4	0.5
Mining (excluding oil-related activities)		0.1	0.4	0.3	0.1	0.1	0.1
Services, transport, and commerce		0.4	0.7	1.3	2.1	2.1	1.9
Other (including import duties)		0.2	0.7	1.0	0.6	0.6	0.8

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

Table 14. Gabon: Indicators of External Vulnerability, 1999–2003

	1999	2000	2001	2002	2003
Exports (percent change, 12-month basis in U.S. dollars)	31.2	33.1	-21.4	-0.7	24.8
Imports (percent change, 12-month basis in U.S. dollars)	-21.6	-12.2	6.0	12.8	13.4
Terms of trade (percent change, 12-month basis)	37.9	-1.6	-10.6	-1.5	24.7
Current account balance, incl. grants (in percent of GDP)	8.4	19.7	11.0	5.2	9.6
Gross official reserves (in millions of U.S. dollars)	22.8	191.2	13.8	136.9	194.1
Gross official reserves (in months of imports of goods and services of the following year) 1/	0.1	1.4	0.1	0.9	0.9
Gross reserves of the banking system (in millions of U.S. dollars) 1/	101.7	428.1	150.9	247.2	354.3
Gross reserves of the banking system (in months of imports of goods and services of the following year) 1/	0.6	3.2	1.0	1.6	1.7
Central bank short-term foreign liabilities (in millions of U.S. dollars) 1/	90.8	89.2	77.9	67.0	70.3
Official reserves/broad money (M2) (in percent) 1/	3.2	25.9	1.8	15.0	17.7
Total short-term external debt by original maturity (in millions of U.S. dollars)	0.0	0.0	0.0	0.0	0.0
Total short-term external debt by remaining maturity (in millions of U.S. dollars)	0.0	0.0	0.0	0.0	0.0
Total short-term external debt/reserves by original maturity (in percent)	0.0	0.0	0.0	0.0	0.0
Total short-term external debt/reserves by remaining maturity (in percent)	0.0	0.0	0.0	0.0	0.0
Total external public and publicly guaranteed debt (in millions of U.S. dollars)	3,717.1	2,894.7	3,029.2	3,290.0	3,639.7
Total external debt to exports of goods and services (in percent)	130.4	82.9	106.7	112.0	98.0
External interest payments to exports of goods and services (in percent)	10.1	7.7	11.9	8.2	5.6
External amortization payments to exports of goods and services (in percent)	12.2	9.3	15.0	12.7	10.3
Exchange rate (per U.S. dollar, period average)	614.9	710.0	732.4	695.4	580.1
Exchange rate (per U.S. dollar, end of period)	619.5	713.5	718.4	658.0	540.5
Net foreign assets of commercial banks (in millions of U.S. dollars)	-3.1	146.3	52.8	-15.1	27.1

Sources: Gabonese authorities; and Fund 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 15. Gabon: Purchase Schedule and Terms Under the Proposed Stand-By Arrangement, 2004–05

Date	Condition for Purchase	Purchases
September 2004	Second purchase. Executive Board conclusion of the first review under the Stand-By Arrangement, on the basis of quantitative and structural performance criteria at end-June 2004.	SDR 13.89 million (9 percent of quota).
December 2004	Third purchase. Executive Board conclusion of the second review under the Stand-By Arrangement, on the basis of quantitative and structural performance criteria at end-September 2004.	SDR 13.89 million (9 percent of quota).
March 2005	Fourth purchase. Executive Board conclusion of the third review under the Stand-By Arrangement, on the basis of quantitative and structural performance criteria at end-December 2004.	SDR 13.89 million (9 percent of quota).
June 2005	Fifth purchase. Executive Board conclusion of the fourth review under the Stand-By Arrangement, on the basis of quantitative and structural performance criteria at end-March 2005.	SDR 13.89 million (9 percent of quota).

Libreville, September 8, 2004

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

Dear Mr. de Rato:

1. This letter describes economic and financial developments during the first half of 2004, as well as the policies that the government intends to implement over the rest of the year to meet the objectives of the program supported by the Stand-By Arrangement.

Developments during the first half of 2004 and economic outlook for the remainder of the year

2. Economic and financial developments in Gabon during the first half of 2004 were generally in line with program objectives. In the public finance area, all key targets were met even though growth in the non-oil sector was somewhat lower than envisaged. All the end-June performance criteria were met, as well as all the indicative targets, except for a small shortfall in non-oil revenues.

3. Oil production was close to the level of 2003, and a decrease of only 1.5 percent to 13.3 million metric tons is expected for the full year. Investment in the sector remains robust, boosted by high world prices. In the non-oil sector, real growth is stronger than in 2003, but it is expected not to exceed about 2.3 percent, below the 3 percent program target. Good performance was recorded in mining, particularly in manganese, where extraction could rise by 20 percent over the year. Logging of secondary species also performed well, rising by over 10 percent. However, this was accompanied by a fall in the logging of okoumé, the main timber species, so that total timber cutting over the year is expected to be stable. In the secondary sector, the growth in value added in the wood-processing industry continues to be strong (15 percent on an annual basis), while value-added in other industries and trade is expected to rise by less than 2 percent.

4. The 12-month rate of increase in the consumer price index at end-June was 1.7 percent, in line with the annual program target for 2004 (2 percent year-on-year).

5. Developments in the external current account were much more favorable than expected, due to the higher price of oil exports, and greater manganese exports both in volume and value. This led to a sharp increase in Gabon's contributions to the Bank of Central African States (BEAC) net foreign assets. For the year as a whole, the current account surplus is expected to reach the equivalent of 11.6 percent of GDP, compared with 5.8 percent initially forecast, with an increase in BEAC net foreign assets attributable to Gabon of about CFAF 122 billion (3.3 percent of GDP).

6. The rescheduling of Gabon's debt towards the Paris Club creditors, agreed in early June, was broadly in line with the program estimates. Of the CFAF 342 billion of arrears as

at end-April 2004, CFAF 45 billion is to be repaid in two equal tranches before mid-September and mid-December 2004, respectively; this was decided because of the upward revision in the oil tax revenue estimates for the year. During the first half of 2004, the oil revenues surplus was CFAF 37 billion. A rescheduling agreement with South Korea was signed in July, and the agreement with the London Club creditors is currently being negotiated.

7. With regard to budgetary developments, in the first semester the target for the primary fiscal surplus, excluding grants and foreign-financed capital expenditures, and adjusted for the oil revenue surplus, was met with a comfortable margin. Non-oil revenues were broadly in line with the program, while expenditures were lower than expected. On the revenue side, a strong performance was recorded by nontax revenues and the revenue from the tax on income from financial assets (IRVM). Indirect tax revenue was very close to target, while direct tax revenue was lower than targeted by about CFAF 5 billion (0.1 percent of GDP). The latter is expected to pick up because of significant amounts owed by mobile telephone operators and tax arrears to be recovered through assessments. Revenues from forestry taxation (area tax and stumpage fee) were well below target, partly owing to the late publication of the 2004 budget law that defined the tax obligations, but collections accelerated in July and August, including on back taxes owed for the 2002 and 2003 fiscal years.

8. Current expenditures remained within program limits, even though transfers and subsidies were slightly above the program estimates. Capital expenditures were less than programmed by about CFAF 10.3 billion (0.3 percent of GDP). Nevertheless, the execution rate is higher than that observed for the same period in 2003.

9. In the first semester, the treasury float (difference between payment orders received and actual payments) was reduced by substantially more than envisaged in the program (CFAF 39.9 billion, compared with CFAF 12 billion programmed). This was due to the government decision to normalize its relations with domestic creditors. Thus, the treasury repaid all claims of less than CFAF 5 million, and is in the process of clearing those between CFAF 5 and CFAF 50 million, according to seniority. In addition, an agreement was reached in April with a group of domestic creditors, called the Libreville Club, which is open to all creditors with claims exceeding CFAF 50 million, and provides for settlement over an 18-month term. The claims presented to the Libreville Club amount to CFAF 38.9 billion, including about CFAF 30 billion previously in the treasury float; the remainder is constituted of arrears on the domestic debt obligations recorded at the Directorate General of Public Accounting (DGCP). The repayment schedule provides for payments of CFAF 2.2 billion a month, including CFAF 1.6 billion related to the treasury float. The treasury intends to reopen membership of the Club in the next few weeks, and to encourage the remaining eligible creditors to join.

10. The arrears on domestic debt obligations, which amounted to CFAF 21.2 billion at end-2003, were reduced to CFAF 5.5 billion at end-June 2004, well below the program target, as a result of actual payments and the Libreville Club rescheduling agreement, which covered CFAF 10.1 billion of arrears; of these, CFAF 1.8 billion were already settled by end-June. No external payment arrears were incurred during the program period.

11. The end-June performance criterion on net credit to government by the banking system was met. The sharp rise in net foreign assets of the banking system during the first six months of the year contributed to a 5.6 percent increase in money supply (5 percent in the 12 months to end-June 2004), following a fall of 1.2 percent in 2003. Credit to the economy decreased by 12.6 percent, as the high level of repayment of treasury float and domestic arrears strengthened the liquidity of the private sector.

Policies for the second half of 2004

12. The government remains committed to achieve the program's fiscal targets for 2004 and to implement the reforms envisaged in the fiscal and structural areas. A major change in the outlook for the second half of the year is the much higher oil revenue presently projected, as discussed in paragraph 5 above. The allocation of these resources is discussed below.

Public finance

13. In the fiscal area, the government is focusing on measures to strengthen revenue collection and enhance efficiency in budgetary programming and execution, in a framework consistent with the medium-term objectives of the PRSP.

14. After repaying Paris Club arrears, the excess oil revenue, now estimated at CFAF 110 billion for the year, equivalent to 3.3 percent of GDP, will be used in part to increase the resources of the Fund for Future Generations (CFAF 50 billion, equivalent to 1.4 percent of GDP); the remainder will be used to reduce the treasury float and domestic debt arrears in excess of the original program's targets. Accordingly, we request that the performance criteria on net credit to government by the banking system and on the stock of arrears on domestic debt of the central government for end-September and end-December 2004 be modified, as indicated in attached Table 1.

15. The main tax reforms measures being implemented are the following: (i) establishing the Large Enterprise Directorate (DGE), (ii) updating the taxpayer roster, (iii) strengthening collection of back taxes, in particular from the mobile telephone companies and the forestry industry, (iv) establishing an updated land registry to increase the yield of real estate taxes, and (v) securing forestry revenues. The draft decree establishing the DGE has been prepared. The turnover threshold for coverage by the DGE has been set at CFAF 1.5 billion, so that about 310 enterprises be covered. Given the status of the preparatory work, the DGE is expected to be operational from the beginning of 2005. Significant work to review the taxpayers' registration system has started, as the current roster is not reliable. The replacement of enrollment procedure by the issuance of tax collection notices is expected to lead to efficiency gains by improving taxpayer monitoring, rapid follow-up of delinquent taxpayers, and faster collection. This reform requires, however, that the General Tax Directorate (DGI) be adequately staffed; the establishment of the DGE, which is an essential part of this reform, should help considerably. The identification of the staff to be assigned to the DGE and the definition of its procedures, which will be thoroughly explained to the public, are already under way.

16. Regarding the VAT, the higher rate (25 percent) introduced in the 2004 budget law, which is applied to important services, such as telecommunications and banking operations, and to luxury goods, could constitute an obstacle to economic development. Also, the

taxation of luxury goods could be more effectively achieved through an appropriate excise tax. For these reasons, the government will examine the possibility of reducing the higher rate to 18 percent in the 2005 budget law, after conducting an impact analysis.

17. Regarding real estate taxation, the timetable for establishing a new land registry provides for (i) the legal provisions on real estate taxes to be amended by end-December 2004; (ii) assessment lists for Libreville and Port-Gentil to be issued by end-December 2004; and (iii) accelerating procedures for automatic registration of land developed for housing construction during 2005.

18. On forestry taxation, the procedure of withdrawing permits from holders who do not comply with the tax obligations will continue to be applied rigorously. For payment of the stumpage fee, the principle of joint liability of the permit holder, the logger, and the timber trader will be strictly applied.

19. For the second half of the year, the government will ensure that current expenditures continue to be kept within the program limits, except for an allocation of CFAF 1 billion for (i) conducting the audit of the Road Maintenance Fund (FER) arrears and the regional investment expenditures related to the independence day celebrations, and (ii) securing technical assistance needed for applying the new budgetary classification also to the investment budget. A higher investment expenditure execution rate is expected in the second semester. Given the lower-than-projected non-oil growth, the ratio of the primary non-oil deficit to non-oil GDP will be slightly higher than programmed (7.6 percent of GDP instead of 7.5 percent). We therefore request that the target for the primary fiscal balance of the central government be revised to take into account the higher spending and higher oil revenue, as per Table 1 attached.

20. The wage bill is expected to remain within the program limits (CFAF 226 billion, or 6.2 percent of GDP) as a result of the measures adopted last April. These involve specifically (i) the strict observance of the retirement age limit; (ii) a careful check of contractual staff effectively in service; (iii) the rigorous audit of the payment of managerial allowances to ensure that they are allocated only to those entitled; (iv) a compression of the range of managerial allowances, with limits on increases based on seniority; (v) the limitation of the size of the ministerial cabinets; and (vi) payment of the air service allowance only to those strictly entitled. In addition, a new system for allowances for staff training abroad will be adopted by the government before end-2004, to rationalize trainee benefits.

21. Concerning expenditures for water and electricity, the efforts to contain consumption have not yet yielded significant results, in part because the required associated investments have not been made. Thus, the actual consumption in 2003 has exceeded the budgetary allocation by about CFAF 3 billion, which will be paid by the treasury before end-year. For 2004, an assessment of actual consumption will be prepared before end-September, and, if needed, the budgetary allocation will be revised upwards in the supplementary budget law; this adjustment will be offset by savings in other expenditures for goods and services or capital expenditures.

22. The Road Maintenance Fund (FER) is executing on schedule its 2004 budget, for which the program envisages total outlays of CFAF 24 billion, of which CFAF 18 billion

related to the current budget year, and CFAF 6 billion for work undertaken in 2003 and not yet paid. The treasury will settle this amount within the allocation for float reduction.

23. Draft laws on the organization of government services and on the civil servants' statutes are expected to be approved by parliament during its September–December 2004 session. The preparation of the new civil service organizational chart will be completed by end-December 2004. In addition, the harmonization of the rosters of the civil service and the payroll office has progressed well and should be completed by end-December 2004, as programmed. Although significant progress has been made in preparing the computerized civil service management project (ANITA), actual implementation will take place during 2005, due to the technical complexities encountered.

24. With regard to the scholarship program, the Directorate for Scholarship and Training is conducting a study on how to enhance its effectiveness, *inter alia* by targeting specializations, better following students' progress, and reducing overall costs. The savings achieved will be used to strengthen the country's educational system. The government will submit this study to the World Bank for review.

Expenditure management and preparation of the PRSP

25. The government has taken measures to improve the transparency and efficiency of budgetary management. In this context, an audit mission was carried out in June 2004 to assess the physical and financial execution of a sample of priority investment projects in all provinces of the country. The mission helped identify the main reasons for the poor investment budget execution rate, including weaknesses both in preparation and in implementation and tracking of projects. The roundtable government discussions on the 2005 budget, which started in July, are taking the execution rate of projects into account in deciding budgetary allocations, and are giving priority to completion of projects under way.

26. The government will ensure that projects to be included in the investment budget for 2005 and the public investment program (PIP) for 2005–07 are consistent with the needs identified in the PRSP for the priority sectors. For example, the ministries of health and education will take into account the urgent needs revealed by the new national health map and by the last educational statistics yearbook. The focal points and the PRSP tracking units in the various government departments were involved in the process of selecting the priority projects. We are relying on the assistance of the World Bank in preparing the medium-term expenditure frameworks for these sectors. A Bank mission for this purpose, which will include other donors and lenders, is planned for end-September/ early October.

27. To speed up the preparation of the PRSP, which is expected to be finalized in early 2005, the government has allocated the necessary budgetary resources to conduct a rapid survey (core welfare indicators questionnaire, CWIQ), which will benefit from significant support from donors and lenders. This survey will allow the updating of both the poverty indicators and the other social indicators; it has started in August, and is expected to be completed by year-end. The results of the General Census of Population and Housing are currently under review, with the assistance of donors and lenders. In addition, a wide consultative process has begun in July, starting with Libreville.

28. The government has decided to carry out audits of the Road Maintenance Fund (FER) arrears and of the regional investment expenditures relating to the independence celebrations (*fêtes tournantes*) for the fiscal years 2003 and 2004. To this end, invitations to bid have been launched in early September for the FER arrears audit and will be launched in early October for the regional investment expenditures. These audits are expected to be completed by end-February and end-March, respectively.

29. The recently established General Directorate of Government Procurement (DGMP) is monitoring that all contracts are awarded in conformity with the provisions of the public procurement code. In this context, it has already rejected a large number of contracts that did not comply with the prescribed procedures. According to the code, all projects over CFAF 30 million must be approved by the DGMP. Firm instructions have been given to the General Budget Directorate not to issue any payments order for projects that do not comply with the procurement code.

30. A key objective for the 2005 investment budget is to ensure its rapid execution as soon as it is adopted. To this end, the detailed breakdown of appropriations needed for executing the budget will be attached to the draft budget submitted to parliament. In addition, the government is in the process of preparing the functional classification of budget expenditures; this is expected to be finalized during 2005 to be used for the 2006 budget, with a view to facilitating the tracking of expenditures in the PRSP's priority sectors.

Local government and social security funds

31. A commission set up by the government with the participation of the Senate and the Audit Office (*Cour des Comptes*) is currently carrying out a study to review local government finances, and identify measures to ensure their financial viability. These will probably include a strengthening of real estate taxation and greater rigor in personnel management. The study is proceeding on schedule, and the commission's report will be finalized and presented to the government by end-October, as planned.

32. The government has started introducing corrective measures for the National Social Guarantee Fund (CNGS), which provides old age and medical insurance and family allowances to government contractual staff and self-employed individuals. The CNGS budget presents a structural deficit because the payroll tax paid by the government as employer, together with a government annual budgetary subsidy, are insufficient to cover the costs of the benefits and of the funds' operations. To cover this deficit, which will amount to about CFAF 1.5 billion in 2004, during the second semester the government will increase its subsidy to the fund by CFAF 1.5 billion, through a corresponding appropriation in the supplementary budget for 2004. A draft performance contract to reduce operating costs and to improve the fund's efficiency is being prepared and will be finalized by end-September. In the interest of maximum transparency, the CNGS accounts will be presented in an annex to the government budget starting with the 2005 budget. The salary base for the payroll tax and the 7 percent tax rate will have to be revised upward to achieve equilibrium in the insurance scheme. To that end, a study will be launched by year-end.

33. With regard to the National Social Security Fund (CNSS), the updating of its data base of insured workers and their employers was completed in August. Using this database, the actuarial study carried out by the ILO will be completed in the first quarter of 2005. A

specialized private operator has been managing the CNSS hospitals since March, to increase their efficiency.

Other structural reforms

Investment climate

34. Improving the investment climate to foster the diversification of the Gabonese economy is one of the main program objectives. Last May, a team from the foreign investment advisory unit of the International Finance Corporation (IFC) conducted an initial mission to evaluate the business climate; it will present a report to the government in September, which will provide the basis for establishing a plan of reforms. In the first quarter of 2005, further studies may be conducted on administrative barriers and on the tax and incentive system.

35. The government is aware that a recovery of the housing sector, where major social needs remain unmet, could significantly improve the living conditions of the population. In this context, the procedures for allocating lots for housing will be simplified, and the land development methods will be reviewed to give a greater role to the private sector. The land registry staffing will be reinforced, to speed up land registration.

36. To foster microfinance activity, which is still inadequately developed in Gabon, the government is looking into the advisability of revising the Development and Expansion Fund (FODEX) statutes, to enable it to operate in this sector in conformity with the prudential regulations for microfinance activities established by the Central African Banking Commission (COBAC).

Forestry sector and mining

37. In the forestry sector, the national forestry company (SNBG) has continued its program of cost reduction; this is all the more urgent given the depressed level of okoumé exports, in which the company has a monopoly, and which is showing no signs of recovery; export volumes fell by 28 percent in the first semester from one year before, while exports of other types of timber rose by 13 percent by volume, due to the strengthening of demand in China for high quality timber used in construction and decoration. Consequently, the company decided to cut wages in a 5 to 15 percent range according to wage levels. A study on the role of the SNBG by an internationally recognized consultant is under way and is expected to be completed by end-October, as scheduled in the program.

38. Following the government's adoption on May 18 of the letter of development policy for the forestry, fishery, and environmental sector, prepared in consultation with the World Bank, steps must be taken to implement the main actions provided for in the letter, including the launching of a pilot test for the allocation of forestry concessions by auction, and the publication of the list of all forestry permits. To this end, a decree establishing a moratorium on the allocation of new forestry permits and introducing the pilot auction project was issued on August 9, 2004.

39. The mining sector offers significant growth potential. The implementing regulations of the mining code will be approved by end-December 2004. In addition, the standard

concession agreement, which will define the taxation applicable to investors, is currently under preparation. The government intends to submit it to the Fund Fiscal Affairs Department for review.

Public enterprises' privatization

40. The privatization program for Gabon Telecom is near conclusion, despite the delays in preparing the information memorandum for potential buyers. However, the government intends to increase the amount offered for sale from the 35 percent initially envisaged; this could delay the selection of the successful bidder to January 2005. In the postal sector, the consulting firm preparing a plan to restructure Gabon Poste is expected to submit its report by end-October 2004.

41. Concerning Air Gabon, the government decided last May to strengthen the management team by appointing a new director general. The provisional accounts for 2003 show a higher-than-expected operating loss. The new management has already adopted a series of cost-cutting measures, including the redeployment of the fleet to increase the load factors and achieve fuel savings. This has improved the cash flow in recent months, so that debts to suppliers were reduced. Nevertheless, the 2004 target of a balanced operating result before depreciation appears out of reach. In addition, the government has decided to start the process of partially privatizing the company; a call for expressions of interest was launched on July 19. As the Central African Economic and Monetary Community (CEMAC) member states have launched a study to create a regional airline (Air CEMAC), decisions on this option will have implications for the future course of the company.

42. The placement of the ports of Owendo and Port-Gentil under concession with the specialized port and harbor management company SIGEPRAG for a 25-year period, starting from April 2004, with the obligation to operate, rehabilitate, and expand the infrastructure, has already led to major rehabilitation work and an improvement in the quality of service.

Price liberalization and trade policy

43. The government remains committed to price deregulation. The new General Directorate of Competition and Consumption, which replaced the Directorate of Prices, is currently defining its work program. With regard to petroleum product prices, the government is determined to restore, at the latest by end-March 2005, the automatic price adjustment mechanism to reflect changes in international prices. Although retail prices have remained unchanged since August 2002, despite an increase in the CFA franc crude oil price of about 6 percent, the reintroduction of the price formula is not expected to lead necessarily to a rise in retail prices, as the initial price structure included a large margin for the refinery, which was to be temporary, to enable it to carry out the plant's rehabilitation.

44. The government is determined to eliminate tariff surtaxes on eggs and cigarettes by end-2004, in line with the program. Regarding sugar, following the expiration in June 2004 of the agreement with the private company SUCAF, which took over the state-owned company in 1998, and which was granted a monopoly status, the government will propose at the next interministerial meeting of CEMAC to start consultations on the adoption of a common policy to promote regional competition.

Good governance

45. The government remains committed to improve governance. In this context, the decree setting the procedures for wealth declaration by government officials was adopted in April 2004. Nevertheless, on May 4, 2004, the Constitutional Court decided that various provisions of the decree were unconstitutional. The government has drafted a new version that addresses the court's concerns. It will continue to rely on the technical assistance of the Fund staff to assist the work of the National Commission Against Illicit Enrichment.

46. The government has indicated to the World Bank that it wishes to comply with the Extractive Industries Transparency Initiative. To this end, it has received the relevant questionnaires for 2003, which it will complete speedily. If necessary, it may request the assistance of the Fund Fiscal Affairs Department to that end.

47. The government of Gabon is confident that the policies spelled out in this letter are adequate to achieve the program's objectives. It stands ready, in consultation with the Fund, to take any additional measure that may prove necessary to that end. In addition, the government notes that until the external arrears towards the banks of the London Club will have been rescheduled, or paid, each purchase under the arrangement will be subject to a financing assurances review in accordance with the Fund's lending into arrears policy.

Sincerely yours,

/s/

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

Table 1. Gabon: Quantitative Performance Criteria and Indicative Targets Under the Stand-By Arrangement, 2003-04
(In billions of CFA francs; end-period data; cumulative flows from January 1st) 1/

	2003		2004						
	Dec. Est.	Mar. Est.	Target	Jun. Prel.	Deviation	Sept. Prog.	Rev. prog. 11/	Dec. Prog.	Rev. prog. 11/
Performance criteria									
Ceiling on the net claims of the banking system on the central government 2/	15.8	-27.0	-27.0						
Adjusted target 2/	...	-54.2	-54.2	-61.4	-7.2				
Ceiling on the contracting or guaranteeing of new nonconcessional external debt with maturity of over 1 year by the central government 3/	8.7	2.5	80.0	9.5	-70.5	96.0	96.0	96.0	96.0
Ceiling on outstanding stock of new nonconcessional external debt with original maturity of one year or less owed or guaranteed by the central government 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on the accumulation of external payments arrears by the central government 5/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock of arrears on domestic debt of the central government 6/	21.2	14.1	13.1	5.5	-7.6	7.3	7.3	3.0	1.9
Floor on the primary fiscal balance of the central government, excl. grants and foreign-financed investment (on a payments order basis) 7/	410.3	180.4	180.4			248.2	323.2	359.6	468.7
Adjusted target 7/	...	116.6	217.6	233.6	16.0				
Indicative targets:									
Floor on non-oil central government revenue	478.9	124.5	245.7	245.3	-0.4	364.7	364.7	513.4	513.4
Ceiling on the central government wage bill on a payments order basis	229.0	55.4	111.9	110.1	-1.8	168.6	168.6	226.0	226.0
Ceiling on total noninterest domestic expenditure of the central government, on a payments order basis 8/	638.8	154.5	312.7	301.2	-11.5	473.7	473.7	661.9	662.9
Floor on current expenditure for the sectors of education, health and social assistance	...	7.2	15.4	17.2	1.9	23.8	23.8	33.1	33.1
Floor on the net reduction of unpaid payments orders at the treasury 9/	-66.6	-16.3	-16.3			-28.8	-61.9	-57.1	-74.1
Adjusted target 9/	...	-29.4	-29.3	-50.0	-20.8				
Memorandum items:									
Nonproject external financing disbursements (excluding IMF)	1.2	0.0	3.2	0.0	-3.2	50.9	5.9	52.9	52.9
External debt service due (excluding IMF)	309.7	83.6	146.3	147.4	1.2	253.6	245.8	338.3	331.1
Domestic debt service due	85.7	17.8	38.5	34.5	-4.0	59.6	58.8	77.3	81.7
Oil revenue	570.2	146.6	247.3	284.5	37.2	357.3	432.3	508.1	618.2
Rescheduling of external debt 10/	0.0	0.0	391.4	391.4	0.0	436.7	412.2	471.5	421.7
Privatization proceeds	1.0	0.0	1.4	0.0	-1.4	10.0	0.0	11.9	11.9

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

1/ Indicative targets for end-March 2004. Targets for end-June, end-September, and end-December 2004 are performance criteria under the SBA.

2/ The performance criterion will be adjusted upward/downward for any lower/higher oil revenues, larger/lower payment of external debt service (net of nonproject external financing disbursements), larger/smaller net reductions in domestic arrears, and smaller/larger privatization proceeds, relative to program targets. The performance criterion will be adjusted downward for unprogrammed rescheduling/default on domestic debt.

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

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

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

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

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

8/ Noninterest spending excluding foreign-financed investment.

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

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

11/ The original program targets for end-September and end-December 2004 have been revised to take into account the planned uses of the oil windfall.

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

Measures	Implementation Period
Structural performance criteria	
<i>Fiscal policy/Development of the private sector</i>	
Adoption of a decree establishing the large enterprise tax unit within the tax administration department, which covers all enterprises with annual turnover over CFAF 1 billion.	End-September 2004
<i>Forestry sector</i>	
Adoption of time-bound action plan to streamline SNBG, on the basis of World Bank financed study.	End-November 2004
Structural benchmarks	
<i>Civil service reform</i>	
Harmonization of the civil service and payroll rosters, based on the computerized civil service management system (ANITA).	End-December 2004
Adoption of implementing decrees on the new wage structure and promotion system, on the basis of the new law on the general civil service statute.	End-December 2004
<i>Fiscal policy</i>	
Integration in the 2005 government budget of all special funds.	End-December 2004
No granting of exemptions to any company beyond those already provided for under the mining, forestry, and investment code, and no renewal of existing exemptions.	Continuous benchmark
Completion of assessment of stock of wage arrears.	End-September 2004
Finalization of taxable base for local real estate taxation for Libreville and Port-Gentil.	End-December 2004
Establishment of detailed budgetary appropriations for the investment expenditures, according to the budgetary classification, in the 2005 Budget Law submitted to parliament.	End-December 2004
Entry into effectiveness of budgetary credits for the 2005 budget before end- February 2005.	End-February 2005
Establishment of a performance contract with the National Social Guarantee Fund, CNGS.	End-September 2004

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

Measures	Implementation Period
Issuance of interministerial report on local authorities' finances.	End-October 2004
Preparation of a study with recommendations to prioritize the university scholarship system.	End-October 2004
<i>Good governance</i>	
Preparation of the first report on the operations of the Commission Against Illicit Enrichment.	End-December 2004
Inclusion in the 2005 budget of an adequate operational budget for the National Commission Against Illicit Enrichment.	End-December 2004
<i>Development of the private sector</i>	
Selection of the successful bidder for Gabon Télécom.	End-September 2004
Adoption of the implementation regulations for the mining code.	End-December 2004
No recourse to price control measures, and no widening of the list of products subject to the price surveillance regime at end-December 2003.	Continuous benchmark
<i>Public enterprises</i>	
Achievement of a surplus in 2004 in the operational results of Air Gabon, before depreciation.	End December 2004
<i>Trade reform</i>	
Removal of import surcharges on poultry and cigarettes.	End-December 2004

INTERNATIONAL MONETARY FUND

GABON

**Amendment to the Technical Memorandum of Understanding
Under the Program Supported by the Stand-By Arrangement**

The following sentence is added at the end of **paragraph 1**:

1. (...) The key assumptions of the initial program, in particular those related to oil revenue, have been modified by the letter of the Minister of Economy, Finance, Budget, and Privatization of September 8, 2004. The adjusters for the quantitative performance criteria have also been modified slightly.

The following sentence is added at the end of **paragraph 11**:

11. (...) For 2005, the net reduction of the treasury float is defined as the reduction in the float existing at end-2004, excluding the accumulation of new float during 2005.

The following sentence replaces the penultimate sentence of **paragraph 20**:

20. (...) The cumulative ceilings to the adjustor are CFAF 17.0 billion for end-June, CFAF 25.5 billion for end-September, and CFAF 45.0 billion for end-December 2004.

Paragraphs 21 and 23 have been deleted.

Paragraph 22 has been modified as follows:

22. The program also includes (downward/upward) adjusters for the benchmarks on net credit from the banking system to the central government for (i) lower/higher-than programmed external debt service effectively paid¹ (net of nonproject external financing disbursements); and (ii) lower/higher-than-programmed net reduction of domestic arrears.²

¹ External debt service due minus any accumulation of external arrears minus debt relief obtained. The programmed amounts of debt service, payments arrears, debt relief, and nonproject external financing are calculated in CFA franc terms, based on currency-specific exchange rates. The actual amounts are calculated in CFA franc terms, based on the actual transactions in foreign currency and the exchange rates published by the Fund.

² Any unprogrammed rescheduling/deferment obtained on current maturities on domestic debt managed by the Debt Department (securitized commercial agreements and "other" debt agreements) will be deposited at the BEAC.

Paragraph 26 has been modified as follows:

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

	2004	2005
World Brent oil prices (U.S. dollar per barrel)	<u>37.3</u>	<u>37.5</u>
Gabonese export oil prices (U.S. dollar per barrel)	<u>36.1</u>	<u>36.1</u>
Oil output (in millions of metric tons) ³	13.3	<u>12.3</u>
Exchange rate (CFA francs per US\$1, annual average)	<u>536.2</u>	<u>537.2</u>
<u>Government oil revenue (in billions of CFAF)</u>	<u>618.2</u>	<u>603.3</u>

³ The average conversion rate is 7.3 barrels per metric ton.

Gabon: Relations with the Fund

(As of July 31, 2004)

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	197.42	127.95
Reserve position in Fund	0.18	0.12

III. SDR Department:	SDR Million	%Allocation
Net cumulative allocation	14.09	100.00
Holdings	0.03	2.71

IV. Outstanding Purchases and Loans:	SDR Million	%Quota
Extended arrangements	21.14	13.70
Stand-by arrangements	22.15	14.36

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-by	May 28, 2004	June 30, 2005	69.44	0.00
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

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

	Forthcoming				
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Principal	6.71	16.72	4.60	4.85	6.94
Charges/Interest	0.75	1.24	0.83	0.69	0.51
Total	7.46	17.96	5.43	5.55	7.46

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, was subject to a full safeguards assessment. An on-

site assessment of the BEAC was completed on July 20, 2001. The staff's findings and recommendations are reported in Country Report No. 02/95. A subsequent safeguards assessment has been completed on August 30, 2004; a summary of recommendations is presented in Appendix V.

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.

X. Last Article IV Consultation:

- (a) Consultations with Gabon are on the 24-month cycle.
- (b) The last consultation discussions were initiated in Libreville in March 2004. The consultation was concluded by the Executive Board on May 28, 2004.

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 August 26, 2004)

1. As one of Africa's few IBRD countries, Gabon's GDP per capita is estimated at US\$4,675 in 2003, well above the sub-Saharan African (SSA) average. Mindful of limiting the burden of its high external debt service, Gabon has been prudent about borrowing from the Bank in the past. However, the country's oil revenues are projected to decline over the next few years, and the government has started exploring the country's potential for economic diversification. The Bank is working closely with the IMF team to support structural measures, particularly in improving the environment for the development of the private and forestry sectors, and is assisting in the development of the local private sector in urban areas.

The Bank Group strategy and lending operations

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

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

IMF—World Bank collaboration

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

Table 1. Bank/Fund Collaboration

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

IMF—World Bank collaboration in specific areas

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

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

indicators to be monitored on an annual basis. The Bank also plans to assist the NSO in putting together a monitoring and evaluation system for the poverty reduction strategy.

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

6. In June 2002 the Bank completed a US\$22.5 million ten-year project that aimed to improve the management and protection of Gabon's forestry and environmental resources. The project aimed at implementing and strengthening government policies on forestry and environment and was to strengthen the planning and operational capacity of government institutions and local environmental nongovernmental organizations (NGOs). A new program in the same sector is being prepared for Board presentation in FY2005. This program builds on the lessons learned during the implementation of the previous project, and expects to broaden its objectives by reaching a larger number of beneficiaries, attracting investments in the forestry, fishing and environment sectors, and thus assisting the government in its efforts to diversify the Gabonese economy and reduce its dependence on the oil sector.

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

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

9. Starting in October 2004 the Bank will also assist in carrying out a public expenditure review aimed at assessing expenditure effectiveness, particularly in the social sectors.

Areas of shared responsibility

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

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

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

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

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

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

Gabon: Assessing External and Public Sector Debt Sustainability

This appendix assesses external and public sector sustainability, applying the framework adopted by the Board to the staff's updated baseline scenario, which includes the impact of the higher-than-expected oil prices. In addition to the standard stress tests, this appendix considers the effect of three additional shocks to the baseline scenario, namely a lower growth in non-oil GDP, a lower oil price, and lower growth in wood-related exports. The baseline external sustainability scenario during the period 2004-13 shows that, under the assumption the financing gaps are filled by new borrowing on commercial terms, the external debt-to-GDP decreases continuously, financing gaps remain positive but decreasing, and the debt service-to-exports ratio peaks in 2009 and again in 2012 to decrease thereafter. The results of the public sector debt baseline analysis indicate that most of the outstanding domestic public debt will be eliminated by 2007, as its maturities are relatively short term. The stress tests reveal that Gabon's debt sustainability continues to be extremely sensitive to shocks to non-oil real growth (affecting both non-oil exports and budgetary revenues), as it is to changes in the price of oil. These results point to the importance of adhering to policies fostering non-oil growth, and diversification of Gabon's economic base. They also underscore the need for prudent fiscal policies given the highly volatile oil prices.

External Public Debt Sustainability

1. The updated baseline debt sustainability analysis (DSA) indicates that, over the medium term (2004-2006), the external debt-to-GDP ratios are projected to decrease by 7.8 percentage points to 48.1 percent of GDP (see Table 1 and Figure 1). The period 2004-06 is characterized by a lower-than-originally envisaged decrease in oil receipts, moderate non-oil growth, and continued fiscal adjustment; these result in relatively modest financing gaps (approximately CFAF 10 billion for 2005 and CFAF 40 billion in 2006), which are assumed to be covered on commercial terms.¹ After 2006, the baseline scenario projects an improvement in the external debt-to-GDP ratio to 30.1 percent in 2013 on account of (i) continued growth of non-oil real GDP and (ii) amortization in excess of new borrowings. The debt-service ratios peak in 2009, reaching 21.1 percent for the debt service-to-exports ratio and 35.1 percent for the debt service-to-revenue ratio, and again in 2012, reaching 20.6 percent and 32.3 percent respectively. The analysis in the updated baseline scenario indicates that further reschedulings may be required, since the financing gaps in both the balance of payments and the budget will remain positive, though decreasing, during the period under consideration.

¹ The financing gap for 2004 has already been covered by debt rescheduling from Paris Club creditors; negotiations with other bilateral creditors and London Club creditors are ongoing.

2. Gabon's vulnerability to external shocks remains high, as shown by the standard sensitivity tests (Table 1, bottom panel; and Figure 1).² In each of the tests, which assume extreme adverse shocks to each key parameter individually and jointly, the debt ratio rises faster and to higher levels than in the baseline:³

- Of all the shocks, the shock on interest rates results in the smallest initial rise in the debt-to-GDP ratio in 2004-05, and exhibits the same trend as in the baseline.
- Under a temporary shock to the U.S. dollar deflator, the debt ratio rises sharply (25.2 percentage points by 2006), and decreases slowly thereafter to reach approximately 69 percent of GDP by 2013.
- The long-term effects of the shock to the non-interest current account balance (the historical non-interest current account balance minus one-standard deviation for 2004-05) are also significant: the debt ratio increases to 70.7 percent by 2005 and then decreases to 55 percent by 2013.
- A one-time 30 percent depreciation of the CFA franc vis-à-vis the U.S. dollar in 2004 results in a rise in the debt-to-GDP ratio of 5 percentage points by 2005. However, after peaking in 2005, the debt ratio decreases steadily thereafter. This outcome reflects the fact that U.S. dollar denominated debt accounts for only about 15 percent of total external debt at end-2003. A depreciation against the euro would have a much stronger effect (70 percent of external debt at end-2003 is euro-denominated).
- The combined shocks lead to a sharp increase in the external debt ratio, by 63.5 percentage points by 2013, as the result is dominated by the deflator shock.

3. The analysis includes three additional sensitivity tests, namely a long-term shock to non-oil real growth, a long-term shock to wood-related exports, and a long-term shock to the price of oil. All shocks lead to a deterioration of the external current account, the first two through lower non-oil exports and the latter through lower oil-exports. The negative effect of the lower oil price leads to a sustained increase in the debt ratio, which, however, dampens after a number of year, as the share of oil in GDP decreases. Similarly, lower growth in the tradable non-oil sector leads to unsustainable debt ratios. Given the still large size of oil exports, the impact of lower oil prices is stronger in the short term, while the effect of lower

² The test that combines the effect of setting all key variables at their historical values is not presented, since the relatively large average noninterest current account surpluses are the dominating effect. Thus, the results obtained would not be realistic, given the steady decreases in oil production projected in the baseline scenario.

³ These sensibility analyses consider adverse shocks of one-standard deviation, lasting two years (i.e., transitory shocks) for each key parameter.

growth in the non-oil tradable sector is more pronounced in the medium to long term. Lower wood-related exports result in a smaller decline of the debt-to-GDP ratio, which would stabilize after 2009 at around 40 percent. The unsustainable paths of the debt-to-GDP ratio in the cases of a lower oil price and lower non-oil tradable GDP growth underscore (i) the importance for Gabon to adopt macroeconomic policies that promote economic diversification and (ii) the strong dependence of the results of the updated baseline scenario on the higher oil prices presently projected by the staff.

Public Sector Debt Sustainability

4. Under the baseline projections, Gabon's total public sector-to-GDP ratio is projected to decrease from 67.6 percent in 2003 to 47.6 percent in 2006 and further to 44.7 percent in 2007, when domestic debt is assumed to be fully repaid.⁴ The key assumption underlying this result is the growth of non-oil GDP, which is projected to average 3.4 percent in 2003-10 (see Table 2 and Figure 2).

5. Gabon's public debt sustainability vulnerabilities are underscored by the stress test that uses the primary balance as the shock variable. A one-standard deviation shock of the primary balance in 2004-05 leads to a public debt-to-GDP ratio which is approximately unchanged by 2013, at 65 percent. This is the result of lower domestic debt being retired, and more foreign debt contracted to cover the resulting financing gaps.

6. Not surprisingly, the results obtained for the sensitivity tests that consider temporary shocks to other key parameters (Table 2, bottom panel; and Figure 2) resemble those described for the external debt. As for the stress test that considers a combination of shocks to all relevant parameters, the profile of the public debt ratio shows a strong temporary increase, followed by a gradual decline; the profile remains below that of the external debt ratio under the combined shock, because in the former the shock to the GDP deflator is absent.⁵

⁴ The domestic debt declines due to (i) the government's reimbursement of domestic debt to suppliers and public contractors; (ii) the repayment by the government of public enterprise debt to social security system and suppliers (assumed by the government in recent years in the context of the restructuring of such enterprises); and (iii) the repayment to commercial banks of domestic debt. All these debts have relatively short maturities.

⁵ The test that combines the effect of setting all key variables at their historical values (not presented), is dominated by the higher primary surpluses, lower interest rates and higher nominal GDP growth that were the case during the height of Gabon's oil boom. Presenting this scenario could be misleading; given the expected change in the structure of Gabon's economy.

7. As in the case of the external DSA, the public debt sustainability analysis includes three additional sensitivity tests, namely a long-term shock to non-oil real growth, a long-term shock to wood-related exports, and a long-term shock to the price of oil. As before, lower oil prices and lower growth in the tradable non-oil sector lead to unsustainable increases in the debt ratios. These results underscore the fact that (i) a main factor in Gabon's debt sustainability is the ability to sustain steady growth in the non-oil sector through diversification and (ii) the need for continued fiscal consolidation and prudent policies, given the high volatility observed in international oil markets.

Table 1. Gabon: External Debt Sustainability Framework, 1999-2013
(In percent of GDP, unless otherwise indicated)

	Projections															
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	
I. Baseline Medium-Term Projections																
1 External debt	79.6	57.1	63.1	62.8	55.9	52.1	50.8	48.1	44.7	41.4	37.4	36.1	33.4	32.5	30.1	
2 Change in external debt	-1.3	-22.5	6.0	-0.3	-6.9	-3.7	-1.3	-2.7	-3.3	-3.4	-3.9	-1.3	-2.6	-0.9	-2.4	
3 Identified external debt-creating flows (4+8+11)	-17.5	-18.0	0.5	-2.6	-5.9	-6.2	-3.2	-3.0	-3.2	-2.6	-3.4	-0.8	-1.8	-1.3	-1.2	
4 Current account deficit, excluding interest payments (= surplus)	-14.4	-24.9	-18.9	-8.7	-12.7	-14.0	-13.4	-10.1	-8.2	-6.1	-6.0	-4.5	-3.3	-2.4	-2.0	
5 Deficit in balance of goods and services (= surplus)	1.8	-36.3	-26.4	-19.7	-22.4	-27.2	-25.4	-20.8	-18.0	-14.6	-13.8	-11.5	-9.4	-7.7	-6.8	
6 Exports	57.7	68.8	59.1	56.0	57.0	64.5	63.5	58.7	54.7	49.8	47.2	44.0	40.5	37.5	35.4	
7 Imports	59.5	32.6	32.8	36.3	34.6	37.3	38.1	37.9	36.7	35.2	33.3	32.5	31.1	29.8	28.6	
8 Net non-debt creating capital inflows (= inflows)	-3.5	15.7	8.3	3.4	7.6	8.7	6.6	3.5	3.4	2.2	1.8	1.8	1.1	0.8	0.6	
9 Net foreign direct investment, equity	12.1	-1.3	-2.0	4.6	1.5	4.5	5.1	4.7	4.3	3.8	3.5	3.0	2.9	2.6	2.5	
10 Net portfolio investment, equity, and other private capital flows	-8.6	-14.3	-6.3	-8.0	-9.1	-13.2	-11.7	-8.2	-7.6	-6.0	-5.3	-4.9	-3.9	-3.3	-3.1	
11 Automatic debt dynamics 1/	0.4	-8.8	11.1	2.7	-0.7	-0.9	3.5	3.5	1.7	1.3	0.9	1.9	0.4	0.3	0.2	
12 Contribution from nominal interest rate	6.0	5.2	7.9	3.5	3.2	2.4	2.5	2.3	2.0	1.8	1.6	1.5	1.4	1.3	1.3	
13 Contribution from real GDP growth	6.9	1.4	-1.3	0.0	-1.4	-0.7	-0.3	-0.5	-0.8	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	
14 Contribution from price and exchange rate changes 2/	-12.5	-15.4	4.5	-0.8	-2.5	-2.6	1.4	1.7	0.5	0.3	0.1	1.3	-0.1	-0.1	-0.1	
15 Residual, incl. change in gross foreign assets (2-3)	16.1	-4.5	5.5	2.2	-1.0	2.5	1.9	0.3	-0.2	-0.8	-0.5	-0.5	-0.8	0.3	-1.2	
External debt-to-exports ratio (in percent)	138.1	82.9	106.7	112.0	98.0	80.8	80.0	81.9	81.8	83.0	79.3	82.1	82.6	86.7	85.0	
Gross external financing need (in billions of US dollars) 3/	-0.1	-0.7	-0.1	0.1	-0.2	-0.4	-0.3	-0.1	0.0	0.2	0.2	0.2	0.1	0.2	0.2	
in percent of GDP	-1.1	-12.8	-1.8	2.2	-3.2	-6.0	-4.9	-1.7	0.0	2.4	2.7	1.8	3.5	4.6	2.3	
Key Macroeconomic and External Assumptions																
Real GDP growth (in percent)	-8.9	-1.9	2.0	0.0	2.8	1.5	0.7	0.9	1.8	2.1	2.3	2.4	2.6	2.7	2.8	
Real non-oil GDP growth (in percent)	-10.5	2.1	5.3	0.6	1.0	2.3	3.5	3.8	3.8	3.8	4.0	3.9	4.0	4.0	4.0	
Exchange rate appreciation (US dollar value of local currency, change in percent)	-4.1	-13.4	-3.0	5.3	19.9	8.2	-0.2	0.2	0.2	0.2	0.2	0.0	0.0	0.0	0.0	
GDP deflator in US dollars (change in percent)	14.4	11.3	-9.4	5.3	19.0	11.0	-2.7	-3.1	-0.8	-0.6	-0.2	-3.4	0.3	0.4	0.4	
Non-oil GDP deflator in US dollars (change in percent)	-0.5	-10.8	-0.9	5.1	20.3	10.5	1.7	1.8	1.4	1.5	1.3	0.9	0.9	0.9	0.9	
Nominal external interest rate (in percent)	7.7	7.1	12.7	5.8	6.2	4.9	4.6	4.4	4.3	4.2	4.0	4.0	4.0	4.1	4.0	
Growth of exports (US dollar terms, in percent)	31.2	33.1	-21.4	-0.7	24.8	28.9	-3.8	-10.2	-6.4	-8.1	-3.7	-8.4	-5.6	-4.9	-2.8	
Growth of non-oil exports (US dollar terms, in percent)	26.0	2.5	-18.8	4.3	22.0	21.8	12.8	7.7	8.6	5.9	5.9	5.1	5.0	4.7	4.4	
Growth of imports (US dollar terms, in percent)	-21.6	-12.2	6.0	12.8	13.4	19.0	4.9	1.6	2.0	0.2	-0.2	-0.6	2.2	0.0	0.1	
Growth of non-oil private imports (US dollar terms, in percent)	-22.6	-21.2	5.9	23.4	7.2	13.4	5.1	5.1	4.6	4.1	3.8	3.0	2.6	2.6	2.6	
II. Stress Tests for External Debt Ratio																
1. Nominal interest rate is at historical average plus one standard deviation in 2003 and 2004	...	...	...	...	...	55.0	57.1	54.8	51.7	48.6	44.8	43.8	41.2	40.4	38.0
2. Real GDP growth is at historical average minus one standard deviation in 2003 and 2004	...	...	...	...	...	55.9	54.5	52.9	49.7	46.5	42.7	41.6	39.0	38.2	35.8
3. Change in US dollar GDP deflator is at historical average minus one standard deviation in 2003 and 2004	...	...	...	...	...	55.9	70.0	81.8	81.1	79.0	76.6	73.3	73.8	71.6	68.9
4. Non-interest current account is at historical average minus one standard deviation in 2003 and 2004	...	...	...	...	...	55.9	62.1	70.7	69.3	66.7	63.9	60.3	57.9	57.2	55.0
5. Combination of 2-5 using one standard deviation shocks	...	...	...	...	...	55.9	87.0	122.0	124.2	123.5	120.1	123.0	121.3	121.2	119.4
6. One time 30 percent nominal depreciation in 2003	...	...	...	...	...	55.9	60.6	59.9	57.8	54.8	51.7	48.0	47.2	44.6	41.5
7. Non-oil real growth is 2 percentage points lower than in baseline	...	...	...	...	...	55.9	52.9	51.6	50.2	49.1	47.9	50.4	51.7	55.4	58.2
8. Oil Price is 15 percent lower than in baseline	...	...	...	...	...	55.9	58.2	62.9	66.8	69.2	71.6	73.0	77.9	79.3	82.0
9. Wood-related exports are 2 percentage points lower than in baseline	...	...	...	...	...	55.9	58.2	62.9	66.8	69.2	71.6	73.0	77.9	79.3	82.0
Historical Statistics for Key Variables (past 10 years)																
Current account deficit, excluding interest payments											Average					
Net non-debt creating capital inflows											2003-10					
Nominal external interest rate (in percent)											-8.2					
Real GDP growth (in percent)											-5.2					
GDP deflator in US dollars (change in percent)											8.4					
											1.7					
											4.4					
											14.4					
											0.1					

Sources: Gabonese authorities; and Fund staff estimates.
 1/ Derived as $(1-g)(1+r) + \alpha(1+r)^2(1-g)(1+r) + \alpha^2(1+r)^3(1-g)(1+r)^2(1-g)(1+r)$ times previous period debt stock, with r = nominal effective interest rate on external debt; p = change in domestic GDP deflator in US dollar terms; g = real GDP growth rate; α = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.
 2/ The contribution from price and exchange rate changes is defined as $[-p(1+g) + \alpha(1+r)](1+g)(1+r)$ times previous period debt stock; p increases with an appreciating domestic currency ($\alpha > 0$) and rising inflation (based on GDP deflator).
 3/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

Table 2. Gabon: Public Sector Debt Sustainability Framework, 1999-2013
(In percent of GDP, unless otherwise indicated)

	Projections														
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Public sector debt 1/	100.3	65.8	74.7	76.1	67.6	59.3	53.6	47.6	44.7	41.4	37.4	36.1	33.4	32.5	30.1
Change in public sector debt	-4.6	-34.5	8.9	1.4	-8.6	-8.2	-5.8	-6.0	-2.8	-3.4	-3.9	-1.3	-2.6	-0.9	-2.4
Identified debt-creating flows (4+7+12)	-7.4	-31.8	-0.2	-9.2	-13.5	-12.4	-6.7	-5.9	-7.8	-8.3	-7.2	-5.6	-6.1	-6.8	-6.7
Primary deficit	-8.0	-18.1	-7.9	-11.7	-13.0	-13.0	-11.0	-10.4	-10.4	-10.7	-9.2	-8.7	-8.7	-8.2	-7.8
Revenue and grants	28.3	34.1	31.6	30.5	32.4	31.7	30.0	29.9	29.3	29.0	27.2	26.3	24.7	25.2	24.6
of which: Non-oil revenue	15.5	13.1	13.9	13.9	14.6	15.1	16.2	17.5	18.6	19.0	19.2	19.9	19.9	20.1	20.5
Primary (noninterest) expenditure	20.3	16.0	23.7	18.8	19.4	18.7	19.1	19.5	18.8	18.4	18.1	17.6	17.1	17.0	16.7
Automatic debt dynamics 2/	0.7	-13.4	7.8	2.5	-0.2	0.8	4.3	4.5	2.7	2.3	2.0	3.1	1.5	1.3	1.2
Contribution from interest rate/growth differential 3/	-1.4	-16.1	7.6	4.1	2.9	0.7	4.3	4.5	2.7	2.3	2.0	3.1	1.5	1.3	1.2
Of which contribution from real interest rate	-10.1	-17.7	9.0	4.1	4.9	1.7	4.7	5.0	3.6	3.3	2.9	4.0	2.4	2.2	2.0
Of which contribution from real GDP growth	8.6	1.5	-1.4	0.0	-2.1	-1.0	-0.4	-0.5	-0.8	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
Contribution from exchange rate depreciation 4/	2.1	2.7	0.1	-1.6	-3.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Denominator = $1 + \pi - \pi^e - g^e$	1.1	1.3	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Other identified debt-creating flows	-0.1	-0.3	-0.1	0.0	-0.3	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	-0.1	-0.3	-0.1	0.0	-0.3	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Resignation of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual, including asset changes (2-3)	2.8	-2.7	9.1	10.6	4.9	4.1	0.9	-0.1	4.9	5.0	3.3	4.2	3.5	5.9	4.3
Public sector debt-to-revenue ratio 1/	354.0	192.8	236.3	250.0	208.8	187.3	178.3	159.3	152.8	142.4	137.4	137.3	135.3	129.2	122.4
Gross financing need 5/	6.4	-0.9	7.8	3.3	8.6	3.6	2.4	1.8	0.6	0.3	1.4	-1.0	0.4	-0.1	-2.5
in billions of U.S. dollars	0.3	0.0	0.4	0.2	0.5	0.2	0.2	0.1	0.0	0.0	0.1	-0.1	0.0	0.0	-0.2
Key Macroeconomic and Fiscal Assumptions															
Real GDP growth (in percent)	-8.9	-1.9	2.0	0.0	2.8	1.5	0.7	0.9	1.8	2.1	2.3	2.4	2.4	2.6	2.7
Average nominal interest rate on public debt (in percent) 6/	7.1	5.7	6.4	5.5	5.9	5.2	5.3	5.8	6.5	6.6	6.7	7.1	7.2	7.2	6.9
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-12.1	-22.7	12.9	5.5	6.6	2.6	7.8	9.1	7.5	7.4	7.2	10.5	6.8	6.8	6.5
Exchange rate (Local currency per US dollar, end of period)	619.5	713.5	718.4	688.0	540.5	544.7	543.4	542.2	540.9	539.8	538.5	538.5	538.5	538.5	538.5
Nominal depreciation of local currency (CFA franc per dollar)	10.2	13.2	0.7	-8.4	-17.9	0.8	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	0.0	0.0	0.0
GDP deflator (in percent)	19.2	28.5	-6.6	0.0	-0.7	2.6	-2.5	-3.3	-1.1	-0.8	-0.4	-3.4	0.3	0.4	0.4
Growth of real primary spending (deflated by GDP deflator, in percent)	-54.7	-22.6	50.9	-20.8	6.2	-2.0	2.5	3.2	-1.8	-0.3	0.4	0.0	-0.2	1.7	1.3
Non-Oil Primary Balance / Non-Oil GDP	-8.2	-7.6	-5.7	-4.2	-2.7	-4.2	-2.7	-4.2	-2.7	-4.2	-2.7	-4.2	-2.7	-4.2	-2.7
Non-Oil Primary Balance / GDP	-4.8	-4.4	-3.6	-2.8	-1.9	-0.1	0.8	1.3	2.3	2.8	3.1	3.1	2.8	2.8	3.1
II. Stress Tests for Public Debt Ratio															
1. Real interest rate is at historical average plus one standard deviation in 2004 and 2005	67.6	68.8	70.2	65.6	63.8	61.4	58.4	58.8	57.1	57.1	55.5	55.5	57.1	57.1	55.5
2. Real GDP growth is at historical average minus one standard deviation in 2004 and 2005	67.6	61.7	57.5	51.0	47.6	43.5	38.9	37.0	33.9	33.9	32.3	29.2	33.9	32.3	29.2
3. Primary balance is at historical average minus one standard deviation in 2004 and 2005	67.6	71.5	76.7	72.6	71.2	69.2	66.6	67.7	66.3	66.7	66.3	66.7	66.3	66.7	66.3
4. Combination of 2-4 using one standard deviation shocks	67.6	84.2	101.8	97.4	95.1	92.1	88.4	89.1	86.7	85.9	85.5	85.5	86.7	85.9	85.5
5. One time 30 percent real depreciation in 2004 7/	67.6	66.6	61.4	56.0	53.7	50.8	47.3	46.8	44.6	44.1	42.0	42.0	44.6	44.1	42.0
6. 10 percent of GDP increase in other debt-creating flows in 2004	67.6	69.3	64.3	59.2	57.0	54.3	50.9	50.7	48.4	48.4	46.5	46.5	48.4	48.4	46.5
7. Non-oil real growth is 2 percentage points lower than in baseline	67.6	60.2	55.6	51.1	50.2	49.1	47.9	50.4	51.7	55.4	58.2	58.2	51.7	55.4	58.2
8. Oil Price is 15 percent lower than in baseline	67.6	65.4	65.7	66.3	69.2	71.6	73.0	77.9	79.3	82.0	83.2	83.2	77.9	79.3	82.0
9. Wood-dated exports are 2 percentage points lower than in baseline	67.6	59.5	54.0	48.4	46.2	43.6	40.7	40.7	39.4	39.4	40.0	40.0	39.4	40.0	39.4
Historical Statistics for Key Variables (past 10 years)															
	Historical Average	Standard Deviation	Average 2002-10												
Primary deficit	-7.3	6.5	-10.1												
Real GDP growth (in percent)	1.7	4.4	1.8												
Nominal interest rate (in percent) 6/	7.8	2.4	6.3												
Real interest rate (in percent)	-0.8	17.9	7.4												
Inflation rate (GDP deflator, in percent)	8.5	18.8	-1.1												
Revenue to GDP ratio	29.4	4.1	28.5												

Sources: Gabonese authorities; and Fund staff estimates.
 1/ Public debt is defined as gross debt held by the general government.
 2/ Derived as $(r - \pi(1+g) - g + \alpha e(1+r)) / (1+\pi+r+g)$ times previous period debt ratio, with r = interest rate, π = growth rate of GDP deflator, g = real GDP growth rate, α = share of foreign-currency denominated debt, and e = 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 $\alpha e(1+r)$.
 5/ Defined as public sector interest expenditure plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
 6/ Derived as nominal interest expenditure divided by previous period debt stock.
 7/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table 3. Gabon: Baseline Debt Sustainability Analysis 2004-23 1/
(In CFA billion, unless otherwise noted)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2023	2003-2010	2011-2023	2003-2023
Total Stock of debt	1,967.1	1,911.9	1,827.4	1,687.7	1,581.2	1,480.7	1,364.4	1,301.7	1,242.4	1,245.0	1,189.4	1,039.7	1,640.3	1,132.8	1,364.2
Stock of outstanding (excluding arrears)	1,641.0	1,394.7	1,176.5	963.7	748.2	530.4	316.2	211.2	89.8	26.5	23.8	15.5	872.7	24.5	417.6
Stock of new borrowing	0.0	517.1	651.0	724.0	833.0	950.3	1,048.3	1,090.5	1,152.6	1,218.5	1,165.6	1,024.2	726.8	1,108.3	919.2
Stock of arrears 2/	326.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	326.0	0.0	302.2
Total debt service	318.8	348.8	337.2	319.0	317.8	349.7	362.8	254.3	281.1	295.2	204.1	217.2	326.0	224.3	268.1
Debt service due outstanding debt	318.8	336.9	301.0	283.5	273.2	262.6	254.5	146.8	153.2	135.9	15.1	0.5	272.2	26.3	136.6
Debt service on new borrowing	0.0	11.8	36.1	35.5	44.6	87.1	108.3	107.4	128.0	159.4	189.0	216.7	53.9	198.0	131.5
Total amortization	206.8	220.7	228.1	217.7	224.4	262.4	282.7	180.8	211.4	229.1	140.5	160.7	228.0	163.0	190.7
Amortization on current debt	206.8	220.7	218.1	212.7	215.4	217.8	223.7	127.0	140.1	130.2	13.2	0.5	205.3	24.5	100.6
Amortization due to new borrowing	0.0	0.0	10.1	5.0	9.0	44.5	59.1	53.8	71.3	98.9	127.3	160.2	22.7	138.6	90.1
Total interest payments	112.0	128.1	109.1	101.3	93.4	87.3	80.1	73.5	69.8	66.1	63.6	56.5	98.1	61.3	77.4
interest payments on current debt	112.0	116.2	83.0	70.8	57.8	44.7	30.8	19.9	13.1	5.7	1.9	0.0	66.9	1.9	30.9
interest payments due to new borrowing	0.0	11.8	26.1	30.6	35.6	42.6	49.3	53.6	56.7	60.5	61.7	56.5	31.2	59.4	46.5
DSA ratios:															
Ratio of total debt / GDP:	55.9	52.1	50.8	48.1	44.7	41.4	37.4	36.1	33.4	32.5	30.1	17.9	45.8	25.1	34.3
ratio current debt/GDP	46.6	38.0	32.7	27.4	21.2	14.8	8.7	5.9	2.4	0.7	0.6	0.3	24.4	0.6	11.7
ratio new debt & arrears clearance / GDP	9.3	14.1	18.1	20.6	23.6	26.5	28.7	30.2	31.0	31.8	29.5	17.7	21.4	24.5	22.6
Ratio of total debt / exports of goods & NFS	98.0	80.8	80.0	81.9	81.8	83.0	79.3	82.1	82.6	86.7	85.0	72.5	83.4	82.4	84.2
ratio current debt/exports	81.8	58.9	51.5	46.8	38.7	29.7	18.4	13.3	6.0	1.8	1.7	1.1	42.4	1.7	21.0
ratio new debt & arrears clearance / exports	16.3	21.9	28.5	35.1	43.1	53.3	61.0	68.8	76.6	84.8	83.3	71.4	41.0	80.6	63.2
Ratio of total debt / revenues:	187.5	168.9	158.0	156.9	151.5	143.8	131.8	131.7	131.7	136.3	124.0	92.8	153.8	114.3	132.5
ratio current debt/revenues	156.4	123.2	101.7	89.6	71.7	51.5	30.5	21.4	9.5	2.9	2.5	1.4	80.8	2.5	38.7
ratio new debt & arrears clearance / revenues	31.1	45.7	56.3	67.3	79.8	92.3	101.3	110.3	122.2	133.4	121.6	91.4	73.0	111.8	93.8
Ratio debt service / exports:	15.9	14.7	14.8	15.5	16.4	19.6	21.1	16.0	18.7	20.6	14.6	15.2	16.8	16.3	16.6
ratio current debt service/exports	15.9	14.2	13.2	13.8	14.1	14.7	14.8	9.3	10.2	9.5	1.1	0.0	13.7	1.8	7.0
ratio new debt service / exports	0.0	0.5	1.6	1.7	2.3	4.9	6.3	6.8	8.5	11.1	13.5	15.1	3.0	14.5	9.6
Ratio of total debt service/revenue:	30.4	30.8	29.2	29.7	30.5	34.0	35.1	25.7	29.8	32.3	21.3	19.4	30.7	22.7	26.1
ratio current debt service/revenue	30.4	29.8	26.0	26.4	26.2	25.5	24.6	14.9	16.2	14.9	1.6	0.0	25.5	2.8	12.5
ratio new debt service / revenue	0.0	1.0	3.1	3.3	4.3	8.5	10.5	10.9	13.6	17.4	19.7	19.3	5.2	19.9	13.6
Memorandum items:															
Exports of goods and NFS	2,006.4	2,366.3	2,285.4	2,060.9	1,933.4	1,784.2	1,719.8	1,585.9	1,504.5	1,436.3	1,400.0	1,433.5	1,967.8	1,376.2	1,614.8
Exports of goods	2,241.6	2,160.7	1,936.2	1,808.7	1,659.5	1,595.2	1,461.3	1,379.8	1,311.6	1,275.3	1,265.9	1,340.1	1,780.4	1,248.5	1,467.3
Fiscal revenues excluding grants	1,049.1	1,131.6	1,156.5	1,075.8	1,043.6	1,029.9	988.3	943.2	913.3	913.3	958.9	1,120.4	1,063.7	997.2	1,025.6
Nominal GDP	3,520.5	3,667.1	3,597.9	3,511.8	3,536.2	3,580.3	3,646.6	3,608.3	3,714.4	3,829.8	3,954.4	5,796.5	3,583.6	4,632.1	4,197.0

Sources: Gabonese authorities; and Fund staff estimates.

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

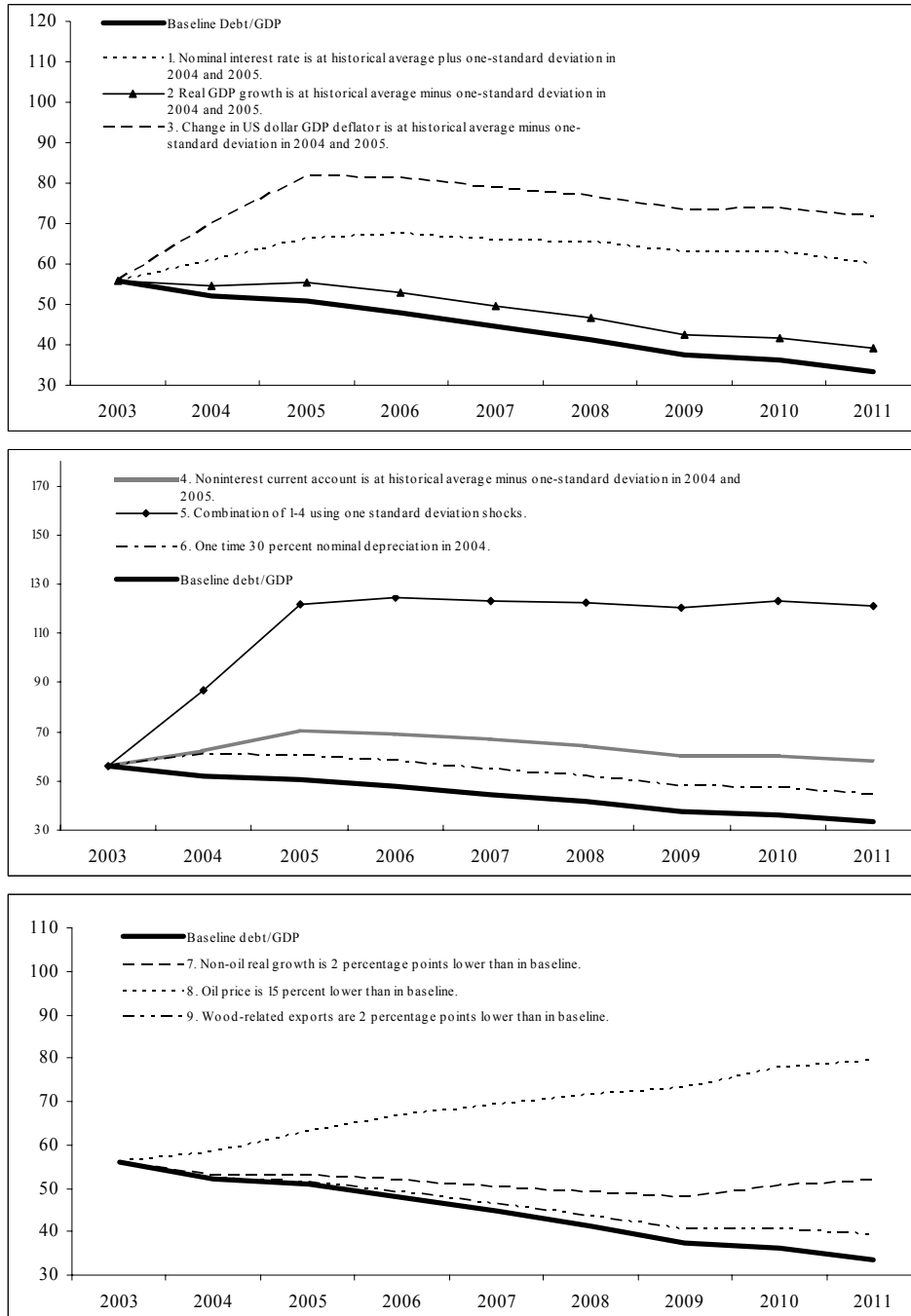
2/ Out of the stock of arrears at end-2003, approximately CFAF 320 billions was in reschedulable debt.

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

Sector projections	2003-2010											Averages			
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2023	2003-2010	2011-2023	2003-2023
1. Real sector															
Real GDP growth rate	2.8	1.5	0.7	0.9	1.8	2.1	2.3	2.4	2.6	2.7	2.8	3.4	1.8	3.1	2.6
Of which: Non-oil GDP growth	1.0	2.3	3.5	3.8	3.8	3.8	4.0	3.9	4.0	4.0	4.0	4.0	3.9	4.0	3.7
Nominal GDP growth rate	2.1	4.2	-1.9	-2.4	0.7	1.2	1.9	-1.1	2.9	3.1	3.3	4.3	0.6	3.7	2.5
Nominal GDP levels	3,520.5	3,667.1	3,597.9	3,511.8	3,536.2	3,580.3	3,646.6	3,608.3	3,714.4	3,829.8	3,954.4	5,796.5	3,583.6	4,632.1	4,232.6
Of which: oil GDP	1,487.3	1,543.7	1,538.4	1,149.8	1,055.5	972.0	905.5	733.2	697.8	664.1	632.2	389.9	1,150.7	529.1	765.9
non-oil GDP	2,033.1	2,123.3	2,239.5	2,362.0	2,480.7	2,608.2	2,741.1	2,875.1	3,016.7	3,165.7	3,322.1	5,406.6	2,432.9	4,102.9	3,466.7
Oil production (million tons)	13.5	13.3	12.3	11.0	9.9	8.6	8.0	7.3	6.7	6.2	5.7	2.5	10.5	4.3	6.6
WEO oil prices (US dollar/barrel)	28.9	37.3	37.3	35.3	34.5	33.8	33.3	30.0	28.0	26.0	25.0	20.0	33.8	21.8	26.4
2. Balance of Payments															
Current account (including transfers)															
Current account in % of GDP	336.9	426.1	391.9	273.9	218.4	151.3	169.8	109.2	69.8	39.7	30.8	3.8	258.6	3.5	100.7
	9.6	11.6	10.9	7.8	6.2	4.2	4.4	3.0	1.9	1.0	0.8	0.1	7.2	0.1	2.8
Exports, f.o.b.	1,881.7	2,241.6	2,160.7	1,936.2	1,808.7	1,659.5	1,595.2	1,461.3	1,279.8	1,311.6	1,275.3	1,308.9	1,843.1	1,251.5	1,476.9
Of which: Government	1,498.8	1,810.6	1,675.5	1,412.5	1,241.4	1,060.0	961.9	795.4	608.4	579.8	511.5	173.6	1,306.8	346.2	712.1
Other sectors	382.9	431.0	485.1	523.7	567.3	599.5	633.3	665.9	671.4	731.8	763.8	1,135.2	536.3	905.3	764.8
Imports, f.o.b.	428.1	692.0	727.3	737.4	750.6	730.8	747.5	743.2	759.6	750.9	760.9	807.6	722.3	796.4	768.2
Of which: Government	-40.1	-40.1	-40.1	-40.1	-40.1	-40.1	-40.1	-40.1	-40.1	-40.1	-40.1	-40.2	-40.1	-40.2	-40.1
Non-oil sector	-426.3	-446.8	-470.4	-493.5	-515.1	-535.2	-558.3	-571.1	-585.7	-600.7	-616.2	-795.9	-501.6	-485.8	-615.6
Trade balance	1,252.6	1,549.7	1,433.3	1,198.8	1,058.1	908.7	847.6	718.0	620.2	551.7	514.4	441.3	1,120.9	455.1	708.7
Services (net)	-862.3	-1,077.0	-992.1	-875.6	-790.6	-708.3	-637.9	-560.0	-501.6	-463.4	-435.0	-389.9	-813.0	-403.4	-559.4
Of which: interest on external debt	-112.0	-128.1	-109.1	-101.3	-93.4	-87.3	-80.1	-73.5	-69.8	-66.1	-63.6	-56.5	-98.1	-61.3	-75.3
Profits (net)	-225.5	-325.3	-294.9	-246.2	-221.8	-189.7	-171.5	-145.3	-127.8	-111.0	-99.8	-68.9	-227.5	-82.3	-137.6
Transfers (net)	-53.4	-46.6	-49.4	-49.3	-49.2	-49.1	-49.0	-48.9	-48.8	-48.7	-48.6	-47.6	-49.3	-48.2	-48.6
Capital account	-373.7	-399.3	-346.3	-224.3	-212.0	-190.5	-199.3	-111.0	-110.4	-116.7	-22.4	-50.9	-257.1	-53.0	-130.8
Transfers (net)	26.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.3	0.0	1.3
Medium and long term	-119.0	50.6	35.6	26.4	21.4	-8.5	-36.8	37.4	10.6	-11.8	78.2	32.5	0.9	39.4	24.7
Of which: Government drawings	15.4	65.0	35.0	38.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	44.2	50.0	47.8
Amortization	-224.9	-207.5	-214.9	-214.1	-219.3	-236.8	-259.9	-172.9	-201.4	-215.3	-121.7	-110.7	-218.8	-127.9	-162.5
Foreign direct investment	51.4	164.0	183.4	163.7	151.9	136.1	127.4	109.6	106.3	97.9	99.2	86.5	136.0	90.3	107.7
Other private medium and long term	39.1	29.1	32.1	38.8	38.8	42.2	45.7	50.7	55.7	55.7	50.7	6.7	39.5	26.9	31.7
Short-term flows (including E&O)	-281.0	-449.8	-381.8	-250.7	-233.4	-182.0	-162.4	-148.4	-121.0	-104.9	-100.6	-83.4	-261.2	-92.4	-156.7
Overall balance	-36.9	26.8	45.6	49.6	6.4	-39.2	-38.5	-1.8	-40.6	-77.0	8.4	-47.2	1.5	-49.5	-30.1
Memorandum items:															
Net IMF purchases (+ = net drawing)	-8.2	19.1	8.4	-3.6	-5.1	-25.5	-22.8	-1.3	0.0	0.0	0.0	0.0	-4.9	0.0	-1.9
Fiscal revenues excluding grants	1,049.1	1,131.6	1,156.5	1,075.8	1,043.6	1,029.9	1,034.9	988.3	943.2	913.3	958.9	1,120.4	1,063.7	997.2	1,022.6
Exports of GNFS	2,006.4	2,366.3	2,285.4	2,060.9	1,933.4	1,784.2	1,719.8	1,585.9	1,504.5	1,436.3	1,400.0	1,433.5	1,967.8	1,376.2	1,601.5
Of which: non-oil	488.9	537.0	593.1	629.7	673.3	705.4	739.2	771.8	805.0	837.8	869.7	1,241.2	642.3	1,011.3	870.7
Imports of GNFS	-1,218.3	-1,367.5	-1,372.1	-1,331.8	-1,298.4	-1,261.1	-1,216.0	-1,172.5	-1,155.6	-1,141.4	-1,130.3	-1,242.2	-1,279.7	-1,160.7	-1,206.0
Of which: non-oil	-752.0	-808.3	-823.1	-844.5	-860.9	-879.0	-888.1	-892.7	-893.2	-908.9	-924.9	-1,138.3	-843.6	-1,003.7	-942.7
Growth Rates															
Exports of GNFS	3.8	17.9	-3.4	-9.8	-6.2	-7.7	-3.6	-7.8	-4.1	-4.5	-2.5	2.0	-2.1	-0.7	-1.3
Of which: non-oil	1.9	9.8	10.5	6.2	6.9	4.8	4.8	4.4	4.3	4.1	3.8	3.7	6.2	3.7	4.6
Imports of GNFS	-2.7	-12.2	0.3	-2.9	-2.5	-2.9	-3.6	-3.6	-1.4	-1.2	-1.0	1.7	-0.7	0.5	0.0
Of which: non-oil	-4.8	7.5	1.8	2.6	1.9	2.1	1.0	0.5	0.1	1.8	1.8	2.4	1.6	1.9	1.8
Exports	4.2	19.1	-3.6	-10.4	-6.6	-8.2	-3.9	-8.4	-5.6	-4.9	-2.8	2.2	-2.2	-0.8	-1.3
Of which: non-oil	1.7	12.6	13.0	7.5	8.3	5.7	5.6	5.1	5.0	4.7	4.4	4.6	7.5	4.2	5.4
Imports	-5.4	10.0	3.1	1.4	1.8	3.0	4.0	4.0	4.0	2.2	0.0	0.1	1.9	1.2	1.3
Of which: non-oil	-10.6	4.8	5.3	4.9	4.4	4.4	3.6	3.0	2.6	2.6	2.6	2.6	2.6	2.6	2.5

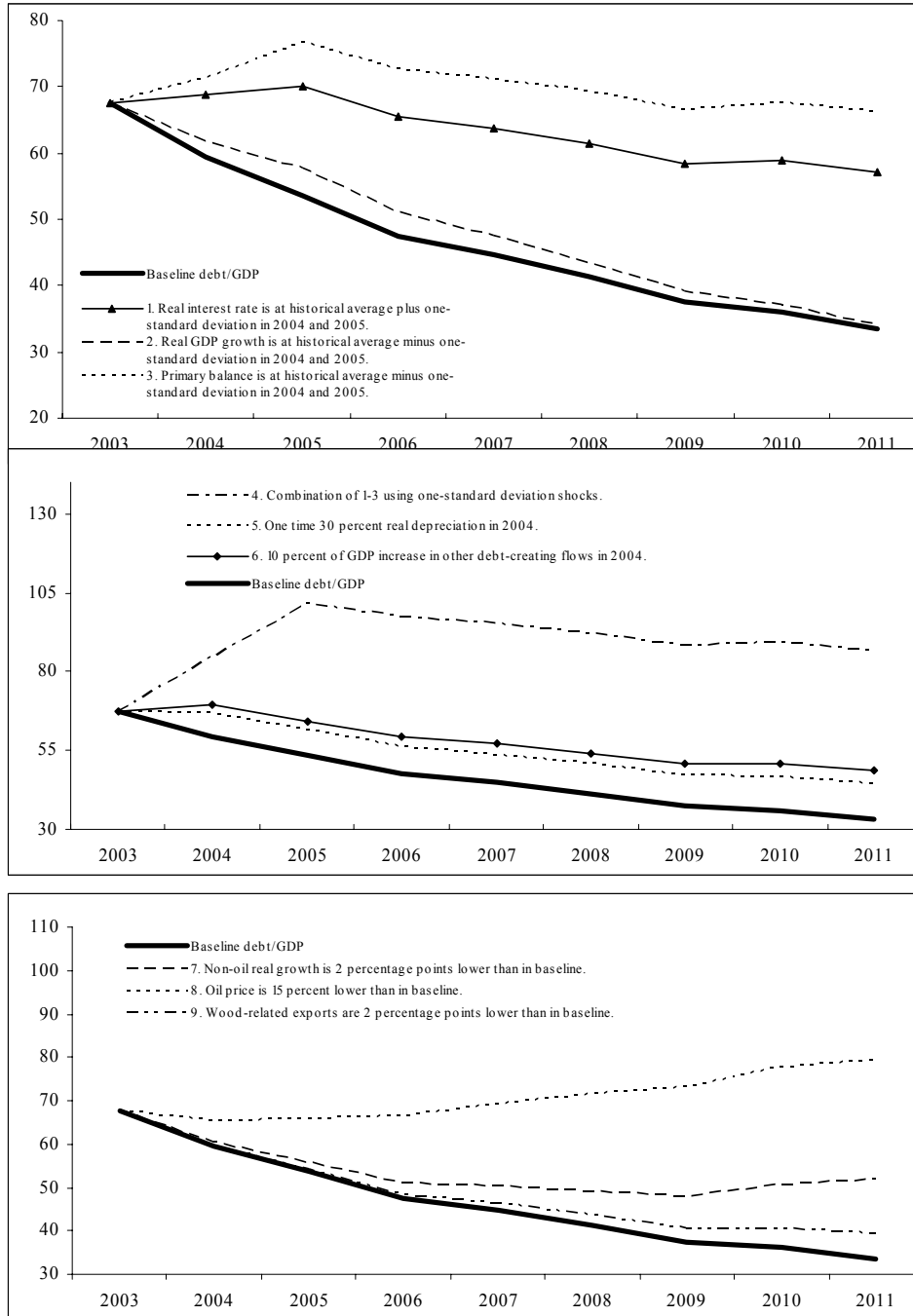
Sources: Gabonese authorities; and Fund staff estimates.

Figure 1. Gabon: External Public Debt Sustainability, 2003–11
(In percent of GDP)



Source: IMF staff estimates and projections.

Figure 2. Gabon: Total Public Sector Debt Sustainability, 2003–11
(In percent of GDP)



Source: IMF staff estimates and projections.

Bank of Central African States: Safeguards Assessments

The Bank of the Central African States (BEAC) is the regional central bank of the Central African States, of which Gabon is a member. A first on-site safeguard assessment was completed on June 20, 2001, and the main recommendations are reported on “Review of the Poverty Reduction Strategy Paper (PRSP) Approach: Main Findings—March 12, 2002” (www.imf.org). A subsequent safeguards assessment of the BEAC completed on August 30, 2004 found that the BEAC has implemented a number of measures to strengthen its safeguards framework since the 2001 safeguards assessment, but further progress needs to be made in key areas.

The main recommendations of the assessment, applicable to the BEAC as an institution, include: (i) preparation of financial statements in full accordance with an internationally recognized accounting framework, initially the ECB guidelines; (ii) publication of its full financial statements, together with the auditor’s report, starting with the 2003 financial statements; (iii) formulation of Board-approved formal guidelines under which the BEAC Governor is authorized to make exceptional advances to BEAC member countries; (iv) annual review by the BEAC internal audit department of the process of program data reporting of member countries to the IMF; (v) implementation of a risk-based audit approach, and finalization of a charter, for the internal audit function; and (vi) systematic follow up of all recommendations pertaining to the BEAC’s system of internal controls to be coordinated by the internal audit department, with regular reporting to the Audit Committee and the BEAC Governor.

Other priority recommendations of the assessment, but of a country specific nature, were: (i) the BEAC should clarify with its member countries that hold foreign reserves outside the BEAC the statutory basis and circumstances for doing so, to avoid an apparent conflict with the BEAC statutes and to ensure full transparency of reporting of reserves by the member country; (ii) the BEAC and its member states are encouraged to establish a mechanism to prevent IMF overdues and facilitate timely payments through advance acquisitions of SDRs and an authorization to debit the SDR account of the member; and (iii) the BEAC should cooperate with its members to reconcile and confirm the treasury balances to ensure that the balances reported by the BEAC in respect of credit to government as reflected in the accounts of the Treasuries are in agreement with the BEAC.

Gabon: Statistical Issues

1. Gabon's economic database is fairly comprehensive. While data are generally compiled in accordance with international standards, consistency between sectors is poor, raising questions about the quality of the data. Detailed economic and financial statistics, including long historical time series, are published in the *Tendances de l'Economie*, issued on a semiannual basis by the General Directorate of Statistics and Economic Studies (DGSEE) of the Ministry of Planning; more recent sectoral developments are described in detail in the *Tableau de Bord de l'Economie*, issued on a quarterly basis by the General Directorate for the Economy (DGE) of the Ministry of Economy, Finance, Budget, and Privatization.
2. An Inter-institutional Statistics Committee to improve macroeconomic data gathering, compilation, and dissemination was established in 1999, in response to STA and FAD recommendations. Following the detection of questionable accounting practices by audits of central government finances and domestic public debt in 1998, the fiscal data, national accounts, and balance of payments statistics for 1997–98 have been revised. As a result, there have been delays in reporting consistent data to the Fund, although the timeliness has improved recently.
3. Gabon is a participant in the General Data Dissemination System (GDDS). Metadata about Gabon's national statistical systems, including plans for improvement, were first posted to the GDDS pages on the Fund's Dissemination Standards Bulletin Board on September 20, 2002, but have not been updated. The authorities do not report any real sector statistics for publication in *IFS*, nor fiscal data for publication in the *IFS* or *GFS Yearbook*.

National accounts

4. Annual national accounts data were revised and updated for the period 1985–96, and the base for the calculation of aggregates at constant prices was changed from 1989 to 1991. These data were prepared by the DGSEE. Provisional estimates of national accounts data for the 1997–98 period have been prepared by the Inter-institutional Statistics Committee and the DGE but have not yet been finalized. The coverage of developments in the oil and other key export sectors is based on a range of indicators that may not fully capture the profits generated by these sectors. Despite recent improvements in collecting and processing oil sector statistics, significant inconsistencies remain between national accounts and the balance of payments statistics. In addition, more frequent household surveys are required, to improve the quality and quantity of data available on income distribution and consumption. The staff and the authorities are working closely to establish a more consistent database.

Employment and unemployment

5. Detailed annual data on employment are available for all sectors of the economy until 1997, including a breakdown of employment between the public and private sectors. However, data on unemployment and the total labor force are not systematically available.

Prices

6. Monthly consumer price indices for low- and middle-income households are available only for the capital city of Libreville. These indices are based on an outdated family expenditure survey of 1975 and attach a large weight to prices of food and basic consumer goods. The “new” household budget survey of 1993 should allow for the development of a more representative index, when it is introduced.

Government accounts

7. A multisector statistical mission, which covered government finance statistics, visited Gabon in May–June 1998. Furthermore, a review of budgetary procedures and expenditure control in Gabon was completed by a FAD technical assistance mission in April 1995 and updated in April 1999 and May 2000. The recommendations of the FAD missions, which had characterized government financial management as lacking discipline and transparency, are being implemented, as well as many of the measures recommended by the 1999 audits of central government finances and domestic public debt.

8. The main deficiencies in government finance statistics relate to a lack of comprehensive coverage of the available data, involving notably special treasury accounts, ministries’ own expenditures outside the budget, and social security operations. As a result of the 1999 audit of central government finances, the deficiencies have been corrected. Available estimates for 1997, 1998, and 1999 now reflect a comprehensive coverage of central government finances, although the social security operations are not included in government finances. Other needed improvements relate, inter alia, to the statistical treatment of oil companies’ tax advances, the need to record in the budget accounts government investment financed by oil companies, and the recording of government domestic payment arrears.

Monetary statistics

9. Monthly monetary data for Gabon, as well as for the other members of the Central African Economic and Monetary Community (CEMAC), are reported on a regular basis, although with some delays. The data are reported in electronic form by the regional central bank (BEAC) and published in *International Financial Statistics (IFS)*. The institutional coverage of the monetary statistics is comprehensive, but accuracy is affected by cross-border movements of currency among CEMAC member countries. In the case of Gabon, however, the magnitude of imported notes is smaller than in other countries in the region. About 94 percent of notes in Gabon are nationally issued; the remaining are from the Republic of Congo, Cameroon, and Equatorial Guinea. Gabon exports about 18 percent of its notes, most of which go to Cameroon (13 percent) and to the Republic of Congo (3 percent).

10. 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

11. Comprehensive data on the outstanding stock of external public debt and its composition, together with detailed projections on debt service due, are available and 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. Comprehensive data on the composition of external public debt for the period prior to 1994 are not available.

Balance of payments and trade statistics

12. As in most other countries of CEMAC, balance of payments data are compiled and disseminated by the national agency of BEAC for Gabon. The compilation process involves a close cooperation between BEAC headquarters and the national agency for Gabon since BEAC headquarters calculates the national contribution in the international reserves it holds and manages on behalf of all six countries. The headquarters also validate the draft results and run consistency checks against the guidelines adopted for the whole monetary union.

13. Annual data are produced along the lines of the recommendations of the fourth edition of the *Balance of Payments Manual (BPM4)*. However, since 1995, the dissemination of balance of payments statistics has been in accordance with the presentation of the fifth edition of 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.

14. Source data have several shortcomings: imports and exports of goods are collected from surveys among enterprises, while trade data on the three main exported products (oil, wood, and manganese) are derived from the volume exported and adjusted by average market tariffs. Customs data are not used for exports because of their weak reliability and long delays in availability, although import data are derived from customs sources. External trade sources are therefore mostly based on estimates, which are not cross-checked with customs data. The reliability of other items of the current account suffers due to the low response rate to the enterprise surveys in spite of partial correction through adjustments. Foreign direct investments in the financial accounts are 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.

15. Balance of payments data are disseminated with considerable delays, and the most recent data refer to 2001. The multisector mission that visited Gabon during May 1998 proposed several short- and medium-term recommendations on balance of payments statistics. The authorities have not reported the progress made in implementing those recommendations.

Public enterprise sector

16. 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 only the wholly owned and mixed enterprises in which government equity participation is at least 25 percent.

Gabon: Core Statistical Indicators
(As of August 23, 2004)

	Exchange Rates ¹	International Reserves	Reserve/ Base Money	Central Bank Balance Sheet	Broad Money	Interest Rates ²	Consumer Price Index	Exports and Imports	Current Account Balance	Overall Government Balance	National Accounts	External Debt
Date of latest observation	08/16/04	06/30/04	06/30/04	06/30/04	06/30/04	06/30/04	06/30/04	06/30/04	12/31/03	06/30/04	2003	06/30/04
Date received	08/17/04	08/05/04	08/05/04	08/05/04	08/05/04	07/23/04	08/05/04	07/26/04	03/01/04	07/26/04	03/01/04	07/26/04
Frequency of data ³	D	M	M	M	M	M 1/	M	M	A	M	A	M
Frequency of reporting ³	D	M	M	M	M	V 1/	M	A	V	M	V	M
Source of data ⁴	N	A	A	A	A	A	A	A	A	A	A	A
Mode of reporting ⁵	O 2/	E	E	E	E	E	E	V	V	C	V	E
Confidentiality ⁶	C	A	A	A	A	C	A	A	A	A	A	A
Frequency of publication ³	D	M	M	M	M	M	M	A	A	Q	A	A

¹ As reported in the daily Morning Press (euro exchange rate).
² Information communicated to staff as interest rates are adjusted.
³ D = daily; M = monthly; Q = quarterly; A = annually; V = staff visits.
⁴ N = none; A = direct reporting by central bank, Ministry of Finance, or other official agency.
⁵ O = official; E = electronic data transfer; C = cable or facsimile; V = staff visits.
⁶ A = For use by staff only; B = for use by the staff and the Executive Board; C = unrestricted use.



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September 20, 2004

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes First Review Under Gabon's Stand-By Arrangement and Approves US\$20 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the first review of Gabon's economic performance under a 14-month Stand-By Arrangement to support the country's economic program. The completion of the review enables the release of a further SDR13.9 million (about US\$20 million), which will bring the total amount drawn under the arrangement to SDR 27.8 (about US\$41 million).

Following the Executive Board's discussion on Gabon's economic performance, Agustín Carstens, Deputy Managing Director and Chair, said:

“Gabon’s implementation of the program supported by the 14-month Stand-By Arrangement with the Fund, was off to a good start. Budgetary performance in the first half of 2004 was in line with program objectives and progress was made in the implementation of structural reforms, particularly in the fiscal area. Gabon’s economic outlook is positive because of favorable oil prices, improved prospects for oil production, and the authorities’ commitment to economic adjustment and reform.

“Nevertheless, Gabon’s economy remains subject to considerable vulnerabilities—including in oil prices and the heavy debt burden—and social indicators are weak. Sustained fiscal adjustment and steadfast pursuit of structural reforms are needed to place the debt on a sustainable path, free resources for the growth of the non-oil private sector, and increase spending in priority areas to reduce poverty while containing the wage bill and controlling expenditures. The authorities should seize the opportunity provided by the current favorable commodity prices to make progress in this regard. They have wisely chosen to use the oil revenue windfall to repay public debt, strengthen the government’s position in the banking system, and accumulate deposits in the Fund for Future Generations. Particular care will be needed to avoid embarking on unsustainable spending programs.

“There has been progress in improving the transparency and efficiency of budgetary management, including through a review of the implementation of priority investment projects. These efforts should be intensified. The public expenditure review to be conducted in the coming months will be important in this regard.

“The authorities expect to complete their poverty reduction strategy paper (PRSP) in early 2005. The PRSP will set the medium-term priorities and policies for tackling Gabon’s poverty problem. High on the agenda will be structural reform to complement prudent macroeconomic policies. The authorities are making progress in implementing a comprehensive set of reforms to promote economic diversification and non-oil growth. The key reforms that are being tackled include privatization of Gabon Télécom, restructuring of Air Gabon and admitting private capital in the enterprise, improvement of the investment climate and the regulatory framework, reform of the forestry sector, and strengthening of governance,” Mr. Carstens said.

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

**Statement by Damian Ondo Mañe, Executive Director for Gabon
September 20, 2004**

On behalf of my Gabonese authorities, I would like to express my appreciation to Management and staff for their support in addressing the many challenges facing the Gabonese economy, namely declining oil production, high external debt and weak social indicators.

The staff report describes well the progress achieved in the implementation of the authorities' economic program that aims at reducing the dependence on oil through notably the diversification of the economy. The program also aims at improving the social conditions of the population. The staff report reflects well the constructive discussions held during the last staff visit, which coincided with that of the Managing Director in the country.

Recent Economic Developments and Performance under the SBA

During the first half of the present year, macroeconomic performance improved and performance under the SBA has been satisfactory. Non-oil GDP growth, especially in the mining and forestry sectors, has picked up. In the oil sector, the significant increase in world oil prices has allowed for higher investment in the sector such that instead of declining production, as was projected, oil production at end-June 2004 was quasi-identical to that in 2003 for the same period. Inflation remained under 2 percent as projected.

In the **fiscal sector**, performance remains on track. Non-oil revenues were broadly in line with the program, while expenditures were lower than expected. The wage bill remained under the agreed limits as a result of the numerous measures applied since April 2004. On the revenue side, a strong performance was recorded by non tax revenues and the revenue from the taxes on income and financial assets. However, revenues from forestry taxation were below target, due to the late publication of the 2004 Budget law, but collections have since been accelerated, including on tax arrears. Higher oil export revenue enabled the budget to record a surplus, and as provided under the program, the surplus was used to increase government deposits in the banking system, and to accelerate the repayment of the treasury float, including the reduction of domestic debt.

Higher oil prices and increased manganese exports enabled the external sector to record better than expected balances during the first six months of the year. This led to a sharp increase in net foreign assets of the **banking system** – and Gabon's contributions to the Bank of Central African States (BEAC) – which in turn led to a 5.0 percent increase in money supply, following the fall of 1.2 percent in 2003. Credit to the economy decreased by 9.8 percent as the high level of domestic debt payments strengthened the liquidity of the private sector. The banking system remains sound.

Following the approval last May by the Board of the request for a 14-month SBA, the Paris Club concluded on June 11, 2004, an agreement with Gabon on **rescheduling** external arrears at end-2004 and current maturities for the period May 2004 – June 2005 of an amount

of FCFA 472 billion, lower by FCFA 45 billion than envisaged under the program. The two-phase agreement envisions that part of the reschedulable amounts will be so only upon completion of the second review of the present SBA before March 1, 2004. There are ongoing discussions with the London Club banks and other bilateral creditors to reschedule debt payments on terms comparable to those granted by the Paris Club.

There has been progress in the **reform agenda**. The Council of Ministers adopted in mid-May 2004 the letter of development policy in the forestry, fishery and environmental sectors, prepared in consultation with the World Bank. A decree was issued on August 9, 2004 to implement the main actions outlined in that letter, in particular, a moratorium on the allocation of forestry permits and the launching of a pilot test for the allocation of permits by auction.

The authorities are accelerating the speed of the **privatization** of Gabon Telecom. They have decided in early September to increase the shares for sale from 35 percent to at least 50 percent as many investors, in light of the improved prospects in the telecommunication sector, have expressed interest for higher participation. As a result, the selection of the successful bidder will be delayed from October 2004 as initially scheduled to January 2005. Likewise, concerning Air Gabon, in view of the informal contacts with potential investors, the government has decided, along with the ongoing restructuring, to privatize partially the company and, to this end, launched a call for expressions of interest on July 19.

On **governance**, the Constitutional Court decided that various provisions of the wealth declaration bill adopted early this year were unconstitutional. Accordingly, the government drafted a new version that addresses the court's concerns and a new decree setting the procedures for wealth declaration by government officials will be reissued.

In the context of improving transparency and efficiency of **budgetary management**, my authorities carried out an audit mission to assess the physical and financial execution of a sample of priority investment projects in all provinces of the country. This mission identified, among others, weaknesses in preparation, implementation and tracking of projects as the main reasons of the poor public investment execution rate. Moreover, the recently established Directorate General of Public Procurement is reviewing contracts above CFAF 30 million – and not billion as stated in the report – and has blocked a number of contracts because of noncompliance with regulations. The roundtable government discussions on the 2005 budget held in July and August took into account the execution rate of project in deciding budgetary allocations, and are giving priority to the completion of projects already under way.

At end-June 2004, all performance criteria and indicative targets were observed with the exception of the target related to the non-oil revenues. In view of this satisfactory performance, my authorities request the completion of the first review under the SBA.

Economic Outlook and Policies for the Second Half of 2004

The economic prospects for Gabon over the medium-term appear broadly better as the oil world prices are projected to remain at levels above those retained originally in the program.

However, the slower than expected non-oil economic activity imposed a downward revision of GDP growth in the program for 2004 from 3 percent to 2.3 percent. The inflation rate at end-year is projected to remain below 2 percent. For the remainder of the year, my authorities will pursue steadfastly the adjustment and reforms initiated since 2002 and to achieve the program targets for 2004.

In the **fiscal sector**, the authorities are focusing on measures to strengthen revenue collection and enhance efficiency in budgetary programming and execution. The main tax reforms measures that are being implemented and are expected to be completed by year-end include (i) the establishment of the Large Enterprise Directorate (DGE) – the decree to this effect has been adopted on September 9; (ii) the update of the taxpayer rosters – the review of the taxpayers' registration system has started; (iii) the strengthening of the collection of back taxes, in particular those from the forestry sector – permits will continue to be withdrawn in case of non compliance with tax obligations; and (iv) the establishment of an update land registry to increase the yield of real estate taxes. As regards VAT, the government will examine the possibility of reducing the higher rate of 25 percent applied to telecommunications services, banking services and luxury goods to 18 percent in the 2005 budget law, after conducting an impact analysis.

Should oil prices remain high, the oil revenues surplus will amount to CFAF 110 billion. After repaying the external debt arrears as agreed with the Paris Club, my authorities intend to use the excess oil revenue to increase the resources of the Fund for Future Generations by around CFAF 50 billion and reduce the domestic debt in excess of the original program's targets. To this end, they request that performance criteria on net credit to government and on the stock of domestic arrears for end-September and end-December 2004 be modified accordingly, as indicated in table 1 attached to the staff report.

My authorities will continue their efforts to contain the expenditures, including the wage bill within the program's limits, except for an allocation of CFAF 1 billion for (i) conducting the audit of the Road Maintenance Fund (FER) arrears and the regional investment expenditures which are timed with the independence day celebrations; and (ii) securing technical assistance needed for applying the new budgetary classification to the investment budget. Since this increase in spending can not be accommodated by savings in other lines and the non-oil growth is projected to lower, my authorities request the revision of the performance criterion for end-December 2004 on the primary balance to take into account this increase in spending and the higher oil revenue, as indicated in table 1 attached to the staff report.

A public expenditure review (PER) of key sectors will start in October, with assistance from the World Bank and other donors. The PER exercise will provide an opportunity to analyze the cost of the priority programs that are likely to be included in the PRSP, and their possible financing. In addition, a commission set up by the government with the participation of the Senate and the *Cour des Comptes* is currently carrying out a study to review local government finances and identify measures to ensure their financial viability. The study is proceeding on schedule, and the commission report will be finalized and presented to the government by end-October, as planned. Efforts to improve the financial situation of social

security funds are also progressing. In particular, my authorities are identifying measures to ensure the financial viability of the CNGS.

The draft **budget law for 2005** is being prepared with the goal to strengthen consistency with the guidelines of the PRSP in preparation. My authorities intend to integrate into the investment budget for 2005 some of the priority social projects identified during the preparation of the PRSP. Such integration may imply higher spending, which could be financed with the projected excess oil revenues and thus may require a slight revision of the macroeconomic framework for 2005. My authorities look forward to the next meeting with Fund staff for advice and more in depth discussions on the draft budget law.

Monetary policy will continue to be conducted at the regional level by the BEAC, consistent with the fixed exchange rate regime that has served the country well. As regards **financial sector policies**, my authorities are taking measures to strengthen microfinance and housing finance, and are looking into the feasibility of revising the statutes of the Development and Expansion Fund (FODEX) to enable it to operate in the microfinance sector in line with the directives of the regional banking commission on microfinance. In addition to simplifying the procedures for allocating lots for housing, financing arrangements are being finalized with domestic and foreign private banks to support new housing developments.

In the same vein, **structural measures** to improve the investment climate, promote non-oil economic activity, in particular in the forestry and mining sectors, accelerate the privatization process and improve transparency will be pursued. The government is expected this month the report on the findings of the mission from the FIAS on the business climate. This report will provide the basis for establishing a plan of reforms. In the forestry sector, the study on the role of the SNBG by an internationally recognized consultant is underway and is expected to be completed by end-October as scheduled in the program. In order to improve the regulatory framework in the mining sector where there is a growing interest by foreign investors, the implementing regulations of the mining code are expected to be approved by end-December 2004 and the standard concession agreement, which will define the taxation applicable to investors is currently under preparation. In the postal sector, the consulting firm preparing a plan to restructure Gabon Poste is expected to submit its report by end-October 2004. Progress is being made in the implementation of the Extractive Industry Transparency Initiative (EITI) to which Gabon became an associate member in May 2004.

The **civil service reform** is progressing well as two draft laws are now at the Parliament for examination during the September-December 2004 session and the preparation of another one is expected to be completed by end-December 2004. In addition, the harmonization of the rosters of the civil service and the payroll office should be completed by year-end.

My authorities remain committed to **price liberalization**. In this regard, they intend to reintroduce, at the latest by end-March 2005, the automatic price adjustment mechanism for petroleum product to reflect changes in international prices. As regards surtaxes on imports, they will eliminate tariffs surtaxes on eggs and cigarettes by end-2004. The authorities will propose at the next interministerial meeting of CEMAC to start consultations on the adoption

of a common sugar policy to promote regional competition which should lead to elimination of surtaxes in all CEMAC countries.

With the better prospects in the oil sector and in the mining sector, **external sector** balances and debt sustainability are expected to improve. However, as the sensitivity tests in the DSA showed, the debt sustainability remains vulnerable to shocks on the non-oil growth and of course oil prices, thus pointing to the need to continue economic diversification efforts, and to prudent financial management.

The preparation of the **PRSP** has been accelerated and it is expected to be finalized in early 2005. A survey to update the poverty and social indicators started in August and is expected to be completed by year-end. In addition, a wide consultative process has begun in July, starting with Libreville, and line ministries have become more involved in its preparation.

Conclusion

The continued good performance under the SBA, with the implementation of all the macroeconomic and structural measures, and the achievement of the performance criteria and benchmarks are strong indications of my Gabonese authorities' commitment to the adjustment process. A supportive environment and assistance from economic partners have also been helpful. My authorities would like to reaffirm their determination to maintain the reform efforts and to achieve the medium-term objectives, and are hopeful that the international community will continue to support their efforts both through technical and financial assistance. In this regard, I would like to request the support of my colleagues for today's proposed decision.