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

Libreville, December 13, 2007

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

Dear Mr. Strauss-Kahn:

1. This letter updates the letter of April 15, 2007 presenting the economic program to be supported by the Stand-by Arrangement approved by the Executive Board of the International Monetary Fund on May 7, 2007. The government hereby reiterates its commitment to pursuing the necessary economic policies and reforms to achieve sustainable growth and reduce poverty in Gabon while addressing the challenges associated with the anticipated decline in oil production. This letter also reports on performance on the program to date and government policy intentions for the remainder of 2007 and for 2008.
2. Robust non-oil activity continued in the first half of 2007, largely offsetting a slower than expected rebound in oil production. A pick-up in activity in mining, forestry, wood processing, and agro-industries should lead to non-oil real GDP growth of 6.4 percent in 2007. By contrast, the oil sector will grow by only 3.1 percent because of temporary technical problems. Overall, real GDP growth should amount to 5.6 percent in 2007, in line with program objectives.
3. Driven by rising prices of petroleum products and foodstuffs, 12-month inflation rose to 6.3 percent in May 2007 before declining to 4.4 percent at the end of August. Gabon's external position remains sound, although the current account balance will likely be lower than projected because of a sharp rise in imports and oil company profit outflows. However, the balance of payments will remain in healthy surplus, and foreign reserves will rise to cover 5.2 months of imports by year-end.
4. Cautious budget execution in the first 9 months of 2007 kept the non-oil primary deficit (NOPD) at 9 percent of non-oil GDP, marginally below the program target. However, the budget surplus did not reach its target, because oil revenue was below expectations. A sustained effort to raise non-oil revenue and strict expenditure management should allow the government to meet the 2007 budget target, which is to bring the NOPD down to 11.6 percent of non-oil GDP (from 18.0 percent in 2006). However, to achieve the fiscal objective and execute the social spending programs envisaged in the supplementary budget, the government recognizes the need to control fuel price subsidies.

5. Social pressures sparked by the sharp rise in diesel and gasoline prices last March and the recent hike in the prices of a few essential consumer goods, have compelled the government to act cautiously. In particular, since March the government has kept fuel prices unchanged, instead of applying the automatic price adjustment formula envisaged in the program. Consequently, with international prices continuously rising, subsidies reached CFAF 36.8 billion in the first nine months of the year, against a programmed CFAF 27.5 billion.

6. To address this problem, the government first revised the price structure in May so as to separate the fuel price subsidy from the support provided to the national refinery, SOGARA. That support will be removed from the price structure in 2008 and its rationale will be re-examined in April 2008, once the results of the refinery audit are available. Before end March 2008, the government will reflect the changes in oil product import prices since September 2007 in retail prices, as determined by the price adjustment formula. Then, the price adjustment formula will be applied monthly starting in April 2008. These measures should hold consumer subsidies to 1.25 percent of non-oil GDP in 2008, while support to SOGARA would amount to 0.55 percent of non-oil GDP. The government reiterates its commitment to meet the 2008 fiscal target for the NOPD (see ¶11), despite the delayed implementation of the fuel price adjustment formula, and stands ready to adjust spending for goods and services and non-social sector transfers payments as needed.

7. In September the government imposed temporary price controls on a small number of products for which prices had risen sharply. It is working with the companies concerned to identify the causes of these increases and intends to lift the controls before the end of 2007. Also, as part of the study of the economy's productivity, competitiveness, and diversification, to be completed by July 2008, the government will determine how best to encourage competition in protected sectors.

8. In 2007 the BEAC intervened to slow growth in the monetary aggregates in Gabon. In March it increased the reserve requirements for banks in Gabon from 7.75 percent to 10.25 percent on demand deposits, and from 5.75 percent to 8.25 percent on term deposits. The BEAC has also accepted remunerating deposits of commercial banks at 1.95 percent. As a result of these measures, annual growth in the money supply slowed to 12 percent in June.

9. Regarding program execution, all performance criteria for June and September were met (Table 1A), except for the application of the automatic adjustment formula for ex-refinery prices and the September ceiling on net bank credit to the government, for which the government is requesting waivers. All the structural benchmarks have also been implemented, though with some delays (Table 2). Quantitative performance criteria for March and June 2008 and the list of structural measures for the second review was updated (see Tables 1B and 2).

A. Macroeconomic Framework for 2008

10. Non-oil GDP real growth is forecast at 4.7 percent in 2008, driven primarily by forestry, wood industry, and services. Oil output is expected to rise by 2.4 percent as new fields come on stream. Average annual inflation should decline to 3 percent, which is the CEMAC convergence criterion. The balance of payments is expected to remain comfortably in surplus, thanks to sustained oil, mining, and forestry exports.

B. Fiscal Policy

11. Fiscal prudence is central to achieving sustainable growth and keeping the economy stable over the medium term. The government therefore reiterates its commitment to observe the fiscal adjustment path agreed under the medium-term program and bring the NOPD to its permanently sustainable level, estimated at 6 percent of non-oil GDP, by 2011; the objective for 2008 is to bring the NOPD to 10 percent of non-oil GDP. Non-oil revenue is expected to represent 25.1 percent of non-oil GDP in 2008, the same level as projected for 2007 but a marked improvement over 2005–06. The government also intends to gradually reduce the ratio of primary expenditure-to-non-oil GDP by keeping growth in the main spending items below nominal non-oil GDP growth. The wage bill will be capped at 10.6 percent of non-oil GDP through controls on staffing, revisions to nonwage benefits, and regular updating of payroll and civil service records. Budget allocations for the refinery, SOGARA, will be recorded separately from those earmarked for fuel price subsidies (see ¶6). The government also included a budget allocation of CFAF 2.2 billion for the National Health Insurance and Social Security Fund (CNAMGS), which was established in 2007. By April 2008 the government will have in place an action plan specifying costs, benefits, and sources of financing for the new scheme. Capital spending, including projects supported by development partners, will rise from 8.6 percent of non-oil GDP in 2007 to 9.4 percent in 2008.

12. Government revenues from the oil sector are expected to rise slightly in nominal terms but decline as a percentage of GDP. These revenues will not only make it possible to finance the non-oil budget deficit and service the debt but will also increase the government's financial assets, which is essential for financing the permanently sustainable deficit once oil revenues decline. The government will work with the BEAC to explore new approaches for enhancing the annual return on these savings, which is currently 3.45 percent.

C. Public Financial Management Reform

13. The government will continue to implement its public financial management reform. Budget coverage has already been extended to cover a larger share of government revenue and expenditure; revenue administration has been reinforced, particularly for oil; and government spending has been brought under tighter control. However, the reform program, which is ambitious, will require both continued government efforts and assistance from development partners.

Budget preparation and execution

14. With the 2008 budget exercise the government has improved coordination between the ministries of finance and planning in preparing the current and investment budgets. Cooperation with spending ministries has also been improved through the use of medium-term expenditure frameworks (MTEF) that reflect the objectives of the PRSP objectives for priority sectors while taking into account economic constraints. The 2008 budget contains allocations for education, health, agriculture, and public works based on priority action programs for each sector. Before the end of 2007, the government plans to finalize a comprehensive MTEF to be used in preparing the 2009 budget. The government has submitted to parliament a long-term debt sustainability analysis, which will be annexed to the 2008 budget law. Finally, only projects for which a feasibility study was prepared were included in the budget.

15. Efforts at increasing budget transparency continue. For the first time, estimates of tax spending broken down by individual taxes will be included in the 2008 budget documents submitted to Parliament, to show parliamentarians the cost of tax exemptions and special treatment. The economic and financial report also includes tables summarizing budget performance in 2005 and 2006 and estimates for 2007. The functional classification of all central government expenditures will be completed by the end of 2007 and used in the 2009 budget. The budget reporting system has been reinforced, and monthly budget execution reports will be available with a two-month lag by March 2008. The government has improved its cash management by introducing a new monthly cash management plan. Payment periods have been reduced from 90 to 60 days starting December 1, 2007.

Strengthening revenue administration and transparency

16. The government has submitted the new general tax code to Parliament for consideration in the current session. It brings together and clarifies tax obligations and procedures adopted in previous budget laws and in CEMAC/OHADA legislation. Furthermore, it regularizes the transfer of authority for tax collection to the tax administration. It also clarifies the rights and obligations of taxpayers.

17. With the assistance of an international consulting firm, the government is preparing a model for projecting and auditing oil revenues. The model is based on actual output and prices and on field-specific contract provisions. Use of the model will make it easier for the government to ensure that oil companies comply with their fiscal obligations. It will be tested on actual monthly oil production and prices for 2007; any significant discrepancy between the model's estimates and collected oil receipts will be investigated to ensure that all payments due to the government are recovered. In 2008, for the first time, the draft budget will include revenue and spending resulting from oil receipts that fund projects under provisions in a limited number of oil contracts—provisions for differentiated investments (PID) and provisions for investments in hydrocarbons (PIH). In a concerted effort to make oil and mining revenue more transparent, the government will also publish by year-end the EITI

report for 2006. The report will identify and explain discrepancies between oil payments received by the government and reported to the EITI and oil revenue recorded by the treasury. The government will also reconcile oil revenues received by the state and declared for the EITI with oil revenues recorded in the 2006 table of government financial operations. The Treasury will also continue its efforts to reduce the bank transaction costs associated with converting oil revenues from US dollars to CFA francs.

Enhancing the quality of public spending

18. To improve the efficiency and quality of public spending, the share of public procurement contracts that are awarded on a competitive basis was increased to 69 percent in the first half of 2007, well above the 50 percent target set for 2007. The General Directorate of Public Procurement posts on its web site all calls for bids and reports on contracts awarded. As planned, expenditures related to the Independence Day Celebration (*Fêtes tournantes*) followed budgetary procedures in 2007. Every project selected for the 2008 *Fêtes tournantes* will be identified in the budget on a separate budget line and executed according to budget procedures. Once Parliament has adopted the budget, the government will publish in the national press the list of projects selected for the 2008 *Fêtes tournantes* and their estimated costs.

D. Paris Club Debt Buyback

19. In July 2007 Paris Club creditors reached agreement in principle with the Gabonese government on early repayment of the debt, discounted by about 15 percent. This operation will reduce debt service and improve its profile. In September the eight creditors participating in the operation advised that all their claims would be eligible for buyback. Gabon will decide before end-December on how much it will buy back. The buyback is to be financed from the country's cash reserves, a bond issue on the regional market denominated in CFA francs, and a US dollar bond issue on the international market. The rating agencies have given Gabon's sovereign debt a credit rating of BB-. On December 5, 2007, the government successfully completed the first leg of the financing package by issuing a 10 year bullet bond on the international capital market with a coupon of 8.2 percent. The operation gives Gabon access to international capital markets for the first time and helps develop the regional financial market.

E. Growth-Enhancing Reforms and Other Issues

20. The recent dynamism of the non-oil private sector is encouraging, but significant structural reforms are needed to make it sustainable. A proper competitiveness study will identify the constraints—particularly the lack of infrastructure—that are now holding back non-oil sectors that have good potential for exports and job creation. The government will work with the private sector to discuss a broad framework for implementing and monitoring measures to enhance the productivity and diversification of the Gabonese economy.

21. The privatization agenda is moving forward. The procedure for divesting the government of its majority ownership in Gabon Telecom will be concluded shortly. A recent audit showing heavy losses for Gabon Telecom in 2006 was attached to the draft 2008 budget law submitted to parliament, and will be published on the website of the Ministry of Economy and Finance. The government also reached agreement with the Gabon Electricity and Water Corporation, SEEG, on how to respond to the financial difficulties it incurred in 2007 because of an abrupt increase in electricity generating costs that the pricing formula did not adequately accommodate. An ad hoc commission has been established with a mandate to find a solution this year to the problems with the concession, including the tariff adjustment formula and the financing of investments needed to meet rapidly growing demand. With regard to other sectors, a foreign company has been granted a 25-year concession to improve operations in Gabon's two major ports. The government also expects that the reforms it has made in the forestry sector, in particular the easing of restrictions on exports of okoumé logs, will result in more robust activity and exports.

22. The government will support the work of the regional banking supervisors to ensure that banks observe prudential ratios. It will also work with other governments in the CEMAC to pursue establishment of a regional treasury bill market. Such a market would offer banks better liquidity management opportunities and would give the BEAC a market-based instrument to manage monetary policy.

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

Sincerely yours,

/sgd/

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

Table 1A. Gabon: Quantitative Performance Criteria under the SBA 2007–10

(Billions of CFA francs; end-period data; cumulative flows from January 1st)¹

	2006							
	Dec. Prel.	Jun.			Sep.			Dec. Prog.
		Prog.	Adj.	Actual	Prog.	Adj.	Actual	
Performance criteria								
Floor on the primary fiscal balance, excluding oil revenue and restructuring costs (on a payments order basis) ²	-435.8	-150.4	-162.2	-121.4	-246.5	-255.9	-243.5	-314.1
Ceiling on the net claims of the banking system on the central government ³	-39.6	-112.8	-56.7	-62.8	-106.0	-67.7	-23.9	-191.1
Ceiling on the contracting or guaranteeing of new external debt by the central government ⁴	164.5	140.0	140.0	64.1	155.0	155.0	81.2	165.2
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
Ceiling on the accumulation of new payment arrears on domestic liabilities by the central government	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items								
Foreign financed projects	63.3	21.0		32.9	30.7		40.1	42.6
Non-project external financing	14.5	0.0		0.0	0.0		0.0	0.0
Oil revenue	1,012.9	463.9		418.7	685.8		667.1	938.0
Privatization receipts	0.0	19.0		13.0	19.0		13.0	19.0
External debt service payments (excluding IMF)	324.6	172.1		165.4	273.4		269.8	327.2
Domestic debt service payments	107.9	91.2		94.4	126.9		138.3	163.0
Public enterprises restructuring costs	39.8	12.9		13.8	17.1		20.3	22.5
Net change in unpaid payment orders at the treasury	-27.8	-10.5		-4.0	-15.8		-13.0	-21.0
Change in outstanding wage arrears (<i>rappels de solde</i>)	-20.6	-10.0		-9.3	-15.0		-17.9	-20.0
Banks' purchases of outstanding government domestic debt (<i>rachat de créances</i>)	0.0		14.8	0.0		8.8	0.0

Sources: Gabonese authorities and IMF staff estimates and projections.

¹ Indicative target for March, 2007. Targets for June, September and December are performance criteria for the Stand-by Arrangement. Detailed definitions of the performance criteria are provided in the Technical Memorandum of Understanding.

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

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

⁴ This performance criterion applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the IMF Executive Board on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. The performance criterion will be adjusted upward to include external loans contracted during a debt buyback that could be concluded with Gabon's bilateral external creditors.

⁵ The non-accumulation of new external payments arrears will constitute a continuous performance criterion.

Table 1B. Gabon: 2008 Quantitative Performance Criteria and Indicative Targets under the SBA

(Billions of CFA francs; end-period data; cumulative flows from January 1st) ¹

	2007 Dec. Proj.	2008			
		Mar. Prog.	Jun. Prog.	Sep. Indicative	Dec.
Performance criteria					
Floor on the primary fiscal balance, excluding oil revenue and restructuring costs (on a payments order basis) ²	-311.4	-68.9	-117.5	-199.1	-292.6
Ceiling on the net claims of the banking system on the central government ³	-199.8	-260.2	-385.1	-446.7	-569.4
Ceiling on the contracting or guaranteeing of new external debt by the central government ⁴	130.8	190.3	247.7	277.2	277.2
Ceiling on the accumulation of external payments arrears by the central government ⁵	0.0	0.0	0.0	0.0	0.0
Ceiling on the accumulation of new payment arrears on domestic liabilities by the central government	0.0	0.0	0.0	0.0	0.0
Memorandum items					
Foreign financed projects	42.6	19.4	32.2	43.4	68.0
Non-project external financing	0.0	0.0	0.0	0.0	0.0
Oil revenue	1,005.5	268.3	532.0	786.5	1,075.7
Privatization receipts	13.0	0.0	0.0	0.0	0.0
External debt service payments (excluding IMF)	332.3	91.6	167.3	263.8	335.1
Domestic debt service payments	165.9	25.1	47.5	68.7	90.0
Public enterprises restructuring costs	-22.5	2.6	5.2	7.7	10.3
Net change in unpaid payment orders at the treasury	-26.0	-34.1	-31.4	-28.7	-26.0
Change in outstanding wage arrears (<i>rappels de solde</i>)	-20.6	-5.0	-10.0	-15.0	-20.0
Banks' purchases of outstanding government domestic debt (<i>rachat de créances</i>)	0.0	0.0	0.0	0.0

Sources: Gabonese authorities and IMF staff estimates and projections.

¹ Performance criteria for March and June, indicative objective for September and December. Detailed definitions of the performance criteria are provided in the Technical Memorandum of Understanding.

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

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

⁴ This performance criterion applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the IMF Executive Board on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. The performance criterion will be adjusted upward to include external loans contracted during a debt buyback that could be concluded with Gabon's bilateral external creditors.

⁵ The non-accumulation of new external payments arrears will constitute a continuous performance criterion.

Table 2. Gabon—Structural Measures Programmed for 2007 and 2008

Test date	Actions	Current situation	PC or Benchmark
	Apply the automatic adjustment formula to ex-refinery fuel product prices to reflect changes in international prices.	Not observed	Continuous PC
	Subject all 2007 capital spending for the <i>fêtes tournantes</i> to regular budgetary procedures.	Observed	Continuous PC
September 15	Strengthen cash management by establishing an annual treasury plan.	Observed	PC
June 2007	Prepare a compilation of all tax expenditures.	Observed	Benchmark
September 15	Submit to parliament a new tax code, incorporating all the modifications made in recent years.	Observed	Benchmark
June 2007	Publish the names of all government officials who have not complied with the asset disclosure requirement by end-April 2007.	Observed	Benchmark
June 2007	Disseminate key documents of general public interest by posting on the Ministry of Finance website (i) the 2004, 2005, and 2006 supplementary budgets, (ii) the reports of the Audit Court (<i>Cour des comptes</i>) on budget execution in 2003 and 2004, (iii) the reports on the audit of the <i>fêtes tournantes</i> and the arrears of the Road Maintenance Fund (FER) prepared in 2005, and (iv) the annual reports for the CNLCEI for 2005 and 2006.	Observed	Benchmark
June 2007	Adopt a new CPI with weights based on the 2005 household expenditure survey.	Observed	Benchmark

Test date	Actions	Current situation	PC or Benchmark
Second review			
December 2007	Present to parliament a 2008 budget that includes in the accompanying economic and financial report, (i) summary budget execution reports for 2005-06 and estimates for 2007; and (ii) an annex with estimates of all tax expenditures by type of taxes.		PC
February 2008	Make operational the oil-revenue projection model that links oil revenue to production, prices, costs, and physical parameters on a contract-by-contract basis, apply it to evaluate oil revenue payments collected by the Treasury in 2007, and identify reasons for discrepancies in realized oil revenues.		PC
March 2008	Adjust ex-refinery fuel product prices to reflect the changes in import parity prices, as calculated for the purpose of the automatic adjustment formula, since September 2007.		PC
	Starting in April 2008, apply each month the automatic adjustment formula to ex-refinery fuel product prices to reflect changes in international prices.		Continuous PC
December 2007	Publish the list of projects under the 2008 <i>fêtes tournantes</i> in the national press.		Benchmark
December 2007	Prepare a comprehensive government asset and liability management strategy.		Benchmark
December 2007	Develop a three-year, rolling medium-term expenditure framework including consistent sectoral programs for 2008-10.		Benchmark
December 2007	Reduce the Treasury payment period to 60 days and announce it on the Treasury website.		Benchmark
December 2007	Prepare monthly budget execution reports with a maximum lag of two months.		Benchmark
December 2007	Reduce the proportion of government procurement contracts awarded on a single-source basis on exceptional grounds to below 50 percent of the total value of contracts submitted to the public procurement office.		Benchmark
December 2007	Publish the Official Gazette on the Internet.		Benchmark
April 2008	<i>Complete the audit of SOGARA.</i> ¹		Benchmark
April 2008	<i>Prepare an action plan and a cost estimate for implementing the health insurance and social security system.</i> ¹		Benchmark

¹New benchmark.