

Letter of Intent

November 28, 2019

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, DC
USA

Subject: **Letter of Intent on Economic and Financial Policies**

Dear Madam Managing Director:

The attached Memorandum of Economic and Financial Policies (MEFP) describes the progress made in recent months toward the objectives laid out in our program supported by the three-year arrangement under the Extended Fund Facility (EFF). The memorandum also updates the previous MEFP and highlights the policy steps to be taken in the period ahead.

We have made important progress in implementing the program, although performance during the last three months of 2018 was mixed.

Since then, however, we have taken all the measures necessary to enable the satisfactory implementation of the program. Accordingly, we have met our end-June 2019 objectives with regard to tax revenue and the non-oil primary deficit. Unfortunately, we were unable to achieve our objectives on the central bank and banking system net credit to the government, due mainly to difficulties encountered early in the year in the issuance of securities on the regional market. During the year, we have been able to mobilize the necessary resources on the regional market, which should allow us to meet our objectives for end-December 2019.

In addition, we accumulated external arrears in early 2019. Yet in view of the measures taken by the government, we have been current in our external debt service payments since April 2019 (apart from some technical arrears which were promptly resolved). Moreover, we have fully cleared the existing arrears on external debt. Finally, notwithstanding our efforts, we have not achieved our objectives in regard to social spending and payment of domestic arrears. We remain determined to take—and are currently taking—corrective measures necessary to achieve our objectives for end-December 2019.

We have also implemented all the structural benchmarks, except the one for EITI membership, which we have asked to defer until end-March 2020, in order to allow effective participation and collaboration among all stakeholders, including civil society.

Economic activity has rebounded, with growth expected to reach 3.4 percent this year, compared with 0.8 percent in 2018, mainly due to good performance in the oil, mining, public construction, and timber sectors. The recovery is projected to strengthen in 2020, and the medium-term outlook remains favorable, with non-oil growth expected to exceed 5 percent by 2022. Fiscal performance at end-June 2019 was better than anticipated, as a result of cuts in expenditure. The non-oil budget deficit is expected to decline gradually from 4.6 percent of GDP this year to 4.2 percent of GDP in 2020, and to nearly 3 percent in the medium term. The external current account position has improved, and public debt has declined by almost 2 percentage points of GDP.

This performance is encouraging. However, growth remains low and major efforts are still needed regarding the social sector. We have decided to redouble our efforts to consolidate the stabilization of the economy and generate stronger, sustainable and more inclusive growth. Accordingly, in the context of the program, we will continue to implement a series of far-reaching macroeconomic and structural reform measures, particularly in the areas of economic governance and public financial management, in order to enhance domestic revenue mobilization, improve fiscal efficiency and management, and promote a business environment that is more attractive and conducive to private investment.

The program will continue to be monitored through quantitative performance criteria, structural benchmarks, and indicative targets as described in the Technical Memorandum of Understanding (Attachment II). Based on the corrective measures already implemented, those in progress, and the policies described in the MEFP, we are seeking a waiver for non-observance of the two performance criteria for June 2019 that were not observed as well as the continuous performance criteria on the non-accumulation of new external arrears, and requesting completion of the fourth and fifth reviews under the Extended Arrangement and rephasing of the remaining purchases (Attachment III).

We remain confident that the policies described in the current and previous MEFPs are adequate to achieve the program objectives. We stand ready to take additional measures should they be needed to meet the objectives of the economic program, and we will consult with the IMF in advance of any necessary revisions to the policies contained in this letter and attached memorandum, in line with Fund policies on such matters. We will provide Fund staff with all the data and information needed to assess our policies, particularly those mentioned in the Technical Memorandum of Understanding.

The government authorizes the Fund to publish this Letter of Intent, the Memorandum of Economic and Financial Policies for 2019–20, the Technical Memorandum of Understanding, and the

forthcoming IMF Staff Report for the fourth and fifth reviews of the Extended Arrangement.

Sincerely yours,

/s/

Roger Owono Mba
Minister of Economy

Attachments (3):

1. Memorandum of Economic and Financial Policies
2. Technical Memorandum of Understanding
3. Schedule of Purchases and Timing of Reviews Under the Extended Arrangement, 2019–20

Attachment I. Memorandum of Economic and Financial Policies

November 28, 2019

This memorandum describes recent economic developments, presents the Government's policy priorities as part of its program supported by three-year arrangement under the IMF's Extended Fund Facility (EFF), and specifies economic and structural policy objectives.

A. Recent Developments and Economic Outlook

1. Macroeconomic performance continues to improve. Economic activity has picked up, with a growth rate expected to reach 3.4 percent this year compared to 0.8 percent in 2018, mainly due to strong performance in the oil, mining, and timber sectors. Growth in oil production could be around 15 percent in 2019, compared with around 5 percent initially forecasted, thanks to the performance of new oil fields and the absence of operational malfunctions during the year. In the non-oil sector, growth is projected at 2.5 percent compared to 1.8 percent in 2018. The non-oil budget deficit declined from 9.6 percent in 2017 to 7.6 percent in 2018, reflecting both improved domestic revenue collection and better control of current spending. During the same period, the external current account improved by more than 3.5 percentage points of GDP and public debt declined from 62.6 to 60.6 percent of GDP. The government has cleared the entire stock of external debt arrears and has not accumulated new external arrears for the last eight months apart from some technical arrears which were promptly resolved.

2. The economic and financial outlook is encouraging. The continued good performance in the mining sector and the beginning of the production phase of OLAM's agricultural activities should lead to a gradual increase in non-oil growth to 4 percent in 2020 and to above 5 percent in the medium term. Investments in the oil sector, encouraged by the new oil code and recent discoveries of new offshore reserves, will help to slow the decline in oil production due to the obsolescence of mature wells. Under these conditions, overall growth is expected to gradually increase to more than 4.5 percent in the medium term.

3. The economic outlook is subject to upside and downside risks. Downside risks include a slowdown in fiscal consolidation in Gabon or other CEMAC member countries and a lower global growth. However, there are also upside risks, particularly related to the high volume of foreign direct investment in the oil and non-oil sector. The renewed investment effort in infrastructure and agricultural and forestry projects, which are largely rural and labor-intensive, could also generate positive spillovers. However, this potential will depend largely on reforms aimed at improving the business climate. The same applies to expected developments in the industrial fishing sector.

B. Fiscal Policy

4. Fiscal performance as of end-June was generally satisfactory. Revenues were slightly higher than projected due to both strong oil and non-oil revenues. Expenditure was lower than expected thanks to efforts to streamline the wage bill and to control transfers and subsidies. There was also under-execution in terms of capital expenditure. Finally, special accounts-related spending was higher than anticipated due to the delays in reforming public agencies and entities.

5. We are committed to take all necessary measures to limit the end-2019 non-oil primary deficit to 4.6 percent of non-oil GDP, in line with the program. To achieve this, we will continue to mobilize domestic revenues, particularly through addressing exemptions and earmarked revenues, as well as continue to control spending on special accounts and net lending. In view of the frontloading in domestically-financed capital expenditure and the overrun in net lending, we remain committed to applying the reserve mechanism adopted in the context of the 2019 budget (which makes unavailable about one quarter of the budget appropriation) and the budgetary regulation mechanism put in place since April 2019 with the IMF support, in order to meet the floor of the non-oil primary deficit agreed in the program.

6. The level of non-oil revenues is expected to remain relatively unchanged at 17.1 percent of non-oil GDP. To achieve this objective, we have initiated several reforms, including (i) clearing expired custom suspensive procedures; (ii) updating the list of products included in the cost-of-living scheme by removing several items; (iii) enforcing existing measures on manganese taxation and excise duties; (iv) identifying tax arrears to be recovered and their effective collection; (v) rationalization of the advantages using special custom procedures such as deferred payment bond of (e.g., *credit d'enlèvement*). These efforts will continue, particularly with the implementation of Sydonia World; improvements in the quality and frequency of corporate tax audits; and the strengthening of internal and external audits, including through the conduct of internal audits by the Inspectorate-General of Services and further digitalization of procedures. In addition, by end-2019 the government will draw up a list of the current exemptions (**new proposed benchmark at end-December 2019**), specifying their legal basis and fiscal impact.

7. Efforts to reduce current spending will continue. Current spending is projected at 15.7 percent of non-oil GDP in 2019.

- The wage bill will be maintained at around 10 percent of non-oil GDP. We will continue (i) the physical monitoring of civil servants as well as enforcing retirement for those who have reached the legal age, (ii) the freezing of recruitment with the exception of the education, health and security sectors, and (iv) the clean-up of the payroll records.
- Expenditures on goods and services will be maintained at 2.4 percent of non-oil GDP thanks to continued streamlining efforts, including: (i) the strict supervision of government officials' foreign missions; (ii) the streamlining of administrative lease related expenditure; and (iii) the close monitoring of departments expenditure related to utilities.

- Regarding transfer and subsidies expenditures, efforts will continue to focus on (i) revising the criteria for granting scholarships; (ii) establishing a unit responsible for the financial supervision of public institutions and agencies; (iii) continuing the merging and elimination of public entities (fourteen structures eliminated in 2019); and (iv) monitoring government transfers to agencies through the establishment of performance contracts. Finally, a draft law on harmonizing the status of public institutions will be submitted to Parliament (**prior action**).

8. Capital expenditure is revised downwards to 4.7 percent of non-oil GDP (compared to 5.4 percent in the program) in 2019. This reflects the relatively low execution rate observed during the first six months of the year. The June 2019 PIMA identified the main shortcomings of the public investment management system. The Government agrees with the conclusions of this assessment and is committed to implementing its recommendations.

9. We continue to experience difficulties in controlling expenditures on special accounts and net lending. Contrary to our expectations, the balance of the special accounts will still be in deficit this year, reaching CFAF 40 billion, or about 0.6 percent of non-oil GDP. Net lending, particularly to the SOGARA refinery, will increase to CFAF 40 billion, compared with an initial target of CFAF 28 billion.

10. At 1.7 percent of GDP, the overall fiscal surplus will be slightly higher than expected. Oil revenues are expected to be higher, mainly due to increased oil production and the appreciation of the U.S. dollar. With the continuation of our previously-validated Domestic Arrears Clearance Strategy, the financing requirement of CFAF 780 billion will be mostly financed by security issuance (CFAF 168 billion) and budget support from partners including the World Bank (CFAF 115.1 billion), the AfDB (CFAF 131.2 billion), and the French Development Agency (CFAF 49.2 billion).

2020 Budget

11. Fiscal adjustment will continue in 2020, by deepening reforms initiated in 2019 and introducing new measures. The objective is to reduce the non-oil primary deficit to 4.2 percent of non-oil GDP, an adjustment of 0.4 percentage points compared to 2019.

12. Increase revenue collection. Oil revenues are expected to decline due to the contraction in oil production and prices. Tax revenues will increase by 1 percentage point of non-oil GDP. However, due to the decline in non-tax revenues, overall non-oil revenues are expected to increase by only 0.2 percentage points of non-oil GDP. To achieve this objective, revenue mobilization efforts will focus on tax and customs exemptions. Actions will be taken to reduce inefficient and unjustified special regimes and exemptions and to optimize other measures. In this regard, the Government commits to:

- Setting up a tax policy unit (TPU) within the Ministry of Economy and Finance responsible for strategic thinking on all types of revenues. The TPU will be responsible for the annual production and updating of the list of exemptions and assessing their relevance and

effectiveness. Based on their findings, the TPU will provide the Minister of Finance recommendations to optimize and develop the tax system in Gabon;

- Amending the law establishing the "Tax and Customs Advantages Commission"¹ in order to extend its jurisdiction to cover any requests for a derogation or exemption on all types of public contracts and tenders (e.g., PPPs) regardless of the method of award (e.g., direct tender) and ensure the enforcement of its decisions. The Government will therefore circulate a notice in the press for the attention of the public and contracting companies.

13. In addition to these reforms, additional measures will be implemented in 2020 to strengthen mobilization of non-oil revenues. This includes:

- Continued efforts to clear suspensive regimes (temporary admission regimes, fictitious warehouses);
- Continued modernization and roll-out of e@Tax and ASYCUDA World;
- Strengthening the capacity of tax and customs administrations to facilitate and systematize controls, particularly on products benefiting from exemptions;
- The effective general roll-out of the special hydrocarbon warehouse;
- The gradual elimination of the deferred payment bond (*crédit d'enlèvement*) (the target to fully eliminate it is 2021);
- The launching of several studies that could pave the way for reforms of the tax and customs system. These include: (i) the assessment of the impact of the reduced corporate tax rate (25 percent instead of 30 percent) on the housing and tourism sectors and the need to change its collection system (to be conducted by the Directorate General for the Economy and Tax Policy); (ii) the harmonization of the different VAT rates currently applied in Gabon; (iii) the clarification between *ad valorem* taxation and specific taxation according to the type of products; and (iv) the implementation of the alternative property tax (*contribution foncière unique*) as recommended by the IMF's June 2019 technical assistance (TA) mission.

14. Continue to streamline current spending. Current spending is expected to decrease by about 1.1 percentage points of non-oil GDP mainly due to the decline in the wage bill (0.8 percentage points of non-oil GDP). Ongoing measures to reduce the wage bill will continue, in particular the cleaning-up of the civil servants' payroll following the biometric census, and the intensification of monitoring and streamlining of public agencies through the roll-out of the dedicated monitoring unit. Expenditure on goods and services will decrease by 0.2 percentage points of non-oil GDP and transfers and subsidies by 0.4 percentage points of non-oil GDP.

¹Order No. 14-38 of September 8, 2008.

15. In line with our objectives, we plan to increase capital expenditure by almost FCFA 200 billion (more than two percentage points of non-oil GDP). This will be done in parallel with the improvement in the quality of the projects selected in the 2020 budget law. To achieve this, we are committed to implementing the recommendations of the IMF PIMA mission to strengthen public investment management. A Public Investment Program (PIP) will be prepared presenting (i) a comprehensive overview of investment projects (including in the form of public-private partnerships), (ii) their related financing (domestic or FINEX), and (iii) their implementation status and programming over the coming years **(new proposed structural benchmark for end-April 2020)**. Efforts will also be made to renew the Public Investment Management (PIM) framework and the legal framework for public procurement. Lastly, we will continue to systematically prepare cost-benefit analyses for all investment projects budgeted at over FCFA 20 billion.

16. Exhaustive identification of earmarked revenues not yet included in the State budget will continue with AFRITAC Central's support. This includes better management of special accounts and the elimination of earmarked revenues that do not comply with legal provisions (structural benchmark as of end-October 2019) in accordance with the provisions of Law 20/2014 (LOLFEB). The above-mentioned identified earmarked revenues will be fully transferred to and recorded in the general State budget as revenue, as already set out in the 2020 draft budget law for the next fiscal year. In addition, the elimination and/or merging of several specialized public agencies should help increase transparency of earmarked revenues and reduce their scope. Finally, the Government will work with IMF staff to improve the recording and monitoring of the special accounts revenues and expenditures as well as that of earmarked revenues in the TOFE.

17. The expenditure adjustment mechanism introduced in 2019 will be maintained in the 2020 draft budget law. A reserve will be implemented on appropriated expenditure by the budget law according to the following rates: 20 percent for expenditures on goods and services, 15 percent for transfer expenditures, 16 percent for capital expenditures, and 10 percent for other expenditures. These funds shall be made unavailable until they are released. The Government will exempt social expenditures identified under the IMF program of this mechanism.

18. Efforts to mobilize funding sources will be strengthened in 2020. Efforts to recover outstanding tax arrears will intensify. Additionally, the planned issuances on the regional financial market included in the draft budget law (amounting to CFAF 150 billion) and the asset sales (amounting to CFAF 50 billion) may be mobilized on a contingent basis to meet financing needs.

19. A 2020 draft budget law in line with the Government's commitments under the program will be submitted to the Parliament before the conclusion of the Fifth Review (prior action). It will incorporate all the budgetary targets and measures set by the program.

20. Returning to a near fiscal balance and then to a surplus remains our medium-term objective. The cash-based fiscal balance is expected to turn positive as early as 2019 and stabilize at around 1.4 percent of GDP over the medium term. This gradual improvement in the budgetary position will make it possible to reduce the public debt level to below 45 percent of GDP in the medium term.

C. Arrears Management

21. The clearance strategy for existing arrears is maintained. We have fully cleared the stock of external arrears related to non-guaranteed commercial foreign debt since the end of the first quarter of 2019. VAT domestic arrears will be cleared regularly until 2021. The remaining exceptional Treasury budgetary float will be paid as planned in 2019, and the accumulation of new budgetary float in 2019 will remain limited to 15 percent of total expenditures on goods and services, transfers, and domestically-financed investment. Payment to the “Libreville Club” creditors will continue in accordance with the agreed arrears clearance plan: the arrears were consolidated to FCFA 285.7 billion, repayable over 62 months, and the Government agreed to pay FCFA 5 billion to the “Libreville Club” each month. Eight payments totaling FCFA 40 billion have been made so far in 2019.

22. The monitoring of arrears continues to improve. Since June, payment terms have been closely monitored thanks to the activation of dedicated modules and alert procedures in VECTIS and e-BOP. The report on the changes and composition of the stock of unpaid arrears for the second quarter of 2019 was published in October.

23. The government will develop a new clearance strategy for the remainder domestic arrears that is conducive to economic growth. The clearance plan will be based on the independent (PriceWaterhouse Coopers) audit report on State and public institutions’ arrears incurred in 2015, 2016, and 2017. The plan will seek to maximize the impact of arrears clearance on growth and poverty. The Government will, if necessary, seek the assistance of the IMF in preparing the clearance plan. Special attention will be paid to small and medium-sized enterprises (SMEs). In this regard, efforts will be made to clear debts below FCFA 100 million, totaling an estimated FCFA 8 billion by mid-December 2019. Based on the findings of the final report and assessments made by the government, some larger claims will be subject to on-site service checks, accounting adjustments, hearings, and legal protocol formalization. These steps will start in November 2019. Overall, the clearance strategy will focus on the following criteria: the degree of labor intensity (agriculture, public works, etc.); the potential of the sector (McKinsey study); the existence or not of bank indebtedness; position vis-à-vis the tax and social administration.

24. The development of the cash flow plan and its coordination with debt management will be strengthened. The government has received IMF TA to improve cash management in relation to debt management. The government is committed to implementing the recommendations made, in particular to ensure regular updating of the monthly cash flow plan and to mobilize the most appropriate instruments to cover deficits in a proactive manner. This includes strengthening the expenditure adjustment mechanism, in place since April 2019.

D. Cash Management

25. The implementation of the treasury single account (TSA) remains a priority for 2020, in order to enhance the transparency and efficiency of cash management. The government

commits to continue closing public accounts outside the TSA, particularly those that could not be identified previously, and to not open new ones. The closure of these accounts and the transfer of their balances should be effective by the end-February 2020. A regular review will be carried out on the repayments due by CDC to the public treasury and consideration will be given to optimizing the operation of the TSA (e.g., VAT escrow account, creation of an escrow account for the CNAMGS etc.).

26. It is necessary to optimize the government's cash management mechanisms through the establishment of an official and operational Treasury Committee. The government thus commits to issue a decree to renew the way the Treasury Committee operates (**new proposed structural benchmark for end-January 2020**) in line with the recommendations of the IMF's TA mission of November 2018 and to implement its provisions: weekly meetings for the technical committee and monthly for the steering committee. This body will ensure coordination between the Debt (DGD) and the Treasury (DGCPT) Departments. A weekly meeting between the Budget and Treasury departments will be set up in parallel (or within the Treasury Committee) in order to regulate the pace of commitments execution in relation to the available cash.

E. Other Structural Public Financial Management Reforms

27. Efforts to strengthen controls in budget implementation will be further developed at central, local, and public entities levels. The work carried out since the beginning of the program with the Fund has made it possible to systematically issue purchase orders when expenses are incurred, both at the central (via VECTIS) and provincial (via E-BOP) levels. This important step ensures tighter control over the implementation of expenditure to reduce the use of exemption procedures and thus reduce the creation of arrears. The next step is to implement the same type of controls in public entities and institutions, particularly to better control the special accounts expenditures. The Government reiterates its commitment to effectively implement these enhanced controls in the relevant structures by end-2019. Finally, efforts to document budgetary and accounting procedures will continue through the updating of existing procedure manuals (in terms of revenue and expenditure) and the preparation of new manuals.

28. The Government reiterates its commitment to improve the transparency of public finances. We are committed to further improving the transparency of the management of oil and mining revenues. In this regard, the government will intensify its efforts to submit the country's application to the Extractive Industries Transparency Initiative (EITI) (**structural benchmark for end-September 2019 proposed to be reset to end-March 2020**). However, this submission will take time given the need to ensure an effective and fruitful dialogue with civil society. In the meantime, the Ministry of Finance will transmit to the BEAC all the contracts signed with the mining and oil companies (**new proposed structural benchmark for end-December 2019**). We will ensure that these contracts/conventions are compatible with the regional foreign exchange regulations. The government prepared a report on the situation of oil and mining assets in September 2019, which presents an estimate of the volume and value of the main natural resource assets as well as an estimate of the volume and value of their sales and budget revenues for the previous year (structural

benchmark as at end-June 2019). We will continue publishing a bi-annual report on total production and revenues from the oil and mining sectors.

29. Improvements in the financial supervision of public companies and state operators will be consolidated and sustained. Thanks to the new monitoring unit for public entities, regular audits will be carried out and the budgetary and financial information of public entities will be consolidated. The unit will produce a report after these audits, which will be published. Finally, the unit will be responsible for drafting the annex relating to public institutions and entities in the budget law. Additionally, a dashboard presenting all the government's holdings will be prepared and published.

30. The government intends to continue its efforts to modernize and improve the functioning of the financial reporting information system. These efforts aimed at (1) mainstreaming the use of the VECTIS information system (including for public agencies), ensuring that all expenditures are tracked, and all necessary checks are performed; (2) continuing the roll-out of revenue reporting information systems (e.g. e@Tax); and (3) ensuring automatic interfacing between the different systems. For this purpose, a ministerial IT master plan will be prepared. The government will carry out an assessment of existing systems in order to identify current weaknesses and areas for improvement, and to develop an action plan to strengthen the system.

31. The government is committed to continuing its efforts to improve accountability and reflect a fair picture of the financial situation of the public sector as a whole. The government thus pledges to implement the recommendations of the AFRITAC mission of September 2019 on the clearance of suspense and temporary accounts, to extend this work to remaining years, and to put in place mechanisms to ensure that accounts are cleared on time. It is also committed to produce and transmit annual fiscal reports for the previous year within the deadlines prescribed by the LOLFEB.

32. The government will strengthen the medium-term debt reduction strategy to help address debt servicing and refinancing risks. The government will aim to improve the institutional framework for public debt management, including by relaunching the project to create a National Public Debt Committee (CNDP) to coordinate debt activities and put in place a medium-term debt strategy. To mitigate interest rate risks, preference will be given to fixed interest rates for new commitments and the variable rate debt portfolio will be reviewed with a view to move from a variable rate to a fixed rate when the loan agreement permits. Next year's planned Eurobond issuance will mainly be used for debt smoothing operations to reduce refinancing risks. The use of additional amounts will only be considered after a rigorous cost-benefit analysis and confirmation that it remains consistent with planned fiscal adjustment.

F. Social Sector Policies

33. The government is committed to enhancing its efforts to improve the predictability and quality of social expenditure. The rate of social expenditure execution highlights a number of weaknesses that are mainly explained by the constraints in initiating the bidding process in

connection with the school construction program, the regulation during the budget execution phase, and the reserve mechanism which made unavailable about one quarter of the social spending appropriated budget as a buffer during execution phase. Moreover, a significant portion of the scholarships are only due to the students during the last quarter of the fiscal year. As a result, as of end-June 2019, the implementation rate for social expenditure stood at 37 percent of the appropriated 2019 budget. Despite a difficult budgetary context, the government remains committed to strengthening the programming and monitoring of this type of expenditure. The government has thus proceeded with a more exhaustive definition of the scope of social spending. The following are now taken into account: (i) social benefits and pensions for public officials, (ii) subsidies on domestic butane gas for cooking and lighting; (iii) costs of the electrification program and water installations for rural areas without access to the public water and electricity grid, (iv) burial and hospital charges for the poor; (v) support for transportation costs.

34. Additionally, the government will improve the targeting of poor and vulnerable populations and the monitoring of social spending. To this end, the government will rely on Law No. 001/2018 of September 18, which provides for a better definition of its social protection program (Gabonais Economiquements Faibles, or GEF) and the new poverty profile derived from the 2017 Gabonese Poverty Assessment Survey (EGEP). In this regard, the government hopes to simplify the system of current social safety nets, optimize the use of resources allocated to social policies, and provide a systemic and tailored response to the different facets of poverty and vulnerability. The government is committed to formalizing the creation of a GEF commission dedicated to formulating legislation to reduce inclusion errors and, above all, a clear roadmap indicating steps, timelines, necessary resources and responsibilities. Finally, in order to improve the monitoring of social expenditure in the future, the government will implement the functional classification according to the classification of the functions of government (COFOG) standards.

G. Financial Sector

35. We are committed to clearing nonperforming loans and urgently conducting the needed reforms to facilitate access to credit. The strategy and action plan to reduce overdue loans were finalized on March 31, 2019 (structural benchmark for end-March 2019). However, the implementation of this plan has been delayed, both in terms of clearing government arrears and, hence, reducing NPLs, and advancing reforms to improve the judiciary system and lending environment. The Government will (i) immediately appoint a coordinator for the action plan to reduce overdue loans and as well as a contact for the “Libreville Club” and for the domestic arrears repayment strategy, (ii) clear the “Libreville Club” arrears, (iii) establish the strategy for the repayment of domestic arrears with the assistance of the IMF (by February 2020), and (iv) make the Commercial Court of Libreville effective (rehabilitation, equipment, training); and (v) give priority to promote the training of judges and clerks specialized in bank disputes.

36. We are determined to ensure that the liquidation of public banks and the BICIG transaction be carried out at the lowest possible cost to Gabonese taxpayers. By order of the Prime Minister dated March 4, 2019, the authorities created a committee to support liquidators

(structural benchmark as at end-January 2019). The committee has started meeting to the satisfaction of the liquidators and the FOGADAC Deposit Guarantee Fund has already initiated a procedure for the repayment of depositors for one of the three banks. However, the sale of assets is progressing slowly. In order to minimize the fiscal cost of the liquidations, the three liquidators of the public banks are invited to pursue tirelessly the loan collection with the debtors of these entities for the recovery of the debts and this, by all the means at their disposal, including the legal proceedings and the publication of the exhaustive list of uncooperative debtors. The government reiterates its support to the independent liquidators in the pursuit of their mission. In order to guarantee the success of the sale of the temporary holding of a non-strategic participation in BICIG, as authorized by COBAC, and to avoid weighing on budget resources, the authorities hired an international consultant to identify a buyer and will conclude the acquisition of bank shares as soon as their sale has been secured.

H. Promotion of the Private Sector

37. The government renews its commitment to implementing structural and institutional reforms to promote private-sector-led growth.

- In this context, the Government has recently drafted a law on the organization of justice. This law creates the commerce courts, and their staffing and special training. The same is true of the law on the organization of the Gabon's court of justice and a new penal code. The latter, which was adopted in 2019, takes into account all new forms of crime, particularly in the areas of finance, terrorism and the environment. It should also be noted that the Trade Register (RCCM) is being reinvigorated and modernized.
- Further actions focus on the regulatory and structural framework on the one hand, and the institutions on the other. These various reforms pursue the following objectives:
 - (i) Optimization of commercial justice in order to better secure investors and investments;
 - (ii) Reinforcement of investor support; (iii) Improvement of the investment framework
 - (iv) Reform of the national vocational training and employment framework (v) Optimization and streamlining of the tax and parafiscal framework; (vi) Strengthening the sectoral competitiveness.
- With regard to regulatory and structural reforms, the current system will be completed by 2020 with an investment code and a national investment promotion strategy.
- Institutional reforms consist of continuing the operationalization and strengthening of the performance of the National Agency for Investment Promotion (ANPI), the support unit for public-private partnerships, as well as the special economic zone of NKOK (SEZ).

- There also plans to operationalize the Chamber of Arbitration, train specialized judges from the start of the academic year, and commercial courts. Efforts will continue to promote the OHADA Uniform Act on Arbitration and Mediation.

38. We will develop a national financial inclusion strategy and an SME financing strategy.

Three principles will guide our actions: (a) consolidating all public financing instruments for SMEs, with a view to improving their impact, coordination, and visibility; (b) allowing only indirect public financing through commercial banks based on the CDC's experience; (c) supporting SMEs through greater formalization and improved access to financial services. In this context, the government will submit a proposal to consolidate these instruments and adopt the new indirect financing strategy for indirect financing via commercial banks by end-March 2020. Also, by end-March 2020, it will submit the terms of reference for the development of a national strategy for the formalization and inclusion of SMEs. The Government is committed to developing a national financial inclusion strategy in line with the regional financial inclusion initiative, to the extent feasible.

I. Statistics

39. Following the declaration of Law No. 0015/2014 on the establishment and organization of the National Statistical System (SSN), the Government has pursued an ambitious program of reorganization of economic statistics in Gabon.

This ambition materialized in 2019 with the finalization of the portal on the enhanced General Data Dissemination System (e-GDDS), which is now available to users. Similarly, the work will be finalized by the end of 2019 to provide a new, harmonized national consumer price index (HICP) for a better measure of inflation. The results of the 2018 poverty survey were published in 2019 and will help better assess the definition of economically vulnerable Gabonese. Similarly, the findings of the recent survey on educational provision will be released by the end of this year.

40. For 2020, the following activities are envisaged:

- Finalization of preliminary work for the organization of the General Census of Agriculture (GAM) and the Demographic and Health Survey of Gabon (EDSG III);
- Changing the base of national accounts to 2010;
- Updating and maintaining of the National Data Summary Page established in October 2019;
- Completion of the AIG enumeration phase and the EDSG III survey;
- The launch of the General Census of Enterprises and the start of the preliminary work on the second Statistics Development Strategy (SNDS II) in the first quarter of 2020.
- Ongoing achievements: Data transmissions to international agencies including, budget statistics in line with the IMF's MFSP 2014.

41. Regarding public finance statistics, it is important to underscore Gabon's efforts in transposing and transmitting TOFE budget statistics for fiscal years 2012 to 2016 according to the 2014 classification of the Government Finance Statistics Manual (GFSM) and transmitting them to the IMF's statistical databases; Gabon was the first to do so in the CEMAC region. This effort continued during 2019 with the transposition and transmission of the 2017 TOFE to the IMF. It is also worth noting the significant progress made in preparing the public finance statistics reports according to the GFSM 2014 and its transposition according to the 2014 GFSM methodology in accordance with the 2011 Directive no. 05/11-UEAC-190-CM-22 of the CEMAC on TOFE. In particular, the exploitation of data sources from general accounts is progressing, thus ensuring the gradual introduction of what is a prerequisite for the recording on accruals basis, as accounting reforms are adopted. Furthermore, the Government will continue the ongoing work to adapt the TOFE to the format recommended by the 2001/2014 IMF Public Financial Statistics Handbook (GFSM 2001/2014). As such, the Government will request an IMF Fiscal Transparency Evaluation (FTE), prior to the entry into force of the new format, to ensure data quality.

J. TA and Capacity Building

42. TA and national capacity building remain essential to further strengthen our technical and institutional capacities. We would therefore like to see a better alignment of TA with our priorities as part of our economic reforms. Gabon has received substantial TA from the IMF in recent years, and the overall assessment of the implementation of this TA is positive. It has made a significant contribution to capacity building in the country and has facilitated the implementation of our economic programs. In addition, TA will be needed in the coming years to support our economic policy priorities. At this point, we would like TA from the IMF to help us during the period 2020–22 to: (i) pursue prudent macroeconomic policies and maintain fiscal discipline to preserve debt sustainability and avoid the accumulation of arrears; (ii) increase domestic revenues by broadening the tax base to meet the growing demand for public goods and services, meet growing social needs and, over time, replace uncertain donor support; (iii) increase the efficiency of public spending; and (iv) address weaknesses in the banking sector to reduce risks to financial stability. Gabon also needs to strengthen its statistics to better inform policy decisions and the private sector. Donors do not provide TA in the specific areas that would be covered by the IMF's TA. We have reached understanding with IMF staff on a TA and capacity building strategy for the next three years. We remain committed to further improving our technical and institutional capacities and making the best use of the TA that will be provided by the IMF and other development partners to avoid overlaps. We also commit to ensuring the availability of adequate human and financial resources, and to ensure good collaboration between national institutions involved in the various areas of TA.

K. Program Monitoring

43. Program implementation will be monitored through prior actions, semi-annual reviews, quantitative performance criteria and indicative targets, continuous performance criteria, and structural benchmarks. The sixth and final review is scheduled for June 2020, based on the quantitative performance criteria for end-December 2019, continuous performance criteria,

and relevant structural benchmarks. For all the reviews, the quantitative performance criteria will include: a floor on the primary fiscal balance, excluding oil revenue (payment order basis); a ceiling on the stock of net banking system claims on the central government; a ceiling on the stock of central bank claims on the central government, excluding the use of IMF credit; a ceiling on borrowing or guaranteeing external debt (program and project); a floor on government tax revenue, excluding oil revenue; and a ceiling on the accumulation of new external arrears by the central government. The prior actions and structural benchmarks are shown in Tables 3 and 4. The quantitative targets for the target dates up to end-December 2019, as well as a continuous quantitative performance criterion, are shown in Tables 1 and 2.

Table 1. Gabon: Quantitative Program Targets, 2018^{1,2}

(Billions of CFA francs, unless otherwise indicated)

| | | 2018 | | | |
|-----|--|-----------------|--------|--------|---------|
| | | December | | | |
| | | PC ³ | Adj. | Est. | |
| | | PC | | | Status |
| I | Quantitative Performance Criteria | | | | |
| | Floor on primary fiscal balance, excluding oil revenue (on a payment order basis) ⁴ | -446.2 | -366.2 | -479.2 | Not Met |
| | Unadjusted target (floor) | | -446.2 | | |
| | Adjustment for lower (higher) than expected external program disbursements | | 80.0 | | |
| | Ceiling on stock of net claims of the banking system on the central government ⁵ | 826.0 | 906.0 | 848.3 | Met |
| | Unadjusted target (ceiling) | | 826.0 | | |
| | Adjustment for lower (higher) than expected external program disbursements | | 80.0 | | |
| | Adjustment for oil revenue shortfall due to international price movements | | 0 | | |
| | Adjustment for commercial bank purchases of nonbank government domestic debt | | | | |
| | Ceiling on central bank net claims on central government, excluding use of IMF credit | 107.2 | ... | 138.0 | Not Met |
| | Ceiling on contracting or guaranteeing of external debt (program and project) ⁶ | 522.8 | 442.8 | 442.8 | Met |
| | Unadjusted target (ceiling) | | 522.8 | | |
| | Adjustment for early (late) external program disbursements | | -80.0 | | |
| | Adjustment for variation in financing conditions | | 0.0 | | |
| | Floor on government tax revenue, excluding oil revenue | 941.3 | | 870.0 | Not Met |
| II | Continuous Performance Criterion | | | | |
| | Ceiling on accumulation of new external arrears by the central government ⁷ | 0 | ... | 19 | Not Met |
| III | Indicative Targets | | | | |
| | Ceiling on the stock of domestic arrears | 372.6 | ... | 542.9 | Not Met |
| | Floor on social protection spending ⁸ | 214.3 | ... | 79.1 | Not Met |

Sources: Gabonese authorities and IMF staff estimates.

1/ Targets as defined in the attached Technical Memorandum of Understanding.

2/ Cumulative amount from January 1, 2018 for 2018 targets, and cumulative amount from January 1, 2019 for 2019 targets. Targets are set for the end of the respective month, unless otherwise stated.

3/ Staff report on the Second Review Under the Extended Arrangement Under the Extended Fund Facility (July 24, 2018; EBS/18/72).

4/ The performance criterion will be adjusted upward or downward for any lower or higher external program disbursements, to a maximum of CFAF 80 billion.

5/ The performance criterion will be adjusted for any over/underperformance in programmed oil revenue due to changes in international oil prices. It will also be adjusted upward (downward) for any lower (higher) external disbursements relative to baseline projections, to a maximum of CFAF 80 billion. 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 nonbanks (rachats des créances).

6/ The performance criterion will be adjusted upward (downward) in case where early (late) disbursements of specifically agreed and identified financing flows take place. This PC is monitored with respect to the contracting of debt on a disbursement basis.

7/ Reports the current stock of new arrears that have been accumulated since the latest review.

8/ Includes spending on health (i.e. primary and preventive care), education (pre-primary, primary, and secondary education), and social safety net programs.

Table 2. Gabon: Quantitative Program Targets, 2019^{1, 2}

(Billions of CFA francs, unless otherwise indicated)

| | 2019 | | | | | | | | | | |
|--|-----------------|--------|-------|----------------|-----------------|--------|-------|----------------|-----------------|-----------------|--------|
| | Mar. | | | Status | Jun. | | | Status | Sep. | Dec. | |
| | IT ³ | Adj. | Act. | | PC ³ | Adj. | Act. | | IT ³ | PC ³ | Prop. |
| I Quantitative Performance Criteria | | | | | | | | | | | |
| Floor on primary fiscal balance, excluding oil revenue (on a payment order basis) ⁴ | -125.6 | -45.6 | -33.8 | Met | -147.1 | -67.1 | -64.5 | Met | -232.8 | -307.3 | -307.7 |
| Unadjusted target (floor) | | -125.6 | | | | -147.1 | | | | | |
| Adjustment for lower (higher) than expected external program disbursements | | 80.0 | | | | 80.0 | | | | | |
| Ceiling on stock of net claims of the banking system on the central government ⁵ | 766.5 | 846.5 | 927.8 | Not Met | 802.3 | 882.3 | 894.9 | Not Met | 835.7 | 820.0 | 795.6 |
| Unadjusted target (ceiling) | | 766.5 | | | | 802.3 | | | | | |
| Adjustment for lower (higher) than expected external program disbursements | | 80.0 | | | | 80.0 | | | | | |
| Adjustment for oil revenue shortfall due to international price movements | | 0.0 | | | | | | | | | |
| Adjustment for commercial bank purchases of nonbank government domestic debt | | 0.0 | | | | | | | | | |
| Ceiling on central bank net claims on central government, excluding use of IMF credit | 57.0 | ... | 270.1 | Not Met | 57.0 | | 244.2 | Not Met | 57.0 | -64.5 | 13.7 |
| Ceiling on contracting or guaranteeing of external debt (program and project) ⁶ | 285.4 | 205.4 | 92.5 | Met | 412.2 | 332.2 | 203.0 | Met | 458.1 | | |
| Unadjusted target (ceiling) | | 285.4 | | | | 412.2 | | | | | |
| Adjustment for early (late) external program disbursements | | -80.0 | | | | -80.0 | | | | | |
| Adjustment for variation in financing conditions | | 0.0 | | | | 0.0 | | | | | |
| Ceiling on disbursing and guaranteeing of external debt (program and project) ⁷ | | | | | | | | | | 585.0 | 585.0 |
| Unadjusted target (ceiling) | | | | | | | | | | | |
| Adjustment for early (late) external program disbursements | | | | | | | | | | | |
| Adjustment for variation in financing conditions | | | | | | | | | | | |
| Floor on government tax revenue, excluding oil revenue | 214.0 | ... | 249.3 | Met | 543.1 | | 547.3 | Met | 784.2 | 1062.4 | 1061.8 |
| II Continuous Performance Criterion | | | | | | | | | | | |
| Ceiling on accumulation of new external arrears by the central government ⁸ | 0 | ... | 25 | Not Met | 0 | | 25 | Not Met | 0 | 0 | 0 |
| III Indicative Targets | | | | | | | | | | | |
| Ceiling on the stock of domestic arrears | 287.6 | ... | 479.8 | Not Met | 259.3 | | 385.6 | Not Met | 327.3 | 342.9 | 335.3 |
| Floor on social protection spending ⁹ | 90.8 | ... | 91.5 | Met | 181.6 | | ... | | 272.4 | 363.2 | 363.2 |

Sources: Gabonese authorities and IMF staff estimates.

1/ Targets as defined in the attached Technical Memorandum of Understanding.

2/ Cumulative amount from January 1, 2018 for 2018 targets, and cumulative amount from January 1, 2019 for 2019 targets. Targets are set for the end of the respective month, unless otherwise stated.

3/ Staff report for the Third Review of the Extended Arrangement Under the Extended Fund Facility (December 7, 2018; EBS/18/118).

4/ The performance criterion will be adjusted upward or downward for any lower or higher external program disbursements, to a maximum of CFAF 80 billion.

5/ The performance criterion will be adjusted for any over/underperformance in programmed oil revenue due to changes in international oil prices. It will also be adjusted upward (downward) for any lower (higher) external disbursements relative to baseline projections, to a maximum of CFAF 80 billion. 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 nonbanks (rachats des créances).

6/ The performance criterion will be adjusted upward (downward) in case where early (late) disbursements of specifically agreed and identified financing flows take place. This PC is monitored with respect to the contracting of debt on a disbursement basis.

7/ The performance criterion will be adjusted upward (downward) in case where early (late) disbursements of specifically agreed and identified financing flows take place. The estimates for June 2019 include CFAF 79 billion related to the refinancing of the AFREXIM bridge loan disbursed in 2018. The authorities requested the PC on external debt be modified from a contracting to disbursing basis to better reflect the monitoring of this PC.

8/ Reports new arrears that have been accumulated since the latest review. All external arrears were cleared in March 2019 and no new external arrears have been accumulated since then.

9/ Includes spending on health (i.e. primary and preventive care), education (pre-primary, primary, and secondary education), and social safety net programs.

Table 3. Gabon: Quantitative Program Targets, 2020^{1, 2}

(Billions of CFA francs, unless otherwise indicated)

| | March | June | September | December |
|--|--------|--------|-----------|----------|
| | IT | Proj. | Proj. | Proj. |
| I Quantitative Performance Criteria | | | | |
| Floor on primary fiscal balance, excluding oil revenue (on a payment order basis) ³ | -163.1 | -172.5 | -280.1 | -303.1 |
| Ceiling on stock of net claims of the banking system on the central government ⁴ | 686.9 | 678.6 | 660.6 | 644.6 |
| Ceiling on central bank net claims on central government, excluding use of IMF credit | -16.3 | -41.3 | -71.3 | -285.7 |
| Ceiling on disbursing and guaranteeing of external debt (program and project) ⁵ | 77.5 | 191.1 | 280.7 | 1014.6 |
| Floor on government tax revenue, excluding oil revenue | 235.8 | 605.7 | 870.3 | 1205.6 |
| II Continuous Performance Criterion | | | | |
| Ceiling on accumulation of new external arrears by the central government ⁶ | 0 | 0 | 0 | 0 |
| III Indicative Targets | | | | |
| Ceiling on the stock of domestic arrears | 293.5 | 260.8 | 305.4 | 269.7 |
| Floor on social protection spending ⁷ | 90.8 | 181.6 | 272.4 | 363.2 |

Sources: Gabonese authorities and IMF staff estimates.

1/ Targets as defined in the attached Technical Memorandum of Understanding.

2/ Cumulative amount from January 1, 2020 for 2020 targets. Targets are set for the end of the respective month, unless otherwise stated.

3/ The performance criterion will be adjusted upward or downward for any lower or higher external program disbursements, to a maximum of CFAF 80 billion.

4/ The performance criterion will be adjusted for any over/underperformance in programmed oil revenue due to changes in international oil prices. It will also be adjusted upward (downward) for any lower (higher) external disbursements relative to baseline projections, to a maximum of CFAF 80 billion. 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 nonbanks (rachats des créances).

5/ The performance criterion will be adjusted upward (downward) in case where early (late) disbursements of specifically agreed and identified financing flows take place. The authorities requested the PC on external debt be modified from a contracting to disbursing basis to better reflect the monitoring of this PC.

6/ Reports the current stock of new arrears that have been accumulated since the latest review.

7/ Includes spending on health (i.e. primary and preventive care), education (pre-primary, primary, and secondary education), and social safety net programs.

Table 4. Gabon: Structural Conditionality for 2018–19

| Measures | Previous Timeframe | Status | Proposed Timeframe |
|---|--------------------|--|---|
| Submit to Parliament a draft 2020 budget in line with the macroeconomic framework agreed under the EFF. | | | Prior Action |
| Publishing a new decree establishing harmonized statutes for public administrative institutions and repealing earlier provisions. | End-Sep. 2018 | Not Met. The draft decree was converted into a law | |
| Submit to Parliament for approval the draft law establishing harmonized statutes for public administrative institutions and repealing earlier provisions. | | | Prior Action |
| Publish quarterly reports on the amount and composition of the stock of unpaid payment orders. | | Met (published on 10/10/2019 for 2nd quarter 2019) | Next End-Nov. 2019 (for previous quarter) |
| Publish within 55 days from the end of the quarter, quarterly budget execution reports transmitted to Parliament, using elements and nomenclature of the budget law and including a specific analysis on social spending. | | Met (published on 06/23/19 for 2nd quarter 2019) | Next End-Nov. 2019 (for previous quarter) |
| Collect 40 percent of recoverable tax arrears. | End-Dec 2018 | Not met. Collection was completed June 2019. | |
| Clear 50 percent of expired suspensive customs procedures. | End-Dec. 2018 | Not met. | |
| Complete an independent audit of 2015, 2016, and 2017 domestic expenditure arrears. | End-April 2019 | Not Met. Report transmitted Oct. 2019. | |
| Develop a strategy for the clearance of loans in arrears. | End-Oct. 2018 | Met. | |
| Nominate representatives to the liquidation support group of each state bank in liquidation. | End-Jan. 2019 | Not met. Done in April 2019. | |
| TSA consolidation through closure of all central government accounts opened with commercial banks. | End-Mar. 2019 | Met. | |
| Publish a report disclosing the volume and value of major oil assets, as well as the volume and value of the previous year's sales and fiscal revenue. | End-Jun. 2019 | Not met. The report was published in Sept. 2019. | |
| Submit application for EITI membership to EITI Secretariat. | End-Sep 2019 | Not Met. | March 2020 |
| Eliminate noncompliant earmarking of revenues and limit it to exceptions provided for by law. | End-Oct. 2019 | Met. Specific provision in the draft 2020 budget law | |

Table 5. Gabon: New Proposed Structural Benchmarks

| Measures | Macroeconomic Rationale | Related Documentation | Timing |
|---|---|---|----------------|
| Transmit the contracts signed with mining and oil companies to the BEAC. | Improve transparency of oil and mining revenues | Certification by the Ministry of Finance that contracts and agreements signed with oil and mining operators have been transmitted to the BEAC. | End-Dec. 2019 |
| Establish the list of all existing tax and custom exemptions and assess their fiscal impact. | Boost revenue collection | List of existing tax and custom exemptions with mention of the legal base and evaluating the fiscal impact. | End-Dec. 2019 |
| Adopt and implement a decree on the Treasury Committee repealing and replacing the 2018 decision and in line with TA recommendations. | Improve and rationalize cash flow management | Signed and promulgated decree and minutes of the meetings. | End-Jan. 2020 |
| Prepare a comprehensive Public Investment Program (PIP) with all public investment projects (including PPPs and FINEX). | Improve public investment management | PIP document approved by MEFSN including all investment project regardless of the procurement (e.g., direct, restricted or open tender) of financing (domestic, FINEX, PPPs) methods. | End-April 2020 |

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) sets out the understandings between the Gabonese authorities and the International Monetary Fund (IMF) regarding the definition of quantitative performance criteria (QPC) and indicative targets (IT). It also set out the QPC and IT adjusters, and data reporting requirements for the duration of the Extended Arrangement under the Extended Financing Facility, as described in the authorities' Letter of Intent (LOI) dated November 28, 2019, and the attached Memorandum of Economic and Financial Policies (MEFP). As is standard under all Fund arrangements, we will consult with the Fund before modifying measures contained in the LOI/MEFP or adopting new measures that would deviate from the goals of the program and provide the Fund with the necessary information for program monitoring.

2. The QPCs and IT are shown in Table 1 of the MEFP. Prior actions and structural benchmarks are listed in Table 2 of the MEFP. For program monitoring purposes, quantitative performance criteria (PCs) and indicative targets (ITs) are set for December 31, 2019; the same variables are an indicative target for March 30, 2020.

3. For program purposes, all foreign currency-related assets, liabilities, and flows will be evaluated at "program accounting exchange rates" as defined below, except for items affecting government fiscal balances, which will be measured at current exchange rates. Unless otherwise indicated, U.S. dollar denominated components of the balance sheet of the Bank of Central African States (BEAC) will be valued at the official exchange rate of the CFAF to the U.S. dollar of 584.05 as of June 1, 2019. Amounts denominated in other currencies will be converted for program purposes into U.S. dollar amounts using the following cross-rates: the Euro valued at 1.1185 U.S. dollars, Pound Sterling valued at 1.2647 U.S. dollars, the Chinese Yuan valued at 6.9062 U.S. dollars, the Special Drawing Right (SDR) valued at 1.38050 U.S. dollars.

I. QUANTITATIVE PERFORMANCE CRITERIA: DEFINITION OF VARIABLES

4. Definitions: The central government (CG), for the purposes of the program, consists of all institutions, government units, and special funds (including the Road Fund) currently covered under the state budget. It does not include any local government authorities, the Bank of Central African States (BEAC), or any government-owned entity with separate legal status. The authorities will inform the Fund staff of any new funds, or other special budgetary and extra-budgetary programs that may be created during the program period to carry out operations of a fiscal nature and will ensure that these will be incorporated within the definition of central government.

5. The fiscal year is the calendar year, starting on January 1 and ending on December 31.

A. Cumulative Floor on the Non-Oil Primary Fiscal Balance on a Payment Order Basis

6. Definition: The non-oil primary fiscal balance of the CG on a payment order basis is measured as the difference between:

- i. total central government revenue on a cash basis (excluding oil revenue), and;
- ii. total central government expenditure on a payment order basis excluding interest payments.

7. The QPC for the fiscal balance is calculated based on the projected exchange rate. Reporting and adjustment, as defined below, will be made using current exchange rates.

8. Definition: Total CG revenue (excluding oil 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 Table of central government financial operations (*Tableau des opérations financières de l'Etat-TOFE*), including all earmarked revenues (Road Fund and special funds). Oil revenue includes payments received in cash and in crude. Revenue received by the treasury will be registered after encashment, which will be at most 7 days after the date of receipt; oil revenue received in kind will be recorded at transaction value on the day of sale.

9. Definition: Total CG expenditure includes spending on a payment order basis (*ordonnancements*), and treasury advances (*avances à régulariser*), and outlays on special funds and from earmarked revenues. The TOFE presentation will also recognize the following government expenditures (in addition to existing expenditure categories): (i) capital transfers arising from assumption of obligations of public enterprises undergoing privatization or liquidation; (ii) capital transfers arising from assumption of obligations of private enterprises; (iii) capital grants arising from assumption of obligations of other general government units; and (iv) current transfers at the end of the fiscal year used for financing of the deficits on accounts at the Treasury, accounts of Treasury correspondents (*Correspondant du Trésor*) and local governments (*Collectivités locales*).

10. Definition: The financial operations specified in the TOFE relating to treasury correspondents (*correspondants du Trésor*), local governments (*collectivités locales*), and other treasury operations (*autres opérations de trésorerie*) correspond to the change from period to period in the balance of these accounts. In the case of financial operations on accounts at the Treasury of treasury correspondents (*correspondants du Trésor*) and local governments (*collectivités locales*), a debit (i.e., negative) entry for the whole fiscal year, representing a reduction in the balance of such accounts, cannot exceed the balance of the account at the start of the fiscal year. If for a given account, a debit entry for the whole fiscal year exceeds the balance on this account at the start of the fiscal year, the central government financing of the deficit ran by the treasury correspondent or local government will be recorded in the TOFE as non-bank financing (a credit (i.e., positive) entry under "Assumption of end-fiscal year deficits on accounts at the Treasury of Treasury

correspondents and local governments”) and as a corresponding increase of the same magnitude of current transfers.

Text Table 1. Gabon: External Program Disbursements (Baseline Projection)

| Cumulative flows from the beginning of the year | Prog. (In US\$ Millions) |
|---|-----------------------------|
| External loans for budget support | |
| End December 2019 | 662.4 |
| End March 2020 | 0.0 |
| External loans for project financing | |
| End December 2019 | 284.4 |
| End March 2020 | 113.2 |
| External loans from commercial sources and international capital markets | |
| End December 2019 | 46.3 |
| End March 2020 | 26.4 |

Sources: Gabonese authorities; and IMF staff projections.

11. Reporting: Data will be provided to the Fund with a lag of no more than six weeks after the end of the month.

12. Adjusters: The floor on the cumulative primary non-oil fiscal balance of the CG on a payment order basis will be adjusted downward (upward) to the extent that external financing is more (less) than external projected disbursements given in Text Table 1, to a maximum of CFAF 80 billion.

B. Ceiling on the Net Claims of the Banking System on the Central Government

13. Definition: Net claims of the banking system on the CG is measured in accordance with the accounting practice at the BEAC, and is defined as the sum of:

- i. Central bank net claims on CG, including deposits, loans, advances, accounts receivable, and any other government claim or liability as defined in the monetary survey.
- ii. Other depository corporation net claims on CG, including securities of the CG, loans to central government, other advances to CG, and deposits of the central government with depository corporations.

14. Thus defined, the net claims of the banking system on the central government amounted to CFAF 894.9 billion as of June 30, 2019 (Text Table 2).

15. This ceiling does not apply to new agreements for the restructuring of domestic debt or the securitization of domestic arrears.

Text Table 2. Gabon: Net Claims on Central Government

(Billions of CFA francs, stock)

| | Dec-16 | Dec-17 | Jun-18 | Dec-18 | Jun-19 |
|---|--------|--------|--------|--------|--------|
| Banking system, Net claims on central government | 653.7 | 664.5 | 876.8 | 848.3 | 894.9 |
| Central Bank, Net claims on central government | 220.6 | 249.3 | 451.3 | 365.5 | 475.7 |
| Claims on central government | 452.7 | 564.2 | 566.0 | 680.5 | 684.4 |
| Loans to central government | 452.5 | 452.5 | 452.5 | 452.5 | 452.9 |
| Use of IMF credit | 0.0 | 111.3 | 113.1 | 227.6 | 231.5 |
| Other | 0.2 | 0.5 | 0.0 | 0.5 | 0.0 |
| Liabilities to central government | 232.1 | 314.9 | 114.7 | 315.0 | 208.7 |
| Treasury vault cash | 36.8 | 41.5 | 40.4 | 40.9 | 56.0 |
| Fund for Future Generations/Sovereign Wealth Fund | 150.2 | 47.2 | 10.8 | 9.2 | 12.5 |
| Treasury current accounts at the BEAC | 45.1 | 226.2 | 63.5 | 264.8 | 140.2 |
| Other Depository Corporations, net claims on central government | 433.1 | 415.2 | 425.5 | 482.7 | 419.1 |
| Claims on central government | 621.7 | 528.5 | 538.3 | 542.1 | 472.7 |
| Securities Central Government | 517.6 | 461.0 | 446.9 | 470.0 | 385.9 |
| Regional bonds | 104.2 | 67.5 | 91.4 | 72.1 | 86.8 |
| Liabilities to central government | 188.6 | 113.3 | 112.8 | 59.4 | 53.6 |
| Treasury deposits | 42.2 | 24.8 | 27.2 | 30.2 | 19.7 |
| Other deposits | 146.4 | 88.6 | 85.6 | 29.2 | 33.9 |
| CCA | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Source: BEAC

16. Reporting: Data will be provided to the IMF with a lag of no more than six weeks after the end of the month.

17. Adjusters: The adjusters for the performance criterion on the net claims of the banking system on the central government:

- i. The program ceiling will be adjusted downward (upward) by the full amount of the cumulative excess (shortfall) in external program disbursements relative to the baseline projections in Text Table 1, up to a maximum of CFAF 80 billion.
- ii. With the objective of shielding fiscal objectives from uncertainties regarding oil prices, the ceiling on net claims of the banking system will be:

- a. If Brent oil price projections as reported by IMF-WEO decline by up to 25 percent relative to the program baseline (US\$71.900 per barrel), the ceiling will be adjusted upward to accommodate the shortfall in oil revenue in a given quarter.
 - b. If Brent oil price projections as reported by IMF-WEO decline by more than 25 percent relative to the baseline program projection, then a consultation between the government and the IMF is required.
 - c. If Brent oil price projections as reported by IMF-WEO rise relative to the baseline program projection for 2018-19, the entirety of oil revenues additional to the baseline program projection should be deposited in Gabon's Fund for Future Generations at the BEAC.
- iii. The program ceiling will be adjusted upward to reflect any purchase by commercial banks of outstanding contractual government credit (*rachat de créances*) and government bonds issued on the CEMAC market held by non-bank private sector creditors as of end-2017.

C. Ceiling on Net Claims of the BEAC to the Central Government, Excluding the Use of IMF Credit

18. Definition: The ceiling on net claims of the BEAC to the central government, excluding IMF credit is calculated as the gross claims of the BEAC on the central government, including BEAC statutory advances to the CG and other BEAC claims on the CG (excluding BEAC claims on the CG created by the on-lending of IMF credit), less the gross liabilities of the BEAC to the CG, including treasury vault cash, deposits of the Future Generation Fund, deposits of the Sovereign Wealth Fund, and other central government deposits held at the central bank.

19. Reporting: Data will be provided to the IMF with a lag of no more than six weeks from the end of the month.

20. Adjusters: The adjusters for the performance criterion on the net claims of the banking system on the central government:

- i. With the objective of shielding fiscal objectives from uncertainties regarding oil prices, the ceiling on net claims of the banking system will be:
 - a. If Brent oil price projections as reported by IMF-WEO decline by up to 25 percent relative to the program baseline (US\$71.900 per barrel), the ceiling will be adjusted upward to accommodate the shortfall in oil revenue in a given quarter.
 - b. If Brent oil price projections as reported by IMF-WEO decline by more than 25 percent relative to the baseline program projection, then a consultation between the government and the IMF is required.

- c. If Brent oil price projections as reported by IMF-WEO rise relative to the baseline program projection for 2018–19, the entirety of oil revenues additional to the baseline program projection should be deposited in Gabon’s Fund for Future Generations at the BEAC.

D. Ceiling on Disbursing or Guaranteeing of External Debt by the Central Government

21. Definition: For program purposes, the definition of debt is set out in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to IMF Executive Board Decision No. 15688-(14/107), adopted on December 5, 2014.

- I. For the purpose of these guidelines, the term “debt” will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms; the primary ones being as follows:
 - i. loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);
 - ii. suppliers’ credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and
 - iii. leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of these guidelines, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.
- II. Under the definition of debt set out in this paragraph, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

22. Definition: For the purposes of the ceiling on disbursing or guaranteeing external debt by the CG, external debt is defined as debt contracted or serviced in a currency other than the franc of the Financial Community of Africa (CFAF). The ceiling applies to all external debt whether or not concessional. Guaranteeing external debt triggers the nonobservance of the performance criterion regardless of whether or not a disbursement has been made. The performance criterion will be assessed on a cumulative basis during the fiscal year. The performance criterion does not apply to:

- i. Normal import-related commercial debt having a maturity of less than one year;
- ii. Rescheduling agreements;

In the case of the issuance of euro bond, the amount deemed disbursed is the amount subscribed/purchased at the end of the subscription/purchase period as specified in the final documentation.

23. Adjusters:

- i. The program ceiling applicable to new external debt is adjusted upward up to a maximum of 5 percent of the ceiling on new external debt in cases in which differences vis-à-vis the PC on new debt are caused by a variation in financing conditions (interest, maturity, grace period, payment schedule, front-end fees, management fees) of the debt or debts. The adjuster may not be applied when the differences are the result of an increase in the face value of the total debt contracted or guaranteed.
- ii. The program ceiling will be adjusted upward (downward) in cases where early (late) disbursements of specifically agreed and identified financing flows take place.

24. Reporting: The authorities will inform IMF staff within 2 weeks of any planned contracting or guaranteeing of external debt and the related conditions before the debt is either contracted or guaranteed by the CG. Once there is agreement with IMF staff of the planned disbursement or guaranteeing of external debt and the debt is either contracted or guaranteed by the CG, their disbursement will become part of the monitored disbursements of existing debts.

E. Ceiling on the Accumulation of New External Arrears by the Central Government

25. Definition: The accumulation of external payments arrears by the CG will be a continuous performance criterion with a zero limit throughout the program period. External payment arrears are defined as contractual external debt service obligations (interest and/or principal, including moratorium and later/penalty interest, where applicable) of the CG that have not been paid within 30 days after falling due. It shall not apply to external payments arrears arising from external debt being renegotiated with external creditors, including Paris Club creditors; and more specifically, to external payments arrears in respect of which a creditor has agreed that no payment needs to be made pending negotiations.

26. Reporting: This performance criterion will be monitored on an ongoing basis. The Ministry of Economy will provide the final data on the stock of external arrears of the CG to the IMF, including any occurrence of new arrears accumulation, with a lag of not more than three weeks from the end of the month.

F. Cumulative Floor on Central Government Tax Revenue, Excluding Oil Revenue

27. Definition: The program will have a floor on CG non-oil revenue. Non-oil revenue refers to revenue from tax and non-tax collection and exclude all revenue from asset sales, grants, and oil revenue. The floor on government tax revenue, excluding oil revenue is a performance criterion beginning with the end-December 2018 quantitative program target.

28. Reporting: Data will be provided to the IMF with a lag of no more than six weeks from the end of the month.

II. QUANTITATIVE INDICATIVE TARGETS: DEFINITION OF VARIABLES

A. Cumulative Floor on the Net Reduction of the Stock of Domestic Arrears of the Central Government

29. Definition: The stock of domestic payment arrears of the CG is defined as the sum of all contractual obligations that remained unpaid 90 days after the payment order date. This stock includes, but is not limited to, payment obligations from procurement contracts for goods and services and other contracts providing for payment in domestic currency, as well as statutory obligations for payment (e.g., civil service wages, VAT reimbursements, and other entitlements). The cumulative floor on the net reduction of the stock of domestic arrears of the CG is measured as the stock of outstanding domestic arrears on the test date minus the stock of outstanding domestic arrears as of January 1, 2018.

30. Reporting: Data on repayment and new accumulation of domestic payment arrears and the remaining previous-year stock of domestic payment arrears will be provided to the IMF with a lag of no more than six weeks from the end of the month.

B. Cumulative Floor on Central Government Social Spending

31. Definition: The program will have a floor on non-wage social spending as defined in the CG budget for a particular fiscal year. These programs are funded by government resources. The floor includes: (i) spending on primary, secondary, and vocational education, including basic goods and services, and school infrastructure and rehabilitation; (ii) spending on health programs, including basic goods and services, and transfers for primary health care facilities; and (iii) spending on social protection including health insurance and targeted safety nets. Also taken into account are: (a) subsidies on domestic gas butane for cooking and lighting; (b) the costs of the electrification

program and hydraulic installations for rural areas that do not have access to the public water and electricity network, (c) the cost of burial, hospitalization for the indigent; and (d) support for transportation costs. Costs related to the statistical monitoring reform of economically weak Gabonese (GEF) are also included in the floor. Performance relative the program target on social spending is assessed on the basis of commitments versus initial budget appropriations for the above-mentioned social spending components. Monitoring is carried out on the basis of quarterly targets determined in agreement with the Gabonese authorities.

32. Reporting: Data will be provided to the IMF with a lag of no more than six weeks from the end of the month.

III. PROGRAM MONITORING

A. Reporting Requirements

33. To facilitate monitoring of program implementation, the government of Gabon will prepare and send to the IMF by e-mail data and monthly reports within six weeks following the end of the preceding month. Such data will include (but are not limited to) the following:

- the comprehensive monetary survey, the central bank balance sheet, and the consolidated balance sheet of the commercial banks (electronic file);
- the 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 and in the treasury float, on the one hand, and total net domestic bank/nonbank and net external financing, on the other (electronic file);
- the detailed breakdown of oil revenue by type of revenue (royalties, profit tax, dividends, bonuses and other) and by company/type of contract, as well as the detailed breakdown of non-oil tax revenue (by type of tax) and nontax revenue (electronic file);
- 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* (electronic file);
- 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);
- the details on the stock of external and domestic debt at the end of each quarter prepared by the Generate Directorate of Debt. The external debt stock is to be evaluated at end-of-quarter exchange rates (electronic file);

- the details for the outstanding stock of the treasury float (month to month) and the cumulative flows from January 1, 2018; the net accumulation of new float during 2018, defined in paragraph 6 as the difference between payment orders (*ordonnancements*) and payments made (cash basis), as well as the repayment of pre-2018 float, 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);
- information on the balance of the accounts relating to treasury correspondents (*correspondants du Trésor*), local governments (*collectivités locales*), and other treasury financial operations specified in the TOFE;
- the amount of new external debt contracted or guaranteed by the central government, with the detailed information on the original terms and conditions (currency of denomination, interest rate, grace period, and maturity) and the envisaged path of disbursement;
- actual disbursements on external debt, including on newly contracted loans, by creditors and by projects/programs and the amounts of debt relief, if any, granted to Gabon by external creditors (electronic file);
- monthly information on the oil sector: export prices, effective exchange rate, production per oil field, volume of exports and volumes provided to SOGARA based on data from the *Direction Générale des Hydrocarbures* (electronic file);
- quarterly report on numbers and value of procurement contracts treated by the *Direction Générale des Marchés Publics* (DMP) by type of contracting;
- 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, timber production and exports by categories (in value and volume terms), as well as the quarterly reports on economic activity prepared by the General Directorate of the Economy (DGE) and six-monthly report of the balance of payments by the BEAC; and
- a status report on the implementation of the structural reforms specified in Table 2 attached to the letter of November 28, 2019.

The Technical Committee in charge of monitoring the Fund-supported 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.

Attachment III. Gabon: Schedule of Purchases and Timing of Reviews Under the Extended Arrangement, 2019–20

| Date of availability | Condition for disbursement | Current Schedule | Proposed new schedule | | |
|--|--|------------------------------|------------------------------|------------------------------|---------------------------|
| | | Amount (millions of SDRs) | Amount (millions of SDRs) | Amount (millions of US\$) | Percentage of Quota 1/ |
| June 19, 2017 | Approval of the extended arrangement under the EFF. | 71.430 | | 96.649 | 33.069 |
| December 1, 2017 | Observance of the PCs for end-June 2017, continuous PCs and completion of the first review. | 71.430 | | 98.615 | 33.069 |
| June 1, 2018 | Observance of the PCs for end-December 2017, continuous PCs and completion of the second review. | 71.430 | | 100.618 | 33.069 |
| December 1, 2018 | Observance of the PCs for end-June 2018, continuous PCs and completion of the third review. | 71.430 | | 100.618 | 33.069 |
| June 1, 2019 | Observance of the PCs for end-December 2018, continuous PCs and completion of the fourth review. | 71.430 | 44.670 | 63.032 | 20.681 |
| December 1, 2019 | Observance of the PCs for end-June 2019, continuous PCs and completion of the fifth review. | 71.430 | 44.670 | 63.032 | 20.681 |
| April 30, 2020 | Observance of the PCs for end-December 2019, continuous PCs and completion of sixth review. | 35.820 | 89.340 | 126.125 | 41.361 |
| | Total | 464.400 | | 648.990 | 215.000 |
| Source: IMF staff projections. | | | | | |
| 1/ Gabon's quota is SDR 216.0 million. | | | | | |