

## International Monetary Fund

[Gabon](#) and the IMF

**Gabon:** Letter of Intent and Technical Memorandum of Understanding

**Press Release:**

[IMF Executive Board](#)

[Completes Third](#)

[Review and Financing](#)

[Assurances Review](#)

[Under Gabon's Stand](#)

[by Arrangement](#)

March 29, 2005

March 14, 2005

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Libreville, March 14, 2005

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

Dear Mr. de Rato:

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

#### **The macroeconomic framework for 2005**

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

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

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

#### **Principal elements of the budget law for 2005**

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

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

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

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

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

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

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

### **Transparency and good governance**

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

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

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

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

### **Financial sector**

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

### **Structural reforms**

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

### **Investment climate**

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

### **Forestry reforms**

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

### **Public enterprises**

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

## **PRSP preparation**

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

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

Sincerely yours,

/s/

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

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

	2004						2005			
	Mar.	Jun.	Sept.	Dec.		Mar.	Jun.	Sept.	Dec.	
	Act.	Act.	Act.	Prog. 11/	Prel. Deviation	Prog.	Indicative			
<b>Performance criteria:</b>										
Ceiling on the net claims of the banking system on the central government				-98.6			-20.2	-92.9	-129.3	-211.3
Adjusted target 2/	-22.4	-61.4	-48.5	-84.8	-86.0	-1.2				
Ceiling on the contracting or guaranteeing of new nonconcessional external debt with maturity of over 1 year by the central government 3/	2.5	9.5	13.4	96.0	59.9	-36.1	32.0	32.0	32.0	32.0
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	0.0
Ceiling on the accumulation of external payments arrears by the central government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock of arrears on domestic debt of the central government 6/	14.1	5.5	5.5	1.9			0.0	0.0	0.0	0.0
Adjusted target 6/	0.0	0.0	0.0	1.9	1.9	0.0				
Floore on the primary fiscal balance of the central government, excl. grants and foreign-financed investment (on a payments order basis) 7/				468.7			137.2	285.9	453.2	601.6
Adjusted target 7/	116.6	233.6	339.6	450.5	453.0	2.5				
<b>Indicative targets:</b>										
Floor on non-oil central government revenue	124.5	245.3	362.0	513.4	511.5	-1.9	116.2	260.6	392.8	555.4
Ceiling on the central government wage bill on a payments order basis	55.4	110.1	168.3	226.0	226.3	0.3	56.2	112.5	168.7	225.0
Ceiling on total noninterest domestic expenditure of the central government, on a payments order basis	154.5	296.2	462.0	662.9	658.5	-4.4	160.5	324.8	472.1	656.1
Floor on current expenditure for the sectors of education, health and social assistance	7.2	17.2	25.8	33.1	35.2	2.1	8.0	20.0	30.0	40.0
Floor on the net reduction of unpaid payments orders at the treasury 8/			0.0	-74.1	-67.4	6.7	-39.3	-54.5	-60.8	-72.1
<b>Memorandum items:</b>										
Nonproject external financing disbursements (excluding IMI)	0.0	0.0	0.0	52.9	44.2	-8.7	0.8	2.0	3.8	5.0
External debt service due (excluding IMF)	83.6	147.4	244.2	331.1	327.6	-3.5	96.3	149.4	243.8	302.7
Domestic debt service due	9.6	36.7	57.5	83.1	83.4	-1.4	17.3	46.7	68.1	85.7
Oil revenue	146.6	284.5	439.7	618.2	600.0	-18.2	181.5	350.1	532.5	702.4
Rescheduling of external debt 10/	0.0	395.4	419.0	421.7	425.4	3.7	46.4	75.3	75.3	76.6
Privatization proceeds	0.0	0.0	0.0	1.9	1.7	-0.2	0.0	0.0	0.0	18.2

Sources: Gabonese authorities; and Fund staff estimates and projection

- 1/ Indicative targets for end-March 2004, end June, end September, and end-December 2005. Targets for end-June, end-September, end-December 2004, and end-March 2005 are performance criteria under the S
- 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/deferral on domestic
- 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 credit
- 5/ The nonaccumulation of new external payments arrears will constitute a continuous performance criterion
- 6/ As defined in paragraph 10 of the Technical Memorandum of Understanding (TMU). The ceiling on bank financing will be adjusted downward/upward for unprogrammed rescheduling/deferral
- 7/ The performance criterion on the primary fiscal balance will be adjusted upward/downward for any higher/lower-than-programmed oil revenue. For end-December 2004, the original program target has been revised to reflect the higher oil revenue and the upward adjustment in current spending by CFAF 1 billion
- 8/ Noninterest spending excluding foreign-financed investment
- 9/ Including the reduction of arrears on the wage bill and the payment of compensations for social violence
- 10/ These amounts represent rescheduled end-April 2004 stock of arrears and the obligations falling due during May-December 2004 and January-June 2005, in line with the Paris Club agreed minutes of June 11, 2004
- 11/ As revised in EBS/04/174.



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

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

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

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

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

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

## GABON

### Technical Memorandum of Understanding

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

#### A. Monitoring of Program Implementation

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

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

##### Quantitative performance criteria and indicative targets

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

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

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

#### **Definitions and computation**

6. The outstanding amount of the net claims of the banking system on the central government is measured in accordance with the accounting practice at the central bank, the BEAC, along the lines of the IMF format, excluding deposits of the postal checking account system<sup>1</sup> and net of the securitized commercial agreements bought by commercial banks in the context of the Libreville Club in 2004.<sup>2</sup> As of December 31, 2003, this outstanding amount was CFAF 231.9 billion, and its breakdown was as follows:

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<sup>1</sup> The deposits of the postal checking account system are excluded since they are not at the disposal of the treasury.

<sup>2</sup> Total securitized debt bought by a local commercial bank amounted to CFAF 5.7 billion at end-2004.

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

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

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

8. The performance criteria on nonconcessional external debt are ceilings on **new nonconcessional external debt**. The performance criterion on the contracting and guaranteeing of new nonconcessional debt with maturity over one year by the central government applies not only to debt as defined in point 9 of the *Guidelines on Performance Criteria with Respect to Foreign Debt*, adopted by the IMF on August 24, 2000, but also to commitments contracted or guaranteed for which no value has yet been received. Excluded from this performance criterion are rescheduling arrangements and purchases from the IMF. The performance criterion on the **outstanding stock of nonconcessional external debt,<sup>3</sup> with an original maturity of up to one year** (one year included) excludes rescheduling arrangements, purchases from the IMF, and normal import-related credits. The concessionality of debts will be calculated on the basis of the reference interest rates for the specific currencies of denomination used, as established by the Organization for Economic Cooperation and Development (OECD). A debt is deemed to be on concessional terms if, at the time of the initial disbursement date, the ratio between the present value of the loan calculated on the basis of the reference interest rates, on the one hand, and the face (nominal) value of the loan, on the other hand, is less than 65 percent (i.e., a grant element of at least 35 percent).

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<sup>3</sup> The term “debt” has the meaning set forth in point 9 of the *Guidelines on Performance Criteria with Respect to Foreign Debt* (Decision number 12274-(00/85) August 24, 2000).

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

10. The **stock of domestic payments arrears of the central government** corresponds to the stock of payments arrears on: (i) interests on treasury debt, securitized commercial agreement, “other” debts, and bank debt; (ii) the principal on securitized commercial debt agreements and “other” debts.<sup>4</sup> At end-December 2004, the stock of domestic payments arrears amounted to CFAF 1.9 billion.

11. **The treasury float** consists of the “payment orders at the treasury”, float at the Road Maintenance Fund (FER) and the “other treasury float.”<sup>5</sup> The “payment orders at the treasury” corresponds to the difference between the cumulative payment orders (*ordonnancements*)<sup>6</sup> and the cumulative actual payments (checks encashed—cash basis). At end-December 2003, the central government’s domestic payments arrears amounted to CFAF 94 billion, comprising CFAF 84,7 billion in outstanding treasury float and CFAF 9.3 billion in “other treasury float.” The net reduction of the treasury float is defined as the reduction in the float existing at end-2003, less the accumulation of new float during 2004.<sup>7</sup> For 2005, the net reduction of the treasury float is defined as the reduction in the float existing at end-2004, less the accumulation of new float during 2005.

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

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<sup>4</sup> The nonbank domestic debt includes the outstanding amounts of (a) securitized commercial agreements as validated by the Ministry of Economy, Finance, Budget, and Privatization as at end-December 2003; (b) the debt of the treasury; and (c) “other” debts, consisting of amounts due to the SEEG, CNSS, Gabon Telecom, Gabon Poste and Air Gabon’s supplier debt taken over by the government in 2001/2002.

<sup>5</sup> The “other treasury float” includes the accounts on “subsidies,” “consignments,” “accounting agencies,” including “transfers between accounting offices” related to budgetary operations, and “installments to be allocated.”

<sup>6</sup> As defined below in paragraph 13.

<sup>7</sup> Under the program, payments for wage arrears (“*rappels*”) and compensation for political violence are considered as a reduction in the float at the treasury.

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

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

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

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

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

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

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

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



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

### **Adjustments to quantitative performance criteria and indicative targets**

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

21. The program also includes (downward/upward) adjusters for the benchmarks on net credit from the banking system to the central government for (i) lower/higher-than programmed external debt service effectively paid<sup>8</sup> (net of nonproject external financing disbursements); (ii) lower/higher-than-programmed net reduction of domestic arrears; and (iii) lower/higher-than-programmed net reduction in the float at the treasury.

22. The program also includes a symmetric (downward/upward) adjuster for the net bank credit to the central government for privatization proceeds higher/lower than projected in the program.<sup>9</sup> The program's assumptions related to oil revenues, external and domestic debt service, disbursements on external nonproject financing, expected external debt rescheduling, and privatization proceeds are indicated in Table 2 of the letter of the Minister of Finance of March 14, 2005.

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<sup>8</sup> 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.

<sup>9</sup> For end-March and end-June 2005, the adjuster will apply to privatization proceeds, net of the restructuring cost of public enterprises.

### C. Structural Performance Criteria and Benchmarks

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

### D. Key Assumptions of the 2004-05 Program

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

	2004	2005
World Brent oil prices (U.S. dollar per barrel)	39.2	48.1
Gabonese export oil prices (U.S. dollar per barrel)	36.9	44.3
Oil output (in millions of metric tons) <sup>10</sup>	13.6	13.5
Exchange rate (CFA francs per US\$1, annual average)	534.4	488.4
Government oil revenue (in billions of CFAF)	640.0	702.4

### E. Reporting Requirements

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

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

<sup>10</sup> The average conversion rate is 7.3 barrels per metric ton.

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

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

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

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

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

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

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

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

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

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

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

(o) Quarterly financial data of Air Gabon.

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